Pet Rock or Lyft?

What's Trending in Retirement Plans and What's Likely to Last

Agenda

- Pace of Innovation
- Current Trends In Retirement Plan Management
  - Fee Transparency and Parity
  - Financial Wellness
  - Custom Target Date Funds
  - Gamification
  - Socially Responsible Investment Alternatives
  - Robo-advice
  - 3(38) Services
- Questions

Fee Transparency and Parity

What is Fee Transparency?

The delivery of plan and investment-related information in a format that enables employees to meaningfully compare the investment options and understand the components of a retirement program's total expense.

What is Fee Parity?

Delivering a retirement program that allocates retirement plan expenses in a fair and "equal" manner.

<u>Why is this all the buzz?</u>

- Challenges with participant disclosure
- Increased pressure on plan sponsors to monitor
- Heightened scrutiny on retirement service providers
- Smarter consumers with easy access to fee information surrounding investments
- Fiduciary Rule
- Litigation

Success Breeds Imitation

Defendant	Total Settlement	Attorney Fees/Costs	Other Settlement Terms
Lockheed Martin Corp	$84.3M	$22.3M	• Competitive bidding process for recordkeeping services
Boeing	$57M	$20.8M	• Obtain opinion and recommendation on how to provide participants access to technology sector strategy as core option
Bechtel	$26.2M	$7.7M	• No retail mutual funds as investment option • Recordkeeping fees may not be based on percentage of plan assets • Competitive bidding process for recordkeeping services
International Paper	$41.5M	$11.5M	• RFP for recordkeeping services • Continue to permit investment in employer stock • One passively managed investment option • Fees for recordkeeping cannot be set as a percentage of assets
General Dynamics	$20.9M	$5.7M	• Outside consultant will review service provider agreements over $250,000
Kraft	$14.2M	$4.7M	• No retail mutual funds as investment options • Limit amount of cash in company stock fund • Fees for recordkeeping services will not be based on percentage of assets
Novant Health	$32M	$10.8M	• Independent consultant shall benchmark and audit existing investment options, recordkeeping fees, and services, and review list of existing service providers and their compensation

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Fee Transparency and Parity

<u>Considerations:</u>

- Transparency seems to range from provider to provider
- Removing “baked-in fees”
- Re-negotiating fees and structure whenever possible
- Negotiating flat fees upfront
- Deciding who should own fees in your program
- Understanding if there is a need for multiple recordkeepers and providers
- Creating an apples-to-apples selection process for participants
- How to properly educate participants on multiple platforms

Fee Transparency and Parity

Here to stay or quick to leave?

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.

<u>Why does financial wellness matter to an organization?</u>

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

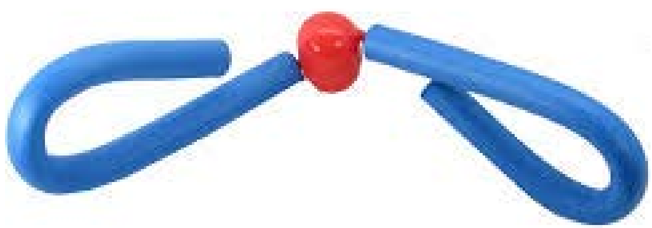
Financial Wellness

<u>Considerations for a plan sponsor surrounding these programs:</u>

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

Financial Wellness

Still in style or out with yesterday’s trash?



Custom Target Date Funds

What are Custom Target Date Funds?

Rather than just selecting an off-the-shelf target date fund, owners of custom target date funds (CTDFs) are more involved in the decision-making and overall management of the fund. The biggest difference is the plan sponsor selects the assets to include, the funds to use, and the glidepath that determines how those asset allocations change over time. Alternatively, the plan sponsor will outsource the fund design to an advisor.

Why are plan sponsors turning the CTDFs?

The argument for customized is more control and customization

- Underlying investments
- Risk management
- Glidepath
- Cost

Department of Labor Guidance

www.dol.gov/ebsa/pdf/fsTDF.pdf

- Establish a process for comparing and selecting TDFs
- Establish a process for the periodic review of selected TDFs
- Understand the fund's investments – the allocation in different asset classes (stocks, bonds, cash), individual investments, and how these will change over time
- Review the fund's fees and investment expenses
- Inquire about whether a custom or non-proprietary target date fund would be a better fit for your plan
- Develop effective employee communications
- Take advantage of available sources of information to evaluate the TDF and recommendations you received regarding the TDF selection
- Document the process

Custom Target Date Funds

<u>Considerations:</u>

- Heightened responsibility
- Additional monitoring
- Need for recordkeeping synergies
- Cost to manage
- Does performance outweigh risk?
- Processes are needed to show *“best interest”*
- Plan size and provider limitations on customization capabilities

Custom Target Date Funds

Flash in the pan or long-term strategy?

Gamification

What is Gamification?

The process of adding games or game-like elements to retirement programs and platforms to encourage participation.

<u>Why is this grabbing our attention?</u>

- Gamification can promote a user providing feed back in a different way
- People are increasingly interconnected through smart devices
- The rise of the tech savvy – millennials
- Mass popularity of gaming
- A more exciting user experience that engages users
- Adding hype to a somewhat mundane topic

Gamification

<u>Sounds like Fun…</u>

- Is messaging clear?
- Will this produce better participant outcomes?
- Competitive dynamics of gamification are not for everyone
- Certain demographics may find this to be a challenge
- Some segments may suffer from this approach

Gamification

Gameboy or PlayStation?

Socially Responsible Investment Options

What is a Specialty Fund?

A mutual fund or other pooled investment alternative designed with the intention of meeting specified social or religious criteria in addition to investment criteria:

- Socially responsible
- Adherence to Sharia Law
- Catholic values
- Zero carbon

<u>Why are these popular right now?</u>

- Growing input from investors
- Changing goals of younger participants
- Political climate
- Department of Labor guidance

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Specialty Fund Classes

Considerations:

- Performance and benchmarking
- Adherence to investment policy statement
- Responsibility as a plan fiduciary
- Additional oversight required
- Core investment style
- Proper communication and disclosure

Specialty Fund Classes

Staple or fad?

Robo-Advice

What is Robo-Advice?

Robo-advisors are digital platforms that provide automated, algorithm-driven financial planning and asset allocation modeling with little to no human supervision. A typical robo-advisor collects information from clients about their financial situation and future goals through an online survey, and then uses the data to automatically invest client assets.

Examples include: Managed Accounts and Personal Financial Planning Software such as Betterment

Why is robo-advice trending?

- Sold as an add-on option through most recordkeepers
- Allows for more customization to one's risk preference than traditional target dates
- Relatively inexpensive
- Allows for users to get input without a face-to-face interaction

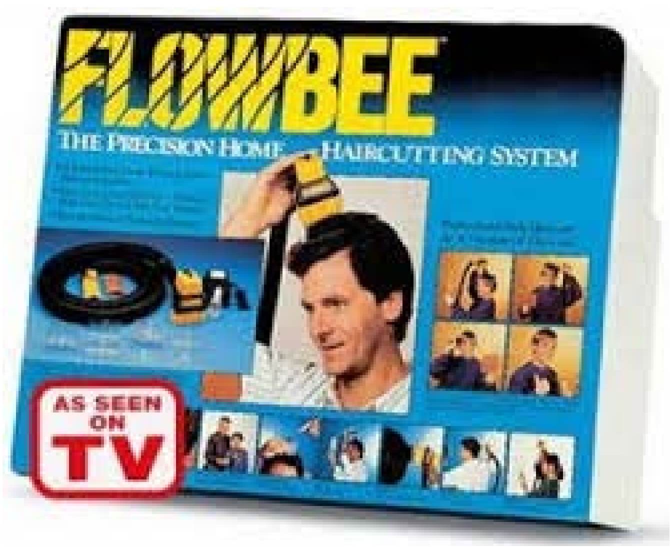
Robo-Advice

Considerations:

- Performance has not been proven to be enhanced in these models (target date funds vs. managed accounts)
- With managed accounts, the recommendation is a composition of the plans existing funds
- The recommendation is only as good as the data the system collects
- Technology lacks intuition derived from in-person planning conversations

Robo-Advice

Built to last or quick fix?



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3(38) Services

What is a 3(38) service?

The 38th definition under Section 3 of ERISA, defines the term "investment manager." To qualify as an "investment manager" under ERISA, one must be a fiduciary…that:

- Has the authority to manage, acquire, or dispose of any asset of the plan;
- Is registered as a registered investment adviser under the Investment Advisers Act of 1940; and
- Has acknowledged fiduciary status with respect to the plan, in writing.

Why are these popular right now?

- Perceived protection
- Heavy marketing
- Broader outsource of duty

Pros and Cons of 3(21) vs. 3(38)

3(21) Advisors		3(38) Investment Managers	
Pros	Cons	Pros	Cons
Retains a co-fiduciary responsible for the selection, monitoring, and replacement of investment options	Fiduciary duty for the selection, monitoring, and replacement of investment options is retained by the plan sponsor (and shared the advisor)	Retains a fiduciary that is exclusively responsible for the selection, monitoring, and replacement of investment options	Frequently, plan sponsors neglect to put in place a process for monitoring the 3(38) investment manager, which may offset benefits of the delegation
Maintains client control of plan investments, including timing of investment changes	Requires greater participation by the plan sponsor	Reduces plan sponsor time commitment	Plan sponsor cedes control to 3(38) investment manager regarding investment decisions
Often less expensive than the 3(38) investment manager alternative	Plan Sponsor is a co-fiduciary liability for all investment decisions, which may be problematic if the plan sponsor lacks investment expertise	Reduces the liability for any single fund action, as these decisions are isolated with the 3(38) investment manager	Frequently (but not always), carries a higher cost than the 3(21) advisor alternative

Out of the Box 3(21) and 3(38) Services

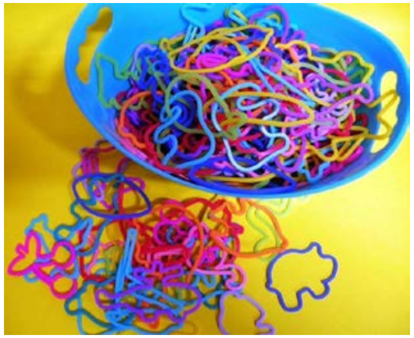
Considerations:

- Client loses control over investment menu and timing
- Sponsor requires a process to review the effectiveness of their 3(38)
- No room for customization or committee input
- Potential for increased cost

Out of the Box 3(21) and 3(38) Services

Hot or Not?

Questions



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