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INVEST WITH CONFIDENCE

AN INVESTMENT RESET MAY PROVIDE A FRESH OPPORTUNITY TO IMPROVE DIVERSIFICATION

Many plan sponsors continually consider new approaches and weigh potential changes to keep their plans relevant and current. They seek ideas and catch up on industry developments and market trends—all while balancing the needs and cost constraints of their organization with the strategy, goals, and objectives of the plan.

Monitoring and assessing a plan's investment options is most likely a major area of consideration. Perhaps equally important is an evaluation of the plan's aggregate investment allocations.

According to a recent study, providing the right mix of investments and the retirement readiness of active participants topped the list of employers' priorities for their savings plans.[1] What's more, for those employers who sought feedback on investments, 40% of employees indicated that "where to invest and which funds to use" were top concerns.[2]

Another study determined that when it comes to retirement readiness, three out of five *full-career contributing employees (59%)* are not expected to have saved enough to retire at age 65.[3]

In fact, a growing body of research about the decision-making processes of participants highlights the fact that many would prefer their employers to be more involved in providing some help with investment decision-making.[4] Participant awareness and engagement in active retirement planning remains a challenge. Aggregate plan allocations may look acceptable but individual asset allocations may appear poorly constructed. Participants may struggle with asset allocation and diversification despite the availability of meetings, quality materials and tools, calculators, income projections, and investment advice services.

KEY FINDING

Participant awareness and engagement in active retirement planning remains a challenge.

Participants may struggle with asset allocation and diversification despite the availability of meetings, quality materials and tools, calculators, income projections, and investment advice services.

"An investment reset to the QDIA can be an extremely effective strategy for plan sponsors seeking to dramatically influence participant investment diversification. It is really a compelling opportunity for a sponsor to positively affect employees' long-term outcomes. It alerts employees to the importance of reviewing their investments regularly, and may replace inertia by driving action."

—Aimee DeCamillo
Vice President and Head of T. Rowe Price Retirement Plan Services

IMPROVING DIVERSIFICATION AND RETIREMENT PREPAREDNESS

An investment reset to the Qualified Default Investment Alternative (QDIA) is a strategy for bringing focus to the participant's investment decisions, and better achieving the plan's objectives of improving diversification and retirement preparedness.

With an investment reset, plan sponsors inform participants that their existing assets and future contributions will be invested in the plan's QDIA—usually a balanced investment, managed account, or target date investment—unless they opt out within a certain period of time. Said another way, participants are given the chance to re-select their investment options, which can help guide them to a diversified asset allocation.

[1] Deloitte Annual Defined Contribution Benchmarking Survey, 2015
[2] Ibid.
[3] Aon Hewitt, The Real Deal 2015 Retirement Income Adequacy at Large Companies
[4] Russell Research, Defined contribution plan re-enrollment: A fiduciary imperative?

A well-planned and executed investment reset campaign can flexibly accommodate a plan goal of streamlining the fund lineup and improving retirement preparedness. Combining fund changes with a campaign can be particularly effective for managing the removal of legacy funds and mapping participant balances to another fund. Initial and emerging research suggests that those whose deferrals are invested 100% in a QDIA outperform those who select investment strategies on their own, increasing the potential for participants to achieve a more secure retirement.[5]

PENSION PROTECTION ACT SAFE HARBOR

The Pension Protection Act safe harbor has been in place since 2006. It offers much sought-after relief from potential losses if a participant fails to actively direct investments, assets are invested in an approved QDIA, and other conditions in the regulations are satisfied.

INVESTMENT RESET IN ACTION

The case studies below describe the experience of three companies—representing different industries and plan sizes—that have implemented successful investment reset campaigns. In two studies, an investment reset was used to either restructure the fund choices or streamline the fund options. In the third scenario, the plan established a policy for managing conversions from current and future acquisitions into the plan.

TIPS FOR AN INVESTMENT RESET CAMPAIGN

1. **Clarify the Purpose.** Make it clear the goal is to support the participant's investment diversification.
2. **Highlight the importance of reviewing your investments.** Communicate that investments, including non-plan assets, should be reviewed carefully and often.
3. **Be sure participants know they have choices.** Make it easy to say "No thank you!"
4. **Announce early and often.** Use letters, emails and newsletters, and other digital channels, to both current and former participants.
5. **Coordinate with other plan changes.** Integrate the investment reset with other changes while you have the participant's attention.

Case Study 1: Global, diversified oil and gas services company with employees and operations on six continents

Purpose
Seek fiduciary protections of the Pension Protection Act with the restructuring of the plan's investment choices

Investment Reset Date	Participants	Total plan assets	QDIA
October 2014	2,632	$136.4 million	None

Prior participant investments	QDIA Selected	% assets in QDIA as of December 31, 2014
Risk-based Model Portfolios	Target Date Funds	65.1%

QDIA statistics among participants as of 12/31/2015, or 15 months later

- 83.8% of participants are investing in the QDIA
- 63.8% of assets are invested in the QDIA
- 64.6% of participants have 100% of their account in the QDIA

Successes and challenges faced
The plan was originally making available three risk-based model portfolios—conservative, moderate, and aggressive—as its investment selections. The committee decided that registered mutual funds that provide a mix of equity and fixed income exposures would provide better transparency and performance reporting to the participants, and they decided to revise the investment menu by adding new diversified investment options.

Completely replacing the model portfolios created a new challenge: structuring a clean, seamless process for transferring the existing participant balances to other plan investment options. By adding a QDIA, and transferring the assets to it, they sought to leverage the safe harbor fiduciary protection available under the Pension Protection Act. A comprehensive communications program alerted participants to the new menu and the timing of the transaction so they could make different elections if they chose.

[5] DCIIA, Defined Contribution Plan Success Factors: Framework for Plans with an Objective of Retirement Income Adequacy, May 2015.

Case Study 2: Multinational biotechnology product development company based in the Northeast

Purpose
Develop a consistent policy for converting plan assets from merged or acquired companies into the plan.

Initial Merger Date	Participants	Total plan assets	QDIA
October 28, 2007	12,607	$1.114 billion	Target Date Funds

% of acquired participants from merger mapped to the QDIA	% of acquired assets from merger mapped to the QDIA
89.5%	65.0%

QDIA statistics among participants as of December 31, 2015, or more than eight years later

- 89.4% of total participants are investing in the QDIA
- 68.5% of total assets are invested in the QDIA
- 70.1% of participants have 100% of their account in the QDIA

Successes and challenges faced
This highly acquisitive firm wanted to set a precedent for managing future conversions. Since the initial merger in 2007, there have been five more acquisitions. Rather than determine "like" funds and map participant accounts to them, the Committee set a policy to default accounts from acquired firms to the QDIA unless the participant opted out. They streamlined the number of fund options and clearly communicated when the participants in the acquired firms needed to make their investment choices. Using this strategy, they sought the fiduciary protection available under the Pension Protection Act.

Case Study 3: Employee-owned statistical research corporation based in the Mid-Atlantic states

Purpose
Streamline the plan's investment menu with a fund realignment for an active investor population while seeking the protections afforded plan fiduciaries in the Pension Protection Act.

Investment Reset Date	Participants	Total plan assets	QDIA
September 22, 2011	2,211	$296.4 million	Target Date Funds

Assets in QDIA prior to the Investment Reset	Assets in QDIA as of December 31, 2011	% Participants invested in QDIA as of December 31, 2011
22.5%	64.7%	94.1%

QDIA statistics as of December 31, 2015, or more than four years later

- $466.7 million in total plan assets
- 90.1% of participants are investing in the QDIA
- 59.5% of assets are invested in the QDIA
- 59.7% of participants have 100% of their account in the QDIA

Successes and challenges faced
The number of investment options in the plan grew to the point where the plan's governance committee was convinced the overlap among funds and the complexity in making choices could be confusing to participants. They decided to realign the lineup by streamlining the number of choices and clarifying the distinctions among them. The final outcome was that they kept some funds, added others and removed some, reducing the lineup from 27 to 18 funds.

The next challenge was implementing the change clearly, cleanly, and in a way that was comfortable for the plan sponsor. Rather than map balances in funds removed from the menu to a "like" or similar fund, or simply close them to new contributions, the decision was made, and heavily communicated, to transfer them to the QDIA with an opt-out provision.

KEY LEARNING

The strategy of implementing an investment reset is moving from the fringes into a more mainstream plan sponsor consideration.

Of course, the facts and circumstances of your plan should be assessed to determine if implementing an investment reset is appropriate for your plan and participants.*

*The decision to implement an investment reset may need to be reviewed in consultation with the company's applicable retirement plan committee, advisor, and/or legal counsel.

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