

The Path Forward DC Participants Want More

This fifth edition of *The Path Forward*, Northern Trust's defined contribution (DC) plan research series, combines the perspectives of three key DC stakeholders: plan sponsors, consultants and participants. Our research examined their attitudes about three inter-related problems with the DC retirement system:

- 1) **Chronic under-saving by many participants;**
- 2) **Inadequate formal planning and goal-setting; and**
- 3) **Ineffective transition to retirement.**

This year's research seeks to address these concerns and provide real-world actions that plan sponsors can take today to help improve the DC retirement system and create better retirement outcomes for American workers.

We believe plan sponsors should strongly consider how they can incorporate five strategies identified in our study to help their employees achieve a financially secure retirement.



STEP IT UP



OF PARTICIPANTS ARE OPEN TO
ENCOURAGEMENT & GUIDANCE

Our survey found more than **7/10** participants are in favor of their employers:

- encouraging them to save more and
- offering a view on how much to save.



Our Take: It's time to increase the employer role in encouraging retirement savings by providing a view on how much employees, segmented by age group or salary level, should save for retirement. By illustrating sample savings targets, employers can inspire greater participant involvement in retirement planning.





SET AUTO FEATURES AT MEANINGFUL LEVELS



OF PARTICIPANTS WOULD ACCEPT AUTO-ENROLLMENT AT 6%.

When it comes to auto-features, participants will accept more than you think.

7/10 participants would welcome auto escalation and of those:

- **76%** of participants would let their contribution rate rise to 10% or higher.
- Almost **6/10** making less than \$30,000 annually would let their contributions climb to 10% or higher.
- **43%** of participants would let their contribution rate rise to 15% or higher.



Our Take: Improve automated plan design features by auto-enrolling at a 6% deferral rate and allowing auto-escalation to greater than 10% of salary.



PROVIDE PROJECTIONS



OF PARTICIPANTS WANT MORE-ROBUST STATEMENTS

6/10 participants don't believe they've saved enough for retirement. But you can help them get back on track. The workers we surveyed would like their statements to include:

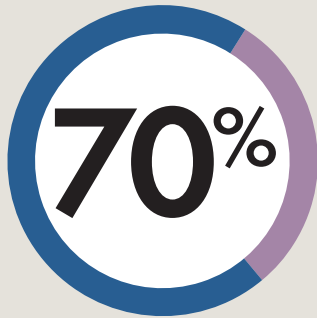
- **Estimates** of how much money they will have when they retire;
- **Monthly Income Projections** of how much monthly income their current account balance could produce in retirement;
- **Goal-Based Projections** of the amount of monthly income their stated retirement savings goal might provide; and
- **Inflation Impact Calculations** that show how much inflation-adjusted savings they will need for retirement.



Our Take: Provide participants with retirement planning information – beyond their current total account balance – by adding projections to their account statements. We believe that such hypothetical, contextual information can help participants make more-informed decisions.



STREAMLINE YOUR MENU



OF PARTICIPANTS ARE OPEN TO SIMPLIFIED INVESTMENT MENUS

Unfortunately, many plan participants make poor choices using the typical defined contribution investment menu, as highlighted in a recent industry study:¹

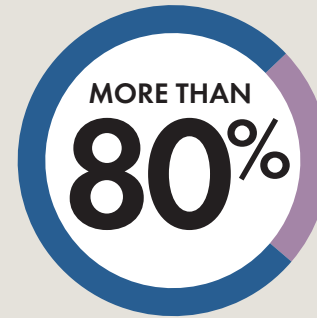
- **74%** believe it is a good strategy to invest in each of the plan's menu options; and
- Only **18%** think investing in a target date fund is an ideal way to diversify.



Our Take: Simplify your investment menu by reducing the number of investment options in the line-up. You can do this – without sacrificing diversification – by offering a mix of target date funds and five easier-to-understand objectives-based investment options.



INTRODUCE IN-RETIREMENT INVESTMENT CHOICES



WOULD CONSIDER IN-PLAN INVESTMENT OPTIONS AT RETIREMENT

Without an in-plan investment option to select, almost **80%** of pre-retirees consider moving their assets out of their 401(k) plan at retirement.

To make matters worse, only **25%** of retirees sought professional investment advice.²



Our Take: To improve the transition to retirement, enable participants to remain in your plan by offering investment options specifically designed for retirees that provide a stream of predictable income. These options could include:

Income-Generating Funds – A series of retirement funds designed to support a lifestyle through a focus on income generation and monthly payments made for a specified period.

Guaranteed Lifetime Income – An account that includes an annuity with guaranteed lifetime income. There would be a charge for the annuity, including the cost of the guaranteed income, plus a charge if the account were surrendered within seven years.

Personalized Asset Allocation Account – A flexible personalized asset-allocation account designed to remain appropriate as a retiree ages.

TO LEARN MORE

For more information about *The Path Forward* research series, visit northerntrust.com/dcsolutions or email us at dc_solutions@ntrs.com.

About the Research

The fifth edition of *The Path Forward* research consisted of four phases, all conducted by Greenwald & Associates.

Phase 1: In-depth interviews with 10 leading plan consultants conducted between May 5 and August 8, 2014.

Phase 2: In-depth interviews with 25 senior executives at major firms sponsoring DC plans, conducted between May 5 and August 8, 2014.

Phase 3: Online survey October 2-12, 2014. Respondents were recruited from Research Now's® online panel. A total of 1,007 individuals participated in the study.

Phase 4: In-depth interviews with 18 senior executives at major firms sponsoring DC plans, conducted between December 16, 2014, and February 24, 2015.

Plan sponsors interviewed as part of the research represent DC plans with assets totaling in excess of \$352 billion.

ENDNOTES

- 1 Bundrick, Hal M., MainSt, "5 Common Mistakes 401(k) Investors Make," June 13, 2014.
- 2 Helman, Ruth, Nevin Adams, Craig Copeland, and Jack VanDerhei, EBRI Issue Brief, March 2014, No. 397, "The 2014 Retirement Confidence Survey: Confidence Rebounds – for Those with Retirement Plans," p. 24.

NORTHERN TRUST DC SOLUTIONS

The DC Solutions team at Northern Trust develops innovative answers to challenges faced by many of the world's largest DC plan sponsors. These plan sponsors realize it is all about the outcome for DC participants, and our suite of DC solutions – including target date funds – is aimed at improving results. The clients we work with value our consultative approach to addressing their plan and participant needs. That's why they have entrusted us to manage more than \$110 billion and to provide custody and administrative services to more than \$275 billion in DC assets (as of December 31, 2014). Plan sponsors and their participants are at the center of everything we do. We seek to engage, educate and empower DC plan participants as they travel the path toward reaching their retirement goals.

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