Defined Contribution Institutional Investment Association

Primary Author and contributor

Joshua Dietch, *Strategic Insight*

On Behalf of the DCIIA Automation Task Force

Eileen Kwei, *Artisan Partners*

Sandra Pappa, *Buck Consultants*

Lori Lucas, *Callan Associates*

Benjamin Taylor, *Callan Associates*

James Veneruso, *Callan Associates*

Joshua Dietch, *Strategic Insight*

Matt Kline, *Galliard Capital Management*

Denise Faggella, *General Electric*

David Levine, *Groom Law Group*

Catherine Peterson, *J.P. Morgan Asset Management*

Navaid Abidi, *NextCapital Group*

Susan Czochara, *Northern Trust*

Mikaylee O'Connor, *RVK, Inc.*

Stephen Popper, *SageView Advisory Group*

Anne Coveney, *T. Rowe Price*

Additional contributors Retirement Research Board

This initiative was an outcome of DCIIA's Plan Sponsor Town Halls conducted in 2014/2015. The Town Halls generated a number of task forces, including the Automation Task Force, which conducted the underlying initial research. The later stages of the project were then overseen by the Retirement Research Board.

Building a Common Language to Promote Adoption of Auto Features in DC Plans

BACKGROUND

Improving retirement outcomes is one of the core beliefs of the Defined Contribution Institutional Investment Association (DCIIA). DCIIA believes that plan sponsors who adopt thoughtful defined contribution (DC) plan designs may improve the likelihood of their employees achieving positive retirement outcomes. Outcome-focused plan design features not only take advantage of the safe harbors created by the landmark Pension Protection Act of 2006 (PPA), but also incorporate a host of insights derived from the rapidly evolving field of behavioral economics. Collectively, these plan design features and related behavioral insights are commonly referred to as "auto or automatic" features.[1]

DEFINING THE PROBLEM

DCIIA has conducted research with both plan sponsors and its membership and has identified several common barriers that inhibit a meaningful dialogue about the robust adoption of auto features. One such barrier is a lack of common definitions for varying auto features.

For example, consider the term "re-enrollment." One could convene half a dozen DC industry professionals, and each would most likely give a different definition of this term. Under one paradigm, re-enrollment relates to auto enrollment: the act of sweeping existing non-participating employees (as opposed to new hires) into a plan. Under another paradigm, the use of re-enrollment is altogether different, and refers to "restarting" the plan by defaulting all plan assets into a qualified default investment alternative (QDIA). Furthermore, even the latter definition may include variations. For some, the definition is inextricably linked to the safe harbor defined in the PPA, which offers participants the ability to opt out of the re-enrollment and allocate their plan assets as they see fit. To others, the safe harbor is incidental to the act of re-enrollment.

In DCIIA's view, these competing definitions create confusion. This, in turn, inhibits auto feature adoption, as competing definitions often result in remedial conversations about auto feature terminology rather than robust dialogues that would allow plan sponsors to focus on the actions they can take to not only improve the performance of their plans but, more importantly, improve participants' outcomes.

ABOUT DCIIA

The Defined Contribution Institutional Investment Association (DCIIA) is a nonprofit association dedicated to enhancing the retirement security of American workers. Toward this end, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA members include investment managers, consultants, law firms, record keepers, insurance companies, plan sponsors and others committed to the best interests of plan participants.

For more information, visit: **www.dciia.org**.

FINDING A SOLUTION

To address this communication barrier, DCIIA's Retirement Research Board embarked on a series of initiatives to identify ways to create consensus definitions for varying auto features used within DC plans. The outcome of these projects is a series of auto feature definitions, which DCIIA presents for consideration. We intend to promote these definitions as a guidepost for discussions with plan sponsors, regulators, policy makers and influencers, and within the retirement industry itself. The definitions are not intended to be all-encompassing. Rather, they represent a common framework for discussing auto features, with the ultimate goal of increasing plan sponsor adoption of intelligent plan design features that improve participant retirement outcomes by shifting attention towards action rather than towards continued dialogue.

DEFINITIONAL FRAMEWORK

1. Auto[1] enrollment: Automatically enrolling new hires into a QDIA within the DC plan, at a fixed contribution rate.
2. Auto enrollment sweep: Automatically enrolling existing eligible employees who aren't participating in the plan into the DC plan's QDIA at a fixed contribution rate, either as a one-time event or periodically.
3. Auto escalation: Increasing participant contribution rates at regular intervals, by a predetermined amount.
4. Fund-to-fund mapping: Re-directing an existing investment from one fund to a similar, or like, fund.
5. QDIA re-enrollment: Redirecting existing account balances and future participant contributions from existing investment allocations to a QDIA, unless participants opt out or make another election before assets are moved. Provided that the plan sponsor has satisfied the safe harbor requirements, it will be provided with relief under ERISA Section 404(c) for investment outcomes related to the QDIA.
6. Non-safe harbor re-enrollment: Redirecting existing account balances and/or participants' future elections to a QDIA-eligible fund, without providing participants the opportunity to opt out or make another election prior to the assets being moved, or otherwise not satisfying the safe harbor requirements. In this instance, the plan sponsor will not be provided with relief under ERISA Section 404(c).

CONCLUSIONS

The PPA has brought about meaningful improvement to the ways in which plan sponsors can help their plan participants save for retirement. Still, there is more that can and should be done. As we have noted, there is considerable confusion regarding the definitions for a variety of auto features that may improve plan participant savings outcomes. This proposed framework is offered with the intention of creating greater clarity and understanding amongst all constituents regarding the actions plan sponsors may utilize to improve the performance of their plans, the results they might expect for each type of action, and, most importantly, the retirement outcomes of their plan participants.

ENDNOTES

[1] Please note that the terms "auto" and "automatic" may be used interchangeably.