SPONSORED SECTION

Empower Results®

POST-CONFERENCE BRIEF

BILL RYAN
Partner and Head of Aon's North America DC Multi-Asset Solutions Group

Three conversations DC plan sponsors need to have in 2020

The new year is fast approaching, so what better time to have a discussion about the purpose your defined contribution plan serves?

But are you ready to start that dialogue? Bill Ryan, a partner at Aon and head of the firm's North America DC Multi-Asset Solutions Group, thinks DC plan sponsors are already there.

"There's a burst of energy for plan sponsors to take the conversation [from] plan design to the next evolution," he said on the sidelines of Pensions & Investments' Retirement Income Breakfast Briefing. "Sponsors are looking to talk to their peers and their partners. There's an awareness that the defined contribution plan needs to be more than just a savings plan, it has to evolve to also be an 'in-retirement' plan. But what does that mean? And how does that impact the plan design, delivery of services or communication efforts?"

Ryan said he is discussing these issues nearly every day with clients and believes now is perfect time to begin the conversations, which need to include investment consultants, advisers and record keepers. The discussion can be broken down into three key questions:

- Is the plan's philosophy to keep employees in plan after retirement? In other words, do plan sponsors want their plans to be retirement plans or just a savings plans?
- Is the plan design structured to support retirement income?
- Does the plan have the right investment building blocks to support delivering retirement income?

The first and perhaps most important question to answer is, "Is the plan's overarching mission to keep employees in the plan when they retire and offer retirement income solutions to those employees?"

Ryan said the trending is plan sponsors want to keep employees in plan, and employees want to remain in the plan. "We're wired to provide a benefit and a retirement solution," Ryan said. "It could be a perfect storm because the times are changing. The corporate structure has moved away from DB, and there's flexibility in DC — and that's happening globally. It's becoming a bigger source of assets for plan sponsors, and they now have access to services that they may not have been able to afford before."

So given that trend, it's important to review plan design.

"Getting the plan design right is critical," he said. "Historically, plans only offered lump-sum distributions. So once you terminated service, when you wanted to access to your money — immediately or three to five years down the road — you were forced to take all of it out," Ryan said. "That ecosystem is changing, so the easiest design enhancement is to ensure that the plan is set up to provide partial or systematic distributions. This will allow participants to set up a weekly or monthly retirement income stream."

Answering the second question, about plan design, is key. "What have we learned from the last five, 10 or 15 years of investment lineups?" Ryan asked. "We've given a lot of advice about consolidation and streamlining, and participants are still not using many of the funds. We should harness [our] knowledge and experience to be thoughtful about how many retirement income vehicles or solutions we offer."

The idea of evolving to a retirement plan from a savings plan means increasing the investment options on the menu but doing so in a logical, concerted way that will offer the appropriate income solutions without complicating the message for participants.

"Let's assume the target-date fund is set. The next step is to ensure that you have one or two component parts in your core lineup for people to start legging into retirement income. Let's not overly complicate it."

He said the industry is moving from a single savings phase, which has a one-by-three investment lineup matrix, including three tiers — tier 1 is professionally managed solutions (TDFs or managed accounts), tier 2 is passive options and tier 3 is active options — to a two-by-three matrix, with professionally managed investments playing a role in both the savings and payout phases of a participant's life stages. (See Table 1)

Table 1: The Retirement Tier Matrix

Life Stage Phases	Investment Tier 1: *Professionally Managed*	Investment Tier 2: *Broader Access*	Investment Tier 3: *Focused Access*
Savings Phase	Target date funds/ managed accounts	Passive management	Active management
Payout Phase		Multi-asset investments *(self-insured)*	Annuity products *(pooled-insured)*

"This is important because we know that the bulk of Americans hold a single target-date fund. [These TDFs] comprise 85% of new contributions and about 54% of all contributions, so something is working," he said. "Let's not disrupt that."

So what might a newfangled target-date fund look like to support both phases? It might have an annuity embedded into it, alternative asset classes that support income distribution or even an advice overlay.

"Those are the elements we can use to evolve target-date funds," Ryan said. "Target-date funds are a $2 trillion industry, and $2 trillion can buy really interesting asset classes. We're seeing sovereign wealth funds and pension plans go down that path. We haven't taken that step with the individual investor. I think institutional plans can break down that barrier. We are already seeing some plans allocating to private real estate within their TDFs."

Once the plan design is structured to support the ability to deliver retirement income, the third part of the conversation can take place. This last piece of the puzzle, retirement income-focused investment vehicles, might include income funds with a payout or dividend payment and lower volatility, or it can be a component of a managed account or custom solution.

BUILDING BLOCKS

"What we've learned from doing custom target-date funds for the savings phase is the asset classes that you tend to have in the lineup also will be the building blocks for the custom target-date funds, and same thing goes for retirement income," Ryan said. "Do you have the building blocks for your managed account or target-date fund to actually do what you want, [with an] income-producing multi-asset investment solution or a fixed annuity?"

These conversations may translate into plan sponsor action, such as hiring an investment consultant or a delegated investment manager to oversee and monitor the DC plan, he said.

"Committees may strategically select a partner to gain access to their processes, such as annuity provider selection, or to provide the fiduciary process documentation [and] take on the management of these responsibilities on behalf of the plan sponsor," he said. "I believe that the catalyst that will help push retirement income forward is sponsors' transferring fiduciary risk to partners with the skill set to manage within in today's regulatory environment and a plan's guidelines."

Of course communication — as always — will be key to ensuring that plan participants fully understand the options that they are being presented with. The DC industry's history is strewn with examples of how jargon and industry speak has led to participant confusion and inaction.

"No pun intended, but our nomenclature has 'defined' terms: There's a 'defined benefit' and 'defined contribution.' I think we need to find the middle ground," Ryan said. "We're probably going to end up calling it 'defined income.' You're going to get some form of income stream. So you take the components of DC, where the employer defines the match structure and has vehicles that are targeted to produce some levels of income. Maybe it's 3%, maybe it's 5%. It's not as guaranteed or predictable as a defined benefit, but it's structurally set up to build units of income that you can layer into that," he said.

"Ultimately, we will be successful if we can communicate in plain English and use words participants are comfortable with," he said. •

www.pionline.com/aon_brief19