

Redefining Retirement Plan Success

For plan sponsor use only. Not for further distribution.



Introducing



**Andrea
Strickland**



**James
Heart**

Established Ways, Corp. (EWC)

Progressive Thought, Inc. (PTI)

Participants

650

Assets

\$45 million

Average account balance

\$69,230

Average participant age

35

Participation rate

75%



CEO Directive, Established Ways, Corp. (EWC)



“Investigate and ensure the retirement plan is competitive in the marketplace and **keep us out of jail.**”

CEO Directive, Progressive Thought, Inc. (PTI)

“Investigate and ensure the retirement plan is competitive in the marketplace and **get our employees to retirement** within budget and on time.”



Plan Design

Matching Review



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Current EWC Matching Contribution



**50% per dollar
on 6% of pay**

Types of Matching Contribution

All plans in the defined contribution space

Match Type	Example	% of Plans	% of Participants
Single-tier formula	50% per dollar on 6% of pay	70%	60%
Multi-tier formula	\$1.00 per dollar on first 3% of pay; \$0.50 per dollar on next 2% of pay	22%	33%
Dollar cap	Single- or multi-tier formula with \$2,000 maximum	6%	6%
Other	Variable formulas based on age, tenure, or similar variables	2%	1%

EWC Matching Contribution Decision



**50% per dollar
on 6% of pay**



Current PTI Matching Contribution

**50% per dollar
on 6% of pay**



Returns & Savings Needed

Pre-Retirement Return	8%	7.3%	8.1%	9.1%	10.1%	11.4%	12.9%
	7%	8.7%	9.7%	10.8%	12.1%	13.6%	15.5%
	6%	10.4%	11.5%	12.8%	14.4%	16.2%	18.3%
	5%	12.2%	13.6%	15.1%	17%	19.4%	21.7%
	4%			17.8%	19.4%	22.4%	25.4%
	3%				23.2%	26.2%	29.6%
	2%					30.3%	34.3%
	1%						39.5%
		6%	5%	4%	3%	2%	1%
Post-Retirement Return							



*35 year old earning \$50,000/year; retire age 67 & 75% replacement ratio; 3% inflation
Source: Vanguard, "How America Saves" 2015

Savings Needed by Expected Returns

Expected Pre-Retirement Return

7%	9.7%	10.8%	12.1%
6%	11.5%	12.8%	14.4%
5%	13.6%	15.1%	17%
	5%	4%	3%

Expected Post-Retirement Return



**An average employee is considered a 35 year old earning \$50,000/year; retire age 67 & 75% replacement ratio; 3% inflation*

Source: Vanguard, "How America Saves" 2015

**Achieving these savings rates does not assure a retiree will save enough money for retirement since invested returns are subject to market risk
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PTI Matching Contribution Decision

**30% per dollar on first
10% of pay** (30% to 10%)

Offer a Non-Qualified
Deferred Compensation plan

Match is **Cost
Neutral** to Employer



Plan Design

Automatic Enrollment

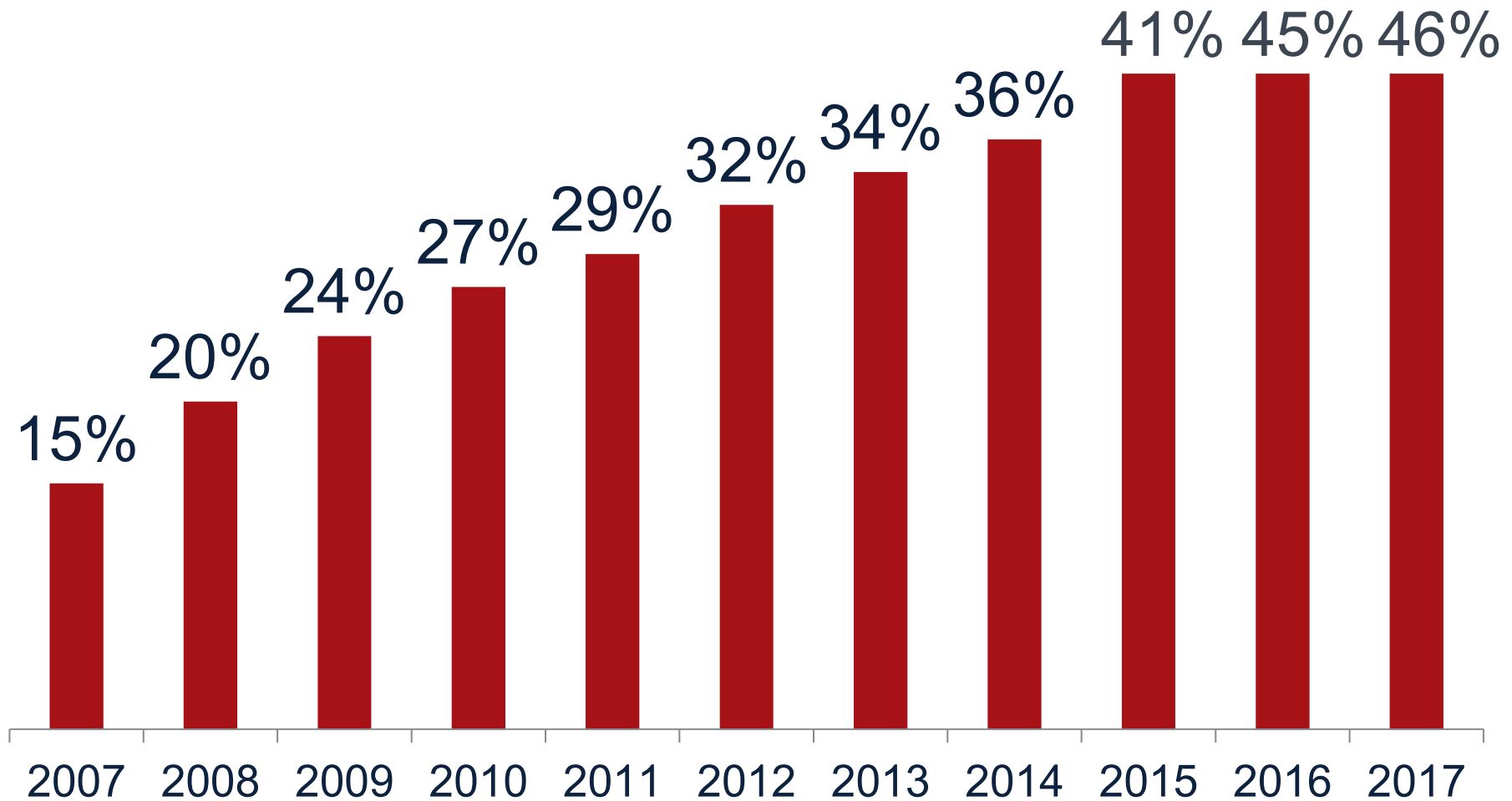


Current EWC Automatic Enrollment



No Automatic Enrollment

Percentage of Plans Adopting Automatic Enrollment



EWC Automatic Enrollment Decision



No need



No Automatic Enrollment



Enrollment by Income

	Voluntary enrollment	Automatic enrollment
Income		
< \$30,000	37%	84%
\$30,000-\$49,999	54%	91%
\$50,000-\$74,999	66%	94%
\$75,000-\$99,999	76%	95%
& 100,000+	88%	97%

Enrollment by Age

	Voluntary enrollment	Automatic enrollment
Age		
< 25	21%	83%
25-34	52%	92%
35-44	62%	92%
45-54	65%	93%
55-64	67%	93%
65+	59%	90%

Enrollment by Job Tenure

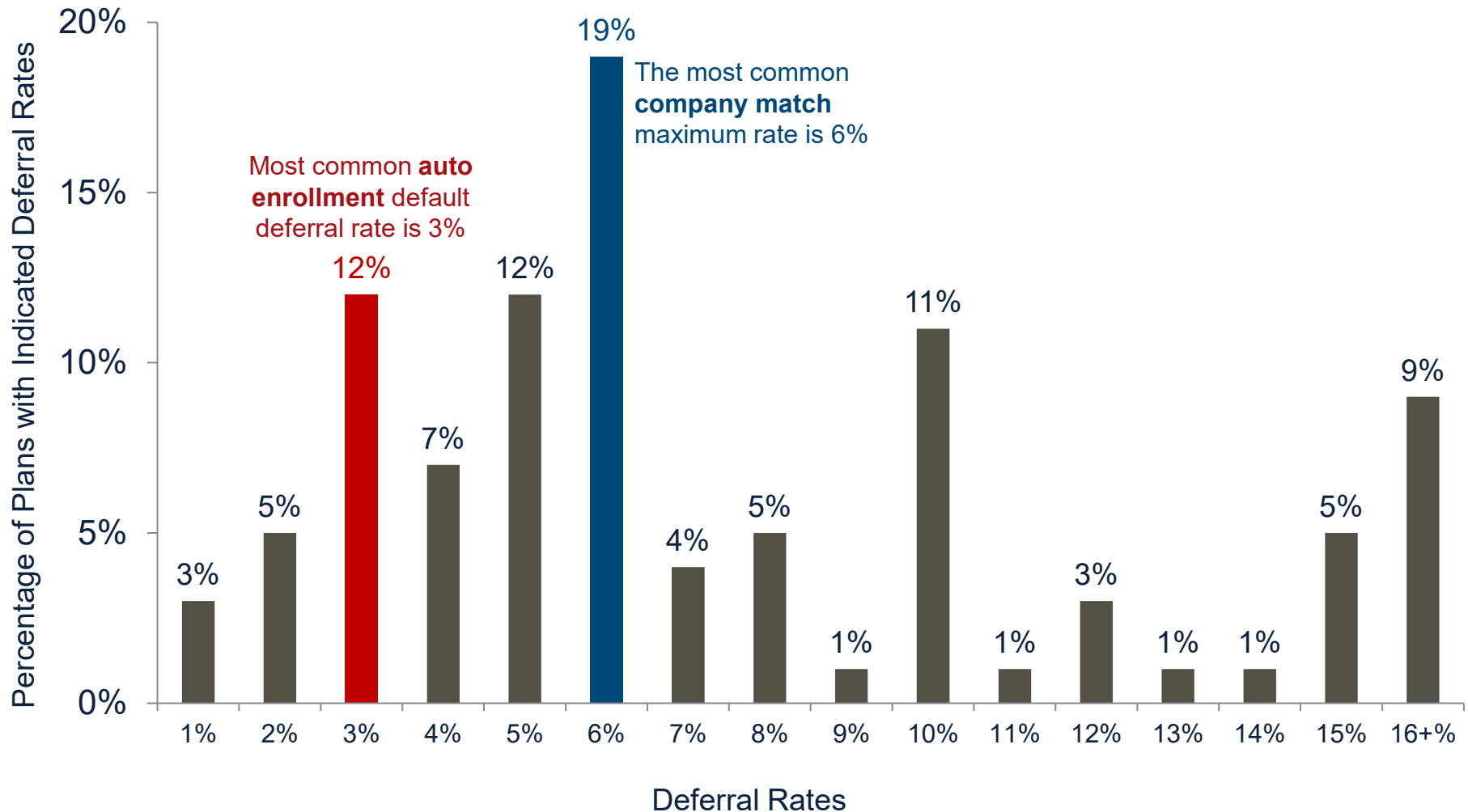
	Voluntary enrollment	Automatic enrollment
Job tenure (years)		
0-1	31%	87%
2-3	53%	94%
4-6	64%	94%
7-9	68%	91%
10+	74%	94%

Automatic Enrollment

Default automatic enrollment rate

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 percent	2%	3%	2%	2%	2%	2%	2%	1%	1%	1%
2 percent	13%	14%	13%	13%	13%	12%	10%	8%	7%	8%
3 percent	60%	56%	57%	55%	53%	51%	49%	48%	44%	41%
4 percent	10%	11%	11%	11%	12%	13%	15%	16%	15%	15%
5 percent	7%	7%	7%	8%	8%	9%	9%	11%	13%	14%
6 percent or more	8%	9%	10%	11%	12%	13%	15%	16%	20%	21%

Plan Design Influenced Deferral Rates



PTI Automatic Enrollment Decision

**Implement Auto
Enrollment at 6%**



Plan Design

Automatic Escalation



Current EWC Automatic Escalation



No Auto Escalation

No Auto Escalation



Plans Offering Automatic Escalation

Number of Participants

	All Plans	<500	<1,000	1,000-4,999	5,000+
Percentage of plans with automatic enrollment, automatic savings rate increases, and a balanced default fund	66%	58%	74%	68%	70%

Default Automatic Escalation Rate

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 percent	73%	68%	68%	67%	67%	67%	68%	68%	65%	64%
2 percent	2%	1%	1%	2%	2%	2%	2%	2%	2%	2%
Voluntary election	16%	15%	16%	16%	17%	17%	18%	20%	24%	25%
Service feature not offered	9%	16%	15%	15%	14%	14%	12%	10%	9%	9%

PTI Automatic Escalation Decision

**Implement auto
escalation at 2% of pay
and cap at 10% of pay**



Plan Design

Loans & Hardship Withdrawals

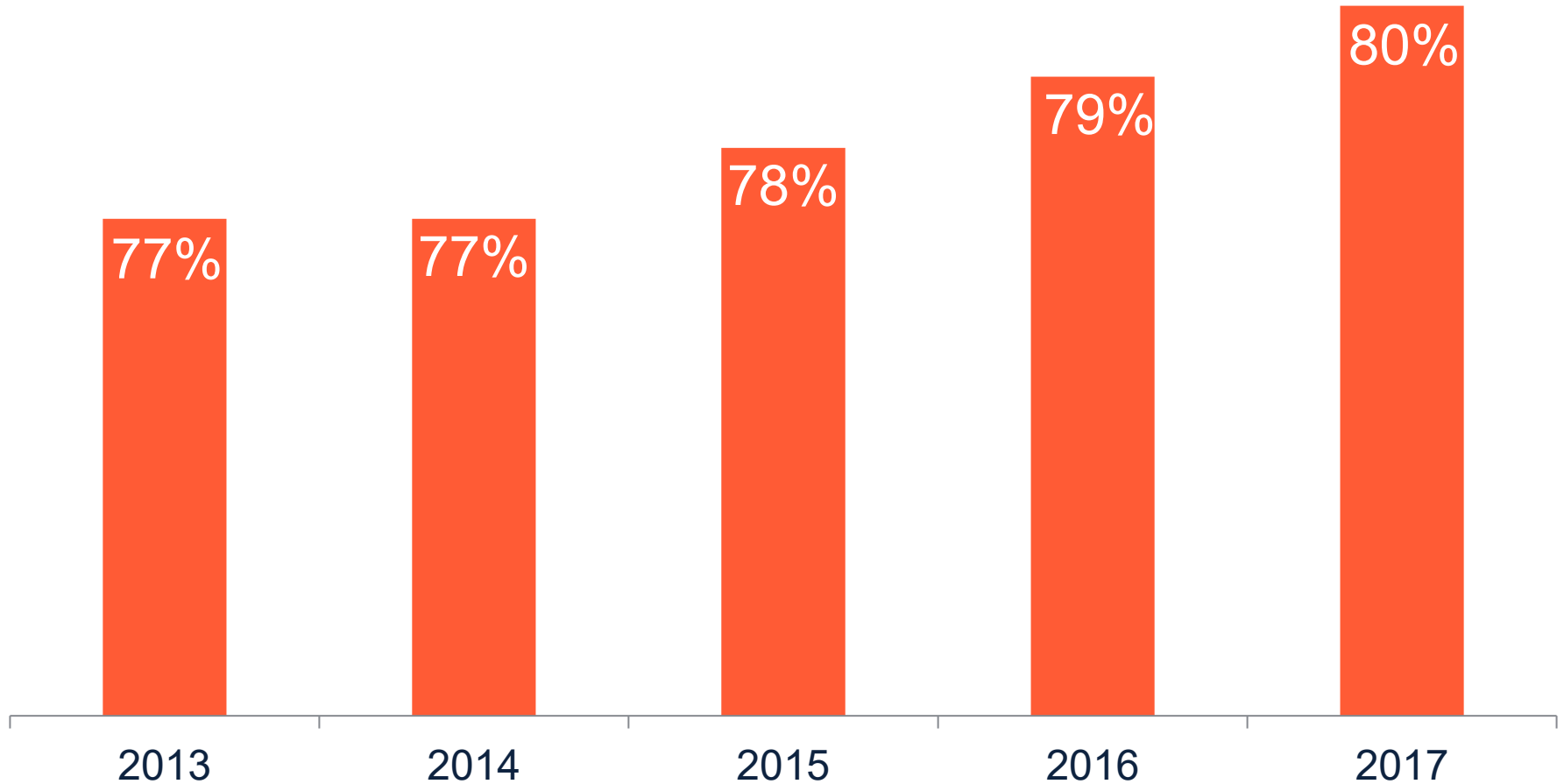


Current EWC Loans & Hardship Withdrawals

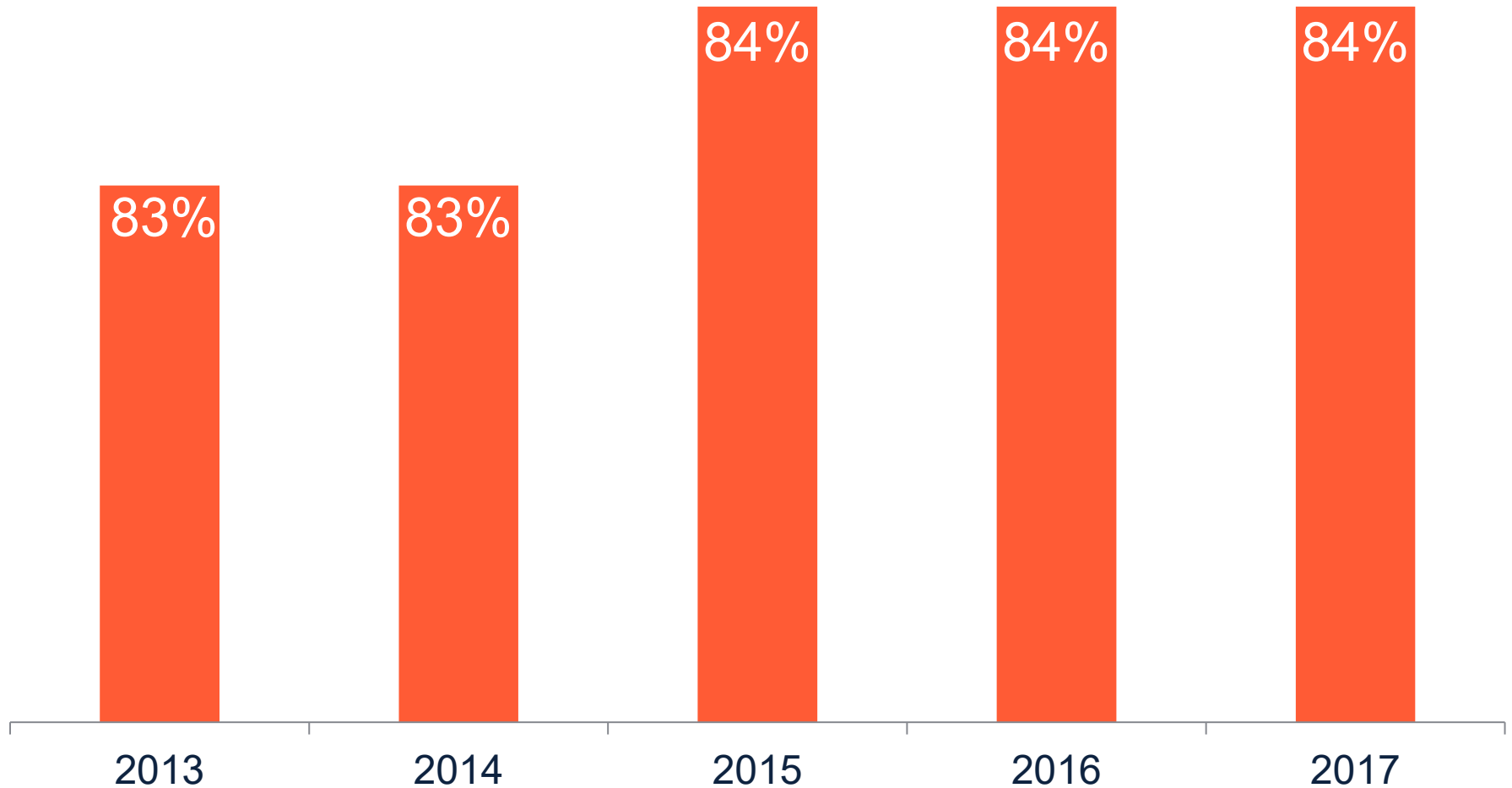


**Offers multiple
loans & hardship
withdrawals**

Percentage of Plans Offering Loans



Percentage of Plans Offering Hardship Withdrawals



EWC Loans & Hardship Decision



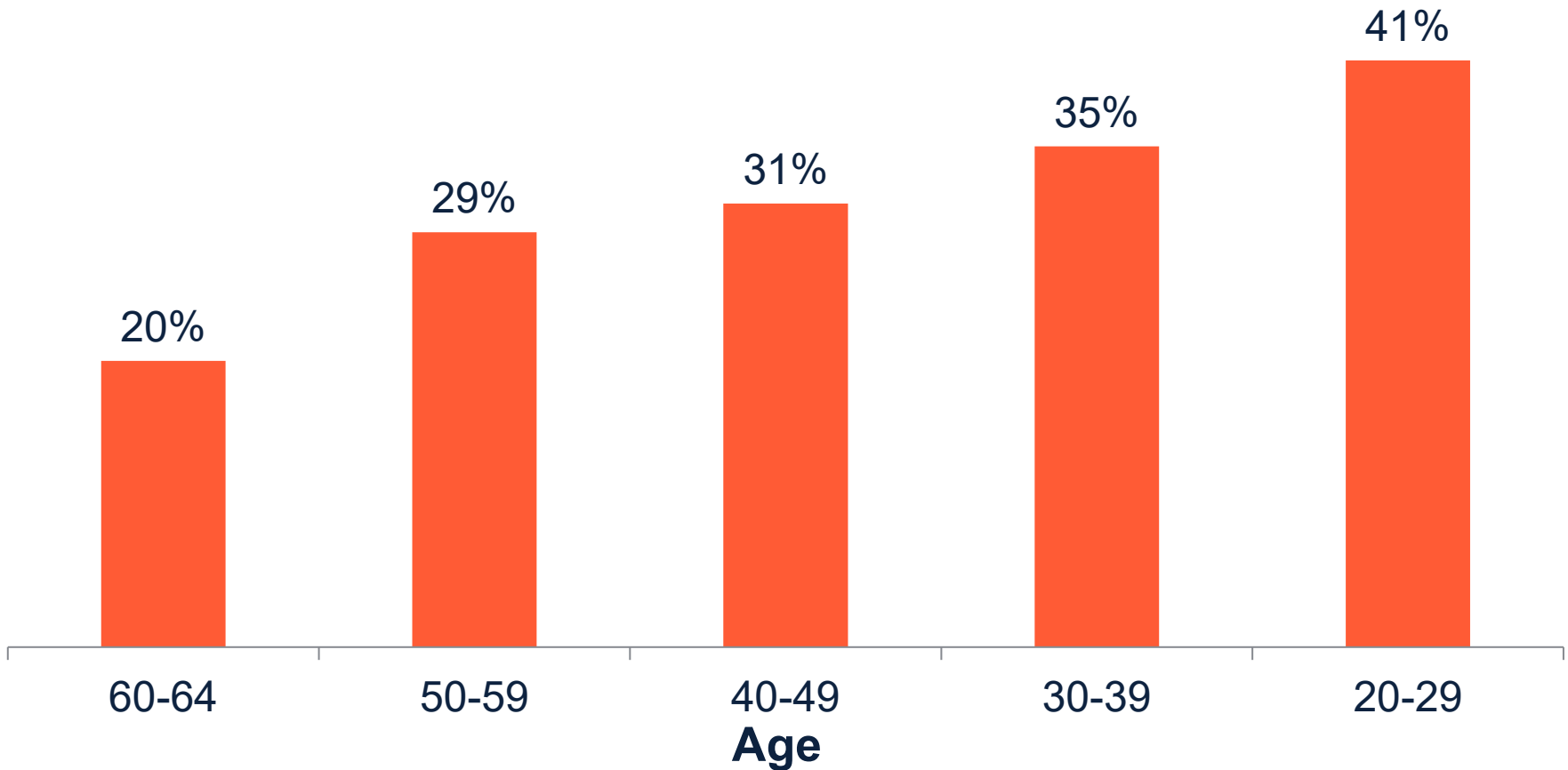
**Continue
to offer**

Current PTI Loans & Hardship Withdrawals

**Offers multiple
loans & hardship
withdrawals**



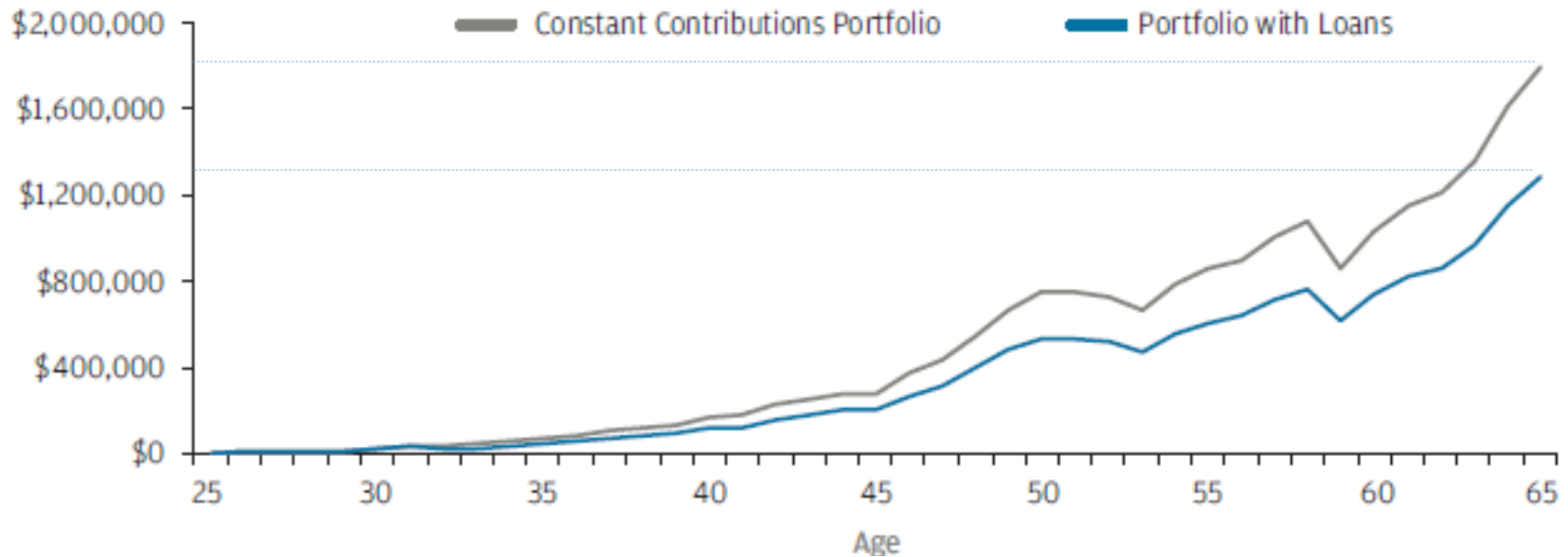
Repeat Loan Usage is High for Younger Participants



Percentage of continuous active participants who took a loan last period and took a loan this period, by age (rolling 12 months)

Impact of Loans on Savings Rates

Growth of a 401(k) investment



Eliminate Multiple Loans



Plan Design Considerations



Established Ways, Corp. (EWC)



Status Quo

Matching Formula

Status Quo

Auto Enroll

Status Quo

Auto Escalation

Status Quo

Loans & Withdrawals



Progressive Thought, Inc. (PTI)



30% per dollar on first 10% of pay

Implement at 6%

Implement at 2%

Eliminate Multiple



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Investments

Menu Construction

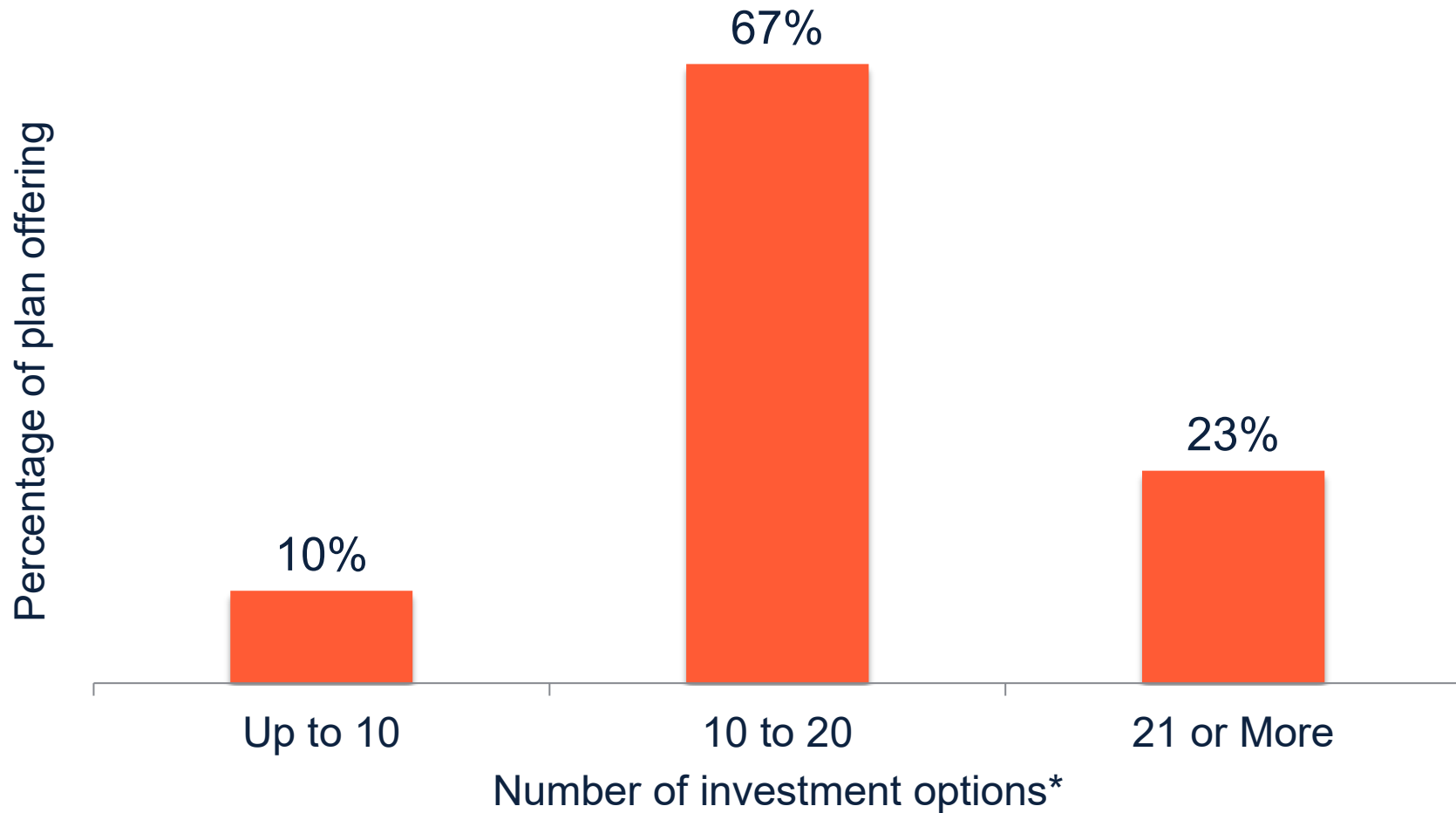


Current EWC Investment Construction



- **15 core funds**
- **House brand asset allocation funds**
- **Investments monitored by the recordkeeper**

Plan-Level Investment Options



EWC Investment Construction Decision



No change

Current PTI Investment Construction

- **15 core funds**
- **House brand asset allocation funds**
- **Investments monitored by the recordkeeper**



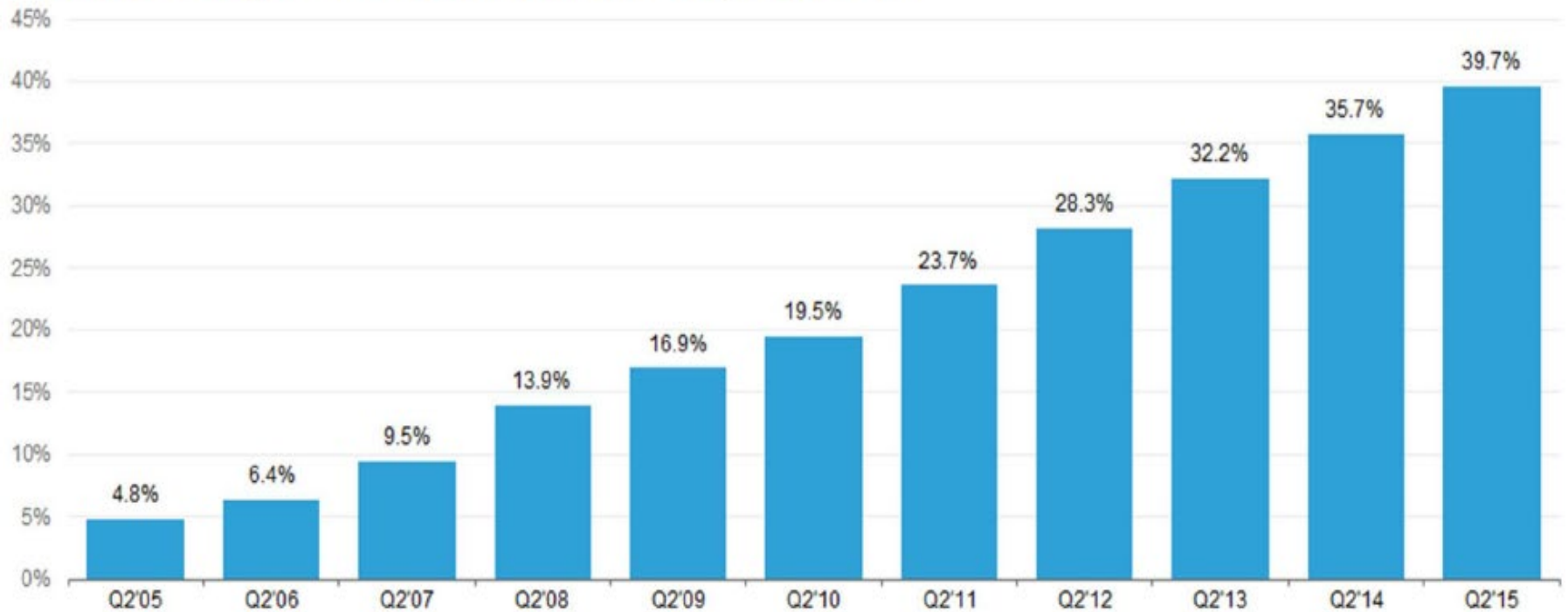
Investments

Asset Allocation Funds

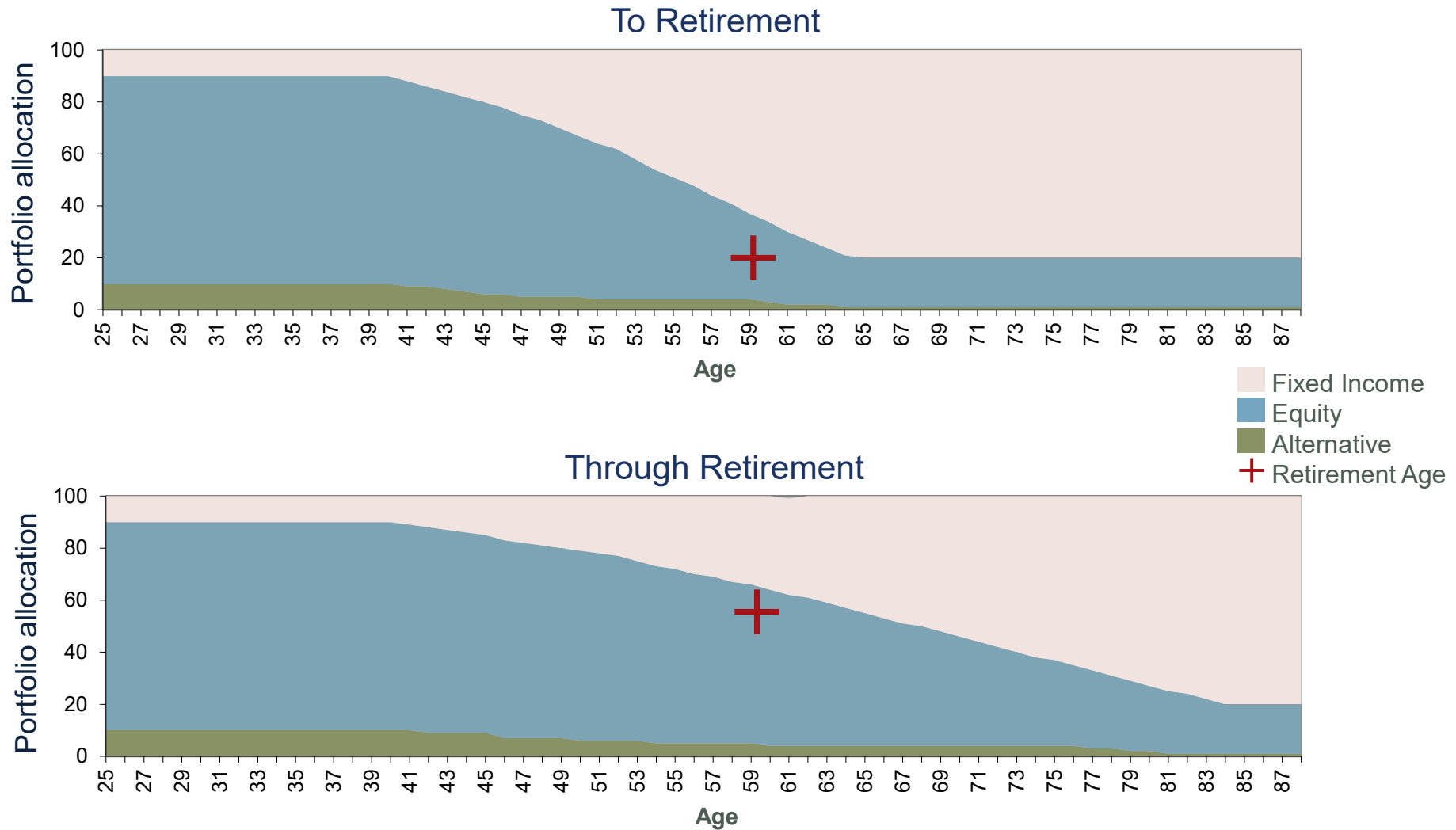


Usage of Asset Allocation Funds

Percent of Participants with 100% of Assets in Target Date Funds

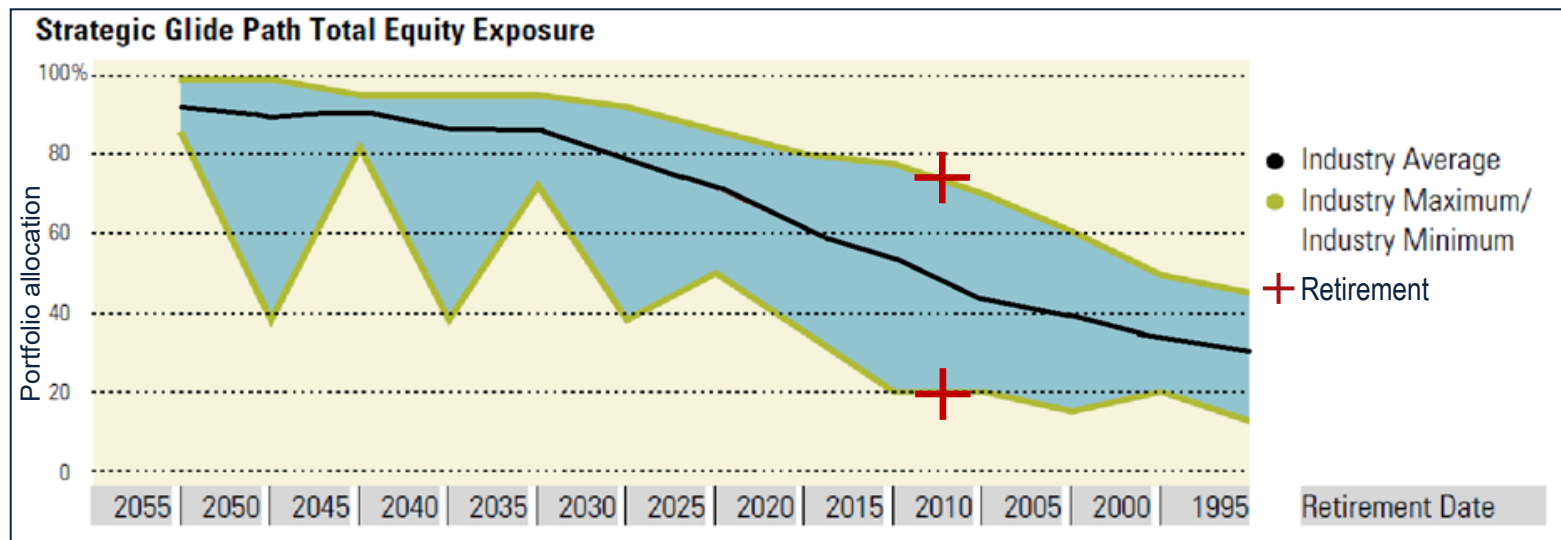


“To” and “Through” Glidepath Examples

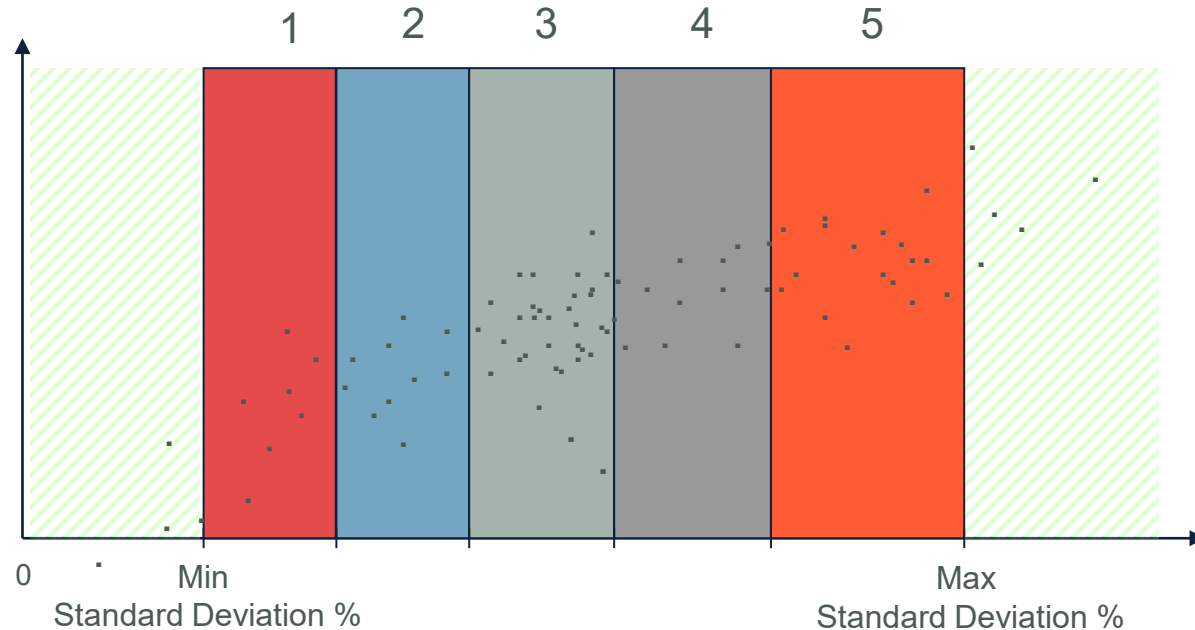


Target Date Funds (TDFs)

- The target date is the approximate date when investors plan to start withdrawing their money. Note that the principal value of the fund(s) is not guaranteed at any time. As the target retirement date approaches (and often continuing after the target date), the fund's asset allocation shifts to include a higher proportion of more conservative investments, like bonds and cash instruments, which generally are less volatile and carry less investment risk than stocks.
- Equity exposure varies significantly even with TDFs with the same target date
- Glidepaths are not purposeful and in some instances result in inappropriately (high or low) equity exposure



Compare Asset Allocation Funds With Similar Risk

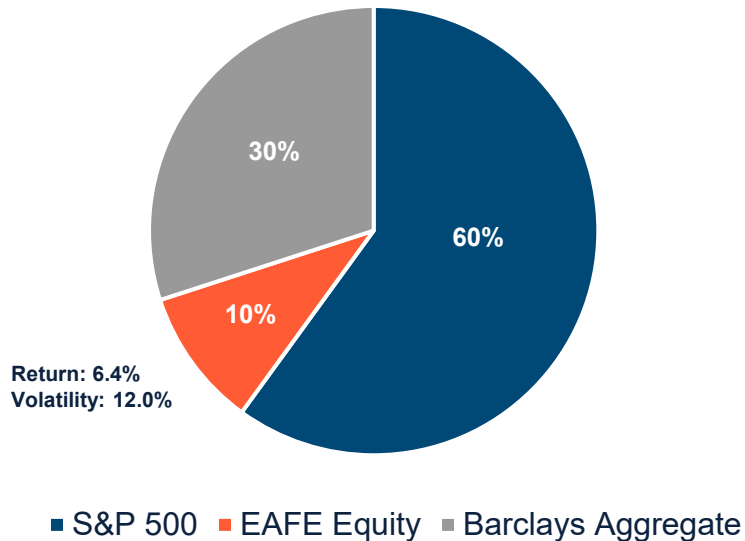


- Risk levels are reviewed and updated as risk levels change
- The risk buckets are: conservative; moderate conservative; moderate; moderate aggressive; and aggressive

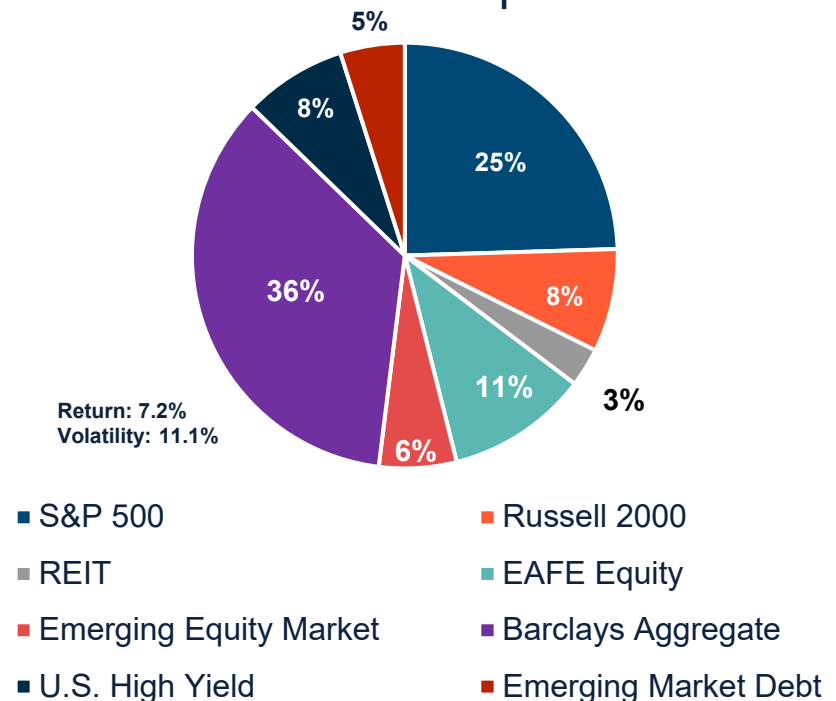
Redefining a Diversified Portfolio

Maximizing the power of diversification 2001-2016

Less diversified portfolio





More diversified portfolio



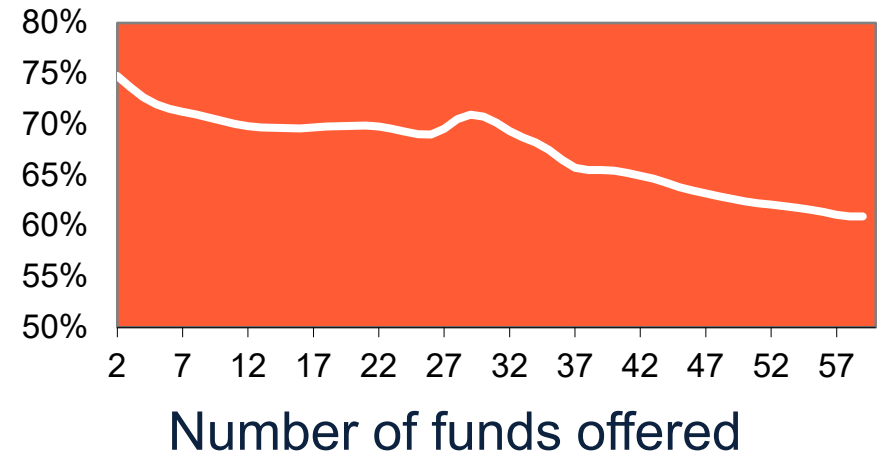
Using diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions.

Source: J.P. Morgan Guide to Retirement 2016 Edition

Traffic Jam

Display	Traffic	Sales
6 Jams 	40%	30%
24 Jams 	60%	3%

Participation Rate



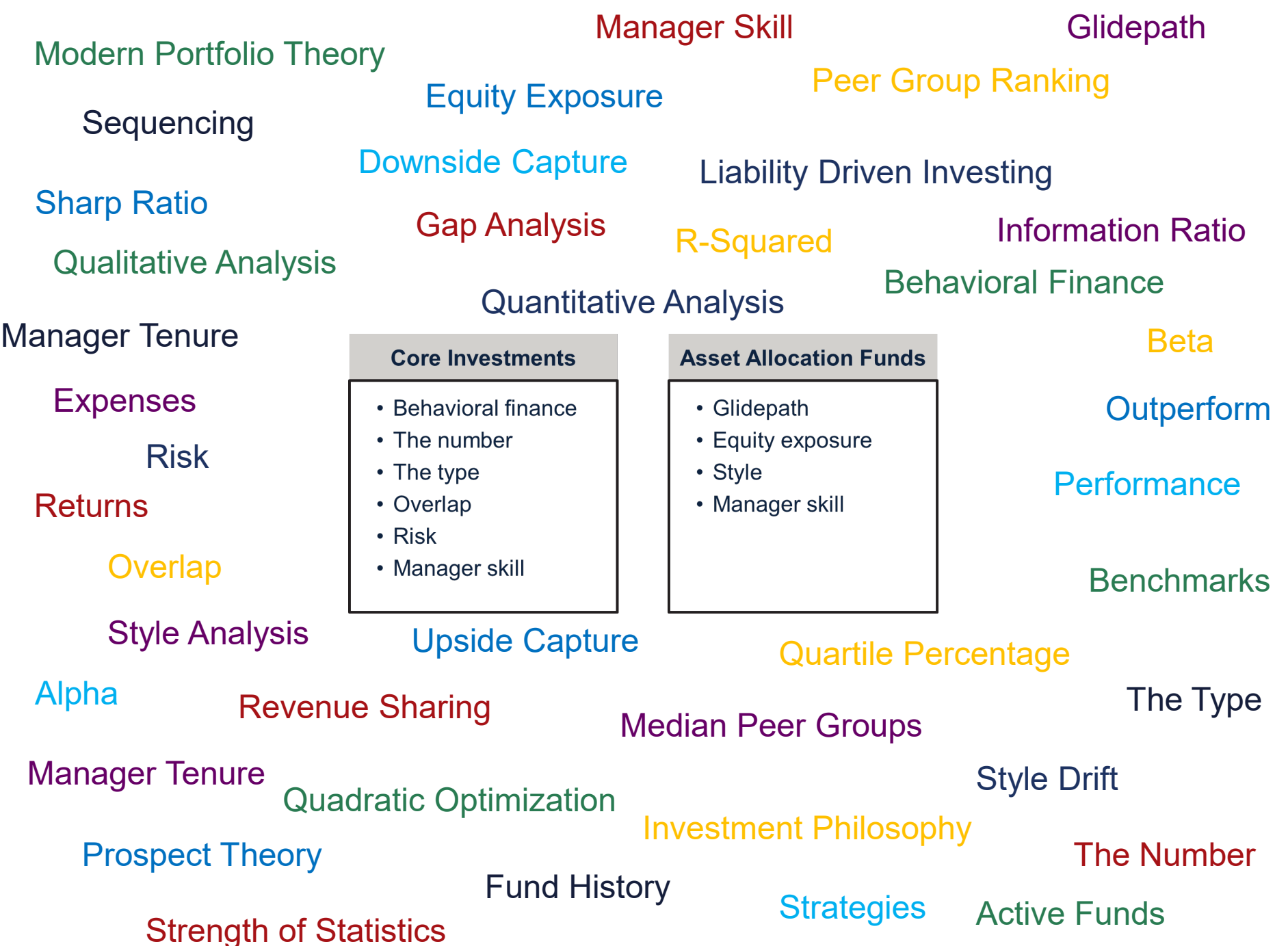
Investment Considerations

Core Investments

- Behavioral finance
- The number
- The type
- Overlap
- Risk
- Manager skill

Asset Allocation Funds

- Glidepath
- Equity exposure
- Style
- Manager skill



Be the Expert or Hire the Expertise

“The duty to act prudently is one of a fiduciary’s central responsibilities under ERISA. It requires expertise in a variety of areas, such as investments. Lacking that expertise, a fiduciary will want to hire someone with that professional knowledge to carry out the investment and other functions.”

PTI Investment Construction Decision

What did James decide to do?

He hired an
Independent Advisor.



Investment Considerations



Established Ways, Corp. (EWC)



Recordkeeper

Advice

House Brand

Asset Allocation Funds

No Change

Core Funds

No Change

Overlap



Progressive Thought, Inc. (PTI)



**Independent
Advisor**

New Series

More Index

**Reduced
Exposure**



James hired an independent advisor because independent fund options were not influenced by the recordkeeper's proprietary funds. The recordkeeper does not take on co-fiduciary status.

Fee Benchmarking & Plan Fee Allocation



Current EWC Fee Structure

EWC Assets: \$45,000,000

Billed Fees	\$0	0.00%
Investment Fees	\$450,000	1.00%

408(b)(2) disclosure in hand



EWC Fee Structure vs. Averages

	Averages		EWC Fees	
Billed Fees	\$11,000	0.02%	\$0	0.00%
Investment Fees	\$505,000	1.01%	\$450,000	1.00%
Totals	\$516,000	1.03%	\$450,000	1.00%

Current PTI Fee Structure

PTI Assets: \$45,000,000

Billed Fees	\$0	0.00%
Investment Fees	\$450,000	1.00%

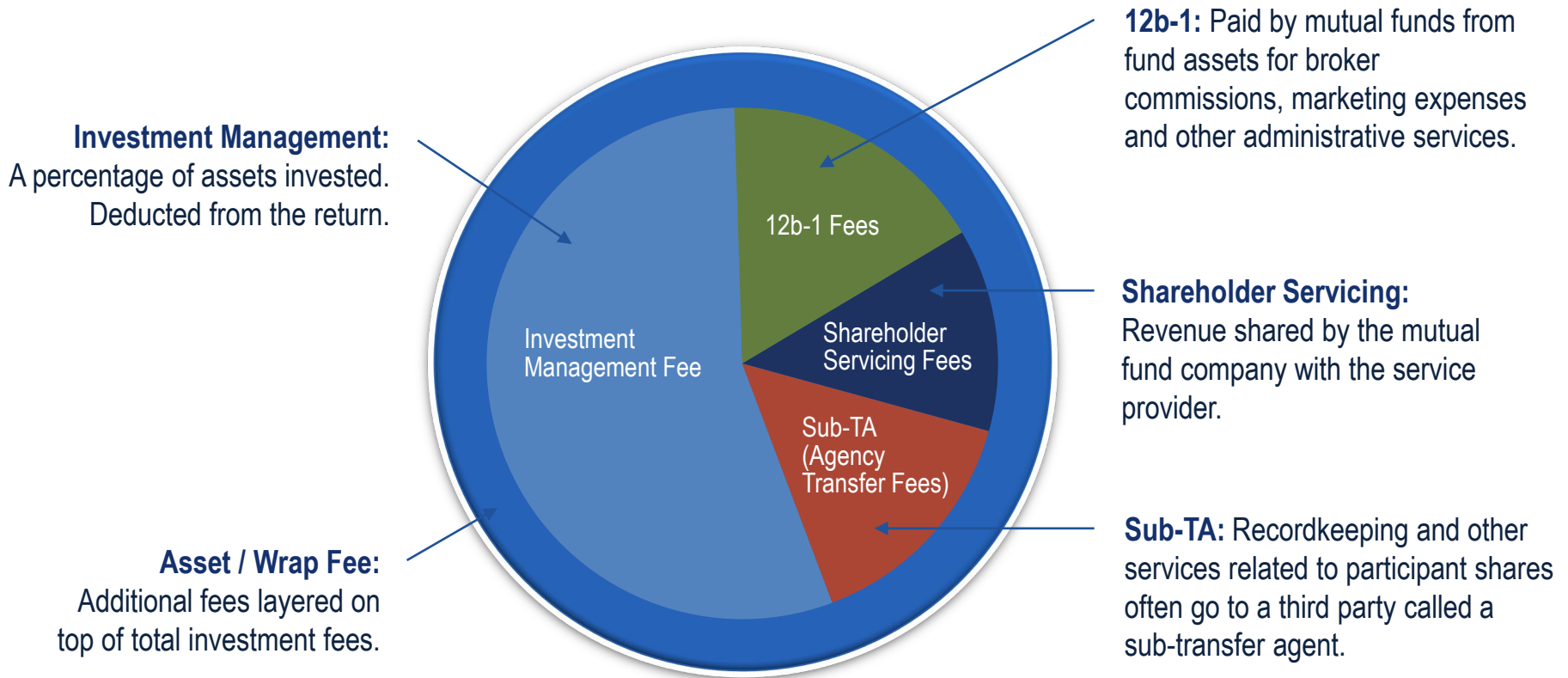
Limited scope
Averages
Benchmark

VS.

Full scope
Live Bid
Benchmark



Revenue Sharing Graph



Cost Breakdown

\$450,000 (1.00%)

```
graph TD; A["$450,000 (1.00%)"] --> B["Investment Management"]; A --> C["Recordkeeping"];
```

**Investment
Management**

\$272,500

\$419 per participant

0.60%

Recordkeeping

\$177,500

\$273 per participant

0.40%

DOL Stated Best Practices

“Plans normally conduct requests for proposals (RFPs) from service providers at least once every three to five years.”

Custom Fee Benchmarking

Competitive average from
alternative service providers

Recordkeeping Fees: \$125 per participant



Renegotiation

Current Recordkeeping Fees	\$177,500	0.40%
New Recordkeeping Fees	\$81,250	0.18%
Savings	\$96,250	0.22%

New Total Cost 0.78%



For illustrative purposes only. Not indicative of past or future results.

Utilizing the average of market bids, the recordkeeping fee was changed to .18 from .40. Investment management stayed constant at .60 which then totaled .78 total cost.

Plan Fee Considerations



Established Ways, Corp. (EWC)



Averages

Status Quo



Progressive Thought, Inc. (PTI)



Type of
Benchmark

Custom

Results

22% savings



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Fiduciary Education



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Investment Policy Statement

Current PTI Fiduciary Education

Don't we need to have something in place?



DOL Stance on Fiduciary Education

“During several recent audits, plan sponsors were surprised to hear the DOL auditor ask for documentation that the members of the Fiduciary Committee received fiduciary training over the past year.”

“...where the department has required training as part of its settlements..”

PTI Fiduciary Education Decision

**Fiduciary education
is a part of their
quarterly meetings**



Conclusions





Will Andrea meet her goal?

Impact Summary

EWC



PTI



Account Balance by Participant Age

Age	35	45	55	65
EWC	\$69,230	\$190,679	\$418,655	\$846,599
PTI	\$69,230	\$225,992	\$534,368	\$1,140,991
Increase	0	\$35,313	\$115,713	\$294,392

PTI = 35% Increase



Assumptions: EWC Rate of Return: 6.5%, Contributions: \$4,500 | PTI Rate of Return: 7.0%, Contributions: \$6,500

Impact Summary

EWC



PTI



Plan Assets

Year	Current	10 Years	20 Years	30 Years
EWC	\$45,000,000	\$123,941,350	\$272,125,750	\$550,289,350
PTI	\$45,000,000	\$146,894,800	\$347,339,200	\$741,644,150
Increase	0	\$22,953,450	\$75,213,450	\$191,354,800

PTI = 35% Increase



Assumptions: EWC Rate of Return: 6.5%, Contributions: \$4,500 | PTI Rate of Return: 7.0%, Contributions: \$6,500

Top 10 Pragmatic Changes

- 10 Automatic enrollment
- 9 Automatic escalation
- 8 Matching contribution restructuring
- 7 Loan provision restrictions
- 6 Hardship withdrawal education
- 5 Investment review includes downside risk analytics
- 4 Asset allocation funds have a thorough vetting

Top 10 Pragmatic Changes

3 Fees are benchmarked appropriately

2 Implement fiduciary education

Top 10 Pragmatic Changes

1 Think like James, not Andrea

Have the courage
to make changes



Little changes can have big effects

-Malcolm Gladwell



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[Securities disclosure]

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