

PROMOTING PLAN SUCCESS

STRATEGIES FOR IMPROVING EMPLOYEE RETIREMENT READINESS

INSIDE Industry Insights | Trends | Strategies for Potential Improvements

EVERYONE BENEFITS WHEN EMPLOYEES CAN RETIRE ON TIME

This paper provides insights, trends and strategies for potential improvements for the significant plan design opportunities that exist to help employees work toward a successful retirement, strengthen your retirement plan and benefit your business.

INSIGHTS

KEY RISKS

Today there are two key risks plan sponsors face that have a cause and effect relationship:

1. Underutilized plan design features

When an employee does not have enough money to retire, a contributing factor or “cause” is the underutilization of plan design features. There are plan design elements that may help increase participant retirement income adequacy and when underutilized, employee retirement income can be at risk. Studies show participants save more for retirement in plans with auto features and in plans that provide more help.

TODAY'S PLANS:

Only:

- 52% allow employees to participate in the plan immediately upon hire¹
- 60% have auto enrollment²
- 33.5% mandate auto-escalation³
- 30.2% offer a suggested savings rate to participants⁴
- 70% take advantage of QDIA safe harbor protections⁵



2. Employees delaying retirement

Delayed retirement is an “effect” of underutilized plan design features and comes with significant business risks. Employees who have not saved enough for retirement and must delay retirement at age 65, or postpone it indefinitely, have higher costs⁶.

There are also additional potential business costs harder to measure like a less engaged and productive workforce, and more turnover by employees with critical talent whose career paths have been blocked by those delaying retirement.

Every year an employee delays retirement can cost an employer \$50,000⁷

TODAY’S EMPLOYEES:

Only:

- 23% are very confident they will have enough money for a comfortable retirement⁸
- 40% report they or their spouse have tried to calculate how much money they need to live comfortably in retirement⁹
- 59% believe Social Security will be a major source of income in retirement¹⁰
- 80% expect to work for pay after retiring¹¹

Just 18% of plan sponsors are very confident their employees will achieve their retirement goals by age 65¹²

Plan sponsors control plan design decisions and employees are responsible for ensuring they have saved enough retirement income. What’s holding plan sponsors back from utilizing plan design features that may help participants save more for retirement? What’s holding participants back from becoming retirement ready on their own?

STUMBLING BLOCKS

Plan Sponsor Stumbling Blocks	Participant Stumbling Blocks
<ul style="list-style-type: none"> ▪ Other human resource issues like healthcare benefits and the Affordable Care Act ▪ Inertia ▪ Fear of: <ul style="list-style-type: none"> • Cost increases • Being too paternalistic • More time commitments • Fiduciary risk 	<ul style="list-style-type: none"> ▪ Not: <ul style="list-style-type: none"> • Saving right away • Saving enough • Investing properly • Increasing financial literacy

IT’S YOUR DUTY TO HELP

Recent retirement plan court cases highlight the importance of acting in participants’ best interests and continuous plan monitoring. A plan sponsor’s fiduciary duty requires they always make appropriate plan design choices for participants.

HEART’S IN THE RIGHT PLACE

- 78% want to improve their efforts to educate employees about retirement plans¹³
- 64% of plan sponsors plan to offer guidance on how to draw down balances after employee retirement¹⁴

TRENDS

HOW DO WORKERS PREPARE FOR RETIREMENT?¹⁵

- 46% guess
- 12% use a retirement calculator
- 20% have a written strategy

Forty-two percent of workers agree with the statement “I prefer not to think about or concern myself with retirement investing until I get closer to my retirement date”.

ADEQUATE PARTICIPANT RETIREMENT INCOME IS AN IMPORTANT PLAN BENCHMARK

- Retirement plan success is no longer just about participation rates, fees, investment performance and retirement account balances. Many plan sponsors now realize that a very important plan success measure is participant retirement income adequacy.
- Strategies for helping employees increase retirement income include well-known aggressive plan design elements like auto enrollment and auto escalation, and a new focus on a holistic approach that helps participants:

- 1. Save Now & Save More.**
- 2. Invest Properly.**
- 3. Increase Financial Literacy.**

Plan Examples

1. SAVE NOW & SAVE MORE: Incorporate behavioral finance techniques into plan design

Suggest Savings Rates	Re-enrollments	Innovative Employer Match Formulas	Roth 401(k) Contributions
30.2% provide a suggested savings rate to employees, less than 6% suggest 3%, and 50.7% suggest a rate higher than 6% ¹⁶	26% re-enroll non-contributors or those deferring less than the default savings percentage ¹⁷	15.9% offer innovative match formulas ¹⁸ (i.e. stretch match)	69.1% offer a Roth 401(k) option to participants ¹⁹

2. INVEST PROPERLY: Simplified, quality investment choices

Simplified Fund Line-up	Target Date Funds (TDF)	Managed Accounts
Most plans offer 19 funds on average with a combination of passive and active choices ²⁰ (unchanged for the last 5 years)	<ul style="list-style-type: none"> ▪ 79% offer a target-date fund²¹ ▪ 75% of those offer a TDF as a QDIA²² 	36% offer participants managed accounts services ²³

The target date is the approximate date when investors plan to start withdrawing their money. The asset allocation of target date funds will generally become more conservative as the fund nears the target retirement date. The principal value of the fund is not guaranteed at any time, including at the target date. Investing in mutual funds involves risk, including possible loss of principal.

Plan Examples

3. INCREASE FINANCIAL LITERACY: More access to participant education and help

Financial Wellness Programs	Focused and Targeted Education	Investment Advice
24% of plans offer a comprehensive financial wellness program ²⁴	<ul style="list-style-type: none"> 66.5% offer in-person investment advice²⁵ 54.2% offer a telephone hotline²⁶ 32% of employers are very likely to provide some assistance to employees to help with budgeting²⁷ 	32.1% offer some type of investment advice ²⁸

POTENTIAL IMPROVEMENTS

1. SAVE NOW/SAVE ENOUGH

Plan Design Feature	Description	Strategy
Eligibility	The date an employee can begin participating in the retirement plan	Permit employees age 21 and older to enroll in the plan on “day one” of employment or as soon as possible based on employee demographics
Automatic Enrollment	Automatically enrolling all eligible participants in the plan at a pre-determined deferral percentage	Auto enroll participants at the industry recommended default deferral rate of 6%-10% into a Qualified Default Investment Alternative (QDIA) with the ability for employees to opt out
Re-enrollments	All eligible employees are re-enrolled or enrolled in the plan’s default investment option on a certain date (unless an employee reaffirms a current selection or makes an alternative election during the 30- day notice period)	Give participants 30 days notice and re-enroll current contributors and enroll non-contributors at the industry recommended default deferral rate of 6%-10% into a QDIA with the option ability for employees to opt out
Automatic Contribution Escalation	Automatically increasing participant deferral rates on a specific date each year	Mandate automatic escalation and increase participant contribution rates by 1% to 2% per year, getting participants up to a targeted savings rate of 12%-15%* including employer match. Link contribution increases to pay raise cycles or annual benefits cycle

* Plan sponsors seeking the protections of the ERISA 404(c) or Qualified Default Investment Alternative (QDIA) safe harbors can elect any contribution escalation percentage with no maximum, and are not restricted by a 10 percent maximum contribution escalation percentage. The only instance in which a 10 percent limit applies is if the plan sponsor wishes to adopt the Qualified Automatic Contribution Arrangement (QACA) safe harbor included in the Pension Protection Act (PPA) if they have trouble satisfying the nondiscrimination compliance testing requirements of the Internal Revenue Code (IRC).

1. SAVE NOW/SAVE ENOUGH *(continued)*

Plan Design Feature	Description	Strategy
Innovative Employer Match Formula	Employer matching contribution on employee contributions that are different from common match formulas like 50% on the first 6% of compensation, etc.	No waiting period, provide the match when contributions are made and reshape the match to encourage increased levels of savings. For example, stretch the match over a larger percentage of compensation, i.e. match 25% on the first 8% of compensation
Auto Rebalancing	Automatically rebalancing a participant portfolio to manage risk relative to a target asset allocation	Provide auto rebalancing annually or semi-annually for participants when it does not otherwise occur (i.e. non-managed accounts)
Withdrawals and Loans	Early withdrawals and loans from retirement plan	Educate participants on the long-term detrimental impact of accessing retirement income prematurely and place limitations where appropriate
Consolidation of Participant Retirement Accounts	Consolidating eligible retirement accounts into one plan	Establish a streamlined “roll-in” program for employees to roll prior retirement plan or IRA balances into the company sponsored retirement plan

2. INVEST PROPERLY

Plan Design Feature	Description	Strategy
Simplified Investment Choices	Streamlined investment line-up that includes a default option and a simplified core menu	Create a formal process to review, evaluate and document the funds available in the line-up. Focus on a selection of simplified, core asset classes that satisfy ERISA requirements and fiduciary responsibilities
QDIA	The Pension Protection Act of 2006 (PPA) allows for the choice of three offerings that may be used as a plan’s (QDIA), where participant money can be placed if a participant fails to make an investment election: (1) managed account; (2) life-cycle or target-date funds; and (3) balanced funds	Combine with auto enrollment and document the reasoning for selecting the QDIA. Revisit this decision periodically to assess the ongoing fit
Custom Target-Date Fund (TDF)	Tailored TDF that considers plan demographics, the behavior profile of participants, etc.	Include a custom TDF series to provide investment options specifically targeted to participant needs
Managed Accounts	Diversified and professionally managed asset allocation solutions owned by the participant.	Offer professionally managed accounts in the plan investment line-up for those participants that want or need access and help with diversification
Roth 401(k) Contributions	Employer sponsored retirement savings account funded with participant after-tax money	Offer a Roth and educate employees about Roth features. Target messages to employees to explain features and benefits

3. INCREASE PARTICIPANT FINANCIAL LITERACY

Plan Design Feature	Description	Strategy
Education, Tools and Technology	Financial education programs that simplify retirement planning and saving concepts and take a holistic approach to engage participants through various targeted delivery methods	For optimal interest make the message fun and visual and incorporate some of these elements into the program: <ul style="list-style-type: none"> ▪ Different messages for different groups of employees, i.e. women, Generation X, Millennials, Boomers, etc. ▪ Multiple approaches for delivering information and education, i.e. in-person, web, paper, mobile, etc. ▪ Retirement income projections ▪ Tools for goal-setting and tracking ▪ Incentives, and active and personalized communication tools, i.e. mobile apps and games
Financial Wellness Program	A comprehensive program that assesses an employee’s “complete financial picture” and stresses the importance of knowing about “financial concepts and tools” and acting on that knowledge to plan, save and invest for the future	Concentrate comprehensive strategies on financial well-being and incorporate healthcare benefit education within retirement plan education
Investment Advice	Access to experts and professionally designed tools online, in-person or via phone that can recommend individual investment strategies based on a participant’s goals, expected retirement date and other income sources	Allow employees to enroll in a fiduciary friendly investment advice service at their own discretion and cost, provided by experienced professionals. Choose delivery methods that best suit your employees, i.e. online, phone or in-person

CONCLUSION

You’re in control of these powerful plan design mechanisms and the decisions you make have a major impact on the success of your plan, employee retirement readiness and your business. Understanding your plan demographics is the first step. Then through consultation with an experienced retirement plan professional, use this paper to help choose the smart and assertive plan design features that work best with your employee demographics to drive participant engagement and provide the most value to your plan.

¹ PSCA: 62nd Annual Survey of Profit Sharing and 401(k) Plans” (2019)
² Ibid
³ PLANSPONSOR magazine, “DC Plan Benchmarking Survey” (2017)
⁴ PSCA: 59th Annual Survey of Profit Sharing and 401(k) Plans” (2017)
⁵ PLANSPONSOR magazine, “DC Plan Benchmarking Survey” (2017)
⁶ Prudential Financial, Inc., 2019
⁷ Ibid.
⁸ EBRI: “Retirement Confidence Survey” (2019)
⁹ Ibid.
¹⁰ Ibid.
¹¹ Ibid.
¹² PLANSPONSOR.com, 2019
¹³ Employee Benefits and Perks Statistics, January 07, 2019
¹⁴ Ibid.

¹⁵ 19th Annual Transamerica Retirement Survey of Workers, 2019
¹⁶ PSCA: 62nd Annual Survey of Profit Sharing and 401(k) Plans” (2019)
¹⁷ Ibid.
¹⁸ Ibid.
¹⁹ Ibid.
²⁰ Ibid.
²¹ Ibid.
²² Ibid.
²³ Ibid.
²⁴ Ibid.
²⁵ Ibid.
²⁶ Ibid.
²⁷ Ibid.
²⁸ Ibid.



washfinancial.com



This material was prepared by LPL Financial, LLC.

Securities and advisory services offered through LPL Financial (LPL), a registered investment advisor and broker-dealer (member FINRA/SIPC). Insurance products are offered through LPL or its licensed affiliates. To the extent you are receiving investment advice from a separately registered independent investment advisor that is not an LPL Financial affiliate, please note LPL Financial makes no representation with respect to such entity.

If your advisor is located at a bank or credit union, please note that the bank/credit union **is not** registered as a broker-dealer or investment advisor. Registered representatives of LPL may also be employees of the bank/credit union. These products and services are being offered through LPL or its affiliates, which are separate entities from, and not affiliates of, the bank/credit union. Securities and insurance offered through LPL or its affiliates are:

Not Insured by FDIC/NCUA or Any Other Government Agency	Not Bank/Credit Union Guaranteed	Not Bank/Credit Union Deposits or Obligations	May Lose Value
--	---	--	-----------------------

This information was developed as a general guide to educate plan sponsors, but is not intended as authoritative guidance or tax or legal advice. Each plan has unique requirements, and you should consult your attorney or tax advisor for guidance on your specific situation. In no way does advisor assure that, by using the information provided, plan sponsor will be in compliance with ERISA regulations.

For Plan Sponsor Use Only - Not for Use with Participants or the General Public