HR Mixtape
Transcript

Excess Deference: The Retirement Plan Role HR Often Gets Wrong

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Guest: Andrew Farrell, Retirement Plan Advisor, North County Wealth

[00:00:00] **ANNOUNCER:** You're listening to The HR Mixtape, a podcast for leaders who want to understand people, strengthen culture, and navigate change with clarity. Today's conversation starts now. Joining me today is Andrew Farrell, retirement plan advisor at North County Wealth. Andrew works with businesses to ensure their retirement plans run smoothly, efficiently, and effectively so their employees have the right plan for their needs today and tomorrow.

[00:00:35] **DR. SHARI SIMPSON:** Andrew, thank you so much for jumping on the podcast with me.

[00:00:37] **ANDREW FARRELL:** Thank you. Love to be here.

[00:00:39] **DR. SHARI SIMPSON:** You sit in this space, and I think part of what I want to start with is helping you set the stage for our audience. For listeners who might be new in this area, when we talk about things like your company's retirement plan, what are some of the major decisions that HR is actually responsible for? Which of those decisions have the biggest impact on whether employees can actually retire successfully? Where's the ownership on the company in all of this?

[00:01:00] **ANDREW FARRELL:** Sure. So the sequence of decisions — for today's purposes, we'll presume that the company has already decided to have a plan. That's going to be an ownership decision. You'll see HR start to move in when there's some discussion about the amount of the matching. That's usually the next question: how many employer dollars are going into the plan. That's usually some combination of ownership, finance, and HR. Specifically, the HR piece that always needs to be heard is how is that benefit comparable to other companies in your industry? Are you losing candidates to your crosstown rival because they match at 6% and you match at 2%? So there needs to be some HR voice in the overall contribution. Where HR probably has the largest impact is at enrollment and eligibility — getting everybody enrolled into the plan. Auto-enrollment makes this very easy, of course, but the biggest impact is at enrollment. People like to focus on the investments of a 401(k) plan or a 403(b) plan, but they're really savings plans. The savings is a function of time, so the biggest headwind that anyone faces in saving for retirement is starting late. I would say that HR has the biggest role in getting everyone in as early as possible. Certainly they have a role in providing the support and education and coordinating all of those things. And the last thing I would say is to really set the tone. What is the culture around the benefits package? Do we expect everyone to participate in the plan? Do we promote the plan as a good thing?

[00:02:45] **DR. SHARI SIMPSON:** "We love you, we care about you to the point that we want you to not be here someday," and the retirement plan is that vehicle. Setting the tone, expecting everyone to participate and get in the plan — I would put that as the most important. You mentioned auto-enrollment. I want to talk about that for just a second, because I've worked in organizations that had auto-enrollment and organizations that didn't. What's the thought process about not having auto-enrollment, since we know that barrier to entry can be something as simple as having it in your organizations?

[00:03:32] **ANDREW FARRELL:** So auto-enrollment is not for every plan. If you have exceptionally high turnover, it becomes such an administrative burden. You're constantly getting small balances out, and the communication around it can be difficult. A high-volume, high-turnover firm may find that the juice is not worth the squeeze of auto-enrollment. But if you don't have that sort of high turnover, and if you've aligned your retirement plan with the rest of your benefits package — I'll see plans where employees are immediately eligible for health benefits but not eligible for the 401(k) for a year — some of those things make the administration more complicated. But as a rule, I'm a fan of auto-enrollment. It has become a legal standard. Any plan that is started now has to include auto-enrollment in it by law. It's a good thing, as long as there's not some specific reason within your firm that it's a bad thing.

[00:04:28] **DR. SHARI SIMPSON:** That makes a lot of sense — that fast-turnover administrative burden piece. You know, you've been in this space about 20 years, and one of the things you've noticed is that even professionals who have also been in their careers for 20 years don't necessarily know how or why or where to push on either their plan advisors or their service providers. I'm curious, where do you think that gap comes from, and what would you advise the HR professional to go back to those organizations? I don't mean squeeze them for all they're worth, but there are definitely benefits and resources they're not taking advantage of. I talk about this a lot when I talk about working with your benefit broker — it's kind of a missed opportunity in so many spots.

[00:05:08] **ANDREW FARRELL:** Absolutely. I've seen this quite a lot. The term I would use to describe it is excess deference. Whether it's your benefits broker or your retirement plan advisor, we're interchangeable in this regard. We're subject matter experts — that's what we've staked our value proposition on. We have experience, we have credentials, we have flashy PowerPoints and tech demos, and we like to come to meetings with some shock and awe. So if the plan is running well and your advisor comes in, and the HR professional already has nine or ten other things that are actual problems, it's very easy — and understandable — for them to just say, "Okay, whatever this person informs me, I'm going to go with." But my counterpoint: every HR professional is themselves a subject matter expert. Not just in whatever HR technical skill they have. You're a subject matter expert on the company. You know who makes the decisions, how those decisions get made. You know what the employees are thinking and saying — and what they're not saying. All of that makes you a subject matter expert on your firm, and the value of that is worth its weight in gold and Bitcoin to those of us on the outside. All we know are 401(k) plans. We need to make a 401(k) plan for your firm, so it needs to be very much a conversation of equals, and we're each bringing our own subject matter expertise to the table. I would also encourage everyone to always push on your advisors and brokers to, at some point during the year, teach you something. Whether you do your annual review meeting and then break and come back for 20 minutes when the owner's out of the room so it doesn't look like you're asking dumb questions — have them sit you down and teach you something. You're paying for your advisors' experience, their expertise, their ability to communicate, but you're also paying for their availability to you. Use them as the subject matter expert to close that technical skill gap, whether it's on insurance or retirement or any of the other things you're working with.

[00:07:44] **DR. SHARI SIMPSON:** I think it's just a trap that a lot of people fall into. They don't think of themselves as a subject matter expert on their company when they very much are. If you were giving this advice to a direct HR person, what would you be most excited that they came and asked you to teach them about? What's the thing you get geeked out about — the topic you wish more HR professionals would ask you to explain?

[00:08:18] **ANDREW FARRELL:** The easiest way to explain what to delegate is what I tell people: draw the line at the front door. If it happens inside your house — enrollment, when are they eligible, some of payroll, those kinds of things — then that's the HR person. But once it gets outside, once the money gets to the plan, you're generally getting investment questions, and I am pretty adamant that I don't want HR professionals talking about investments. It opens you up to a lot of liability that you don't want to take on. And that's what we're here for. That's why we exist. So if it's some question that occurs inside your office, it's probably yours. As soon as it gets outside in any way, shape, or form, pass that off to your advisor. Your advisor should know how to fix almost every problem, even if it's not theirs to fix. If a participant needs to reset their password at their 401(k) record keeper, we're not going to do that, but we absolutely should know the phone number for them to call or the website for them to go to. So if you don't know the answer, call your advisor, email your advisor. You're paying for that availability. They should be able to accept all of that delegation and help you answer those questions.

[00:09:32] **DR. SHARI SIMPSON:** Yeah, I think it's the same advice we give early HR professionals about helping employees with onboarding. I've definitely been asked in my career, "What should I select for my tax exemptions?" And the answer is, "Here are the resources. I can't give you that advice — I'm not a tax expert." So I love that framing. It's good to think about the types of questions we get from employees that we really should be using our relationships for — pushing them to the right resources rather than trying to be the expert on every topic. When in doubt, ask and delegate, and your advisor can take care of it. You know, one of the things that can feel really overwhelming for HR professionals — I'm thinking specifically of that HR department of one or that smaller organization where you're a generalist responsible for all of these things — what are some of the most common compliance gaps you see, and how do you help HR teams start to recognize them before they become serious liability?

[00:11:19] **ANDREW FARRELL:** Far and away the most common is missed payroll contributions. In most organizations, there's a payroll person — sometimes it's the HR person, sometimes it's not, but more often than not it's a separate person handling that task. And ninety-nine times out of a hundred, it's fine. The firm pays every other Friday, they do the payroll on time, they submit the file, the ACH goes out and hits the plan on the Monday. And then the one week your payroll person is on vacation is the same week that ACH rejects for some reason, and you've gone a full week before anyone notices. Plans miss payroll contributions — not every plan every year, but it's very common. It's easy to correct once it's identified, but it is the most common failure. Anytime you touch the plan is a potential point of failure, and payroll is touching the plan twenty-four to twenty-six times a year compared to one or two or three annual reviews. So what I would recommend as a best practice for HR — presuming you're not also the payroll person — is that it is by far the best ROI for redundancy and training. Make sure multiple people know the process: how is it supposed to be done, what days is it done, who does it, who's their backup, and who's the backup's backup? And even then, I would encourage a calendar check — put a tickler for that Wednesday, eight or nine in the morning — to log into your 401(k) plan and look at your account. Did my contribution hit the way it was supposed to? Did the employer contribution hit? Yes? Log out, you're done. If it didn't, then you can do something about it. The government gives us a seven-business-day safe harbor. So even if your contribution was supposed to go in on a Monday and you catch it on a Wednesday, you're still within plenty of time to get it corrected in a compliant manner.

[00:13:57] **DR. SHARI SIMPSON:** So far and away, payroll processing and contribution timing is the first and best place to make sure you have that locked down. And I love how you walked through that — we run payroll this day, direct deposits hit this day, contributions go to the plan this day. Just knowing that, and having multiple people in the organization able to articulate it, is a great first step. I know I've worked in places where I had to ask repeatedly, "When does it hit the plan? When do we check it?" This is part of HR audit planning — you add it into your audit process and you know you're going to check it. And this is one of those areas where you don't just set it and forget it. Same with EDI benefit feeds — those are things you have to check regularly because it's pay-related. You've got to get pay right; that's just table stakes. As I think about benefit plan design in general, I think this can be a great culture lever if we have the right package and the right structure. There are so many things to consider: employer matching structures, financial wellness programs, student loan repayment. That used to be tuition reimbursement — now we're talking about student loan repayment plans. As you look across the industry, what are the levers that you think are actually moving the needle for employers and having real impact on retention and attraction right now?

[00:15:38] **ANDREW FARRELL:** My industry colleagues may not love this answer, but the real answer is all of them are good at the margin. There are a few standouts — auto-enrollment is great. The Roth contribution option was, in my opinion, the biggest mover, but that was going on 20 years ago now. So a lot of the other things we've brought to market or will bring to market in the next five to ten years — I think a lot of them are great for some plans. I haven't seen too many things in the last five to ten years that I think every client needs to get on board with. Student loan repayment, for example, could be an absolute home run for a tech company in San Jose, but a trucking company in St. Louis? Maybe not. I would say benefits are great if they're great for your people. Your advisor and service provider should be bringing the decision-makers the options: here's what's available, here's what it costs, here's what your requirements are. But decision-makers need to remember that "no" is also in the toolbox. That's just not a good fit — I don't feel like we have good utilization of that feature. Because every feature, every bell or whistle you add to the plan has to be monitored. Before you add it to the plan, it's not your responsibility. As soon as you add it, it's your responsibility to monitor it, to make sure it doesn't break, to know if you're paying for it. All of those things need to be factored into the cost-benefit analysis of every feature before you add it to your plan.

[00:17:29] **DR. SHARI SIMPSON:** That makes a lot of sense. We've had conversations with other guests about data, and one of the things they came back with is track the things that matter to your organization — not every metric is a representation of things going well. So not every benefit offering makes sense for you. I love that you said that. As we get to the end of our conversation, I'd love if you could dive into the term fiduciary responsibility. I think that's one of those terms that can be scary or make HR nervous, but in really understanding it, it should help alleviate some concerns they have when working with a financial advisor. Where in that fiduciary responsibility does it sit with HR or the company, and where does it sit with the financial advisor we've engaged with?

[00:18:40] **ANDREW FARRELL:** Yeah, absolutely. Common unclarity, let's say — I don't want to call people wrong about it, but it's a very common thing they're not clear about. The first thing to decide is: are you a fiduciary, are you a named fiduciary, or are you not? The laws and regulations really break down and either identify you as a fiduciary or not. You can do all sorts of things around the plan in what's called ministerial tasks. The payroll processor, for example, probably touches the plan and makes contributions 26 times a year — probably more than anyone else in the whole firm — and is probably not a fiduciary. So to be a capital F fiduciary, you should have signed your name to a piece of paper at some point. You've signed as an authorized plan signer, you can sign plan documents and plan amendments, you sit on the investment committee, you've signed a charter, or you're a trustee. And every plan should have more than one trustee. The HR group is probably a named fiduciary 60 to 70% of the time, but certainly not always, and it might not be everyone on the HR team. Just because you're in HR doesn't make you a capital F fiduciary. And it is important to know, because in theory you're personally liable if the plan goes badly and it's the fault of the fiduciaries. You have insurance coverage for that, but it's an important thing to know. Then we move into the topic of: are you executing your duties as a fiduciary? There are really four primary duties. Your duty of loyalty — are you making decisions about the plan that are in the best interest of the participants? Are you executing your duties without any conflicts of interest? Paying only fair and reasonable fees is a big one. There's the duty of prudence, which means if you're going to be involved in monitoring the plan, you have to do it with skill and care. You can't just check out and look at it once every five years. Diversify the plan investments — I haven't come across a plan in 20 years that is not diversified in their investments. And the last one that comes back to HR is: follow the plan document. Every retirement plan has a plan document that sets out the rules of the road — when are people eligible, do we have loans, all of those things. Newer HR professionals, the best first thing you can do about your plan is read your summary plan description. Read your document. Make sure you know what it is. I've come across all sorts of situations where you have the way the company is operating the plan, and then the way their plan document is written, and they're not the same. Plans evolve over time. Somebody new comes in and starts doing things a different way going forward. But that's not what your plan document says. So periodically — it doesn't have to be annually — you should sit down with your plan document and give it a run-through. Are we in fact doing this? And if you're not, determine whether you need to adjust your behavior and processes, or just amend your document to bring it in line with what you're doing. It's not some sort of apocalypse, but it is important.

[00:22:09] **DR. SHARI SIMPSON:** That was really detailed information, and in a way that I think is pretty easy to understand. I appreciate you taking the time to go through that, because it can be sticky. There is some fear around it, but you're absolutely right: know your plan document, know what it says, and know what you're going to be held accountable for as an HR person. Andrew, this conversation was wonderful. I think this relationship that HR has with their financial advisors and retirement planning people is one of the most important in their bucket when it comes to creating great workplaces. Thanks for sitting down and chatting with me.

[00:22:41] **ANDREW FARRELL:** Yeah. My last takeaway, the acid test for advisors: would you invite your advisor to the company picnic and actually hope that they show up? And if the answer is like, "Mmm, no. Maybe," maybe that means you should reevaluate that relationship and the trust there. That's probably the bumper sticker version of: how do I know if I have a good relationship with my advisors? How much do you trust them?

[00:23:01] **DR. SHARI SIMPSON:** I love it. Thanks again, Andrew.

[00:23:04] **ANDREW FARRELL:** Absolutely. Thanks, Dr. Shari.

[00:23:17] **ANNOUNCER:** Thanks for tuning in to The HR Mixtape. Like, share, review, and subscribe to support the show and help more people discover these conversations. Until next time, keep the conversation going.