

10 Resolutions for Defined-Contribution Plan Sponsors

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By **Lori Lucas**

We can all agree that it feels good to close the books on 2008. But the new year will certainly hold its own challenges in terms of market volatility, economic change, regulation and legislation. Defined-contribution plan sponsors would be wise to take this opportunity to clean house and make sure their plans are best positioned in terms of design, delivery and communication. Here are 10 New Year's resolutions we recommend:

1. Stay on top of plan fees. New and pending regulation heightens the need to rigorously monitor, evaluate and benchmark plan fees on a regular basis. At the same time, market volatility has been a game-changer. With fund returns as poor as they have been recently, excessive fees become a glaring plan weakness. An annual, formal, documented fee review is essential.

2. Take aim at the employer stock fund. According to the Callan DC Index, the company stock fund in the average DC plan has underperformed its diversified benchmark by 4.39 percent annually since the begin-

ning of 2006. While it is not easy to eliminate a company stock fund from a plan—ironically, many participants tend to object—it is important to consider all options, including freezing the fund to new contributions, limiting contributions to the company stock fund or outsourcing fund management. At a minimum, education and advice around company stock should be a top priority in 2009.

3. Clean up the fund lineup. Plan sponsors may argue that today's market volatility makes it difficult to eliminate unwanted "legacy" funds, streamline the fund lineup, or even replace poor performers. In fact, current market conditions can be viewed as providing a unique opportunity to take a clean-sweep approach. After all, a lot has been learned about the markets in 2008, and it is highly prudent to implement those lessons by repositioning the investment fund lineup as needed.

4. Reconsider mutual funds. In a recent survey, Callan found that plan sponsors ranked shifting to collective trusts and separate accounts as their third-least likely activity for 2009. Yet, because they have so much less over-

head than mutual funds, collective trusts and separate accounts can be a cheaper way of accessing investment managers—sometimes by as much as 30 to 40 percent. Plans don't need billions in assets to benefit from these vehicles, and many of the perceived weaknesses of separate accounts and collective trusts are more myth than fact. For example, plan sponsors often worry that participants will complain that collective trust and separate account performance is not listed in newspapers. However, a survey by AllianceBernstein found that the majority of participants seek fund performance information from their quarterly statements and plan Web sites.

5. Think outside the investment provider box. Two-thirds of plan sponsors report using the proprietary asset allocation funds (risk-based or target-date) of their record keeper. And yet target-date funds are far from commodities. Their equity allocations can vary dramatically. Some restrict themselves to the most basic asset classes, while others diversify with highly esoteric asset classes. The list of significant differences goes on and on. Given all of this—and especially in light of

the current market volatility—plan sponsors would be wise to evaluate whether their target-date funds are the right fit for their plan’s needs. Some larger plan sponsors have even taken the opportunity to customize their own target-date funds based on their existing fund lineup. This is truly thinking outside the investment box, and may make sense for many larger plans.

6. Embrace automation. One thing is certain today: DC participants are going to need to be better investors than ever in order to reach their retirement goals. They’ll need to save more, diversify better and stay the course with their equity allocations, despite market volatility. Creating a workforce of superinvestors is unlikely. But plan sponsors can make it far easier for employees to succeed by automatically enrolling them into their plans and tying in automatic step-up features. The twin efforts of using asset allocation funds as a default, and offering automatic rebalancing for those who do choose to create their own portfolio, can bolster investment outcomes.

7. Audit your compliance. Three-quarters of 401(k) plan sponsors consider their plans ERISA Section 404(c) plans, meaning the plan sponsor is responsible for selecting what investments are in the plan but participants are responsible for their own fund choices. Many industry observers believe, however, that the actual number is considerably lower due to lack of compliance. Likewise, if your plan is a 401(k) plan, it probably has a qualified

default investment alternative (QDIA), which also receives the 404(c) safe harbor. However, if the QDIA is not properly vetted, communicated and implemented, the safe harbor may be providing plan sponsors with a false sense of security. Companies need to thoroughly review the plan’s compliance with 404(c)—particularly around the QDIA.

8. Step up monitoring procedures. After the events of 2008, due diligence must surely be the new buzzword. Many plan sponsors report increasing the frequency of investment committee meetings and improving their documentation of meeting minutes. When the markets are changing as rapidly as they have been, such actions may be prudent. At a minimum, though, plan sponsors will certainly wish to review their investment policy statement, making sure that it is complete and thorough—and also making sure that the investment committee is adhering to its principles. It is important to remember that an investment policy statement can be a double-edged sword. It can be a fiduciary’s best friend in ensuring a rigorous investment selection and monitoring process. Or, it can be a fiduciary’s worst enemy if it is not being followed.

9. Increase educational support. If DC participants felt ill-equipped to make investment decisions going into 2008, then going into 2009, they are undoubtedly even less confident. Stepping up communication and education is another important item on the resolutions list. This

should include communication that explains market volatility, discusses the stability of the plan’s record keeper, and underscores sound investment principals. Now is also a good time to take advantage of the Pension Protection Act’s support of advice, and add an online advisory service. With loans and withdrawals on the rise, proactive communication on those topics is also likely warranted.

10. Stop plan leakage. As layoffs mount, plan sponsors should embrace an active policy when it comes to terminated participants. It’s possible that the best course of action is to encourage participants to remain in the plan, keeping costs down for everyone. Rollovers should be made as flexible as possible. Commonly, the record-keeping platform makes it easy to roll into the record keeper’s IRAs, but very difficult to roll into other, potentially more attractive IRAs. Plan sponsors might also want to consider allowing loan payments to continue after termination, as another way to keep retirement monies in the retirement system.

If much of these recommendations sound familiar, it’s because a number of them were outlined in the House Education and Labor Committee’s plan to preserve and strengthen 401(k) plans. That’s a reason to not only make these resolutions, but to keep them.

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