DEFINED CONTRIBUTION

Insights

The Solution Source for Plan Sponsors

Spring 2015 • Vol. 63, No. 1

Compliance

2 Are You Forgetting Something?

Properly completing a Form 8955-SSA for terminated employees will save you time and money.

By Nancy Gerrie

PSCA News

4 PSCA Board Member Wins EBRI Lillywhite Award

A chance job opportunity led to a fulfilling career in employee benefits for long-time PSCA member and current Board member Mary Nell Billings.

By Tobi Davis

Administration

6 What Is Success?

Determining whether your plan is successful begins with defining your company's goal for the plan.

By Paul Powell

Events

9 2015 City Event Symposiums Kick-Off in Charlotte and Milwaukee

PSCA may be coming to a city near you with a half-day defined contribution plan symposium.

Get Involved

10 Join a PSCA Committee

As PSCA is revitalizing its committees, we are looking for members to volunteer their expertise and their time.

Plan Design

12 The High Way to Retirement

The High Company created an education campaign tied into the corporate culture that increased participant engagement and garnered dramatic results.

By Miranda McGuire

Investments

16 Hot Topics In 401(K) Retirement Plan Investments

A summary of current investment trends and things to look for when evaluating them.

By Deb Rosenberg

PSCA

IN EVERY ISSUE

Executive Director's Letter — page 1
PSCA is looking forward to 2015 with a new executive director.

Washington Watch — page 20
The president's budget proposal includes many of the same old retirement plan items with a few minor changes.

Member Benefit Highlight — inside back cover
Call PSCA's toll-free helpline any time for unbiased, best-practices information available when you need it.

Investments

Hot Topics In 401(K) Retirement Plan Investments

What investment options are right for your plan and your participants?

By Deb Rosenberg

Having worked with retirement plan sponsors for more than thirty-five years, I've seen a lot of changes in the investment approaches and products being used to meet company and participant objectives. I'd like to share some observations on the more recent changes we see in working with clients and prospects.

How Many Funds?

We have definitely seen a shift in the 401(k) industry to fund arrays that have fewer options. The very large fund arrays that some plans adopted caused confusion for participants and may have helped cause paralysis for participants trying to make good elections. It became overwhelming.

Not only are there typically fewer funds overall, most arrays have moved to offering only one fund in each asset class. If there are three large-cap growth funds being offered, how are participants going to choose? Participants struggle to understand large cap, vs. mid cap, vs. small cap. And, then there are value, growth, and blends styles. Not to mention stocks, bonds, and U.S. vs. global. So, streamlining has become much more common.

Active vs. Passive

We've also seen a lot of discussion about the use of actively-managed funds vs. passive (index) funds. Some plans prefer to minimize fees to the largest extent possible. And, they aren't convinced that actively-managed funds can consistently beat their benchmarks and peer groups. So, committees may trend towards an array of almost all index funds, or at least a sleeve of index alternatives, in major asset classes.

Last summer you may have seen the PBS Frontline program called "The Retirement Gamble." A part of that program addressed the perception of high fees in retirement plans, and some experts interviewed strongly endorsed the use of passive funds. This caused concern for committees and participants. We encourage clients to continue to review and discuss these topics.

There is no right answer — it strongly depends on the plan and the employee base. Many of our clients have added an S&P 500 index fund to their array and may have other indices within the array. There are many asset classes, however, that do not have appropriate index alternatives.

Target Date Funds (TDF)

As I'm sure you've seen, TDFs are seeing enormous growth. There is now more than $1 trillion in these funds with more being deposited every day. Many plans are using TDFs as their QDIA which has helped raise their visibility with participants, and once defaulted, many participants never make a change.

I was on a panel at the 2014 PSCA Conference in Miami where we talked about the pros and cons of TDFs. They may not be the right fit for your participant base. And, they may not be the right fit for participants at different stages in their career. But, they are attractive in terms of their diversification and automatic glide path as you age. As our panel discussed, TDFs may be a good fit for younger participants. But, as participants age, their financial lives may become more diverse — 50 year-olds are less likely to have the same investment goals and objectives and the same fund may not be the right fit for them.

If your plan has TDFs, your committee has an obligation to do a thorough review of the fund family you have chosen. Make sure you understand the appropriate benchmarks, underlying holdings, glide path philosophy, portability, and vendor approach. Most typically you use the whole TDF series from a single manager and participants are encouraged to buy one fund vs. multiple TDFs.

We are seeing usage of other alternatives as a plan's QDIA. These include custom model portfolios, balanced funds, and managed accounts. We create custom models for many of our clients using the plan's core fund lineup. These models are either risk-based or age-based. Some committees prefer this approach since we're already doing detailed analysis and review of the core

funds, so we use the "best of the best" in the models.

Education

Participants have increasingly wanted help in selecting appropriate investments. They have shared that they are confused and overwhelmed. As much as the industry has tried to educate participants and make them more informed investors, there has been push-back. Employees are often too busy to worry about learning investment concepts, fund arrays, and how to use websites, or they simply have no interest. So, the message is that employees prefer simplification.

TDFs and model portfolios are seeing high levels of utilization because of our education challenges. Auto enrollment, auto escalation, and default funds have all come about because of education's failures to get employees engaged in choosing to save, saving enough, and making appropriate investment decisions.

Employee inertia has also led to a "set it and forget it" mentality. Employees need to be encouraged to revisit their investment decisions on an ongoing basis, particularly as they age, and especially as their life circumstances change. As employees are (hopefully) earning more, they should revisit their strategy. As they have other assets, such as homes or inheritances, they should reevaluate. They should also be encouraged to coordinate their strategy with their spouse's strategy if they have a retirement plan or other investments.

Picking the Right Share Class

An extremely hot topic is around the share classes being used within the plan. Lawsuits have been in the news for plans that used retail share classes (more expensive) when other share classes were available. It is critical for investment committees to be reviewing their funds and their decision-making related to share class. Some plans prefer funds that generate enough revenue sharing to cover plan expenses. Others like to minimize revenue sharing and have fees paid in other ways, either by charging participants or by having the company pay and then use fees as a deduction on their taxes.

In thinking about fees, you need to be aware that using revenue sharing to pay expenses can result in inequity among participants. Funds can pay anywhere from zero revenue sharing to somewhere between 50 and 100 basis points. So, if I choose to invest in funds with little or no revenue sharing, I will not be contributing toward the expenses of the plan. We are talking a lot about "fairness" with respect to how fees are being allocated to participants and evaluating whether changes need to be made.

At this point there is no DOL guidance on how to handle share class, revenue sharing, and fee allocation. But, as you know, there is guidance telling us that we need to be aware of all plan fees and assess them for "reasonableness." Assessing share classes and how fees are being paid would seem to be a part of this analysis that committees are expected to do.

Self-Directed Brokerage Accounts (SDB)

The DOL continues to be concerned about brokerage accounts — how they're being established, how they're being invested, and what level of oversight is occurring (if any). During 2015 we may see some guidance about whether a plan sponsor and their committee have any responsibility to oversee these accounts. Normally speaking, an individual establishing an SDB will sign documents acknowledging that they are taking full investment authority over the assets in their account and that all decisions are theirs. So, committees haven't been second-guessing those decisions. This may change.

As I've talked to committees, they are strongly opposed to the idea of monitoring the investments within brokerage accounts. These accounts often have individual securities and the oversight would be very involved and expensive. More importantly, committees don't have access to the full financial picture of these participants. How can they be expected to second-guess the level of risk the account may or may not be taking on?

We have encouraged that guidelines be put in place to simplify the set-up and administration of these accounts. It is common to restrict investments to only those that are publicly traded and can be easily priced. It is also best if accounts are set up with a single custodian in order to simplify recordkeeping and plan audits. Many providers that have a single SDB custodian can allow participants to work with the broker or advisor of their choice.

There are also fee considerations with SDBs. While these participants may feel that they have "removed" themselves from the plan, they haven't. These accounts are still plan assets and need to participate in paying for necessary plan services. This includes trustee fees, plan documents, accounting and audit fees, etc. This hasn't always been the case, especially if core fund revenue sharing was sufficient to cover plan fees. But, knowing that your SDB participants are often Highly Compensated Employees (HCEs), there is a fairness issue to be addressed here, too.

Fixed Income Concerns

Many advisors have been expecting interest rates to rise, but they've been historically low. Committees are looking at how to best structure their fund offerings and offer multiple bond choices. For example, there may be short and long-term funds, multi-sector bond funds, and foreign funds. Most of our clients have a stable value fund as their most conservative option in the plan. Be aware that some stable value funds have a non-compete clause that might restrict what other funds you can have.

Participants often have the perception that bonds can't lose money or that they are less volatile than stocks. This is not necessarily true and needs to be addressed in education programs. If your plan offers multiple bond options, participants need to understand the risk characteristics of each.

PIMCO was big news last year. When the manager left, many plans were concerned. Check your Investment Policy Statement (IPS) to determine if a manager change requires you to put a fund on your watch-list. Your committee should also make sure they document their decision-making around situations like this. PIMCO also had very large outflows of money which is a concern you should address.

Stable value funds have sometimes proven to be hard to evaluate. It may be very hard to compare "apples to apples" — fees can be complicated and hidden. Your custodian/recordkeeper may have restrictions on which funds you can utilize based on who they can trade and settle with. There are many differences between stable and general account products including different durations, higher spreads, and having your assets with a single company vs. multiple investments and wrap providers. Do your homework!

In-Plan Annuities

Although there was a lot of interest initially, there hasn't been any success in getting plans to use in-plan annuities. These would seem to be appealing in order to provide participants the opportunity to create monthly retirement income during their savings years, but barriers have persisted.

The recordkeeping industry continues to evaluate how to best account for purchases of annuity "units." There are also fiduciary concerns about the selection of a particular insurance company to use along with the portability of this asset for terminated participants who want to take a distribution from the plan.

Watch for additional developments in this area. It is still likely that products will be developed to address plan sponsor and recordkeeper concerns, especially as participants miss the DB guarantee of a monthly income in retirement. Which leads us to the next topic.

Sustainable Withdrawals

As plan sponsors and as an industry, we have historically been focused on getting our participants to save enough and to invest wisely. We've focused on the development of a sufficient balance to support our participants through their non-working years. However, as the baby boomers age (well, as all of us age) we need to help these participants develop a strategy so they don't run out of money.

A big portion of this effort needs to be education. Many participants we talk to have no idea how much money they will need. The big dollar amounts that come out of projection tools seem unobtainable and unreal. The idea of needing $500,000 or a million or two million dollars seems impossible. We don't want participants to give up and not even try.

It has been much easier to talk to participants about how money they will need per month — they have an idea of what it takes to have a roof over their head, food on their table, etc. So, my suggestion is to bring saving down to a more manageable number – i.e., $X in savings will give you $X in monthly income. Of course, this also uses a lot of assumptions about wage growth, inflation, life expectancy, and other factors. But, it's better than no planning! Many vendors are beginning to offer these tools.

We also need to be open to talking about annuities. Many participants could benefit from purchasing an annuity with a portion of their savings to ensure a level of monthly income. It provides peace of mind and a "safety net" level of income. There are also longevity annuities which can be purchased that don't start to pay until you're further into retirement — perhaps at age 75 or 80.

To be honest, participants have negative perceptions of annuities. They are viewed as being expensive and a poor investment. I frequently hear concerns about "what if I die early" when the real concern needs to be "what I live long" and outlive my savings.

Many of us have thought that getting participants out of our plan and off of our records might be the best course of action, but we should perhaps be encouraging participants to stay in the plan. They may be in a TDF that is a good fit for them. And, they may be in institutionally-priced funds that are less expensive than something they might invest in within an IRA rollover. Any additional recordkeeping cost may well be worth the advantage that you're providing to these individuals.

Sadly, many participants who really need retirement planning assistance either think they can't afford it or they just don't think about it. Another benefit you may want to provide to your pre-retirees is a session with an advisor or some group educational sessions. These types of sessions, whether group or one-on-one, can help participants think about not only money, but other issues — life insurance, types of annuities, do I need long-term care, where will I live, how will I spend my time, etc.

Will Congress Make Changes?

With Republicans having taken control, there may be some proposals that start to get more attention. I encourage you to watch these proposals and the impact they may have on your plan. While not specific to investments, there are some proposals which would freeze or lower contribution limits or force deferrals to be made, at least in part, as Roth rather than pre-tax. There may be changes which impact a participant's ability to adequately save for their retirement.

Committee Concerns

Over time there have become more and more investment alternatives available to plan sponsors. The financial industry has continued to provide more choices and I'm sure more are on the horizon. Your committee needs to keep abreast of market changes and assess whether new products are a good fit. If your committee has an advisor, he or she may have access to There are many great tools available to the advisory community that can assist in the evaluation of current and future products.

A key document will always be your Investment Policy Statement (IPS). Don't produce this document and just put it in a drawer. Make sure your committee is reviewing the IPS on a regular basis, and make sure that any new members joining your committee are thoroughly familiar with it.

Beyond the IPS, make sure the committee is staying educated on investment and fiduciary issues. Your attorney, vendors, and advisor can all provide you with ongoing assistance. Your vendor, in particular, can help keep you abreast of enhancements they make with respect to their website and the reporting you receive. These will help you and your participants keep better track of the plan investments.

Another concern is keeping a close eye on your workforce. Your plan can be a great tool for employee attraction and retention. If your average age is changing, you may need to ensure that there are appropriate options and education tools available. If the average balance is growing and your participants are becoming more sophisticated, ensure that they can achieve their goals with the options you offer.

Even if your plan is relatively simple, your committee should never become complacent or "set it and forget it."

Deb Rosenberg, CEBS, ISCEBS Fellow, AIF®, Retirement Consultant and Relationship Manager, Stiles Financial Services, Inc.

Save-the-Date!

PSCA's 68th Annual National Conference

October 14–16, 2015
Marriott Chicago O'Hare, Chicago, IL

Join us once again for the preeminent DC industry conference. Connect with your peers for general sessions and breakout workshops lead by experts in the field at this highly-rated event. Attend roundtable discussions and learn collaboratively with like-minded plan sponsors.

PSCA's Annual National Conference will feature:

- Plan sponsor roundtable discussions
- Financial wellness general and breakout sessions
- Provider selection and RFP training course
- ERISA Fiduciary Training Certification course
- Networking with peers and industry experts
- Much more!

Look for exciting keynote speaker announcements in the near future and check our website at www.psca.org for agenda and registration information coming soon.

For sponsorship, exhibiting, or speaking opportunities, please contact Tobi Davis at 312.419.1863.