Is My Plan Working?

Easy Ways to Evaluate Plan Success

Change in Model for Retirement Savings

Defined Benefit Plans

85% Retirement Readiness[1]

Defined Contribution Plans

51% Retirement Readiness[1]

Primarily employer funded, with occasional required participant contributions	Funding	Mix of employer and employee contributions
Employer directed	Investment Strategy	Participant directed
Participants determine how much income they need to replace and work to the goal of achieving that level of benefit	Evaluation Metric	Participants focus on generating a sum of assets that will become the source of meeting retirement expenses
High	Plan Sponsor Volatility	Low
Participants are protected against investment and longevity risk	Participant "Safety"	Each participant must individually ensure their retirement preparedness

[1]National Institute on Retirement Security. *Retirement Readiness – What Difference Does a Pension Make?*

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Impact of the Transition

Employees whose primary retirement plan is a DC plan tend to retire one to two years later than employees covered by a pension plan.

Center for Retirement Research, “The Recent Trend Towards Later Retirement,” March 2007

Individuals covered only by a DB plan are 87% more likely to retire in any given year than individuals only covered by a DC plan.

Rui Yao and Eric Park, University of Missouri, “Do Market Returns Affect Retirement Timing?” 2011

A 1% increase in the S&P 500 Index in any given year increases the probability that the pre-retiree will retire by 2.5%.

Rui Yao and Eric Park, University of Missouri, “Do Market Returns Affect Retirement Timing?” 2011

By 2020, 20% of the workforce is projected to be 65 and older. The only projected growth in the labor force for 2020 will be in employees 55 and older.

Bureau of Labor Statistics

The ability to retain young talent is impacted by the prospect of career and professional advancement.

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Costs are Real

Workers' compensation claim duration is 25% longer and benefit payments are 56% higher.

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Disability premiums are 15 times higher and disability instances are 42% among workers ages 65 and older.

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Delayed retirements may also increase employers' healthcare costs. Healthcare costs for a 65 year-old worker are twice those of a worker between the ages of 45 and 54.

U.S. Department of Health and Human Services, "National Health Care Expenditure Sheet." Data as of 2004

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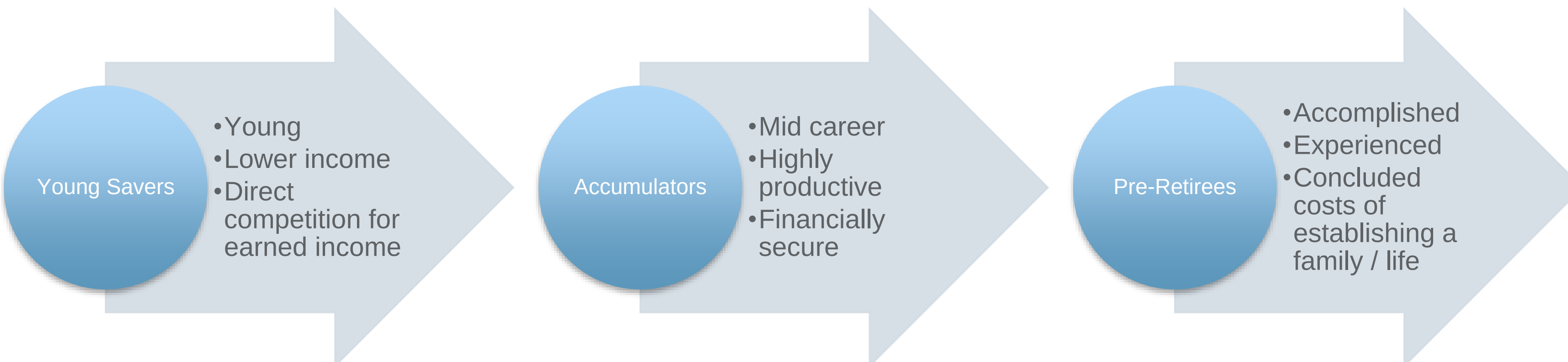
Lifecycle of a Defined Contribution Plan



1. Begin the retirement savings process
2. Reward engagement and patience
3. Affirm the commitment to beginning the savings process

1. Demonstrate the progress towards retirement readiness
2. Reduce the impact of leakage on retirement readiness
3. Begin educating on what retirement is

1. Provide extensive access to financial planning and advice
2. Focus on retirement plan as a tool for securing retirement rather than a wealth accumulation instrument
3. Identify opportunities to incent retirement

Young Savers

Beginning the retirement savings process

- Participation Rate
- Contribution Rate

Impacted by Plan Design

- Automatic Enrollment
- Automatic Escalation
- Matching Contributions
- Wage and Objectives

Average Participation Rates

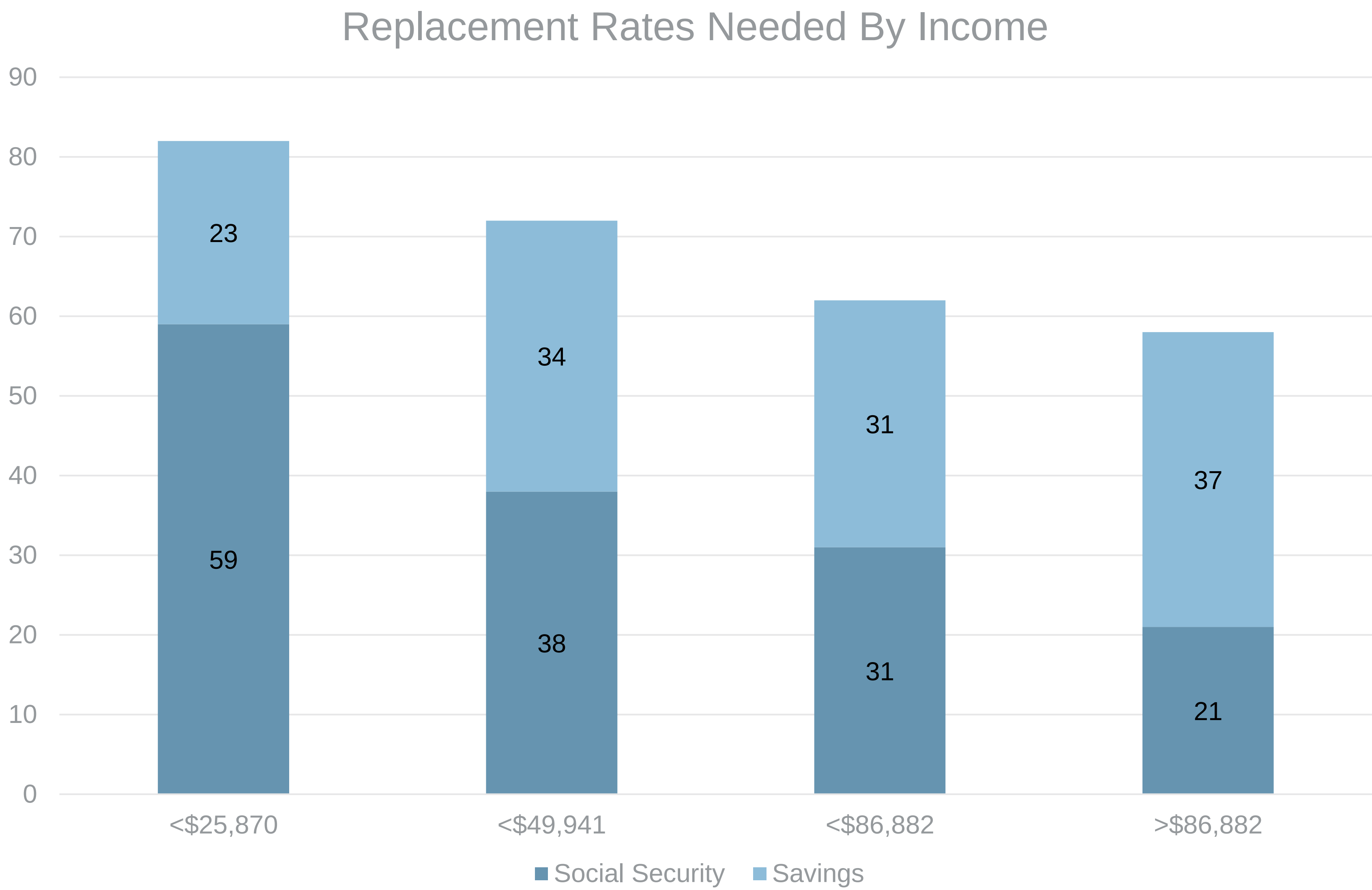
	2016
Plan-weighted participation rates	81%
Participant-weighted participation rate	79%
Voluntary enrollment participant-weighted participation rate	63%
Automatic enrollment participant-weighted participation rate	**90%**

Factors that impact participation rates

- Employer Match
- Automatic Enrollment
- Re-enrollment

Data from "How America Saves 2017" Vanguard 2016 Defined Contribution Plan Data

Targeting Contribution Levels



Source: Marlena Lee, “The Retirement Income Equation,” DC Dimensions (Summer 2012)

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Saving More as Income Grows

Savings rates needed to reach a 40% replacement rate by income range and success probability

	Success Probability		
Income Range ($, Low-High)	95%	90%	50%
< 25,000	2.8%	2.2%	0.9%
25,001 - 40,000	5.7%	4.4%	1.7%
40,001 - 50,000	8.5%	6.6%	2.6%
50,001 - 60,000	11.3%	8.8%	3.5%
60,001 - 70,000	14.2%	11.0%	4.4%
70,001 - 85,000	17.0%	13.2%	5.2%
85,001 - 100,000	19.8%	15.4%	6.1%
100,001 - 130,000	22.6%	17.6%	7.0%
130,001 - 180,000	30.6%	23.7%	9.4%
> 180,000	34.0%	26.4%	10.5%

How Much Should I Save for Retirement
By Massi De Santi, PhD and Marlena Lee, PhD
June 2013

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Accumulators

Avoid Stagnation and Leakage

- Participation Rate
- Contribution Rate

Impacted by Plan Design

- Limiting Number of Loans
- Limiting Reasons for Allowable Loans
- Making Loan Issuance More Cumbersome
- Creating Mechanisms for Repayment Post Severance

How Do Retirement Plan Loans Hurt Accumulators

1. In most market cycles the opportunity cost is high
2. In the event of job loss the tax and penalty consequences of loans are devastating
3. Borrowing today may eliminate a potential safety net for the future
4. It suggests you may be living beyond your means
5. Loan repayments may “crowd out” deferral contributions

Loan Goals

Percentage of eligible participants with a loan outstanding	**<18%**
Average number of loans taken by loan holders	**<1.5**
Loan balance as a percentage of plan account balances for participants with loans	**<10%**

Pre-Retiree Needs

Viewing the participant as a whole

1. Bringing retirement plan projections to a fine point
    - External assets
    - Spousal income
    - Spending needs
    - Healthcare costs/resources
    - Understanding federal and state resources

2. Advice for participants on how to secure and protect accumulated savings
    - Asset allocation
    - Liquidity constraints
    - Comprehensive retirement planning

3. Transitioning accumulations to income
    - Annuity options
    - Income planning

Education has Limits

"…policy makers should be very concerned that retirement education does not increase the likelihood that financially vulnerable groups – women, persons without a college degree, and particularly persons with lower incomes – will save their distributions"

U.S. Social Security Administration Office of Policy. *"Does Retirement Education Teach People to Save Pension Distributions?"*

Peer behavior may be as or more impactful on participant savings behavior than employee education

E. Duflo, E. Saez / Journal of Public Economics 85 (2002)

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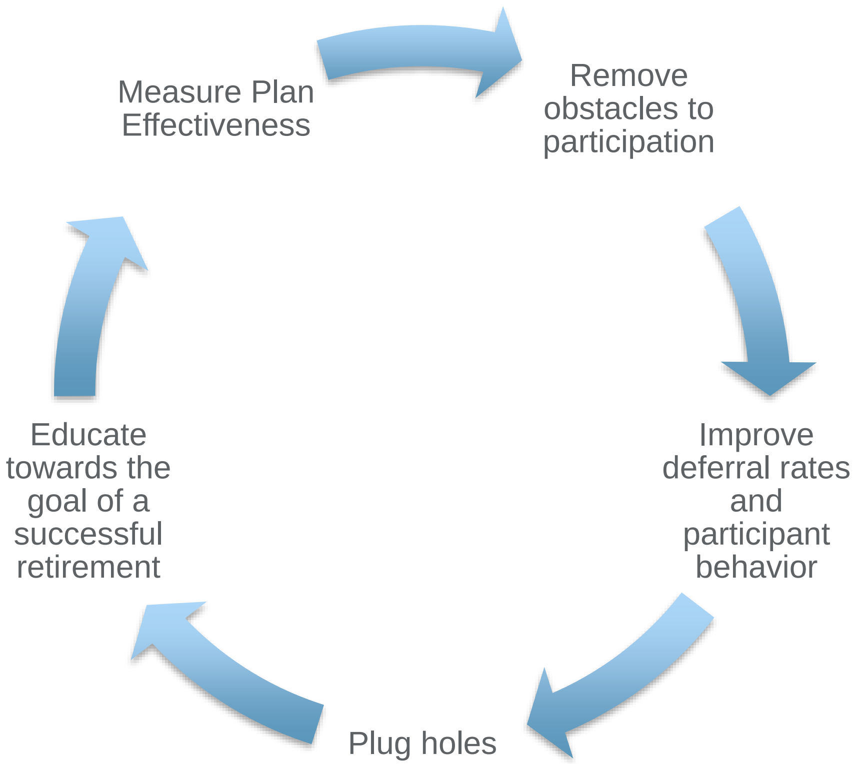
Defined Contribution Objectives

1. Participation Rate at or above 90%
2. Combined Contribution Rate adequate to deliver retirement benefits to 75% of the population at a 90% probability
3. Eligible participants with a loan outstanding <18%
4. Average number of loans held by a participant with a loan <1.5
5. Average loan balance as a percentage of account balance for participants with a loan <10%

Five Steps to Improving Your Plan and Your Institution

1. Evaluate the current retirement readiness of your institution as a benchmark
2. Determine obstacles to new hire participation
3. Develop mechanisms to move new hires towards adequate income replacement
4. Plug the holes
   - Current loan demographics
   - Hardship withdrawal impact
5. Build the communication plan to support the objective
   - Develop an Education Policy Statement
   - Early emphasis on savings
   - High-touch participant advice and financial planning for pre-retirees



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