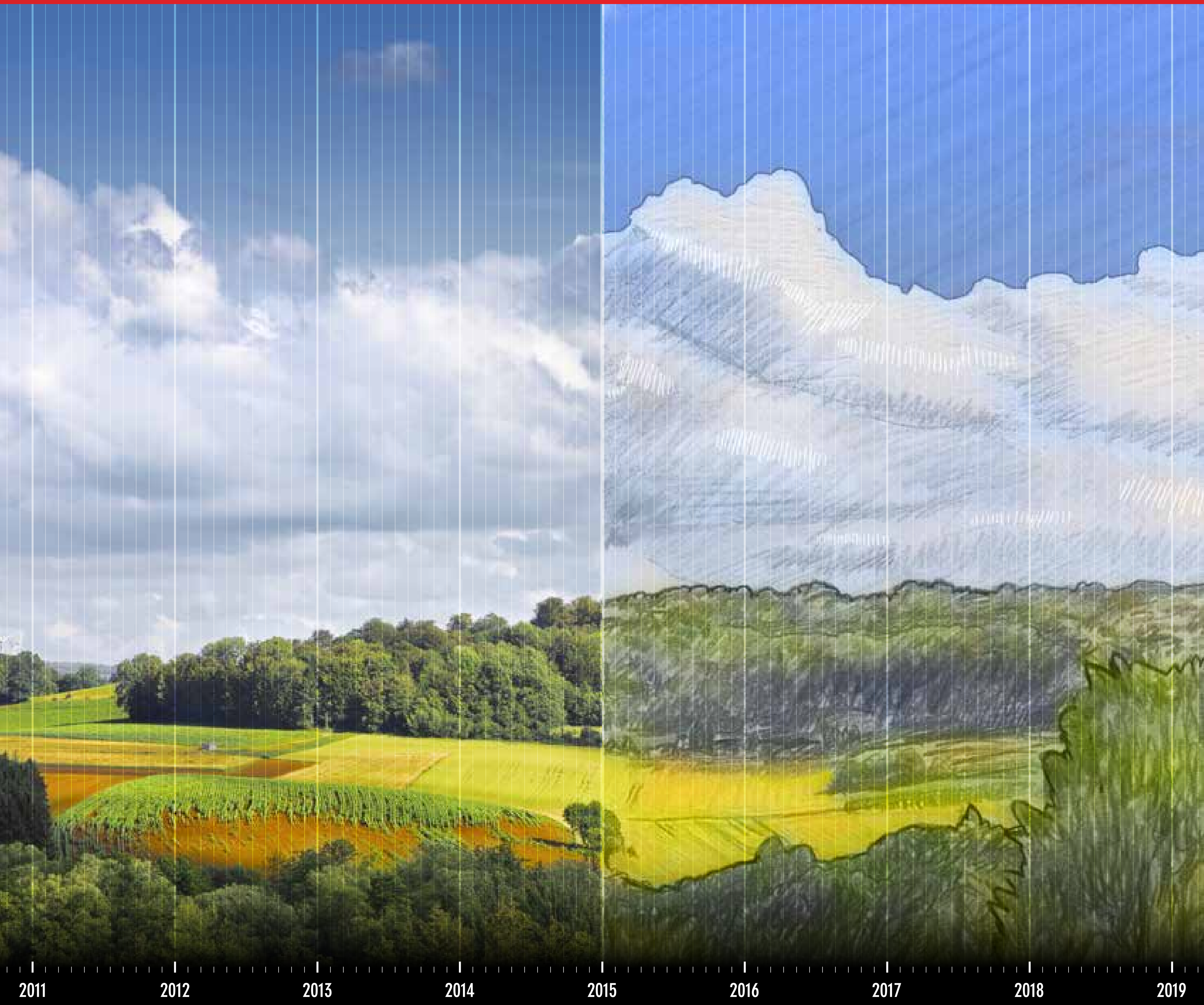

Prescience **2019**

Expert Opinions on the Future of Retirement Plans

TRANSAMERICA®
Retirement Solutions

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Panel of Experts

We are grateful to our panel of experts for participating in this survey and for sharing their much valued insight.

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SPARK

Sincere thanks to our 62 panelists!

Introduction

prescience \ ‘pre-sh(ē-)ən(t)s, ‘pr ē,-s(ē-) ən(t)s
Foreknowledge of events; human anticipation of the course of events; foresight.

About the Survey

Transamerica Retirement Solutions’ Prescience 2019 is the sixth iteration of a modified Delphi Study conducted in the second quarter of 2015. The study examines trends in retirement plans with $25 million to $1 billion in assets. Sixty-two retirement plan experts from 58 organizations across the nation answered the 111-question survey. Transamerica Retirement Solutions chose survey participants based on their positions as thought leaders and experienced professionals in the retirement plans business. Members of this panel are well-suited to foretell high level trends that will determine the road ahead for the retirement industry.

Panel participants represent trade groups, research organizations, consulting firms, academic institutions, financial professionals, investment management firms, service providers, and trade media. The survey participants possess a deep understanding of the retirement plan business and a working knowledge of major markets and providers. The purpose of the study is to present executives responsible for retirement plan management with insights on the industry’s future so they can develop and evaluate their organizations’ plans and strategies. *Prescience* explores upcoming trends in regulations, technology, investments, plan design, and participant education and communication for the corporate, not-for-profit healthcare, higher education, and the Taft-Hartley market.

About Transamerica Retirement Solutions

Transamerica Retirement Solutions is focused exclusively on providing retirement plans of all types to organizations of all sizes. Leveraging expertise honed by more than 75 years in business, we serve:

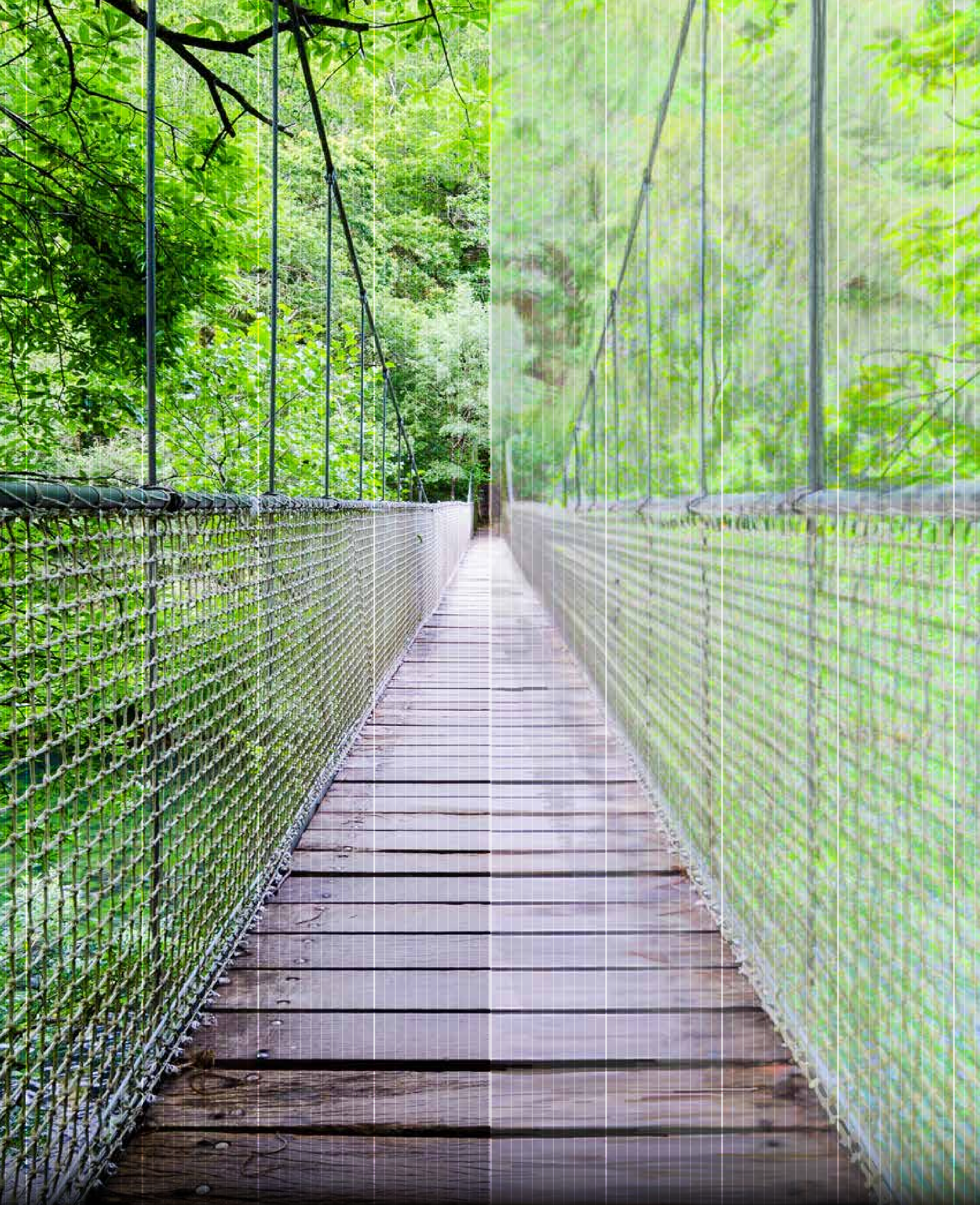
- More than 4 million retirement plan participants.
- The entire spectrum of defined benefit (DB) and defined contribution (DC) plans, including 401(k) and 403(b) (Traditional and Roth), 457, profit sharing, money purchase, cash balance, Taft-Hartley, multiple employer plans, nonqualified deferred compensation, and rollover and Roth IRAs.

About the Transamerica Retirement Solutions Research Council™

The Transamerica Retirement Solutions Research Council (Research Council), the research group of Transamerica Retirement Solutions, is dedicated to:

- Portraying a comprehensive picture of the private retirement plans market today and in the future;
- Providing retirement plan sponsors and their advisors with comprehensive benchmarking information; and
- Detailing trends to assist with the strategic evaluation of retirement plans.

Drawing on more than 50 years of experience in retirement plan management, the Research Council periodically assembles experts from all facets of the retirement plans market to evaluate the current and future impact of trends shaping the industry.



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Executive Summary

"Increasing focus on participant metrics instead of plan metrics for success. More customized ability of recordkeepers to report on measures that the plan sponsor defines as most important, rather than what the recordkeeper defines as most important."

"Plan sponsors will increasingly judge/evaluate service providers such as recordkeepers and advisors on the outcomes they produce as the standard to which plan sponsors are held evolves from prudence to adequacy."

Legally, plan sponsors are held accountable for the process they follow to act in the best interest of participants, and not necessarily the means they deploy or the outcomes they achieve for retirement plan participants. For this reason, plan sponsor satisfaction has been the primary metric to measure success in the retirement plans business: the primary question has been and is whether we—in the industry—are helping plan sponsors remain compliant with rules, regulations, and stated plan policies. Results of *Prescience 2019* indicate this is all about to change.

Indeed, retirement plan industry experts point out that plan sponsors are increasingly going beyond the call of duty when evaluating their advisors and service providers—switching from satisfactory service performance to plan-level success metrics now and participant-level retirement outcomes by 2019.

Experts also predict service providers will pass the raised bar thanks to participant alerts and an assortment of mobile technology tools that prod participants to take the necessary steps toward retirement success. With greater control over their lot, participants will be more comfortable with decisions sometimes made for them to place them on a proper path to retirement. Enhanced outcomes will help plan sponsors develop employee appreciation for retirement benefits and the positive attitude in the workplace employers need to stay in business. Those recordkeepers who provide the participant advice and tools to create a sense of control and effective wealth building will win out by 2019.

If there is one trend on which experts in the retirement plan industry agree, it is that mobile technology will continue to advance swiftly and inexorably. Mobile technology will win the favor of the public and clearance of government agencies; it will be key to empowering participants to achieve retirement success. The vast majority of experts concur that by 2019 nearly all retirement plan providers will provide participants with alerts on mobile devices for notifications, transaction verifications, and trigger events (e.g., unusual account activity) that call for immediate one-click action.

Despite fears that government's endless appetite for tax dollars will lead to the pinching of allowable retirement plan contributions, or worse, increased taxation of retirement plan distributions, experts see either as unlikely. However, many experts are wary of the federal and state governments seeking to control retirement plans and IRAs. On the other hand, extreme measures such as instituting taxes that encourage retirement saving or mandated contributions—reforms perhaps inspired by the Australian success story—will help fuel the retirement system and set U.S. workers on the correct path. Experts believe that the government will mandate automatic enrollment and extend a safe harbor provision for automatic enrollment for 10% of pay at $0.50 on the dollar. With the protection of this safe harbor, a majority of experts believe that half of plan sponsors using automatic enrollment will raise the default contribution rate on their plan to 10%. This reform may place highly compensated employees at a disadvantage, hampering their ability to receive full matching employer contributions, spurring the growth of nonqualified deferred compensation (NQDC) plans.

Even in the absence of government intervention, experts predict plan sponsor behavior will change. Prompted by plan level retirement readiness reports, by 2019 more than half of plan sponsors will have taken meaningful action to alter plan design in order to improve the retirement readiness of participants. Improved paths to retirement readiness will not be limited to rank-and-file employees. Demand for retirement solutions for highly compensated employees is expected to bring about the development of new NQDC products. The penetration rate of NQDC plans in the mid-sized plan market is projected to rise to 25% from the current 18%.

The changes outlined in this report explain why experts predict retirement plan assets will rise 40% to $35 trillion by 2019. Another factor may be the rise in the U.S. wage base. Indeed, experts firmly believe that by 2019, the minimum wage in the U.S. will be $10 an hour or more. However, experts also firmly believe the number of home-based and mobile workers will

increase as companies look to save on fixed costs and office space and to leverage talent available in remote locations. In addition, over 60% of experts agree that the number of people working as 1099 independent contractors, workers who typically receive little or no healthcare or retirement benefits, will increase sharply. This “save today” strategy will have consequences down the road as workers with little in the way of retirement savings reach retirement age and stress government and society’s means of supporting them. This sea change presents an opportunity for recordkeepers and investment managers to create retirement solutions for an increasingly mobile and independent workforce.

The aging of the American workforce will continue with healthcare gains, and large numbers of older workers unprepared to retire will struggle to make ends meet. Unfortunately, life will likely not get easier for unprepared seniors. An overwhelming majority of experts believe that by 2019 nearly one-quarter of people age 65 and older will be working. Many will be working not just to keep their mind active, but out of financial necessity. Employers will accept retirees back into the workforce, but not in the positions they held prior to retirement. The large numbers of seniors wanting to work is hardly a benefit to employers. Health and welfare benefits and workman’s compensation coverage for seniors working beyond traditional retirement age exceed that for a younger cohort. Shifting employee benefits dollars from health and welfare plans to retirement benefits helps employees retire successfully at a reasonable age. Adopting a defined contribution approach to healthcare benefits allows employers to dedicate more dollars to retirement benefits, keep the workforce fit, and the business competitive.

Higher Education has been one sector with higher levels of retirement readiness to date. Because of the higher incidence of defined benefit plans, awareness among faculty of the need to save more on a shorter career span has helped reach more improved levels of retirement readiness. However, the sector is changing rapidly. Rising tuitions and burgeoning student debt lead many to regard Higher Education as the next financial “bubble.” While tenured faculty receive robust pay and retirement packages, non-tenured faculty enjoy no such luxury. Employment for adjunct faculty is tenuous. In addition, a mere 25% of adjunct faculty is eligible to participate in 403(b) plans. Experts are mixed as to whether that number will rise at all by 2019, but the ranks of part-time and non-tenure professorships are expected to swell to over 75% of faculty. Clearly, Higher Education institutions are a niche market that will sorely need the help of retirement plan advisors and service providers over the next four years.

With advisors needing to establish a succession plan for their practices and recordkeepers forced to invest large sums to keep up with new technologies and make up for deficient payroll systems, both groups are expected to consolidate for several years to come. Both populations need to maintain a sharp focus on plan participants and offer a wide choice of services. Fiduciary advisors continue to hone their business model, offering new ideas to enhance plan governance and provide expert knowledge on conservative investment options such as fixed income funds, stable value, principal-guarantee and income-guarantee products in a challenging market environment. Leading recordkeeping service providers will be those that provide participants with the electronic alerts and tools that give them the confidence to actively manage their way to a successful retirement.

Background

Although a great deal of information is available about recent trends affecting the business, there is a dearth of reliable information about future directions. In a fast-changing environment, retirement plan sponsors, providers, consultants, and professional advisors need a clear vision of the retirement plans business four or five years from now so they can invest in the development of products, services, systems, and processes that will meet the needs of plan sponsors and participants well into the future.

Prescience 2019 delivers exactly this vision. It supplements Transamerica Retirement Solutions’ other innovative research reports to draw a comprehensive picture of the private retirement plans business today and into the future. These research reports focus on current trends and practices and uncover emerging market development that could have a profound impact on retirement plans, should these developments continue into the future.

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2012

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2014

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15 2016 2017 2018 2019

Retirement Readiness

"In 2019, the universal approach to the way participants view and interact with retirement plans will be significantly evolved . . . The evolution of participant engagement will undoubtedly take the largest advance yet in the next four years."

Retirement readiness will continue to be a hot topic over the next four years. Plan sponsors will pay closer attention and be more responsive to retirement readiness reports at the plan level. Through a variety of technologies, they will also endeavor to apprise plan participants of the state of their retirement preparedness. But perhaps the most impactful action plan sponsors will take is altering plan design to automatically enroll participants into the plan at higher contribution rates and higher automatic deferral increases. Experts believe that by 2019, half of plan sponsors will have taken meaningful action to change plan design and the retirement readiness of participants in response to a plan-level retirement readiness report. Fully 70% of them will have received such a report by that time. Recordkeepers will do their part by pricing their services to incent both plan sponsors and participants to choose the methods and adopt the behaviors best-proven to lead to successful retirement outcomes. In addition, experts forecast that by 2019, one-quarter of plan sponsors will have conducted due diligence of or a search for retirement income solutions for their plan.

As noted elsewhere in this report, there is no way to overstate the impact that technology, particularly mobile technology, will have on keeping participants informed, engaged, and empowered. Service providers will regularly send plan participants alerts about the state of their retirement readiness, demonstrating to them if they are on course to reach a fully funded retirement. Prompted by alerts and notifications and armed with the apps and resources needed to effectively map their way to retirement, many more participants will feel they have the power to enhance their retirement plan outcomes. Their attitudes toward their retirement benefits and their belief in the potential of their retirement benefits to deliver for them will become significantly more positive. Participants' desire to obtain and rely on advice from their recordkeeper will increase. In fact, the ability to render helpful advice to participants will become a large part of what sets recordkeepers apart.

Indeed, change does not come in leaps and bounds in the retirement plan market. The herd does turn slowly. Nonetheless, a sea change has occurred with regard to how best to prepare participants for retirement. The conversation has shifted from endless attempts at participant education through group and one-on-one meetings and a bombardment of online tutorials and recommendations. The brass-tacks solution now calls for plan design changes that include 6% or better deferral rates with automatic enrollment paired with automatic deferral increases of at least 1% per year. The vast majority of our panel of experts believes that by 2019, more than half (55%) of plan sponsors will be using automatic enrollment. Moreover, nearly half (45%) of plans will automatically enroll participants at a default contribution rate of 6% or more. For years the retirement plan industry has battled the inertia of plans that embrace automatic enrollment, but default

By 2019...

Have received at least one plan-level readiness report:

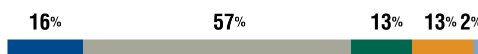
Have taken meaningful action to enhance the retirement readiness of participants after reviewing a plan-level readiness report:

Have changed the design of their retirement plan to enhance the retirement readiness of their participants:

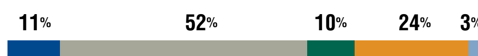
Nearly all retirement plan providers will send participants alerts about their state of retirement readiness.

Most retirement plan providers will offer a service that shows if participants are on course to reach a funded retirement.

In retirement confidence surveys, more participants will agree they have access to the tools and resources they need to achieve successful retirement outcomes.

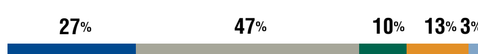


In retirement confidence surveys, fewer participants will feel powerless to enhance their retirement plan outcomes.



The percent of plan sponsors using automatic enrollment will have risen to 55% from 45.9%.

The percent of plan sponsors enrolling participants automatically at a default contribution level of 6% or higher will have risen to 45% from 29%.



■ Strongly Agree ■ Agree ■ Neutral ■ Disagree ■ Strongly Disagree

participants in at rates of 2%, 3%, or 4%—levels long agreed to be insufficient for many to attain a successful retirement. Another promising development will be the rise to 75% or more of the small private employer market (50 – 100 employees) that will have defined contribution plan coverage, a 12 percentage point improvement over the level today.

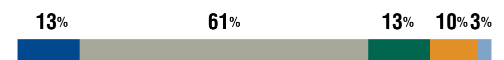
The vast majority of our panel of experts believes that by 2019, more than half (55%) of plan sponsors will be using automatic enrollment.

While these improvements should be a boon to the retirement plans of the average American worker, expect to see improved retirement solutions for highly compensated employees as well. NQDC plans will have greater penetration—expect one-quarter of mid-sized plans to offer them in 2019—and increased demand for retirement planning solutions should spur the creation of a variety of new products for highly compensated professionals.

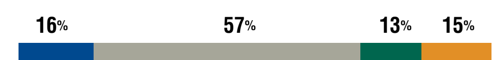
With all these systemic and product improvements, experts believe that assets invested in retirement plans could grow by $10 trillion to $35 trillion, a 40% increase over the $25 trillion invested today.

"We are nine years after the passage of PPA, and look where we (still) aren't with regard to automatic enrollment adoption (most still apply only to new hires) and contribution acceleration (most still don't institute it coincident with automatic enrollment). The 'herd' turns slowly."

Retirement plan coverage of individuals in the 50- to 100-employee private employer market will have risen to 75% or more from 63%.



At least 25% of retirement plan sponsors will have conducted due diligence of or a search for retirement income solutions for their plan.



The recordkeeper's ability to render helpful advice to participants will become a large part of what sets recordkeepers apart.

Recordkeepers will price services to incent the right plan sponsor and participant behaviors.

The demand for retirement planning solutions for highly compensated employees will have spurred product development activity.

The penetration rate of NQDC plans in the mid-sized plan market will rise to 25% from 18%.

The amount invested in retirement plans (public and private) will grow to $35 trillion in 2019 from approximately $25 trillion in 2014.

Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree

Legislative and Regulatory

While many today are concerned that the government's appetite for tax dollars may lead it to lower ceilings for defined contribution plan contributions for employers and employees, our panel of retirement plan experts is less concerned about these issues. Only about two out of five agree that 415(c)(1)(A) limits for defined contribution plan contributions from both the employer and employee will be lower than the 2014 level of $52,000. Just one in five agree that the 402(g) limit of $17,500 for employee-alone contributions will be lower in 2019. Tax penalties for early withdrawal of defined contribution plan amounts are also seen as unlikely to increase from the current rate of 10%. The power grab by a handful of activist states concerns experts most.

Despite their lackluster performance in running healthcare, transportation, education, and other systems, a handful of states seek to take control of retirement benefits of private sector employees. The profusion of negative headlines about the defined contribution plan system's shortfalls in solving retirement questions for most workers sways government to believe it can do a better job than the private sector. Experts do not see state-sponsored defined contribution plans for private employers gaining traction anytime soon: 65% believe that fewer than 5% of employers in states that offer state-sponsored plans will have adopted them.

In a move to enhance the retirement readiness of U.S. workers in the confines of the current system, some have called for safe harbor provisions for automatic enrollment at 10% of pay at $0.50 on the dollar. Half of our panel of experts agrees that such a measure will have been adopted by 2019. Nearly two-thirds believe that with this safe harbor in place, half of plan sponsors using automatic enrollment will extend the default rate to as high as 10%. In fact, 40% of panelists believe that by 2019, new legislation will go so far as to mandate auto-enrollment for all elective defined contribution plans.

Look out for change in defaults at the plan level for automatic enrollment and other auto features regardless of regulatory action. Survey responses suggest recordkeepers' default service agreements and plan documents will incorporate automatic enrollment at 10% and include automatic annual deferral increases. Providers that have not yet modified their core recordkeeping system to administer automatic enrollment, automatic deferral increases, and custom asset allocation models will need to consider exiting the business or focusing on niches such as the micro-market.

Slightly less than half the panelists agree that by 2019 Congress will be discussing the creation of a federal retirement agency to oversee retirement plans and IRAs. At present, a patchwork of agencies, including the SEC, FINRA, DOL, and IRS share regulatory authority over retirement plans. The involvement of multiple agencies, each charged with some aspect of retirement planning and many other responsibilities, makes it impossible for the federal government to formulate a cohesive national retirement policy. The lack of consistency among agencies allows retirement plan industry organizations to determine the de facto national retirement policy. Some overseeing federal agencies have a conflicted

"The Department of Labor, SEC, FINRA, and Congress will all be involved making [retirement] a political issue and potentially slowing down progress."

Congress will be discussing the creation of a federal retirement agency with competence over retirement plans and IRAs.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
8%	40%	27%	16%	8%

Congress will have serious discussions about instituting a federal sales tax or value-added tax to encourage Americans to save.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
2%	36%	32%	19%	11%

The Department of Labor will have issued regulations regarding the compensation mode for retirement plan advisors.

Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
10%	44%	21%	23%	3%

Strongly Agree · Agree · Neutral · Disagree · Strongly Disagree

agenda. For example, the DOL must deal with a wide range of issues such as employment levels, fair labor conditions, work safety, minimum wage, and right to work. While this agenda is advantageous for workers, it is out of sync with employer needs, and renders the U.S. labor market globally uncompetitive.

In recent years, the DOL has attempted to develop a consensus around the definition of the term "fiduciary," recognizing that the term means something different under ERISA and under the 1940 Advisers' Act. In February of 2015, the DOL proposed a revised rule addressing the issue with a focus on conflicts of interest at the time of a distributable event. Comments to the DOL suggest strong opposition to such a narrow focus in the definition, and particularly the underlying assumption that cheaper is necessarily better. The industry is working with the DOL with the intent of ensuring a pragmatic approach that employs current best practices and will likely prevail.

Experts do not see state-sponsored defined contribution plans for private employers gaining traction anytime soon.

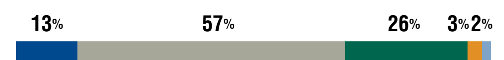
Still, more than half of *Prescience* panel experts believe that the DOL will have created regulations regarding the mode(s) of compensation for retirement plan advisors by 2019. More than 80% also agree that, as sensible concessions to advancing technology, the DOL will have issued safe harbor regulations for the systematic e-delivery of plan communications and 404(a)(5) fee disclosure notices. This will keep participants apprised of changes to their plan in a more timely fashion, particularly with regard to Sarbanes-Oxley notices concerning blackout periods when there is a change in service provider.

Nearly three-quarters of our panel agree that the DOL will have instituted safe harbors to facilitate the use of in-plan annuities. Annuities and lifetime guarantees are increasingly important for participants nearing retirement age. The current low interest rate environment and the long-term decline in bond values create significant challenges for periodic distributions over a 30- or 40-year lifetime. The 4% distribution rule of thumb is not as realistic as it once was. However, with the DOL safe harbor, plans will be more apt to offer in-plan annuities to employees who are nearing retirement and fearful of exposing retirement assets to unpredictable equity and bond markets.

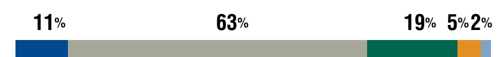
Perhaps more interesting is that 40% of experts agree that by 2019, Congress will give serious consideration to instituting a federal sales tax or value-added tax to encourage Americans to save, a measure that could be a boon for the national savings rate and align it closer to savings rates in the rest of the world. Instead of encouraging saving, some in the industry and financial literacy organizations are focusing public attention on conspicuous consumption, hoping to attack the shopping addiction that affects so many in society and impairs U.S. workers' ability to achieve a funded retirement.

> *"Plan sponsors will focus on risk management approaches geared toward driving successful outcomes for the American workforce."*

DOL will expand IB 96-1 to extend to information about the distribution of account balances in a lifetime income stream (e.g., annuitization).



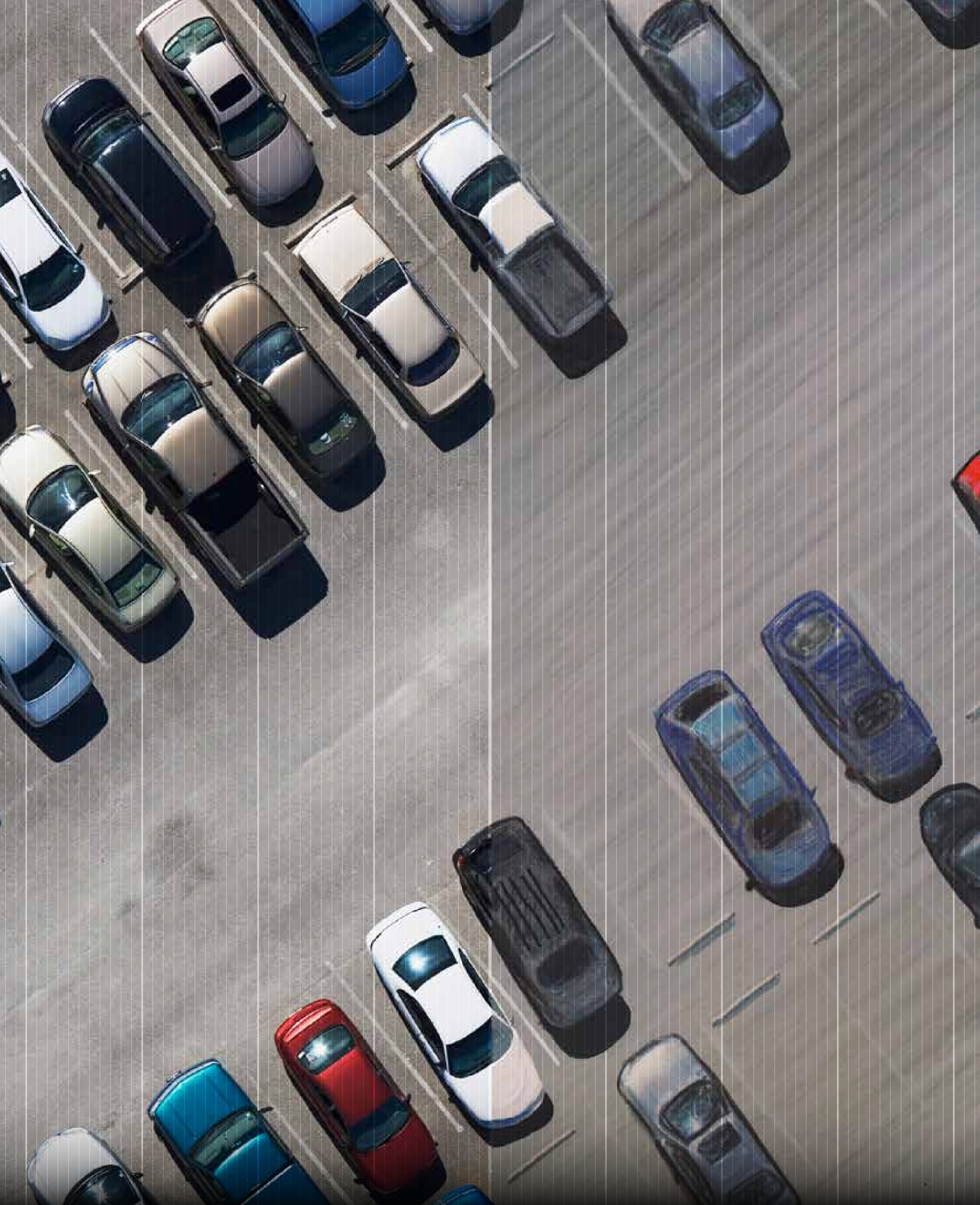
The Department of Labor will have instituted safe harbors to facilitate the use of in-plan annuities.



The Department of Labor will have issued safe harbor regulations for systematic e-delivery of plan communications.

Exclusive use of e-delivery will be allowed for 404(a)(5) notices.

Strongly Agree · Agree · Neutral · Disagree · Strongly Disagree



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Workforce

The American workforce has changed significantly over the years since the Great Recession began to fade and the American economy began its recovery. By 2019, experts are confident the U.S. minimum wage will be at least $10 per hour for those workers in traditional employer-employee relationships. While this raises the bar ever so slightly for the lowest tier of the labor market, it falls far short of giving workers a hand up into the middle class.

But the real story is the wholesale transformation of the very nature of the working world. Driving or taking the bus or subway to a designated workspace in a factory or office building is no longer the norm that it once was. Thousands of individuals now work from home or remotely, which can represent a fixed cost savings to employers. Having to live near one's workplace is no longer a given. The vast majority of experts believe that by 2019, the number of home-based and mobile workers will have risen roughly 20% to 18 million. About half of experts believe that in four years, one in ten workers will be self-employed and working in a shared working environment such as a co-working facility. Many predict that the number of individuals working independently as 1099 contractors will have increased significantly as well. As legislators in some states continue to modify the labor code to restrict employers' ability to employ 1099 contractors, even the retirement plan industry may experience regional changes in the distribution of the labor force and employment to more business-friendly states such as North Carolina.

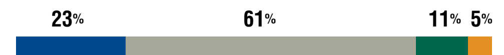
"With the country's demographics continuing to get older, a constant worry about Washington's deficit and eye towards retirement plans and a generation of people approaching retirement without sufficient savings, focus is very likely to move towards retirement issues—particularly if healthcare becomes more stabilized."

By 2019, the number of home-based and mobile workers will have risen roughly 20%.

Not surprisingly, more than 90% of those polled believe that the active rate of labor force participation by seniors ages 65 or older will have increased by almost one-third, as more workers remain in the workforce until later in life. Some workers will have retired from previously held positions only to be re-hired by the same employer in a different role. Expert opinions indicate that retirement plan providers will continue to contend with the stagnation and even decline of traditional employment, which could place new challenges on providers of retirement income products as they attempt to reach workers through new channels other than traditional employer groups.

One market that may present opportunities for plan sponsors and advisors alike is the increasing population of adjunct faculty at institutions of higher education. Experts believe this group will grow significantly in size and continue to remain ineligible for employer-sponsored retirement plans. This benefit-deprived population of college professors created by educational institutions looking to pare expenses has a unique need for secure retirement income and needs assistance with advice and education regarding retirement income products. Those providers or advisors who can assist with the fiduciary oversight normally provided by employers or plan sponsors will benefit by finding creative ways to reach this niche market.

The U.S. minimum wage will be $10/hour or higher.



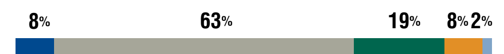
The number of home-based and mobile workers in the U.S. will have risen to 18 million from approximately 15 million today.

The number of individuals receiving 1099 independent contractor compensation will have increased sharply.

One out of ten workers will be self-employed and working in a shared working environment such as a coworking facility.

The active rate of labor force participation by seniors ages 65 and older will increase to 22.5% from 18.5%.

Employers will be open to taking retirees back to a different position than they held when they retired.



The percentage of adjunct (part-time and non-tenure track full-time) faculty at higher education institutions will grow to over 75% in 2019 from 67% in 2014.

The percentage of adjunct faculty eligible to participate in the 403(b) plan at higher education institutions will remain below 25%.

Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree

Mobile Technology

By 2019, a combination of the rise in workforce mobility, increased access to smartphones, technological advances in data transmission, market demand, and public policy more favorable to e-delivery will have incented providers to optimize their websites for handheld devices and develop applications that will allow participants to access their retirement accounts through almost any "smart" device, in addition to traditional desktop, laptop, and tablet computing devices.

It is likely that functionality will not be much different from the traditional website access that exists today, but access and navigation are likely to be quite different. Entertaining learning paths consistent with the environment participants enjoy in other apps will be called for. Experts believe three-quarters of providers will offer at least one learning path that will mimic the entertainment-value feature of online games, which will lead to at least one in three participants accessing their retirement account(s) on a hand-held device at least once each calendar year. Those service providers most swiftly reallocating technology budgets, developing competencies, and hiring new talent to achieve these applications will stand apart.

"Technology will continue to expand how people interact with their retirement plans."

In 2019, one-third of participants will access their retirement account on a handheld device at least once in a calendar year.

Nearly all retirement plan providers will offer apps for mobile devices with functionality beyond that available on their optimized website today.

Nearly all retirement plan providers will make it possible for participants to receive alerts on mobile devices (text or instant messages) for:

…notifications such as statement availability and disclosures.

…transactions such as contributions receipt, automated rebalancing, loan issue, and distribution processing.

…trigger events that may call for action such as seminar notifications, anomalous market volatility, or unusual account activity.

More than three in four providers will offer at least one entertaining retirement plan learning path that mimics the user experience of online games.

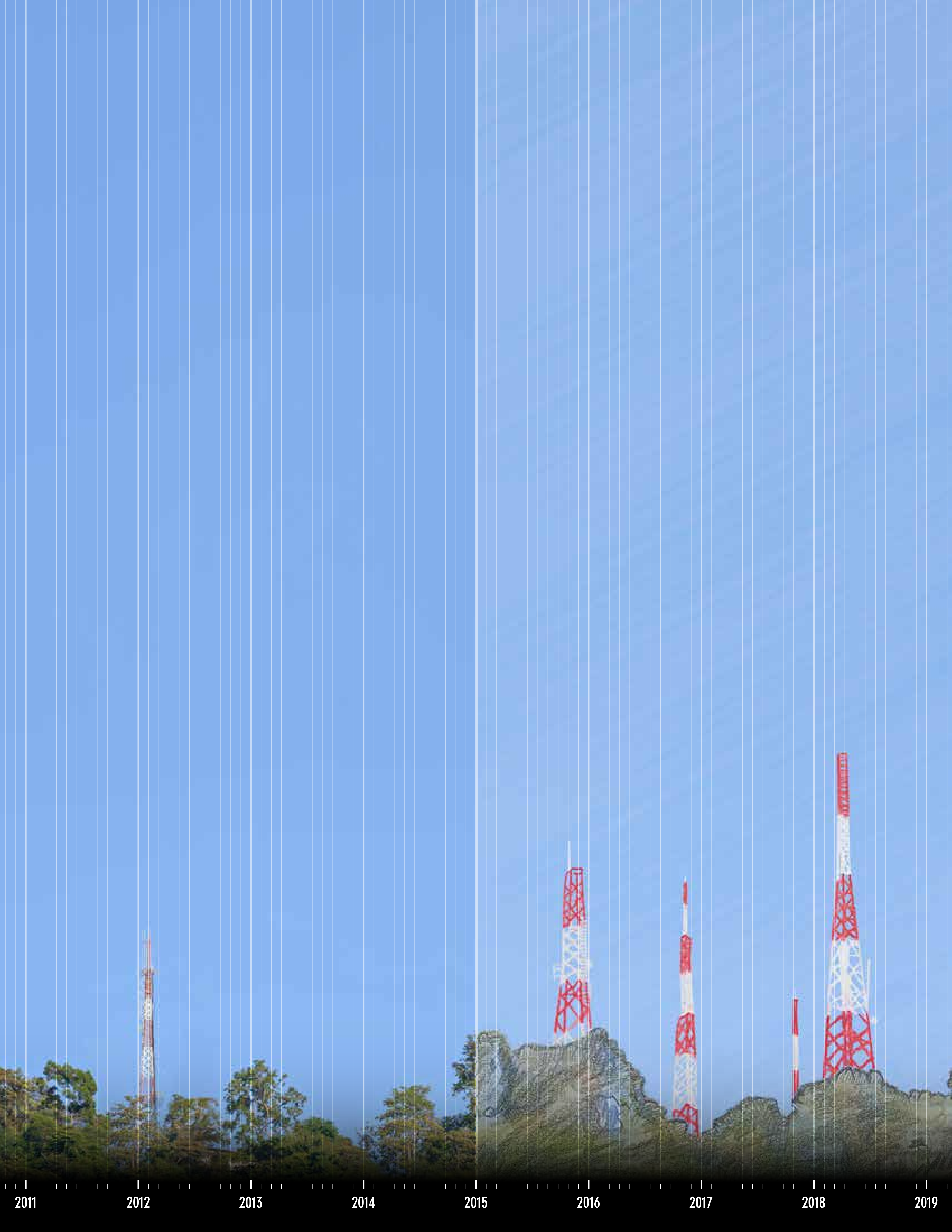
Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree

Those service providers most swiftly reallocating technology budgets, developing competencies, and hiring new talent will stand apart.

Greater use of mobile technology in the retirement plan business may increase case-level retention for providers, advisors, and advisory firms. The nature of records that need to be migrated in the event of plan transition will be affected. Mobile technology will also be valuable to plan sponsors in facilitating fiduciary documentation, storage of meeting handouts, attendance records, annotations, and minutes.

As a direct result, technological innovation may have an increasingly positive impact on utilization. The everyday user of mobile technology will show greater reliance on communications via mobile devices, seeking more frequent communication, itemized messages, shorter copy, more personalized content, and more immediate point-and-click response mechanisms. Providers will be in a position to make greater use of alerts that prompt participants to act on focused calls to "increase contribution by 1% of pay," "rebalance your portfolio," or make other positive changes to their retirement savings efforts.

While all these changes will affect participants in a positive manner, they will also cause the further evolution of how providers operate their businesses. With increased use of "cloud" technology by both participants and employees, brick and mortar office space is likely to be replaced by a soft infrastructure and re-distributed workforce, causing positive impacts to internal employee communications and education regarding 401(k) plans. Another benefit to providers is the impact that will be seen on operations and control, as the resulting larger, centralized contact centers may employ fewer staff scattered throughout more regional clusters. Some changes to client-facing teams may also evolve as a result, not only providing, but necessitating, that participants have more ability to learn about and modify their individual retirement plans electronically and on their own terms and schedules.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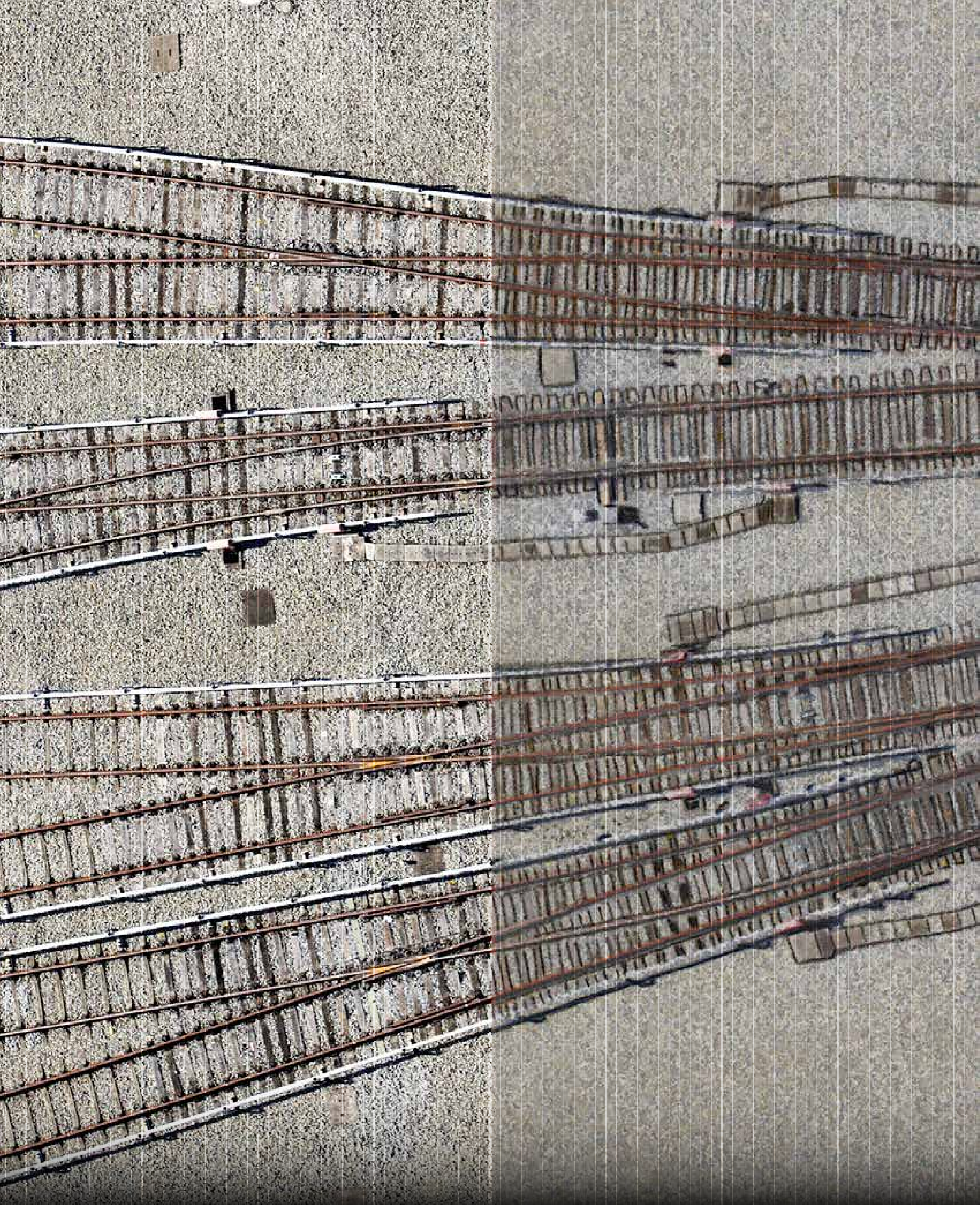

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Investments

"There will be a strong trend toward outcome-based participant solutions that incorporate both active and passive portfolio construction. In addition, the overall system will be strengthened with better plan designs, plan professionals, and products that will greatly increase contributions and mitigate leakage."

The U.S. equities market has enjoyed a six-year run up to 2015. Experts are mixed on whether the bull market will continue to 2019, but almost two-thirds project retirement plan assets to increase by 40% to $35 trillion. Over 40% expect the Dow Jones Industrial Average will reach 25,000 and the yield on the 10-year Treasury Note will increase to 5% by year-end 2019. Quantitative easing by the Federal Reserve system has led to considerable leveraging in corporate balance sheets without a commensurate increase in business profits or GDP growth. The policy has merely buoyed weak performers, dulled the effect of market forces, and made it nearly impossible for active managers to select winners.

The end of quantitative easing will likely bring about a rise in interest rates and take the air out of equity markets, thus allowing active managers to compete once again.

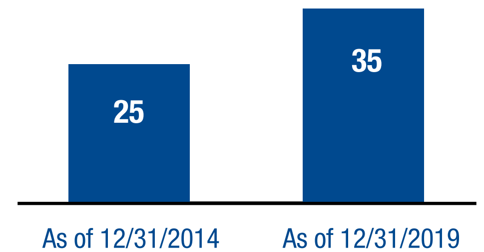
In the new environment, investors will ratchet down expectations for growth in equities and look for fixed income alternatives. Roughly four out of five experts predict that plan sponsors will be looking for investment options combining fixed income investments with limits to down-market capture ratios. Flexible fixed income options will gain favor as ways to take advantage of higher yields while adding diversification. As an example, international bond funds can help hedge risk, capitalizing on currency fluctuations. Despite the liquidity constraints that they bring to bear, book value products could enjoy resurgence not as default investment options, but as smart alternatives to fixed income portfolios in a rising interest rate environment. Moreover, plans that have a significant portion of assets invested in proprietary stable value options need not fear a noticeable deterioration in recordkeeper service.

Providers will in turn offer investment options that include flexible fixed income offerings with an emphasis on short duration products as well as international and global funds that may reap benefits through careful selection of exchange rate differentials, such as certain Eurobonds or Yankee bonds. Both sponsors and providers may consider more products that may capitalize on an American dollar as it continues to gain strength against many foreign currencies.

Almost two-thirds of experts believe some retirement plans will have adopted a simplified array of fewer than six core investment options—each with a distinct asset allocation mix and glide path. More than half of experts foresee plan adoption of custom asset allocation models as a qualified default investment alternative (QDIA) over a target date or target risk series of funds. Custom target date funds, which provide separate glide paths for each individual participant, could in time prove to be the ideal QDIA for many plans.

In 2019, experts anticipate that three-quarters of plan sponsors will have implemented fee revenue levelization strategies so that participant cost is independent of investment elections, almost tripling the number that experts had predicted for 2017. Whether driven by worries about participant lawsuits or other concerns, a similar number of plans will be deriving fees for participants as a combination of per-head and asset-based fees, experts predict. These strategies will require participants to contribute equally to the cost of recordkeeping, regardless of their choice of asset allocation.

Retirement Plan Assets ($ Trillion)



The Dow Jones Industrial Average (DJIA) will have reached 25,000 by 2019 (17,824 on 12/31/2014).

The yield on the 10-year Treasury Note will have reached 5%.

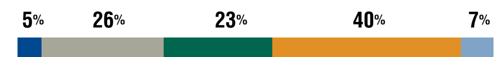
Many plan sponsors will be searching for investment options that combine fixed income investments and limits to down-market capture ratios.

More than one in four retirement plans will have adopted a simplified array of investment options, including a single glide path.

More plans will be using a custom asset allocation model than target date or target risk series as a QDIA.

Three quarters of plans will have implemented a mechanism to levelize across investment options so participant cost is independent of investment elections.

All plan sponsors will be equalizing fund revenues.



70% of plans will apply fees to participants as a combination of per head and asset-based fees.

■ Strongly Agree ■ Agree ■ Neutral ■ Disagree ■ Strongly Disagree

Plan Advice, Consulting, Sales, and Distribution

More plans will rely on a third party to assume ERISA 3(38) and 3(16) fiduciary responsibility.

More plans will adopt a governance structure involving multiple committees or subcommittees.

In addition to the plan administration committee and/or the plan investment committee (or subcommittee), more plans will create a plan operations committee to address operational questions such as payroll integration, transitions, plan mergers, partial plan terminations, and divestitures.

Fewer retirement plan committees will review investment options at periodic meetings.

Retirement plan committees are trending up in size (number of committee members).

Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree

"We will continue to see an increased focus on plan governance and documentation and that service providers will deliver cloud-based applications to facilitate the same."

Over the next four years, advisors will come to hold much of the power in the defined contribution plan market. They will be the principal buyer and decision-maker as more plans come to rely on them for 3(21), 3(38), or 3(16) fiduciary advice and oversight. In their trusted role as plan fiduciary, advisors will be held to a higher code of conduct. They will need to address conflicts of interest within their business practice, and will have to at all times demonstrate that they act solely in the best interest of plan participants.

In this busy age of mobile connectivity that allows people to work and communicate from anywhere, it can be very difficult to get members of investment committees together for extraordinary meetings—for instance to redesign a fund array or to formulate a new investment policy at the time of migration to a new provider. It is also difficult to convince investment committees to adopt innovation beyond necessary fund replacements. Advisors acting as professional fiduciaries will alleviate some of the inertia that stands in the way of progress.

Professional retirement plan advisors believe that plans should not be run by just one or two individuals and that every plan should at least have an investment committee in place. With advisors' help, more plans are expected to expand their governance structure to include additional committees or subcommittees. More than half of experts say that more plans will create a plan operations committee to address some of the many operational and administrative issues that plans encounter.

The vast majority of retirement plan experts expect the trend to terminate defined benefit plans to continue at a rapid pace. Following the trend among defined contribution plans, defined benefit plans will face increased scrutiny from clients and will be put out to bid on a regular basis. In fact, by 2019, the administration of defined benefit plans will be put out to bid and go through an RFP process as often as with defined contribution plans.

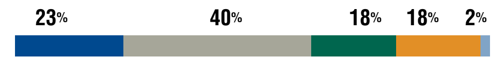
Consolidation among service providers is also expected to continue. Some 64% of experts believe that by 2019 there will be fewer than 20 defined contribution recordkeeping systems in the retirement plan industry. Recordkeepers who dispense their service as a commodity can easily be replaced and will be vulnerable to competitive threats. The quality of payroll data will become paramount. Recordkeeping firms will simply refuse to deal with substandard payroll processes and information from client plans. The strategy that some payroll companies have used to sell their bundled retirement services and replace TPAs to cover the cost of payroll services will backfire. Nearly 90% of panel experts agree that payroll data quality will improve even among mid-sized employers due to the increase usage of sophisticated payroll systems.

Tough economic times during the Great Recession caused many companies to abandon their match to employee contributions, but many have clawed their way back to offering a match. Some plans looking to simplify their matching policy have chosen to match employee contributions just once per year. More than half of retirement plan experts say that the 9% of organizations currently matching just once per year will expand to 15% by 2019.

The trend to terminate defined benefit plans will have accelerated.

Currently, the administration of defined contribution plans is typically put out to bid every three to seven years. By 2019, the administration of defined benefit plans will be put out to bid at least that often.

There will be fewer than twenty defined contribution plan recordkeeping systems in the retirement plan industry.



Payroll data quality will improve considerably among mid-sized employers with increased usage of sophisticated payroll systems.

Currently, about 9% of organizations match employee contributions once per year. This will increase to 15% or more by 2019.

■ Strongly Agree ■ Agree ■ Neutral ■ Disagree ■ Strongly Disagree

Retirement Plan Advisors

“The industry is in a period of consolidation for both advisors and recordkeepers. Technology will continue to expand how people interact with their retirement plans while the regulators will continue to try and keep up.”

Succession is a growing concern for many who consider themselves the “old guard” of retirement plan advisors. It is unclear where the next generation of retirement plan advisors will emerge. The risk/reward mix the position offers does not have the same appeal among Millennials as it had among earlier generations. Compensation is leaner and the career path longer and more hazardous than ever. Advisors find it hard to convince a younger, more diverse, more mobile workforce to commit to the potentially lucrative career.

Without experienced junior advisors poised to take over their practices, many advisors and advisory firms look to mergers, acquisitions, and roll-up firms for an answer. The vast majority of experts project the number of advisor practice mergers and acquisitions to escalate through 2019, in the same fashion change has decimated the ranks of recordkeeping firms.

These consolidations will increase the market share of the top advisory firms. By 2019, as many as 30 large advisory practices will have a national reach. Local teams dedicated to retirement plans with five or more plan advisors (plus staff) will become commonplace. Experts project there will be as many as 100 such teams in the country by the end of 2019.

The vast majority of experts project the number of advisor practice mergers and acquisitions to escalate through 2019, in the same fashion change has started to decimate the ranks of recordkeeping firms.

Advisors will find migration to the project consultant model less lucrative. However, many advisors will offer clients the choice between consultant and advisor service models. They two functions will coexist—consultant hired for spot projects such as the selection of a new advisor, or designing or implementing an employee education and communication program, and advisor performing fiduciary functions for the plan for a negotiated annual retainer.

Other substantive changes are on the near horizon for retirement plan advisors. In particular, by the end of 2019, plan sponsor demand for ERISA 3(38) and 3(16) fiduciary services will have fundamentally changed the profession.

Included in these changes: seven in ten experts believe not only the major retirement plan advisory firms will have unbundled the advisor position to

“The new retirement advisor will have to own and guide the industry into the 21st Century.”

The number of advisor practice mergers and acquisitions will be on the rise.

Mergers and acquisitions will increase the market share of the top advisory firms.

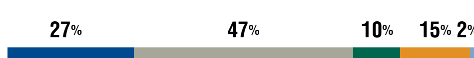
There will be more than 100 advisor team practices with 5 or more advisors who work exclusively with retirement plans.

By the end of 2019, plan sponsor demand for ERISA 3(38) and ERISA 3(16) fiduciary service will have fundamentally changed the role of Retirement Plan Advisors.

Major retirement plan advisory firms will have unbundled the advisor position to draw a clear line between the plan sales function and plan service functions to comply with new or pending compensation regulations.

As registered investment advisors become more prevalent in the marketplace, plans will move to fixed-fee pricing versus asset-based pricing.

Provider relationships with investment consultants and advisors will be key drivers of defined contribution plan sales.



■ Strongly Agree ■ Agree ■ Neutral ■ Disagree ■ Strongly Disagree

draw a clear line between the plan sales function and plan service functions to comply with new or pending compensation regulations, but that as "registered retirement advisors" become more prevalent in the marketplace, plans will move to fixed fee pricing versus asset-based pricing.

Relationships with providers, and also with participants, have long been critical to the success of any retirement plan advisor, and experts expect this to continue in 2019. Advisors are also expected to realize business benefits from increasing the financial literacy of participants, not only through project fees but also from revenue increases driven by the increased contribution flow from those participants. As a result, experts predict that many advisors will expand the resources they dedicate to enhancing the financial literacy of participants within their blocks of business: a win-win scenario for all involved.

Seven in ten experts believe that as registered retirement advisors become more prevalent in the marketplace, plans will move to fixed fee pricing versus asset-based pricing.

Compensation methods used for retirement plan advisors will continue to evolve in 2019, yet fewer than one-fourth of experts envision the DOL completely eliminating asset-based compensation in favor of fee-for-service compensation models. Fewer still expect fee-based compensation to be the only means of determining compensation for retirement plan advisors.

Experts are of the opinion that consolidation will continue at a rapid pace for both advisors and recordkeepers. The recordkeepers likely to survive consolidation within the industry, as it evolves, will be those best able to serve a wide market with multiple products. Those surviving recordkeepers will also have diversified the revenue types within their business.

"The drive to achieve competitive differentiation will result in a handful of large providers and advisory practices dominating the market due to their scale, perceived strength, and ability to deliver an attractive menu of services with competitive pricing."

Many plan sponsors will demonstrate a genuine interest in enhancing the financial literacy of their employee population.

Advisors will realize business benefits from enhanced financial literacy in the form of project fees and revenue derived from increased contribution flow.

Following the model established in the United Kingdom, the U.S. DOL will have completely eliminated asset-based compensation in favor of fee for service for plan advisors.

Fee-based advisor compensation for retirement plan sales will be the only option rules and regulations allow.

Consolidation will continue at a rapid pace both in the recordkeeping business and the advisory business.

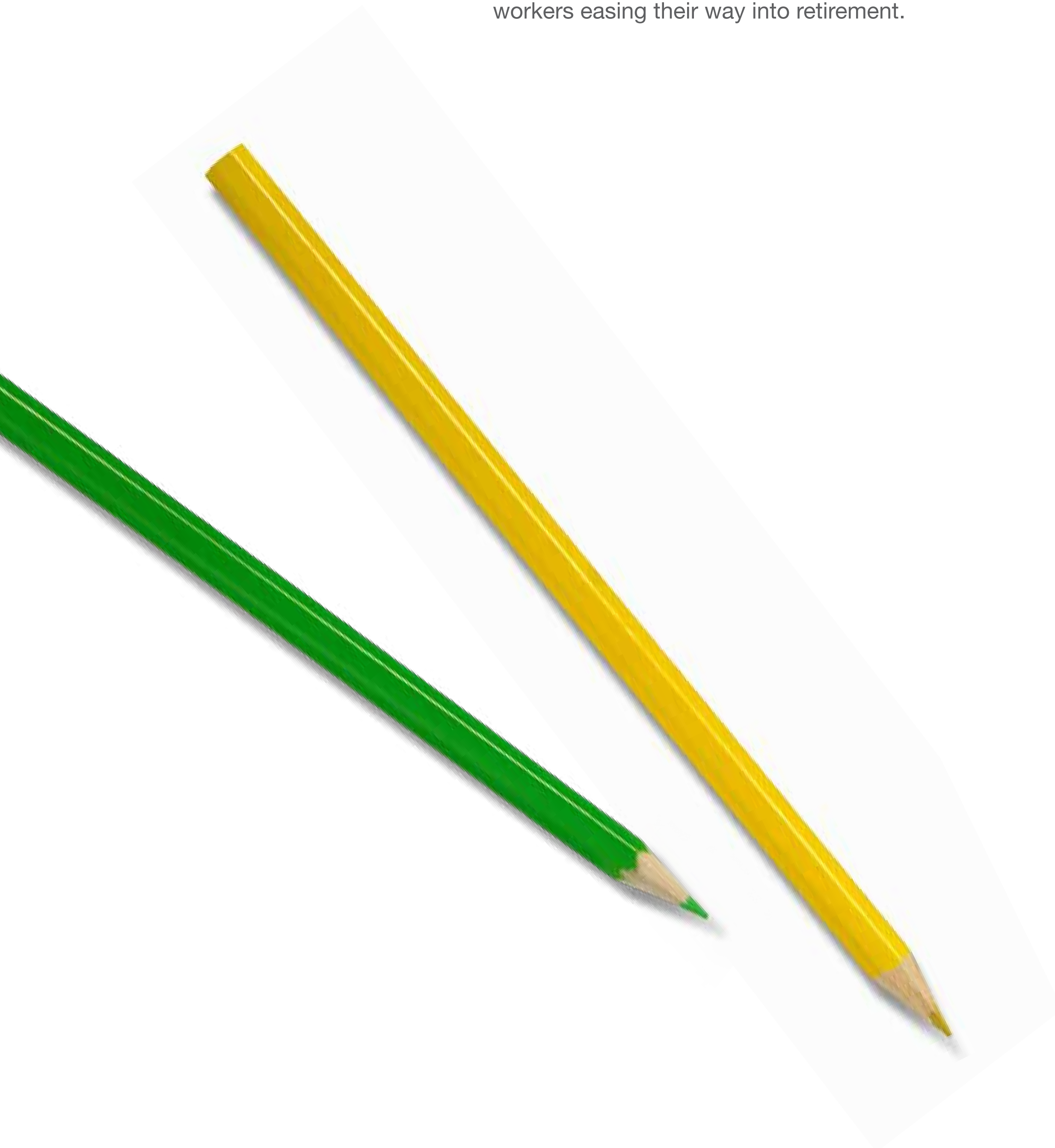
Surviving recordkeeping firms will be those that serve a wide market with multiple products.

Surviving recordkeeping firms will be those that diversify their revenue type within their retirement business.

Strongly Agree | Agree | Neutral | Disagree | Strongly Disagree

Conclusion

The next four years will see fewer and larger recordkeepers working with fewer, larger, and more national advisory firms to win the confidence and enhance the retirement outcomes of plan participants. While recordkeepers place increasing emphasis on providing participants with the mobile technology alerts, applications, and tools that empower them to be the pilots of their retirement plans, participant outcomes will be best served by the plan sponsors and advisors who boldly address the architecture of plan design and provide the fixed income, stable value, and annuity solutions that provide investment returns even as interest rates rise. The role of advisors will have changed fundamentally from prescriber to decision-maker. Together, these measures will improve participant engagement and confidence and will be of special benefit to aging workers easing their way into retirement.



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