



HCM SUITES DELIVER ENHANCED CLIENT SERVICE



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AUTOMATION OF PAYROLL FUNCTIONS ASSOCIATED WITH 401(K) PLANS MAKE CLIENTS HAPPY, REDUCES WORK AND ERRORS

The relationship between Human Capital Management (HCM) suite and 401(k) plan service provider goes both ways. This ViewPoint addresses the data points that employers and their payroll service providers want to receive from 401(k) service providers every pay period in what is often called Payroll 360 service.

Payroll 360 service requires periodic submission of data by the payroll service provider to the retirement plan recordkeeping service provider AND a return file from the recordkeeping service provider to the payroll service provider (for example to support plan loan repayment, and contribution amount changes)

RETURN FILE WITH THE RIGHT DATA HELPS BETTER SERVE CLIENTS

The convenience of payroll deduction contributes to the success of 401(k). However, payroll deduction creates more work for HR and payroll departments.

With automation, HCM suites can help HR and payroll departments contain the labor associated with payroll administration in support of the 401(k) plan. Transactions such as new enrollments, changes in contribution levels, and loan setup can be labor intensive, and error prone if handled manually. Processes performed infrequently are problematic at small employers that may go months between instances. The knowledge gained from experience is quickly lost by the next transaction.

To help HCM suites administer payroll processes associated with 401(k) plan administration, 401(k) plan service providers customarily provide return files that include 14 data elements.

Fourteen fields 401(k) plan service providers customarily include in the Payroll 360 return file:

- 1. Employer ID Number (EIN) or Plan Number**
- 2. Social Security number (or participant/employee ID)**
- 3. Effective date**
- 4. Auto (default) vs. elective indicator**
- 5. Start / Stop / Change indicator**
- 6. New deferral rate by source**
- 7. Rate change type (deferral %, deferral \$, catch up%, catch up \$, etc.)**
- 8. Loan number (for new loans issued or paid-up loans)**
- 9. Loan issue date**
- 10. First loan repayment date**
- 11. Loan start/stop indicator**
- 12. Original loan amount**
- 13. Loan goal amount***
- 14. Loan repayment amount**

**availability and definition vary among retirement plan service providers*

Fields needed to administer a given retirement plan depend on plan design. Each plan is unique, and some designs deviate from safe-harbor norms because the characteristics of the sponsor's workforce dictate a custom approach. Custom plans may require a custom return file template. The cost associated with a custom template can be recouped with a reduction in errors and exception processing.

CONTRACTUAL AGREEMENTS BETWEEN 401(K) PLAN SERVICE PROVIDER AND PAYROLL PROCESSOR

Plans that fall out of compliance in the administration of processes such as enrollment, contribution amount changes, loan repayments are at risk of losing their tax-favored status. They may also be at risk of litigation. Financial consequences are dramatic for employees and fiduciaries. For this reason, 401(k) and 403(b) plan recordkeepers and third-party administrators (TPA) need to be confident that these functions are administered appropriately. Service providers that assume ERISA 3(16) fiduciary responsibility must be particularly vigilant.

Employers that discharge the responsibility for payroll administration to a payroll processor introduce an element of risk. For this reason, many 401(k) plan service providers require that payroll processors adhere to standards. Only clients of payroll service providers that meet requirements can receive the highest level of service from their provider (e.g. outsourcing of specific functions, service guarantee, ERISA 3(16) fiduciary status,)

To mitigate risk, many 401(k) and 403(b) plan recordkeepers ask that payroll processors of their clients recognize their responsibility. This can be done through notification, acknowledgment, or a contractual agreement for the exchange of data signed by both the payroll processor and the retirement plan service provider. These requirements are the normal course of doing business in a highly regulated sector.

INTEGRITY IN THE DATA EXCHANGE PROCESS

The preferred method to exchange data as of 2020 is via Secure FTP server. Comma-Separated Value (CSV) file formats are most common. Application Programming Interfaces (API) are deployed for some employers, particularly those with multiple payroll locations and frequencies. Long term, many HCM and 401(k) plan firms aim to switch to API exchange as a default approach for all plans.

Some HCM/payroll platforms prefer to receive files that include only records with changes. On the other hand, many employers demand complete census files to support reconciliation. Both approaches are in use today. The schedule of data exchanges is set for each plan at the time of installation. Some employers and payroll processors request to receive files weekly, on a designated day of each week. Other plans request to receive files with every pay period, twice a week or even daily.

Data consistency is of paramount importance, particularly for plans that rely on their recordkeeper to provide ERISA 3(16) fiduciary service. For this reason, return files submitted to payroll processors are final, and not editable by the plan sponsor or anybody else. Employers wishing to make a change can do so on the plan sponsor workstation of their recordkeeper's website so data can be reconciled.

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.



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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<https://www.linkedin.com/company/coalition-for-payroll-excellence>

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 HCM/payroll software platforms achieve this objective. With a clear understanding of the diversity of service models in the industry, clients 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 set themselves apart from other firms.

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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