



## 401(k) Plan Trends What You Need To Know Now

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May 2017

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## Agenda

- Fiduciary Rule and Best Practices
- Service Provider Economics
- Plan Committee Management
- Trends + Financial Wellness
- Wrap Up + Questions

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### What Is the New (Postponed) Rule?



Amend definition of "fiduciary" by expanding what it means to provide "advice"

- On April 4, 2017, the DOL extended the effective date of the new fiduciary rule to June 9, 2017. Under the terms of the extension, advisers to retirement investors will be treated as fiduciaries and have an obligation to give advice that adheres to "impartial conduct standards" beginning on June 9, 2017.
- The rule for advisors is a functional test, so it doesn't matter what the adviser says, but instead focuses on what the adviser does.
- Would legally require brokers who advise a plan as to investments to be fiduciaries even if they ultimately don't make final investment decisions.
- All advisors would have to clearly reveal all fees paid by investments, including revenue sharing and commissions.
- Instead of "individualized, regular basis, for a fee" vs. "advice for compensation".

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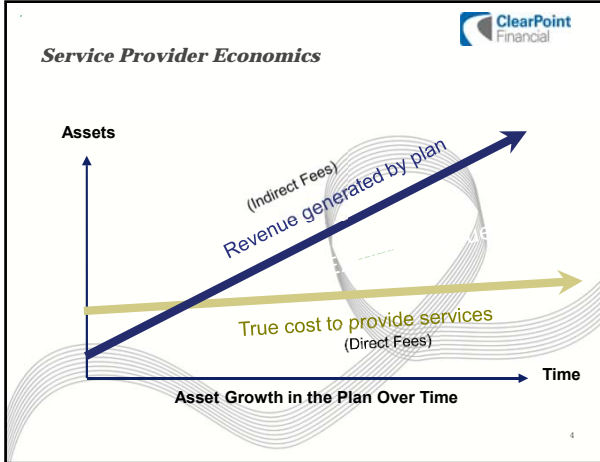
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**Committee Management Tools**

- Committee topics of interest
- Sample committee meeting minutes
- Fiduciary Calendar
- Annual fiduciary checklist

ClearPoint Financial

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- Establishing an Investment Committee**
- Generally, an investment committee establishes a prudent process to:
- Review and approve the fundamental operations and financial/committee charter
  - Hold regular meetings
  - Develop an investment policy statement
  - Evaluate investment managers' performance and take appropriate actions
  - Select and remove investment managers
  - Utilize prudent experts and monitor their activities
  - Review investment fees paid by plan and participants
  - Establish procedures for providing financial and operational information to the board
  - Document investment process and decisions made
- ClearPoint Financial

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### 10 steps Fiduciaries can take to manage their responsibilities and risks

1. Understand your role and responsibilities as a Fiduciary, delegating responsibilities where appropriate
2. Establish a formal Fiduciary governance process
3. Document the investment process in a formal Investment Policy Statement (IPS)
4. Conduct regular reviews of the plan's investments
5. Take advantage of 404(c) protection and follow the rules to comply; consider advisor managed models
6. Maintain written records of plan documents and procedures, delegating responsibilities where appropriate
7. Educate participants to help them make informed decisions
8. Monitor provider fees and services for reasonableness
9. Comply with government reporting requirements

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### Sample committee topics of interest

**COMMITTEE MEETING TOPICS OF INTEREST**

*Meetings are better when committee members are engaged and interested. Here is a list of committee meeting topic ideas. We want to know your particular areas of interest so we can build them into the agenda.*

	TOPIC	PRIORITY LEVEL	COMMENTS
1	<b>Plan Design</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Retirement plan design trends</li> <li><input type="checkbox"/> Benchmarking of plan design &amp; costs</li> <li><input type="checkbox"/> Non-qualified plan design trends</li> <li><input type="checkbox"/> Retiree health plan savings trends</li> </ul>		<ul style="list-style-type: none"> <li>• Review potential meeting topics</li> </ul>
2	<b>Benefits Cost Management</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Plan cost management strategies</li> <li><input type="checkbox"/> Provider fee and service activities</li> <li><input type="checkbox"/> Fee disclosure rules</li> </ul>		<ul style="list-style-type: none"> <li>• Pick the ones that interest you</li> </ul>
3	<b>Investment Trends &amp; Development</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Retirement menu design trends</li> <li><input type="checkbox"/> Investment update</li> </ul>		<ul style="list-style-type: none"> <li>• Set Goals around topics of interest to the committee</li> </ul>
4	<b>Participant Communications</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Participant communications best practices</li> <li><input type="checkbox"/> Case studies of effective communications programs</li> </ul>		
5	<b>Plan Administration</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> Plan demographics and participant activities and trends</li> </ul>		

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### The annual fiduciary checklist

**ANNUAL CHECKLIST FOR FIDUCIARIES**

TOPIC	STATUS	DATE	NEXT STEPS
1. Understand your role and responsibilities as a fiduciary, delegating responsibilities where appropriate			
2. Establish a formal fiduciary governance process			
3. Document the investment process in a formal investment policy statement (IPS)			
4. Conduct regular reviews of the plan's investments			
5. Take advantage of 404(c) protection and follow the rules to comply; consider advisor managed models			
6. Maintain written records of plan documents and procedures, delegating responsibilities where appropriate			
7. Educate participants to help them make informed decisions			
8. Monitor provider fees and services for reasonableness			
9. Comply with government reporting requirements			

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### Sample annual fiduciary calendar



**FIDUCIARY CALENDAR** *Advisor Logo Here*

OBJECTIVE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
<b>Goal Setting</b> Establish the goals for the year												
<b>Midyear Summary</b> Review current plan with clients & managers, conduct portfolio meetings												
<b>Investment Oversight &amp; Monitoring</b> Review results of investment portfolios, performance												
<b>Recapitulation &amp; Future Management</b> Discussion of the future and plan review												
<b>Fee &amp; Service Review</b> Review management and execution of fee responsibilities												

Outline important fiduciary activities, dates, deliverables

Examples:  
 Q1: Review vendors  
 Q2: Review TD Funds  
 Q3: Fee review  
 Q4: Create education Plan

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### Sample committee meeting notes



**COMMITTEE MEETING MINUTES**

*Use this template for committee meeting management and documentation. Committee members are listed below.*

Meeting Date: \_\_\_\_\_ Start/End Time: \_\_\_\_\_

COMPANY: \_\_\_\_\_ PLANS: \_\_\_\_\_

PLAN SPONSOR ATTENDEES:

Name	Title

CONSULTANT ATTENDEES:

Name	Title

- The notes document review material, action items and topics for discussion.
- All committee members should review prior meeting notes.
- Prior notes should be approved at the onset of the meeting.

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## Financial Wellness

- What is financial wellness?
- Why should you care about it?
- Is your company a good candidate for a financial wellness program?
- Tools and resources that help you put financial wellness into action.

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**WELLNESS**  
**WORKS**

## The big question: Retirement readiness

**Who is "retirement ready"?**

- Estimates of the "at risk" population in the U.S. range from 20% to over 50%
- Characteristics of the at-risk population include: low attachment to workforce, low educational attainment, single/divorced, race, those retiring at an early age
- Strategies to "nudge" participants to readiness include higher savings rates, longer periods of work—or both

Percentage of "prepared" workers

Organization	Percentage of "prepared" workers
BC CRR	45%
EBRI	55%
Hurd & Rohwedder	70%
SSK	80%

Source: Center for Retirement Research, Boston College, 2010; Employee Benefit Research Institute, 2014; Hurd & Rohwedder (RAND), 2012; Schoz, Sehadri and Kitakum (University of Wisconsin, Urban Institute) 2006.

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**WELLNESS**  
**WORKS**

## DC plans: Target-date funds

**Target-date fund (TDF) adoption**

- TDFs are offered in nine out of ten plans; are held by 69% of participants, and account for 46% of contributions
- Participant adoption is the result of both plan default and voluntary choice
- Over a third of TDF investors are "mixed investors," holding other funds and a TDF
- Half of all mixed investors arise by participant choice; half by sponsor action

Percentage of participants using target-date funds 2004–2015

Year	Mixed target-date fund investors	Single (pure) target-date fund investors
2004	2%	1%
2005	5%	2%
2006	10%	4%
2007	18%	7%
2008	25%	10%
2009	34%	13%
2010	42%	16%
2011	47%	20%
2012	51%	23%
2013	54%	26%
2014	57%	29%
2015	58%	31%
2016	62%	33%
2017	65%	35%
2018	68%	37%
2019	70%	39%
2020	73%	42%

Note: Investments in target-date funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in a target-date fund is not guaranteed at any time, including on or after the target date.

Source: How America Saves, 2016

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**WELLNESS**  
**WORKS**

## DC plans: Target-date funds and dispersion of outcomes

Single target-date participants

"Do it yourself" participants

■ Participants less than 35 years of age  
 ■ Participants ages 35 to 55  
 ■ Participants greater than 55 years of age

Note: Includes 1,000 random sample of participant accounts drawn from respective samples. Excludes 0.5% top and 0.5% bottom outliers for both risk and return, for a net sample of 980 observations. Vanguard defined contribution plan participants for the five-year period ended December 31, 2015.

Source: Vanguard, How America Saves 2016

Note: U.S. stocks represented by the MSCI US Broad Market Index; U.S. bonds represented by the Barclays U.S. Aggregate Bond Index; International stocks represented by the MSCI All Country World Index ex USA.

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**WELLNESS WORKS**

## DC plans: Reenrollment

**Immediate impact from reenrollment**

- Reenrollment is a point-in-time reallocation of participant accounts into a plan's QDIA, with a right to opt-out
- It results in immediate behavioral change and improved diversification
- Reenrollment is more often during major change in plan design or the menu, or a change in the default fund—although it can be used at any time
- Participant notification and right to "opt-out" are important elements of implementation
- Sponsor receives 404(c) protection

**Reenrollment case study**

Results:

- Opt out rate: 16%
- Extreme equity allocations: 23% → 4%
- Average fund fees: 0.41% → 0.10%

Source: Reshaping participant outcomes through reenrollment, Paglano and Ulkus, February 2016.

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**WELLNESS WORKS**

## DC plans: Roth savings

**Tax diversification opportunity**

- Roth savings offer the ability to pursue a strategy of tax diversification
- As a result of 2013 tax law changes, DC plans with a Roth contribution feature can be amended to permit all participants to convert pre-tax contributions within the plan
- The new law expands the previous rule that only allowed in-plan conversions on amounts eligible for distribution (i.e., termination or in-service withdrawals)
- Over half of plans offer Roth elective deferrals
- 10% of plans permit conversions, while few participants convert (0.9%)

**Roth adoption 2006-2015**

Year	Percentage of plans	Percentage of participants
2006	14%	5%
2007	24%	7%
2008	31%	7%
2009	37%	8%
2010	42%	9%
2011	48%	9%
2012	49%	10%
2013	52%	13%
2014	56%	14%
2015	60%	15%

Source: Vanguard, How America Saves 2016.

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**WELLNESS WORKS**

## DC plans: Automatic plan design

**Automatic plan design**

- 41% of all plans now using auto enrollment. 60% of large companies.
- In 2015 63% of all new plan entrants were automatically enrolled.
- Automatic enrollment dramatically improves participation rates. This is particularly true for low-saving groups including young and low-wage workers and ethnic minorities.
- Typical design is initial 3% employee contribution plus 1% auto-escalation. Plus employer contributions.

**Automatic enrollment and plan participation**

Group	Voluntary	Automatic
Age < 25	25%	81%
Income <= \$30,000	29%	82%

Source: Vanguard, How America Saves 2016.

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**WELLNESS**  
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### What is financial wellness?

The illustration shows a person in silhouette on the left, looking at a smartphone. A thought bubble emanates from their head, containing a blue car on a road. The background is a light gray with a white cloud-like shape behind the car.

**ClearPoint**  
Financial

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**WELLNESS**  
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### Historical objectives of retirement plan education

Increase Participation      Increase Deferrals      Asset Allocation

The infographic features three main elements: 1) 'Increase Participation' represented by a grid of 20 human icons, with 18 blue and 2 gray. 2) 'Increase Deferrals' represented by a large, light blue arrow pointing to the right. 3) 'Asset Allocation' represented by a pie chart with four segments in orange, dark blue, light blue, and gray.

**ClearPoint**  
Financial

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**WELLNESS**  
WORKS

### ...but have not solved the problem completely.

The infographic displays three donut charts with the following data: 1) 55% avoid dealing with their financial situation. 2) 26% expect to run out of money. 3) 48% can't afford to contribute more to their plans.

Source: T. Rowe Price Retirement Saving and Spending Study (2015)

**ClearPoint**  
Financial

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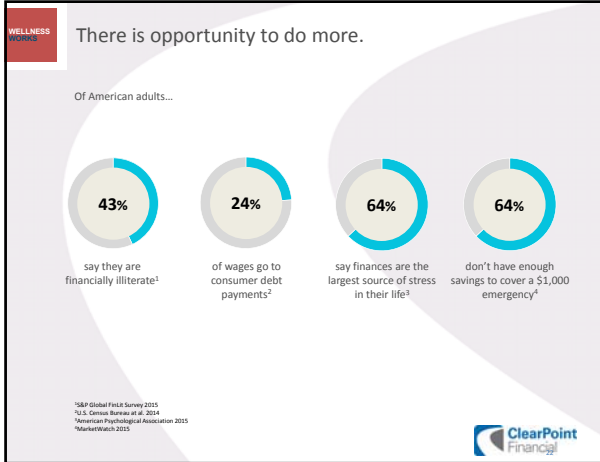
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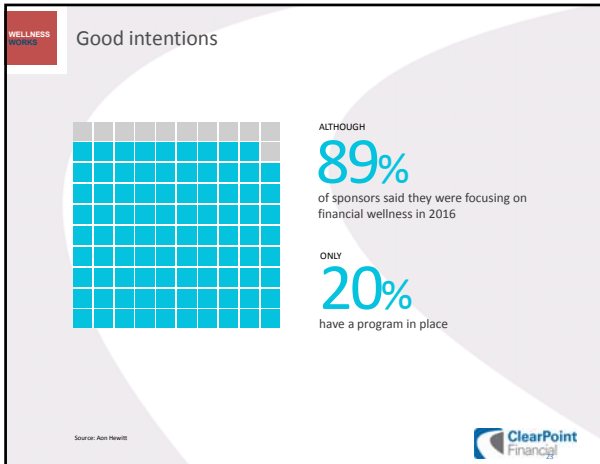
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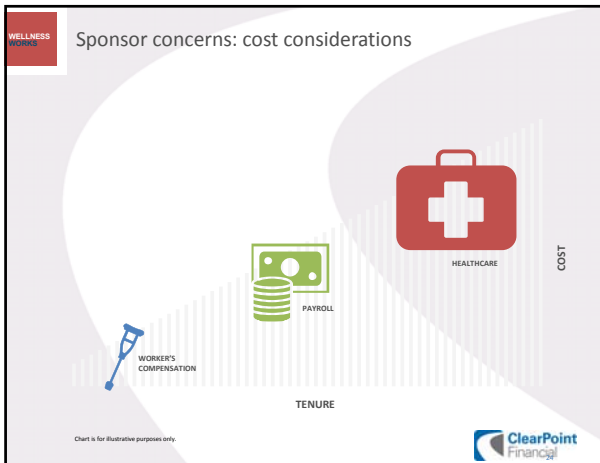
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**WELLNESS WORKS**

### Strain on worker productivity




**70%**  
of HR professionals surveyed say financial problems impact employee performance.<sup>1</sup>



**44%**  
of employers believe that offering additional guidance on handling finances will decrease the time employees spend at work tending to financial issues.<sup>2</sup>

<sup>1</sup>MetLife  
<sup>2</sup>SHRM, 2014 "Financial Wellness in the Workplace Survey"




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Why should sponsors focus on financial wellness?




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**WELLNESS WORKS**


### Strain on employees—PHYSICALLY

Finances are the **#1 source of stress** for Americans.<sup>1</sup>



Google searches for **STOMACH ULCERS** increased **228%** during the Great Recession<sup>2</sup>

<sup>1</sup>American Psychological Association, 2015  
<sup>2</sup>San Diego State University, 2013




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**WELLNESS**  
WORKS


### Strain on employees

Finances are the **#1 source of stress** for Americans.



Searches for **HEADACHES** increased

# 193%



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**WELLNESS**  
WORKS


### Strain on employees

Finances are the **#1 source of stress** for Americans.



Searches for **CHEST PAINS** increased

# 35%



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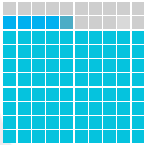
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**WELLNESS**  
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### #1 reason for incorporating financial wellness



# 85%

of plan sponsors said they want to provide some type of financial wellness offering because...



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**WELLNESS**  
WORDS

### #1 reason for incorporating financial wellness

It's the right thing to do.

Source: Aon Hewitt 2016 "Hot Topics in Retirement" Study




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**WELLNESS**  
WORDS


### Return on investment: reduction in healthcare costs

**19.4%**  
Increase For Nonusers

**\$2.5m**  
Less spent on healthcare for users

**4.5%**  
Decrease For Program Users

Source: Financial Fitness. Data gathered over a 2-year period ending 2012.




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**WELLNESS**  
WORDS

### Retiree health costs


- Funding health care costs will be a continuing challenge for retirees
- In 2015, a married couple will require \$158K in savings to have a 50% chance of having enough money to cover health care expenses
- Keep in mind that most individuals are paying out-of-pocket health expenses *prior* to retirement—so not all of these expenses are new *in* retirement

Projected out-of-pocket medical expenses (\$K)

Year	50 percent	75 percent	90 percent
2011	\$166	\$231	\$287
2012	\$163	\$227	\$283
2013	\$151	\$207	\$255
2014	\$147	\$199	\$241
2015	\$158	\$213	\$259

Note: Married couple retiring at age 65 2011 - 2015. In the 50th percentile for prescription drug expenses. Savings needed for Medicare, Medicare Part B, Medicare Part D Premiums and out-of-pocket expenses for retirement at age 65 2011 - 2015.

Source: Employee Benefit Research Institute, October 2015.




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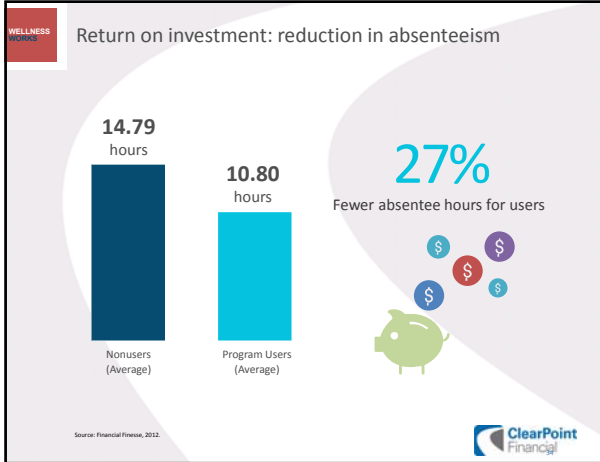
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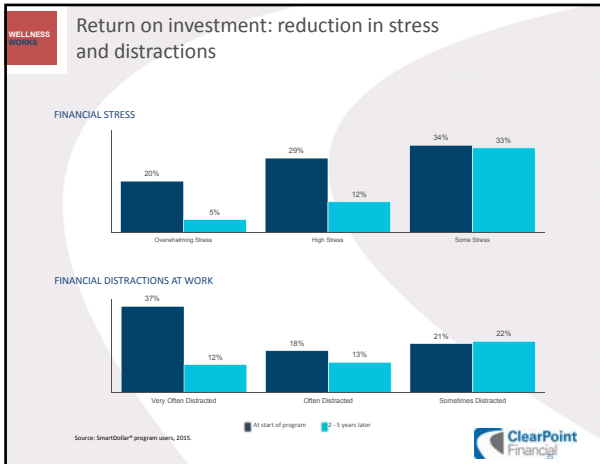
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Make the leap from intention to **action**.

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