How to Track Employee Benefit Eligibility: Three Solutions to a Tricky Topic

By John Foucault

Although it's a complicated matter, it's one you can't ignore.

"More with less" has always been the nonprofit motto, but never more so than today, with executives taking on additional responsibilities and working more hours. In this busy environment, one area that can get neglected is tracking employee eligibility for the organization's retirement plan. After all, there are frequently different rules for different components of the plan — employer contributions, workers' contributions, and possibly an employer match contribution. Tracking eligibility for these plans can be time-consuming.

The picture gets even more complicated when you consider that workers are increasingly responsible for their own contributions. Under the old benefit plans, employers simply paid out a certain amount of money to retired personnel each month. But more and more organizations are switching over to defined contribution plans, where each staff member decides whether to participate. This makes tracking eligibility and participation even more complex.

But this is an area that can't be ignored. Procedures for the YMCA, for example, require the local Y to contribute to the retirement fund for each employee who has met the hours-worked requirement. If an employee isn't enrolled in the fund in a timely manner, an unfunded liability will be created for that local Y. When the mistake is discovered, the local Y has to make up both employee and employer contributions, which in the worst case can total tens of thousands of dollars plus a penalty.

> "A mistake can result in tens of thousands of dollars plus a penalty."

Even if your organization doesn't have mandatory enrollment, eligibility tracking is a vital process. If you know which employees are close to their maximum retirement plan contributions, you can plan accordingly. And if you can forecast who will become eligible for your plan in, say, the next 90 days, it's a lot easier to manage cash flow so you're not caught off guard.

Handle Retirement Tracking with Care

There are three major ways to track retirement eligibility:

1. Outsource Third-party administrators can handle all or part of your nonprofit's retirement program. Companies like Boston Financial or Aon Hewitt will calculate pension benefits, track employee participation, and provide other related services. If you can afford the fees associated with this option, it's a straightforward way to handle plan administration.

However, outsourcing has some disadvantages. First, you lose some control. It's harder to manage cash flow by keeping track of who will be eligible for your retirement plan in a certain time frame. You can't modify an employee's profile to account for special circumstances. Setting up an outsourcing program can be difficult, and if you ever decide to cancel, bringing your information back in-house isn't always simple. Finally, these agreements can be costly. For smaller, cash-strapped organizations, this option may simply be too expensive to even consider.

2. Do It Yourself You can save money and gain more control over your eligibility tracking by doing the paperwork yourself, setting up a system of Excel spreadsheets and procedures to track hours that fits your needs. The only cost is employee time, and

IF YOU OUTSOURCE

If you decide to outsource your retirement tracking, here are a few companies that provide such services:

- The Standard, www3.standard.com
- Principal, www.principal.com
- Aon Hewitt, www.aon.com
- Boston Financial, www.bostonfinancial.com

your eligibility tracking system needn't be any more complex than you want it to be.

On the other hand, do-it-yourself solutions carry several risks of their own. First, they take time. Comparing multiple reports, looking through years of historical data, and tracking hours toward eligibility on spreadsheets add up to quite a chore.

Second, even when there's someone available to put in the hours, juggling so many variables makes it easy to miss something. This isn't only financially risky; it's bad for employee morale to put such a weighty responsibility into the hands of someone who's already strapped for time. For many nonprofits, do-it-yourself solutions may be more trouble than they're worth.

> "Juggling so many variables makes it easy to miss something."

3. Use Software Software programs like Points North's Who's Where can be an ideal compromise. They make tracking retirement eligibility nearly as simple as with a third-party administrator, but offer most of the cost savings and customization of a do-it-yourself system.

These programs are compatible with payroll provider data, and they run eligibility checks every time you process payroll. They provide a list of who's eligible for your plan, who will be eligible, who's enrolled, and who needs to be enrolled. This saves time, since you don't have to compare multiple reports, historical data, or spreadsheets. It also reduces the risk of liability. All eligible employees will be highlighted, so if enrollment is mandatory, you'll know who still needs to get signed up.

For organizations with multiple levels, such software can provide vital summary information. Nonprofits can use it to see which chapters or employers have workers who are eligible but not enrolled. They can also see those who are delinquent in forwarding their contribution payments through the system's electronic money movement feature.

Be Diligent

Nonprofits can't afford to make mistakes with their cash flow. Retirement eligibility tracking systems are essential for planning purposes, but few nonprofits have them set up. Whether you decide to outsource this work, do it yourself, or purchase specialized software, make sure you're taking this responsibility seriously.

John Foucault is president of Points North (www.points-north.com), a nationally-recognized software firm that has partnered with the YMCA Retirement Fund and other nonprofits.