2017 RETIREMENT PLAN TRENDS

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The New Fiduciary Era

If and when the fiduciary rule takes effect, it is important that Plan Sponsors understand how their advisors and providers will act under the new requirements. Sponsors may choose to move away from advisors receiving commissions and using an exemption, in a move towards fee-only structures.

Money Market Changes

With the new SEC rules put into effect last October, many retirement plans had to make changes to their money market option. Moving to a retail money market fund or a government money market fund has become common. Some plans have shifted to a stable value fund for the higher returns as interest rates are scheduled to rise.

Fee Lawsuits

The Supreme Court made it clear in 2016 that there is an ongoing obligation to monitor investment decisions on a regular basis. Plan Sponsors should think defensively while documenting all investment decisions and reviews. Share classes have been the main focus of lawsuits, but Plan Sponsors need to be be certain that the revenue sharing received represents fair compensation for the services provided.

Source: PLANSPONSOR.com "2017 Key Issues at a Glance"

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Revenue Sharing

While over half of the plans surveyed in the 2016 PLANSPONSOR Defined Contribution Survey have an ERISA account which enables revenue sharing, there has been a significant shift away from this fee method. Many Plan Sponsors have moved away from bundled fees to separate investment fees from administrative fees. Larger plans have mostly gone to this method already and now smaller plans have begun the shift as well.

Active vs Passive

According to Callan’s 2016 Defined Contribution Trends Survey, 68.4% of plans now use a mix of active and passive funds. Callan also found that 42.5% of plans (using target date funds) use indexed target date funds. Passive options continue to grow in popularity for retirement plans largely due to lower fees, but it is important to note that lower fees don’t necessarily lead to better overall value.

Source: PLANSPONSOR.com “2017 Key Issues at a Glance”

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Retirement Income Alternatives

According to this year's PLANSPONSOR DC Survey, just 7.3% of plans offer in-plan income products that guarantee monthly income. Many Plan Sponsors likely will look at alternate ways to help participants with retirement income. A managed account with a drawdown feature that generates monthly income is gaining traction among sponsors as an investment-menu addition.

Allocation Issues Resolving

At the end of Q3 2016, 44% of Fidelity's 401(k) participants had a 100% allocation to target date funds. Among participants ages 20 through 29, 72% are 100% invested in a target date fund. The increasing use of auto enrollment has reduced the amount of participants who hold extreme allocations (0% equity or 100% equity).

Financial Wellness

Plan Sponsors are looking at some dynamics going on with their work force, and one is the impact from financial stress on employees. Employers that are thinking about starting a financial wellness program should be aware of work force needs and demographics. A wellness program can help employees take the first steps, such as paying off credit card debt.

Source: PLANSPONSOR.com "2017 Key Issues at a Glance"

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