2017 TOP TRENDS IN DEFINED CONTRIBUTION PLANS

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Greg Poplarski – Allianz Global Investors

Casey McCarthy – American Century

Vinnie Iacono – Oppenheimer

Brandon Shea – T.Rowe Price

TOP TRENDS IN DEFINED CONTRIBUTION PLANS

- What is the most important aspect of participant behavior your organization should address?
  - 28% - Encouraging higher contribution rates
  - 25% - Addressing broad financial wellbeing
  - 16% - Recognizing retirement readiness
  - 15% - Increasing participation
  - 7% - Improving investment diversification
  - 6% - Minimizing leakage
  - 2% - Encouraging lifetime income
  - 1% - Discouraging cash-outs

TOP TRENDS IN DEFINED CONTRIBUTION PLANS

- Reviewing Plan Fees
- Managing Fiduciary and Compliance Liability
- Improving Retirement Readiness through Plan Design
- Implementing a Financial Wellness Program
- Reviewing QDIA Selection
- Offering a Retirement Income Solution
- Providing Socially Conscious Investment Options
- Offering a Non-Qualified Plan for Highly Compensated Employees
- Incorporating HSA Accounts Into Retirement Planning
- Managing Cybersecurity Risks

REVIEWING PLAN FEES

- Regulation 408(b)(2) requires Plan Sponsors annually to:
  - Identify all covered service providers
  - Ensure receipt of 408(b)(2) disclosure
  - Determine adequacy and accuracy of disclosures
  - Evaluate reasonableness of fees
- 47% of Plan Sponsors have a written fee policy statement in place
- 63% of Plan Sponsors calculated and benchmarked the fees for their DC Plan in the past 12 months
  - 8% did not know when was the last time it was calculated
  - 2% have never calculated
- Plan Sponsors moving to “zero-revenue” sharing funds
- Increasing use of Collective Investment Trusts (CITs)
  - Up from 48% in 2012 to 65% in 2016

MANAGING FIDUCIARY AND COMPLIANCE LIABILITY

- DOL is increasingly focused on Plan Sponsors fulfilling their Fiduciary obligations.
  - Increasing number of plan auditors, plan audits and fines
  - 73% of audited plans found to be in violation
  - Estimates of $9 in fines/$1 invested in staffing
- 80% of plans use an investment consultant
  - 40% did not know if they were 3(21) or 3(38)
- Growing use of 3(38) and 3(16) services
- Impact of the Fiduciary Rule
  - 52% of Plan Sponsors are unsure or believe there will be no change
  - Expanded definition of who is a Fiduciary

IMPROVING RETIREMENT READINESS THROUGH PLAN DESIGN

- How do Plan Sponsors measure success of their plans:
  - Participation Rate
  - Contribution Rate
  - Investment Performance
  - Cost Effectiveness
  - Investment Diversification
  - Retirement Income Adequacy
- 65% Offer Automatic Enrollment
  - 22% use it for existing employees
  - 4.3% is the average default rate
- 63% Use Contribution Escalation
  - 60% use as default or Opt-out
  - 15% is the escalation cap
- 88% use a Target Date Fund as the QDIA for the plan

IMPLEMENTING A FINANCIAL WELLNESS PROGRAM

- 49% of workers acknowledge they spend 5 hours a week or more dealing with personal financial issues at work
- Top financial worries of employees:
  - 55% - Not having enough money for emergency expenses
  - 37% - Not being able to retire when I want to
  - 25% - Not being able to meet monthly expenses
- 60% of Plan Sponsors think the importance of financial wellbeing has increased at their company over the past 24 months
  - 7% have fully executed a financial wellness program
  - 16% are in the process of implementation
  - 49% are in the process of creating a financial wellness strategy
  - 28% do not intend to create a broad financial wellness strategy

IMPLEMENTING A FINANCIAL WELLNESS PROGRAM

- Top financial topics for employers to provide workers with tools, services or education:
  - 43% Basics of Investing
    - Creating a budget
    - Managing debt
    - Buying a house
  - 37% Health Care Education
  - 35% Financial Planning
- 19% of Employers considering implementing Student Loan Repayment Program

REVIEWING QDIA SELECTION

- Pension Protection Act of 2006 gives Safe Harbor Protection to Assets invested in QDIA defined as:
  - A Balanced Fund
  - A Target Risk or Target Date Fund
  - A Managed Account
  - A Stable Value Fund (for the first 120 days)
- Act requires Plan Sponsors to exercise, demonstrate and document prudence in the selection and monitoring of the QDIA.
- 88% of plans use Target Date Funds as the QDIA

REVIEWING QDIA SELECTION

- Criteria used by Plan Sponsors in Selecting a Target Date Fund:
  - Performance
  - Fees
  - Portfolio Construction
  - Risk
  - Active vs. Passive investment style
  - Use of tactical asset allocation
- 49% took action related to their Target Date Fund in 2016
  - 67% - Evaluated the suitability of the Glidepath
  - 17% - Replaced Target Date Fund Manager
  - 13% - Changed the share class
  - 6% - Moved to a collective
  - 4% - Shifted to an all passive target date fund

OFFERING A RETIREMENT INCOME SOLUTION

- 50% of Plan Sponsors offer retirement income solutions
  - 27% - Access to a Defined Benefit Plan
  - 14% - Managed Account income drawdown (ie. Financial Engines)
  - 12% - Annuity as a form of distribution payment
  - 4% - In-Plan Guaranteed income for life product
  - 2% - Longevity insurance
- Reasons why Plan Sponsor does not intend to add In-Plan income solutions:
  - 46% - Fiduciary concerns
  - 41% - Waiting to see the market evolve more
  - 40% - Operational or administrative concerns
  - 33% - Participant utilization concerns
  - 19% - Cost barriers

PROVIDING SOCIALLY CONSCIOUS (ESG) INVESTMENT OPTIONS

- ESG – Investing in companies with who have a positive track record on Environmental, Social and Governance issues. Investing in "Good" companies not screening out "Bad" companies.
- $8.1 Trillion invested in 2016 up from $4.8 Trillion in 2014
  - 83% say personal values are important in making investment decisions

QUESTIONS

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