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EXAMINING POOLED PLAN ARRANGEMENTS IN HIGHER EDUCATION

Higher education administrators have a lot on their plates, including how to meet the needs of faculty and staff as they save for retirement. In this brief, using data from Transamerica's 2023 higher education survey, we examine whether pooled retirement plan solutions may have a bigger role to play in supporting public and private universities facing new and ongoing challenges.

Like all employers, institutions of higher education face challenges helping faculty and staff save for retirement. They include demonstrating the value of retirement benefits, minimizing the risk of offering a plan, and enhancing participant engagement. While there has been increasing support from recordkeepers, advisors, third party administrators, and consultants, our survey suggests there is room to improve.

DEFINING POOLED PLAN SOLUTIONS

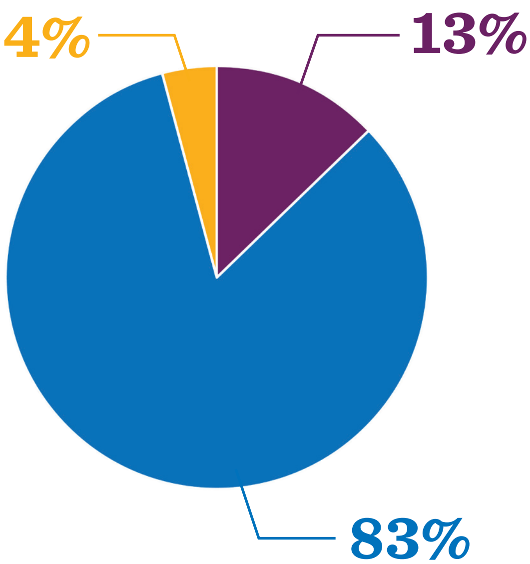
A pooled plan solution is a retirement program where multiple employers join together to gain administrative, fiduciary, and potential cost efficiencies. They are becoming more widely used in the private sector as well as among public organizations, including higher education institutions.

There are different types of pooled plan arrangements — pooled employer plans (PEPs), group of plans (GoPs) and multiple employer plans (MEPs) — and all share the same objective: to provide access to quality retirement plans, regardless of employer size. For purposes of this report, we are referring to all types as pooled solutions.

About the survey:

For Transamerica's Retirement Plan Trends in Higher Education 2023 study, we surveyed 99 respondents from a mix of higher education institutions, including not-for-profit (58), public (19), faith-based (17), and for-profit (5) institutions. The survey sought to understand retirement plan preferences and, within these segments, considered plan types, including 457(b), 403(b), 401(k), and 401(a) defined contribution plans. The objective was to uncover distinct characteristics, preferences, and typical plan sizes collectively and by institutional type, thereby providing valuable insights to enhance retirement planning strategies.

POOLED SOLUTIONS IN HIGHER EDUCATION

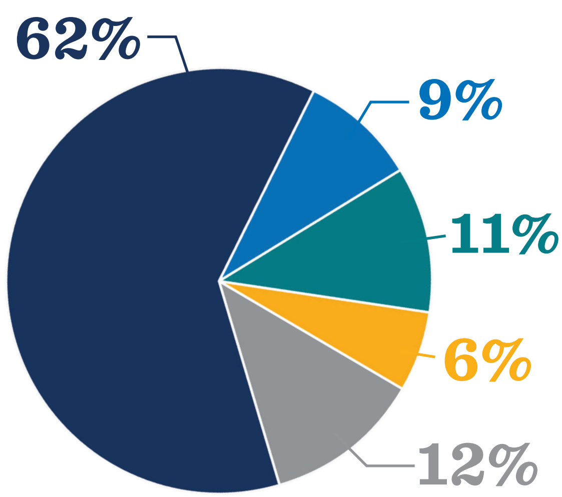


Higher education institutions often have multiple retirement plans. We asked survey respondents to identify their largest plan in terms of participant count.

Thirteen percent said it is a pooled solution, and 83% said a single-employer plan. Four percent did not know.

Pooled solutions are more common among not-for-profit institutions than among their faith-based or for-profit counterparts.

- Pooled solution
- Did not know
- Single-employer plan



Most institutions (62%) with a single-employer plan have not explored the possibility of a pooled solution and have no plans to do so.

A small minority (6%) are considering a pooled solution and 9% plan to explore a pooled solution in the near future.

Nearly one-in-five (19%) faith-based organizations expressed plans to explore a pooled solution in the near future.

- Have not, no plan to explore
- Have not explored, but plan to
- Have explored, decided against
- Have explored and are considering
- Don't know/not sure

POOLED SOLUTION PLAN DESIGN

Pooled solutions are more likely to allow faculty and staff (62%) to participate in the plan compared to single-employer plans (SEPs), where 49% of part-time staff and 48% of adjunct or part-time faculty may participate.

Higher education institutions participating in a pooled solution are less likely than SEPs to automatically enroll participants (31% versus 40%) but are more likely to say they are considering adding automatic enrollment in the next 12 months (15% vs. 9%).

Among plans using automatic enrollment, pooled solutions are more aggressive about their default contribution rate than their SEP counterparts, with 50% of pooled solutions auto-enrolling at 5% of compensation. The most common default contribution rate for SEPs was 3% of compensation (34% of respondents), followed by 22% of respondents who set their default rate lower than 3%. Just 35% of SEPs said their default contribution rate is 5% or higher, and 6% were unsure.

WHY CHOOSE A POOLED SOLUTION?

When asked why they had chosen to join a pooled solution, survey respondents cited costs, administrative assistance, and fiduciary liability as primary reasons.

REASONS	PERCENTAGE
To lower costs	47%
To offload administrative responsibility	47%
To reduce fiduciary liability	41%
To receive better service	29%

The nature of the pooled plan structure often includes pricing considerations. Featuring benefits such as shared fiduciary burden, help with administrative functions, and participant educational resources, a pooled solution can be valuable to institutions of higher education and their faculty and staff.

Pooled solutions are more likely to allow part-time faculty and staff to participate in the plan compared to single-employer plans

Institutions are concerned about the financial wellness of their faculty and staff. Seventy-one percent said retirement preparedness for their near-retirees concerns them. The figure is somewhat less for sponsors of pooled solutions, where 62% see it as a pressing issue. When respondents were asked about their biggest concerns, 77% of pooled solution plan sponsors expressed they were very or extremely concerned about the impact of inflation on retirement savings.

The survey showed differences in the level of concern among plan sponsors about aspects of faculty and staff financial wellness. Concern was generally higher among sponsors of pooled solutions when compared to SEP sponsors.

23% feel extremely responsible for the financial well-being of their faculty and staff (compared to 4% of SEPs)

23% are extremely concerned about the level of faculty and staff engagement in personal finances (compared to 5% of SEPs)

23% are extremely concerned about the personal level of debts of their participants (compared to only 1% of SEPs).

Most-pressing challenges for faculty and staff, according to respondents:

62% cite "household budgeting, spending, and saving level" as one of the most pressing challenges for their participants (compared to 50% of SEPs)

39% cite competing benefits priorities as one of the most pressing challenges for their participants (compared to 18% for SEPs)

Current or planned financial wellness benefits:

46% offer "personalized financial counseling, coaching, or planning" (compared to 29% of SEPs)

46% offer help with wills, trusts, and estate planning (compared to 23% of SEPs)

The level of concern expressed by higher education pooled solution sponsors about faculty and staff financial well-being may indicate recognition of the value of pooled solutions in mitigating the fiduciary burden associated with retirement plans. Selecting a pooled solution to address fiduciary concerns may allow these employers to focus more on providing financial wellness benefits with full confidence their retirement benefits are properly managed.

THE ADVISOR'S ROLE

All sponsors of a pooled solution in our higher education survey use a financial advisor or consultant. This is likely a result of the pooled solution structure, which typically includes fiduciary support. According to survey respondents, plan advisors act as 3(38) investment managers for 42% of pooled solutions and 25% of SEPs. Fifty-eight percent of pooled solutions have a 3(16) administrative fiduciary and the same percentage (58%) have a 3(21) fiduciary investment advisor. In comparison, among institutions whose largest plan is a SEP, 30% have a 3(16) administrative fiduciary and 34% have a 3(21) fiduciary investment advisor. Relying on a fiduciary allows plans to shift a portion of their fiduciary liability to a professional.

For institutions of higher education, plan advisors and consultants play a critical role, starting with evaluating whether a pooled solution is a good fit. With in-depth knowledge of retirement plans in general and — and specifically to the plans they serve — these advisors can be valuable in helping university administrators make informed decisions.

INVESTMENT SUPPORT IN POOLED SOLUTIONS

42%

of pooled solutions use their financial advisor or consultant as an ERISA 3(38) (compared to 25% for SEPs).

An investment policy statement (IPS) that can guide the plan's investment decisions is an important part of plan management and is a service often performed by plan advisors. While there are still plans without an IPS, 65% have one. Among pooled solutions, 62% have an IPS.

CONCLUSION

Based on our survey, higher education institutions remain concerned about the perception that faculty and staff are not saving enough for retirement. They also show concern about keeping up with regulatory changes and effective measurement of plan performance, and they depend heavily on their advisors and consultants.

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