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Retirement Income Best Practices for Getting Plan Participants To and Through Retirement

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**Moderator: Mikaylee O'Connor**, VP, Senior DC Strategies, PGIM

**Panel:**

* **Melissa Elbert**, Partner - Wealth Practice, AON (based in Chicago office; focuses on DC strategy, design & DEI)
* **Ellen Martel**, Principal, CAPTRUST (27 years of experience; previously with Ellwood and CAPTRUST acquired Ellwood; focuses on 401k and corporate plans)
* **Samarth Zaveri**, Director, Investments, WTW (focuses on DC plans and investment design)
* **Holly Verdeyen**, DC Leader, Mercer (based in Chicago and heads up DC practice; previously with Russell & UBS)

**Q:** How would you design a $10B DC 401k/corporate plan today given current regulatory environment? Looking at governance, investment structure, retirement income etc.

Holly:

* Model DC structure at Mercer with asset allocation options: both core options and non-core options.
* Within core options, provide an objectives-based menu (objectives of each asset class).
* For the professionally managed options, blur lines between target date funds and accumulation options. Offer active and passive for each strategy, except for US Large cap (passive only).
* Engagement/Communications: mass personalization just doesn't work.  It has to be true integrated personalization and really tailored to the individual to get their attention.

Melissa:

* Focus on accumulation stage and then switch over to spending stage. The tools that are used today, i.e., increasing contributions every year, automatic enrolling, which has been a very effective way to build assets.  Every 3-5 years revisit with those individuals who have opted out.
* Think about the demographics of the group and what makes sense for them.  It doesn't necessarily make sense to auto enroll participants into pre-tax plans vs Roth accounts.
* Bring participants along while they are saving but also need to engage with them at retirement. Increasing personalization and continue it through the transition from accumulation to spending phase. Participants say they want guaranteed income at retirement but they are not doing it and often they take the lump sum options. Employers want to provide retirement income but participants aren’t taking the options they give them.
* In terms of governance, the goal is to make this as easy as possible for employers as well 🡪 larger plan sponsors are also interested in offloading the responsibility.

Samarth:

* Focus on the ultimate objective i.e., primary savings vehicle or a supplement to defined benefit plan.
* Custom date target funds, asset allocation fund.  Aim to provide larger opportunity set outside of core plus universe but with simple solutions so participants can be active where they want to be and passive where they want to be 🡪 get alpha where it is appropriate. Also broaden the choices in other asset classes outside of equities and bonds such as real assets, alternatives, add more diversifiers to take advantage of the illiquidity premium.
* Governance hurdles and constraints need to be considered.

Ellen:

* Talk to your clients, understand objectives of their plan 🡪 is the retirement plan is used to attract and retain talent? Who is making the decisions in the 401k plan and who is responsible for it 🡪 is it treasury or HR? If they have tips, timber, water, infrastructure, real estate, along with equities and bonds, now they have to be responsible for the oversight of these asset classes and they may not want to be.
* Tailor plan to be more solutions-based for the demographics of plan participants.
* Look for synergies, create multi-manager white label funds to negotiate lower fees for participants.
* Have a stable value money market fund option in the plan.
* BlackRock is getting sued for chasing lower fees vs. performance for target date funds.
* There has been a shift to target date funds 🡪 what is the target date fund targeting? Moving from equities to fixed income today would result in locking in losses.
* Consider using CIT’s for small and large funds and having multi-manager CIT’s.
* Communications - how to get participants to understand investment choices. Recordkeepers are front and center and are the gatekeeper. Make sure they get it right.

Moderator Summary: Know who plan participants are and what the ultimate objective of the plan is.  Design appropriate menu of options. Customize participant communications.

**Q:** What regulatory or structural changes would you like to see in the U.S.?

Samarth:

* Australian superannuation funds are able to do more interesting things while driving down costs, because of pooled employer plans.
* Broaden opportunity set with larger portfolios. Build best-in-class investment perspective to DC market.

Holly:

* Department of Labour – clarity on what needs to be established before litigation (Northwest University case was a missed opportunity). Litigation in the U.S. is having a negative impact on plan design, investments and innovation. Pooling assets to larger pools would take that litigation risk away.
* Australian superannuation funds have about 15% or more in private assets and it is not as litigious there.
* Would like to see more private infrastructure, private equity and private debt allocations along with the administrative considerations and integration of providers.

Ellen:

* There is a hesitation to implement here and we can’t use the excuse of “we don’t want to get sued” which is often used. This has resulted in slower decision making as all decisions have to be researched and documented.

Melissa:

* Learn the behavior of participants.
* Agree with the Australian model and pooled arrangements.
* Portability - People are changing jobs more often and we need to make it easier to move assets around and keep both fees and structure that they have in place.
* Build in a way to incentivize employees more.
* Look for ways to address more of participants' needs i.e., emergency savings, student loans, change of the rules for matching after-tax contributions.
* Access private assets in a way that can continue to maintain benefits and liquidity.

**Q:** Alternatives with DC 🡪 What’s next in alternatives?

Holly:

* Out of the Mercer 1000 clients, only the top 20 have Real Estate, Infrastructure and Private Credit. It would be good to have a way for clients to access private assets in a big custom target date fund where you can manage the liquidity. Private Equity is the most difficult one to implement 🡪 look for a DC friendly Private Equity manager.
* Focused on inflation-sensitive assets.

Samarth:

* Direct investments as part of target date funds. Most clients aren’t large enough to implement it.

Ellen:

* Department of Labour came out and said that Private Equity is NOT appropriate for DC plans.

**Q:** What are your clients interested in? What are their top priorities?

Melissa:

* Attraction/Retention issues - how can they use plan to drive engagement and retain employees.
* Spending more time on DEI, making sure plans are sensitive to different types of populations.
* Outsourcing because clients do not have the resources internally to manage it.

Holly:

* DEI and ESG. What are the investment managers doing in this space?
* More transparency on investment managers as well as the population of plan participants.
* Gender, race, ethnicity 🡪 does plan design unintentionally discriminate?
* When considering DEI managers, they are usually smaller but DC plans usually look for larger managers 🡪 mismatch.
* Income accumulation, target date funds, cryptocurrency and cybersecurity are all topical with clients.

Samarth:

* Clients avoiding to be sued.

Ellen:

* ESG and DEI.
* On DEI there is more transparency demanded. One way to evaluate diversity is to look at the team managing the portfolio rather than the whole firm (helps stats in some cases).

**Q:** Beyond having good investment performance, how can investment managers support consultants? What additional services, resources or capabilities could help?

* Patience and education.
* Knowing which strategies would be suitable and/or complementary to the other strategies in the DC plan.
* If it is a single strategy, tend to gravitate towards more blended, broad-based mandates. On the custom side, moving towards higher active share, more concentrated type mandates, knowing which strategies would be suitable.