PROMOTING PLAN SUCCESS

BEST PRACTICES FOR IMPROVING EMPLOYEE RETIREMENT READINESS

INSIDE Industry Insights I Trends I Best Practices

EVERYONE BENEFITS WHEN EMPLOYEES CAN RETIRE ON TIME

This paper provides insights, trends and best practices for the significant plan design opportunities that exist to help employees work toward a successful retirement, strengthen your retirement plan and benefit your business.

INSIGHTS

KEY RISKS

Today there are two key risks plan sponsors face that have a cause and effect relationship:

1. Underutilized plan design features

When an employee does not have enough money to retire, a contributing factor or "cause" is the underutilization of plan design features. There are plan design elements proven to help increase participant retirement income adequacy and when underutilized, employee retirement income can be at risk. Studies show participants save more for retirement in plans with auto features and in plans that provide more help.

TODAY'S PLANS:

Only:

- 36.7% allow employees to participate in the plan immediately upon hire[1]
- 40% have auto enrollment[2]
- 25.5% mandate auto-escalation[3]
- 32% have a default deferral rate higher than 3%[4]
- 50% take advantage of QDIA safe harbor protections[5]

The Plan Advocate at The Philadelphia Group

LPL Financial

2. Employees delaying retirement

Delayed retirement is an "effect" of underutilized plan design features and comes with significant business risks. Employees that have not saved enough for retirement and must delay retirement at age 65, or postpone it indefinitely, have higher costs[6]:

- 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

There are also additional potential business costs harder to measure like a less engaged and productive workforce, and more turnover by employees with critical talent whose career paths have been blocked by those delaying retirement.

Every year an employee delays retirement can cost an employer $10,000[7]

TODAY'S EMPLOYEES:

Only:

- 22% are very confident they will have enough money for a comfortable retirement[8]
- 48% report they or their spouse have tried to calculate how much money they need to live comfortably in retirement[9]
- 27% of Boomers feel confident they will have enough to money to last[10]
- 15% rebalanced their portfolio last year[11]

Just 8.8% of plan sponsors think their employees will achieve their retirement goals by age 65[12]

Plan sponsors control plan design decisions and employees are responsible for ensuring they have saved enough retirement income. What's holding plan sponsors back from utilizing plan design features that can help participants save more for retirement? What's holding participants back from becoming retirement ready on their own?

STUMBLING BLOCKS

Plan Sponsor Stumbling Blocks	Participant Stumbling Blocks
▪ Other human resource issues like healthcare benefits and the Affordable Care Act ▪ Inertia ▪ Fear of: • Cost increases • Being too paternalistic • More time commitments • Fiduciary risk	▪ Not: • Saving right away • Saving enough • Investing properly • Increasing financial literacy

IT'S YOUR DUTY TO HELP

Recent retirement plan court cases highlight the importance of acting in participants' best interests and continuous plan monitoring. A plan sponsor's fiduciary duty requires they always make the best plan design choices for participants.

HEARTS IN THE RIGHT PLACE

- 78% of plan sponsors rate participant retirement readiness as "very important" or "quite important"[13]
- "Preparing employees for retirement" is the most commonly identified goal for plan sponsors[14]

TRENDS

EMPLOYEES WANT HELP

Plan sponsors no longer need to be concerned about pushback or about being too paternalistic when it comes to helping employees plan and save for retirement. In fact, employees want more help from their employer. Studies show participants are largely in favor of auto programs like auto enrollment and auto escalation[15]; in fact:

- 88% want employers to provide tools to help determine their retirement readiness
- 80% believe employers should encourage employees to contribute to their retirement plan
- 84% support employers providing incentives to encourage contributions
- 72% think employers should provide a viewpoint on contribution amounts
- More than 4 in 5 employees would take their employer's advice when determining a contribution rate

ADEQUATE PARTICIPANT RETIREMENT INCOME IS AN IMPORTANT PLAN BENCHMARK

- Retirement plan success is no longer just about participation rates, fees, investment performance and retirement account balances. Many plan sponsors now realize that a very important plan success measure is participant retirement income adequacy.
- Solutions for helping employees increase retirement income include well-known aggressive plan design elements like auto enrollment and auto escalation, and a new focus on a holistic approach that helps participants:

1. **Save Now & Save More.**
2. **Invest Properly.**
3. **Increase Financial Literacy.**

Plan Examples

1. SAVE NOW & SAVE MORE: Incorporate behavioral finance techniques into plan design

Suggest Savings Rates	Re-enrollments	Innovative Employer Match Formulas	Roth 401(k) Contributions
21.8% provide a suggested savings rate to employees, 18.8% suggest 6%, and 46.5% suggest a rate higher than 6%[16]	26% re-enroll non-contributors or those deferring less than the default savings percentage[17]	7% offer innovative match formulas[18] (i.e. stretch match)	54.6% offer a Roth 401(k) option to participants[19]

2. INVEST PROPERLY: Simplified, quality investment choices

Simplified Fund Line-up	Target Date Funds (TDF)	Managed Accounts
Most plans offer 19 funds on average with a combination of passive and active choices[20]	▪ 69.8% offer a target-date fund[21] ▪ 65% offer a TDF as a QDIA[22] ▪ 49% of plan sponsors see the value of custom target-date funds[23]	35.6% offer participant managed accounts services[24]

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.

Plan Examples

3. INCREASE FINANCIAL LITERACY: More access to participant education and help

Financial Wellness Programs	Focused and Targeted Education	Investment Advice
16.7% of plans offer a comprehensive financial wellness program[25]	▪ 78% expect to increase their use of technology to deliver information to employees[26] ▪ 63% of plans have tools that allow participants to model different savings and investing habits and vary their investment horizons[27] ▪ 25% of employers are very likely to provide some assistance to employees to help with budgeting[28]	70.4% offer some type of investment advice[29]

BEST PRACTICES

1. SAVE NOW/SAVE ENOUGH

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 ability for employees 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 an employee reaffirms a current selection or makes 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 ability for employees 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%* including employer match. Link contribution increases to pay raise cycles or annual benefits cycle

* Plan sponsors seeking the protections of the ERISA 404(c) or Qualified Default 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).

1. SAVE NOW/SAVE ENOUGH *(continued)*

Plan Design Feature	Description	Best Practices
Innovative Employer Match Formula	Employer matching contribution on employee contributions that are different from common match formulas like 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 when 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 detrimental impact of accessing retirement income prematurely and place limitations where appropriate
Consolidation of Participant Retirement Accounts	Consolidating eligible retirement accounts into one plan	Establish a streamlined "roll-in" program for employees to roll prior retirement plan or IRA balances into the company sponsored retirement plan

2. INVEST PROPERLY

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 placed 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)	Tailored TDF that considers plan demographics, the behavior profile of participants, etc.	Include a custom TDF series to provide investment options specifically targeted to participant needs
Managed Accounts	Diversified and professionally managed asset allocation solutions owned by the participant.	Offer professionally managed accounts in the plan investment line-up for those participants that 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. Target messages to employees to explain features and benefits

3. INCREASE PARTICIPANT FINANCIAL LITERACY

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, web, 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
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 well-being 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 participant's 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

CONCLUSION

You're in control of these powerful plan design mechanisms and the decisions you make have a major impact on the success of your plan, employee retirement readiness and your business. Understanding your plan demographics is the first step. Then through consultation with an experienced retirement plan advisor, use this paper to help choose the smart and assertive plan design features that work best with your employee demographics to drive participant engagement and provide the most value to your plan.

Measure plan success against the "90-10-90" metric by Shlomo Benartzi* in his book "Save More Tomorrow"

PLAN SUCCESS

90% participation

10% contribution rate

90% accessing help or advice

* Shlomo Benartzi is an Economist focused on turning the behavioral challenge of helping people save enough for retirement into a behavioral solution.

CONSIDER A TEAM APPROACH

At LPL Financial, our goal is to make sure you have the tools and information you need for informed decisions. Our experienced retirement plan advisors are ready to help you leverage this information and take advantage of the best practices that can benefit your plan, your participants, your business and help satisfy your fiduciary duties.

[1] PLANSPONSOR magazine, "DC Plan Benchmarking Survey" (2014)

[2] Ibid

[3] Ibid

[4] PSCA: 55th Annual Survey of Profit Sharing and 401(k) Plans" (2012)

[5] AllianceBernstein: "Inside the Minds of Plan Sponsors" (2015)

[6] www.plansponsor.com: "Is it your problem Employees can't retire?" (4/23/2013)

[7] www.planadvisor.com: "Advisers Scout Financial Fitness as a Skill Set" Jill Cornfield, (10/11/2013)

[8] EBRI: "Retirement Confidence Survey" (2015)

[9] Ibid

[10] Insured Retirement Institute (ICI): "Boomers Expectations for Retirement" (2015)

[11] Aon Hewitt: "Universe Benchmarks Measuring Employee Savings and Investing Behavior in DC Plans" (2015)

[12] PLANSPONSOR magazine, "DC Plan Benchmarking Survey" (2014)

[13] Deloitte: "Annual Defined Contribution Benchmarking Study" (2013-2014)

[14] Fidelity: "Plan Sponsor Attitudes Survey" (2014)

[15] www.SHRM.org: "Employees Want Help Deciding How Much to Save" Stephen Miller, (5/21/2015)

[16] PSCA: "57th Annual Survey of Profit Sharing and 401(k) Plans" (2015)

[17] 2014 Towers Watson DC Plan Sponsor Survey

[18] PLANSPONSOR magazine, "DC Plan Benchmarking Survey" (2014)

[19] Ibid

[20] Ibid

[21] Ibid

[22] JP Morgan Asset Management: "Aligning Goals and Improving Outcomes, DC Plan Sponsor Survey" (2015)

[23] Towers Watson: "DC Plan Survey" (2014)

[24] PLANSPONSOR magazine, "DC Plan Benchmarking Survey" (2014)

[25] PSCA: "57th Annual Survey of Profit Sharing and 401(k) Plans" (2015)

[26] Towers Watson: "DC Plan Survey" (2014)

[27] AON: "Hot Topics in Retirement" (2014)

[28] Ibid

[29] PLANSPONSOR magazine, "DC Plan Benchmarking Survey" (2014)

About LPL Financial

LPL Financial, a wholly owned subsidiary of LPL Financial Holdings Inc. (Nasdaq:LPLA), is a leader in the financial advice market and serves $475 billion in retail assets. The Company provides proprietary technology, comprehensive clearing and compliance services, practice management programs and training, and independent research to more than 14,000 independent financial advisors and over 700 banks and credit unions. LPL Financial is the nation's largest independent broker-dealer since 1996 (based on total revenues, Financial Planning magazine, June 1996-2014), is one of the fastest growing RIA custodians with $91 billion in retail assets served, as of Dec. 31, 2014, and acts as an independent consultant to over an estimated 40,000 retirement plans with an estimated $115 billion in retirement plan assets served. In addition, LPL Financial supports approximately 4,400 financial advisors licensed with insurance companies by providing customized clearing, advisory platforms, and technology solutions. LPL Financial and its affiliates have 3,384 employees with primary offices in Boston, Charlotte, and San Diego. For more information, please visit www.lpl.com.

RP-0235-0915
Tracking#1-417463

LPL Financial