Maximizing Plan Design

Increasing Employee Impact

Combining the great number of plan options with the vast universe of available investments can make plan design a complex undertaking. However, with the goal of maximizing outcomes for a diverse population of plan participants, our main objective is to assist our clients in simultaneously simplifying their plan design.

PLAN DESIGN

Following the ***KIS (Keep It Simple) Principle***, we look to assist clients in developing easy-to-understand and easy-to-administer plans. In doing so, we incorporate all factors critical to the overall plan design process, with a focus on the following:

1) **Employee and Employer Contribution Formulas**
2) **Automated Features**
3) **Investment Offerings and Presentation**
4) **Retirement Readiness Focus**

Maximizing Outcomes

1. Employee and Employer Contribution Formulas. The contribution formula established by plan sponsors can have a long-lasting impact on the savings behavior of plan participants. With the goal of driving appropriate employee savings decisions*, we recommend that employer contributions be utilized in a way that strongly encourages participants to meet minimum savings goals.* For example, let us look at a scenario where an employer can only commit to a 4% annual contribution, but the goal is to encourage employees to save an amount equal to 12% of their annual salary. One potential solution could be an employer match of 50 cents on the dollar up to the first 8% of an eligible employee's salary. Combined with an effective education program, this would likely result in a much higher number of employees achieving a 12% total savings rates, when compared against offering a guaranteed 4% employer contribution without an employee contribution.

Additional impact can result from automating your enrollment to default employees into making salary deferrals as further described in the next section.

2. Automated Features. In 2008, new legislation was passed that enables employers to automatically enroll their plan participants once they become eligible. Default salary deferral rates may be as high as 10%, but a more effective approach may be to *start employees at a lower default rate and incorporate automatic escalations* of 1% to 2% per year until employees reach a targeted salary deferral percentage.

Another advantage of automatic enrollment is that employers can safely default participants into diversified investment elections known as qualified default investment alternatives (QDIAs). The most common QDIAs are lifecycle or target date funds, which adjust their asset allocation to become more conservative as the participant ages.

Implementing an automated approach may significantly improve participant savings and investment outcomes, but it does come with the tradeoff of additional administration. However, properly following QDIA guidelines offers plan fiduciaries protection against liability from investment losses incurred by defaulted participants.

Maximizing Outcomes

3. Investment Offerings and Presentation. We strongly believe that simplicity is a key element to successful investment menu development. While being sensitive to varying participant needs, plan sponsors and the majority of their participants are likely to benefit from a more limited menu offering.

Target date and lifecycle funds, as previously discussed, are ideal for less engaged and less sophisticated investors. *Through a single selection, participants can build a diversified investment portfolio that becomes more conservative as they age.*

For more knowledgeable investors, you will want to offer funds in enough diverse investment categories to enable them to build an appropriately diversified portfolio. However, every fund that is added to the lineup creates additional fiduciary oversight responsibility, as well as the possibility of adding to participant confusion and investment mistakes.

Finally, paying careful attention to how you present the investment menu to participants can have a meaningful impact on their investing decisions.

4. Retirement Readiness Focus. Much attention has been given to retirement readiness in recent years. As it relates to impacting your plan participants, we believe:

1) Projected retirement income figures can be more meaningful to plan participants than their personal balances;
2) Retirement readiness is best-measured one person at a time.

Since many participants do not easily understand inflation and withdrawal rates, viewing account balances alone can be misleading. Furthermore, projected retirement income figures can more easily be incorporated into overall planning when reviewed alongside projected social security and pension benefits.

As for measuring retirement readiness at the plan level, we believe *it is more important to focus on who needs help rather than tracking changes in plan averages and other metrics*.

Looking ahead, we will continue our discussion on how PlanPILOT works with our clients to achieve their plan objectives through a five-step process, with our next letter focused on developing investment policy and structure:

1) Building a Strong Foundation: Plan Compliance and Governance
2) Maximizing Plan Design to Increase Employee Impact
3) **Developing Investment Policy and Structure: Balancing Diversity and Simplicity**
4) Improving Plan Efficiency to Maximize Return on Investment
5) Helping Participants Make Better Decisions

We hope the thoughts contained in this letter help you improve the management of your retirement plan(s).

PlanPILOT is Here to Help

We welcome the opportunity to assist you and your retirement oversight committee in managing your retirement program. Please visit www.planpilot.com or call us at (312) 973-4911 to discuss how we can be of assistance to you and your plan committee.