



# Innovative QDIA Plan Design Can Improve Participant Retirement Readiness

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# What We Will Cover Today....

- ✓ The 401(k) differs from a true pension
- ✓ The problems that result cause most 401(k) plan participants to face a huge shortfall in projected retirement income
- ✓ Solution to this shortfall problem from Janus Capital
- ✓ Solution to this shortfall problem from Unified Trust Company

# In the Past a Worker Could Rely Upon a Company Pension

As recently as 1979 more than 84% of the workforce had a DB plan or a combined DB/DC plan

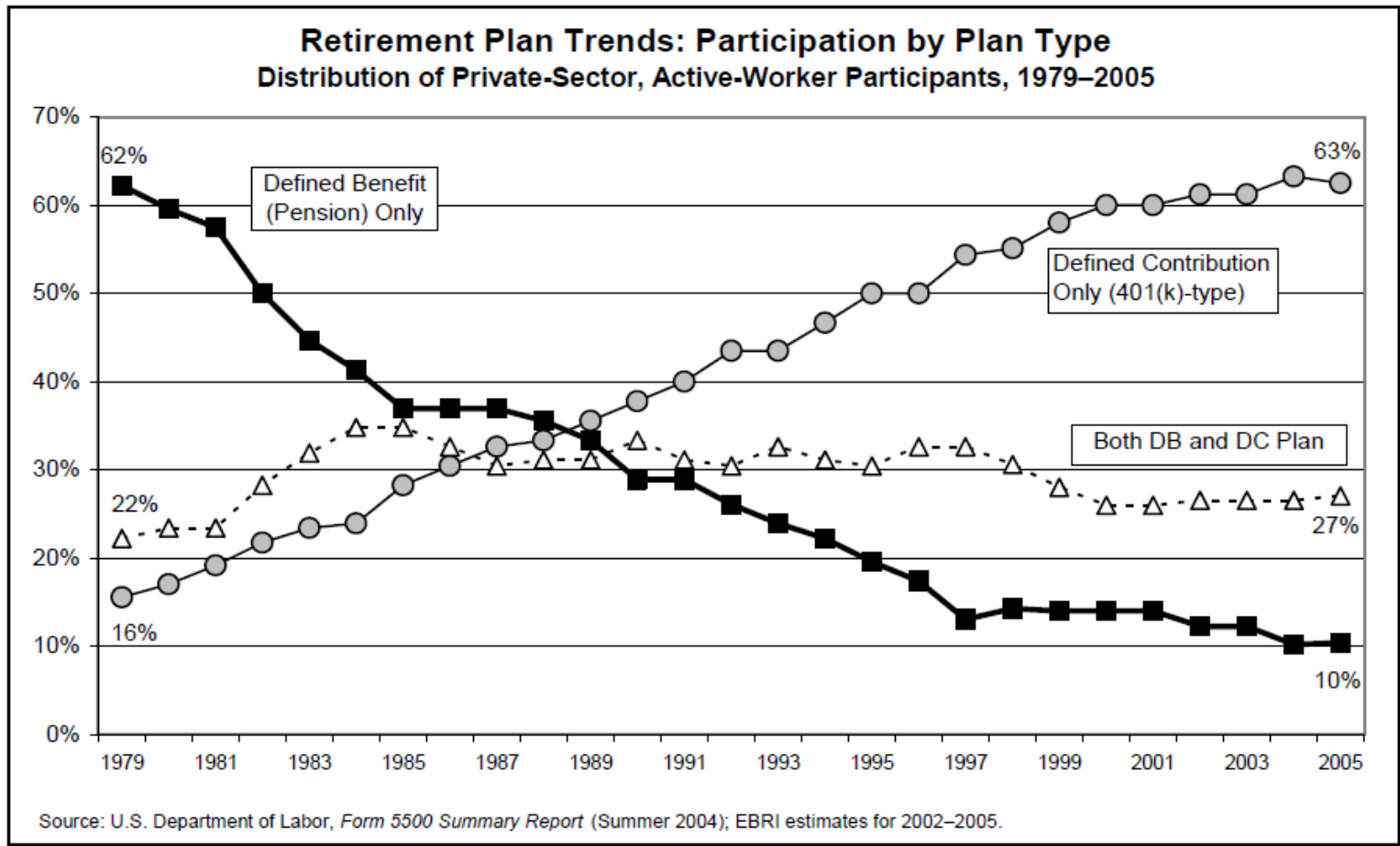


# Today This Is No Longer the Case

In 2010 less than 20% of the private workforce had a DB plan as their primary retirement benefit



# For the Baby Boom Generation the Company Pension Was Replaced With the “Do It Yourself” 401(k) Plan



# The “Do It Yourself” Pension Forces the Employee to Perform Many Highly Complex Financial Tasks

The DB to DC shift forces the mostly unprepared employee to become the CFO, Actuary, Risk Manager, Economist, Investment Manager, Consultant and Funding Source for their retirement plan----with no training!

# Yet, Concerning Electronic Document Delivery, the DOL Has Concerns About the Most Basic of Skills

U.S. Department of Labor

Employee Benefits Security Administration  
Washington, DC 20210



## **TECHNICAL RELEASE 2011-03**

DATE: SEPTEMBER 13, 2011

SUBJECT: INTERIM POLICY ON ELECTRONIC DISCLOSURE UNDER 29 CFR  
2550.404A-5

### **BACKGROUND**

With regard to the use of electronic media generally, the Department has issued a regulation, at 29 CFR 2520.104b-1(c), setting forth conditions under which a plan administrator will be deemed to satisfy the requirement, in section 2520.104b-1(b)(1), that disclosures under title I of the Employee Retirement Income Security Act of 1974 (ERISA) must be furnished using “measures reasonably calculated to ensure actual receipt of the material.” The safe harbor of section 2520.104b-1(c) is limited to individuals who meet the requirements of one of the following classifications:

# I Can Be an Actuary---But Cannot Handle an Adobe PDF File

“...the Department was aware that some workers and retirees may not be sufficiently computer literate to receive information electronically...”

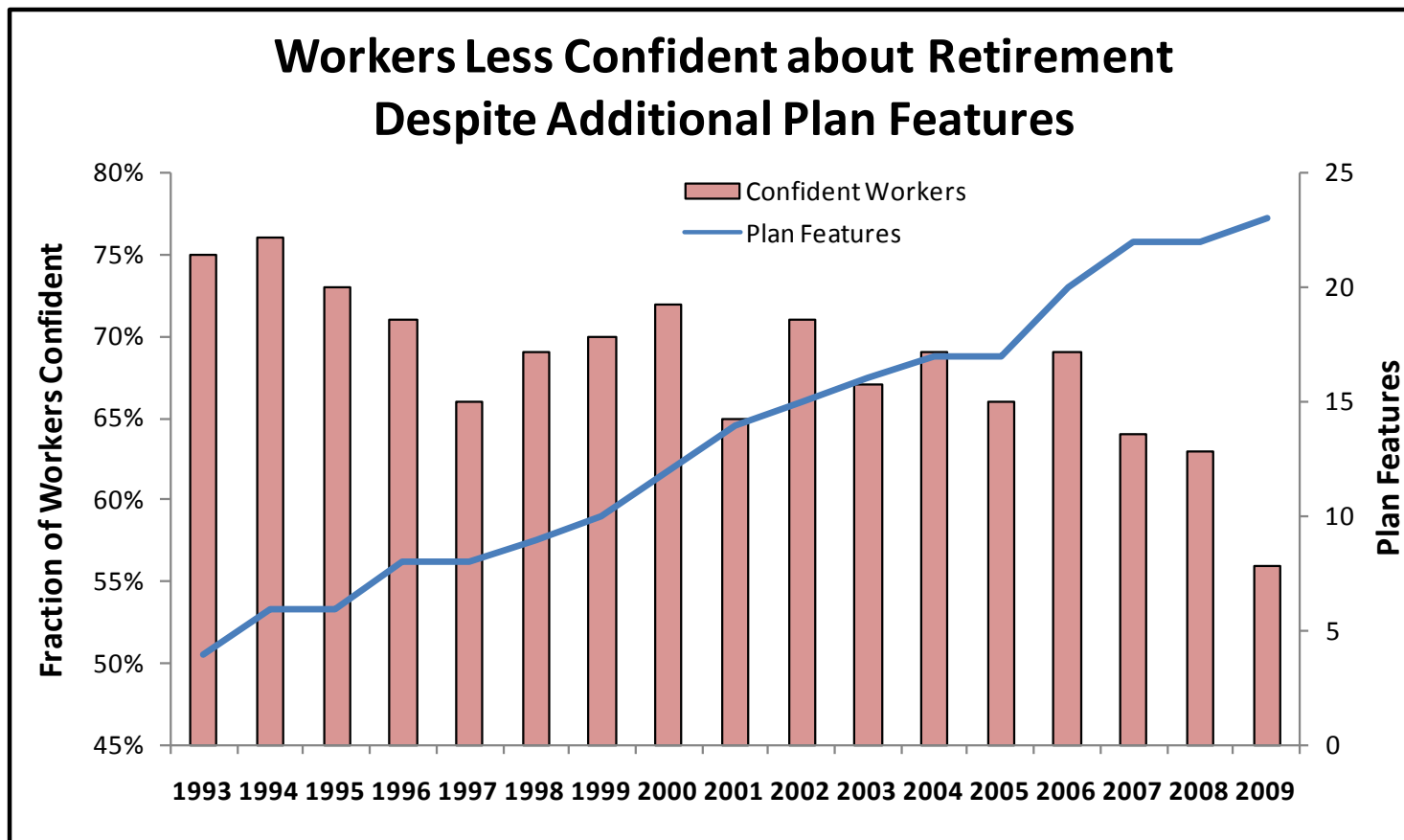


# Over the Past 20 Years 401(k) Plan Features Have Steadily Increased

- Daily Valuation
- Multiple fund families
- Web based calculators
- Target date funds
- Electronic trading
- Rapid loan processing
- Simple “Gap” reports
- Better communication materials
- Financial Engines
- Morningstar reports
- Asset allocation software
- Quarterly reports
- Auto enroll
- PPA 2006
- Increasing fund choices
- Sector funds
- Brokerage accounts

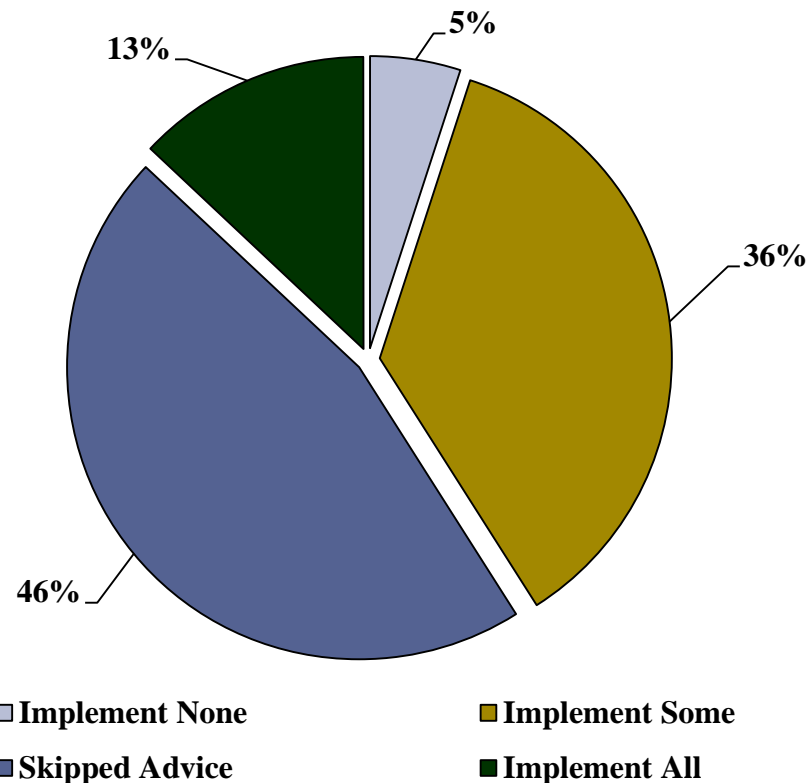


# Yet With More “Features” Retirement Confidence Has Steadily Fallen



Source EBRI: The 2009 Retirement Confidence Survey: Economy Drives Confidence to Record Lows; Many Looking to Work Longer

# Participants Have Huge Amounts of Inertia--Only 13% Implement All Recommendations



Helman, Ruth ,Mathew Greenwald & Associates; VanDerhei, Jack , Temple University and EBRI Fellow; and Copeland,Craig, EBRI. "The Retirement System in Transition: The 2007 Retirement Confidence Survey" EBRI Issue Brief No. 304 April 2007.

# National Consultants Report Most Participants Don't Use Retirement Tools

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## Mesirow survey: DC participants don't use retirement tools

BY **ROBERT STEYER**  
PUBLISHED: APRIL 13, 2011

More than three out of four defined contribution plan participants don't take full advantage of savings and retirement tools available to them, according to a report by [Mesirow Financial](#) that gauged plan executives' assessment of participant behavior and their plans' structures.

**RELATED CONTENT**

▶ **STORIES**  
[403\(b\) plans looking more like 401\(k\) plans, survey shows](#)

According to the report, based on the results of a survey of 101 plan executives, 78.5% of participants did not "take full advantage" of available savings and retirement tools.

Fifty-nine percent said they didn't detect an increase in participants asking for assistance with their retirement accounts during "recent market volatility," the report said.

Among the greatest concerns cited by executives related to their plans, 38.7% said "investment performance dictated by a volatile market"; 30% said "effective" participation; and 18.3% said participants' dependence on the plan "as the only retirement savings vehicle."

"Our survey was meant as a taking of the pulse of the market," Christopher Reagan, managing director and practice leader at Mesirow, said in a telephone interview.

The e-mailed survey, from mid-November through mid-January, included clients and non-clients of Mesirow primarily in the Midwest, Mr. Reagan said. The survey focused primarily on 401(k) plans but also included responses from 403(b) plans, Mr. Reagan said. It was first retirement plan survey of DC plan executives conducted by Mesirow.

— Contact Robert Steyer at [rsteyer@pionline.com](mailto:rsteyer@pionline.com)

# Increased Litigation Risk to Employers from Incorrect Web Calculators

The screenshot shows the homepage of the "ERISA & Employee Benefits Litigation Blog". The header features the blog title and the logo for Seyfarth Shaw LLP, with the text "PUBLISHED BY SEYFARTH SHAW LLP ATTORNEYS". Navigation links for "Home", "About", and "Contact" are visible. A sidebar on the left lists various topics such as "401(k) Fees and Investment Selection Litigation", "Employer Stock Litigation", and "General Fiduciary Breach Litigation". The main content area displays an article titled "Northern District of California Rules That A Plan Fiduciary Owes A Fiduciary Duty Even When Performing Ministerial Tasks" by Seyfarth Shaw, dated November 17th, 2011. The article text discusses a ruling by the U.S. District Court for the Northern District of California regarding a plan fiduciary's duty. A search bar and a "Subscribe to blog via RSS" link are also present.

“The district court held, they owed a fiduciary duty to the Plan’s participants.... even when providing a pension benefit estimate with a website’s pension calculator.”

# PPA Gave Automatic Enrollment— But for Most It Is Not Enough

RETIREMENT PLANNING | JULY 7, 2011

## 401(k) Law Suppresses Saving for Retirement

By ANNE TERGESEN

A 2006 law designed to boost employees' retirement-savings is having the opposite effect for some people.



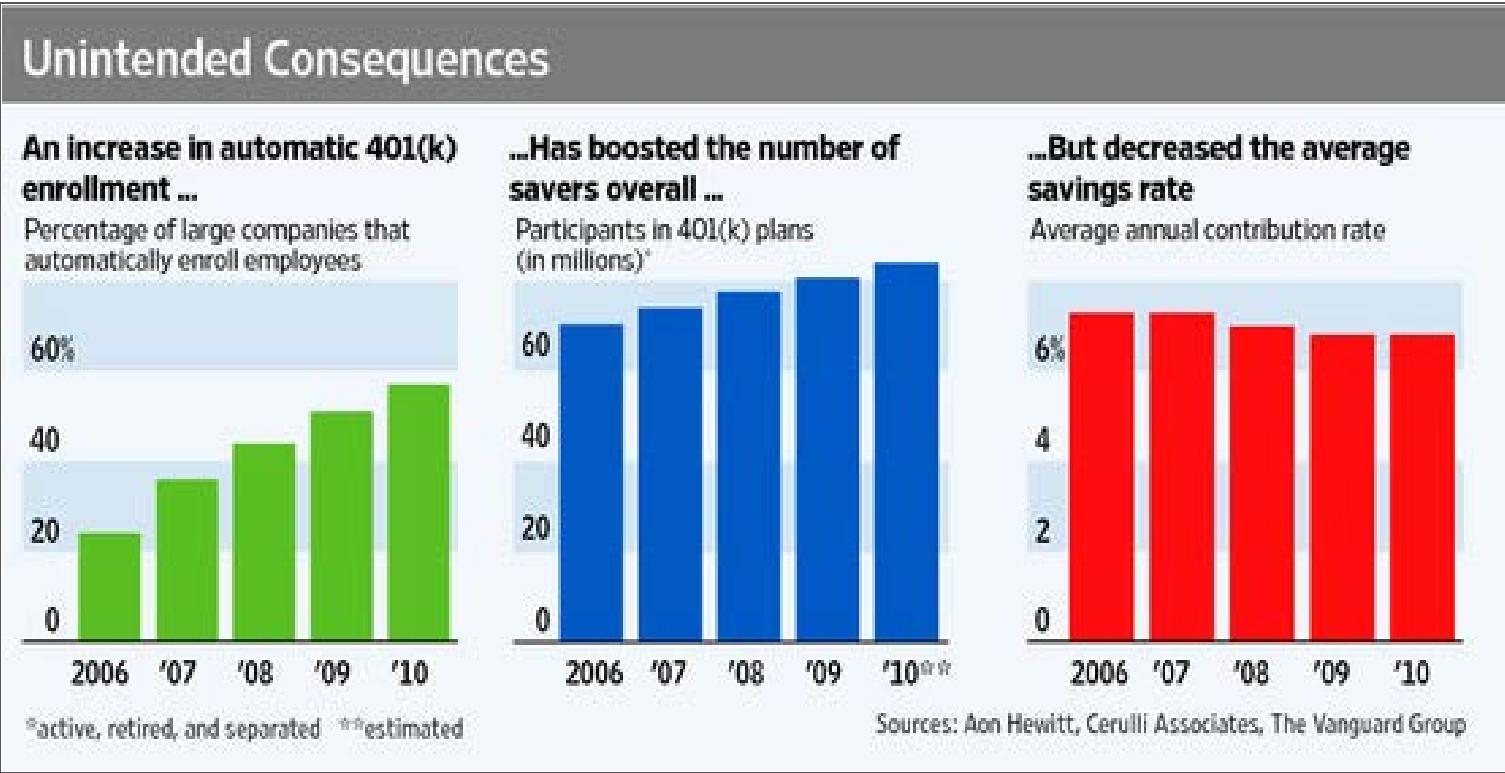
WSJ's Anne Tergesen reports a 2006 law allowing companies to automatically enroll people in 401(k) plans has had unintended consequences. AP Photo/Ron Edmonds.

Under the law, companies are allowed to automatically enroll workers in their 401(k) plans, rather than require employees to sign up on their own. The measure was intended to encourage more people to bulk up their retirement nest eggs—a key goal in a country where millions of people aren't saving enough.

But an analysis done for The Wall Street Journal shows about 40% of new hires at companies with automatic enrollments are socking away less money than they would if left to enroll voluntarily, the Employee Benefit Research

Institute found. The nonprofit performed a complex computer simulation of savings patterns drawing on data from more than 20 million 401(k) participants.

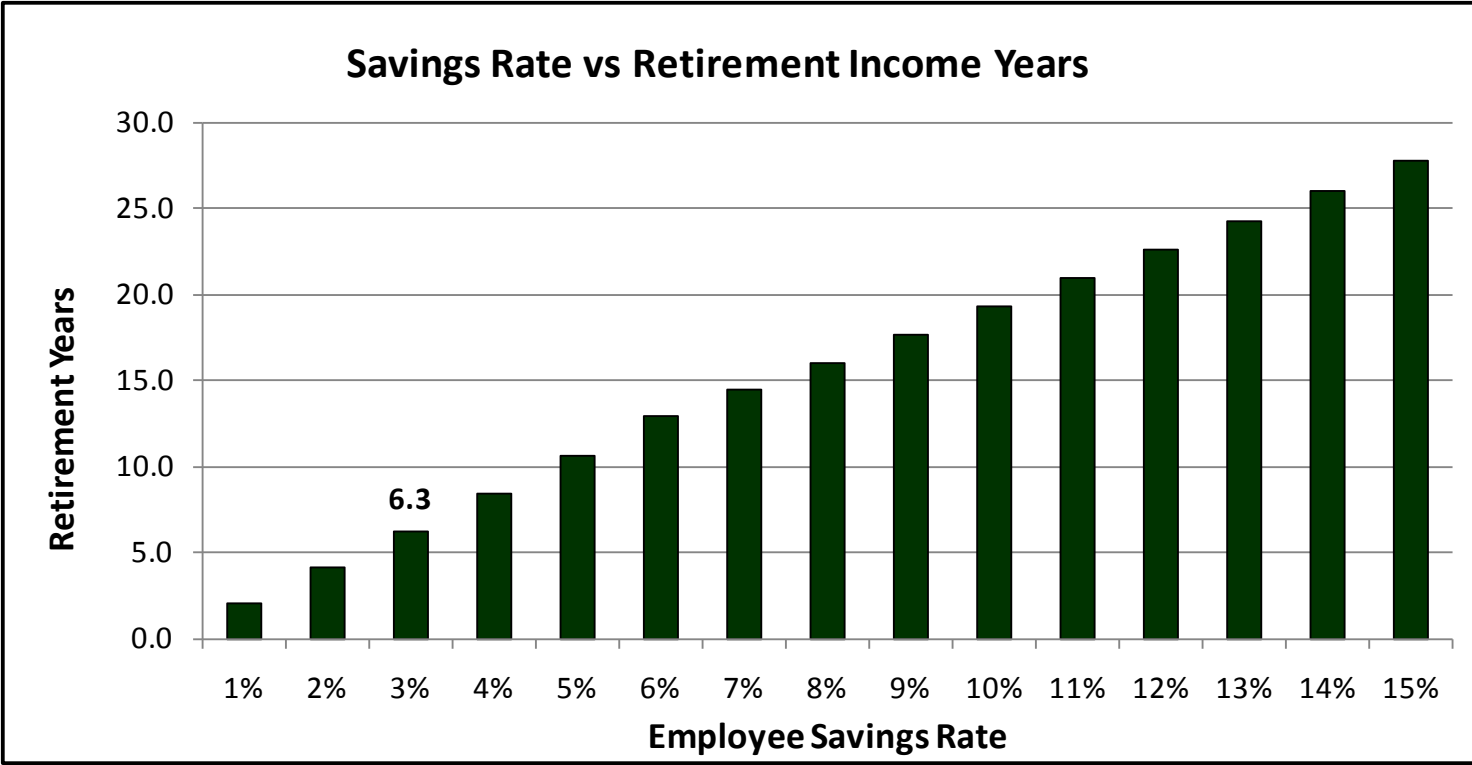
# PPA Gave Automatic Enrollment— But for Most It Is Not Enough



Source: Teregsen, Anne: 401(k) Law Suppresses Saving for Retirement. *The Wall Street Journal* July 7, 2011



# An Employee Deferring 3% of Pay with 50% Match Can Expect Only 6 Years of Retirement Income



Analysis assumes a 30 year old employee is earning \$60,000 in real dollars. They retire at age 65 with a replacement retirement income goal of 70%. Social Security replaces 25% of their income. The employer match is 50% up to 6% of pay. The assumed real rate of return during the accumulation phase is +3.0% and +1.0% in the distribution phase.

# Simple Mistakes Explain Why Most 401(k) Participants Will Not Have Retirement Security

- Most have no defined goal
- Most have not correctly calculated what they will need since they are not actuaries
- Participants actions (or inactions) are mostly driven by behavioral finance traits such as inertia and framing
- Only 13% implement all recommendations
- Less than 10% sign up for managed account personalized solutions
- “One size fits all” target date funds do not work, and are often misused

# Three Out of Four 401(k) Participants Will Fail Using Traditional Methods

September 24, 2010, 11:07 AM ET/4:07 PM GMT

**Pensions&Investments**

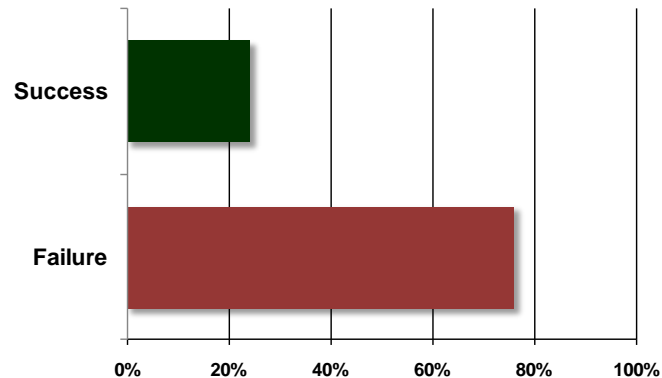
## 75% in DC Plans Won't Have Enough for Retirement, Survey Says

By Robert Steyer

Source: Pensions & Investments

Date: September 22, 2010

Three-quarters of defined contribution plan participants are projected to fall short of what they will need in retirement, said Christopher L. Jones, chief investment officer at Financial Engines.



# Today Advisors Must Move from the Intangible to the Tangible Value Proposition

The 2012 upcoming 408(b)(2) plan sponsor fee disclosures and 404(a) participant disclosures are going to create a whole new discussion with plan sponsors.

The discussion cannot be about fees only. It is also important to benchmark fees, services and outcomes.

This fee discussion will make the delivery of tangible value of huge importance.



# Innovative QDIA Plan Design Can Improve Participant Retirement Readiness

**Matt Sommer**

Director, Senior Retirement Specialist  
Janus Capital Group

# The Retirement Readiness Zone

- The five-year period leading up to a participant's anticipated retirement date
- While much attention is paid to a participant's distribution and post-retirement decisions, poor investment results during this period will dramatically impact expected cash flow

# Recent Target-Date Fund Topics

- “To” versus “Through”
- Single or multi-manager
- Active versus passive
- Traditional versus alternative asset classes
- Pre-packaged versus custom

# Fixed Income is Largely Overlooked

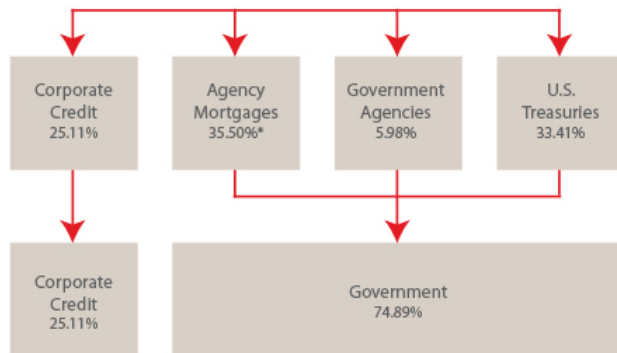
- As the end-date approaches, fixed income becomes more heavily-weighted in most Target-Date Funds
- The intent of fixed income is to reduce portfolio volatility and help preserve principal
- The financial crisis has changed the fixed income market, and the potential for return variability for target-date funds near their end-date is underestimated by the market



# A Changed World

## Converging Sectors in the Fixed Income Market

THEN: Four Basic Sectors in Fixed Income  
% of the Barclays Capital U.S. Aggregate Bond Index as of 8/31/11



NOW: Compression has resulted in two sectors:  
**Corporate Credit and Government**

\*The securitized market includes agency mortgages and asset-backed securities/commercial mortgage-backed securities (ABS/CMBS). Given the small size of the ABS/CMBS sectors and their combined small weighting in the Barclays Capital U.S. Aggregate Bond Index (2.43% as of August 31, 2011), it is generally not considered a primary sector in fixed income.

Source: Janus, Barclays Capital. As of 8/31/2011.

- There has been a major structural shift in the Fixed Income market
- Three sectors effectively converged into one:  
**Government**
- Corporates are now the lone non-government alternative

# Recent Observations

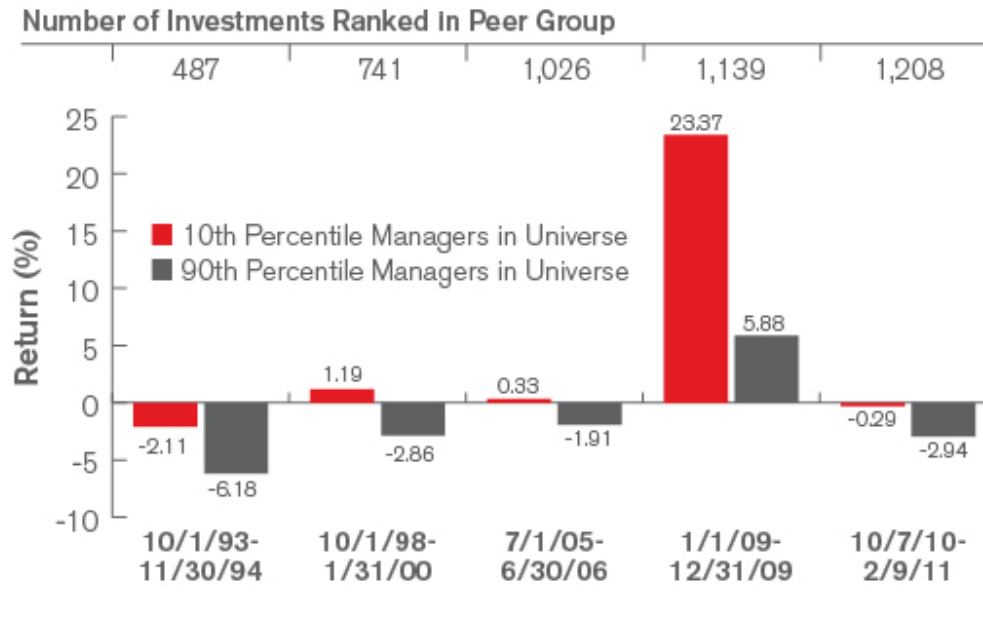
- The duration of the US Barclay's Aggregate Bond Index has increased from 3.7 at the end of 2008 to 4.9 at the end of August 2011
- There are high correlations of returns of US Treasuries to both Government Agencies and Agency Mortgages

# Implications for Some Target-Date Funds

- Some Target-Date funds rely on the “Agg” or a fund that aspires to closely track it for some or all of their fixed income investments
- Rising rates have had a profound impact on the risk/return profile of the fixed income portion of Target-Date Funds, in ways sponsors and participants have not anticipated

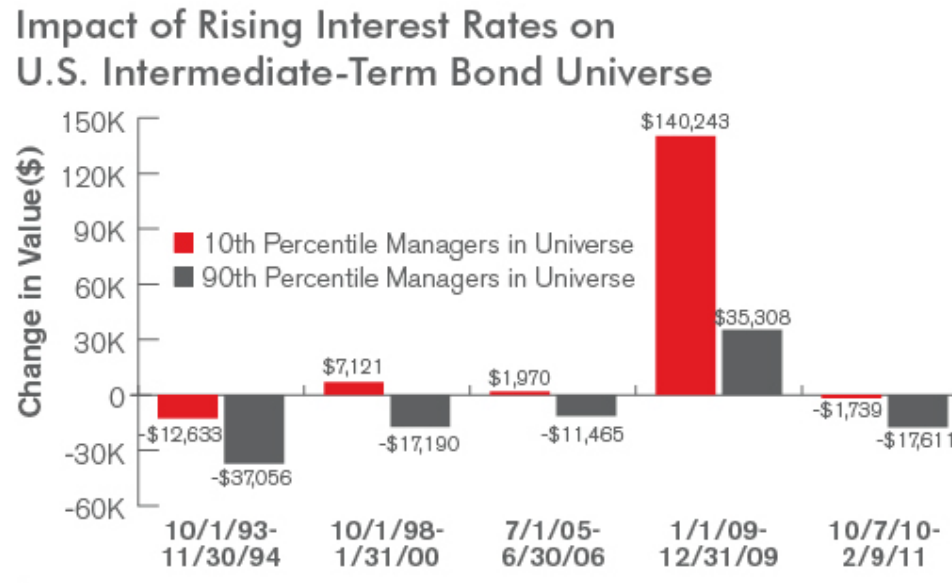
# US Intermediate-Term Bond Fund Universe: Performance During Periods of Rising Interest Rates

## U.S. Intermediate-Term Bond Universe Performance During Periods of Rising Interest Rates



Source: Morningstar.

# Impact of Rising Interest Rates in US Intermediate-Term Bond Fund Universe



Source: Morningstar.

# Why Corporate Credit?

- Corporate balance sheets and liquidity positions are strong and profit margins are near 25-year highs
- Potentially higher yields and less sensitivity to rising interest rates than US Treasuries



# Plan Sponsor and Consultant Considerations

# Key Question

- What do you want the fixed income portion of your plan's Target-Date investment to achieve?



# Investment Policy Considerations

- Have you reviewed the glide path and is it still appropriate for your employees?
- What are the specific allocations to fixed income investments and how might they change over time?
- Does the portfolio manager have flexibility to pursue and adapt strategies to reflect changing market conditions?

# Investment Manager Considerations

- Has your investment manager (who is responsible for the fixed income portion of your Target-Date fund) managed a fund through a variety of business cycles, including a rising rate environment?
- If so, what were his or her results?

# Investment Process Considerations

- **Duration** management and its impact on a portfolio's sensitivity to interest rate changes
- **Sector** allocation and how some bond types may be less impacted by rising rates
- **Credit quality** and a bias towards mortgage securities. In some circumstances, a single A credit may be less risky than AAA mortgages due to interest rate risk
- **Benchmarking** and whether plan sponsors should consider a customized index that adjusts to preserve capital in a shifting rate environment



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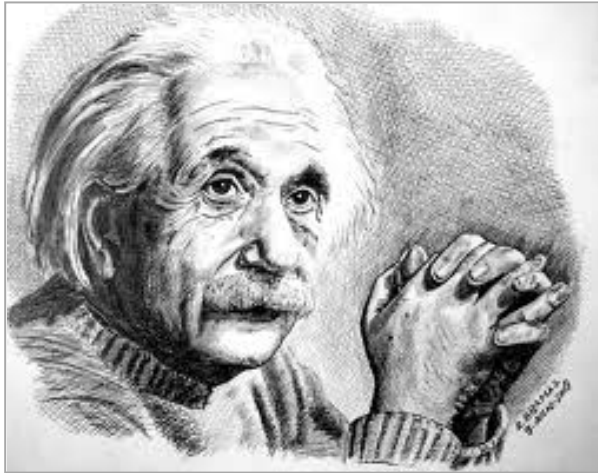
**Dr. Gregory W. Kasten**  
Chief Executive Officer  
Unified Trust Company, NA

# Today Advisors Must Move from the Intangible to Tangible Value Proposition

“Before you hired us you had 27% of employees on track for a successful retirement.

After we instituted our actions you now have 66% on track.”

# A New Approach Is Needed to Help Most Participants Successfully Retire



Albert Einstein

*“Insanity: doing the same thing over and over again and expecting different results.”*

# Why We Should Offer Defined Contribution “Planes” Not “Plans”



# Which Is Easier for to Teach an Employee to Do?



or





# The Goal of the UnifiedPlan Is a Fully Funded Retirement Benefit

- ✓ Target income replacement is 70% of final average compensation.
- ✓ As near as possible to the Social Security Normal Retirement Age.
- ✓ Least amount of risk required to still meet goal.



# “The Safest 401(k) Plan is 100% QDIA”

Fred Reish, at Center for Due Diligence October 13, 2008:

**“I believe the safest plan for a Plan Sponsor is one where 100% of employees are defaulted into a Qualified Default Investment Alternative.”**

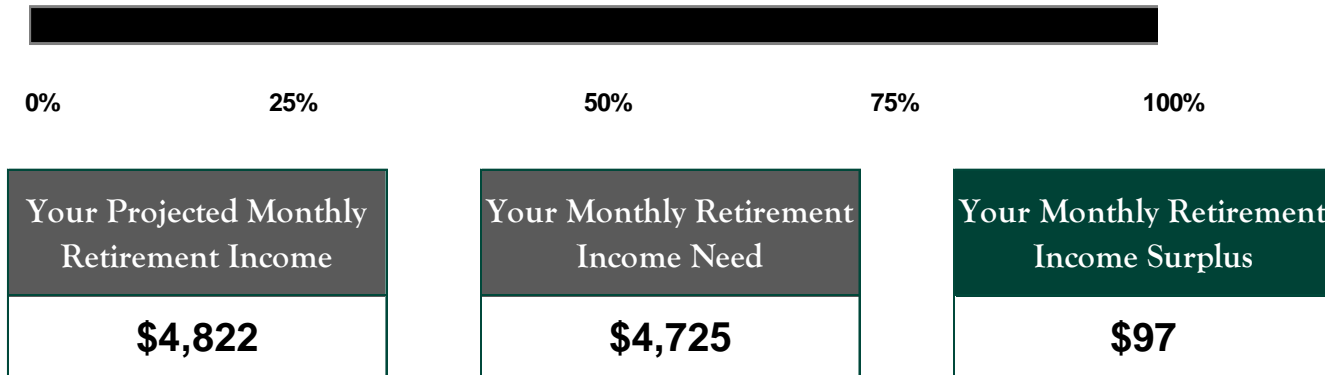
**“The QDIA provides a prudent portfolio delivered under guidelines established by the Department of Labor.”**

# The UnifiedPlan Statement Has a Simple Retirement Income Benefit Focus

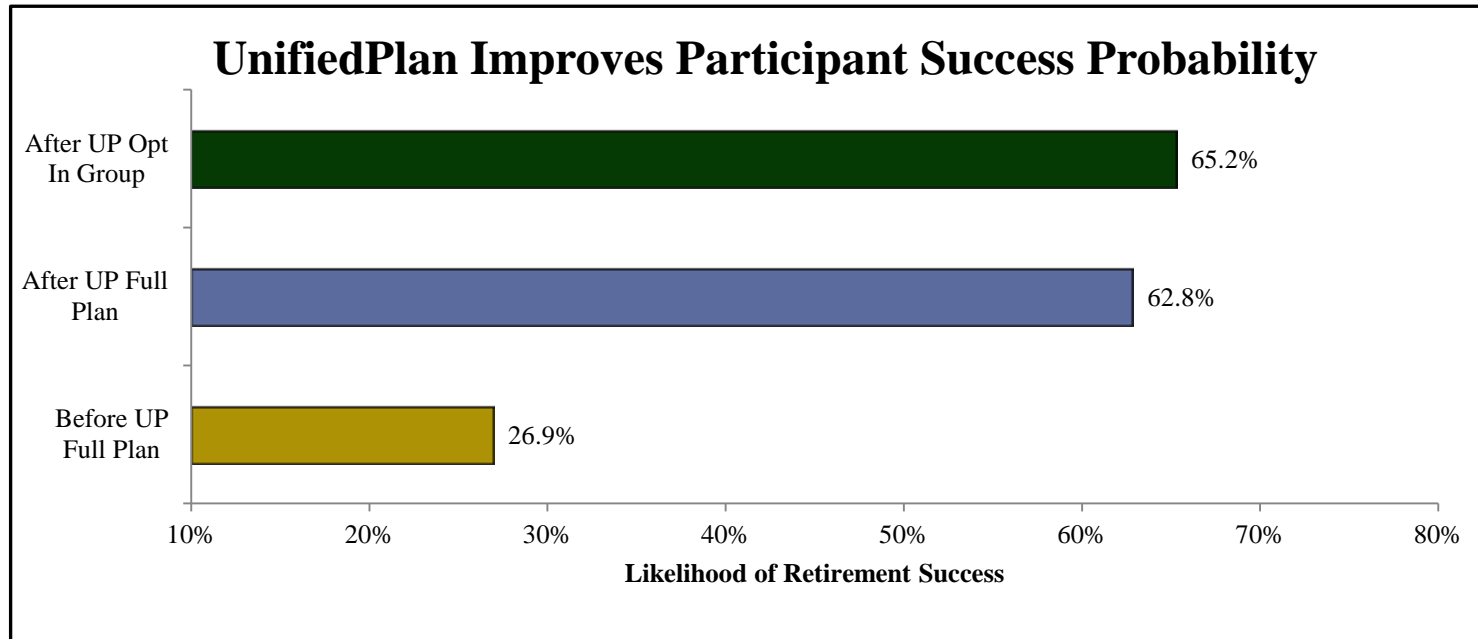
## Your Retirement Benefit Statement

This retirement benefit statement helps you understand where you are in retirement. Unified Trust Company estimated the monthly income that your retirement balance may sustain in meeting your retirement spending goals. We will regularly evaluate your progress and, if needed, we will make or suggest changes to help you meet your retirement spending goals. This projection is based on your UnifiedPlan and Social Security income. It does not factor in any other outside income you may have unless you

**You are currently on track to achieve 100% of your retirement income goal.**



# The UnifiedPlan Significantly Improves Retirement Success Probability



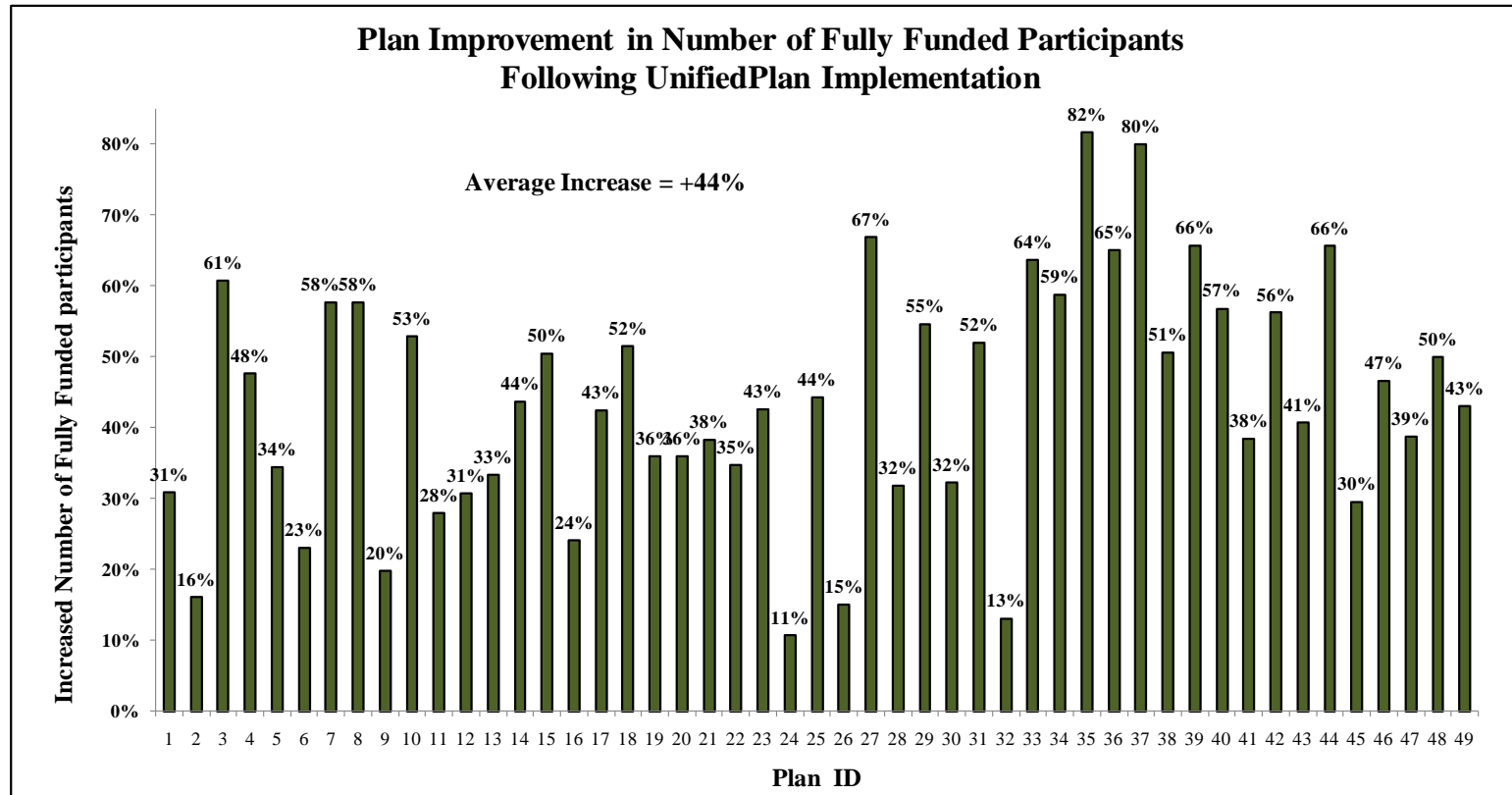
Success % is number of times Monte Carlo retirement projection was successful.

**After UP Opt In Group** includes only UP opt in participants after UP.

**After UP Full Plan** includes both UP opt out and opt in participants after UP.

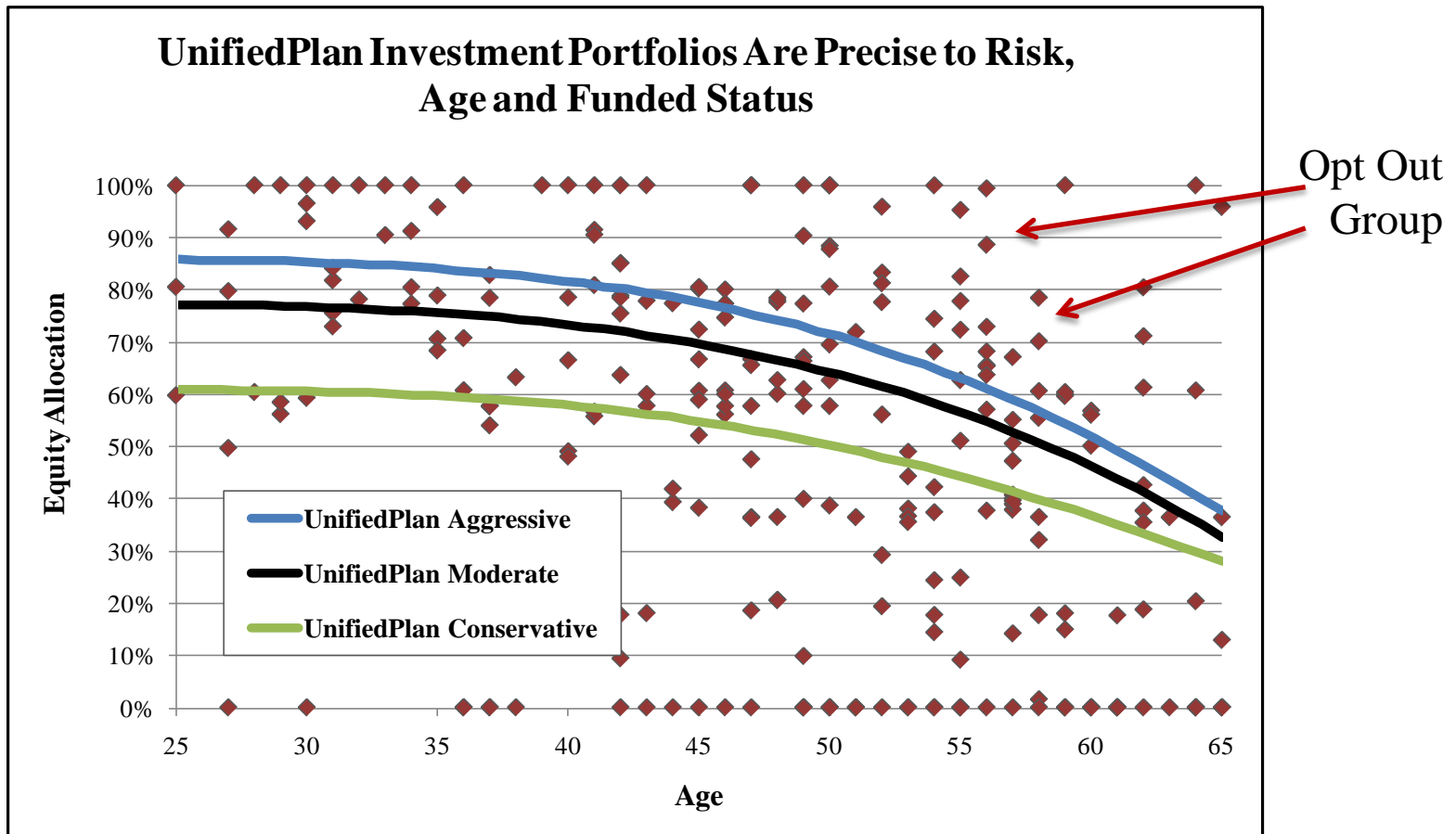
**Before UP Full Plan** includes both UP opt out and opt in participants prior to UP.

# The UnifiedPlan Has a Positive Impact By Moving More Plan Participants to Fully Funded Status in All Plans Studied

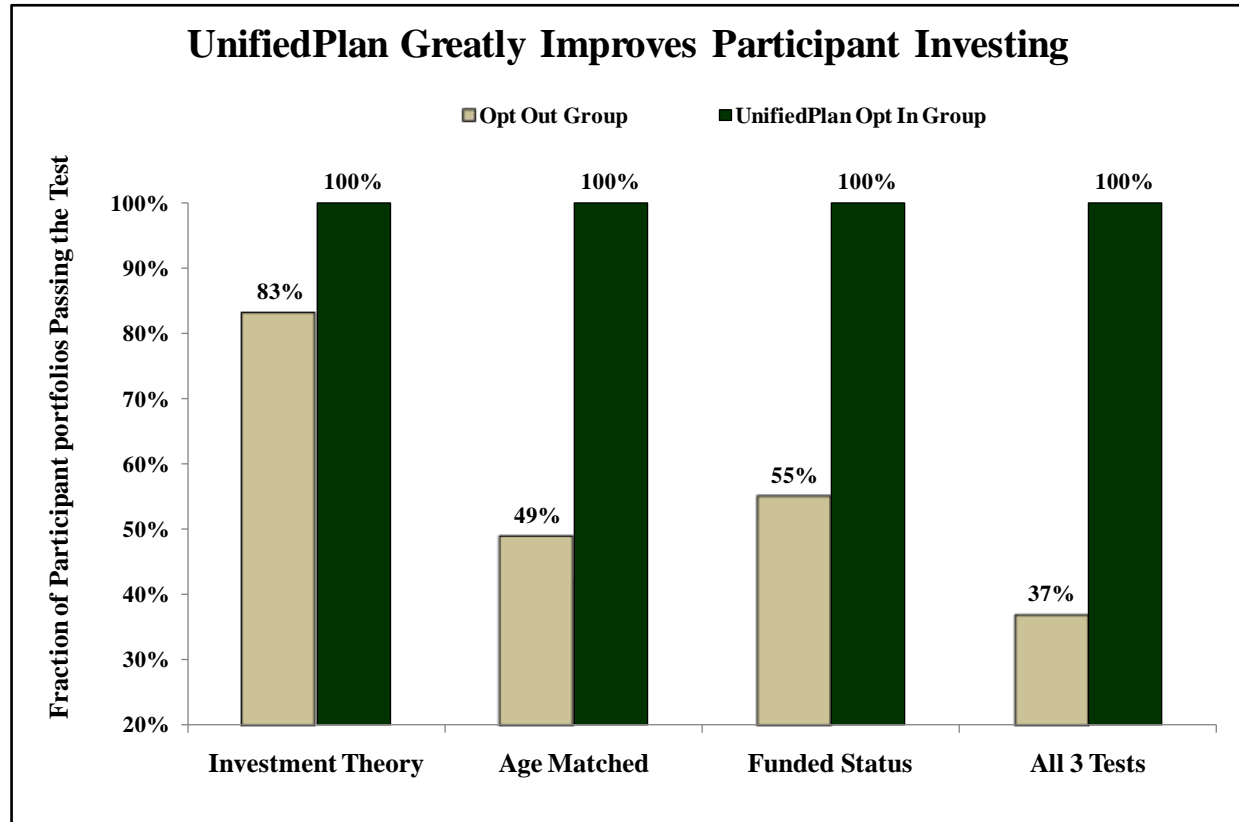


49 plans comprising 5,512 participants studied as of October 6, 2011.

# The UnifiedPlan Opt In Group Is Invested Precisely, While the Opt Out Group Is Random



# The UnifiedPlan Greatly Improves Participant Investing Compared to “Opt Out” Group



“Appropriate Investing” means the participant has:

- 1) their portfolio asset allocation is efficient, and passes prudent fiduciary tests by generally accepted investment theory;
- 2) a fixed income and equity allocation consistent for their age;
- 3) a fixed income and equity allocation consistent for their funded status.

# Why Does the UnifiedPlan Help Most Employees Successfully Retire?

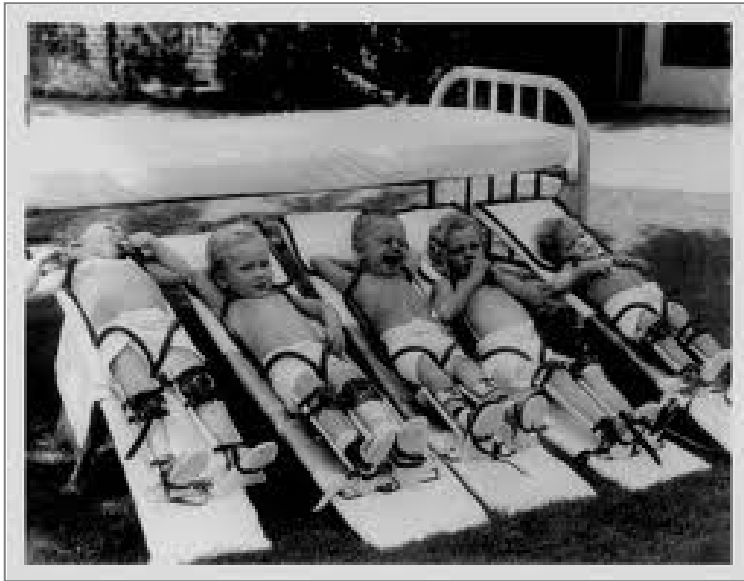
The key to achieving Retirement Success is **not** trying to outperform the stock market, finding “alpha”, or increasing portfolio risk.

The key to achieving Retirement Success is the very foundation of the UnifiedPlan which can be broken down into sensible factors.

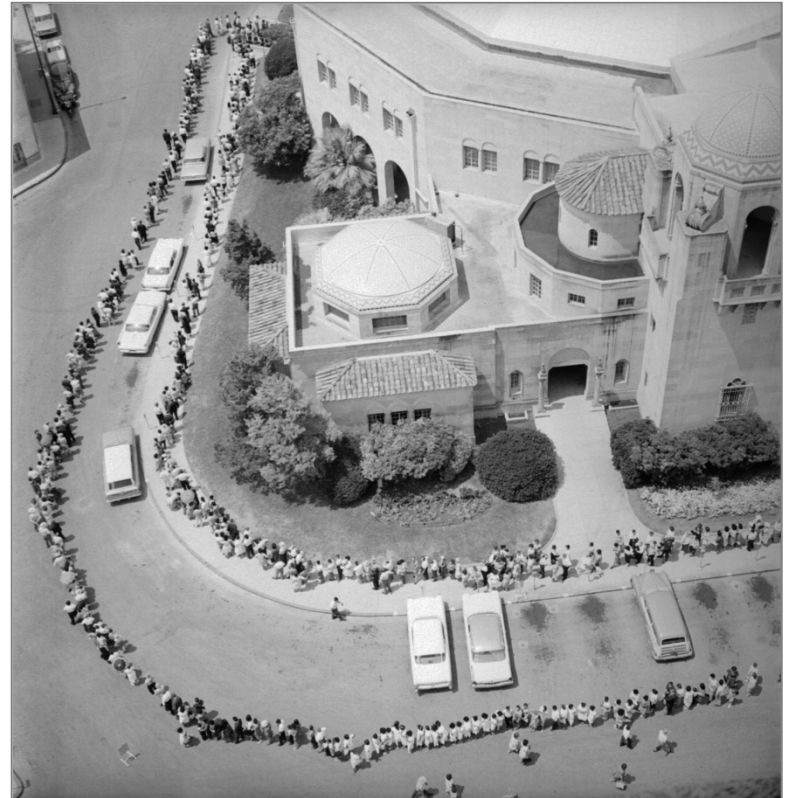


# Acceptance and Implementation

# In the 1950's Polio Was Widespread; Fear and Failure Were Everywhere



# Polio Was Eradicated Because of Widespread (Mandatory) Vaccine Usage



# UnifiedPlan Improves Outcomes Through Adoption & Implementation

## 1. High Adoption Rate:

The UnifiedPlan has a much higher acceptance rate (84%) than other approaches because it is a default driven pathway that ensures uniform adoption due to participant inertia.



## 2. Advice Implementation Certainty:

Without implementation no advice program can succeed. The UnifiedPlan is not a toolset but rather an actuarial solution that is fully implemented by the discretionary plan trustee.

# UnifiedPlan Improves Outcomes By Focusing On The Whole Equation

## 3. Asset and Liability Improvement:

The 401(k) industry almost exclusively focuses on the asset side the equation rather than the whole equation. The focus is on higher investment performance, “better” managers, “better” mutual funds, greater diversification, which have no impact on the other side of the equation, liability—which is the cost of retirement that the participant’s 401(k) plan must bear.

In order to become fully funded, the asset equal the liability, giving an asset/liability funded ratio of 1.00 or higher.

**The key to success is to raise the asset and lower the liability.**



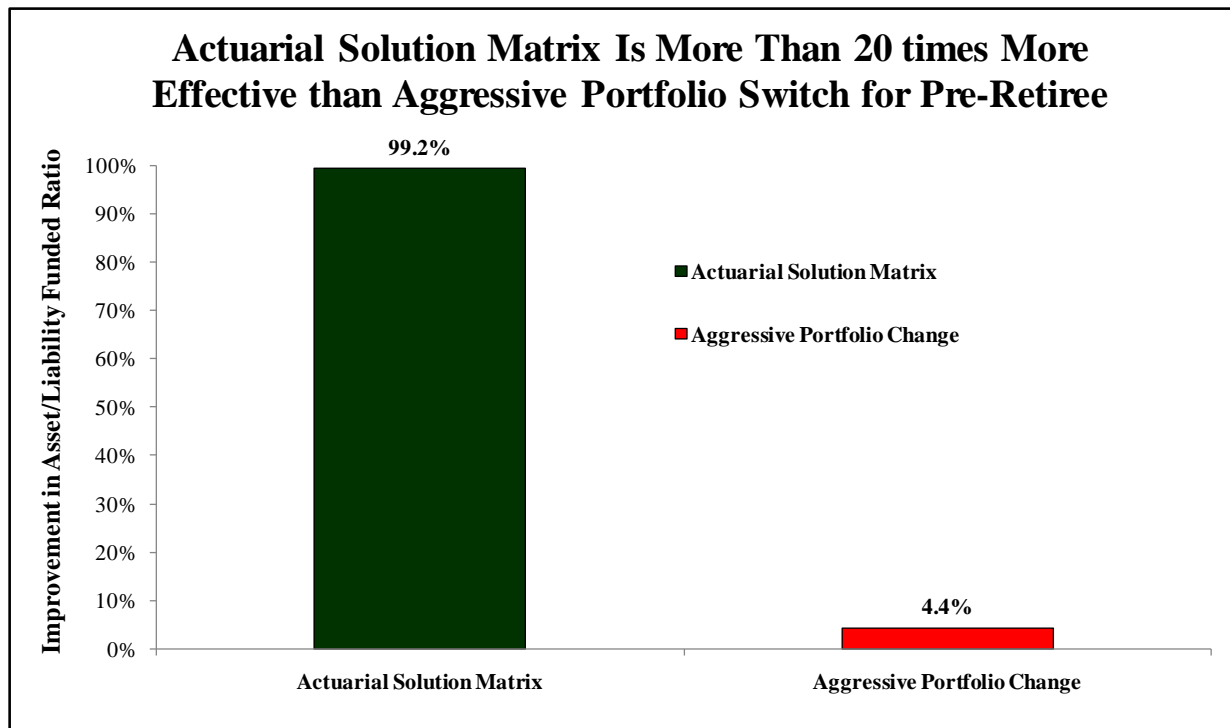
# UnifiedPlan Improves Outcomes Through An Actuarial Solution

## 4. The Actuarial Solution Makes the Most Difference:

Most often, a failing plan participant is told they need a higher investment return. For a pre-retiree, the move to a more aggressive portfolio makes only a tiny difference, and is vastly overshadowed by an actuarial solution that raises the asset and lowers the liability.

**The greatest misconception in retirement planning for a pre-retiree is that they need to invest more aggressively**

# UnifiedPlan Improves Outcomes Through An Actuarial Solution



For a pre-retiree, finding the asset/liability solution is far more effective—and less risky.

# UnifiedPlan Improves Outcomes By Giving Answers, Not Asking the Question

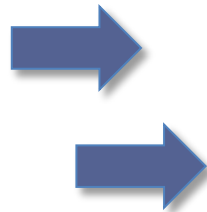
## 5. Enrollment Meeting Presents the Answer, Not the Question:

Most 401(k) meetings present murky and difficult to understand investment theory and confuse participants with financial market uncertainty.

The UnifiedPlan enrollment meeting instead presents the answer. Each participant is given a personalized report that defines their individual goal.



**Most 401 (k) Meetings**



**UnifiedPlan Meetings**



# Today Advisors Must Move from the Intangible to Tangible Value Proposition

As plan sponsors focus more and more on visible fees, the successful retirement advisor must deliver visible and tangible value.

This approach allows the advisor to have a sustainable fiduciary business model with a clear value statement.



# Innovative QDIA Plan Design Can Improve Participant Retirement Readiness

## Questions?

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# Profiles



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