

Navigating Retirement Plan Transitions

A Comprehensive Guide for Employers



» Introduction

We have a saying at the firm. **The best recordkeeper conversion is the one you don't have to do.** However, the only thing worse than going through a recordkeeping conversion is the pain of tolerating an underperforming provider or the cost of overpaying for an incumbent.

Transitioning your retirement plan from one recordkeeper to another can be a complex and significant undertaking.

This guide is designed to assist employers in successfully navigating the challenges of such transitions, while offering best practices to ensure a seamless experience for both plan sponsors and participants.

» Understanding Recordkeeper Transitions

What Is a Recordkeeper Transition?

A recordkeeper transition involves transferring the administration and management of your retirement plan from one service provider to another. This change is typically motivated by the desire to enhance participant services, improve plan sponsor service, or reduce overall plan costs.

Key Stages of a Recordkeeper Transition

A recordkeeper transition comprises several essential stages that collectively ensure a successful transition.

1

Contracting: Establishing a comprehensive service agreement with the new recordkeeper.

2

Timeline Development: Crafting a realistic timeline that aligns with the complexities of the transition.

3

Communication Plan Development: Creating an effective communication strategy to inform employers and participants about the changes.

4

Data Collection and Testing: Carefully collect and meticulously test data to ensure accuracy and reliability.

5

Employee Communication: Regularly update participants on the progress and implications of the transition.

6

Asset Transfer and Reconciliation: Transferring plan assets and reconciling data to ensure a smooth handover.

7

Go-Live and Post-Transition Activities: Launching the new system and ensuring participants are well-informed and comfortable with the changes.

» Understanding Recordkeeper Transitions

Timeline and Considerations

While transition timelines can vary significantly, a typical recordkeeper transition takes 12 – 20 weeks. The most factors impacting a transition's timing are the plan sponsor's availability to support and review the transition process and the responsiveness of the incumbent provider being replaced.

A smooth transition will require data from the current provider to be supplied to the new provider before a transition so that the new provider can understand the nature and structure of the plan and participant data. The longer it takes to receive and review a sample data file, the longer the transition process will take.

Preparing for a Successful Transition

Once a decision has been made to change recordkeepers, you can begin “preparing” for a transition even before the announcements are made, and vendors have been notified. When thinking about the availability of resources from the plan sponsor, there are two windows to identify:

The availability of IT, HRIS, and Finance Resources

Typically 2-3 months prior to the first pay date with a new recordkeeper, individuals from IT, HRIS, and Finance will likely be needed to audit and potentially make changes to the payroll remittance file being sent to the recordkeeper. Additionally, the finance teams will likely have decisions about how best to remit contributions to the new provider (wire, ACH (push or pull), etc.)

The availability of participant attention

In most transitions, participants are notified of a change in recordkeeping providers 30-60 days prior to the change. Participants will likely have questions and concerns about the change and its impact on their investments. Ensuring that the new provider and the sponsor are available to meet participant needs is important in designing an effective transition and employee communication plan.

» The Transition Process

Contracting

Negotiating new service agreements is an important but cumbersome portion of an implementation. The best time to negotiate favorable terms in a service agreement is before deciding which provider to partner with. While service agreement formats differ from provider to provider, it is best practice to understand your provider's terms of agreement pertaining to:



Timeline Development

In addition to being thoughtful about the impact of an implementation timeline on your organization and participants, a good implementation timeline should be clear on where there are deadlines that may impact the integrity of the implementation as well as the parties responsible for each item.

Depending on circumstances ERISA counsel and the investment advisor may play important roles in the transition and will need to be incorporated into the timeline as needed. Under that arrangement, the plan sponsor understands where their obligations to timeliness are, and ideally, the new provider is allowing adequate time for a thorough review of contracts, data, and employee communication materials in their timeline.

» The Transition Process

Communication Plan Development

Effective communication is paramount throughout the transition. Developing a comprehensive communication plan that addresses participants' concerns will foster understanding and minimize uncertainties.

A typical employee communication plan would include:



An announcement from the organization that a new provider has been selected – This announcement may touch on the process the employer went through in coming to this decision.



Meeting with participants to answer questions about the impact – Participants are interested in how this change may impact them. In these meetings, participants can hear answers to those questions and typically begin interacting with the new provider for the first time.



Post-Conversion Meetings – Once the recordkeeping has moved, participants have new tools, frequently new investments, and may need support in understanding what to do next. Providing resources quickly after a transition allows for participant questions and worries to be put to bed.

Data Collection, Testing, and Reconciliation

Collecting and testing data, including participant records, investment details, and payroll feeds, forms a critical phase. The new recordkeeper will seek to understand the structure of the data files they will receive from the incumbent provider. A strong testing protocol typically reduces the time a plan spends in transition. Additionally, testing payroll remittance and payroll change files helps reduce the likelihood of errors of confusion once the plan is in production.

Increasingly, organizations are attempting to establish 360 degree connectivity with their payroll and HRIS systems. This type of integration ensures greater efficiency but requires extensive testing to be successful.

» The Transition Process

Employee Communication

While the Department of Labor sets minimum communication standards, going beyond these requirements with frequent and transparent communication will enhance participant confidence in the transition.

Now that you have developed a communication plan and materials, it's time to execute that plan. Once communication begins, new questions will inevitably arise. During this phase, the employer and provider should meet regularly to ensure that participant questions are answered quickly and accurately.

Asset Transfer and Reconciliation

Transferring plan assets and reconciling data is a meticulous process that ensures accurate historical and financial continuity. Ideally, the live files from the incumbent provider match the format of those tested. Once the new provider has reconciled the provider file with the assets in the plan, the sponsor may wish to spot test some accounts to make sure that the reconciliation has gone smoothly.

In most conversions, this asset transfer and reconciliation process is the one all parties are trying to shorten. Employees will not be able to transact in their retirement accounts for a short period before asset conversion and during reconciliation. Generally money is still invested during this period, but lack of visibility creates anxiety for participants and risks for plan sponsors.

» Go-Live and Post-Transition Activities

The launch of the new system marks a significant milestone. Participants can access their new provider account and begin making any changes they wish to investments, savings rates, etc. It is important to maintain open communication with participants to ensure they don't experience any challenges post-conversion.

Legal and Regulatory Considerations

It's crucial to remain compliant with the Department of Labor's regulations concerning vendor conversions and "blackout" periods. It is common during transitions that plan sponsors may elect to make investment changes triggering fee disclosure documentation to participants or changes to their plan design that may require the distribution of new Summary Plan Descriptions (SPDs) or Summary of Material Modifications (SMMs). Take care to ensure that notice requirements are met for each action.

Ensuring Post-Transition Success

So much work goes into the transition process that it is common for a plan sponsor to want to take a break after successfully navigating the gauntlet of implementation. However, once the plan is up, there are three critical steps to ensuring smooth sailing going forward.

Participant Education and Support

Providing continued education and support to participants navigating the new recordkeeping system is essential for a smooth transition experience.

Post-Transition Verification

Conducting spot checks to ensure data accuracy and participant account balance alignment helps ensure a successful transition. Pay particular attention to participant loans and periodic distributions like RMDs.

Internal Review and Continuous Improvement

Conducting an internal review of the transition process helps identify system improvements for smoother future transitions. For example, are our records accurate, and does our payroll data reflect participant activities?

» Conclusion

Transitioning recordkeepers requires meticulous planning, clear communication, and a commitment to accuracy. By following the outlined steps and seeking professional advice, employers can navigate this process successfully, benefiting both their organizations and plan participants.