

11 for 2011

11 Actions Designed to Improve Your Defined Contribution Plans in 2011

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Defined contribution (DC) plan sponsors face increasingly complex issues. Russell has developed a priority list of 11 actions to help sponsors and guide their participants toward better decision making as they save for retirement.

Laying the ground work

1. EVALUATE AND CONFIRM YOUR PLAN'S COMPANY MATCH FORMULA

Research shows that company matching contributions are a powerful incentive to encourage workers to save for retirement.¹ How you structure your company match can encourage employees to save more. For example, providing a 50% match on the first 10% saved, versus 100% match on up to 5% saved encourages employees to save an extra 5%, which can substantially affect balances over time.

2. HARNESS THE POWER OF AUTOMATIC FEATURES

Automatic enrollment and automatic escalation may increase your participants' chances of meeting their retirement savings goals. If you aren't using automatic features, document your reasons. If you are, re-examine how they're structured. Are you including all employees or just new hires? Should you start at a higher contribution rate? Should the rate escalate faster? According to an EBRI and DCIIA study², the impact of moving from a 1% annual contribution escalation to a 2% rate and increasing the maximum contribution rate from 6% to 15% can have a significant impact on retiree readiness.

3. STREAMLINE THE PLAN'S INVESTMENT MENU

Offering too many investment choices may lead to participant confusion and place greater fiduciary burdens on plan sponsors. It may not take many options to satisfy your participant population. Russell suggests tailoring investment options to the needs of your participants.³ This may involve offering a small number of diversified options (e.g. target date or target risk funds and a brokerage window) or a tiered structure that provides an appropriate level of choice for different participant groups.

¹ Source: http://www.plansponsor.com/Employer_Match_a_Powerful_Motivator_for_401k_Participation.aspx
Over 50% of workers cite the company match as the reason they are contributing to their retirement plan.

² Source: Jack VanDerhei and Lori Lucas, "The Impact of Auto-enrollment and Automatic Contribution Escalation on Retirement Income Adequacy". EBRI Issue Brief, No. 349, and DCIIA Research Report (November 2010).

³ Jones, Ben (April 2010). "Redefining the menu: Embracing the behavior-driven defined contribution investment menus." Russell Investments
http://www.russell.com/Institutional/research_commentary/PDF/redefining_the_menu_.pdf

Upgrading your investment options

4. DEMYSTIFY THE “DATE DEBATE”

Target date strategies differ in terms of equity allocations at the point of retirement and beyond. This “Date Debate” is often labeled “To vs. Through”, but this doesn’t help you determine which target date strategies will help your participants meet their objectives.⁴ Getting the target date decision right, particularly if it’s your plan’s default investment option, is crucial. After choosing target date strategies, periodically review your choice. Investment volatility, market innovation, new research, and scrutiny from Washington D.C. may dictate changes.

5. CONSIDER ADDING ALTERNATIVE ASSET CLASSES TO TARGET DATE STRATEGIES

Adding uncorrelated asset classes such as commodities, treasury inflation protected securities (TIPS) or infrastructure to a target date fund may make sense for diversification purposes. Look beyond recent performance - take a long-term, thoughtful approach to create the optimal mix of underlying asset classes. Institutional investors believe alternative asset classes can add value and help reduce overall portfolio risk over the long-term, so consider offering them to your participants.

6. CHOOSE BEST OF BREED INVESTMENT MANAGERS

Is your investment menu limited to proprietary funds from a single provider? Fiduciary best practices and the current regulatory environment caution against that. No investment manager is best in class in every asset class. Offer investment options because they provide the best available strategy for your participants in that asset class. If they don’t, look to make a change.

Look under the hood

7. HOW STABLE IS YOUR STABLE VALUE FUND?

Stable value still can have a place in the plan for certain participants, and many can still provide steady, consistent performance. Yet stable value funds haven’t been immune from recent market turmoil, and a look under the hood is warranted. Many held toxic fixed income assets. More importantly, distress among providers of the wrap contracts for these funds has led to shrinking wrap capacity, rising wrap fees and greater restrictions that limit yields. If you haven’t done so, a careful review of your option should be conducted this year.

8. UNDERSTAND AND EVALUATE FEE INFORMATION

The Department of Labor now requires record keepers, custodians, consultants/advisors, and investment managers to provide additional fee disclosures to plan sponsors and participants.⁵ This provides greater transparency and opportunities to compare fees from different vendors. Re-examine fees charged for funds to ensure participants are receiving a good value for the fees they are paying. Understand how

⁴ Cohen, Josh; Gardner, Grant; and Fan, Yuan-An (April 2010). “The Date Debate.” Russell Investments http://www.russell.com/institutional/research_commentary/PDF/Russell_Research_The_date_debate.pdf

⁵ Gardner, Dan and Teborek, Mark (October 2010). “Participant Fee Disclosure and its Implications for 401(k) Plan Sponsors.” Russell Investments http://www.russell.com/institutional/research_commentary/PDF/fee_disclosure.pdf

bundled fees are being used to pay for different services, such as investments and record keeping. Look for ways to use your scale to benefit your participants.

An eye towards the future

9. CHOOSE FINANCIAL LITERACY OVER INVESTMENT EDUCATION

Many participants look to their employer to provide guidance to help them achieve their goals. Instead of trying to teach participants to become investment experts, focus education on the basics of saving and budgeting for retirement. Strengthening the emotional connection between current savings and standard of living in retirement may help motivate participants to save more.

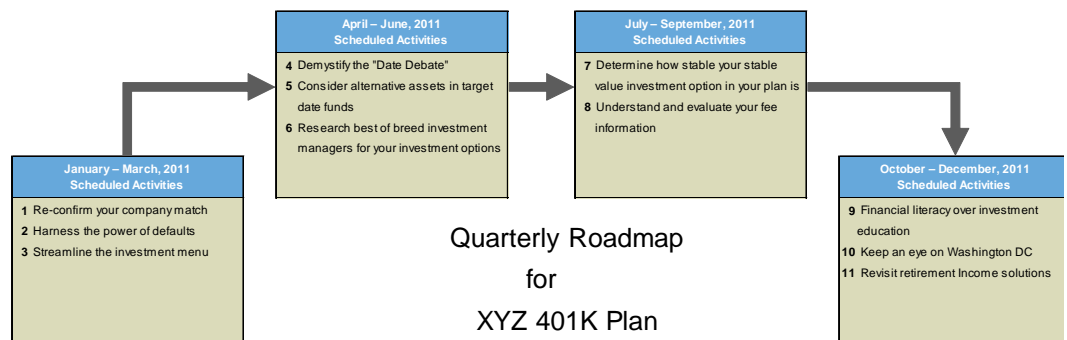
10. KEEP AN EYE ON WASHINGTON D.C.

There has been more activity coming out of Washington in regards to retirement policy over the last year than any time in recent memory. Stay abreast of new federal regulations and proposed changes related to retirement plans. In some instances, there may be opportunities to lobby Washington for sensible regulation.

11. REVISIT RETIREMENT INCOME SOLUTIONS

Retirement income is a hot topic, but discussions are typically product-focused. Russell believes retirement income is generated through a process, not a product. Take steps to develop your plan's retirement income philosophy and understand the future needs of your plan participants. For example, Russell has identified a simple and meaningful way to introduce your participants to thinking in terms of retirement income.⁶ Current publications have identified a framework for thinking about retirement needs — Essentials, Lifestyle, and Estate (ELE).⁷ You are positioned to help individuals through the retirement income process, through communications, plan design or products.

This may seem overwhelming. Work with your consultant or advisor to tackle each item using the sample roadmap provided:



⁶ Cohen, Josh; Collie, Bob; and Gardner, Dan (October 2010). "Russell's Beliefs on Retirement Income Disclosure". Russell Investments http://www.russell.com/institutional/research_commentary/PDF/Retirement_income_disclosure.pdf

⁷ The Retirement Plan Solution, Don Ezra, Bob Collie, Matthew X. Smith, 2009. p. 21-30

RELATED READING

Cohen, Josh; Gardner, Grant; and Fan, Yuan-An (April 2010). "The Date Debate." Russell Investments

Gardner, Dan and Teborek, Mark (October 2010). "Participant Fee Disclosure and its Implications for 401(k) Plan Sponsors." Russell Investments

Cohen, Josh; Collie, Bob; and Gardner, Dan (October 2010). "Russell's Beliefs on Retirement Income Disclosure". Russell Investments

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Important information

Target date fund investing involves risk, principal loss is possible. The principal value of the fund is not guaranteed at any time, including the target date. The target date is the approximate date when investors plan to retire and would likely stop making new investments in the fund.

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