



Presented by:

Mary Ellen Mullen, CFA

Wendy Colebank

# The Kaizen 401(k)

Thursday, April 26, 2018

# Speaker Introduction

Mary Ellen Mullen, CFA  
Principal  
Bridgebay

Mullen's professional focus is helping institutions oversee and manage retirement plans, endowments/foundations and treasury operating funds for which they are responsible.

She has more than 25 years of institutional investment experience, including economic and investment research, trading, portfolio management, client service, and sales at Loomis Sayles, Seafirst/Bank of America /Seattle Capital Management and Wells Fargo/Wells Capital Management. Prior to Bridgebay, she opened Wells Fargo's Pacific Northwest region where she provided consultative institutional sales solutions for over 10 years. Previously she co-founded Seattle Capital Management Company, the SEC-registered investment management subsidiary of Bank of America. She was responsible for fixed income assets ranging along the yield curve from top performing money market mutual funds to pensions. During this period, investment performance was consistently in the top quartile of respective universes. She began her career in Boston, MA in Economic Research at Loomis Sayles.

She is a graduate of Mount Holyoke and the University of Washington (MBA Finance).



Wendy Colebank  
Director, Corporate Engagement Strategy  
PATH

Colebank's career spans organizational change, process improvement, finance, operations, business development and marketing.

As Director of Corporate Engagement Strategy at PATH, a non-profit leader in global health innovation, she develops and executes strategies to expand partnerships to solve the world's most challenging health problems, bringing together programs, countries, companies, and policymakers to take innovations to scale, improving life for hundreds of millions of people every year.

Prior to joining PATH, she was Global Head of Corporate Transformation at Russell Investments, where she led a team of Lean and Six Sigma professionals who improved customer focus, reduced errors, and decreased cost for critical processes at the global asset management firm. She previously held Lean Six Sigma Master Black Belt and Black Belt roles at GE Healthcare and GE Security, where she led teams to improve customer and financial metrics globally.

She has an MBA and is certified in Lean Six Sigma.



# Plan Sponsor Perspective

Wendy Colebank  
Director, Corporate  
Engagement Strategy





# PATH accelerates global health through innovation

We harness our  
entrepreneurial insight,  
scientific and public health  
expertise, and passion for  
health equity...

...to save the lives of  
women and children.



# About PATH

150  
MILLION

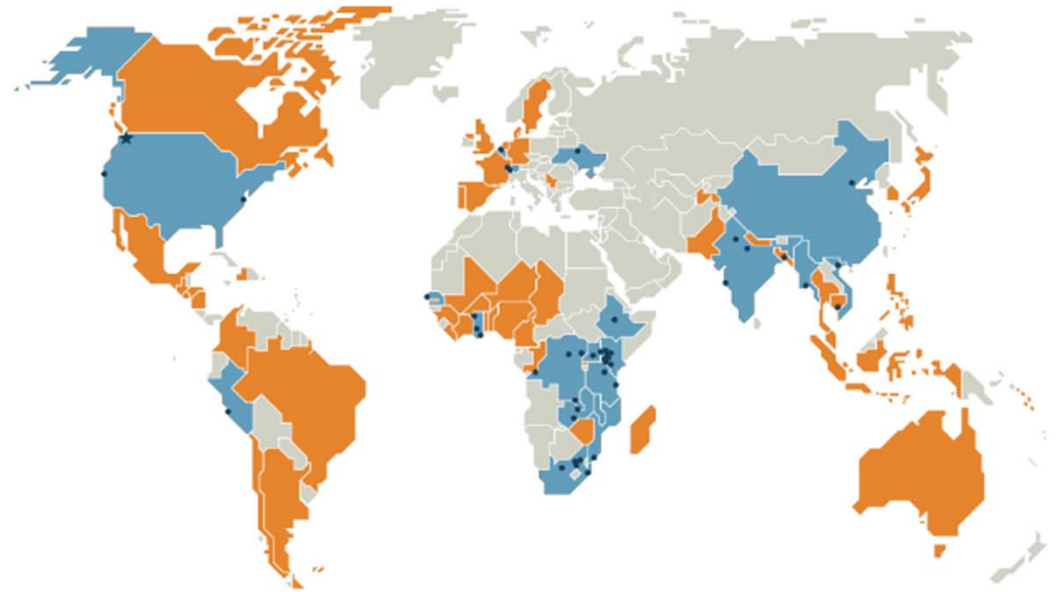
Average number of people reached by PATH and our partners per year since 2011

# 70+

## Countries where PATH works

2,000+

PATH partners  
around the world—  
including 60+  
corporate partners



# About PATH

108

System and service  
innovation projects  
in our portfolio

81

Products and  
technologies in  
our pipeline

1,600

PATH employees

\$331  
MILLION

PATH's 2016 revenue

**Our vision: A world where innovation ensures that  
health is within reach for everyone.**

## Vaccines



Meningitis A vaccine:  
235 million Africans  
immunized.

Partners: Serum Institute of  
India Pvt. Ltd., World Health  
Organization.



## Drugs



Semisynthetic  
artemisinin:  
51 million  
antimalarial  
treatments shipped  
to 23 African  
countries.

Partner: Sanofi.



## Diagnostics



New test to help  
stamp out neglected  
tropical diseases.

Partner: Standard  
Diagnostics/Alere.



## Devices



275,000+ doses of a  
new form of  
injectable  
contraceptive  
delivered in Africa.

Partners: Pfizer, BD.



## System & Service Innovations

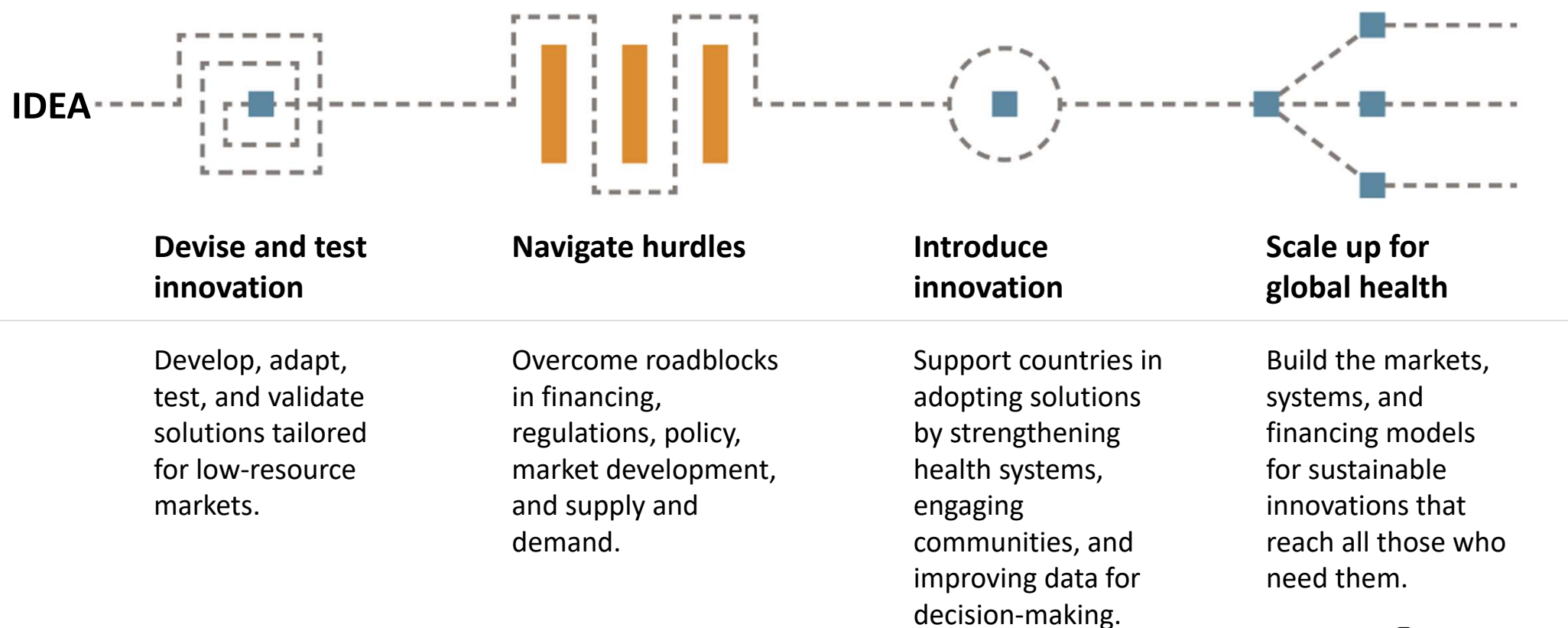


30 million+ Kenyans  
reached with  
services for HIV,  
malaria, maternal  
health, safe  
childbirth.

Partners: Government of  
Kenya, US Agency for  
International Development.



# PATH's breadth and depth of capabilities are unrivaled in the global health NGO sector







# Vaccines

15-year collaboration between PATH and **GlaxoSmithKline** led to the first malaria vaccine candidate recommended by the World Health Organization for a pilot implementation program in Africa.

If licensed for use, it would be the first vaccine against a human parasite.



# What is Kaizen?

Japanese term for a gradual approach to ever higher standards in quality enhancement and waste reduction, through small but continual improvements involving everyone from the chief executive to entry-level workers.

Some basic tips for Kaizen:

- Start by questioning current practices and standards.
- Replace conventional fixed ideas with fresh ones.
- Seek the advice of many associates
- Think of how to do something, not why it cannot be done.
- Do not seek perfection. Implement a solution right away, even if it covers only 50 percent of the target.
- Correct something right away if a mistake is made.

# US Retirement Plan Metrics

1981

PLAN INCEPTION

Single Defined Contribution Plan. Money Purchase Pension Plan transferred into 401(k).

2007

Target Date Funds adopted as Default

\$179  
MILLION

Assets in plan  
Single central payroll,  
well diversified

1,079

Plan participants, active + termed.  
US employees in Seattle (HQ), San Francisco and Washington DC

BEST IN CLASS  
**401(k)**  
PLANS SPONSOR

**Bridgebay**<sup>®</sup>  
Investment & Retirement Consulting



# About Bridgebay

- **Independent, Institutional Consulting Firm**
- **Registered Investment Advisor – Investment Advisor Act of 1940**
  - Fiduciary
  - Fee based consulting services (100%)
- **Advise Institutional Clients Only**
  - Not-for-Profits, Corporations, Foundations
  - Employer Retirement Plans: 403(b), 401(k), 401(a), 457
  - Balance Sheet Assets – Liquidity Pools, Healthcare, Endowments
- **Experienced, Practitioner Consultants**
  - Each Consultant has 25+ years experience, MBAs, CFAs, IARs
  - Located in Seattle & San Francisco
- **Sole Focus is Investment & Retirement Consulting**
  - CFA Code of Ethics & Standards of Professional Conduct
  - Full disclosure of potential conflicts of interest
  - Asset class, investment manager neutral





# Kaizen Opportunities: Continuous Improvement of the Plan

## There are several areas to consider for improvement:

- Limiting Leakage
  - No Loans
  - Hardship Withdrawals
  - Age 59 ½ In-Service Withdrawals
- QACA & Auto-Features
- Investment Policy Statement
- QDIA: Target Date Funds & DOL
- Broker Window elimination
- Adding Employer Match True-Up
- Discussing After-Tax Employee Contributions
- Financial Wellness – Why? Why Not?
- Managed Accounts

# Kaizen Opportunity: Good governance leads to thoughtful incremental improvements

## Professional Services enhance a solid corporate structure

- Investment Consultant
  - Fiduciary
  - Independent, “Prudent Expert” per ERISA
  - Quarterly Meetings (Agenda, Work Plan)
  - Ongoing Resource
- Auditor
- ERISA Attorney



# Kaizen Opportunity: Limiting Leakage

- No Loans
- Hardship Withdrawals
  1. Medical care expenses for the employee, the employee's spouse, dependents or beneficiary.
  2. Costs directly related to the purchase of an employee's principal residence (excluding mortgage payments).
  3. Tuition, related educational fees and room and board expenses for the next 12 months of postsecondary education for the employee or the employee's spouse, children, dependents or beneficiary.
  4. Payments necessary to prevent the eviction of the employee from the employee's principal residence or foreclosure on the mortgage on that residence.
  5. Funeral expenses for the employee, the employee's spouse, children, dependents, or beneficiary.
  6. Certain expenses to repair damage to the employee's principal residence.
- Age 59 ½ In-Service Withdrawals



# Kaizen Opportunity: QACA & Auto Features can aid income replacement

Qualified Automatic Enrollment Arrangement: Safe Harbor--Exempt from ADP & ACP testing

## Employee Contribution:

- Eligibility 3 months after hiring (monthly payroll)
- 6% Auto enroll (up from 3%)
- Pre Tax (may elect Roth 401(k) or combination)

## Employer Match:

- Formula: 100% of first 2%, 50% of next 4%
- 1 year vesting
- Pre Tax

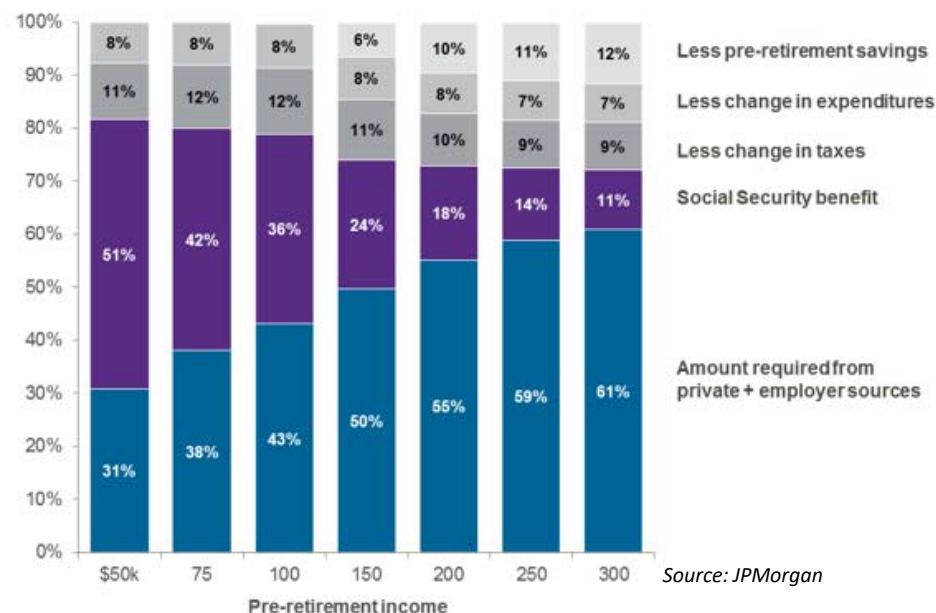
## Employer Contribution:

- Discretionary
- 8%
- 5-year vesting
- Pre tax

**Forfeitures:** Reduce Employer match contribution

Next Step: Increase Auto-Escalate to 10%

Income Replacement Needs Vary by Household Income. Plans for employees who make strong incomes need to focus on income replacement





# Kaizen Opportunity: Keep IPS Current

## Investment Policy Statement

#	Parameter	Description
1	Performance	vs. Market Index Benchmark.
2	Performance	vs. a Peer Universe Benchmark (e.g. Morningstar, Lipper, fi360).
3	Style Drift	Inconsistency of investment management process.
4	Manager Changes	New portfolio manager(s) whether individuals, team and/or firm.
5	Manager Changes	Material change in Management. Organizational stability.
6	Regulatory Changes	Anticipated or actual SEC/Other Penalties, Sanctions, Investigations.
7	Plan Characteristics	Unique to PATH.
8	Fund Operations & Economics	Facts that impact the potential long term success of the fund (e.g. asset size, fees).
9	Other	Reasons not detailed above.

# Kaizen Opportunity: Target Date QDIA & DOL

## Opportunity

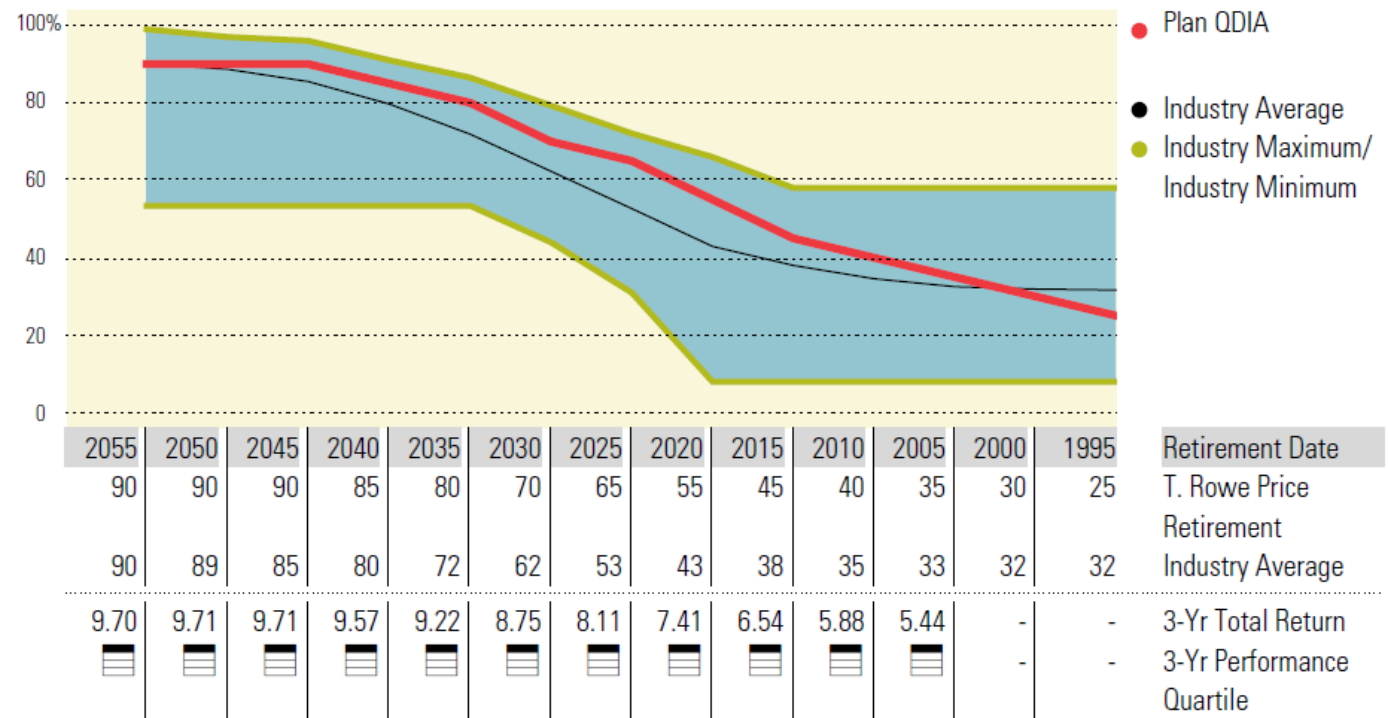
Ensure QDIA is appropriate as prescribed by Department of Labor.



## Win/Win:

Retirement Readiness

Strategic Glide Path Total Equity Exposure



Source: Morningstar

# Kaizen Opportunity: Eliminate High Costs & Fiduciary Risk by Closing the Broker Window

## Opportunity:

Recordkeeper planned to change Broker Window provider  
Window had low utilization

Considerations	+	—
Safety Valve for Off Menu Investing*	Yes	
404( c ) Compliant		No
Institutional Pricing		No
In the Spirit of Fiduciary Rule		No

*\*Participants Have Alternatives Outside the Plan (e.g. IRAs, non-retirement savings)*

# Kaizen Opportunity: Employer Match True-Up to increase satisfaction and reduce wasteful time

## Opportunity:

Listening to participants

Plan processes made it confusing and difficult for participants (highly compensated and over age 50) to take advantage of Catch Up contributions and still get the maximum matching in the plan.

Communicating the confusing process consumed Finance resources.

**Win/Win:** Annual true-up of matching made it easier for participants and freed Finance team time.

Plan participant >age 50		Monthly															
Annual Normal contribution allowed	\$18,000	\$	1,500														
Annual Catch up contributions allowed	\$6,000	\$	500														
Monthly match on normal	4%	\$	400														
Monthly salary	\$10,000																
				Jan	Feb	Mar	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual	
Current participant who elects not to make catch up contribution																	
Normal contribution	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$ 18,000
Match on normal	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$ 4,800
Catch up contribution		0		0		0		0		0		0		0		0	0
Total annual match	\$	4,800															
Current participant who elects to make catch up (solution does not meet plan)																	
Normal contribution	\$	2,000	\$	2,000	\$	2,000	\$	2,000	\$	2,000	\$	2,000	\$	2,000	\$	0	\$ 18,000
Match on normal	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$	0	\$ 3,600
Catch up contribution		0		0		0		0		0		0		0	\$	2,000	\$ 6,000
Total annual match	\$	3,600															
Change needed to eliminate 25% match penalty on participants who make catch up contributions																	
Normal contribution	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$	1,500	\$ 18,000
Match on normal	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$	400	\$ 4,800
Catch up contribution	\$	500	\$	500	\$	500	\$	500	\$	500	\$	500	\$	500	\$	500	\$ 6,000
Total annual match	\$	4,800															

Currently, when participants put their own money into Catch up contribution, PATH withholds 25% of annual matching--\$1800 a year in this scenario

If participant put none of their own money into catch up contributions, PATH would give them an additional \$1800 annually.

It is NOT the intent of the PATH retirement plan to penalize people over age 50 for putting their own money into catch up contributions

The current process needs to change to be consistent with the plan and intent and/or participants need to be made whole at year end



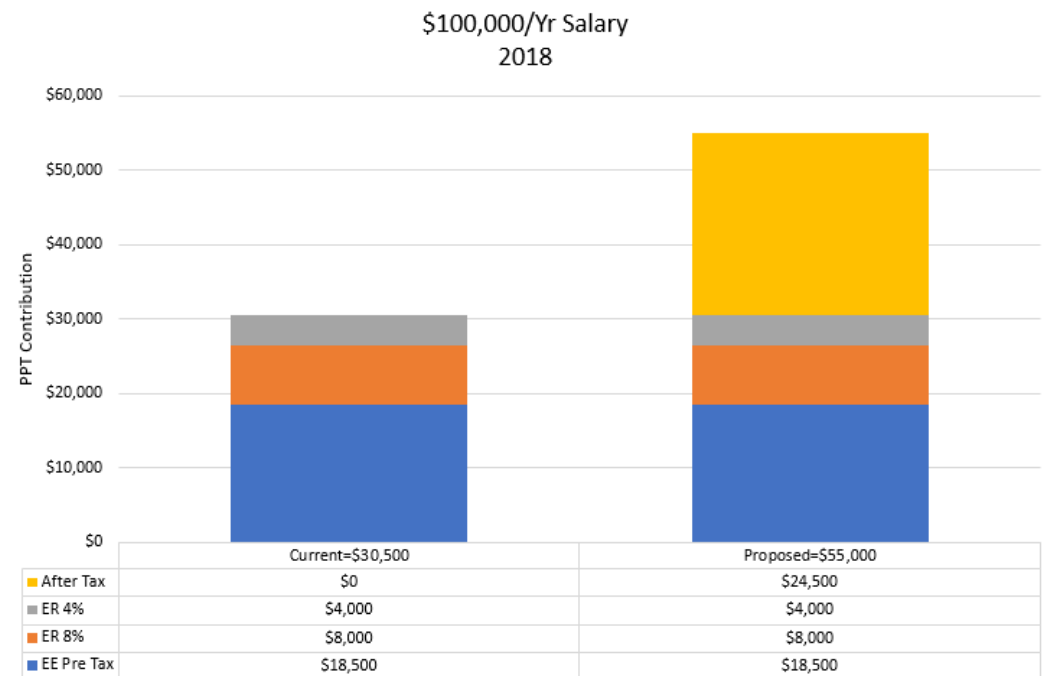
# Kaizen Opportunity: Help employees save more by adding after tax contributions

## Opportunity:

Understanding how to increase savings is just as important as having the right funds and money managers.

Win: Give participants an after-tax savings. This savings can later be rolled into a Roth 401(k) and then a Roth IRA, if desired.

Benefits: Opportunity to increasing savings and have gains grow tax free.



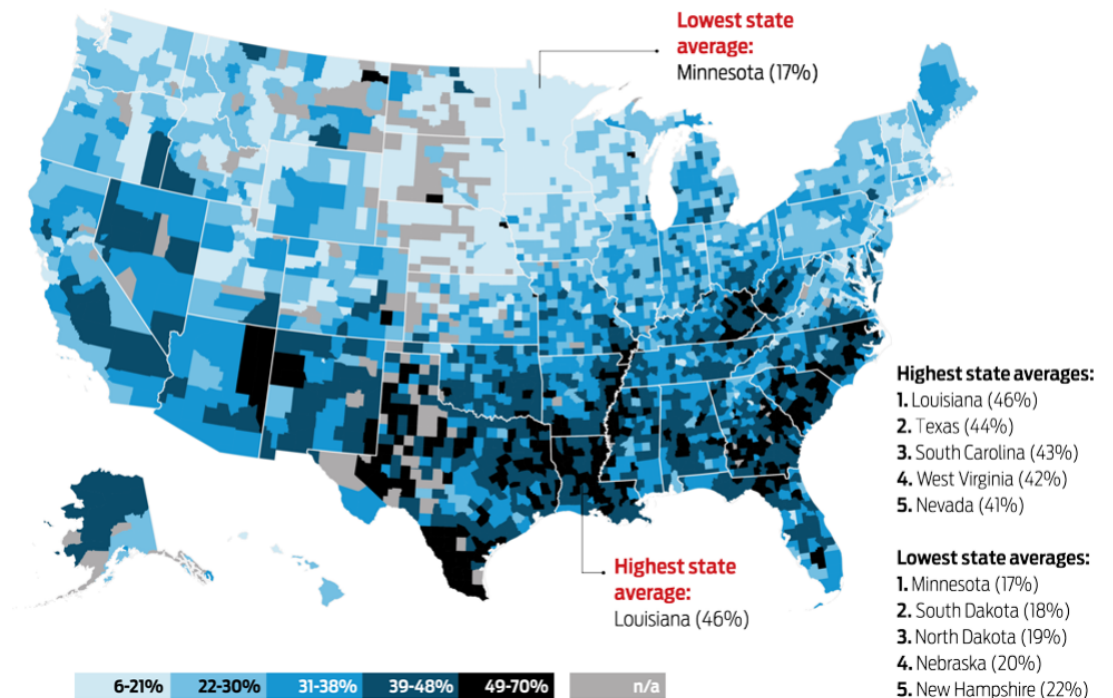
# Kaizen Opportunity: Holistic Financial Wellness

## Opportunity: Education beyond the 401(k) plan

With a high participation rate already, and solid use of the asset allocated target date funds, what type of education does the workforce want or need?

Well rounded financial advice, that includes education on budgeting and other topics not exclusive to their retirement plan.

### Where Americans Are Falling Behind on Debt



Percentage of Americans with debt in collections, by U.S. county. One in three Americans hold debt in collections, and they owe a median amount of \$1,450. | Data: Urban Institute

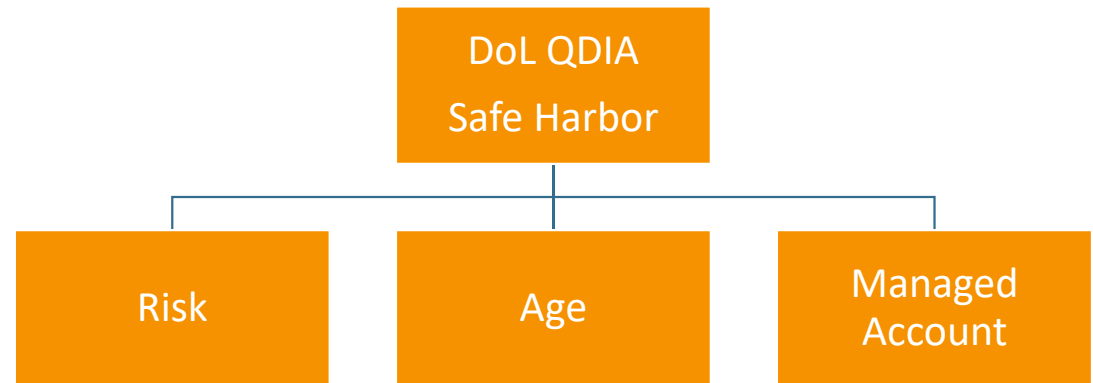
# Kaizen Opportunity: Customization with Managed Accounts

## Opportunity:

Give participants an opportunity to customize their investment to their individual circumstances – e.g. spouse, assets outside the plan, longevity, legacy.

## Emerging:

- Financial Wellness – combined with Managed Accounts
- Hybrid Default – younger enrolled in target date, switch to individually managed later
- Retirement Income – inclusion of an annuity product



# Kaizen Takeaways

1. Small, continuous changes add up to big results.
2. If changing funds at every meeting, there's a problem with the selection process.
3. Pay attention to Plan Design and Legislative/Regulatory changes.
4. Seek employee input.