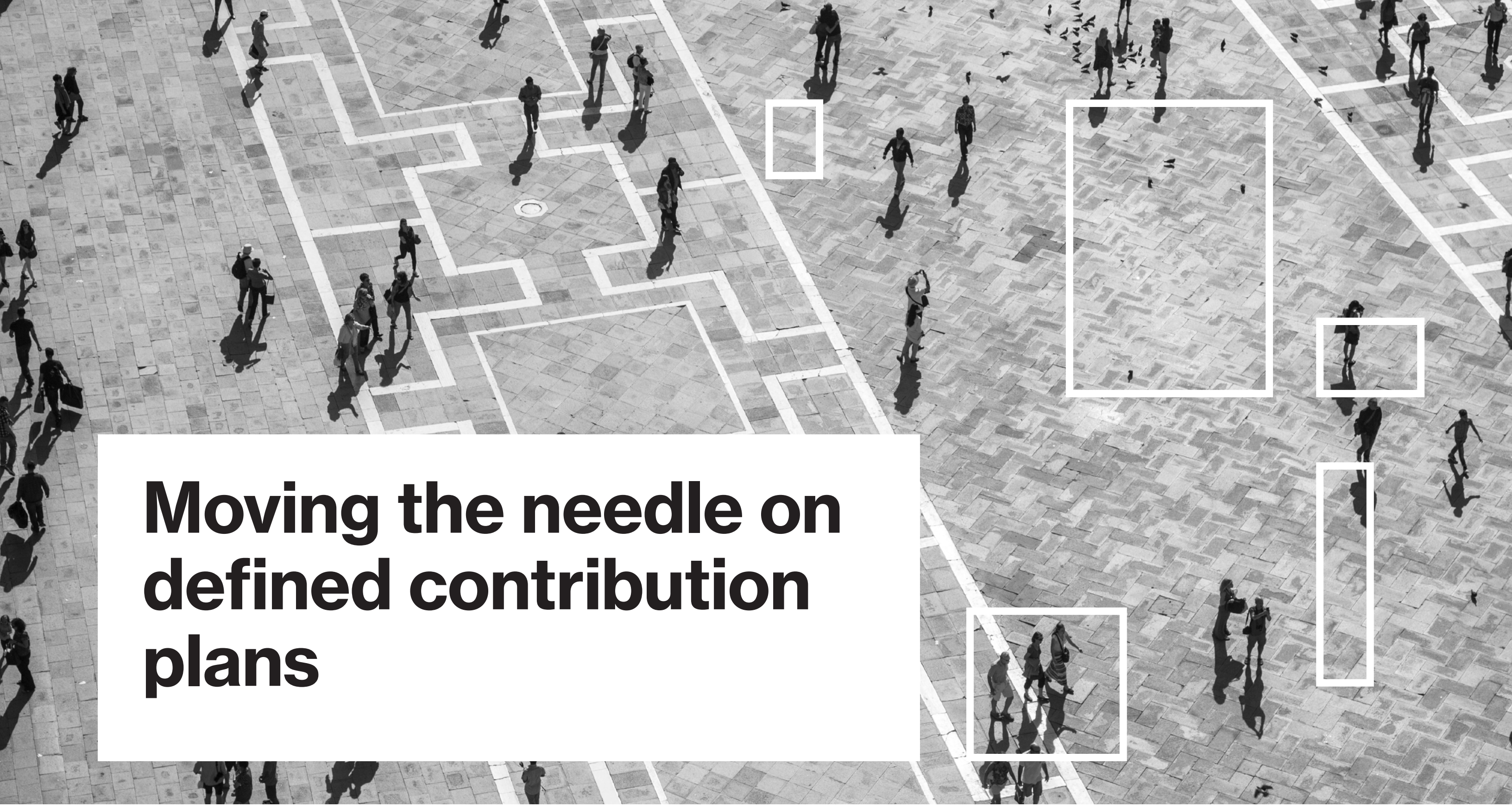

Moving the needle on defined contribution plans

The Covid-19 pandemic has challenged all aspects of our business, personal, and financial lives, but on the whole, defined contribution (DC) plans – and their sponsors and participants – showed great resilience. Still, the experience brings a unique opportunity to reimagine and refresh their plans for the post-pandemic period. In this paper, we consider how sponsors can move the needle in three important areas – inclusion and diversity, plan purpose, and plan management.

Ensuring Inclusion and Diversity in the DC Plan

Inclusion and diversity (I&D) are top-of-mind considerations for organizations of all sorts and sizes, and in Willis Towers Watson's 2020 survey of DC sponsors, we found that close to two-thirds were extending their organizations' broad I&D efforts to their retirement savings plans. With a view of the plan through an I&D lens, sponsors can broaden participation, and ensure fairness of benefits and potential retirement outcomes.

Moving the Needle on I&D:

Target specific cohorts: Participant cohorts bring differing abilities to save and accumulate assets to their plans. Sponsors can adapt their periodic reviews of benefits and their design, features, and communication to ensure that all groups are presented with, and taking the best advantage of, the participation and savings opportunities the plan offers, and the achievements of those groups at various career stages.

Extend I&D to the Committee Composition: I&D at the plan level can also be approached by reassessing committee make-up, to see that the diverse groups get a seat at the policy-making table. Diversity of committee members' backgrounds can also be assessed.

Include culture and diversity when assessing asset managers: I&D warrants consideration outside the plan as well, extending to the asset managers engaged. The cultures and diversity of investment firms have become areas of focus for institutional investors and consultants, and accordingly, we have devised a 25-factor system for scoring investment firms on the ethnic and gender diversity of investment teams.

Take an inclusive approach: Sponsors should assess the current financial state of plan participants to ensure the diverse needs of their workforce are being addressed. Boosting the financial wellbeing of plan participants can drive improvement of plan outcomes and allow all demographic groups to better understand and engage with the benefits being offered to them.

Reimagining DC Plan Purpose

As DC plans have replaced traditional pensions as the primary vehicles for retirement savings, they also have increasingly become the primary source of savings in general for many employees. As a result, plan participants often tap into their plan accounts to meet shorter term financial needs, which can have detrimental effects on long-term savings in their DC plan account. And to accommodate the needs of U.S. workers during the Covid-19 pandemic, CARES Act legislation gave participants further and less encumbered emergency access to their DC assets. This is an opportune time for plan sponsors to take stock of whether their plans are "fit for purpose" and best positioned to provide maximum value to all employee cohorts moving forward.

Moving the Needle on Reimagining Plan Purpose:

Revisit plan structure: Sponsors have the opportunity to reassess plan design, both at the foundational level of how employee and employer contributions are structured, as well as the types of innovative features that can be incorporated to help enhance employees' financial resilience (e.g., emergency savings, student loan assistance, employee choice).

Take stock of participants' financial wellbeing: DC plan designs are now being contemplated to take into account the employee's overall financial resilience and wellbeing, and are evolving beyond a supplemental retirement savings vehicle to a lifetime savings account – to be used to help manage the finances over the course of an individual's lifetime.

Evaluate investment vehicles: Employers can also better align plan purpose by re-thinking the investment options available to plan participants:

- Revisiting the underlying investment allocations in the plan's qualified default investment alternative (QDIA) to leverage alternative assets, such as direct real estate, private equity, and hedge funds can boost participants' returns while increasing diversification. Recent guidance from the Department of Labor appears to reduce the related risk for DC plan fiduciaries.[1]
- Employers can also consider replacing traditional mutual funds in the core investment lineup with multi-manager white label funds. These investments, too, can seek high risk-adjusted returns while providing an additional element of diversification, often at lower fee levels.
- Participants need help in converting their savings into durable streams of retirement income. In our 2020 survey of DC sponsors, roughly 1 in 3 employers reported that they are currently offering, or considering, in-plan retirement income options – a four-fold increase in interest from 2017. Just as organizations went through a learning period and takeoff for target date funds as QDIAs, employers need to educate themselves and their workforces, on the benefits of the array of lifetime income solutions.

Revisiting Plan Management

Managing DC plans becomes increasingly more complex each year, with the ever-evolving landscape of legislative and regulatory changes and the accompanying array of challenges and opportunities presented to employers on a continual basis. Likewise, recent CARES and SECURE Acts need to be interpreted and built into plan designs. And the impact of the Covid-19 pandemic on economic and business conditions demands its own attention.

Moving the Needle on Plan Management:

Explore decision support tools: Sponsors are increasingly taking advantage of new tools to track participant savings, investing and withdrawal behaviors to better align plan benefits/tools/resources with improved participant outcomes.

Consider outsourcing: Many organizations are taking their governance focus to a higher level, by delegating the choices and monitoring of plan investments to an outsourced chief investment officers (OCIOs). In fact, DC OCIO engagements are up 150% since 2017 according to Willis Towers Watson's 2020 survey of DC sponsors. These specialists tend to be in closer touch with trends in the financial markets, investment products and managers, and regulatory subtleties more so than most corporate managements, and may realize lower costs and superior returns.

Look into pooled employer plans: Taking outsourcing to investment and compliance experts one step further is the strategic decision to join a pooled employer plan (PEP), facilitated by provisions of the SECURE Act. PEPs can offer cost efficiencies through their scale, and as they are orchestrated by specialists, stay on the cutting edge of product trends, regulatory developments, cybersecurity, and technological innovation. PEPs also will likely have an advantage in tackling the issue of selection and monitoring of an evolving generation of retirement income solutions.

A DC Plan Reset

Looking ahead to a post-pandemic horizon, DC plan sponsors have a unique opportunity to ensure that their plans, firmly entrenched as a primary source for employee savings, are best positioned to provide all employees with maximum value.

We believe that organizations can Move The Needle now by prioritizing at least one of these important areas: Inclusion and diversity - in an effort to ensure equity in plan benefits and outcomes across all employee cohorts; reimagining plan purpose to better assist employees navigate both the asset accumulation and retirement spend-down phases; and reassessing how to best operate plans to manage risk while optimizing participant outcomes.

Source

[1]U.S. Department of Labor: Employee Benefits Security Administration, "Information Letter 06-03-2020," June 2020, https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/information-letters/06-03-2020

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media

WTW8807/05/2021

willistowerswatson.com

WillisTowersWatson