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2ND QUARTER 2017

Participation, Savings Rates Rising in DC Plans

Employee participation and deferral rates in America's qualified retirement plans remained strong in 2015. In fact, participation was up 5% from 2010, and average salary deferrals were nearly 7%.

These trends show marked improvement in defined contribution (DC) plan uptake by U.S. workers, thanks to plan sponsors who've implemented plan designs intended to help improve participants' retirement readiness and outcomes. Features such as automatic enrollment, target date funds and Roth 401(k)s have all been instrumental in enticing employees to enroll in employer-sponsored retirement plans and increase their savings rates.

Eligibility, Participation Hits Encouraging Highs

These are just some of the positive findings from a recent survey, which reflects the 2015 plan-year experience of 614 DC plan sponsors. The survey shows plan eligibility has reached encouraging levels, with nearly 90% (89.4%) of U.S. employees now eligible to participate in their employer's DC plan.

Almost 82% (81.9%) of eligible workers made contributions to their plan in 2015 — again, up 5% from 2010 — and 87.6% of eligible employees had a plan balance. Among eligible participants, the average salary deferral rate was 6.8% (pre- and after-tax).

Contributions and Other Costs

The survey found that the average employer contribution to 401(k) plans was 3.8%, and 5.4% for combination 401(k)/profit sharing plans.

Nearly 67% (66.8%) of retirement plan sponsors retained an independent investment adviser. With the exception of investment consulting and recordkeeping fees, companies pay a majority of plan expenses.

Investment Trends

The average retirement plan investment menu consists of 19 funds. That figure has held steady since 2010. Indexed domestic equity funds are the most commonly offered option, with 79.3% of plans including them in their investment lineup. Plans also tend to offer mostly actively managed options, including a mixture of domestic equity (78%) and international equity (73.4%) funds, as well as domestic bond funds (74.4%).

Actively managed domestic equity funds captured the lion's share of assets (21.4%). Target date funds were a close second, with 19.8% of assets being allocated on average — up from only 4.1% 10 years ago. Sixty-three percent of plans offer target date funds as an investment option.

Automatic Features Boost Savings

Automatic enrollment was offered in 57.5% of plans, and large plans were more likely to have it (66.7%). The deferral rate was more than 3% in over half of plans with auto enrollment, up from 40.4% of plans in 2014. Target date funds remain the most common default option. Slightly more than 34% of plans offered investment advice, according to the PSCA survey.

The *Plan Sponsor Council of America's (PSCA) 59th Annual Survey of Profit Sharing and 401(k) Plans* is available for purchase at PSCA.org.

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Target Date Funds: Time to Move On?

For many defined contribution (DC) plan sponsors, offering target date funds[1] as a qualified default investment alternative (QDIA) has become almost expected. A target date fund invests based on a particular date, such as the year of a participant's projected retirement.

Not surprisingly, target date funds (TDFs) have garnered the largest share of the DC plan market. Seventy-two percent of large to mega-sized 401(k) plans use them, according to recent research[2]. TDFs' widespread uptake in DC plans also accounted for 68% of the record $790 billion in mutual fund TDF assets reached in the first quarter of 2016, the Investment Company Institute (ICI) found.

Further, 69% of participants use TDFs, according to a well-known survey.[3] However, some industry experts are concerned that existing TDFs may not be keeping up with today's best practices, fiduciary standards and new innovations in investment product design.

The key concern: target date strategies and glide paths that rely on traditional stock and bond allocations may not deliver enough investment growth over time, creating a shortfall for many individuals at retirement. That's because existing strategies are ill-equipped to mitigate risks such as below-average investment growth, and market, inflation, and longevity risks.

The TDF of the Future

Some experts say the next generation of TDF designs must evolve from single-manager, static allocations that offer only active vs. passive strategies and "to" retirement glide paths, and instead include:

- multi-manager/open architecture structures
- a more diverse mix of nontraditional asset classes
- dynamic allocations that respond to short-term market fluctuations
- a mix of active and passive investing strategies
- "through" retirement glide paths designed to deliver better distribution phase outcomes

Keeping Up with Expectations

Interestingly, participants' preferences seem at odds with current industry practices for TDFs, further justifying a move away from existing designs, according to a recent white paper from Voya Investment Management. Seventy-five percent of participants said their TDF's investment architecture should include multiple managers; only six of the 25 largest target-date managers allocate to non-proprietary active funds. Additionally, 79% of participants surveyed said they wanted additional market exposure via an array of asset classes, however, diversification levels vary widely in

the industry, from five to seven asset classes for many passive TDF providers to 15 to 20 for those who offer more blended or active strategies.

TDFs Present Opportunities

Nonetheless, TDFs still present opportunities for plan sponsors to increase participation by using them as a QDIA, implementing auto enrollment and auto escalation to increase savings, and engaging with participants by educating them about the benefits of TDFs. With enhancements like those envisioned in the research cited here, TDFs will likely continue to be a QDIA option for many retirement plan participants.

Read Voya's TDF research here: http://tinyurl.com/voyaTDFstudy.

[1] Remember that the principal invested in a TDF is not guaranteed, even at the specified target date.

[2] Designing the Future of Target-Date Funds, 2017 Alliance Bernstein LLP, http://tinyurl.com/ABTDFfuture

[3] How America Saves 2016, Vanguard, https://pressroom.vanguard.com/nonindexed/HAS2016_Final.pdf

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

Department of Labor,
Employee Benefits Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

PLANSPONSOR Magazine
www.plansponsor.com

BenefitsLink
www.benefitslink.com

Plan Sponsor Council of America
www.psca.org

Employee Benefits Institute of America, Inc.
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

Plan Sponsors Ask…

Q: How important is it to deliver targeted messages as we attempt to engage, communicate with and educate different participant demographics in our retirement plan?

A: In a word, very. Targeted communications and relevant tools, like mobile apps and online planners — preferred by 66% of Millennials and Baby Boomers, according to Willis Towers Watson — are critical devices to have in your retirement plan education arsenal. Each generation has different concerns, and so the guidance and messaging you deliver needs to be tailored to reflect them. For example, education is especially important for Boomers, many of whom are actively preparing to retire. In this group, one in four has saved less than $5,000 for retirement, according to an Indexed Annuity Leadership Council (IALC) survey. Pensions aren't much help, either — an estimated 56 million Boomers aren't expected to receive any pension income, according to the Insured Retirement Institute (IRI), and future retirees will need more than $400,000 to fill the gap.

Research from NerdWallet suggests that for Millennials to accumulate enough for retirement, their savings rate needs to be at 22% starting now to accommodate for lower projected market returns.[4] However, many are focused on paying off student loans, and an Allianz Life study shows 70% prefer to travel than to save. Educating this demographic about the importance of saving early, and illustrating for them how concepts like compounding make a significant difference over time, as well as showing them how today's savings translates to tomorrow's income, are key in convincing them to grow their nest egg along with planning trips to exotic locales.[5]

What's more, Willis Towers Watson found that 59% of Millennials and 54% of Boomers valued tools to help them track retirement goals. These are just some examples of how tailoring key messaging and offering access to retirement planning tools can make all the difference in helping various generations get on track to more financially comfortable retirements.

Learn more at http://tinyurl.com/allianzstudy and http://tinyurl.com/WillisTowersWatsonsurvey.

Q: Some of our participants are asking questions about how to withdraw their money from their retirement accounts. Should we be worried?

A: While 45% of employees are worried about running out of money in retirement, 43% say it's likely they'll need to meet today's financial obligations with savings earmarked for their golden years, according to a 2016 PwC survey. That's up considerably from 35% in 2015, and 27% in 2014. Millennials are most at risk — 50% said they are most likely to access retirement funds for other needs. As an employer, you're in a great position to help. Providing comprehensive and consistent education via a holistic financial wellness program that assists employees with cash flow and debt management, savings, retirement readiness, financial stress and productivity despite these issues can go a long way toward helping them make better choices when it comes to saving for retirement and achieving their long-term goals.

Read all about the impact of financial wellness at http://tinyurl.com/PwCwellnessstudy.

Q: Our company offers a health savings account (HSA). Is there a way to tie its benefits into our retirement plan communications?

A: Absolutely! With healthcare costs rising in the U.S., HSAs are gaining popularity. In fact, some experts predict they'll be as widely used as 401(k) plans. Research firm Denevir estimates that HSA assets will grow to more than $50 billion in approximately 30 million accounts by year-end 2018.

You can accentuate the positives of HSAs by focusing on their triple tax advantages: contributions go in tax free, investment earnings grow tax free as long as they're used for medical expenses, and distributions used toward medical costs come out tax free as well. You might call that a win-win-win.

What's more, workers can take their HSA accounts with them from one employer to another. They can also be used for qualified healthcare costs after retirement — an added benefit. According to Fidelity, the estimated cost of healthcare in retirement hit a record $260,000 for a 65-year-old couple retiring in 2016 — a 6% increase from last year and the highest since the firm began its predictions in 2002. Further, an Edward Jones survey found more than half of Americans are worried about how they'll afford healthcare in retirement.

Given these trends, a targeted education and communication program about the tax benefits of HSAs and how they can help offset healthcare expenses in retirement might be just what the doctor ordered.

Find out more at http://tinyurl.com/DenevirHSA and http://tinyurl.com/FidelityHCCosts.

[4] https://www.nerdwallet.com/blog/investing/millennials-save-22-percent-of-income-for-retirement/.

[5] http://tinyurl.com/NerdWallet-Millennials

4 Reasons It Pays to Make Consistent 401(k) Contributions

One of the many benefits of 401(k) plans is that consistency is built in; there is no need for participants to decide month by month how much to contribute or how to invest. A recent study from the Employee Benefit Research Institution (EBRI) and Investment Company Institute (ICI) demonstrates how this consistency pays off. Researchers analyzed a sample of 8.8 million of 401(k) participants with accounts at year-end 2010 and 2014 in the EBRI/ICI 401(k) database.

They found that participants who contributed consistently to their accounts:

1. Accumulated significant account balances: At year-end 2014, 19.5% of the consistent group had account balances of more than $200,000, while another 16.1% had between $100,000 and $200,000.

2. Had higher-than-average balances: The average account balance for consistent participants was 1.7 times higher than all database participants at year-end 2014.

3. Experienced noteworthy annual growth: Overall, the average account balance increased at a compound annual average growth rate of 15.5% during the four-year period, to $130,493 at year-end 2014.

4. Reaped the benefits of healthy market performance: The U.S. stock market trended up during the period studied, giving a lift to investors with higher equity allocations. On average at year-end 2014, about two-thirds of participants' assets were invested in equities.

Read the full analysis at http://tinyurl.com/401kstudy. Keep in mind that investments are subject to market risk, including loss of principal; past performance is not indicative of future results; and consistent contributions neither assure a profit nor guarantee against a loss in a declining market. ■

Pension Plan Limitations for 2017

401(k) Maximum Elective Deferral (*$24,000 for those age 50 or older, if plan permits)	$18,000*
Defined Contribution Maximum Annual Addition	$54,000
Highly Compensated Employee Threshold	$120,000
Annual Compensation Limit	$270,000

PLAN SPONSOR'S QUARTERLY CALENDAR

JULY

- Conduct a review of second quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between April 1 and June 30 received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan's Form 5500 is submitted by July 31, unless an extension of time to file applies (calendar-year plans).

AUGUST

- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30, unless a Form 5500 extension of time to file applies (calendar-year plans).
- Submit employee census and payroll data to the plan's recordkeeper for mid-year compliance testing (calendar-year plans).
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

SEPTEMBER

- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2 (calendar-year plans).
- Distribute the plan's Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies (calendar-year plans).
- Send a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans.

Consult your plan's financial, legal or tax advisor regarding these and other items that may apply to your plan.

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