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Fiduciary Responsibility

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Agenda

- Outlook for Public Employees' Retirement Security
- Your DC Plan is Key to Employee Retirement Readiness
- Identifying Your Plan Fiduciaries
- Five Basic Fiduciary Standards of Conduct
- Fiduciary Duties and Responsibilities
- Defining and Measuring Retirement Readiness
- Plan Design Matters
- Engaging and Motivating Employees
- Innovative Education Programs
- Advice and Guidance
- Think Beyond Retirement

Outlook for Public Employees' Retirement Security

- State and local employees have historically been perceived as having more than adequate savings to maintain their standard of living in retirement, however...

- A 2011 study by the Center for Retirement Research[1] under a grant from Great-West Financial® found that many public sector retirees may fall well short of their pre-retirement earnings.

- Public employers continue to find it more difficult to sustain the level of retirement, health and disability benefits they traditionally provided their employees due to:
  - Harsh economic conditions,
  - Downsizing of the government workforce, and
  - Demise of traditional DB plans.

- Certain benefits are being eliminated completely for new employees.

[1]Munnell, Aubry, Hurwitz, Quinby, Center for Retirement Research, Boston College, "How Prepared are State and Local Workers for Retirement?" State and Local Retirement Plans series, No. 22, October 2011.

Outlook for Public Employees' Retirement Security

- Survey results point to a looming retirement crisis:
  - 57% of workers report total value of household savings and investments (excluding primary home and DB plans) is <u>less than</u> $25,000.[1]
  - Only 13% of workers are very confident they will have enough money to live comfortably in retirement.[2]
  - A typical working-age household has only $3,000 in retirement account assets; a typical near-retirement household has only $12,000.[3]
- **Millions of Americans are not prepared for, or even aware of, what is needed for a successful retirement.**

[1]Helman, Ruth, Nevin Adams, J.D., Craig Copland, Ph.D., and Jack VanDerhei. "The 2012 Retirement Confidence Survey: Perceived Savings Needs Outpace Reality for Many." *Employee Benefit Research Institute Issue Brief*. March 2013, No. 384, p. 5.

[2] Ibid.

[3] Rhee, Nari, Ph.D., "The Retirement Savings Crisis: Is it Worse Than We Think?" *National Institute on Retirement Security*. June 2013, p. 12.

Your DC Plan is Key to Employees' Retirement Readiness

- Your DC plan, whether it be a 401(a)/(k), 403(b) or 457(b), is an excellent way for your employees to save for a more secure retirement.

- Deciding which benefits to make available to your employees is an employer function.

- Employers:
  - Establish the DC retirement plan.
  - Design the plan's benefits and features.
  - Determine who is eligible to participate.
  - Decide whether to amend the plan to add or remove optional provisions, such as loans or Roth accounts.

- Your plan fiduciaries then implement and administer the employer's plan decisions.

Who is a Plan Fiduciary?

- Fiduciary status is based on functions performed, not a person's title.
- Anyone who takes discretionary action to manage and administer the plan or exercise control over plan assets.
- A plan's fiduciaries may include the:
  - Trustee,
  - Plan administrator (you the employer),
  - Investment advisors,
  - Members of plan's administrative committee, and
  - Members of plan's investment committee.

Why is the Plan Sponsor a Fiduciary?

- Some employers have asked why they are fiduciaries when the money in the plan doesn't belong to them.
- This question gets right at the heart of what constitutes fiduciary capacity and when it attaches to an individual.
- A person acts in a fiduciary capacity when he or she handles money or property for the benefit of another.
- With your DC plan, you are handling money for the benefit of plan participants.
- Fiduciary responsibility arises every time the plan sponsor, or designated employees, makes decisions that impact plan participants and plan assets.

Implementing the DC Plan is a Fiduciary Function

» Employers sponsoring their own DC plan are always plan fiduciaries.

» You are a plan fiduciary, *not acting as the employer*, when:
  - Implementing the plan decisions made by the employer.
  - Establishing policies and procedures for the plan.
  - Administering/operating the plan.
  - Keeping the plan document updated for all required changes in law.
  - Selecting and monitoring plan's investment options and fees.
  - Selecting and monitoring service providers, consultants and others to assist with the plan and their fees.
  - Educating employees.
  - Providing advice and guidance.

Identify Your Other Plan Fiduciaries

- Important to determine which other individuals or entities are fiduciaries.
- List all employees who work on the plan in any capacity.
- List all third parties that assist with the plan, including:
  - Trustee
  - Recordkeeper
  - Consultant or investment adviser,
  - Attorney
  - Other
- Determine precisely what functions each of them is performing for the plan and whether they have discretionary authority over any aspect of the plan.

When are staff members fiduciaries?

- Your staff members *are not* fiduciaries when they:
  - Perform ministerial activities such as processing forms.
  - Act at the direction of participants or plan fiduciaries.
  - Prepare employee communications or answer questions about the plan provisions.
  - Calculate the amount available for a loan or distribution.
  - Perform any other activity not involving the exercise of discretion or authority over the plan or its assets.

- Your staff members *are* fiduciaries when they:
  - Exercise discretion when processing QDROs or other forms.
  - Interpret plan provisions.
  - Perform any other activity involving the exercise of discretion or authority over the plan or its assets.

Are third parties plan fiduciaries?

- Some plan sponsors are under the mistaken impression that selecting third parties to assist with the plan relieves them of future fiduciary liability.
- Third parties are typically *not* fiduciaries.
- Non-fiduciary experts provide information or act on instructions from plan sponsor or participants and include:
  - Accountants,
  - Actuaries,
  - Attorneys,
  - Auditors,
  - Investment consultants, and
  - Recordkeepers and other service providers.
- Investment advisers will be fiduciaries if they provide investment advice for a fee or make decisions on behalf of the plan.

Importance of Knowing You are a Fiduciary

- Maintaining your participants' trust is extremely important.
- Executives or employees may inadvertently breach their fiduciary duty if:
  - They don't know they are fiduciaries or
  - Are not aware of their basic fiduciary responsibilities.
- Plan participants are filing lawsuits against plan sponsors for alleged breaches of fiduciary responsibility.
- Knowing you are a plan fiduciary and what is required of you will keep you and your plan out of "trouble."
- A sound fiduciary governance process:
  - Protects participants, and
  - Effectively shields the employer, Board or Committee members and other fiduciaries from liability.

Fiduciary Responsibility under Applicable Law

- Fiduciaries are held to the highest standard of conduct imposed by law.
- State law imposes fiduciary duty, the exclusive benefit rule and prudence requirements through:
  - The Uniform Trust Act and
  - The Uniform Prudent Investor Act – Alaska Stat. §§ 13.36.225 to 13.36.290.
- The Internal Revenue Code requires that §401(a)/(k) and government §457(b) plan assets be held in trust.
- Failure to meet fiduciary obligations can result in severe penalties, including personal liability.

Fiduciary Standards of Conduct

- In addition to state law, most government plan fiduciaries use Employee Retirement Income Security Act of 1974 (ERISA) rules as a guide.
- State laws often mirror or are very similar to ERISA.
- Five basic fiduciary principles:
  - Duty of loyalty,
  - Duty of prudence,
  - Duty to diversify plan assets,
  - Duty to monitor funds and providers and make changes when warranted, and
  - Duty to follow terms of plan documents.

Duty of Loyalty – Avoid Conflicts of Interest

- The duty of loyalty is known as the exclusive benefit rule.
- Plan fiduciaries must act:
  - Solely in the best interests of the plan participants, and
  - For the exclusive purpose of providing plan benefits.
- Fiduciaries cannot put employer interests before those of plan participants.
- Avoid conflicts of interest at all cost.
- Example: DC plan's recordkeeper is selected on a promise to use fees collected from the DC plan to provide free services to the employer for other purposes, such as payroll or other benefit plan services.

Duty of Loyalty – Improve Performance by Keeping Plan Costs Down

- Duty of Loyalty - plan fiduciaries must ensure plan fees are "reasonable."
- DC plan expenses and lost income opportunities can cost employees over 1/3 of what they could have accumulated for retirement.*
- Focus on three issues to keep more money in participant accounts:
  - Investment fees,
  - Service provider fees, and
  - Lower cost means (other than mail) of delivering information.
- Use DOL Fee Disclosure to your advantage - obtain same fee information providers are required to give their ERISA plan sponsors.
- Your job is not to find the lowest cost fund or provider, but rather to:
  - Follow your IPS criteria when selecting and deselecting funds and
  - Benchmark the quality of each provider's services and fees to plans of similar size and complexity.

*Fornia, FSA, William B., October, 2011 "A Better Bang for New York City's Buck"

Duty of Prudence

- Duty of Prudence requires fiduciaries to act with the care, prudence, skill and diligence a knowledgeable person would use in administering a DC retirement plan.

- Prudence - one of most important duties – requires good judgment and sound processes in every plan activity undertaken by the fiduciaries.

- More than just an obligation to be competent and careful in your conduct, prudence is a careful, diligent, thorough decision-making process:
  - Gather, examine and give appropriate consideration to relevant information.
  - Implement the decision.
  - Periodically monitor performance to ensure your decisions continue to be in the best interest of the plan and the participants.

- Retain third parties to assist you, if necessary.

Hold Regularly Scheduled Meeting and Document Decisions

- Hold regularly scheduled “committee” meetings to discuss and make decisions for the plan.
- Include all plan fiduciaries and any staff or third parties needed to provide information to the committee.
- Keep good records of your deliberations and decisions as evidence that good processes were followed.

Fiduciary File Cabinet

» A complete set of all current signed plan documents should be kept in a safe, accessible place, including:

- Plan documents and any summary plan materials,
- Trust agreement,
- Plan forms, rules and procedures,
- Service agreements,
- Third party contracts,
- Investment contracts,
- Investment Policy Statement,
- All amendments to those documents, and
- Committee meeting minutes.

Selecting and Monitoring Investments

- State law requires fiduciaries to adopt prudent investment policies for selecting and monitoring plan investments.
- A prudent investment policy involves adopting and following a written Investment Policy Statement (IPS) for the plan.
- Your IPS should detail the responsibilities of all parties involved in the investment process and a regular schedule for evaluating investment menu.
- Fiduciaries have a duty to diversify and your IPS should define the:
  - Methodology and criteria for selecting a broad, diversified array of investments with different levels of risk and returns.
  - Goals, objectives and performance standards the funds are expected to meet to be retained in the investment menu.
  - Guidelines for monitoring and evaluating funds, and timing for terminating and replacing any nonperforming funds.
- Courts have said that fiduciaries must use reasonable diligence in disposing of funds which are improper to retain.

Selecting and Monitoring Service Providers

- » Develop a prudent formal process for selecting third parties.
- » Use objective criteria in the selection process:
  - Financial condition,
  - Experience,
  - Quality of the services,
  - Any recent litigation or enforcement action, and
  - The proposed fee structure.
- » Determine that:
  - Fees paid with plan assets to a third party are reasonable.
  - Third party has no conflicts of interest that could influence his or her recommendations to your plan.
- » Document your review process and the basis for your hiring and firing decisions.

Plan Administration is Important

- Plan document must comply with the Internal Revenue Code and regulations.
- Plan document must contain each feature you are offering participants – it is your contract with the participants.
- Read the plan document thoroughly and often and be sure you understand each and every provision.
- The plan document is your manual for administering the plan.
  - Compare plan policies, procedures and forms to the terms of the document.
  - Revise any procedures that do not exactly match the document.
- Failure to operate the plan in compliance with governing documents is a top IRS audit "catch-all" and can cause the plan to become ineligible.

Fiduciary Functions Required to Administer Your Own Deferred Compensation Plan

- Plan sponsors, as fiduciaries, must invest a significant amount of time and effort to prudently administer a retirement plan:

  - Ensure plan document complies with Code and regulations.
  - Keep plan document updated for all new law changes.
  - Operate the plan in compliance with the plan document.
  - Prudently select trustees and service providers using objective criteria.
  - Develop a formal written Investment Policy Statement (IPS).
  - Follow IPS when selecting, monitoring, deselecting and replacing investments.
  - Ensure plan policies, procedures, forms, match the plan provisions.

Fiduciary Functions Required to Administer Your Own Deferred Compensation Plan - Continued

- Provide oversight of each vendor’s investment lineup and fees pursuant to IPS.
- Periodically monitor each vendor’s services for compliance with plan documents.
- Monitor each vendor’s fees and benchmark them to fees paid by similar plans.
- Create and distribute participant communications.
- Educate participants about investments.
- Help participants be retirement ready.
- Multiply the time and resources needed by the number of vendors you are using.
- Repeat.

- Important Note: If you are in the state plan exclusively and do not maintain a separate plan, the state plan fiduciaries handle plan administration for you.

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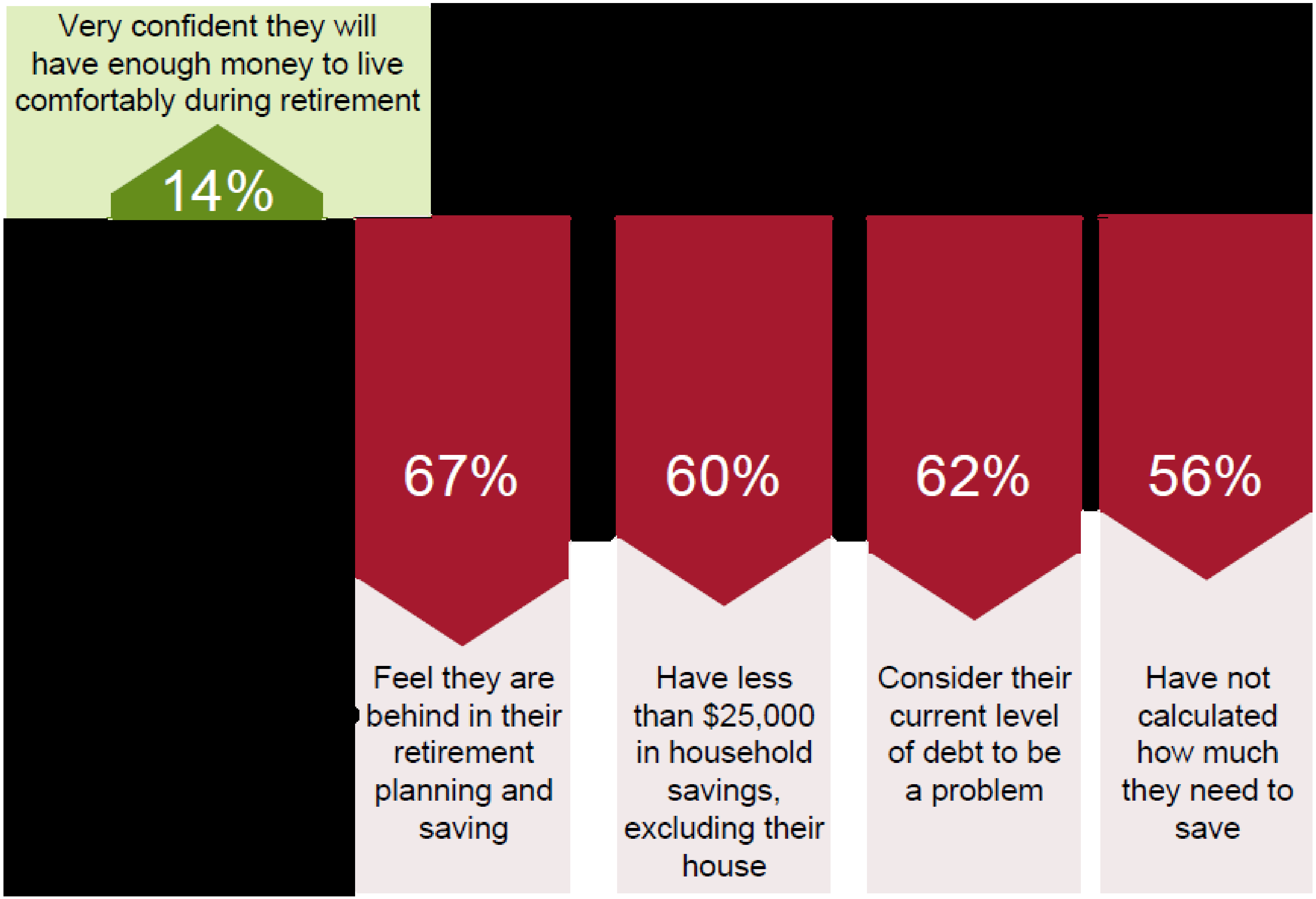
Employees and Employers Concerned About Retirement Readiness

Employees Are Concerned About Retirement Readiness



Employers Also Concerned About Retirement Readiness

- 2010 Deloitte Annual 401(k) Survey of plan sponsors:
  - Only 15% believe most employees will be prepared for retirement.
  - **A majority (62%) feel their responsibility includes taking an interest in whether employees are saving enough for a comfortable retirement.**
  - Only 18% have conducted a retirement readiness assessment to help determine if their participants are adequately saving for retirement.
- LIMRA Secure Retirement Institute:
  - 80% of full-time U.S. workers rely on an employer-sponsored retirement savings plan to support their future retirement lifestyle.
  - **Nearly ¾ (74%) of employers who offer a DC plan believe their employees' retirement readiness is a critical measure of whether their current retirement benefits program is a success.**

Employers Benefit from Employees' Financial Stability

- Plan sponsors are well served by ensuring employees are ready to retire.

- Employee financial instability leads to:
  - Higher healthcare costs,
  - Lower worker productivity, and
  - Lower morale, especially among younger workers.

- Plan sponsors are changing their focus:
  - PAST: Participation and contribution rates (insufficient).
  - NOW: Helping employees save enough for retirement.

- Use your plan's level of retirement readiness to implement best practices for helping employees prepare for retirement.

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What is Retirement Readiness?

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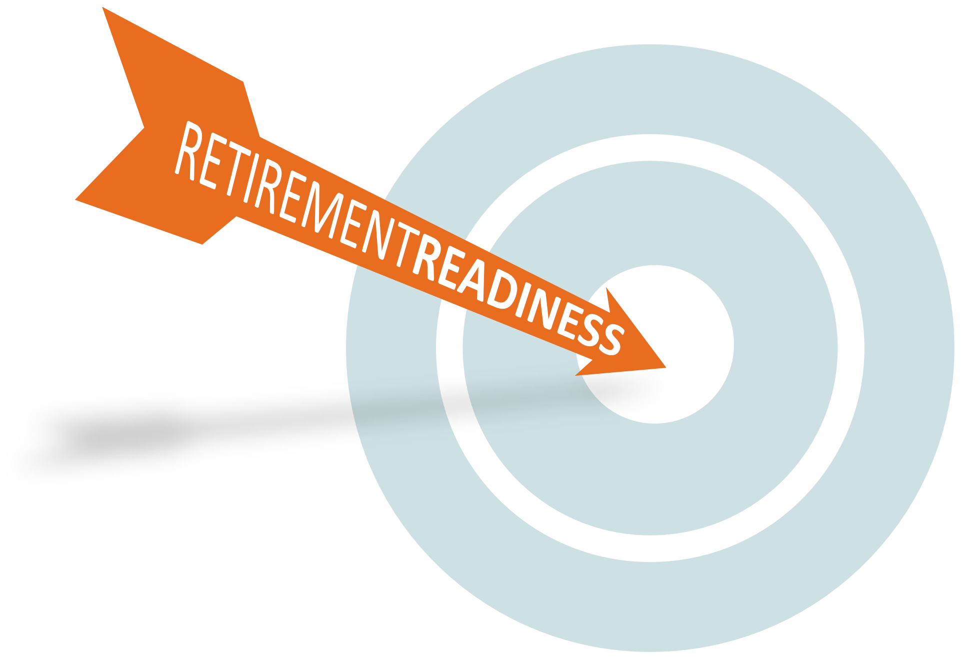


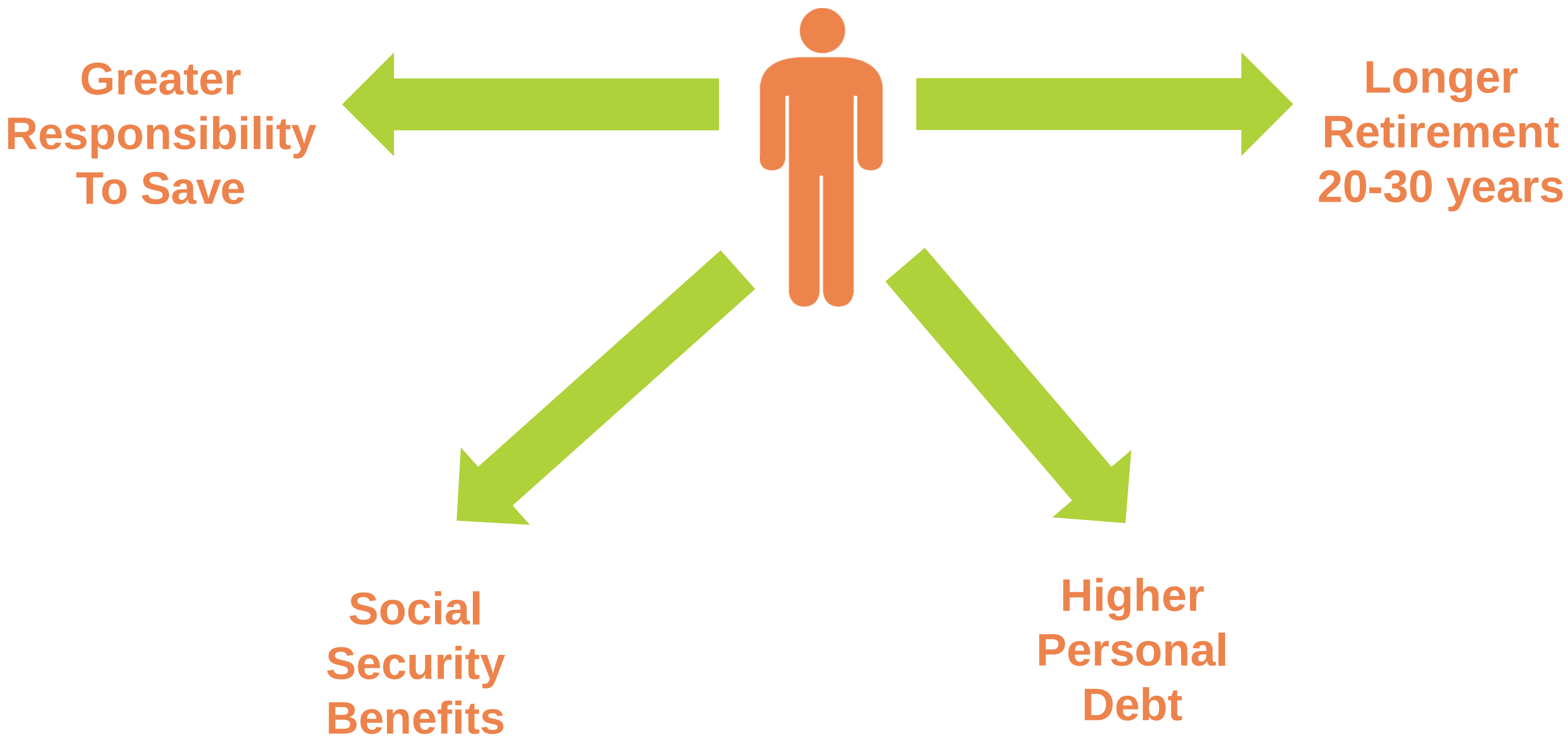
Retirement Readiness is the degree to which a participant is on target for meeting and maintaining income goals and their standard of living throughout retirement.

What is Retirement Readiness?

- A Retirement Readiness Profile Tool for Federal Government Employees developed in 2006 defined retirement readiness in terms of three dimensions of retirement planning:
  - Wealth/Financial Security – Are employees adequately planning to support the lifestyle they want throughout retirement? Have they established realistic income goals for the future and considered potential risks to their income?
  - Healthy Living – Do employees recognize and understand their potential personal longevity and that of their spouse, and the money they will need for their personal health situation?
  - Happiness and Engagement – What are employees' life plans for retirement? What types of activities are they planning for?
- Today we are concentrating on ways fiduciaries can improve the wealth/financial security dimension of employees' retirement planning.

Retirement Challenges

Recent economy has been tough



Greater Responsibility on Employees to Save

- Public worker's traditional benefits are being forced to change due to increasing costs of public employer pensions and the economic climate.
- States reducing pension funding obligations by one or more of following:*
  - Increasing current and/or new employee contribution levels.
  - Increasing the age and/or length of tenure required for normal retirement.
  - Reducing or eliminating cost-of-living adjustments.
  - Changing way pension formulas are calculated to reduce pension benefits.
  - Offering a hybrid and/or DC plan instead of a traditional DB plan.
- Future retirees' guaranteed DB income likely a much smaller replacement rate of income.
- Post-retirement health insurance being eliminated or cost shifted to employees.
- Retirees saddled with mortgage debt, healthcare and long term care expenses.

*The Evolving Role of Defined Contribution Plans in the Public Sector, NAGDCA, Sept. 2012

Measuring Retirement Readiness at the Plan Level

- » Evaluate current retirement readiness by looking at various factors, such as:
  - Overall rate of employee participation,
  - Median contribution rate,
  - Median account balance, and
  - Most popular investment alternatives.

- » Example: GWF's Retirement Readiness Report Card (offered by our subsidiary, Advised Assets Group, LLC, a registered investment advisor) allows plan sponsors to gauge plan's retirement readiness.

- » Retirement Readiness Report Card tracks four participant attributes:
  - Investment portfolio allocation,
  - Savings rate,
  - Years to retirement, and
  - Income replacement percentage.

Measuring Retirement Readiness at the Plan Level

» The Retirement Readiness Report Card (RRRC) provides the plan sponsor:

- An assessment of changes that could be made to the DC plan to improve participation and savings rates and drive better outcomes for employees.
- An aggregate assessment of your workforce to determine where future education/guidance should be targeted, and
- A method to monitor and evaluate the effectiveness of employees' efforts.

» The RRRC provides the service provider with information for more targeted:

- Face-to-face or over-the-phone meetings with participants,
- Retirement saving and planning communications, and
- Retirement readiness seminars on topics of importance to each individual.

Retirement Readiness at the Employee Level

- Partner with your service provider to develop a roadmap for employees to use to improve employee retirement readiness.
- Example, at Great-West Financial® employees have access to a Retirement Income Control Panel on the plan's website which provides a realistic assessment of each participant's level of retirement readiness.
- Participants can calculate an estimate of their projected monthly income after they retire based upon their:
  - Current account balance,
  - Contribution rate,
  - Expected retirement age,
  - Social Security benefits, and
  - Any other assets the participant wants to list in their profile.

Retirement Readiness at the Employee Level

- » The employee's profile provides a method to identify how well they are currently planning for retirement – as compared to where experts say they should be.

- » Employees have an increased awareness of issues that should be considered to successfully prepare for retirement.

- » If there is a projected shortfall in desired retirement income, participants can choose from a number of action items to close that gap, such as:

  - Increasing plan contributions,
  - Changing their investment selections, or
  - Delaying retirement.

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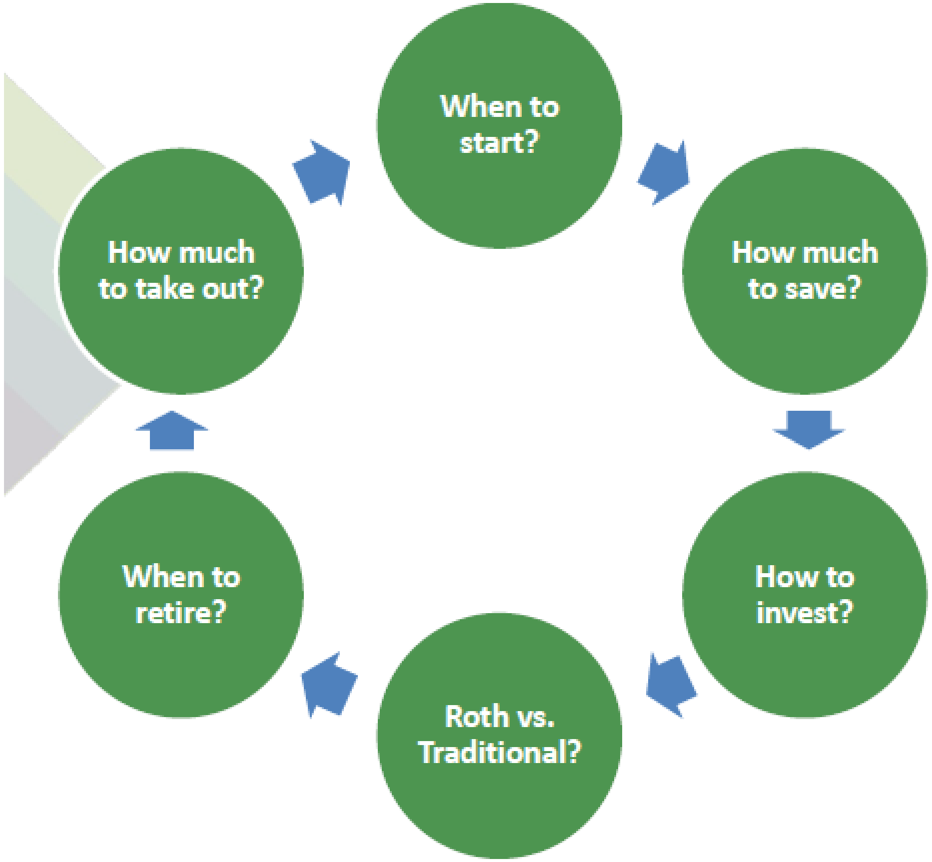
Plan Design Matters
Simplify Participation/Reduce Decision-making

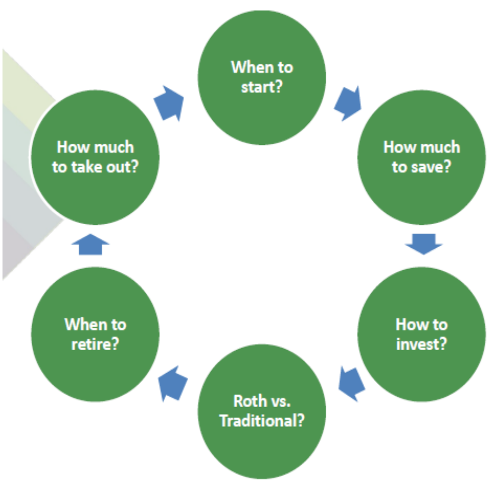
Participation – Why is it So Confusing?



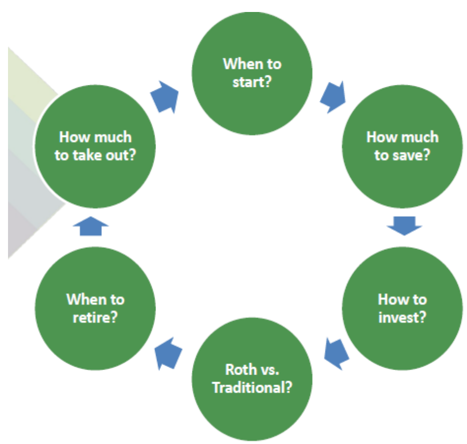
Participation – Why Make It Even More Confusing?

BUT WAIT - FIRST CHOOSE YOUR RECORDKEEPER
Do you want door A, B, C or…… Good luck, you're on your own!

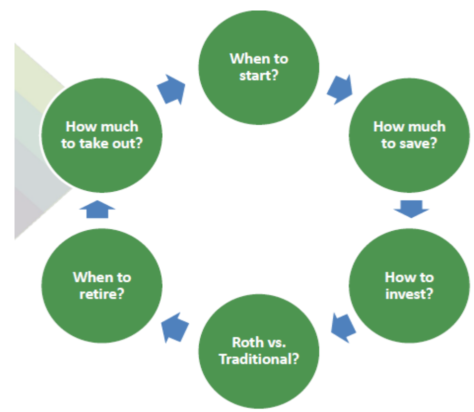
Recordkeeper A



Recordkeeper B



Recordkeeper C



Limit Number of Providers

- A single recordkeeper benefits YOU, the plan fiduciary, by reducing potential fiduciary liability and the time and effort you must expend to:
  - Comply with your fiduciary oversight and due diligence,
  - Select and monitor investment options and service providers, and
  - Determine if plan fees are reasonable.

- A single recordkeeper benefits PARTICIPANTS by:
  - Eliminating a HUGE initial, very confusing plan participation decision.
  - Allows for consist marketing and communications about the benefits of plan participation rather than sales materials from dueling providers.
  - Promotes consist onsite education, retirement planning tools and fee transparency, to name a few.

- *"The most compelling reason to go with a single vendor service model is to enhance the participant experience. The multi-vendor model can impact the participant experience in a variety of adverse ways including education, planning tools, transaction efficiency, reporting, compliance, and, most importantly, cost."**

*David Ray, University Business, January 2009.

Limit Number of Funds

- Recent findings show too many choices = unwanted consequences and may:
  - Cause employees to become overwhelmed,
  - Reduce participation rates,
  - Encourage some to simply choose safest option, even if not in their best interest,
  - Cause some to over-allocate to certain asset classes when more than one choice in the category is offered.*

- Best practice calls for a limited array (about 15-20) of investment options covering the major asset classes and allowing participants a reasonable opportunity to manage their own risk and return needs.

- Goal of core investment options – to provide a sufficient number of choices to enable participants to construct a well-diversified portfolio while limiting overlap and unintended risk taking.

*Liersch, Michael, "Choice in Retirement Plans: How participant behavior differs in plans offering advice, managed accounts, and target-date investments," 2011.

Use a Default Investment Alternative (DIA)

- Facilitate enrollment with a default investment alternative (DIA), such as a target-date, balanced fund or managed accounts.

- A DIA is particularly helpful to participants:
  - Seeking a quick and easy way to enroll, or
  - Undecided about how to choose a diversified investment menu.

- Improves investment results for those who aren't experienced investors by:
  - Providing broad diversification without the participant having to select individual funds that invest in specific asset classes,
  - Professional managers make strategic and tactical asset allocation decisions, and
  - Periodic rebalancing.

- A DIA that meets certain specifications protects ERISA plan sponsors from fiduciary liability – a best practice for government fiduciaries.

- Consider re-enrolling all participants into your DIA annually unless they opt-out by choosing individual investment selections.

Facilitate Enrollment!

» Opt-in enrollment 40%

» Quick enrollment ("check a box") 50%

» Active choice (requirement to choose) 70%

» Opt-out auto-enrollment 90%

» Improving DC participation 0% 20% 40% 60% 80% 100%

Participation Rate (1 year tenure)

» **Take care with wording of enrollment forms.**

Madrian and Shea 2001; Choi, Laibson, Madrian, Metrick 2002; Choi, Laibson, Madrian 2009
Carroll, Choi, Laibson, Madrian, and Metrick 2009

Encourage Adequate Deferral Levels

- Auto enrollment, where state law allows, gets more employees into the plan and studies show most of them continue to participate.
- Default contribution rate should help employees save toward a secure retirement.
- Don't be too conservative:
  - Opt-out allows employees to select a lower contribution rate.
  - Participants often maintain the default rate mistakenly thinking you chose it to ensure they will have adequate retirement savings.
- Auto escalation keeps contribution levels up and increases savings.
  - Increase the default contribution rate annually up to a meaningful rate.
  - Here again, do not be timid, participants can opt-out and select the rate that they are comfortable with.

Encourage Adequate Deferral Levels

» Implement matching contributions:
  – If you have a 401(a) plan to receive matching contributions, your dollars will not reduce employee 457(b) deferrals, or
  – If you have a grandfathered 401(k), the matching dollars do not impact employee contributions.

» Redesign existing employer match in a way that increases the employee's deferral rate without increasing your cost!

» Example:
  – 100% match up to 3% of compensation = 3% deferral,
  – 50% match up to 6% of compensation = 9% deferral,
  – 25% match up to 12% of compensation = 15% deferral.

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Great Plan Design by Itself Is Not Enough

Savings Intentions vs. Saving Behavior

- **Out of every 100 surveyed employees:**
  - 68 self-report saving too little.
  - 24 plan to raise savings rate in next 2 months
  - **BUT** - only 3 actually follow through.
- Facilitate enrollment by making it so easy to enroll when first asked that the powerful urge to procrastinate is thwarted.
- Explore communication methods designed to inform decisions and motivate positive changes among participants.

Choi, Laibson, Madrian, Metrick (2002)

Find What Motivates Participants

- A personal approach is still the top motivator: when selecting 1st or 2nd choice:

- Preferred methods to inform decisions:
  - 54% - In-person – both one-on-one and group meetings,
  - 40% - Email,
  - 34% - Website,
  - 20% - Mail, and
  - 13% - Telephone

- Preferred methods to motivate change:
  - 67% - In person – both one-on-one and group meetings,
  - 30% - Calculators or worksheets,
  - 25% - Model portfolios,
  - 20% - Website, and
  - 17% - Email

Choi, Laibson, Madrian, Metrick (2002)

Messages That Motivate Participants – Topics of Most Interest?*

Ensuring I will have steady income in retirement **Understanding importance of investment diversification**	**77%** **18%**
How much I should save How to spend wisely in retirement	69% 24%
Making my money work for me Investment advice	69% 23%
How to save for retirement Envisioning my retirement lifestyle	61% 30%
Tool and calculators to help me plan Investment product selection	54% 34%

*Top line = outcomes/action; 2nd = processes/information

Based upon a large-scale national study of retirement plan participants by Lincoln Financial Group.

Try Innovative Education Programs

- Even with the best plan design, many will not maximize the plan's value.
- Present bias: Immediate events get full weight …
  Everything else gets half weight.
- Plan sponsors must balance participants' desire to live for today, while planning for tomorrow.
- Try innovative financial literacy education programs, such as online financial wellness clubs, much like a book club.
- Women may not engage in financial literacy for themselves, but may respond to financial literacy education programs, such as a session on:
  - Teaching your kids about money and investing, or
  - Retirement income planning for your parents.

Engagement + Decision-making = Action

» Communications must appeal to a wide variety of participants:
  – Some seek advice, some just want the facts,
    Some follow others, and some avoid decision-making if at all possible.

» Engage participants with simple actions they can take today:
  – Check their account balance,
  – Plug their account balance into retirement income calculator, or
  – Use paycheck comparison calculator to see if they can contribute more.

» Targeted, easy to understand, action-oriented communication and education programs can improve financial literacy and wellness:
  – Stress need to prepare for retirement,
  – Demonstrate how participating in your plan will benefit them personally.

» Robust retirement income and other calculators on the plan's website allow participants to make informed choices to help them reach their goals.

Educate Participants by Complying with ERISA 404(c)

- ERISA 404(c) allows plan fiduciaries to avoid liability for individual participant investment decisions – a big deal!

- ERISA 404(c) designed to assist participants become informed investors - a big deal!

- 404(c) is essentially a communications statute designed to give participants sufficient information to effectively exercise control over their accounts:
  - Explain their right to direct their own investments in the plan,
  - How to make and change investment decisions,
  - Funds available under the plan,
  - Fund managers,
  - Investment related fees,
  - Any restrictions on investment transfers, and
  - The name of who to contact for more information.

Educate Participants by Complying with DOL Participant Fee Disclosure

» ERISA §404(a)(5) creates a new mandatory fiduciary duty for ERISA plan administrators and expands fee disclosure requirements.

» Disclose all plan administrative fees and how such fees will affect the balance of each participant's account.

» Disclose fees charged to participant accounts based upon their individual choices, such as fees for:
  - Plan loans,
  - Qualified Domestic Relationship Orders (QDROs),
  - Investment advice,
  - Brokerage windows,
  - Fund transfer or redemption fees,
  - Any other fees specific to your plan.

Empower Participants - Offer advice and guidance

- Studies show employees need financial wellness solutions that drive action and outcomes, such as investment advice not just guidance.
- Employees not well versed in investments need advice tailored to their unique situation and financial goals.
- Key features of an advice program are:
  - Goal-based, easy-to-understand, individualized advice,
  - Unbiased third-party recommendations (like AAG's Managed Accounts, delivered by Ibbotson Associates),
  - Situational, comprehensive planning that takes all key parameters into account, from participant data and plan provisions to non-plan assets and fund restrictions.
  - Automatic reallocation and rebalancing to ensure better investment management.
- Ask your provider about managed accounts and other tools to help employees make informed investment decisions.

Plan Design – Think Beyond Retirement

- » Consider allowing retirees to repay loans after severance of service.
- » Council retirees on the benefits of leaving their assets in the plan rather than rolling to an IRA.
- » A guaranteed lifetime income payout option can ensure participants won't outlive their retirement savings – ask your provider about options, such as GWF's "Secure Foundation."
- » Converting a portion of accumulated plan assets into a guaranteed income stream can effectively manage many DC risks, such as:
  - Longevity risk,
  - Volatility and sequence of returns risk, as well as
  - Excess withdrawal risk.*
- » Growing number of Baby Boomers consider guaranteed income important:
  - Ages 60 to 66 -<u>19%,</u> Ages 55 to 59 -<u>15%</u>, Ages 50 to 54 -<u>14%</u>.

*Insured Retirement Institute Study Report

Summary

- Identify and educate your plan fiduciaries.
- Understand your fiduciary responsibilities and standards of conduct.
- Simplify your plan design.
- Choose quality investments with reasonable fees.
- Monitor performance of investments and service providers.
- Monitor your employees' progress toward a more secure retirement.
- Engage and motivate participants with innovative education programs.
- Use motivational messaging to spur employee action.
- Offer personal retirement assessment tools that allow employees to measure their individual retirement readiness.
- Offer advice, not just guidance.
- Think beyond retirement.

Thank you!
Questions?

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