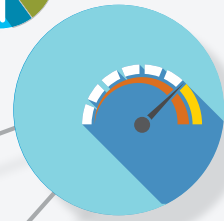


# Planet DC™

IT'S A NEW WORLD IN RETIREMENT



## The future of smart plan design.

### Five strategies to optimize any DC plan.

In a perfect world, most Americans would like to retire on their own schedule, with enough money to live comfortably and the ability to leave a family legacy once they are gone. Unfortunately, that's still a pipedream for many today. The good news is that we're seeing an increase in retirement confidence overall, but there is still an uphill battle, according to the Employee Benefit Research Institute (EBRI) 2017 Retirement Confidence Survey.

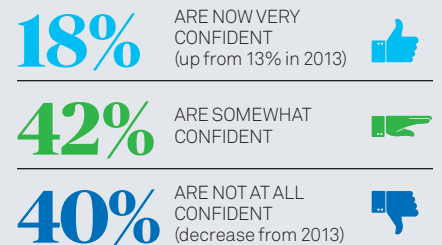
While this shows promise, almost three-quarters of Americans were concerned about their ability to achieve a secure retirement in 2015.<sup>2</sup> With such insecurity, how do Americans plan to cope? According to the National Institute on Retirement Security, 77% intend to cut back spending in retirement, while 72% plan to stay in their current job as long as possible. In addition, many see retirement benefits (72%) as important as salary (75%) and look to their employers for help and guidance to save toward a comfortable retirement — someday.

There is no doubt that designing a smart defined contribution (DC) plan — one that addresses the firm's employee demographics, hiring and retention strategy, and budget — is critical. On top of creating or maintaining a plan that helps employees meet their targeted retirement outcomes, a well-designed plan frees up

intellectual capital and time, allowing the freedom to focus on the demands of the broader business.

#### Retirement confidence is up, but Americans are still concerned.

The percentage of workers confident about having enough money for a comfortable retirement, at record lows between 2009 and 2013, increased in 2017!<sup>1</sup>



<sup>1</sup>2017 Retirement Confidence Survey, Employee Benefit Research Institute.

<sup>2</sup>"Retirement Security 2015: Roadmap for Policy Makers — Americans' Views of the Retirement Crisis." National Institute on Retirement Security.

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.

# WHETHER CREATING A NEW PLAN OR LOOKING TO OPTIMIZE AN EXISTING ONE, HERE ARE FIVE STRATEGIES TO CONSIDER FOR BETTER PLAN DESIGN.

## 1 Align plan design with company goals and objectives.

Successful plans are in sync with a company's current and future demographics, business objectives and overall philosophy. Determine the plan's goals (such as 100% participation in the plan, achieving higher-than-average plan balances, generating positive employee impressions of the firm, improving employee productivity through reduced financial stress, increasing the ability to attract and retain top talent, or delivering lower costs for both plan sponsors and participants) and put the metrics in place to measure its success.

The plan should also align with workforce demographics. Is there an aging workforce of Baby Boomers, an influx of under-30 Millennials, middle-age Gen X-ers or a combination of all three? Do participants have roughly similar levels of income or are wages and incentives widely dispersed? Identifying and segmenting the company demographics can help guide plan design as well as communications strategies and tools.

## 2 Go automatic.

Many employees need encouragement to invest in their futures, especially younger workers who do not yet understand the tremendous compounding benefits of starting early. Automatic features, such as auto-enrollment into the plan and auto-escalation once they are in the plan, help employees overcome inertia and are now the norm, with 73% of plan sponsors incorporating them into their plan design, according to Cerulli Associates. Here are the "autos" to consider:

### Implement auto-enrollment to a qualified default investment alternative (QDIA).

Nearly 90% of the 73% of plans that use auto-features use auto-enrollment to a QDIA, with the majority of automatic flows going into target date funds (TDFs). While a 3% auto-deferral rate is a baseline minimum, it is widely accepted that employees with a deferral rate lower than 5-6% are unlikely to achieve retirement security through their DC plan alone.<sup>3</sup> Auto-enrollment also allows employees to "opt out" of the default option if they prefer to "do it themselves" by creating a portfolio from the choices provided in the core lineup, or even to "opt out" of the plan entirely. In both cases, very few participants do.

### Offer a well-designed employer match for incentive.

Combining auto-enrollment with a well-designed employer match is a strong motivator to encourage participation. How the company chooses to set up the match and corresponding vesting schedule can aid in workforce management and retention. Ideas include an employer match of 50% of employee contributions for the first 6% of salary, a straight match up to a certain limit, or a dollar-for-dollar match on all contributions.

For plan sponsors concerned about turnover, consider immediate eligibility to make employee deferral contributions, with a one-year wait period to receive employer-matching contributions, or pair a higher match with a vesting schedule.

### Auto-escalate participants' contributions.

Once in the plan, help participants increase their contributions by automatically escalating their deferral percentage. While a 1% annual increase is often used as the step-up rate, many firms implement higher percentages in line with the goals of the plan. As a general rule, plan sponsors are free to choose the appropriate maximum auto-escalation percentage, such as a cap of 10% and beyond.<sup>4</sup> Coordinating the timing of the auto-escalation with annual



## CONSIDER THIS.

Determine or review the deferral rates that align with the firm's plan objectives and budget. This could range from a baseline 3% auto-enrollment with no auto-escalation, to a more aggressive 6% auto-enrollment with 2% escalation. Since plan loans defeat the goal of saving for retirement, consider restricting loans to hardship criteria only.

wage increases offsets the impact to take-home pay. Coupled with auto-enrollment, this helps retirement savings grow faster as salaries increase.

### Conduct an automatic re-enrollment campaign for all eligible employees.

A re-enrollment campaign is another option to help eligible employees reach their retirement goals by helping them align their investment and asset allocation strategy with their time horizon to retirement. It's a process whereby participants are notified that on a certain date, their current (and future) DC plan assets will be re-invested in the plan's QDIA (usually TDFs), based on their date of birth, unless they make a new investment direction within a certain time period.

In addition, it can be extended to all eligible employees who are not in the plan (perhaps hired before the company implemented auto-enrollment). The re-enrollment campaign can automatically enroll non-participants in the plan, and direct investments to the QDIA. Re-enrollment serves two purposes: to increase overall participation in the plan, and to help guide participants who don't have the time, knowledge or interest to make investment decisions on their own.

<sup>3</sup> 2014 Plan Sponsor Survey, The Cerulli Edge — US Edition, Cerulli Associates.

<sup>4</sup> 2014 DCIA, "Implementing Automatic Features in Defined Contribution Plans FAQ."



# 3 Build an investment menu for success.

To start, creating and maintaining the plan's Investment Policy Statement (IPS) is paramount. Although there are no hard and fast rules with regard to its content, the required IPS customarily addresses (1) the plan's investment objectives, (2) the roles and responsibilities of plan fiduciaries, (3) the guidelines for selecting, monitoring and changing investment options, and (4) participant communications and investment education.<sup>5</sup> The named fiduciary (most likely the plan sponsor) must approve and maintain the plan's IPS, but it can include provisions for periodic (typically annual) review.<sup>5</sup>

For best practices in investment menu design to meet fiduciary requirements, consider a tiered menu including the following:

### Offer a suite of TDFs as your QDIA.

Plan sponsors gain fiduciary protection if participants are defaulted into an investment option that satisfies the conditions of a QDIA, and the plan conducts the appropriate due diligence and monitoring of the QDIA. TDFs are the industry's most popular QDIA choice, having amassed \$670.6 billion in total assets in 2014, with an estimated 63.4% of 401(k) contributions projected to go into TDFs by 2018, according to Cerulli Associates.

### Offer fewer core fund options.

To help combat participant choice paralysis and the risk of creating exposure overlap and redundancy within their portfolio, investment menus should include fewer fund options — within the Employee Retirement Income Security Act's (ERISA) "duty to diversify" requirement. These could be active or passive fixed income and equity funds across the asset allocation spectrum with global/international options for diversity. Also offer a conservative option, such as a money market or stable value fund, in the plan's lineup.

As always, it's important for plan sponsors to work with their consultant or advisor to (1) better understand the risks and

trade-offs of each fund's investment objectives when determining which investment solutions are most appropriate for the plan and (2) ensure the selections are aligned with the plan's IPS.


Last, with changing regulations and increased litigation, a plan sponsor's fiduciary responsibility in regard to menu selection is paramount. When making decisions regarding the number and range of investment menu options, plan sponsors must consider their fiduciary "duty to diversify" under ERISA 404(a) by ensuring participants have a "broad range of investment alternatives" that allow them to create a truly diversified retirement portfolio for success. To help, more and more retirement plan advisors and consultants offer additional 3(21) and 3(38) fiduciary investment services. These additional services, at varying levels, can help plan sponsors manage their fiduciary risk by creating and maintaining an investment menu which complies with ERISA requirements, while also meeting the plan's IPS objectives.<sup>5</sup>

### 3(21) Investment Advisor: Offering advice, sharing responsibility.

In this capacity, the 3(21) advises the plan sponsor by making investment recommendations and assists in monitoring and replacing investments, as needed. The plan sponsor is still responsible to make final decisions on any plan changes, taking into consideration the advisor recommendations. The service agreement clearly defines the advisor's role.

### 3(38) Investment Manager: Taking on discretion, making decisions.

In this capacity, the 3(38) advisor has discretion to make all of the investment decisions, including fund selection, monitoring and replacement without plan sponsor approval. The plan sponsor is responsible for selecting a qualified 3(38) manager, then monitoring and replacing the manager as needed. Advisors who offer the 3(38) must have additional fiduciary insurance for their practice. The service agreement clearly spells out the scope of the advisor's management responsibilities.

 | **CONSIDER THIS.**

Regardless of what the chosen investment menu consists of, documentation of the investment decision-making process is part of the Department of Labor's (DOL's) "duty of prudence." Retirement plan advisors can help plan sponsors not only in selecting a balanced mix of investments in line with the investment policy statement, but can also help ensure proper documentation of the investment selection and monitoring process.



<sup>5</sup>The Wagner Law Group, Marcia S. Wagner.

## 4 Engage employees from the start.

Once in the plan, participants need guidance. They're often overwhelmed by the prospect of choosing and managing their investments, and are struggling to understand the basics of their plan, whether they can afford their goals, and how they can save more for retirement.<sup>6</sup> Personalized, targeted communications in various forms can help, and are usually available from retirement plan administrators (recordkeepers) to better equip participants in this effort.

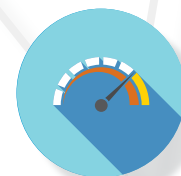
According to Aon Hewitt, the top four methods of participant communications used in 2017 are email, print (enrollment kits, quarterly statements, newsletters), on-site meetings and webinars, with growth expected in mobile websites and apps.<sup>7</sup>

Video, online forums, podcasts, virtual events and real-time "ask-an-expert" chat sessions are not as widely used but can still offer a unique way to reach participants. From a content perspective, employer-sponsored Defined Contribution plans are expanding beyond "retirement readiness" education to a more holistic approach covering the larger topic of financial wellness.



### CONSIDER THIS.

Retirement plan advisors can run benchmarking reports for plan sponsors. Advisors can help select the right study that fits the plan's needs and provide analysis, recommendations and documentation toward any plan changes.



## 5 Benchmark the plan every year.

Once the plan sponsor, in partnership with their advisor or consultant, has determined plan objectives, incorporated auto-features to increase engagement, built a diversified investment menu, and educated participants about saving for retirement and financial wellness, it's critical to continually benchmark the plan to check progress against the company's success metrics, as well as against plans of similar size, with similar demographics and within similar industries. Reviewing the plan — at least annually — helps to compare plan structure, investments, costs, and participant engagement and savings success against other comparable plans.

Benchmarking is not just about fees, which by ERISA standards should be "reasonable," but also about the overall success of the plan against certain metrics. However, as a fiduciary, it's the plan sponsor's duty to review plan fees on a regular basis. A benchmarking report can provide the basis for re-negotiating "unreasonable" fees with partners through the RFP process, or to obtain clarity on the services received for fees by providers.

Incorporating the top five best practices into any DC plan is an excellent way to help ensure better futures for employees and better compliance with fiduciary responsibilities.

<sup>6</sup> "With a Few Extra Steps, Advisors Can Help Increase 401(k) Plan Deferral Rates." [wealthmanager.com](http://wealthmanager.com), August 5, 2014.

<sup>7</sup> 2017 *Hot Topics in Retirement*. Aon Hewitt, January 2017.

Please visit [im.bnymellon.com/planetdc](https://im.bnymellon.com/planetdc) for access to additional articles.

---

## Learn more

To discover more about retirement plan best practices and BNY Mellon Retirement solutions visit [im.bnymellon.com/dc](https://im.bnymellon.com/dc) | Call **1-800-992-5560** to speak with a Dedicated Retirement Consultant.

## Follow us

 [BNYMellon](#) | [#BNYMretire](#)  
 [BNY Mellon](#)

---

BNY Mellon Retirement personnel act as registered representatives of MBSC Securities Corporation (a registered broker-dealer) to offer securities, and act as officers of The Bank of New York Mellon (a New York chartered bank) to offer bank-maintained collective investment funds as well as to offer separate accounts managed by BNY Mellon Investment Management firms. BNY Mellon Investment Management encompasses BNY Mellon's affiliated investment firms, wealth management services and global distribution companies, including MBSC Securities Corporation and The Bank of New York Mellon. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation.

This material has been distributed for informational purposes only and should not be considered as investment advice or a recommendation of any particular investment, strategy, investment manager or account arrangement. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Please consult a legal, tax or investment advisor in order to determine whether an investment product or service is appropriate for a particular situation. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. The Dreyfus Corporation and MBSC Securities Corporation are companies of BNY Mellon. © 2017 **MBSC Securities Corporation**, 225 Liberty Street, Distributor, 19th Fl., New York, NY 10281.

MARK-2017-07-05-1837  
BNYM-FSPHO-0617