

Rocatōn

INSIGHTS

*Enhancing DC Plan Processes
and Outcomes in 2017*

January 2017

203.621.1700 | rocaton.com

© 2017, Rocaton Investment Advisors, LLC

Executive Summary

As we focus on DC plan priorities for 2017, several key themes emerge:

- The growing importance of DC plans as the primary means of building retirement income for most employees
- A continued focus on practical ways to ensure robust fiduciary practices and documentation
- The importance of identifying where best practices and/or common practices in significant areas have evolved; any meaningful differences should be revisited, and if maintained, the rationale for a different approach documented
- Evaluating potential plan enhancements in light of their ability to improve expected outcomes for participants

With a backdrop of an uncertain regulatory environment and heightened litigation activity with a significant increase in not only the volume, but also the breadth of claims, 2017 provides an opportunity to double down on fundamentals. There continues to be an emphasis on the quality of the fiduciary process and, therefore, the decision-making process and proper documentation of those decisions continues to be critical. In short, this is an opportunity to go back to the basics, revisit process, past decisions and documentation.

Best practices and common practices among plan sponsors, evolve over time. Any meaningful differences from best/common practices should be periodically revisited. The rationale for a non-consensus approach should ideally be documented. We believe that it may also be prudent to revisit decisions that haven't been discussed in quite some time and to re-underwrite investment and other decisions that have been made for the plan.

Across the industry, there remain opportunities to make enhancements to DC plans. With the marketplace offering an overwhelming array of ideas, products and services, we suggest evaluating possible changes in light of their ability to improve expected outcomes for participants, and after or in conjunction with addressing the above considerations.

1

Investment Policy Statement

We suggest revisiting the IPS annually as well as when there are meaningful governance or investment menu changes. In addition to keeping the document current and considering whether there have been changes in best practices, this may facilitate a review with the Committee of the overall strategy, and roles and responsibilities.

2

Fee Analysis

Even for well-priced plans, cost saving opportunities periodically present themselves. It is important to periodically re-examine fees as the plan size, fund allocations, fund pricing and availability may change, as may views on best practices. This includes both investment management and administrative fees. In 2016, the greatest number of new lawsuits pertained to fees (namely, allegations of excessive investment management fees and excessive recordkeeping fees). Other cases focused on the availability of lower fee funds and the use of revenue sharing, among other issues. Areas to review include a fee analysis in both dollars and basis points, the availability of lower cost share classes and/or vehicles and a review of the how administrative fees are paid. Sponsors may wish to revisit their philosophy if they have not done so recently in light of current best practices and additional administrative options available from some recordkeepers.

3

Target Date/Default Option Review

As a secular trend, the default option is becoming larger in plans, and should have an increasing share of the discussion and attention going forward. Rocaton recommends a periodic review of the plan's default investment option. For many, this is a target date series and our review includes consideration of the DOL's published target date tips from 2013. It is likely that both the number of plan participants and assets allocated to the target date option (or default option) will grow substantially over time. It remains prudent to monitor the appropriateness of the default option for the plan on an ongoing basis.

4

Investment Structure Review, with Emphasis on Conservative Investment Option Review

When thinking about the "optimal" investment menu for participants, the result may be a streamlining of investment options or gaps may be identified in the current plan that could be addressed by rounding out the investment menu. Recent litigation has focused on plans that offer too many investment options, or too many options in a single asset class, causing confusion for participants. Sample considerations include: periodically revisiting prior decisions such as the number and types of options; the use of active/passive and the use of custom options.

In the past year, there has been a fair amount of litigation focused on plans that have stable value funds, as well as plans that offer money market funds but not stable value. Investment structure best practices, litigation risk, money market reform, the interest rate environment and the changing stable value landscape are all reasons why plan sponsors may wish to revisit their capital preservation options if they have not done so recently to confirm the most appropriate choice for the plan to deliver on its objectives.

5

Review of Recordkeeper

Continued evaluation of the plan's recordkeeper remains appropriate, and as a result of litigation, it is even more important to revisit pricing and capabilities if they have not been revisited in some time. Although the new Fiduciary Rule faces uncertainty regarding final implementation given the recent election, monitoring the plan's recordkeeper as a fiduciary provider for those that are going to take on fiduciary responsibility is also important. With respect to recordkeeping arrangements, Rocaton expects more recordkeeping RFI and RFP activity in general, specifically as a result of litigation, and we may expect to see a shift in fee arrangements (to a fixed dollar fee) and a continued movement away from revenue sharing or other asset based recordkeeping arrangements, particularly for larger plans. Recordkeeping fees have had a notable decline over recent years. Although it is difficult to call a "bottom" in recordkeeping fees, we believe that the current environment may provide compelling opportunities to lock-in pricing for longer than average terms.

6

Review of Managed Account/Advice Provider

As the managed account and fiduciary landscape changes, Rocaton continues to believe managed accounts should be treated as an investment option in the plan and monitored with the same due diligence as other investment options. Because the managed account provider is providing fiduciary advice to participants, we believe the provider should be evaluated relative to peers in the marketplace, and a full assessment of the investment methodology, plan sponsor and participant communications/reporting and fees are appropriate on an ongoing basis.

Other considerations in revisiting processes include, but are not limited to:

- Fiduciary training and review of Committee roles, responsibilities and protections
- Documentation review
- Investment manager and performance monitoring – with searches as necessary
- Awareness of the regulatory and litigation landscape – including possible impact of the Fiduciary Rule (noting the current challenges to the Rule and whether and when it becomes effective)
- Review of options with unique features – sample considerations include: stable value, separate accounts, custom option composition and rebalancing, alternative and/or private market investments, brokerage

Other potential review items:

- Review of general trends and plan features
- Demographic analysis
- Overview of retirement income solutions
- Review of investment-related communication materials

Conclusion

While there is no shortage of topics to consider or action items for defined contribution plan sponsors in any given year, Rocaton believes the theme of reviewing and refreshing DC plans in 2017 provides an appropriate way to prioritize a work plan for the year. While several topics are listed above, not every item may be appropriate for all plans, and clearly prioritization of these items relative to the needs of each plan is appropriate. As always, we are happy to discuss these considerations, and discuss how to best prioritize them given the needs and objectives of each plan. We look forward to partnering together to further improve our clients' DC plans in 2017.

Rocaton

Enhancing DC Plan Processes and Outcomes in 2017

Rocaton is registered as an investment adviser with the U.S. Securities and Exchange Commission. Rocaton's Form ADV, Part 2 is available upon request. The information included in this publication has been taken from sources considered reliable. No representations or warranties are made as to the accuracy or completeness of this information and no responsibility or liability (including liability for consequential or incidental damages) is assumed for any error, omission or inaccuracy in this information. This information is subject to change over time. This publication is not intended as investment advice. Before acting on any information contained in this material you should consider whether it is suitable for your particular circumstance. Any opinions expressed in this publication reflect our judgment at this date and are subject to change. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Rocaton Investment Advisors, LLC.

Performance Information and Return Expectations

The analysis contained in this document may include projections of long-term return and risk expectations. There is no guarantee that the projected returns or risk will be realized. The projections are based in part on historical performance of various asset classes, and past performance is no guarantee of future performance. The projections include assumptions, including those regarding risk and return. These assumptions are used for modeling purposes only and may not be realized. Because the analysis is based on assumptions and projections, there can be no warranties or guarantees.

203.621.1700 | rocaton.com

© 2017, Rocaton Investment Advisors, LLC