Willis Towers Watson

Redefining DC plans for the future

Top 10 updates to our DC vocabulary for 2018

The defined contribution (DC) landscape is evolving rapidly. When this happens, we need to redefine terms to better reflect the new environment.

Here we identify 10 terms rendered outdated by change. In each case, we provide a more robust, accurate and current definition.

While we aim for our definitions to become the industry standard for our clients and peers, we realize that some might disagree with our interpretations. In these cases, we believe it is valuable to educate each other on why we think differently and to find areas of common ground. This culture of open and honest communication will help us provide advice, tools and innovation in a way that is best suited to you and your plan.

1. Plan design

Traditional: Supplemental retirement benefit. Matching contributions were the primary tool used to encourage modest employee savings and maintain competitiveness.

Modern: Primary or even sole retirement benefit. Customized design focused on retirement adequacy, particularly for participants that are approaching retirement. The plan is structured to be cost sustainable, aligned to the business strategy and supports the employers' workforce and financial priorities.

As DC plans continue to grow in size and complexity, we have found that developing a set of plan investment and design beliefs has become more important than ever. These beliefs are an agreed set of guiding principles that drive plan sponsor decisions. Beliefs add transparency to decisions and create a shared view that benefits both plan participants and committee members.

2. Plan success

Traditional: Investment managers outperforming published market benchmarks. Participant behaviors measured on one-size-fits-all rule of thumb metrics focused on improving averages: account balances, participation, employee savings rates, etc.

Modern: Successful participant retirement outcomes. Ability of participants to retire at normal retirement age. Measured by individualized retirement readiness metrics capturing health care costs, tax efficiency and lengthening lifespans. Custom scorecards that identify workforce gaps in financial well-being and retirement preparedness. Business analytics that measure the cost of financially stressed employees and the risks of a "stuck" workforce.

3. Plan risk factors

Traditional: Compliance errors, piecemeal documentation, excessive fees, poor fund performance, nondiscrimination failures, employee lawsuits.

Modern: Old risk factors *plus:* workforce bottleneck caused by employees who can't afford to retire. High cost of financially stressed employees with low engagement, high absenteeism and poor health. Class action lawsuits creating reputational and financial damage related to employee disclosures, investment-related fees, and overall program costs.

Note: These topics are designed to be provocative and to fuel future discussions. If you would like to discuss or challenge our view, we encourage you to contact your consultant or to email us here.

DC program designs are evolving to better meet employers' workforce and financial objectives. Rothification, HSAs, custom contribution schedules, employer match on student loan repayments — these are some of the trending emerging design features that can potentially improve participant retirement outcomes while optimizing an employer's return on investment.

4. Participant inertia

Traditional: Employers focused on *preventing* participant inertia and poor participant behaviors: inappropriate asset allocations, under saving, low participation, etc. Belief that default options expose plan sponsor to fiduciary risk.

Modern: Leveraging participant inertia to improve retirement outcomes: auto-enrolling, auto-escalating, rebalancing or reenrolling participants. Using behavioral economics to encourage positive retirement saving behaviors. Delivering personalized, smart suggestions to participants that resonate and are easier to implement.

5. Participant communications

Traditional: One-way push communication with generic messaging distributed through traditional channels (e.g., print/mail) and focused on one call to action for all (e.g., "save more").

Modern: Multi-channel push and pull communication tactics that leverage technology to deliver relevant, customized messaging and a call to action based on segmented demographic data, including generational differences and other behavioral metrics.

6. Participant outreach

Traditional: Onsite, large group meetings focusing on a homogeneous group of employees that are all approached in a similar manner.

Modern: Targeted outreach utilizing employee segmentation and multiple communication channels based on various factors, including demographics, life-stage saving behavior, retirement readiness, preferences, financial stress, etc.

7. Qualified default investment alternative (QDIA) and target-date fund (TDF) selection

Traditional: Static option – single QDIAs, commonly TDFs, taking participants through all phases of work/life and retirement. Off-the-shelf TDFs selected based on performance and expenses, or defaulting to proprietary series managed by the recordkeeper.

Modern: Dynamic option – multiple QDIAs that evolve to meet participant needs in each phase, such as converting from TDFs to managed accounts to retirement income solutions as participants approach and then move into retirement. Sponsors seeing the value in unbundling key decision points (glide path, portfolio construction and implementation) to design a tailored TDF series to plan needs.

8. Participant investment decisions

Traditional: Give participants many choices with the expectation that they will design and manage a diversified portfolio themselves, including periodic rebalancing and ongoing shifts in allocation as they move through various phases of life.

Modern: Simplified and streamlined approach to investment menu construction emphasizing professionally designed and managed portfolios. Participants focus on saving and staying the course, not on investment-related decisions for which they are usually ill-equipped.

Given guidance from the Department of Labor, the evaluation and selection of TDFs should consider the suitability of the underlying glide path based on participant demographics and plan characteristics, as the glide path is one of the key determinants of expected outcomes in retirement for the participants. Fiduciaries should also consider the efficacy of custom solutions versus off-the-shelf TDF series.

9. Investment decisions for plan fiduciaries

Traditional: Investment decisions typically made by a committee of employees from various areas of an organization (finance/treasury, HR, legal, etc.) who are named fiduciaries and are exposed to personal liability. Most of whom have limited time to devote to managing the retirement plans, where process is typically limited to selecting an array of retail investment products.

Modern: Committees delegate investment decisions and related fiduciary responsibilities to investment professionals whose primary focus is managing DC plans. Prudent experts from the delegated provider make the investment decisions allowing committees to focus more on overall strategy rather than investments. Delegation of investment decisions to the prudent expert enhances risk management for the plan's named fiduciaries.

10. Diversification and investment solutions

Traditional: Large menu of off-the-shelf single fund options – mutual funds and collective trusts – across the style-box spectrum with additional specialty funds, such as high-yield bonds, real estate investment trusts (REITs), technology and other sector-specific options. The demand for these options often comes from a narrow group of vocal employees. This structure creates heightened complexity for participants and fiduciaries.

Modern: Greatly streamlined investment menu using off-the-shelf or custom multi-manager options focused on participant retirement objectives. Complexity is imbedded inside the options with the design, implementation and management decisions delegated to investment professionals as prudent experts and fiduciaries. This can offer improved investment propositions, lower costs and reduced complexity for participants and plan fiduciaries.

Please see our companion piece: Defined Benefit Plans: 10 new definitions for 2018

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

WTW-US-17-ICP-1839