www.congruentsolutions.com

2021 AND BEYOND

Outlook for the Retirement Plan Industry

How plan sponsors, recordkeepers, and plan administrators in the retirement plan industry can embrace technology to overcome the setbacks of COVID-19.

RETIREMENT PLANNING, AS WE KNOW IT, HAS CHANGED

COVID-19 is a global health emergency. And a lot more. It has led to economic collapses all over the world, forcing over 150 million people into poverty. In the United States, by April 2020, for the first time since 1948, the country registered a 14.8% unemployment rate. A year later, 46% described themselves as "financially struggling."

While stimulus and other government aid helped address the immediate financial needs of the American people, the long-term impact of the pandemic and the resultant economic crisis will be immeasurable. The biggest impact will be seen in the already strained retirement planning.

Even before the pandemic, 26% of Americans had no retirement savings. And 4 out of 5 Americans lack retirement planning knowledge. The pandemic has only worsened the situation.

1 Participants have grown disinterested

Since the pandemic hit, retirement planning has taken a backseat as many participants do not consider it the top priority. In fact, in the latest Fidelity market sentiment study, half of the respondents said they "don't have time to address investments and retirement savings due to increased responsibilities at home and work."

2 Employment models are changing

People who lost their jobs took up freelancing or contract positions, thereby losing retirement planning privileges overnight.

3 Participants are borrowing more

As the crisis worsened, participants sought their retirement funds for emergency needs. As a part of the support package, the Government amended a provision in CARES Act to allow up to $100,000 in withdrawals from their retirement accounts. This allowed Americans to dip into their retirement savings.

4 Emotions are dictating retirement planning

Financial and health insecurities are driving financial decisions, especially with retirement planning. Participants prefer to keep whatever savings they have as liquid cash instead of investing for the future.

5 Some groups are disproportionately affected

Industries such as leisure, hospitality, and retail have been affected more by the pandemic and social distancing norms than others like IT or e-commerce. Studies show that African American and Hispanic women are more likely to have been unemployed due to the pandemic than, say, white men. We're seeing that minority communities who were already marginalized are put at a further disadvantage today.

"As the economy revives, participants — who have gone through huge disruptions in their lives — will demand more from the retirement plan industry. They will ask for their retirement plan to be more personal, relevant, flexible, and reliable. To deliver that, the retirement plan industry needs to find new and intuitive ways to connect with participants, build superior experiences, and meet the customers where they are."

— Lucas Soucy, Senior Vice President - North America, Congruent Solutions

For observers in the retirement plan industry, one thing is clear: Retirement planning as we know it has changed fundamentally. Every stakeholder in the retirement plan industry needs to adopt a dynamic strategy that empowers them to change with the times. They need to embrace technology as a lever for growth instead of simply as a support service.

In this e-book, we bring together the outlook for the retirement industry's future. We especially pay attention to plan sponsors, administrators, and recordkeepers — outlining their top challenges and presenting possible solutions.

CHAPTER 01

OUTLOOK FOR PLAN SPONSORS

In 2021, with participants having lesser money and lesser inclination to save for retirement, plan sponsors have an uphill battle ahead of them. Unlike ever before, the challenges they face are multi-dimensional, complex, and dynamic.

"My company is concerned about the long-term impact the coronavirus outbreak will have on our employees' financial security in retirement."

— 7 in 10 participants of SRI's survey on DC plan sponsors

QUESTIONS FACING PLAN SPONSORS

When is a good time to restart the conversation?

Over half of non-retired adults say that the economic impact of COVID-19 will make it "harder to achieve long-term financial goals." 44% think that it will take them at least three years to get back on track; about 1/10th think they might not recover at all.

Many participants still suffering from job losses or depleted savings are not even willing to have retirement-related conversations yet. In fact, initiating a conversation with someone who is not yet ready for it can have adverse effects.

Plan sponsors need to identify the right time to approach a customer, say the right thing and offer the right personalized solution.

How to give the right customer the right solution?

The pandemic exposed the lack of health equity in American society. The ripple effects extendedto economic inequities as lower-income / marginalized groups lost employment and/or saved more than other groups, affecting their long-term socio-economic position in society. So, the dialogue to get people interested in retirement again cannot be the same across demographics.

Plan sponsors need to empathize and personalize their outreach to address people's needs.

How to make retirement planning a priority?

Even before the pandemic, amidst all the long-term economic anxieties and the complexity around the retirement planning industry, many Americans were disinterested in locking a part of their wealth for an unknown future. Today, many American households are decreasing their 401(k) contributions to "have more liquid cash on hand." Some even withdraw their social security early.

Plan sponsors need to reassure participants about the benefits of sustained investments and convince them to stay invested in their retirement.

How to engage with the customer emotionally?

One of the biggest effects of the pandemic is that people now have a stronger urge to build/strengthen their emergency funds. This means that many are even diverting the money from retirement planning to emergency funds. Kimberly Foss, the founder of Empyrion Wealth Management, feels that "fear is trumping finances."

Plan sponsors need to rebuild trust with participants and eliminate fear-based decision-making in favor of strategic choices.

How to handle regulatory compliance?

From the operational point of view, the rapidly changing regulations and exceptions to specific segments of employees are forcing sponsors to improve their planning measures immediately. These changes are also leaving the sponsors worried about the errors in the execution of plan provisions driven by a lack of time and resources to fool-proof their systems.

Plan sponsors need to build a system that enables them to adapt to compliance changes immediately and without significant disruption to their foundation.

TOP PRIORITIES FOR PLAN SPONSORS IN 2021 AND BEYOND

1 Personalize communication

Every customer is unique, so are their problems, needs, goals, and dreams. The biggest part of winning their trust is showing that you know their story and genuinely care about the outcomes. Big data and analytics can help plan sponsors crunch a large amount of data, derive insights, customize messaging, and develop personalization at scale.

To do this, develop intelligent systems that:

- **Collect, segregate and leverage both customer and external data to build profiles of your customers**
- **Send personalized updates about the participants' investment positions**
- **Make customized recommendations**
- **Help them imagine their retirement story with visualizations, graphs, and projections based on their short and long-term goals**

2 Be transparent

The last thing the participant wants at times of uncertainty is backhanded processing and hidden details in their retirement plan. Be transparent and empower participants with complete visibility of their plan for their financial goals.

- **Enable participants to view their retirement plan profile with details of their investments, goals, account balance, etc.**
- **Enable interactive models that will help them project their financials and risks based on current market trends, historical data, and other predictions**
- **Leverage chatbots to help them evaluate choices and make decisions**
- **Make their disinvestment options and consequences available easily**

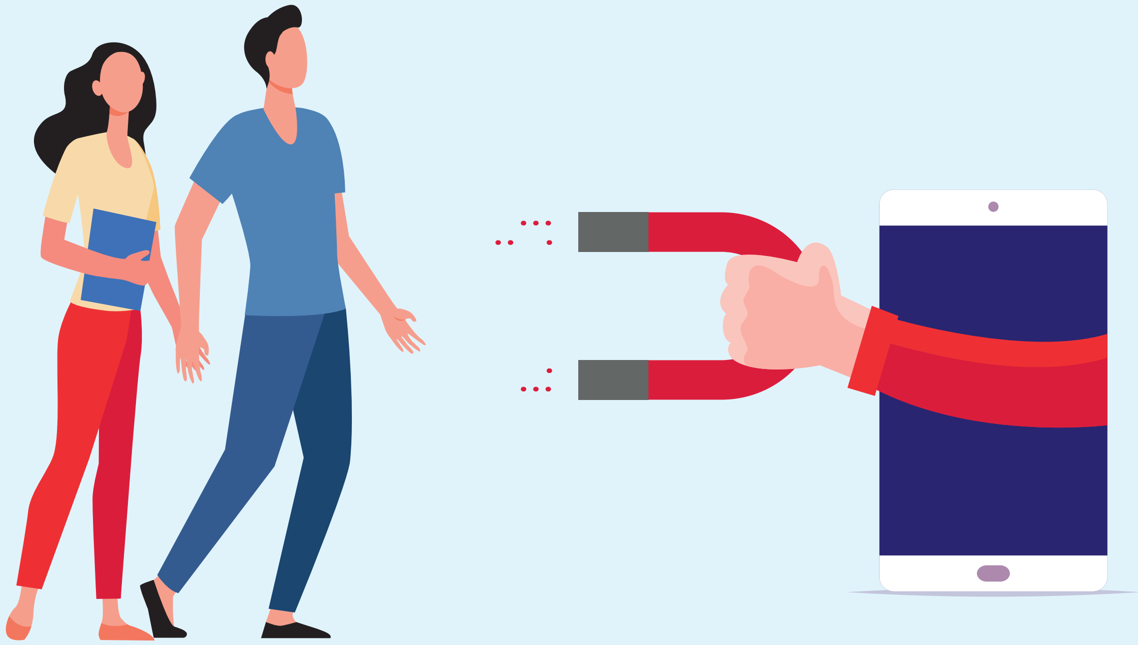
3 Automate what you can

The best way to restart saving for retirement is to make it a habit. Plan sponsors can help participants chart out the contribution periodically and automate it to avoid deviations. They can also help participants design short- and long-term goals and increase contributions periodically to achieve them.

4 Strengthen cybersecurity

One of the fundamental ways to build trust is to demonstrate that it's secure to invest.

- **Set up systems that are in line with the Department of Labor cybersecurity guidelines**
- **Choose the right technology partner to secure your applications**
- **Educate your customers on cybersecurity best practices regularly through SMS, notifications, email, etc.**



The role of a plan sponsor in bringing participants back into the retirement plan ecosystem is now more critical than ever. Participants in the post-pandemic era are scared and struggling. Plan sponsors have the responsibility to influence them not just financially but also emotionally.

To achieve this at scale, they need multi-dimensional technology transformation. Not just within their organization, but also across the retirement ecosystem of plan administrators, recordkeepers, etc.

CHAPTER 02

OUTLOOK FOR RECORD KEEPERS

Unlike plan sponsors, recordkeeping operations do not operate based on direct participant interactions. Therefore, so far, recordkeeping agencies have remained largely unperturbed. However, the ripple effects of a shrinking economy and the lower flows will soon reach recordkeepers as well.

QUESTIONS FACING RECORD KEEPERS

How to handle transactional demand?

Soon after the pandemic hit, recordkeepers reported that daily call volumes rose by up to 60%. Organizations are scrambling to hire new employees or build automated solutions to meet this demand. Even though the volumes have more or less stabilized today, transactional demand is expected to grow. McKinsey finds that participants will look to engage more closely, demanding holistic wealth advice from service providers.

To address this, recordkeepers need to focus on efficiency in processing transactions and effectiveness in participant relationships.

How to improve margins?

The margins in the retirement plan industry have been historically low. In the last year, lower flows have reduced revenues tied to asset balances. This will soon lead to recordkeeping organizations struggling to stay afloat.

To navigate this, recordkeepers need to optimize their technology investments to reduce operational costs in the long run.

How to improve partnerships with plan sponsors?

As the pandemic raged, plan deals have been delayed or canceled by plan sponsors. While some of them have been reinstated, plan sponsors have grown more cautious about their investment options.

To navigate this situation and build mutually profitable relationships, recordkeepers must engage plan sponsors regularly and meaningfully.

How to handle regulatory compliance?

The retirement plan industry is among the most highly regulated ones in the US. Complex compliance mandates across the Employee Retirement Income Security Act (ERISA), Section 404(C), Secure Act, and the Department of Labor's (DOL) fiduciary rule, etc., make it necessary for recordkeepers to have strict processes for adherence. More importantly, as these compliance mandates evolve, they also need to keep track and adapt on an ongoing basis. Their present technology solutions don't enable that.

The retirement plan industry needs agile, adaptable, and easy-to-evolve systems — that decouple code from business logic — to stay compliant.

How to improve customer experience?

"Eight of the top 10 US DC recordkeepers, which hold 73 percent of the total DC assets and serve 66 percent of plan participants, are on custom-built recordkeeping systems that are predominantly mainframe-based," found a study by the Everest Group. Not only are these systems inefficient, inflexible, and expensive to maintain, they also make it nearly impossible for recordkeepers to innovate/adapt their offerings for the fast-changing needs of the market.

To overcome this, recordkeepers need to modernize their technology foundations keeping the end-user in mind, maximizing the value created for them.

TOP PRIORITIES FOR RECORD KEEPERS IN 2021 AND BEYOND

By breaking down the rigidity of the recordkeeping structure with modern technologies, recordkeeping firms can optimize operations, ensure error-free processing and bring down operational costs.

1 Modernize your applications

- **Simplify recordkeeping platforms with a modern tech stack**
- **Embrace cloud infrastructure and microservices-based architecture for distributed access**
- **Automate processing multiple participant transactions with greater speed and accuracy**
- **Improve agility and scalability to adapt to regulatory changes**

2 Make your offerings customer-centric

- **Enable self-service tools like robo-advisors to empower participants with information and advanced customer support**
- **Build mobile-ready products for customers to reach you anytime, anywhere**
- **Leverage AI/ML to deliver actionable insights and personalization**
- **Ensure robust cybersecurity measures**

Congruent's CORE is a suite of cloud-based, modular, intelligent solutions for managing and administering retirement plans in the US. CORE helps you tackle today's challenges by leveraging modern architecture and technology approaches that abstract key functions, integrating seamlessly into your existing recordkeeping platform. CORE augments your existing recordkeeping system without costly re-engineering, disruptive conversions, or loss of control.

CHAPTER 03

OUTLOOK FOR PLAN ADMINISTRATORS

With newer regulations and increased flexibility in borrowing, plan administrators face a huge influx of requests. The more recent regulations and guidelines are pushing administrators to modify their systems and adapt to the evolving situation quicker than ever before.

QUESTIONS FACING PLAN ADMINISTRATORS

How to service more requests without increasing staff capacity?

Plan administrators are finding it challenging to modify their operational pipeline internally — with their current staffing and resources capacity — to service more requests, following guidelines with proper follow-ups, etc.

Outsource to a partner with the experience and expertise to handle complex retirement plan administration.

How to effectively manage withdrawals?

Plan sponsors may allow loans, in-service withdrawals, hardship withdrawals, birth or adoption withdrawals, automatic rollover, etc. Each of these brings its own unique set of processes during administration.

Plan administrators need to devise systems that process withdrawal requests as quickly as possible.

How to handle fiduciary responsibility?

Plan administrators have fiduciary obligations under ERISA, based on whether asset allocation is participant-directed or administrator-directed. When the asset allocation is participant-directed (including when participants give control to an investment advisor), plan administrators can reduce compliance exposure by following specific rules. However, when asset allocation is administrator director, plan administrators have full fiduciary responsibility. Adding to this complexity are also the federal and state laws that are applicable.

To stay on top of compliance requirements and serve customers effectively, plan administrators need monitoring and analytics capabilities.

How to minimize overheads?

In plan administration, constant changes in regulations, subsequent updates in plan policies, etc., add up to significant overheads. To say nothing of the inefficiencies and errors in everyday plan administrators.

To make plan administrators cost-effective, an experienced outsourcing partner with advanced automation capabilities is the only way.

TOP PRIORITIES FOR PLAN ADMINISTRATORS IN 2021 AND BEYOND

1 Outsource processing to a specialized BPO/KPO partner

Outsourcing operational tasks to a retirement plan focused BPO/KPO partner will help:

- **Swiftly process payroll management, loans management, employee accounts transfer, etc.**
- **Fill and file paperwork on time**
- **Reduce costs of staffing and technology**
- **Compile all compliance, valuation, and reports for audit**
- **Prepare IRS forms and schedules for both audited and non-audited plans**

2 Leverage robust compliance testing

Outsource the necessary nondiscrimination testing and generate the reports for defined contribution plans, including 410(b) coverage, 415 annual limits, Top Heavy, 402(g), 401(a)(4) nondiscrimination, ADP and ACP testing.

Congruent's operations outsourcing services for plan administrators offer a unified solution for end-to-end administration tasks including application automation, compliance testing to cost-saving comprehensive year-end packages.

BUILDING SOLUTIONS FOR A COMPLEX INDUSTRY LIKE RETIREMENT PLAN NEEDS MORE THAN JUST TECHNOLOGY SKILLS.

It needs deep domain expertise, concrete understanding of the retirement plan industry, and continued engagement with its key stakeholders. Congruent has all this and more.

Congruent Solutions is an ISO 9001:2015, ISO 27001:2013 and SOC1 Type II and SOC2 Type II certified specialist technology solutions and outsourced plan administration service provider. We offer three distinct solutions for the retirement plan industry:

CORE Suite of Solutions
Cloud-based, intelligent solution designed for managing and administering retirement plans in the US.

Operations Outsourcing
Outsourced plan administration and recordkeeping services for retirement plan providers and TPAs.

Retirement Technology
Custom technology modernization leveraging industry standards, open-source technologies and security protocols.

CONTACT

Congruent Solutions Inc.

1500 District Avenue, Burlington, MA 01803 USA

www.congruentsolutions.com

info@cspl.com | +1 (617) 314-9079