DCIA
Defined Contribution
Institutional Investment Association
Dedicated to Enhancing Retirement Security

DESIGN MATTERS: THE RETIREMENT TIER
PUTTING IT INTO PRACTICE | PAPER #4

OCTOBER 2019

Putting it into Practice

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Increasingly, defined contribution (DC) plan sponsors are interested in enhancing their current plan's offerings with a combination of products, tools, educational materials and other services designed specifically to help plan participants who are 50 years of age and older. Many of these plan sponsors are amending their plans to allow participants to remain in the plan after retirement. Often, permitting partial distributions is the step that follows. They are, in other words, starting their "retirement tier" to their existing plans. The question many plan sponsors have is: What is the roadmap for adopting and putting into practice a retirement tier? The infographic to the right summarizes the steps, which are further detailed in this paper.

There are two places a plan sponsor can begin. Some plan sponsors will want to start by reviewing the options and services that are currently part of their plan to **understand** how, and to what degree, they already support the retirement tier concept. Others may choose to begin by looking at the bigger picture, broadly **defining objectives** for how to best serve this group of participants who are near, at, and in retirement. Ultimately plan sponsors will need to do both (at least to some degree).

4 Simple Steps

Plan sponsors may use to develop a retirement tier.

Some plan sponsors will start at 1A, some at 1B

1A UNDERSTAND

- What you have
- What's available
- Your participants

AND

1B DEFINE Objectives

- What are you trying to achieve?
- Whom do you want your plan's retirement tier to help? Participants nearing retirement and/or retirees are typically the focus

2 WHAT'S SIMPLE?

- Identify additional products, tools and services that should be a part of your plan's retirement tier.

3 WHAT'S NEXT?

- Do a gap analysis of what additional options and services you would like to add to your plan's retirement tier.

4 REVIEW

- Are objectives being met?

STEP 1

REVIEW WHAT'S CURRENTLY IN YOUR PLAN

Re-evaluate the plan's documents through the lens of participants nearing the end of their active working years, specifically its distribution or "money out" options, to see how the plan's near-retirees and retirees can access their money. (This series' Resource Library "Money Out" report describes how to determine plan participants' actual distribution history.) Part of assessing the "money out" options is to evaluate how participants' money can leave the plan (See the Resource Library "Withdrawal Options" review.) Another key step is to evaluate your plan's demographics, to see not only how many participants might benefit from a retirement tier's offerings, but also how near to retirement many of them are, and to take a macro look at your company's recent retirement patterns. ("Plan Demographics," in this series' Resource Library, covers this.) Importantly much of this work can be provided by your service providers and should not require extensive "heavy lifting" on the plan sponsor's behalf.

AND

DEFINE OBJECTIVES

An alternate first step is to decide what the retirement tier's specific objectives would be. This could cover issues such as:

- Whom do you want your plan's retirement tier to help, and why?
- Do you want to encourage participants who separate from service due to retirement to stay in the plan?
- How much time and expense do you really want to focus on the tier?
- Are you open to helping participants, and their spouses, beyond just offering liquid investment options? For example, are you open to advice solutions? Are you open to products with guarantees? Are you open to adding a periodic withdrawal service?

For additional information and guidance regarding the question of 'What are you trying to achieve?', see DCIIA's paper, "Design Matters: Plan Distribution Options." (The paper is available on **DCIIA's website**.)

There is a section on pages 5 and 6, "Reconsidering and updating plan objectives and design," which may be a helpful resource as you start identifying your plan's objectives for post-retirement benefit distribution options.

> **"Retirement tier"** is a broad term; it encompasses a range of products, solutions, tools and services, all of which allow a defined contribution (DC) plan sponsor to shift the plan's goal away from one wholly focused on savings to one that also accommodates and supports participants who are near, entering, or in retirement.

STEP 2

WHAT'S SIMPLE?

Once you have determined what you would like your role to be in helping participants who are near and/or in retirement, and/or the options and services you currently offer them, you can move on to identifying what additional products, tools and services should be a part of your plan's retirement tier. Bear in mind that there is no one option that will meet the needs of every participant in this cohort, since participants' needs vary greatly in retirement.

By starting with existing service providers, you may identify relatively easy initial steps to take. It may be as simple as leveraging tools and products that your service providers already offer. (See this series' paper six, "How To Find Out What Your Service Providers Offer.")

STEP 3

WHAT'S NEXT?

At this point, you understand the reasons for adding a retirement tier to your plan, you have gathered data about your current plan vis-a-vis participants nearing retirement, and you have identified products, tools and services that your various service providers offer, which might form part of your retirement tier. Next, you might reasonably do a gap analysis of what further options and services you would like to add to your plan's retirement tier, compared to what you can leverage from those existing service providers.

Lastly, as with all planning processes, once you have added a retirement tier to your plan, it would be prudent to periodically review its original objectives, to see that they are being met as effectively as possible.

The remainder of this paper provides a window into how other plan sponsors determined how to build a retirement tier that was right for their plan. The three hypothetical case studies below (which are composites drawn from plan sponsor and service provider experiences) provide a step-by-step analysis of how these plan sponsors addressed the needs of their plans' growing retirement-ready participant population and may provide practical guidance for implementing a retirement tier.

EXAMPLE A: ALPHA INDUSTRIES

Current situation

- Maturing company with diversified business segments
- No history of a defined benefit (DB) plan; minimal employer-funded 401(k) benefits
- Diverse workforce:
  - Large blue-collar contingent
  - Some professional employees, largely engineers and scientists
- Very few retirees historically, but increasing number in the near term
- The plan has been focused on accumulation; it features auto enrollment and auto escalation. It recently conducted an investment re-enrollment into the plan's default investment alternative, which is a passive suite of target date funds (TDFs)
- The rest of the plan's lineup includes a mix of active and passive investments, plus a managed account option
- The employer's intention has been to help prepare employees for retirement, but the committee has not focused on the specific needs of its near-retirees and retirees, nor has it recently evaluated its plan distribution features with that cohort in mind

STEP 1: UNDERSTAND and DEFINE OBJECTIVES

In preparing to move forward with potential plan changes, this plan sponsor recognized that:

- Overall, its plan did not provide much assistance to retirees
- The plan's investment lineup offered limited options appropriate for retirees
- Most significantly, the plan did not permit partial withdrawals

The company felt it should assist its retirees while keeping the plan's main focus on accumulation. It saw the benefits of retaining retirees in the plan; not only would it help the retirees, it would be a boon to all participants because the plan's active participants would benefit from the economies of scale derived from retaining retirees' assets in the plan.

STEP 2: WHAT'S SIMPLE?

The plan sponsor decided to take simple steps to help its participants prepare for, and navigate, retirement; to do that, the plan sponsor leveraged the plan's existing providers and:

- Changed its plan design to allow for partial withdrawals
- Adjusted the managed account option to include an income-focused benefit
- Agreed to promote the Social Security optimization tools provided by its managed account provider

STEP 3: WHAT'S NEXT?

While these changes were a great start, the company realized that over time more could be done. It then:

- Requested a "money out" report from its recordkeeper in order to review actual participant distribution history
- Made plans to review its investment lineup from a retiree's perspective
- Agreed to talk with the recordkeeper about how to better integrate retiree-income support into the plan

EXAMPLE B: BETA MANUFACTURING

Current situation

- Mature manufacturer with a large national workforce featuring a significant blue-collar employee base
- The company has been paternalistic, with a comprehensive corporate social responsibility strategy, although it recently froze its DB plan
- It has a large and active retiree base, and supporting retirees has always been a focus
- It possesses in-house asset management capabilities. Historically, these have focused on the DB plan, but they have also assisted with the DC plan
- The firm has implemented auto enrollment; it also recently conducted an investment re-enrollment into the custom TDF, which is managed by the in-house asset management team
- The in-house asset management team also put together custom asset class funds, leveraging the DB plan asset base to reduce costs
- Employer-paid pre-retirement counselling seminars are offered through a financial advisory firm; an annuity option is offered to DC participants through the DB plan

STEP 1: UNDERSTAND and DEFINE OBJECTIVES

After evaluating its plan's ability to help retirees and near-retirees, the company understood that:

- The plan's investment line-up would benefit from more options suitable for retirees
- The plan offered partial withdrawals, but very few retirees were staying in the DC plan or taking annuities
- A large percentage of its retirees were moving to the financial advisory firm that provided the seminars (This was revealed when the plan sponsor requested a "money out" report from its recordkeeper)
- According to the financial advisory firm, the plan's retirees wanted their DC plan assets to provide liquidity and opportunity for growth; since they had the security of a DB pension (albeit a frozen DB plan), they preferred to move their assets out of the plan

STEP 2: WHAT'S SIMPLE?

With a better understanding of retirees' needs and the feedback from the financial advisory firm, the plan sponsor decided to re-evaluate which investment options might best meet its retirees' needs.

The plan sponsor also realized that it might need to consider externally managed investments, since its internal asset-management capabilities might not be sufficient for retiree-focused portfolios.

STEP 3: WHAT'S NEXT?

Over time, the plan sponsor may add a managed account option to its plan. As DB benefits become less significant, it will likely also add an annuity exchange/placement service, one that will engage with participants before their retirement. In addition, the plan sponsor may engage a retirement-focused advisor/consultant, one that can advise on plan design and advances in retirement income products and solutions.

EXAMPLE C: GAMMA FINANCIAL

Current situation

- Mature organization in the financial services sector
- Workforce is a mix of highly and non-highly paid staff
- Due to traditionally high turnover, many employees join the company with retirement assets in previous plans and IRAs
- The firm as plan sponsor has not implemented auto-enrollment or auto-escalation features, but does offer a series of TDFs
- The plan offers partial withdrawals and encourages retirees to stay in the plan
- In addition, a financial advisory service is available to retirees

STEP 1: UNDERSTAND and DEFINE OBJECTIVES

In working to understand more, the company learned that:

- According to its “money out” report, very few retirees were staying in the plan, and some were buying annuities outside the plan
- The financial advisory firm shared that:
  - Many retirees wanted to consolidate their retirement assets, which they found easier to do outside of the plan
  - Annuities were admittedly not a focus of this financial advisory firm

STEP 2: WHAT’S SIMPLE?

- A first simple step was to provide lifetime-income projections to the plan’s participants to help them shift their focus from wealth accumulation to retirement income
- The plan sponsor launched a campaign, with its recordkeeper, to encourage participants to consolidate their assets in the plan by rolling in their assets from previous plans and IRAs
- The company added an annuity exchange/placement service to engage with participants before their retirement

STEP 3: WHAT’S NEXT?

Ideas the company’s plan sponsor will explore in the future:

- Steps they might take with their recordkeeper to bring outside qualified assets into the 401(k)
- A service to simplify the consolidation process for participants
- A further review of the investment line-up from the perspective of a retiree

The Retirement Tier papers are a multi-part series. Other papers in the series may be accessed through the DCIIA website at **www.DCIIA.org**

ABOUT DCIIA

DCIIA is a nonprofit association dedicated to enhancing the retirement security of America’s workers. DCIIA’s diverse group of members include investment managers, consultants and advisors, law firms, recordkeepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants. For more information, visit: **www.dciia.org**.

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