

# Focus on Excellence

## A Successful Plan Conversion

How Rotary International embraced retirement plan changes to influence the retirement readiness of their employees.

By Mark Olsen

**R**otary International is a worldwide organization of more than 1.2 million business, professional, and community leaders founded in 1905. Today, there are more than 32,000 Rotary clubs in more than 200 countries. Rotary members volunteer their time and talent to further Rotary's motto: Service Above Self. Rotary members provide humanitarian service, encourage high ethical standards in all vocations, and help build goodwill and peace in the world.

From their international headquarters in suburban Chicago, approximately 500 employees support the philanthropic endeavors of its broad and diverse members. Historically these employees were covered by a defined benefit and defined contribution plans. From a replacement income perspective, employees largely relied on the defined benefit plan as their main retirement vehicle because the average participant account 401(k) balance was \$38,000. Rotary's Board of Directors regularly reviews employee benefit plans and had been growing concerned about the defined benefit plan.

### Devising a Plan

Specifically, the Board was concerned with the underfunded status, future cost and liability concerns, and mounting industry trends away from defined benefit plans. Ultimately, Rotary deter-

mined they would continue to offer the defined benefit plan for current employees and eliminate this benefit for future employees. In order to keep the benefit plans at parity, future employees would receive an enhanced employer contribution within their defined contribution plan.

Rotary looked for assistance, and they tapped Blue Prairie Group (BPG), an investment and human resource consulting firm to help design and implement a revised retirement benefit program. BPG is a national consulting firm that supports plan sponsors from their Chicago-headquarters and three satellite offices: Atlanta, Des Moines, and Minneapolis. BPG's consultants serve corporate, not-for-profit, and association clients in 13 states. BPG collaborated with Rotary on this important and long-lasting benefit decision.

Embedded in BPG's approach was their proprietary Retirement Success Prairiedigm™, which serves as a multi-dimensional diagnostic and strategic framework with which to evaluate and improve retirement plans. This Prairiedigm is crucial to BPG founder Matt Gnabasik as he strongly believes "success can only be realized if no one is left behind in the retirement savings quest. The retirement plan is an employee benefit and should be fostered and supported by the entire organization similar to healthcare and other benefit programs." See Exhibit 1.

### Challenge

A number of factors weighed on Rotary's Board of Directors evaluation of their existing defined benefit plan including cost, employee appreciation, transition of current employees, and other human resource related challenges.

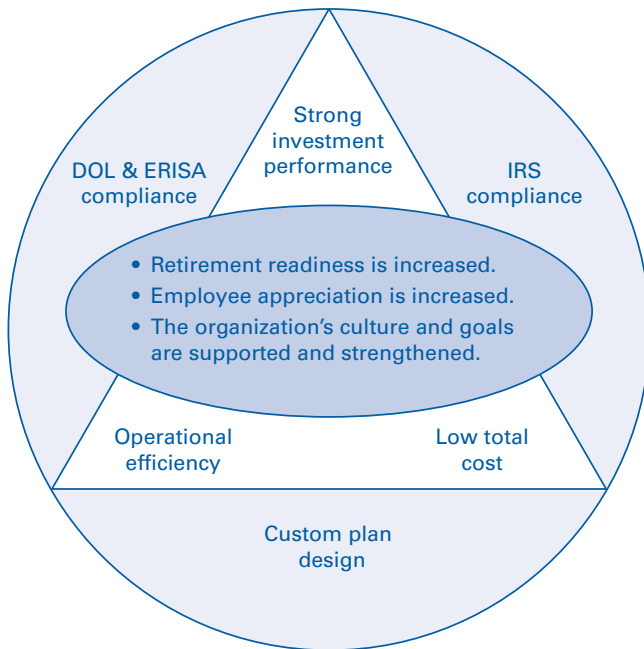
#### From a cost perspective:

1. Predictability and affordability of the defined benefit plan
2. Recent FASB changes that highlight balance sheet effects cannot be ignored
3. Specific to Rotary was short term cash contributions that were known and manageable, but longer term cash needs were likely significantly higher
4. Willingness to incur near-term cost increases to achieve longer term reductions in cost, liability, volatility and objectives

#### As a service organization, significant consideration was given in regards to:

1. Many employees did not fully appreciate the long-term benefit until nearing retirement age
2. Informing and educating participants about the upcoming changes
3. Employee perception that should be viewed as an enhancement versus a take away

**Exhibit 1: The Retirement Success Prairiedigm™**



The BPG Retirement Success Prairiedigm™ forces us as fiduciaries to:  
**Step 1:** Think holistically about the **health of the entire plan**, and  
**Step 2:** Focus on **driving positive results** across the entire plan.

- 4. Consistent level of benefits between longer service employees and new hires
- 5. Protecting participants in a defined contribution environment from making poor financial decisions

For many employees, the defined contribution plan was an after thought. As BPG reviewed participant behavior a number of elements were apparent.

First, while participation was high at 82 percent, employee communications were ineffective and encouraged non-savers. Second, once enrolled in the plan, few participants increased their employee contributions in later years. Lastly, asset allocation was problematic as many participants had not actively been involved in this exercise of rebalancing their investment options. Based on these observations, BPG Consultant Mark Olsen worked with Rotary to develop a retirement program that addressed these observations and

turned participant apathy to inertia and ultimately have a strong likelihood of retirement readiness.

### Integrating the Plan

Historically, employee communications between the defined benefit and defined contribution plans were not linked. Employees would have to independently compare their data from two different service providers. Further, there was not a tool readily available for employees to enter data from the defined benefit and defined contribution plans and determine whether or not they were on track for retirement.

In an effort to integrate the defined benefit and defined contribution plans from a participant awareness perspective, Rotary and BPG determined the current defined contribution plan recordkeeper was not the best fit and a change was in order. Some plan sponsors would shy away from mak-

ing a service provider change in the midst of defined benefit and defined contribution plan design changes. Rotary embraced these retirement plan changes as a positive way to reinforce to employees that the retirement programs were going to improve from all aspects.

### Integrating the Plan

BPG worked with an executive team at Rotary to flesh out plan sponsor and participant's goals and objectives. These findings were instrumental in shaping the search parameters for a new recordkeeper. Key goals and objectives were:

1. Improve employee perception of the plan, including the significance of the employer match
2. Incorporate defined benefit plan information in the quarterly defined contribution statements, Web site, and education materials
3. Develop more targeted education materials
4. Add more investment options, including target date funds
5. Full fee and revenue sharing transparency

BPG led the recordkeeper search and selection process. To support our client's fiduciary process, BPG followed a multi-step recordkeeper search process that incorporated the following major steps:

- Determined committee goals and objectives through an extensive survey and discuss results to ensure all stakeholders agree with the approach.
- Developed Fiduciary goals and objectives to determine which recordkeepers are the "best" fit for Rotary.
- Reviewed current plan design and discuss future plan design. Incorporated Pension Protection Act of 2006 provisions.
- Developed a custom request for proposal and solicit fee and service quotes.

- Determined appropriate asset classes based both on current utilization and best practices. Selected investment options that were offered to participants.
- Performed an investment performance review and in-depth portfolio analysis.
- Negotiated recordkeeper's minimum required revenue.

A target date of January 1, 2008 was set for the restructuring of the retirement plans. The changes included freezing the defined benefit plan frozen to new employees, enhancing the DC plan for new employees with a safe harbor match for all employees and revamped investment approach; and lastly a recordkeeper change. Rotary truly used this opportunity to embrace change and communicate to employees the powerful benefit program that had been recast to serve the future retirement needs of *all* employees.

## Results

BPG Consultant Mark Olsen partnered with Rotary to develop and unveil to employees a smart retirement plan design that embraced the Pension Protection Act. See Exhibit 2 for highlights of the plan.

While Rotary had high participation prior to the changes (82 percent), they elected to leverage the Pension Protection Act. Key considerations included the following:

1. New employees would rely solely on the enhanced defined contribution plan for retirement savings.
2. Combat employee apathy towards enrolling in the plan by automatically enrolling them.
3. Realign communications to focus on targeted campaigns versus more generic messaging.

To assist the majority of participants and help them actively managing their retirement savings, Rotary mapped all participant investments to target date


**Exhibit 2: Highlights of Rotary's Retirement Plan Design**

	Previous Plan	New Plan
<b>Current Employees</b>	<b>401(k)</b> <ul style="list-style-type: none"> <li>• 3% employer match</li> <li>• Immediate vesting</li> </ul> <b>Defined Benefit</b> <ul style="list-style-type: none"> <li>• 1.75% of final average pay times years of service</li> <li>• 5-year vesting</li> </ul>	<b>401(k)</b> <ul style="list-style-type: none"> <li>• 3.5% employer match</li> <li>• Immediate vesting</li> </ul> <b>Defined Benefit</b> <ul style="list-style-type: none"> <li>• 1.75% of final average pay times years of service</li> <li>• 5-year vesting</li> </ul>
<b>Future Employees</b>		<b>401(k)</b> <ul style="list-style-type: none"> <li>• 3.5% employer match</li> <li>• Immediate vesting</li> </ul> <b>401(k) – points system</b> <ul style="list-style-type: none"> <li>• Employer contribution based on age and service</li> <li>• 5-year graded vesting</li> </ul>

funds at the conversion date. All participants had the opportunity to elect different investments prior to and after conversion. However, the results clearly indicated the majority of participants stayed invested in the target date funds.

Following the January 1 implementation of this retirement restructuring, the goals shown in Exhibit 3 were achieved.

By any measure, the restructured program has been a huge success.

Participation is increased, average deferral rates are up, and the majority of the assets remain invested in target date funds. Each of these measures addresses employee's retirement readiness and will make a long-lasting, profound impact on the quality of their golden years. 

*Mark Olsen is a Consultant with Blue Prairie Group.*

**Exhibit 3: Goals Achieved Following Retirement Restructuring Implementation**

	Previous Plan	New Plan
<b>Auto Enrollment</b>	<b>No</b> <ul style="list-style-type: none"> <li>• 82% participation</li> <li>• existing and new hires</li> </ul>	<b>Yes – 3% default rate</b> <ul style="list-style-type: none"> <li>• 94% participation</li> </ul>
<b>Average Deferral Rate</b>	<ul style="list-style-type: none"> <li>• 6.3%</li> </ul>	<ul style="list-style-type: none"> <li>• 6.7%</li> </ul>
<b>Auto Increase</b>	<b>No</b>	<b>Yes – 1% annual increments</b>
<b>QDIA</b>	<b>No</b> <ul style="list-style-type: none"> <li>• Stable value</li> </ul>	<b>Yes</b> <ul style="list-style-type: none"> <li>• Target date funds</li> </ul>
<b>Investments</b>	<ul style="list-style-type: none"> <li>• 10 fund options</li> <li>• No target date funds</li> </ul>	<ul style="list-style-type: none"> <li>• Tiered investment structure</li> <li>• Target date funds</li> </ul>