Fiduciary Corner

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5 for 2015—Key Topics and Areas of Focus

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"Retirement Income" means a whole lot more than periodically putting an estimate of monthly income on a participant statement

In this edition of Fiduciary Corner, COMPERIO highlights five topics that should generate significant industry discussion in 2015.

1. RETIREMENT INCOME - THE NEW/ OLD BUZZ WORD - WHAT DOES IT MEAN?

What's old becomes new again as the term "Retirement Income" has re-surfaced in 401(k) plans, as the issue of how participants will manage account balances to provide sustainable lifelong income garners more attention. Many people believe that addressing retirement income centers strictly on product-focused discussions regarding the inclusion of in plan lifetime income solutions for their plan participants. Comperio believes that any discussion about Retirement Income should revolve around having a holistic process of education and solutions that go well beyond a product. It is important to take steps to develop your Plan's retirement income philosophy and understand the future needs of your plan participants. Having a specific Retirement Income philosophy will better position your Committee to help individuals through the retirement income process, through communications, plan design or products.

2. FEE LEVELING: THE NEXT STEP IN MANAGING YOUR 401(K) FEES

The issue of fees and expenses related to the operation of a 401k plan continues to draw great attention. Sponsors know that recordkeeping fees and other costs associated with managing the plan can have a significant impact on retirement outcomes. Examining the idea of fee equalization should be high on your list of to-do's. Employers don't usually intend to charge fees unfairly, but may be surprised to know that fees are often inadvertently structured inequitably. For example, a fairly typical scenario - most plans offer investment options that have varying levels of revenue sharing or no revenue sharing at all (offering a combination of index and active funds). The participants who invest in funds that have revenue sharing generally end up paying a greater share (or the entire share) of the plan's administrative expenses than participants who invest in non-revenue sharing funds. Fee equalization can eliminate fee imbalances across the participant base to help plan sponsors embed fundamental fairness into the plan. Contact Comperio if you are interested in discussing fee leveling best practices.

3. THE FASTEST GROWING ASSET CLASS IN YOUR PLAN - PAY ATTENTION TO IT!

According to a recent survey by the Investment Company Institute (ICI), 71% of all 401(k) plans offer Target Date Funds, 41% of employees utilize Target Date Funds and 15% of plan assets are currently invested in Target Date Funds. With the growth rate of these strategies continuing to accelerate, it is imperative that Committees have a comprehensive strategy for choosing and evaluating the Target Date Fund option of choice. (Continued)

Target date strategies differ in terms of equity allocations during the accumulation phase, at the point of retirement and beyond. This "Date Debate" is often labeled "To vs. Through", but this doesn't help you determine which target date strategies will help your participants meet their objectives. Aligning Target Date Fund glide path to employee demographics (ex. having a more conservative glidepath closer to retirement due to the high retirement income replacement levels across your employee base) should be an important part of your decision process. Getting the target date decision right, particularly if it's your plan's default investment option, is crucial. After choosing target date strategies, periodically review your choice. Investment volatility, market innovation, changes in providers' methodology, and scrutiny from Washington D.C. may dictate changes.

Selection of an appropriate Target Date Fund solution is moving towards aligning a glide path with your specific plan demographics.

4. "DB-IZING" YOUR 401(K) PLAN- WHY IT MAKES SENSE

Automatic enrollment and automatic escalation may increase your participants' chances of meeting their retirement savings goals. If you aren't using automatic features, document your reasons. If you are, re-examine how they're structured. Are you including all employees or just new hires? Should you start at a higher contribution rate? Should the rate escalate faster? Does using Target Date Funds as the default option provide age-appropriate asset allocation? According to an EBRI and DCIIA study, the impact of moving from a 1% annual contribution escalation to a 2% rate and increasing the maximum contribution rate from 6% to 15% can have a significant impact on retiree readiness.

5. SIMPLE IS BETTER

Studies continue to show that, when it comes to investment options, more is not necessarily better. Both 401(k) plan sponsors and their counterparts running 403(b) plans continue to streamline the number and types of funds available to participants. According to a 2014 Profit Sharing Council of America survey, 401(k) sponsors have stabilized options at an average of 19 funds, while 403(b) plans have reduced the number of options from 31 in 2012 to 26 in 2013.

Another concept gaining traction in simplifying investments for participants is the concept of "white labeling". White labeling involves utilizing multiple managers to create a generic, asset class approach (ex. ABC Company Large Cap Growth Fund) for participants. This strategy teaches participants to focus on asset allocation and minimizes the importance of "branded" funds in each asset class.

While Comperio will be discussing these topics in greater detail in future newsletters, please contact either Jim or Scott with questions.

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