MULTNOMAH GROUP

Top 5 Retirement Plan Resolutions for 2018

How to Really Accomplish Your Goals in the New Year

Erik Daley, CFA

Erik is the managing principal for Multnomah Group. He is a member of Multnomah Group's Investment Committee and leads the firm's tax-exempt practice, focusing on higher education and healthcare organizations. Erik consults regularly with clients on a variety of retirement plan related topics to help manage their fiduciary risks. He is a national speaker on retirement plan issues.

Prior to founding the Multnomah Group in 2003, Erik served as a vice president of retirement services and led the Portland, OR practice of a national retirement services firm. In that position, Erik was a founding member of the firm's national Investment Committee and had oversight for business development in the western United States.

Erik is a member of the CFA Institute, the CFA Society of Portland, the CFA Society of Seattle, the American Society of Pension Professionals and Actuaries, the Portland Chapter of the Western Pension & Benefits Council, and the Society for Human Resource Management. Erik holds a B.B.A. from the University of Iowa.

Personal Resolutions

Top Resolutions for 2018

1. Eat healthier
2. Get more exercise
3. Save (more) money
4. Get more sleep
5. Read more

**YouGov*

Top Resolutions for 2008

1. Save (more) money
2. Lose weight
3. Get more exercise
4. Get organized
5. Develop a new skill or talent

**FranklinCovey*

Retirement Plan Resolutions

1. Get Organized
2. Spend Less
3. Save More
4. Learn Something New
5. Get Healthy

Get Organized

What Didn't Work in 2008

- Putting together your administration manual
- Filing your enrollment and beneficiary forms
- Weekly calls with the plan recordkeeper

What to Do in 2018

- Acknowledge mistakes will occur
- Determine where likelihood of risks is high and impact is greatest
- Develop a plan to address risk areas on a recurring and scheduled basis

Top Five Failures Found in the IRS Voluntary Correction Program

1. Failure to amend the plan document for tax law changes
2. Failure to follow the plan’s definition of compensation for determining contributions
3. Failure to include eligible employees in the plan or the failure to exclude ineligible employees from the plan
4. Failure to satisfy plan loan provisions
5. Impermissible in-service withdrawals

Current Class Action Trends

1. Multiple recordkeepers charged for duplicative work
2. Revenue sharing arrangements that resulted in excessive fees
3. No open, competitive bidding process for recordkeepers
4. Fee structure that resulted in retirement plan subsidizing other plans / services
5. Investment options with sever restrictions on liquidity
6. Too many investment options that would serve to confuse participants
7. Duplicative investment options
8. Retail investment options where institutional products were available
9. Proprietary investment options of the recordkeeper that were more expensive / underperforming like investment alternatives
10. Utilization of investment options that historically have underperformed

Preventing Plan Errors

Retirement plan errors are preventable! How?

1. Establish policies, procedures, and internal controls.
   - *Follow the policies, procedures, and controls you put in place.*
2. Start an annual fiduciary program and track progress with the program.
3. Engage in ongoing fiduciary education and training for all stakeholders that are a part the retirement plan program's success; from the Retirement Plan Committee chairperson to the payroll clerk, everyone should understand their respective role and responsibility.
4. If an error is discovered, report to the appropriate parties; identify the proper correction; correct the error and document.
   - *Contact your consultant and appropriate legal counsel when necessary.*
5. Continually fine-tune your approach and amend the above items as necessary.

What’s a Fiduciary Program?

The Fiduciary Program can take many forms, but the purpose of the Program is to outline key tasks that will be accomplished throughout the year as it relates to the plan’s fiduciary responsibilities.

- Not a policy and procedure manual
- Snapshot to keep fiduciaries on track throughout the year

In building a Fiduciary Program, consider the following:

- Timeframe
- Critical fiduciary responsibilities and associated tasks
- Relevant stakeholders
- Reporting and Documentation

Caution: If you decide to adopt a fiduciary program, once it is in your file, a regulator would expect that you follow your own program.

Sample Fiduciary Program

Quarter 1

Fiduciary Governance

- Review of minutes of previous quarterly meeting of Committee and reports on action items
- Quarterly investment review
- Review of asset class coverage
- Review of Investment Policy Statement (if applicable)
- Review of Charter for Committee (if applicable)
- Fiduciary education
- Other business

Quarter 2

Vendor Fees and Services

- Review of minutes of previous quarterly meeting of Committee and reports on action items
- Quarterly investment review
- Annual review of insurance and bonding (as prepared by Risk Management and reported to Committee)
- Annual review of fee disclosure notices
- Annual review of costs and services to evaluate reasonableness
- Fiduciary education
- Other business

Quarter 3

Engagement

- Review of minutes of previous quarterly meeting of Committee and reports on action items
- Quarterly investment review
- Review of participant utilization and demographic data (as prepared by third-party service provider and report to Committee)
    - Participation
    - Contributions
    - Investment performance
    - Retirement readiness
- Review of participant education and advice offerings
- Review of required participant disclosures and notices (as prepared by Human Resources and reported to Committee)
- Fiduciary education
- Other business

Quarter 4

Plan Operations

- Review of minutes of previous quarterly meeting and reports on action items
- Quarterly investment review
- Review of 404(c) compliance procedures (as prepared by Human Resources)
- Regulatory update
- Review of plan testing results (if applicable)
- Review of government filings and audit (as prepared by Benefits and reported to Committee)
- Review of any year closing amendments to the Plan
- Annual review of claims and appeals, participant inquiries, issues, and complaints (as prepared by Human Resources and reported to Committee)
- Review of proposed annual report to Board on activities during the year
- Fiduciary education
- Other business

Spend Less

What Didn't Work in 2008

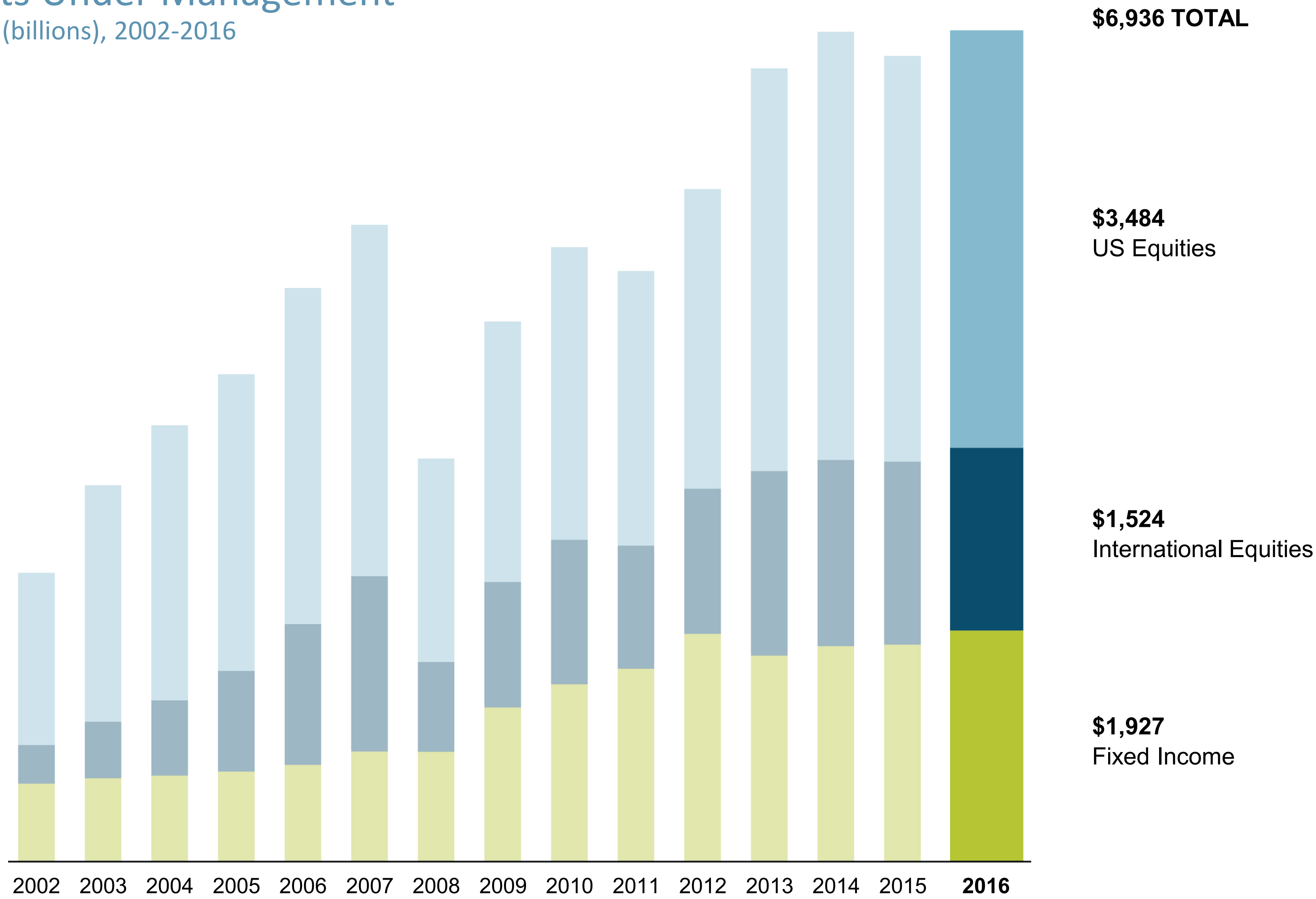
- Retirement plan assets were in decline and recordkeeping fees were declining
- Committee didn't want to do an RFP because there wasn't time and staff to support it
- We didn't know what we were paying

What to Do in 2018

- Become aware of the marketplace in 2018
- Use fee transparency and disclosures to fully understand the current fee structure
- Build regular benchmarking into your fiduciary program
- Get share classes right
- Know what vendors want by servicing your retirement plan

Assets Under Management

In USD (billions), 2002-2016



Total value of assets in the representative fund samples over the past 15 years. U.S.-domiciled open-end mutual fund data is from Morningstar and Center for Research in Security Prices (CRSP) from the University of Chicago.

Numbers may not sum due to rounding.

Understanding Fees in 3 Simple Steps

1. Determine how much I am paying and to whom
   a) 408b(2) filing
   b) Schedule C Form 5500
   c) 404(a)(5) participant disclosures
2. Benchmark costs to the competitive marketplace
   a) Identify an independent resource
   b) Ensure comparisons are apples to apples
   c) Ensure plans are of like size
   d) Don't get lost in the weeds
3. Fix it
   a) Market is highly competitive and increasingly efficient
   b) Determine how your priorities fit with the vendor models

The Benefits of a Vendor Search

Conducting a vendor search helps satisfy certain fiduciary responsibilities, including requirements to:

- Monitor and evaluate service provider performance on an ongoing basis.
- Ensure fee reasonableness in light of the services being performed.
  - Ensuring fee reasonableness requires a comprehensive understanding of all plan fees and the services to which they are attributable.
- Provide appropriate levels of participant information to assist participants in making informed choices.

A vendor search may also result in the plan sponsor being able to delegate certain responsibilities (including fiduciary responsibilities) to the vendor.

- Due to marketplace competition, vendors are increasingly willing to do more on behalf of plan sponsors.
- Outsourcing certain HR functions may reduce the plan sponsor’s administrative burden.
- Some recordkeeping vendors will accept varying degrees of fiduciary responsibility (e.g. loan and hardship administration).

The Benefits of a Vendor Search

Conducting a vendor search may improve plan service levels, leading to increased plan benefit, plan utilization and employee satisfaction.

- Regardless of whether the plan sponsor decides to transition to a new service provider, the vendor search process could result in:
  - Better plan sponsor and participant technology
  - Better participant savings analysis tools
  - Better participant education
  - Better products and investment options
  - Better all-around service
  - Lower fees and/or increased value

Know Your Share Classes Sample

Growth Fund of America	Net Expense Ratio	Sales Load	Deferred Load	12b-1
A	0.64%	5.75%	-	0.24%
C	1.44%	-	-	1.00%
R1	1.44%	-	-	1.00%
R2	1.42%	-	-	0.74%
R3	0.98%	-	-	0.50%
R4	0.68%	-	-	0.25%
R5	0.38%	-	-	-
R6	0.27%	-	-	-

Most investment strategies may also be bought in a collective form that may prove more attractive than within a mutual fund structure

Understand the Motivations

Recordkeeping is a low margin business

High Margin Investment Management Opportunities

- Proprietary Funds
- Managed Accounts

Rollover Opportunities

- Evisceration of the Fiduciary Rule

Opportunity to Sell Ancillary Services

- Insurance
- Taxable Investment Products
- Banking

Save More

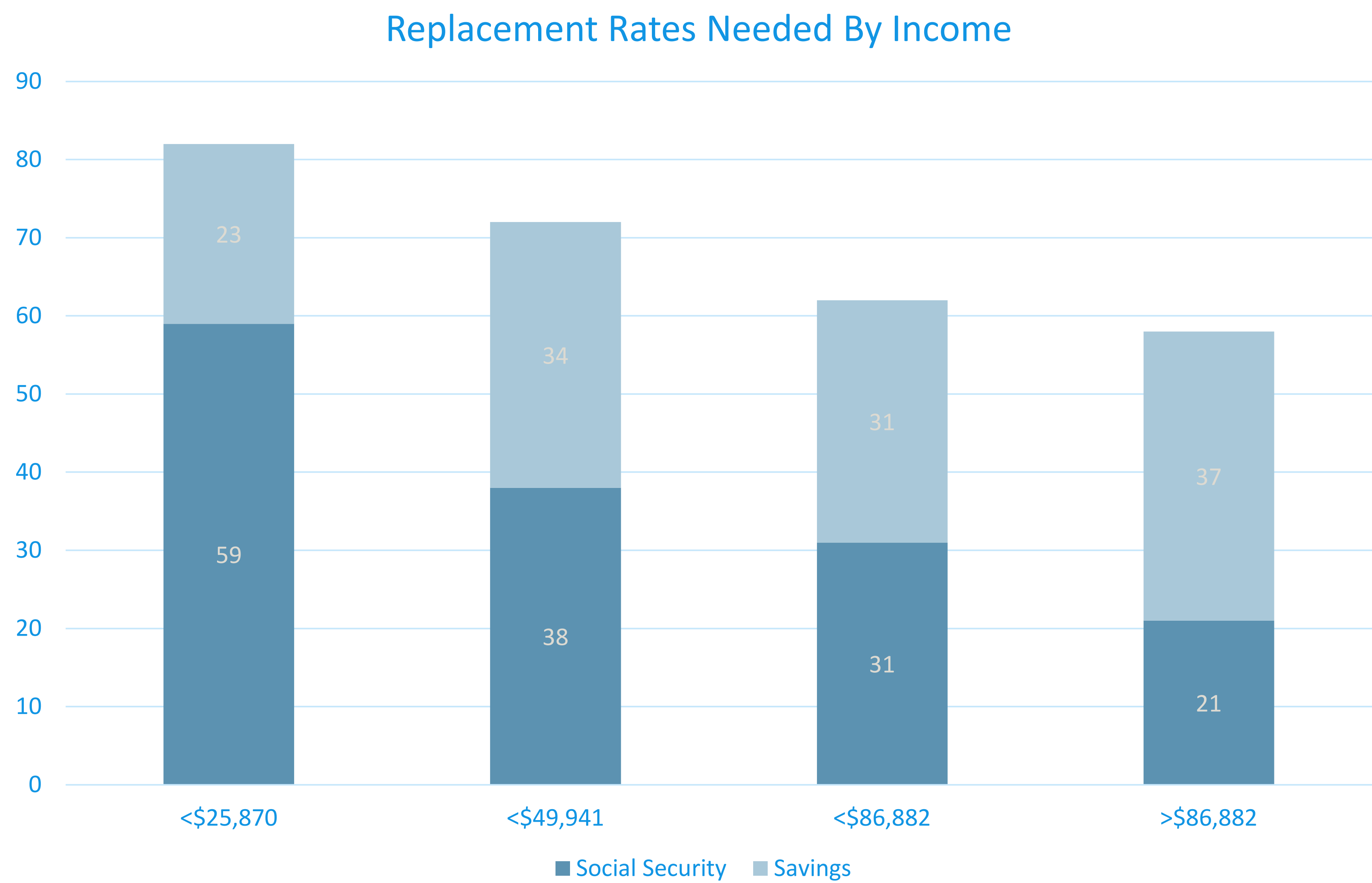
What Didn't Work in 2008

- Committing to our employee education program
- Explaining compounding interest
- Educating participants on stocks and bonds

What to Do in 2018

- Fix your plan design
- Use behavioral finance
- Determine how much is "enough"

Targeting Contribution Levels



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

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

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

Savings Rate Fix In Three Simple Steps

1. Choose your target combined savings rate
2. Automatically enroll to the plan match level
3. Automatically escalate until the combined savings rate is at plan goal

Tip: If turnover is low, you may need to reenroll the current population saving underneath the target rate

Learn More

What Didn't Work in 2008

- Going to conferences (conference budgets went to $0 in 2008 as did travel)
- Attending provider webinars in my "free time"

What to Do in 2018

- Incorporate education into the current fiduciary program and time
- Shorten the content
- Focus the content
- Orient all new committee members

Fiduciary Training Program

Governance	Service Providers and Fees	Employee Engagement and Disclosure	Plan Operations	Investments
Writing good minutes What goes into an effective investment policy What is a retirement plan charter Reporting committee activity to the board	Retirement plan insurance and bonding 408(b)(2) notices Importance of fee benchmarking What goes into an effective retirement plan RFP Current fee models and best practices	Participant fee disclosures Managed accounts Participant education versus advice	404(c) vs. 404(a)(5) Plan testing Understanding your retirement plan audit	Basics of investment performance Target date funds selection and monitoring Asset class coverage How to read your investment report

Get Healthy

What Didn't Work in 2008

- Explaining inflation
- Educating on sustainable withdrawal strategies
- Discussing the finer nuances of Roth vs. Pre-tax savings strategies

What to Do in 2018

- Define the problem
- Discuss the employer's desired role in addressing it
- Assess the demographics of those involved
- Determine how best to communicate with those impacted

Financial Wellness

What is Financial Wellness?

For employers, financial wellness is a program or set of programs designed to improve employees' financial behavior and outcomes while also driving business impact.

For employees, financial wellness is having an understanding of your financial situation and taking care of it in such a way that you are prepared for financial changes. It is a holistically healthy outlook on your personal financial situation.

Why does financial wellness matter to an organization?

- Employees do not have access to helpful tools
- Financial burdens contribute to stress
- Absenteeism
- Organizational effectiveness
- Delayed retirement

Financial Wellness

Considerations for a plan sponsor surrounding these programs:

- Messaging
- Protecting your employees from products and sales
- Are you liable for selecting and monitoring education providers
- The cost of doing nothing

Financial Wellness is Integrating with Retirement Planning

84% of large- and mid-sized employers have financial wellness programs, up from 73% a year ago

Employer-Sponsored Health and Well-Being Survey from the National Business Group on Health and Fidelity Investments 2017

Student debt is a significant inhibitor to retirement plan saving

49.2% of households without student debt were at risk of not being able to maintain their standard living in retirement versus 60.1% of households with student loan debt

Center for Retirement Research at Boston College 2014

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?*

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.

Costs are Real

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

  *PLANSPONSOR.com

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

  *PLANSPONSOR.com

- 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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