The Automation of Retirement Plan Administration

Superior Results and Reduced Fiduciary Risk
Executive Summary

Ensuring that employees can be confident in the accuracy of their retirement plan accounts is at the core of proper retirement plan administration. Collecting the ever-changing flow of data and managing updates in a timely and efficient manner would be nearly unattainable without comprehensive, automated plan administration support.

Many retirement plan providers offer an automated process for handling complicated and time consuming plan administration tasks. However, the available automation solutions can vary greatly – from basic functionality that requires some manual oversight, to a sophisticated, seamless process of communication between data sources and built-in conditional programming to manage tasks.

Across industries and organizations, adopting smart, efficient technology has long been the answer to reducing costs, maximizing efficiencies and removing the risk of errors. Applying automation to retirement plan administration tasks simply makes sense. But when it comes to automating plan administration, does comprehensive automation equate to better outcomes, and what is the real value?

A study was commissioned to evaluate the benefits a plan derives from comprehensive automation within the context of ever-increasing data complexity, time-consuming manual processes of plan administration, and — if true automation is lacking — are plans subject to penalties more frequently for non-compliance. This paper examines the results of the study, and also investigates whether a higher level of automation of plan administration offers potential advantages over a basic solution when it comes to:

- Saving time and money
- Reducing manual intervention by sponsors
- Reducing compliance risk
- Increasing retirement plan satisfaction
Research Findings

During the summer of 2014, Retirement Research, Inc. and ADP Retirement Services conducted research to explore the perspectives of retirement plan sponsors about the integration of payroll data and processes with qualified retirement plan administration. The purpose of the study was to examine whether the use of a sophisticated automation platform for tasks necessary to administer a retirement plan has an impact on time spent on plan administration, cost effectiveness and risks associated with the Employee Retirement Income Security Act (ERISA), as amended compliance requirements.

Smart and Truly Connected Automation Delivers Results

SPONSORS OF PLANS WITH COMPREHENSIVE AUTOMATION THAT WE SURVEYED REPORTED:

- IRS or DOL audit and use of Voluntary Correction Program frequency averaged nearly 50% lower than plans without comprehensive automation
- 64% of plans receive ADP/ACP test results in 1 week or less compared to only 34% of plans without comprehensive automation
- 76% are very satisfied with their 401(k) service provider
- 72% are very satisfied with their 401(k) provider in obtaining accurate and timely compliance results
- 64% are very satisfied with their fiduciary protection as a plan sponsor
Methodology

Objectives
ADP Retirement Services commissioned Retirement Research, Inc. to conduct a study to:

- Identify key ERISA compliance requirements related to administration of retirement plan provisions that are impacted by or impact payroll processing
- Report on ADP’s standard procedures for helping employers comply with these requirements

Retirement plan sponsor decision makers comprised of ADP Retirement Services and non-ADP Retirement Services retirement plan sponsors with at least some responsibility for the management of their organization’s retirement plan and the retirement plan services outsourced to an external provider were surveyed. The survey universe included 403 respondents – 200 ADP plan sponsors, with surveys conducted by phone, and 203 non-ADP plan sponsors with surveys conducted online.

The universe was also segmented into two groups:

- Plan sponsors with fewer than 50 employees and less than $1M in plan assets
- Plan sponsors with more than 50 employees and more than $1M in plan assets

There were four groups in total, each containing 100 completed surveys. Weight targets were applied to each segment to align them with natural distributions by number of eligible plan participants.
Plan fiduciaries must ensure compliance with ERISA requirements related to the administration of a retirement plan. This includes following the provisions of the plan document, such as making sure employee service for determining eligibility to participate in the plan and compensation for determining benefits and other purposes are properly calculated and employer contributions are well documented. Conditions for the timing of investing participant contributions must be met, and detailed records of all transactions must be maintained. Given the expanse of fiduciary obligations, it is not surprising that all plan sponsors surveyed reported fiduciary risk associated with plan administration as a top “headache.”

To maintain the accuracy of all retirement plan and payroll records requires sharing and synchronizing mammoth amounts of data. Basic indicative information like name and address, compensation, employment status, plan deferral rates, investment allocation, loan data, marital status and other data is critical to correctly keep participant account and payroll information up to date. In addition, plan compliance testing results rely on accurate employee census and historical contribution data. With a non-automated process, keeping track of all of these details requires a considerable amount of time and, despite best efforts, mistakes can and often do happen.

Missteps and mistakes can be expensive. The Employee Benefits Security Administration (EBSA) of the DOL is responsible for regulating and enforcing DOL regulations regarding retirement plans, including key ERISA requirements related to the administration of a retirement plan. The consequences for non-compliance with ERISA can be steep – including audits, penalties and remediation processes. In addition, violations can be costly and necessary adjustments to correct records and reimburse the plan for errors can expose the plan to potential uncapped market risk.
Zero Revenue Sharing Fund Platforms Provide Choice with a Best-Possible Fee Arrangement

Helping participants pay reasonable plan expenses can potentially save them thousands of dollars at retirement. Zero fee investment platforms support the plan fiduciary’s obligation to act in the best interest of participants and offer a prudent investment lineup. The model has the advantages of a variety of choice with a best possible fee arrangement for the participant. Investments on this type of platform typically pay no 12b-1, sub TA or shareholder servicing fees or compensation in general. A zero fee structure can also offer: the flexibility of customization of the investment lineup, no-fee investments, and pre-screening and monitoring services.

Basic automation is a semi-manual process for keeping the 401(k) plan and payroll data up to date. It typically involves a one-way file transfer of a limited amount of payroll data to the 401(k) plan recordkeeping system. This process typically requires the transfer of data files from one system to the other, followed by the manual entry of the retirement plan data to the payroll system, which may cause delays and inaccuracies. Each payroll cycle typically requires an HR person to validate the contribution amounts and request a money transfer to the provider that matches the total.

Comprehensive automation is a true connection between the 401(k) plan recordkeeping system and the payroll system. The data freely flows from one system to the other, synchronizing and making updates because the systems are integrated. The data passes automatically and requires no manual oversight, and contribution funding and money transfer can occur without the need for review. Smart, sophisticated programming continually checks data accuracy, identifies and flags potential errors and manages the process to ensure the most accurate data is passed between the payroll and the 401(k) recordkeeping systems, and that the correct contribution amounts are transferred to the plan.
More Automation Delivers Greater Accuracy with Less Work

A comprehensive, fully automated process can reduce the opportunity for errors, refresh data promptly and keep track of transactions. Almost all (93%) of plan sponsors surveyed report that their participant data is updated automatically if they work with a plan provider who offers a comprehensive solution for plan administration.

With advanced automation, errors can be minimized through the continuous synchronization of data, and systems programming calculates and applies preset conditions to manage certain processes. This means that whether the update to an employee deferral amount is made on the most recent payroll run, or the change is entered via a 401(k) participant website, the process synchronizes the separate data sources, checks for the proper entry and whether it was processed correctly, and if it was not processed correctly, it is flagged as a potential error. It also means calculations for a loan repayment are applied promptly and due to systems programming and when the loan has been satisfied, repayment transactions cease. Predefined programming for loan administration, for example, can eliminate overpayments or missed payments resulting in retroactive corrections and associated fines.

Intelligent Automation: Truly Connected to Accuracy

<table>
<thead>
<tr>
<th>Feature</th>
<th>Basic Automation</th>
<th>Comprehensive Automation</th>
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<tbody>
<tr>
<td>Payroll and 401(k) data passes freely to and from both systems automatically</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Requires manual data entry</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Requires review of funding totals and/or manual funding requests to send money to 401(k) recordkeeper</td>
<td>✓</td>
<td></td>
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<tr>
<td>Uses a data file transfer method for data sharing</td>
<td>✓</td>
<td></td>
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<tr>
<td>Uses ongoing reconciliation of data in both systems to verify accuracy</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Offers a true connection between the payroll and 401(k) systems</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Identifies and flags potential data errors</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Applies smart programming to manage processes based on preset criteria (for example, Multiple nightly routines run to ensure that each contribution amount is correct and being made on behalf of an eligible participant)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Automatically creates a record of transactions</td>
<td></td>
<td>✓</td>
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Comprehensive automation also creates a detailed record of transactions that supports adherence to proper plan administration. Overall, the comprehensive solution eliminates the need for redundant data entry, enhances the accuracy of data, performs more services and frees the plan sponsor’s human resources to focus on other responsibilities.

The study finds that comprehensive automation users also receive more compliance services directly from their recordkeeper and more efficient management of important records, which speeds up operational processes:

- ADP/ACP compliance testing services were provided more often
- Plan compliance test results were delivered in a shorter period of time
- Participant contributions were transferred to the trust and invested more rapidly

Overall, the comprehensive solution:
- eliminates redundant data entry,
- enhances the accuracy of data,
- performs more services,
- and frees the plan sponsor’s human resources to focus on other responsibilities.

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### More Services Delivered More Quickly with Fewer Mistakes

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<tr>
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<th>Comprehensive Automation</th>
<th>Basic Automation</th>
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</thead>
<tbody>
<tr>
<td>Participant contributions are invested the same or next day</td>
<td>48%</td>
<td>37%</td>
</tr>
<tr>
<td></td>
<td>51%*</td>
<td>36%*</td>
</tr>
<tr>
<td>ADP/ACP compliance testing services are provided</td>
<td>84%</td>
<td>57%</td>
</tr>
<tr>
<td>Plan compliance test results are delivered within 1 week or less</td>
<td>64%</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>81%</td>
<td>69%</td>
</tr>
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*Sponsors with fewer than 10 employees*
Key Findings

More Automation, Less Risk
The research found that plans using a basic automation process for plan administration experience DOL audits or voluntary corrective program twice as often as plans using a comprehensive solution. Greater automation functionality can yield big results. Transactions are rapid and require minimal to no manual intervention. Smart features reduce mistakes and corrective actions and keep plans in compliance.

Plans with Basic-Level Automation Reported a High Incident of Being Audited (by the IRS or DOL) or Using a Voluntary Corrective Program Through the IRS

<table>
<thead>
<tr>
<th></th>
<th>Basic</th>
<th>Comprehensive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keeping plan documents in compliance</td>
<td>10%</td>
<td>22%</td>
</tr>
<tr>
<td>Timely investment of contributions</td>
<td>7%</td>
<td>18%</td>
</tr>
<tr>
<td>Loan administration</td>
<td>6%</td>
<td>15%</td>
</tr>
<tr>
<td>ADP/ACP testing</td>
<td>8%</td>
<td>12%</td>
</tr>
<tr>
<td>Covered compensation calculations</td>
<td>7%</td>
<td>14%</td>
</tr>
<tr>
<td>Overall</td>
<td>14%</td>
<td>26%</td>
</tr>
</tbody>
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There can be a high price to audits and correcting errors. Out-of-compliance plans have been actively pursued and penalized by the DOL. In 2014, of the 401(k) plans audited by the EBSA:
- 65% required a monetary recovery to restore plan assets or take other corrective action
- Almost $600 million was collected in monetary results
- Over 3,900 civil investigations were closed

1 Source: United States Department of Labor Fact Sheet for Fiscal Year 2014; www.dol.gov/ebsa/newsroom/fsfyagencyresults.html
More Automation, Less Risk

The research found that plans using a basic automation process for plan administration experience DOL audits or voluntary corrective program twice as often as plans using a comprehensive solution. Greater automation functionality can yield big results. Transactions are rapid and require minimal to no manual intervention. Smart features reduce mistakes and corrective actions and keep plans in compliance.

There is also a hefty price to pay to return a retirement plan to compliance. The IRS’s Voluntary Correction Program, designed to help plan sponsors minimize the effect of plan errors by correcting them sooner rather than later, charges an application compliance fee to use the program. The fee is typically based on the number of participants in the plan, and ranges from $750 for plans with 20 or fewer participants to $25,000 for plans with over 10,000 participants. The differences are more pronounced with audit frequency for smaller clients who can least afford these costly corrective actions.

Many audit cases are the result of plan sponsor errors that may be eliminated through the use of intelligent integration of plan and payroll data systems. In addition, the data verification and embedded programming features of the comprehensive automation can help catch errors before they grow into big problems that require big resources to resolve.

Less Work, Fewer Mistakes, Greater Satisfaction

With less time and money spent on potential costly audits and manual oversight of plan administration tasks, it’s not surprising that our research finds comprehensive automation users are more satisfied with their recordkeeper and the services provided.

- 76% are very satisfied overall with their provider
- 76% are somewhat to extremely likely to recommend their current provider to others
- 72% are satisfied with their ability to obtain accurate, timely compliance test results
- 64% are satisfied with their fiduciary protection as a plan sponsor
- 24% rate their organization’s benefits as superior to those of peer companies

Automation that uses a sophisticated communication between data sources, and verifies and checks data using a seamless process allows issues and errors to be identified and corrected quickly. This kind of thorough validation can give plan sponsors relief from the headache of fiduciary risk, and more confidence in plan compliance and the accuracy of participant accounts.

Thorough data validation can give plan sponsors more confidence in plan administration compliance and in the accuracy of participant accounts.
Plan Satisfaction Survey

- Very satisfied overall with their provider: 56% (Basic) vs. 76% (Comprehensive)
- Satisfied with their ability to obtain accurate, timely compliance test results: 51% (Basic) vs. 72% (Comprehensive)
- Somewhat to extremely likely to recommend their current provider to others: 63% (Basic) vs. 76% (Comprehensive)
- Satisfied with their fiduciary protection as a plan sponsor: 45% (Basic) vs. 64% (Comprehensive)
- Rate their organization’s benefits as superior to those of peer companies: 24% (Basic) vs. 15% (Comprehensive)

With Advanced Automation,
More Means More…
- Rapid money movement
- Prompt data updates
- Services
- Data accuracy
- Satisfaction with provider
- Satisfaction with fiduciary protection

And More Means Less…
- Wasted resources, time and money
- Frequency of IRS or DOL audits and IRS Voluntary Correction Programs
Conclusion

Comprehensive Automation: The Key to Avoiding Costly Errors

True automation extends far beyond simply connecting an organization’s 401(k) with payroll. When evaluating integrated automation solutions, plan administrators must assess if tasks like these are truly automated or must be handled manually.

**Contribution processing**
- Do requests meet plan rules?
- Are funds automatically transferred to the plan from the employer’s bank account, or does the client have to request the funding separately?
- Does the client still need to manually verify or sign off on the amount?

**Loan administration**
- Are loan payment discrepancies flagged and automatically sent to plan sponsor?
- Is there embedded programming to stop repayments when a loan has been satisfied?

**All or in part Data reconciliation**
- Is employee data accuracy verified between payroll and retirement recordkeeping systems?

**Enrollment and eligibility**
- Do eligible employees automatically receive welcome letters to encourage plan participation?
- Is enrollment automatically confirmed?

**Census information**
- Is retirement plan data reconciled with payroll data?
- Is annual compensation data verified between systems?

When it comes to retirement plan automation, the study presents a compelling case that more automation delivers more benefits to plan sponsors. The research clearly reveals that the benefits of using a higher, more integrated level of automation over basic automation are significant when it comes to costs, compliance risk and sponsor satisfaction. From the plan sponsor perspective, there is a greater ease of administration, a reduced risk associated with ERISA compliance due to the integration of payroll with the retirement plan, and decreased manual processes that can lead to potential errors.

The distinctive features that set the comprehensive plan administration solution apart from more basic solutions include:
- A true connection to data sources
- Synchronized processing
- Active data verification
- Intelligent programming

Our research shows that plan sponsors that use a higher level of automation experience more rapid money movement, more prompt data updates, more services, more data accuracy and more satisfaction with their provider and fiduciary protection. What is also notable is that these plan sponsors report being audited by the IRS or DOL and having used the IRS’s Voluntary Correction Program less frequently compared to survey respondents who did not have comprehensive plan automation - and they indicated they wasted fewer resources.
About ADP
Employers around the world rely on ADP® (NASDAQ: ADP) for cloud-based solutions and services to help manage their most important asset – their people. From human resources and payroll to talent management to benefits administration, ADP brings unmatched depth and expertise in helping clients build a better workforce. A pioneer in Human Capital Management (HCM) and business process outsourcing, ADP serves more than 625,000 clients in more than 100 countries. ADP.com.

About Retirement Research, Inc.
Since 1996, Retirement Research Inc. has been in assisting financial services companies to competitively position their products in the marketplace and achieve their goals. We offer powerful competitive intelligence tools, reporting and consulting services specialized in the retirement and financial industries. Our expertise lies in connecting our innovative research and information with insights that help our clients make better decisions and bring practical, actionable solutions into view.
We Make Retirement Plans Work Better

Retirement plans are a valuable benefit for your clients that create long-term value for their business. ADP’s deep experience in benefit solutions can help you and your clients create successful retirement plans for the workplace that:

- Makes plan administration easy to manage
- Helps you mitigate plan administration risk
- Delivers long-term value through exceptional service and time-tested employee education programs

To learn how we can help you reduce your fiduciary plan administration liability, call us at 1-800-432-401k.

This white paper has been prepared by ADP Retirement Services based on a study conducted on its behalf by Retirement Research Institute (RRI). The surveys, studies and other resource materials cited herein have been prepared by and are the property of ADP, LLC and are accurate as of July 2014. The views expressed in this publication are intended for general information only and are not intended to provide investment, financial, tax or legal advice or a recommendation for any particular situation or plan, nor is this publication the sole authority on any regulation, law or ruling. ADP, LLC and its other affiliates (ADP) do not offer investment, financial, tax or legal advice, and they are not responsible for, nor have any of them verified the accuracy of, any information obtained or the methodology used by RRI. Please consult with your own investment, financial, tax and legal advisors to the extent you deem appropriate in light of your own circumstances.

The terms “Basic Automation” and “Comprehensive Automation” were not defined as part of the RRI research. The research included two categories of respondents: “ADP clients” (retirement services clients with payroll integration) and “non-ADP payroll clients” (all of whom received retirement services from a service provider other than ADP and may not receive ADP payroll services). ADP has designated the first group of ADP clients as having “Comprehensive Automation” because they utilize all the features that payroll integration provides and has designated the non-ADP clients as having “Basic Automation.”