Plan Sponsor OUTLOOK

A Resource on Current Retirement Topics

First Quarter 2017

2016 Benchmark Study Reveals Encouraging DC Plan Data

In 2015, some encouraging trends emerged for defined contribution plans, according to a recent survey. New participant savings rates, increased Roth contributions, reduced trading activity and fewer plan loans all contributed to solid retirement preparation efforts for America's workers.

Account Balances Grow

Among participants enrolled for at least one year, average DC plan account balances increased from $103,873 at the end of 2014 to $108,383 at year-end 2015. When longer-term participants —those with two or more years of participation—were considered, average plan balances grew more than 10% annually, from $113,732 on December 31, 2013, to $139,819 on December 31, 2015.

Although the survey showed average plan balances dropped more than $6,000 to $94,090 from year-end 2014 to December 31, 2015, the decrease can be chalked up to large numbers of new entrants to DC plans, a positive trend.

Rising Roth Contributions

Increasingly, workers are using a mix of pre-tax, after-tax and Roth contributions, and in combination, their average savings rate is 10.5%. When available, 12% save on a Roth basis. In fact, while average contributions ticked up only 0.1% from 7.6% to 7.7% in 2015, much of that increase is attributable to Roth savings. That's a good sign, because withdrawals from Roth accounts generally aren't taxed, so that infinitesimal hike today could mean thousands of retirement income dollars down the road.

Sparse Trading Activity

Despite stock market volatility and rising contribution rates, 2015 was among the lightest trading years on record. After accounting for those who are fully invested in target date funds (because they don't require rebalancing), only 20% of participants made a trade in their accounts last year.

Fewer Loans Lightens the Load

The number of participants initiating new plan loans has declined in recent years. In 2015, 11% initiated a new loan, down from 12% in 2014 and 14% in 2010. Just 25% of participants had a loan outstanding against their account—the lowest since 2008.

As the sting of the financial crisis fades and workers venture back into the market, Aon Hewitt's findings are encouraging news. Fewer loans, growing plan balances and steady participation seem to show that retirement preparedness is becoming a priority for many, and an increasing sense of financial well-being may be driving improvements in key DC plan metrics.

The Aon Hewitt survey, the *2016 Universe Benchmark Report*, covers data gathered from more than 125 DC plans representing roughly 3.5 million eligible participants.

The report may be viewed at http://tinyurl.com/AonHewittUBStudy.

Remember that investing in mutual funds and other investment products involves risk, including the possible loss of principal invested.

U.S. Retirement Investors Favor Mutual Funds

Mutual funds are king among U.S. investors, especially those participating in employer-sponsored retirement plans. That's good news for sponsors, as this trend demonstrates the significance of workplace retirement plans as a conduit for fund investing.

That's according to a 2016 survey of U.S. households, which also found that 45% of mutual fund-owning households headed by Millennials held their funds in a workplace retirement plan like a 401(k), compared to 34% headed by Baby Boomers. A full 71% of households that bought a mutual fund in 2010 or later did so through an employer-sponsored plan, whereas 56% made an initial mutual fund purchase in their workplace plan before 1990. Based on those figures, it's clear that employer-sponsored retirement plans have indeed influenced younger workers' investing behaviors.

In fact, the survey found that Millennials purchased their first mutual fund at a younger age than their Boomer counterparts. Further, each successive generation made an initial mutual fund purchase earlier in life: The median age was 23 among Millennial households, while it was 27 for Generation Xers and 30-something for Boomers.

The survey also revealed that a vast majority of U.S. households owned mutual funds in mid-2016—approximately 55 million representing 94 million individual investors—despite the growing popularity of alternative investment instruments like exchange traded funds (ETFs) and a rising awareness of low-fee options like robo-advisors and self-directed trading platforms.

Baby Boomers accounted for the lion's share of mutual fund owners, and their hefty representation among U.S. households' total assets is reflective of the fact that they've had many more years to invest and accumulate wealth than their Generation X and Millennial counterparts. During the survey period (May-July 2016):

Almost half of the more than 43 million Boomer-headed households counted mutual funds among their holdings, comprising half of U.S. households' total mutual fund assets.

Thirty-five percent of the nearly 29 million households headed by Millennials were mutual fund owners, accounting for 6% of total household mutual fund assets.

Generation X's mutual fund holdings comprised 29% of the total household mutual fund assets, with half of their nearly 35 million households owning these investments.

More Key Findings

The research included other important findings, such as:

- U.S. households were three times more likely to hold mutual funds in tax-deferred accounts than not—again good news for plan sponsors, as this reflects workers' propensity to invest in mutual funds inside of a workplace retirement plan.
- More than 44% of U.S. households owned shares of U.S.-registered investment companies, including mutual funds, ETFs, closed-end funds and unit investment trusts (UITs).
- Fifty-one percent of U.S. mutual fund owners were in their prime accumulation years—those age 35 to 64 headed 63% of households that owned mutual funds—and earned moderate to lower incomes of less than $100,000.

The survey results were released in two studies from the Investment Company Institute (ICI): "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2016," and "Characteristics of Mutual Fund Investors, 2016."

Delve deeper into ICI's findings at http://tinyurl.com/ICIMutualFundSurvey.

Plan Sponsors Ask...

Q: We're worried about our employees' financial well-being and how it impacts their retirement readiness, or lack thereof. We want to be proactive and offer more benefits to help them retire when and how they want. What can we do?

A: You're not alone in your concerns and desires to help your employees. In fact, a recent survey from Willis Towers Watson found that many U.S. plan sponsors feel the same way. And many are focused on offering better benefits to help foster retirement readiness in the next two years.

Willis Towers Watson's Retirement Plan Governance Survey of more than 300 employers discovered that 39% of employers who offer a defined benefit (DB) or defined contribution (DC) plan believe their employees' retirement readiness is at risk today. Moreover, 44% see it as a risk two years from now. With increasing numbers of employers offering DC plans as their only retirement benefit, they're seeking additional resources to promote retirement readiness. In fact, employees' inability to retire in a timely manner is the top risk for six out of 10 plan sponsors. Currently, most employers are focused on plan governance resources like investment fee monitoring (74%) and manager performance (61%).

However, plan sponsors are working to prioritize offering quality benefits and monitoring participant behaviors, and their numbers are expected to more than double from 18% to 38% by 2018. It's clear that DC plan governance is becoming more holistic, encompassing not only investments and fees, but participant behaviors and how plan design influences retirement readiness. It's a necessary shift, and a good move for plan sponsors and participants alike.

See more of Willis Towers Watson's findings online at http://WTWSponsorBenefitFocus.

Q: What are some key topics to address when communicating to employees about preparing for a more successful retirement?

A: We're glad you asked. Aon Hewitt just answered this question concisely and succinctly in a fun infographic titled "Top Questions to Ask When Preparing Employees for a Financially Successful Retirement." It illustrates four specific and critical questions to ask, including discussions on how much employees need to retire and maintain their current standard of living (11 times their final pay, on average), how much they should be setting aside for retirement (17% of pay) and more.

Visit http://tinyurl.com/AonHewittRetirementQuestions to check out the whole infographic.

Q: We've been hearing a lot about custom target date funds. What are they, and could they be right for our plan?

A: Yes, you're right — the industry is buzzing about custom target date funds (TDFs), and some believe they could be the next best qualified default investment alternative (QDIA).[1] Essentially, custom TDFs go beyond traditional off-the-shelf offerings by incorporating funds from the plan's existing lineup and accounting for unique plan participant demographics. They're more of an open architecture solution.

However, there are several factors to consider before switching to a custom TDF offering, including your plan's asset size, the inherent complexities of custom products, fees, investment risks, the funds' asset allocation, your fund manager preferences, etc.

Ultimately, it's your choice, but just like with any change to your plan's investment lineup, be sure to consult with your retirement plan advisor if you have one, do plenty of due diligence on the custom TDF solution you're considering, and make sure it's the right choice for your plan and participants before taking the plunge.

Learn more about the advantages and potential pitfalls of custom target date funds at http://tinyurl.com/CustomTDFs.

[1] The principal value of Target Date Funds is not guaranteed at any time, including the target date.

Plan Sponsor's Quarterly Calendar

April

- If a plan audit is required in connection with the Form 5500, make arrangements with an independent accountant/auditor for the audit to be completed before the Form 5500 due date (calendar-year plans).
- Audit first quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between January 1 and March 31 received and returned an enrollment form. Follow up for forms that were not returned.

May

- Monitor the status of the completion of Form 5500 and, if required, a plan audit (calendar-year plans).
- Issue a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Perform a thorough annual review of the Plan's Summary Plan Description (SPD) and other enrollment and plan materials to verify that all information is accurate and current, and identify cases in which revisions are necessary.

June

- Begin planning an internal audit of participant loans granted during the first six months of the year. Check for delinquent payments and verify that repayment terms and amounts borrowed do not violate legal limits.
- Confirm that Form 5500, and plan audit if required, will be completed prior to the filing deadline or that an extension of time to file will be necessary (calendar-year plans).
- Review plan operations to determine if any qualification failures or operational violations occurred during the first half of the calendar year. If a failure or violation is found, consider using an Internal Revenue Service or Department of Labor self-correction program to resolve it.

Consult your plan's counsel or tax advisor regarding these and other items that may apply to your plan.

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans	www.irs.gov/ep
Department of Labor, Employee Benefits Security Administration	www.dol.gov/ebsa
401(k) Help Center	www.401khelpcenter.com
BenefitsLink	www.benefitslink.com
PLANSPONSOR Magazine	www.plansponsor.com
Plan Sponsor Council of America	www.psca.org
Employee Benefits Institute of America	www.ebia.com
Employee Benefit Research Institute	www.ebri.org

Pension Plan Limitations for 2017

401(k) Maximum Participant Deferral............ **$18,000***

**$24,000 for those age 50 or older, if the plan permits*

Defined Contribution Maximum Annual Addition $54,000

Highly Compensated Employee Threshold.......... $120,000

Annual Compensation Limit.................................. $270,000

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