PROMOTING PLAN SUCCESS

BEST PRACTICES FOR IMPROVING EMPLOYEE RETIREMENT READINESS

Today, many employees are unprepared for retirement. Some workers don't know how to calculate their future financial needs and they lack the financial literacy to effectively manage their assets. Others are not motivated to save for long-term goals like retirement. Over time, these factors are causing countless workers to delay or postpone retirement indefinitely, which in turn is significantly impacting business costs for retirement plan providers.

Business Costs from Delayed Retirement = $10,000[1] Per Year

When employees do not retire by age 65 the following occurs[2]:

- 42% increase in disability instances
- 15 times higher disability costs
- 56% increase in workers compensation costs
- 50% higher medical costs
- 4 times higher health care costs

Realizing this costly impact, employers are starting to take another look at plan design features in an effort to better help employees increase retirement income adequacy. Plan providers no longer need to worry about employee pushback or about being too paternalistic because research shows employees want and need more help from their employer.

Solutions for increasing retirement income adequacy include a focus on smart and aggressive plan design features that help employees:

1. Save Now & Save More.

2. Invest Properly.

3. Increase Financial Literacy.

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BEST PRACTICES FOR IMPROVING EMPLOYEE RETIREMENT READINESS

1. SAVE NOW AND SAVE MORE: INCORPORATING BEHAVIOURAL FINANCE TECHNIQUES INTO PLAN DESIGN

PLAN DESIGN FEATURE	DESCRIPTION	BEST PRACTICES
Eligibility	The date an employee can begin participating in the retirement plan	Permit employees age 21 and older to enroll in the plan on "day one" of employment or as soon as possible based on employee demographics
Automatic Enrollment	Automatically enrolling all eligible participants in the plan at a pre-determined deferral percentage	Auto enroll participants at the industry recommended default deferral rate of 6%–10% into a Qualified Default Investment Alternative (QDIA) with the option to opt out
Re-enrollments	All eligible employees are re-enrolled or enrolled in the plan's default investment option on a certain date (unless employee reaffirmed current selections or made an alternative election during the 30-day notice period)	Give participants 30 days notice and re-enroll current contributors and enroll non-contributors at the industry recommended default deferral rate of 6%-10% into a QDIA with the option to opt out
Automatic Contribution Escalation	Automatically increasing participant deferral rates on a specific date each year	Mandate automatic escalation and increase participant contribution rates by 1% to 2% per year, getting participants up to a targeted savings rate of 12%–15%[1] including employer match. Link contribution increases to pay raise cycles or annual benefits cycle
Innovative Employer Match Formula	Employer matching contribution on employee contributions that are different from common match formulas, such as 50% on the first 6% of compensation, etc.	No waiting period, provide the match when contributions are made and reshape the match to encourage increased levels of savings. For example, stretch the match over a larger percentage of compensation, i.e. match 25% on the first 8% of compensation
Auto Rebalancing	Automatically rebalancing a participant portfolio to manage risk relative to a target asset allocation	Provide auto rebalancing annually or semi-annually for participants where it does not otherwise occur (i.e. non-managed accounts)
Withdrawals and Loans	Early withdrawals and loans from retirement plan	Educate participants on the long-term detriment from accessing retirement income prematurely and place limitations when appropriate
Consolidation of Participant Retirement Accounts	Consolidating eligible retirement accounts into one plan	Establish a streamlined "roll-in" program into the company sponsored retirement plan for employees' prior retirement plans or IRA balances

[1] Plan sponsors seeking the protections of the ERISA 404(c) or Qualified Defaul Investment Alternative (QDIA) safe harbors can elect any contribution escalation percentage with no maximum, and are not restricted by a 10 percent maximum contribution escalation percentage. The only instance in which a 10 percent limit applies is if the plan sponsor wishes to adopt the Qualified Automatic Contribution Arrangement (QACA) safe harbor included in the Pension Protection Act (PPA) if they have trouble satisfying the nondiscrimination compliance testing requirements of the Internal Revenue Code (IRC).

2. INVEST PROPERLY: SIMPLIFIED, QUALITY INVESTMENT CHOICES

PLAN DESIGN FEATURE	DESCRIPTION	BEST PRACTICES
Simplified Investment Choices	Streamlined investment line-up that includes a default option and a simplified core menu	Create a formal process to review, evaluate and document the funds available in the line-up. Focus on a selection of simplified, core asset classes that satisfy ERISA requirements and fiduciary responsibilities
QDIA	The Pension Protection Act of 2006 (PPA) allows for the choice of three offerings that may be used as a plan's (QDIA), where participant money can be defaulted if a participant fails to make an investment election: (1) managed account; (2) life-cycle or target-date funds; and (3) balanced funds	Combine with auto enrollment and document the reasoning for selecting the QDIA. Revisit this decision periodically to assess the ongoing fit
Custom Target Date Fund (TDF)[2]	Tailored TDF that considers plan demographics, the behavior profile of participants, etc.	Include a custom TDF series to provide options specifically targeted to participant needs
Managed Accounts	Asset allocation solutions owned by the participant that are diversified and professionally managed	Offer professionally managed accounts in the plan investment line-up for those participants who want or need access and help with diversification
Roth 401(k) Contributions	Employer-sponsored retirement savings account funded with participant after-tax money	Offer a Roth and educate employees about Roth features

3. INCREASE FINANCIAL LITERACY: MORE ACCESS TO PARTICIPANT EDUCATION AND HELP

PLAN DESIGN FEATURE	DESCRIPTION	BEST PRACTICES
Education, Tools and Technology	Financial education programs that simplify retirement planning and saving concepts and take a holistic approach to engage participants through various targeted delivery methods	For optimal interest make the message fun and visual, and incorporate some of these elements into the program: ▪ Different messages for different groups of employees, i.e. women, Generation X, Millennials, Boomers, etc. ▪ Multiple approaches for delivering information and education, i.e. in-person, online, paper, mobile, etc. ▪ Retirement income projections ▪ Tools for goal setting and tracking ▪ Incentives, and active and personalized communication tools, i.e. mobile apps and games

(continued)

[2] The target date is the approximate date when investors plan to start withdrawing their money. The asset allocation of target date funds will generally become more conservative as the fund nears the target retirement date. The principal value of the fund is not guaranteed at any time, including at the target date. Investing in mutual funds involves risk, including possible loss of principal.

3. INCREASE FINANCIAL LITERACY: MORE ACCESS TO PARTICIPANT EDUCATION AND HELP *(continued)*

PLAN DESIGN FEATURE	DESCRIPTION	BEST PRACTICES
Financial Wellness Program	A comprehensive program that assesses an employee's "complete financial picture" and stresses the importance of knowing about "financial concepts and tools" and acting on that knowledge to plan, save and invest for the future	Concentrate comprehensive strategies on financial wellbeing and incorporate healthcare benefit education within retirement plan education
Investment Advice	Access to experts and professionally designed tools online, in-person or via phone that can recommend individual investment strategies based on a participants goals, expected retirement date and other income sources	Allow employees to enroll in a fiduciary friendly investment advice service at their own discretion and cost, provided by experienced professionals. Choose delivery methods that best suit your employees, i.e. online, phone or in-person

YOU'RE IN CONTROL OF THESE POWERFUL PLAN DESIGN MECHANISMS

The plan design decisions you make have a major impact on the success of your plan and your business. Data analysis of your employee base is the first step in determining the smart and assertive plan design features that will help drive participant engagement, improve participant retirement readiness, provide the most value to your plan, and benefit your business.

Everyone wins when employees can retire on time. Promote employee retirement income success for your plan.

1. Embrace auto features.
2. Choose plan design features and best practices that suit your employee demographics and help them work toward their retirement goals and objectives.

HELP IS AVAILABLE

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PRINTERS 401K®
Powered by Diversified Financial Advisors LLC
A Registered Investment Advisor
800-307-0376
www.Printers401K.com

Joe Trybula, CFP®, AIF®
800.307.0376
Joe@diversifiedfa.com

[1] www.planadvisor.com: "Advisers Scout Financial Fitness as a Skill Set" Jill Cornfield, (10/11/2013)
[2] Is it your problem Employees can't retire? April 23, 2013, PlanSponsor.com

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