Benchmarking Retirement Benefits as Recruitment and Retention Tools

Evaluating benefits through a recruitment lens means plan sponsors should identify industry peers and also regional competitors.

Reported by BETH BRAVERMAN

Workplace retirement plans are evolving into strategic and important human-capital investments. Employers increasingly believe that the right plan design can help them attract the best candidates, retain employees and strengthen worker satisfaction. More than 80% of companies surveyed by the Society of Human Resource Management this year rated retirement benefits as "very important" or "extremely important" to their workforce.

"For a long time, many companies have viewed retirement not as a silo or a compliance item, but as part of a total rewards package," says David Levine, a principal with Groom Law Group. "In some cases, it's table stakes, and it's really viewed as an incentive and a retention tool."

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To make the most of their retirement plans in that context, employers must know how their offerings compare with competitor's plans. Understanding how a prospective employee views a company's plan, compared to those offered by competitors, can help an organization differentiate itself from other employers that are also recruiting. Levine says that requires benchmarking the plan's design, which is a settlor function for plan sponsors, rather than a fiduciary duty.

Identifying Competitors

When benchmarking through a recruitment lens, plan sponsors need to identify their true talent competitors. That may include not only industry peers but also regional competitors.

Employers should benchmark their retirement plan against companies that hire workers with similar skills—even across industries—because labor markets overlap heavily for job candidates with special expertise or core competencies, including those in tech, finance or engineering.

"If you're a 100-person manufacturing company in the Northeast, there's probably no point in comparing yourself to Apple," says Chris Bailey, a director at Cerulli's retirement practice. "But maybe you want to look at other manufacturing companies in the Northeast or manufacturing companies as a whole."

Using multiple comparison groups, rather than a single industry average, typically provides a fairer assessment of a retirement plan.

"The average doesn't really tell you much," Bailey says.

The right comparison depends on the employer's reach, location and talent needs. Advisers and consultants can help plan sponsors refine their benchmarking list to identify which firms offer the most appropriate comparisons, depending on the company's goals.

Which Features to Benchmark

To ensure a retirement plan functions as a recruitment and retention tool, plan sponsors need to benchmark their plans with an emphasis on features that directly influence hiring and decisions to stay. So rather than focusing on the recordkeeper or investment lineup, sponsors should evaluate elements such as plan eligibility and non-elective employer contributions.

Lisa Caito, director of retirement plan consulting at CAPTRUST, says employer contributions and vesting schedules are among the most important factors prospective employees consider when evaluating a retirement plan as part of an employment offer.

Depending on the demographics of the workforce, plan sponsors might also benchmark the availability of certain specific financial wellness offerings. For example, companies with a young workforce might want to benchmark the availability of student loan repayment benefits.

"It's hard to compete in certain markets for younger workers without that because that's a major benefit to those that are carrying around a lot of debt," says Jason Roberts, CEO of consulting and compliance firm Pension Resource Institute.

Beyond demographics, plan sponsors should consider which benefits employees in their industry values most. For some, that might include stock options or an employee stock ownership plan .

"That puts you in a different stratosphere of retention and recruitment," Roberts says. "Giving employees their own account and helping them, through matching, to grow that account and have ownership of the company. That's the ultimate benefit as a retention tool."

Making the Most of Findings

Benchmarking alone will not improve a plan's role in a company's recruitment and retention. Plan sponsors need to use the findings as a roadmap to identify potential plan design changes that could minimize disparities between an organization and its peer employers. For example, if data show a matching formula for employer contributions that lags peers, plan sponsors might consider re-engineering the company match into a stretch match that incentivizes participant deferrals.

"You have to take the benchmarking information and look at it from a financial perspective," says Caito. "And you must look at your goals and objectives."

Caito says that determining the right benefit mix for a company's employees—factoring in the company's budget and objectives, as well as benchmarking findings—is more art than science. The goal is to determine which benefits will move the needle in terms of outcomes, and whether they are worth the investment for that employer.

Two final points:

First: Benchmarking should not be a one-time strategy. Even if the first analysis revealed no need for benefit-plan changes, employers should return to the evaluation process regularly.

"It's an ongoing thing, but at least annually, you should be checking in on how you're benchmarking against your peer group and seeing if there are changes in the benefits that they're offering," says Chris Farmer, Alight's wealth client portfolio leader.

Second: Benchmarking may also help a plan sponsor refine how it markets its retirement plan to existing employees, especially if the benchmarking shows the company's plan is among the best in its class.

"You can change the conversation about your benefits or have more confidence about how you talk about your benefits," Bailey says.

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