

Measuring What Matters in Your 401(k) Plan for Recruitment, Retention and Reward

March 25, 2015

The webinar will start at 12:00 pm CT



Brad Bechtel

Vice President

Employee Benefit Services

#AGHUwebinars

Administration



If you need HRCI/CPE credit, please participate in all polls throughout the presentation.

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Administration



A recording of today's webinar will be emailed for your reference or to share with others.

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Administration



For best quality, call in by phone instead of using your computer speakers.

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Administration



To ask questions during the presentation, use the question's box on the right side of your screen.

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Administration



Please provide your feedback at the end of today's presentation.

#AGHUwebinars

About the Speaker



Brad Bechtel

Vice President, Employee Benefits

Leader of AGH's employee benefits services division

Experience as consultant to numerous Fortune 500 companies

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Today's Objectives

- Understand **plan design optimization** and **increased benefits to owners**, highly compensated employees and the 'rank and file' employees.
- Learn how various **plan contribution designs** can be used to benefit different groups within the workforce.
- Differentiate between various plan designs which can meet the **changing needs** of the employer and workforce.

Measuring What Matters

- Know your participants.
- Measure key areas.
- Use best practices.
- Communicate effectively.
- Have an impact in a tight-budget environment.



Measuring What Matters

There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio nor can asset allocation eliminate risk of fluctuating prices or enhance overall returns. These strategies will not ensure profit or guarantee against loss.

Any performance information discussed will represent past performance. Past performance does not guarantee future results. Investment return and principal value will fluctuate so that investors' shares, when redeemed, will be more or less than their original cost. Investing in mutual funds are subject to the risks of their underlying investment holdings including possible loss of principle. Investments in specialized industry sectors carry additional risks, which are outlined in the prospectus.

Mutual funds are offered with a prospectus. Investors should consider the investment objectives, risks and charges and expenses of the investment company carefully before investing. The prospectus contains this and other information about the investment company. You can obtain a prospectus from your financial representative. Read the prospectus carefully before investing.

Target-date funds, also known as lifecycle funds, are funds of funds that change the makeup of their portfolios over time in an attempt to meet goals you plan to reach at a specific time, such as retirement.

Typically, target-date funds are usually sold by a specific date, such as a '2025' fund. The farther away the redemption date is, the greater the risks the fund usually takes. As an example, a fund may contain a portfolio mix of equity, debt (fixed income) and cash equivalent investments with equities making up the largest portion of the portfolio. However, as the target date approaches, the fund will change its balance of investments to add more debt to emphasize conserving the value it has built up and to shift toward income producing investments based on its target date.

Investments in Target Retirement Funds are subject to the risks of their underlying investments. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones. An investment in the Target Retirement Fund is not guaranteed at any time, including on or after the target date.

Polling Question #1



#AGHUwebinars

Emotional and Behavioral Drivers



Procrastination
and inertia

Sources: 2014 Retirement Confidence Survey, Employee Benefit Research Institute; Emotions and Impulses Contribute to Bad Retirement Planning Decisions, plansponsor.com, 2006

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Emotional and Behavioral Drivers



Procrastination
and inertia

Information
overload and
paralysis

Sources: 2014 Retirement Confidence Survey, Employee Benefit Research Institute; Emotions and Impulses Contribute to Bad Retirement Planning Decisions, plansponsor.com, 2006

Emotional and Behavioral Drivers



Procrastination
and inertia

Information
overload and
paralysis

Future willpower

Sources: 2014 Retirement Confidence Survey, Employee Benefit Research Institute; Emotions and Impulses Contribute to Bad Retirement Planning Decisions, plansponsor.com, 2006

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Emotional and Behavioral Drivers

Procrastination
and inertia

Information
overload and
paralysis

Future willpower

Irrational
investment
decision making

Sources: 2014 Retirement Confidence Survey, Employee Benefit Research Institute; Emotions and Impulses Contribute to Bad Retirement Planning Decisions, plansponsor.com, 2006

Emotional and Behavioral Drivers

Procrastination
and inertia

Information
overload and
paralysis

Future willpower

Irrational
investment
decision making

Weighing losses
more than gains

Sources: 2014 Retirement Confidence Survey, Employee Benefit Research Institute; Emotions and Impulses Contribute to Bad Retirement Planning Decisions, plansponsor.com, 2006

Resulting Investment Behavior

- Poor diversification
- Lack of rebalancing
- Less-than-optimal number of funds
- Inadequate use of asset allocation funds

Participation Rates: Other Variables

- Family income
- Education
- Gender
- Race



Source:

Employee Benefit Research Institute - *Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013*

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Participation Rates: Race and Ethnicity

Percentage of Participants by Earnings and Race/Ethnicity

Earnings	White	Black	Other	Hispanic
\$20,000-\$29,999	38%	37%	28%	24%
\$75,000 or more	71%	73%	67%	66%

Source:

Employee Benefit Research Institute - *Employment-Based Retirement Plan Participation: Geographic Differences and Trends, 2013*

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Participation Rates: Best Practices

- Faster, less-restricted eligibility
- Automatic enrollment
- Targeted communications
- Mandatory educational meetings
- Simple enrollment forms



Participation Rates: Automatic Enrollment

- 50.2% of plans surveyed have automatic enrollment
 - 66% of plans with 5,000 or more participants
 - 19% of plans with fewer than 50 participants

Source: 57th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing/401(k) Council of America, 2014

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Participation Rates: Automatic Enrollment

- 50.2% of plans surveyed have automatic enrollment
 - 66% of plans with 5,000 or more participants
 - 19% of plans with fewer than 50 participants
- 65.2% of plans have automatic escalation of contributions – “step-up”

Source: 57th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing/401(k) Council of America, 2014

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

Participation Rates: Automatic Enrollment

- 50.2% of plans surveyed have automatic enrollment
 - 66% of plans with 5,000 or more participants
 - 19% of plans with fewer than 50 participants
- 65.2% of plans have automatic escalation of contributions – “step-up”
- 72.1% of plans have target date fund as default investment option

Source: 57th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing/401(k) Council of America, 2014

Deferral Rates: Industry Averages

- Automatic enrollment: 3%
- Highly Compensated Employees: 6.6%
- Non-highly Compensated Employees: 5.3%



Source: 57th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing/401(k) Council of America, 2014

Deferral Rates: Best Practices

- Automatic enrollment beginning at 4-6%
- “Step-up” deferral programs to 10%
- Stretching your match – “Chasing the rabbit”
- Relaxed service requirements
- Less-restrictive vesting schedules

Source: 57th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing/401(k) Council of America, 2014

BEST
PRACTiCE



Polling Question #2



#AGHUwebinars

Asset Allocation: Industry Norms

- Average 19 funds
- Participation suffers with too many investment options
- Equities dominate at 48.9%
- Shift to target date funds
- Few plans match with company stock
- Few participants actively trade

Sources:

1. 57th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing/401(k) Council of America, 2014
2. Columbia University, "Choice of Overload"
3. How America Saves 2014, The Vanguard Group, 2014

Asset Allocation: Best Practices

- Target date funds
- Default investment option
- Automatic rebalancing
- Offering employee investment advice



Sources:

1. Source: 57th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing/401(k) Council of America, 2014
2. 2014 Hot Topics in Retirement, Aon Hewitt, 2014

Participant Balances: Industry Norms

- Average 401(k) participant balance:
\$101,650
- Savings and investments amounts are low
- Standard of living projected to be lower for future retirees than for current retirees

Sources:

1. How America Saves 2014, The Vanguard Group, 2014
2. What are the Retirement Prospects of Middle-Class Americans, AARP Public Policy Study, 2013

Participant Balances: Best Practices

- Raise participation and deferral rates
- Offer profit sharing contribution
- Remind new employees of rollover option
- Remind terminating employees they can leave balances in plan



Measuring with Outcomes in Mind

Data can serve as a tool and trigger.

- Income replacement ratio
- Financial information from other sources
- Loans, garnishments, hardship withdrawals



Polling Question #3



#AGHUwebinars

Communicating Effectively

Most commonly used:

- Intranet/Internet (90% of plans)
- Targeted mailings (79% of plans)



Communication Initiatives in 2015-2016

- Appreciation of plan (52%)
- Plan participation (63%)
- Diversification/fund usage (54%)
- Contribution levels (63%)
- Retirement income adequacy (47%)
(Income Replacement Ratio)

Sources:

1. *2014 Hot Topics in Retirement*, Aon Hewitt, 2014

#AGHUwebinars

AGH
EMPLOYER SOLUTIONS

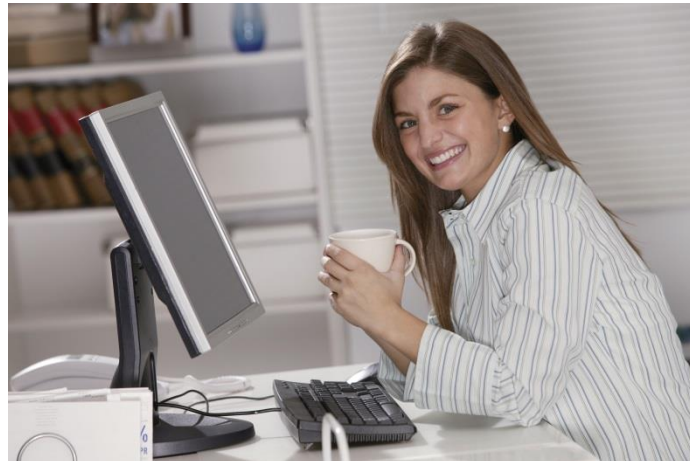
Communications Best Practices

- Broad approach
 - One-on-one meetings
 - Web-based and other technology
 - Custom written material
 - Targeted mailings



Targeted Communications

- Relevant to individuals
- Age-appropriate
- Personalized income projections and gap analysis
- Financial Wellness Programs (HelloWallet.com)



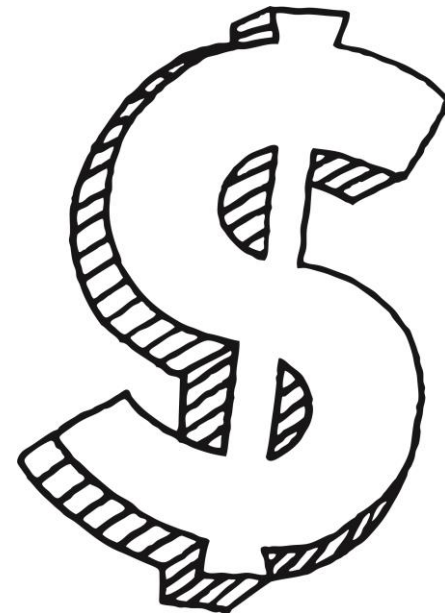
Polling Question #4



#AGHUwebinars

Best Practices on a Budget

- Simple enrollment
- Less restrictive eligibility
- Automatic enrollment
- “Step-up” programs
- Stretch match
- Target date fund options



Best Practices on a Budget (cont.)

- Default allocations to target date funds
- Automatic rebalancing
- Targeted communications
- Mandatory meetings
- One-on-one advisor advice

Optimizing Your Plan: 6 Easy Steps

1. Understand relationship between “rank and file” and owner / highly compensated employees.
2. Get to know your employees and participants.
3. Use data.
4. Take the initiative.
5. Communicate effectively.
6. Use “best practices” on a tight budget.

Thank you!

Brad Bechtel

Vice President, Employee Benefits Services

 brad.becht@aghemployersolutions.com

 [linkedin.com/in/bechtelbrad](https://www.linkedin.com/in/bechtelbrad)

 [@bechtel_brad](https://twitter.com/bechtel_brad)

 (316) 291-4131

Check out our other webinars!
AGHUniversity.com

Questions **NOT** related to today's content?
mike.ditch@aghlc.com

#AGHUwebinars