# EFFICIENCY GAINS FOR PAYROLL SERVICE PROVIDERS

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### REDUCE CORRECTION REQUESTS AND EXCEPTION HANDLING
### 401(K) CONTRIBUTION AND COMPENSATION DATA EXCHANGE

*This ViewPoint addresses the contribution and compensation data points that employers and their payroll service providers exchange with 401(k) service providers every pay period. The report supplements an earlier ViewPoint that identified data points other than contribution and compensation amounts universally requested to administer plans. Employers, their payroll service providers, and payroll software platforms will benefit from including these elements in their 401k/403b/457 data exchange templates.*

## CORRECTION REQUESTS AND MANUAL PROCESSING INCREASE COST

*Employers and their payroll service providers will gain efficiencies and contain cost with 401k/403b/457 plan data exchange templates that include all the data fields needed for their plan. At the very least, the template must include the contribution and compensation data fields that are required for ALL defined contribution plan with every pay period.*

> The five indispensable contribution amount fields to include in the 401k/403b/457 plan data exchange template:
>
> 1. **Pretax employee contribution**
> 2. **Roth employee contribution**
> 3. **After-tax employee contribution**
> 4. **Pre-tax catch up contribution**
> 5. **Roth catch-up contribution**

*When it comes to employer contributions, a 401k/403b/457 data feed template that provides the total amount of employer contributions as one single field will support most plan designs.*

*The fields needed to administer a given retirement plan depend on plan design. Each plan is unique, and some plan designs deviate from safe-harbor norms because the characteristics of the employer's workforce dictate a custom design. Plans with a custom design will likely require a custom data feed template. The cost associated with a custom template to fit the specific needs of an employer can be recouped with a reduction in errors and exception processing.*

## COMPENSATION AMOUNT DOES NOT ALWAYS MEAN "W2"

*One customization often required is the calculation of compensation as it is defined in the plan document. Although using the W2 compensation as a basis for 401(k) plan contributions is a preferred practice to streamline operations, many employers base 401(k) plan contributions on a definition of compensation other than W2 compensation. The difference can be meaningful for employers with a workforce payed with incentives, tips, bonuses, travel budgets, home-office expense allowances and other non-salary compensation.*

> The compensation fields in the 401k/403b/457 plan data feed templates must be based on the definition of compensation in the plan document (not necessarily W2 compensation). A preferred practice is to provide either of these two fields, but not both:
>
> 1. **Period compensation (plan definition)**
> 2. **Year-to-date compensation (plan definition)**

## THE "OOPS" LOAN NUMBER THAT COSTS YOU MONEY

*Data feed templates need to provide for loan repayment amounts.  Although a preferred plan design excludes loans, many plans allow participants to take multiple loans.  To reduce error rate, manual handling, and requests for corrected reports, we recommend that employers and their payroll providers itemize loan repayment amounts for each loan.  Unique loan numbers assigned for the life of an employee will help monitor amortization schedules and avoid unnecessary warnings and manual corrections.  The practice of reassigning loan numbers as older loans mature requires exception processing, impacting the cost of service, and ultimately the fees born by employers, employees, and plan participants. Ultimately, inefficiencies in plan operations have a detrimental effect on the retirement readiness of working Americans.*

> Loan repayment fields in the 401k/403b/457 plan data feed templates
>
> 1. **One payment amount field per loan**
> 2. **Unique plan loan numbers**
> 3. **Loan numbers never reassigned**

## PREFERRED PLAN DESIGNS

*Some plan designs are more expensive to operate than others, and more prone to errors in data exchanges. There can be good reasons to implement a complex plan design, but employers and their advisors need to keep in mind the impact of complexity on cost, error rate, corrections, and exception processing,  The absence of a plan loan feature can help contain cost, and set more employees on track to retirement success.  An after-tax bucket funded with $2000 of an employee's contributions can provide the liquidity needed to meet most emergencies that an employee might face without tax penalty for early withdrawal.  Some refer to an after-tax bucket for emergency funds as a side-car account.*

> Preferred plan design practices (for operational efficiencies and retirement readiness optimization)
>
> 1. **Employee auto-enrollment and auto-escalation**
> 2. **Plan loans not allowed**
> 3. **After-tax bucket / sidecar account**
> 4. **Compensation defined as W2 compensation**

## ABOUT THE ANNUAL MEETING OF THE COALITION

*Payroll Service Providers will engage in discussions with 401k plan recordkeepers at the Annual Meeting focusing on making connections between payroll and retirement service providers. The meeting takes place on September 8-10 in Owings Mills, MD.*



2020 ANNUAL MEETING
September 8-10 2020
Owings Mills, MD
*Creating Connections in Payroll and Retirement*

COALITION FOR PAYROLL EXCELLENCE

## ABOUT THE COALITION

*The mission of the Coalition is to advocate for payroll administration excellence, to define payroll administration excellence, and best practices and finally, to encourage employers and their payroll providers to adopt those best practices. At its Annual Meeting, the Coalition sustains the dialogue between retirement plan service providers, payroll service providers and payroll administration software firms to fulfill its mission statement. The Coalition is managed by EACH Enterprise, LLC. Learn more at www.payrollexcellence.us*

| The Coalition at a Glance | |
|---|---|
| **Member Firms:** | **16** |
| **Plans Represented:** | **391,500** |
| **Retirement Plan Participants:** | **50.8 million** |
| **Assets Under Administration:** | **$3.5 trillion** |

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## ABOUT EACH ENTERPRISE

*Coalition for Payroll Excellence is a brand of EACH Enterprise, LLC. It is the mission of EACH Enterprise to help client companies establish and maintain a clear position in target markets. Only through differentiation in product, service, communication and pricing approach can retirement plan service providers and payroll service providers achieve this objective. With a clear understanding of the diversity of service models in the industry, providers are better able to position their own offering and to enhance overall competitiveness. Armed with information from deliberations, members of the Coalition for Payroll Excellence are better able to set themselves apart from other players.*

*EACH Enterprise encourages competition and differentiation. Individuals attending Coalition meetings must be mindful of the constraints imposed by federal and state antitrust laws. Members represent firms that are in direct competition with one another. The purpose of the Coalition is to provide a forum for the free exchange of ideas on designated topics. It would be contrary to our purpose to reach any agreement that could have anticompetitive effects.*



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