

## **Carpe Opportunitatem: Think Beyond PPA'06-Required Participant Communications**

The Pension Protection Act of 2006 (PPA'06) requires employers that sponsor defined benefit (DB) retirement plans to provide benefit statements at least once every three years to vested employees. Employers are also required by PPA'06 to give quarterly or annual individual benefit statements to employees participating in defined contribution (DC) plans. (Details about the new requirements are in the [text box on the next page](#).) This creates an opportunity to build employee appreciation and enhance retention by going beyond simply complying with these new requirements. That is, while the law speaks of retirement benefit disclosure, employers may want to seize this opportunity to not only say, "Here are the facts," but also, "Here's how you should be thinking about them."

### **WHY SEIZE THE OPPORTUNITY TO COMMUNICATE BEYOND COMPLIANCE?**

Seizing the opportunity to expand the scope of the required retirement benefit statements can help achieve two important human resources objectives:

- **Encourage Retirement Planning and Savings** Retirement is a hot topic these days. Employees are being bombarded with messages in the press about the long-term viability of Social Security and the need to plan and save appropriately for their retirement. They have concerns and many questions. Through the pension statement, employers can help them find answers and highlight their retirement programs at the same time.
- **Enhance Understanding of the Employee Value Proposition (EVP)<sup>1</sup> to Improve Retention of Key Employees** The competition for talent is heating up. According to the *2006 U.S. Job Retention* study conducted by the Society for Human Resource Management and CareerJournal.com, "approximately three-fourths of currently employed respondents are either actively or passively job searching."<sup>2</sup> Keeping valued, experienced employees is important to the bottom line because studies show that companies with low turnover have better profitability. Moreover, losing one talented key performer can cost a multiple of his/her annual salary to replace when taking into account the costs of recruiting, training and waiting for the new employee to get up to speed. It is important to educate employees about the total value of their company-sponsored benefit programs and rewards, in addition to their salary, before they are tempted by perceived "greener" pastures.

### **HOW CAN PERSONALIZED COMMUNICATIONS HELP?**

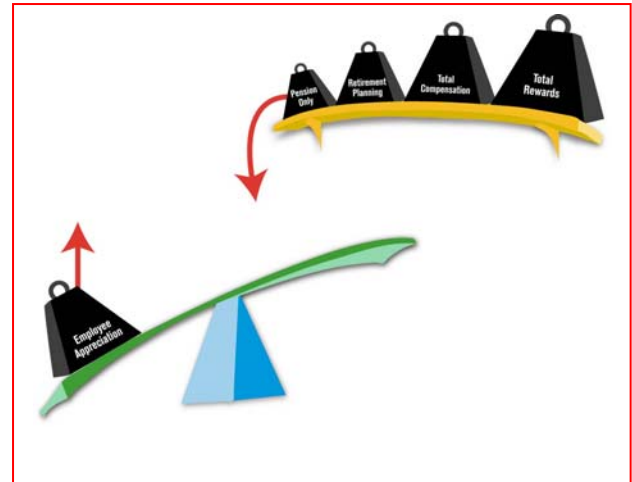
An effective communication effort will improve employees' understanding, appreciation and engagement. There is a spectrum of increasingly robust approaches that go beyond simply complying with PPA'06 requirements:

- **Retirement Planning Statements** Expanding pension benefit statements to include projected benefits from the DB plan coupled with estimated benefits from DC plans and Social Security gives employees a snapshot of what their retirement income may look like. The information in this umbrella piece that ties it all together may motivate them to learn more about planning for retirement (including identifying specific needs and setting realistic goals) and encourage them to save more.

<sup>1</sup> The EVP is Sibson Consulting's term, which encompasses all aspects of employment that are meaningful to employees, including work content, career development and affiliation, as well as direct and indirect compensation.

<sup>2</sup> Link to the study: [http://www.shrm.org/hrresources/surveys\\_published/2006%20U.S.%20Job%20Retention%20Poll%20Findings.pdf](http://www.shrm.org/hrresources/surveys_published/2006%20U.S.%20Job%20Retention%20Poll%20Findings.pdf)

- **Total Compensation Statements** These statements highlight the specific investment an organization makes on behalf of the employee through all company-sponsored benefits and programs. In many cases, the cost of company-sponsored benefit programs can exceed \$1 for every \$3 paid in direct compensation, but employees will not know about the value of these programs unless they are told.
- **Total Rewards/EVP Statements** In fact, to really drive employee appreciation and comprehension, employers can provide a statement that builds on retirement planning and total compensation to include all aspects of employment that are meaningful to employees (e.g., work content, career development and affiliation, as well as direct and indirect compensation). By reinforcing the total rewards that an organization offers, these statements can help employers achieve or maintain their position as an employer of choice.



For more information about personalized benefit statements and how they can help your organization achieve multiple HR objectives, contact your Sibson consultant, Lydia Moore (212.251.5068 or [lymoore@sibson.com](mailto:lymoore@sibson.com)) or the nearest Sibson office.

## THE NEW REQUIREMENTS FOR RETIREMENT BENEFIT STATEMENTS

PPA'06 expanded the ERISA benefit statement rules for covered DB and DC plans, effective January 1, 2007, for many plans. Under PPA'06, plan sponsors must provide individual benefit statements automatically to participants and beneficiaries at least:

- Quarterly (for DC plans that allow participant-directed investments),
- Annually (for DC plans that do not allow participant-directed investments), or
- Every three years (for all DB plans, to active, vested participants only) starting with the 2009 plan year, or, alternatively, an annual notice, starting in 2007, informing them that they can receive an individual benefit statement on request.

The statements must be provided within 45 days after the end of the relevant period. In addition, as was generally the case before PPA'06, any participant can also request and receive a benefit statement for either DB or DC plans once each year.

The Department of Labor (DOL) recently issued interim guidance for the new individual benefit statement rules.\* Until it issues regulations, plan sponsors can follow a good faith interpretation of the law. Following the interim DOL guidance will be treated as complying with the law.

As with all issues involving the interpretation or application of laws and regulations, plan sponsors should rely on their attorneys for authoritative advice on the interpretation and application of PPA'06.

(To return to the discussion of the driving concerns and suggested response, click [here](#).)

\* For more information on the guidance, see Sibson Consulting's February 2007 *Bulletin*, "Retirement Benefit Statements: Welcome Guidance and Relief": <http://www.sibson.com/publications/bulletins/feb07statements.pdf>

## SIBSON CONSULTING A DIVISION OF SEGAL

Atlanta	678.306.3100
Boston	617.424.7300
Calgary	403.692.2264
Chicago	312.984.8500
Cleveland	216.687.4400
Denver	303.714.9900
Hartford	860.678.3000
Houston	713.664.4654
Los Angeles	310.914.7373
Minneapolis	952.857.2480
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Raleigh	919.233.1220
San Francisco	415.263.8200
Toronto	416.969.3960
Washington	202.833.6400

[www.sibson.com](http://www.sibson.com)