

Knowing What You Own

This year's survey reveals that sponsors may rely too heavily on advisors and consultants for decision-making and due diligence when it comes to plan investment options and defaults. As fiduciary scrutiny continues to increase, a higher level of in-house "ownership" may be needed by plan sponsors.

The 11th annual PLANSPONSOR/Janus Henderson Investors annual defined contribution (DC) investment study collected data from approximately 4,000 U.S. plans of all sizes, and reveals some enlightening juxtapositions in sentiment versus knowledge and action among retirement plan sponsors. On the one hand, sponsors are more confident than ever about their target-date funds (TDFs) and Qualified Default Investment Options (QDIAs); however, many claim they "don't know" when asked about the specifics of those investments. Advisors and consultants may be filling the gaps, but that doesn't necessarily get plan sponsors off the hook from a fiduciary standpoint.

More than half of plan sponsors overall continue to believe that TDFs are the best QDIA for their employees, and that is particularly the case among large plans (those with \$200 million to \$1 billion in DC assets), where roughly three quarters say that TDFs are the best QDIA; and mega plans (those with more than \$1 billion in DC plan assets), where 84% say the same. When choosing and evaluating their plan's QDIA, fund performance is still the most important consideration overall, but smaller plans seem to put more emphasis on performance. Larger plans are more focused on the investment allocation within the QDIA fund. As has been the case in the past, low fees are also an important consideration for plans of all sizes.

Target-Dates on Target?

Of those plans that have selected a TDF as their default investment, many are still using a single-manager fund. "Firstly, there is nothing fundamentally wrong or improper in selecting a single-manager TDF. Such a decision may well be fit for purpose given a plan's needs and specific participant population. Having said that, one would be wise to ensure the facts and circumstances of the participant base is documented given the DOL signaling that multi-manager solutions are worthy of consideration. Bottom line, as with all fiduciary-related activities, a reasoned and informed process should underpin the decision," notes Russ Shipman, Managing Director and Senior Vice President of Janus Henderson's Retirement Strategy Group.

However, when plan sponsors were asked whether their plan's education about TDFs is effective, 12% were not sure. Similarly, more than one in 10 plan sponsors are not confident or don't know if their plan's current QDIA is the best option for employees, or whether employees understand the structure and intent of TDFs.

When it comes to monitoring their plan's TDF, only about six in 10 plans say they evaluate or benchmark the fund at least annu-

ally. A startling 24.3% of plans are not sure how often or "never" evaluate or benchmark their TDF. "Although many do a great job in this area, we respectfully remind plan sponsors that TDF selections – be they QDIAs or not – hold at least the same amount of fiduciary risk as any other selection within a plan menu with regards to their benchmarking," adds Shipman.

Not Sure? Not Good!

In general, TDFs are structured with "glide paths" that incrementally increase the fixed income component and decrease the exposure to stock market volatility as the participant nears retirement. When asked specifically about whether they are monitoring the duration of the fixed income component of their TDFs, a whopping 37.2% of plan sponsors are not sure if they are doing so. "It's always surprising to us that plan sponsors aren't focusing more energy on that embedded fixed income exposure for participants. Rates fell for essentially three decades and are now in a sideways to up-biased mode. So, everything else constant, a typical glide path exposes participants closest to retirement to the greatest interest rate risk. This fact is worthy of investment committee attention, in our view," adds Shipman.

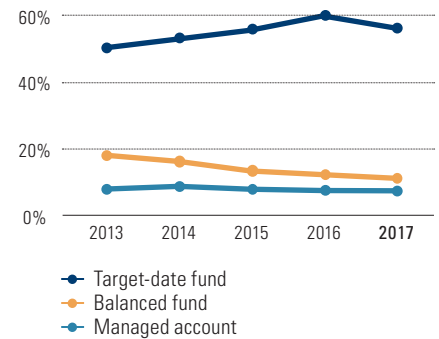
Even among the largest and presumably most sophisticated plan sponsors, more than one quarter are not sure if the fixed income component within their TDFs is monitored. Similarly, and just as troubling, more than half of micro-sized and nearly 18% of mega plan sponsors are not even sure what their TDF is composed of, investment-wise. "As target-date funds have gained in popularity and become the chosen default investment by many employers, the responsibility for fiduciary oversight has never been more important," says Shipman. He concludes, "We cannot stress enough how plan sponsors must understand the nuances of the investments they are defaulting their participants' assets into, and not just rely on providers to do that work for them. Most plan sponsors do a fine job, but the stakes are high as the retirement readiness of millions of Americans is dependent on having access to good plan and investment scaffolding." ■

METHODOLOGY: In conjunction with PLANSPONSOR, Janus Henderson Investors developed a series of questions for defined contribution plan sponsors specifically pertaining to target-date and QDIA fund knowledge, satisfaction, and construction. These questions were included in the PLANSPONSOR 2017 Defined Contribution Survey, which was conducted via an online questionnaire from July to September 2017. More than 4,000 respondents participated in the survey. For more information, contact surveys@strategic-i.com.

Micro=<\$5MM; Small=\$5MM-\$50MM; Mid=>\$50MM-\$200MM; Large=>\$200MM-\$1B; Mega=>\$1B

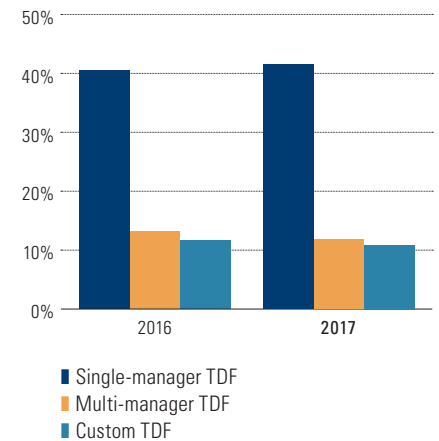
Which of the following is the best QDIA option for your employee population?

	All	Micro	Small	Mid	Large	Mega
Target-date fund	56.5%	42.9%	55.5%	64.4%	75.9%	84.1%
Balanced fund	10.7%	10.5%	13.9%	9.9%	6.1%	4.0%
Professionally managed account	7.8%	9.0%	8.2%	5.1%	9.0%	3.4%
Not sure	22.6%	36.4%	19.6%	15.4%	7.1%	6.8%
Other	2.4%	1.2%	2.9%	5.1%	1.9%	1.7%



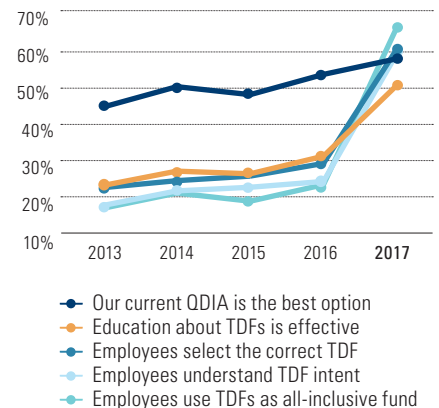
If you've selected a target-date fund as your QDIA, what type are you using?

	All	Micro	Small	Mid	Large	Mega
Custom TDF (made up of existing investment options in the plan lineup)	11.4%	10.2%	12.4%	12.3%	6.7%	15.8%
Single-manager target-date fund	42.3%	28.6%	39.3%	52.1%	61.3%	67.3%
Multi-manager target-date fund	11.6%	11.0%	13.3%	11.9%	12.4%	6.1%
Not applicable—use a professionally managed account (participant-level allocation model) as our QDIA	9.6%	15.1%	7.9%	7.3%	5.7%	4.2%
Not applicable—use a balanced/target-risk fund as our QDIA	8.8%	10.7%	11.1%	4.6%	4.6%	3.0%
Not applicable—we do not use a TDF for our QDIA	16.3%	24.4%	15.9%	11.9%	9.3%	3.6%



How confident are you that:

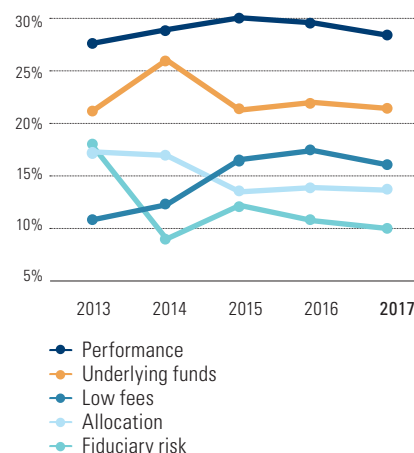
	Very confident	Somewhat confident	Not at all confident	Don't know
Your plan's current QDIA is the best option for the majority of employees	58.8%	30.7%	1.1%	9.4%
Your plan's participant education about TDF is effective	51.3%	35.6%	0.9%	12.2%
Employees understand the structure and intent of TDFs	60.2%	29.2%	1.5%	9.1%
Employees are selecting the correct target date for their expected retirement	61.5%	30.3%	0.4%	7.8%
Employees are using TDF as a single, all-inclusive fund	67.6%	24.5%	1.5%	6.4%



Micro=<\$5MM; Small=\$5MM-\$50MM; Mid=>\$50MM-\$200MM; Large=>\$200MM-\$1B; Mega=>\$1B

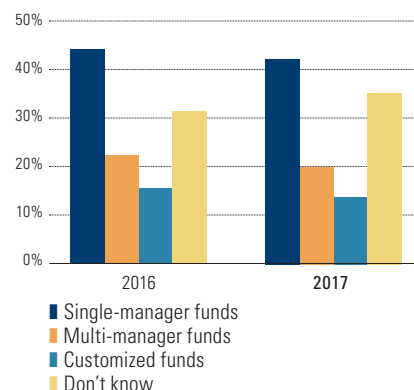
What is the most important consideration for your plan when selecting a QDIA? (% ranked first)

	All	Micro	Small	Mid	Large	Mega
Low fees	16.1%	19.3%	14.6%	10.6%	17.0%	16.8%
Investment transparency	5.0%	5.1%	5.4%	4.3%	6.4%	2.7%
Investment allocation	13.7%	7.9%	12.7%	15.5%	18.6%	31.5%
Quality of fund/underlying funds	21.4%	20.1%	21.6%	24.6%	24.5%	17.4%
Best overall performance	28.3%	34.0%	30.3%	26.1%	17.6%	14.8%
Fiduciary risk	10.1%	8.9%	10.1%	11.6%	10.1%	12.8%
Participant demographics	4.2%	3.5%	4.1%	6.3%	4.8%	3.4%
Other	1.3%	1.4%	1.6%	1.0%	1.1%	0.0%



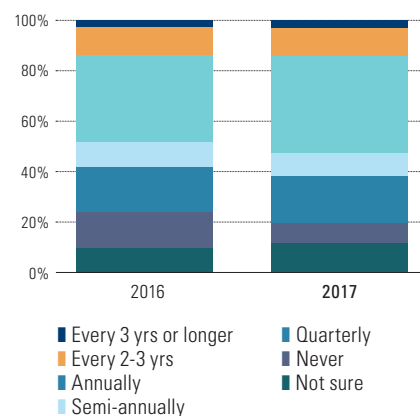
What type of target-date funds does your DC provider/record-keeper offer?

	All	Micro	Small	Mid	Large	Mega
TDFs composed of funds from one firm (single-manager funds)	41.6%	31.0%	40.8%	48.7%	54.6%	62.6%
TDFs composed of funds from multiple firms (multi-manager funds)	20.2%	20.9%	19.4%	21.1%	20.1%	20.2%
TDFs composed of funds from plan's current fund lineup (customized funds)	13.8%	11.5%	14.1%	13.2%	13.9%	22.1%
Don't know	35.1%	45.9%	33.0%	27.6%	27.3%	20.2%
Other TDF types	2.4%	1.2%	2.8%	2.2%	3.6%	4.3%



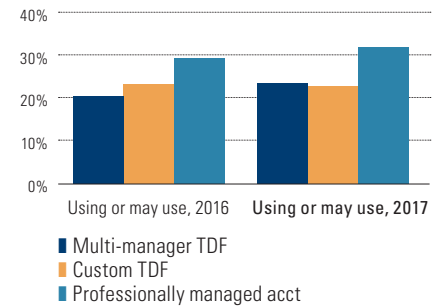
How frequently do you evaluate or benchmark your target-date fund series to determine "best fit" for your participant demographics?

	All	Micro	Small	Mid	Large	Mega
Quarterly	17.6%	7.5%	18.8%	31.1%	27.3%	24.3%
Semi-annually	8.5%	7.5%	10.9%	6.1%	9.8%	4.7%
Annually	36.7%	39.6%	38.7%	30.7%	30.2%	33.1%
Every 2-3 years	10.6%	8.8%	9.5%	10.2%	13.2%	20.7%
More than 3 years	2.1%	2.8%	1.1%	2.0%	2.0%	4.1%
Not sure	16.3%	22.0%	14.2%	15.2%	10.7%	9.5%
Never	8.0%	11.8%	6.9%	4.5%	6.8%	3.6%



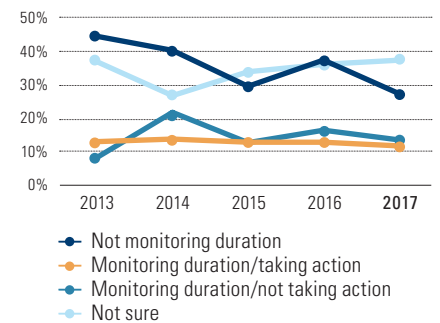
Have you considered utilizing any of the following in your plan?

	Already use	Considered, may use in the future	Not sure	Have not considered	Considered, but decided not to use
Multi-manager target-date fund	12.5%	11.7%	12.6%	11.7%	11.9%
Custom target-date fund (made up of investment options in the plan lineup)	13.1%	10.6%	14.4%	11.7%	11.9%
Professionally managed account (participant-level allocation model)	18.3%	14.6%	17.2%	16.5%	23.8%



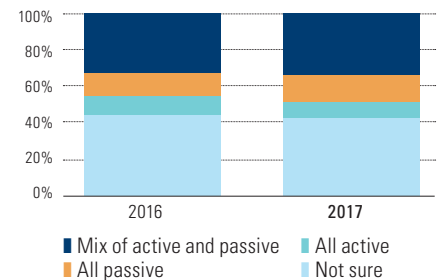
Within your target-date fund series, are you monitoring the duration of the fixed income component, and if so, are you taking action to address and adjust duration?

	All	Micro	Small	Mid	Large	Mega
No, not monitoring duration	26.7%	30.3%	28.0%	22.6%	18.3%	22.6%
Yes, monitoring duration; not taking action	12.4%	8.4%	12.5%	11.5%	20.3%	20.1%
Yes, monitoring duration; taking action	10.4%	4.9%	8.9%	15.0%	15.8%	25.6%
Not sure	37.2%	42.8%	35.4%	37.6%	33.7%	26.2%
Not applicable – do not offer TDFs	13.3%	13.6%	15.2%	13.2%	11.9%	5.5%



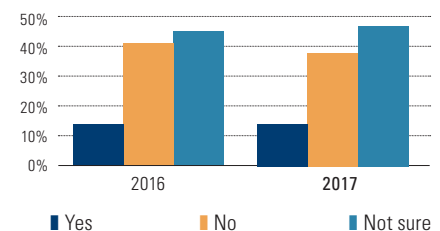
What is your target-date fund composed of?

	All	Micro	Small	Mid	Large	Mega
All passive investment strategies	14.5%	8.0%	12.1%	16.0%	24.0%	37.7%
All active investment strategies	9.4%	8.9%	8.6%	11.6%	12.0%	9.3%
Active and passive investment strategies	33.4%	27.1%	37.7%	35.6%	35.9%	35.2%
Not sure	42.6%	56.0%	41.7%	36.9%	28.1%	17.9%



Does your target-date fund series currently utilize alternative asset classes such as hedge funds, real estate, commodities and others to provide diversification?

	All	Micro	Small	Mid	Large	Mega
Yes	14.2%	8.9%	15.9%	15.7%	11.4%	29.0%
No	38.4%	30.6%	40.2%	41.5%	50.8%	43.2%
Not sure	47.4%	60.5%	43.9%	42.8%	37.8%	27.8%



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