COGNIS GROUP

Fiduciary Governance
A Plan-Sponsor's Guide

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Introduction
The Roadmap

Defined contribution (DC) plans have evolved over time — from being supplementary retirement accounts to become the primary retirement savings vehicles for most U.S. employees.

This evolution offers an opportunity for plan sponsors to reimagine the structure and management of their DC programs, driving more innovation, personalization, and adaptability within investments and financial wellness as well as a sharper focus on compliance.

A recent Alliance Bernstein survey, though, shows that only 51% of plan- participants are confident that their investments will generate a sufficient income stream to last through retirement. With such grim statistics, the focus for well-run DC Plans is shifting from investment performance to enhancing and analyzing retirement readiness.

As the focus shifts, the fiduciary compliance landscape similarly evolves - raising the fiduciary liability stakes. As a plan fiduciary, one of the best actions you can take for your plan-participants as well as the plan itself, is to work with a DC Plan expert.

To that end, we have developed this best practice roadmap to outline key attributes that separate excellent DC Plans from the rest. In addition, for each attribute, we present effective actions that you and your fiduciary advisor can take to improve an existing plan so participants have a higher likelihood of achieving retirement readiness.

Attribute 01
A Retirement Income Mindset

Establishing and Measuring the Right Objective

- Establish income replacement as the main objective for your DC plan.
- Develop a Target Replacement Income (TRI) goal for the plan and design the default and company match rates with this TRI in mind.
- Monitor success with periodic replacement income reviews conducted by your fiduciary advisor and the recordkeeper.
- Use results obtained to make targeted plan design changes or provide targeted participant communications to address shortcomings.
- Work with your fiduciary advisor and recordkeeper to enhance your plan's statements so they place the focus on retirement income and not on wealth accumulation.

Attribute 02
A Thoughtfully Designed Plan Menu

- Reduce the number of complicated investment decisions for plan participants
- Identify the number of investment decisions the typical plan participant (who is not invested in the plan's default option) needs to make to arrive at an age appropriate, diversified asset allocation.

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- Consider offering a limited number of broad multi-manager and multi-style funds as core options.
- Consider giving the funds descriptive names that help participants use them appropriately (i.e., an asset class name).
- Consider offering a brokerage window to provide more choice for the minority who desire that level of involvement.
- Consider including a “Retirement Income Tier” on the menu lineup for participants at or near retirement

Attribute 03
Professionally Managed Plan Assets

To take advantage of participant inertia,

- Consider an automatic QDIA re-enrollment campaign, giving both short- and long-tenured employees the same opportunity to benefit from the diversification and age-appropriate asset allocation delivered by the plan's default option.
- Offer this re-enrollment during open enrollment cycle to capture your participants' full attention.
- Evaluate plan's current default option and consider opportunities for enhancement.
- Ensure plan's default options align with the retirement income replacement needs of participants.
- Consider Personalized Retirement Accounts (PRAs) to provide additional benefits beyond ‘one-size-fits-all’ target date funds (TDFs).

The benefit of offering a PRA in place of a target-date-fund is that, instead of only placing participants in a national average, one-size-fits-all vehicle, specific information, such as age, gender, contribution rate, and account balance can be used to create an asset allocation that is more customized to them and adjusted for changes in capital markets and some of the participant's unique circumstances.

Attribute 04
Double-Digit Contribution Rates

Give participants the best chance of success by:

- Determining the most optimal overall target savings rate, based on plan demographics, as one of your plan objectives.
- Structuring the company contribution formula to encourage a double-digit contribution rate (at least 12%).
- Providing a choice of default options and plan communication around the target default rate.
- Considering using tools such as higher default rates, opt-out automatic escalation in 1% increments, and automatic catch-up contributions to put participants on the right path to successful savings behavior.

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Attribute 05

Considerations For Retiring Participants

- Encourage Retiring/Terminating Employees to Retain Assets in the Plan - It's a win/win for both the sponsor and the participant
- Provide educational communications to departing participants to help them decide what to do with their retirement assets.
- Inform participants about their ability to remain in the plan post-termination and the factual benefits of doing so.
- Consider offering features that are more attractive to retirees such as in-plan Retirement Income Planning solutions; lifetime income options, access to financial advice and the ability for terminated employees to take partial withdrawals from the plan and repay loans.

Attribute 06

Post-Retirement Options

Help your participants spend appropriately in retirement

- Consider offering additional retirement planning tools (i.e., social security optimizers, retirement calculators), communications (i.e., catch-up contributions) and post-retirement investment options (i.e., income, managed payout, laddered bond funds, insurance solutions, inflation protection) for participants planning for retirement or who wish to remain in the plan post-retirement.
- Begin incorporating investments and tools targeted toward retirees.
- Formally designate a "Retirement Income Tier" in your plan design.

Attribute 07

Provide Holistic Financial Wellness

Focus on changing behavior

- Offer a holistic financial wellness program that helps employees work toward financial health in all stages of their lives.
- The program should focus on those concepts and principles of effective behavioral change that can be used for health wellness, as well.
- The program should aim to deliver both financial literacy and financial capability.
- Financial Literacy: Financial literacy only focuses on building financial knowledge and awareness.
- Financial Capability: Unlike financial literacy, financial capability expands the definition and puts additional emphasis on attitudes and behaviors needed to successfully achieve financial goals.

Holistic Financial Wellness refers to an employee's overall financial health and knowledge to become a wise consumer of financial information, effectively manage their household financial matters, and prepare for financial milestones such as retirement - meaning that they possess both financial literacy and financial capability

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