Fiduciary Commentary

Summer 2018

Brant Griffin QKA, AIFA®
Partner

w 800 403 7065 x211
e brant.griffin@npier.com
www.npier.com

Page intentionally left blank

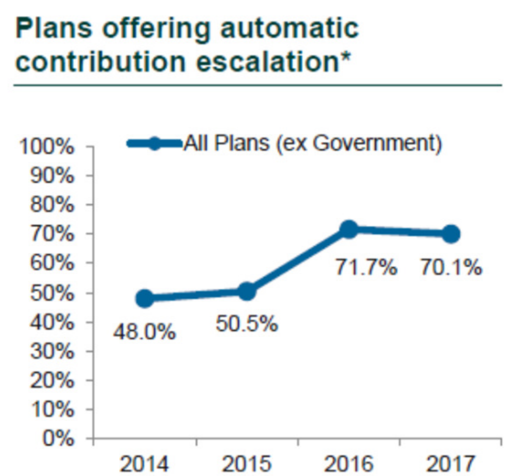
2018 Callan Defined Contribution Plan Trends Survey

Callan's 2018 Defined Contribution Trends Survey captures the views of a broad spectrum of plan sponsors on various retirement plan issues. Most survey respondents sponsor a 401(k) Plan (64.5%) and were from large plans with 90% having over $100 million in plan assets and 60% or respondents over $1 billion. It is important to factor that nearly a third of the 152 survey participants were from government entities. Government plans operate under different rules than private sector plans. They are often not permitted to utilize certain plan features found in 401(k) and other defined contribution plans.

The following highlights the survey's findings.

Plan Automation

The survey found that the extensive use of plan automation continues. Automatic enrollment features were used in more than seven out of ten of respondent's plans (71.4%), while almost two thirds of government plan sponsors indicated automatic enrollment was not permitted in their plans. The default auto enrollment percentages among plans ranged from 2% to 10% with an average of 4.6% and a median of 4%. Additionally, over 25% of sponsors had either re-auto enrolled existing employees on a single occasion or, had periodically swept non-deferring participants back into auto enrollment.



Over 70% of the non-government plans utilizing automatic enrollment had an auto enrollment escalation feature. Consistent with prior findings, 86% of plans increased contributions by 1% annually. The survey also found that the cap on auto enrollment contribution escalation has risen consistently in recent years. The median cap reported was 15%, while a full 13% had no cap on escalation contributions.

Company Match

Very few changes were reported regarding company match structures in 2017 with only 2.3% of survey takers making an alteration to their match. However, nearly a quarter of the respondents expressed that they anticipated making match adjustments in the year ahead. The most frequently cited modifications to the plan match were an increase and restructuring at 27.3% and 22.7%, respectively. Several other match changes were cited with mid-single digit frequency (4.5%) including changing to a stretch match formula, changes to timing of contributions, adding a true-up feature and reinstating the plan match.

Target Date Funds

Target date funds (TDF) were offered in over 9 out of 10 plans with over 85% of sponsors defaulting participant savings into the plan's TDF series. However the prevalence of proprietary TDF amongst the survey respondents continued to drop. In 2017 only 23% of sponsors used their recordkeepers TDF, while the number was 50% five years earlier. Passive TDF strategies were reported to be gaining ground amongst plan sponsors from over 36% in the prior year's survey to nearly 44% of plans in 2017. TDF due diligence was described as active with over 55% of sponsors undertaking some sort of review of their plan's TDF investments. Evaluating the suitability of TDF glidepath was most frequently cited by over half of respondents, followed by changing the share class of the investment at over 22% and moving to a collective trust at 8.6%. Portfolio construction, fees and performance were identified as the three most important criteria for selecting and retaining the plan's TDF.

Participant Advice

Over 75% of defined contribution plan sponsors offered investment advisory or guidance services to their employees. Online advice was the most frequently utilized tool at nearly 65% of plans, followed by seminars at the workplace (54.4%), investment guidance services (52.3%), and managed accounts (52.3%). A large majority of survey respondents that offered managed accounts (nearly 93%) offered it as a voluntary, opt-in plan feature.

Plan Priorities and Participant Communication

Survey respondents identified retirement readiness as their primary plan focus area for their defined contribution plans over the next 12 months. Plan fees and participant communication ranked closely behind as most important areas of focus.

From fifth place in last year's survey, sponsors ranked financial wellness as the number one area of communication focus for 2018. Retirement income adequacy maintained its second place standing from last year and participant contribution levels was third. The most frequent media channels sponsors utilized to communicate plan changes were email and the recordkeeper website were tied at 93%, followed by mail (81.7%), company intranet (63.5%), and employee meetings (60.9%). The use of postal mail continues to decrease in frequency, down from nearly 93% in 2013.

Roth Features

The utilization of Roth contribution features continued to increase among Callan's survey respondents. Over 71% of plans allowed Roth contributions, an increase from 67.6% in 2016 and 49.3% in 2010.

Callan's survey provides valuable insight to gauge their plan's features in comparison to large plan market. While better suited as an actual assessment of a plan to those in the same industry, the Callan survey is helpful in ascertaining design and benefit trends developing in the marketplace.

Significant Modifications to the Retirement Savings System on Deck

Lawmakers are working on the most significant changes to private retirement savings plans in more than a decade, exploring several proposals that expand access to retirement plans for workers and to promote the annuitization income in retirement. The major legislation, the Retirement Enhancement and Savings Act (RESA) would represent the most sweeping changes to the defined contribution plans since the Pension Protection Act of 2006, the law that paved the way for broader adoption of automatic enrollment and default investments.

RESA received overwhelming support in 2016, but the legislation wasn't finalized before Congress adjourned its session that year. Today, it still claims broad interest in both parties. RESA includes several incentives for small businesses to establish and maintain a qualified retirement plan for its workforce. Specifically, the legislation would increase the tax credit from $500, to as much as $5,000 to defray the cost of starting a retirement plan. The proposal would also add an additional tax credit for plan designs with an automatic enrollment feature.

Among additional legislative considerations are a new type of employer savings account that would permit workers to automatically enroll employees into an emergency savings account. This much-needed tool would enable employees to build much needed savings accessible in an emergency. A recent Federal Reserve study found that 40% of adults could not cover a $400 emergency expense.

The bill would also encourage plans to offer annuities. Given the swelling ranks of retirees and increasing life expectancies, there is broad bipartisan support among legislators for investment products that could support participants in converting their savings into lifetime income streams. However, there remain lingering concerns on how to best utilize annuities into defined contribution plans. Among the worries are the products typically have high fees and the liability inherent in choosing an insurance company that offers the annuity. The bill gives those that follow certain procedures some liability protection from lawsuits when selecting an annuity provider.

RESA provides for small employers to band together to offer retirement plans in a Pooled Employer Plan (PEP) arrangement. With the identification of the entity that assumes responsibility for the operation of the plan, smaller employers can gain more preferential pricing and features through the economies of scale of the PEP. This pooling of plans together is permitted, but only to employers with an affiliation, such as members of the same industry trade association. RESA would eliminate that requirement.

Additional bill enhancements include a repeal of a provision that prevents savers over age 70 ½ from contributing to traditional IRAs and providing increased flexibility for plan sponsors to switch to a safe harbor plan.

The retirement proposal could face obstacles in a divided Congress as partisan tensions remain high. While it's too early to tell which measures might be retained through the bill's development, the effort does enjoy broad bipartisan support (which is a rare incidence these days). It remains to be seen though if Congress has the political will to move on this legislation in an election year.