MOVING TO THE FUTURE OF DEFINED CONTRIBUTION PLANS

INSIDE THE MINDS OF PLAN SPONSORS—AT A GLANCE

Defined contribution (DC) plans hold the key to solving the retirement readiness dilemma for American workers. To varying degrees, plan sponsors recognize the need to take a more comprehensive approach in preparing today's workers for tomorrow's financial well-being.

And some plan sponsors may feel they're simply putting out fires instead of building better plan structures for tomorrow. But the tools are already available for ensuring that DC plan sponsors can effectively help participants achieve retirement confidence as regulation and workforce demographics change at lightning speed.

Not everyone sees the purpose or the potential for their DC plans. For example, should companies encourage retiring employees to keep their assets in the plan? With the US Department of Labor (DOL) increasing its scrutiny of IRA sales, it's a good time for companies to develop an organizational policy.

+ Only half of plan sponsors track participant cash-out activity (versus rollovers to an IRA or other qualified plan).
+ Roughly half have no stated preference concerning cash-outs.

KEY TOPICS IN OUR MOST RECENT SURVEY OF PLAN SPONSORS.

1 Fiduciary Awareness Is Slipping

2 Financial Wellness Programs Gain Ground

3 Coming to Grips with an Aging Workforce

1. FIDUCIARY RESPONSIBILITY OR LIABILITY: ARE PLANS SPONSORS PREPARED?

A TROUBLING 49% OF PLAN SPONSORS DO NOT CONSIDER THEMSELVES A FIDUCIARY—AND THAT'S A DOUBLE-DIGIT INCREASE FROM OUR PREVIOUS SURVEY.

Sad to say, plan sponsors have never scored highly on knowing their fiduciary status. (By the way, all our respondents qualify as fiduciaries based on their role in the plan.) But that awareness has deteriorated significantly in recent years. In fact, those who know they're fiduciaries are now in the minority. And while the survey allowed a "don't know/not sure" response, no one should be guessing about their fiduciary status.

Of the four plan designations that qualify as fiduciaries, the respondents in the two categories that denote individual responsibility are generally more aware of their status. But fiduciary awareness drops significantly for respondents in the two team categories—investment or administrative committees. With that in mind, one quick fix would be to remind all team members that they are both individually and collectively responsible as fiduciaries for the plan.

Clearly, fiduciary training could help bring awareness more in line, and about two-thirds of plans offer fiduciary training programs. While that's encouraging, about half the respondents who have access to a training program don't think it's comprehensive. And while 80% of respondents say their plans document the fiduciary process, more than half of them feel the process could be improved.

In a nutshell, fiduciary responsibility means plan sponsors have a legal obligation to shepherd their workers' savings for retirement. But only four in ten plan sponsors say their plan currently has an investment policy statement, which provides guidelines for fiduciaries in making investment decisions—a sizeable drop from the previous survey. Here's an opportunity for advisors and consultants to improve their service to plan sponsors—offering critical assistance that nearly half of plan sponsors don't even realize they need.

IN CONTRAST:

72%

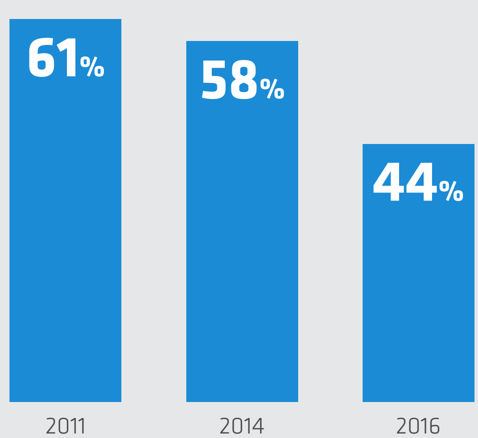
of respondents are confident to very confident that all the fiduciaries for their plan understand the core standards of conduct required of fiduciaries.

ONLY 19%

say fiduciary responsibility reviews are useful—when asked to rank the most useful components of services provided by recordkeepers and advisors

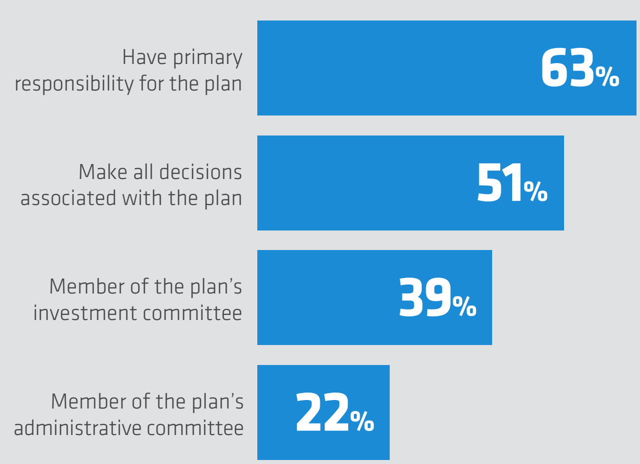
DECLINING SELF-PERCEPTION OF WHO IS A PLAN FIDUCIARY

Plan sponsors who consider themselves, personally, plan fiduciaries



Source: AB Research, 2016

THOSE WHO KNOW THEY ARE FIDUCIARIES—PERCEPTION OF RESPONSIBILITY BY ROLE IN THE PLAN



Source: AB Research, 2016

2. FINANCIAL WELLNESS PROGRAMS: INNOVATIVE EXCERCISE, SUPRISING PAYOFF

RETIREMENT UNREADINESS IS SUCH A PRESSING ISSUE FOR AMERICAN WORKERS THAT IT NEEDS TO BE ATTACKED FROM ANY AND EVERY ANGLE POSSIBLE. SO IT'S HEARTENING TO REPORT ON THE POSITIVE EARLY RESULTS FOR FINANCIAL WELLNESS PROGRAMS.

As with many innovations for DC plans, the early adopters of financial wellness programs (often broadly defined by topics like budgeting, paying for college and financing a home) are more concentrated in larger plans, with half of institutional-size plans already participating. Only one-fourth of micro and small plans are taking part.

Companies offer these formalized, needs-driven programs to employees as additional resources, separate from the 401(k) education program. According to our survey respondents, the most common services are investment planning (53%), targeted education programs (51%) and seminars (48%).

While financial wellness programs have only begun to gain popularity as formal programs, already four in ten (38%) offer them. And the median participation rate of roughly 30% is surprisingly robust, considering they're entirely optional and not directly related to employee benefits, such as the DC plan.

Plan sponsors whose companies offer these programs frequently cite several important benefits. More than half (51%) say employees are more engaged, and nearly as many (47%) say employees have a better perception of the organization. But two other metrics are even more noteworthy: four in 10 plan sponsors report that employees are more productive and focused, and over one-third say employees are less stressed.

These responses certainly indicate a win-win from financial wellness programs. Companies have more engaged, productive employees who've improved their financial knowledge and confidence—and those employees will more likely be able to retire when they want. Of course, it's still a bit early to know if workers' retirement readiness and savings have actually improved, but these financial wellness programs seem to help steer employees to better savings decisions.

WHAT HAVE BEEN THE IMPACTS OF THE PROGRAM?

Respondents who state they offer financial wellness programs

Source: AB Research, 2016

FINANCIAL LITERACY: TOO MANY UNKNOWNS

We asked eight simple questions about investing, and many participants didn't fare too well

Number of **correct** answers:

0–2	29%
3–5	35%
6–7	26%
8	10%

One in ten workers have a basic grasp of financial literacy.

Source: AB, *Inside the Minds of Plan Participants*, March 2017

3. REDEFINING CONTRIBUTIONS TO EMPLOYEE BENEFITS

BY 2050, ONE IN FIVE AMERICANS WILL BE OLDER THAN 65. FEW AMERICAN WORKERS OR COMPANIES ARE READY TO ADDRESS THE CHALLENGES. BUT DC PLANS HAVE STARTED INCORPORATING INNOVATIVE TOOLS TO HELP THE WORKFORCE…AND THE WORKPLACE.

AGING WORKFORCE CALLS FOR NEW RESPONSES

Along with the march of baby boomers into retirement, there's a shift in the mind set of many workers about when to retire. Currently, the average retirement age in the US is 63.[1] But retirement savings for most workers are low, more defined benefit (DB) plans are being frozen or eliminated and full Social Security benefits aren't kicking in until age 66 (and going up to 67 for those born after 1960). The result: employees are increasingly working longer.

These trends are putting increasing pressure on DC plans and how involved plan sponsors should be in participants' DC account decisions when they retire.

When plan sponsors are asked about their organization's philosophy regarding terminated or retired participants' balances in the plan, the most common response (37%) is that participants should roll over their assets into an IRA or another qualified plan. The next most cited response (28%) is that their company has no philosophy one way or another. But 18% feel participants should keep their money in the plan. Only 7% see taking a lump-sum distribution (a cash-out) as the answer, while another 7% feel participants should buy an annuity.

While most plan sponsors don't think a cash-out is a good idea, there's no consensus on how to approach the issue with employees. Only half of our respondents' organizations even track the percentage of participants who cash out. And nearly as many (48%) feel that cash-outs are none of their business—the money belongs to the employees, and they can do whatever they want with it.

But we're seeing a growing paternalistic concern: 23% of plan sponsors say they'd rather participants put the assets in another qualified account, and nearly as many (21%) would prefer that participants leave the money in the plan, because the plan will be able to negotiate better fees by virtue of higher balances. Interestingly, 14% of plan sponsors feel cash-outs are "a waste of the money we contributed to the plan."

There are pros and cons on whether or not to encourage employees to keep assets in the plan. After all, plan sponsors face continued fiduciary liability and are responsible for administration for those assets. However, by keeping assets intact, plans may well be able to access better pricing. And that's not simply a selfish concern on the part of plan sponsors! A paternalistic attitude could save their employees from higher fees they may get charged in other investing vehicles. Also, lump-sum cash distributions turn too many people into "kids in a candy store."

More than half our respondents say the average retirement age at their company has risen over the past five years.

They also expect that **nearly one in four** employees will hold off on retiring until after age 67.

1 US Census Bureau

MAKE YOUR DC PLAN WORK BETTER

DOES THE DC BLUEPRINT NEED TO BE ALTERED GOING FORWARD?

Yes, but not radically—and maybe not as much as the mindset needs to be altered of some plan sponsors and participants.

Since the Pension Protection Act was created, over 10 years ago, we've seen enhancements take hold, such as target-date funds, qualified default investment alternatives (QDIAs), automatic features and lifetime income strategies.

There's more work to be done. But plan sponsors aren't alone: the DOL, investment companies and service providers, and financial advisors and consultants can help connect plan sponsors and their employees with industry best practices to infuse confidence in tomorrow's retirement today.

BEST PRACTICES TO CONSIDER:

+ Create an investment policy statement; conduct an annual review of your plan's investment options and fees, and consider including your firm's position on your retiring workforce.
+ Explore offering financial wellness programs where plan sponsors can see higher levels of employee engagement and productivity at work as well as improved perceptions of their organization.
+ Re-evaluate your plan's default investment; consider adopting a QDIA (with its safe harbor protections) and pairing it with automatic enrollment.
+ Upgrade/re-evaluate your target-date offering with customized, multimanager solutions and using collective investment trusts for the underlying strategies in the glide path.
+ Explore additional best-practices plan features: automatic escalation and in-plan guaranteed lifetime income.
+ Talk to your financial advisor or consultant to get up to speed on the latest regulatory changes and create a fiduciary wellness checklist.

ABOUT OUR RESEARCH

Our research highlights findings from our recent plan sponsor survey fielded in late 2016. The comprehensive portrait of senior plan decision makers across a variety of plan sizes and industries provides valuable insights into the critical role of employer-sponsored retirement plans. By asking the right questions, we can understand how plan sponsors think and behave in aggregate, and help identify trends in retirement planning even before those trends become popular.

Segment	Plan Size	Number of Respondents
Micro	<$1 Mil.	202
Small	$1 Mil.–$9.9 Mil.	209
Mid	$10 Mil.–$49.9 Mil.	194
Large	$50 Mil.–$249.9 Mil.	196
Institutional	$250 Mil.–$500 Mil.	95
	>$500 Mil.	104

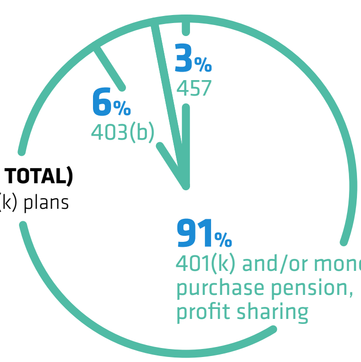
US PLAN SPONSOR SURVEY RESEARCH

+ Web-based survey
+ Over 1,000 DC plan sponsors
+ Balanced representation of plans ranging in size from under $1 million to over $500 million in plan assets

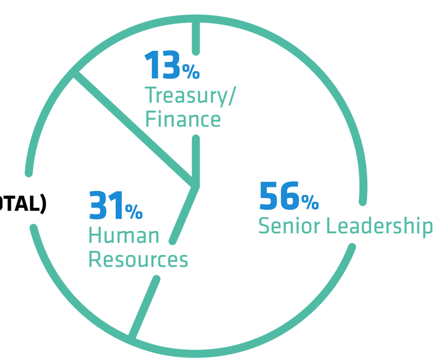
US PLAN PARTICIPANT SURVEY RESEARCH

+ Twelfth annual web-based survey, conducted in February 2017
+ 1,000 respondents who were full-time employees, 18 years of age or older, and worked for companies that offered DC plans, such as 401(k)s

ORGANIZATION TYPE (% OF TOTAL)
9 in 10 organizations are in 401(k) plans



RESPONDENT ROLE IN ORGANIZATION (% OF TOTAL)



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