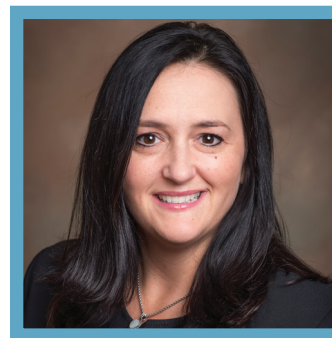


T.RowePrice

POST-CONFERENCE BRIEF



LORIE LATHAM
Senior Defined Contribution Strategist

What it takes to get retirement income right

Defined contribution plan participants are crying out for help, and plan sponsors are coming around, if slowly, to fill that need. This is happening at a time when more participants are nearing or transitioning into retirement, throwing up new challenges and opportunities for plan sponsors.

“We do a retirement spending and savings study every year — this is our fifth year — and the study told us that 68% of DC plan participants report the need for advice or support in managing and converting to their retirement assets. That’s a pretty big number,” said Lorie Latham, senior de-

Latham said, speaking at Pensions & Investments’ recent Retirement Income Breakfast Briefing.

That decision involves more than whether they want to keep participant assets in plan after retirement. It requires determining exactly what role they want to have in the retirement journey of their workforce. Until they determine that role, they are likely to struggle with several key issues, including governing documents (allowing for partial distributions or systematic withdrawals); education and engagement with near-retirees in a timely manner; assessment of [qualified default investment alternative] offerings and corresponding glidepaths; and the way they want to approach retirement income solutions.

“Plan sponsors should get in a room with boards and committees and understand what it is they want to do,” she said. “If it’s to be a part of that retirement journey and they want to maintain assets in plan, then that means they’re probably going to want to think about having an offering or a suite of offerings. Then have it well documented, be clear, have specific dialogue, codify the decision and let it inform the approach.”

The biggest challenge is around education and communication, according to Latham. Plan sponsors have to break the habit of dropping information that is dense and doesn’t provide a clear and complete picture of what participants can do.

“Why not find a targeted way to engage with those individuals who are three to five or five to seven years from retirement? Every plan sponsor should consider engaging sooner,” she said.

Engagement can be difficult for plan sponsors, but research from T. Rowe Price has found that employees near retirement are the most engaged about their retirement savings. Latham said that plan sponsors should leverage that fact. Today, however, the most common form of preretirement communication from an employer is a packet of information that simply provides instructions on how to roll over retirement assets into an account outside the plan. (See Exhibit 1)

CHALLENGE OF COMMUNICATION

“There’s not a lot being done around education on how to generate retirement income, and this is such a prime opportunity,” she said. “Plan sponsors should capitalize on this opportunity. And it’s not just how to draw

down retirement assets, but what are the benefits of staying in that plan if you want them to stay in plan?”

Participant communication is no less a challenge than engagement, given the diversity of workforces today. To help tackle this issue, T. Rowe has turned to “DNA mapping” of participants’ unique retirement preferences. (See Exhibit 2)

“Every individual has a unique set of objectives they are solving for, and we tend to frame it as a handful of target characteristics,” she said. “How you prioritize those characteristics will drive the allocation profile for a retirement portfolio. We have learned through participant focus groups that the [nearing-retirement] population is very engaged with a clear picture of their individual objectives. This is where sponsors can help by offering an arrangement of offerings.”

FOCUS ON WELLNESS

One area in which sponsors are making progress is financial wellness, or helping employees take a broader view of their retirement savings plan. In other words, thinking about retirement savings in the context of one’s entire financial life, including budgeting, different kinds of debt, health care and other savings.

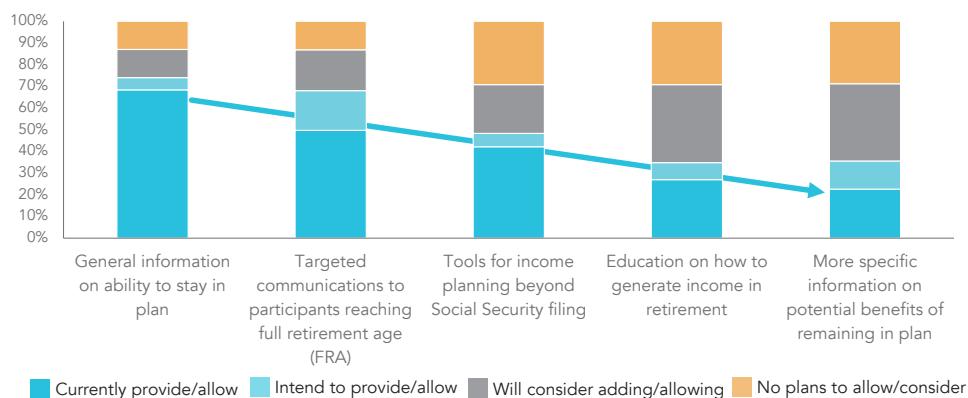
“There is enhanced focus on wellness and retirement readiness,” she said. “One major shift we’ve seen is plan sponsors looking at wellness more holistically across benefits and providers and thinking about how the overall benefits program can truly help employees [with their] total picture.”

What’s motivating employers to take that holistic view is workforce management, the idea that employees suffering from financial stress are less productive and more prone to absenteeism. In addition, a comprehensive financial wellness program that includes a robust DC plan can act as a tool to attract and retain top talent.

“Having a financial life cycle plan can reduce stress, resulting in a more focused and engaged workforce, higher productivity and a better bottom line,” Latham said. “So if plan sponsors can take a look at their workforce and decide where the gaps are, where they have needs, and engage individuals and partners with expertise to help navigate that and build a hierarchy of savings and spending, I think that’s a big positive.”

Exhibit 1 IF YOU WANT TO HELP, DON’T KEEP IT A SECRET

What resources do you provide to help participants decide what to do with their DC plan balances after they retire?¹



defined contribution strategist at T. Rowe Price. “It’s not new, but it reinforces the fact that this is an area that needs time and attention.”

Although the idea of managing and converting to retirement assets may not be new, the ever-changing demographic landscape has injected a new sense of urgency into it, shifting plan sponsors’ focus to retirement income away from savings. Or, in industry terms, to decumulation from accumulation.

At the same time, participants are showing more interest in keeping their retirement assets in their plan rather than rolling them over into an individual retirement account or other retirement account. According to Latham, research from T. Rowe Price has found a significant uptick in the percentage of DC plan assets kept in the plan for one, two and three years post-retirement.

Tying these strands together — how plan sponsors are focusing on decumulation and keeping assets in plan, and how participants have expressed need for support and keeping assets in plan — should make for a stronger retirement system overall. But Latham said the groundwork is still being laid, and plan sponsors first need to decide if DC plan is more than a retirement savings vehicle.

WHAT’S YOUR ROLE?

“They’re in a really sweet spot, but they have to decide first if they want to build out their [DC] resource platform,”

Exhibit 2 RETIREMENT INCOME & EACH PARTICIPANT’S UNIQUE DNA

INCOME YIELD

How much will my periodic income be?

INCOME DURATION

How long will my income last?

INCOME VOLATILITY

How much will my income vary?

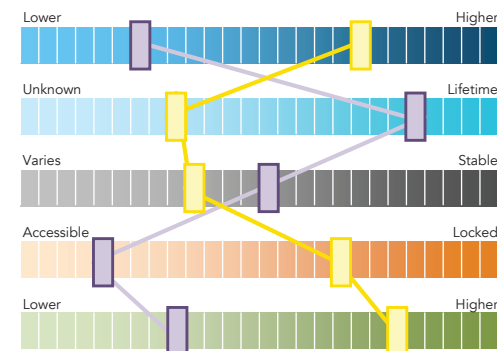
ASSET LIQUIDITY

Will I have access to my assets?

ASSET PRESERVATION

Will there be money left when I die?

■ Hypothetical preferences for Person A ■ Hypothetical preferences for Person B



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¹T. Rowe Price’s survey was sponsored by Pension & Investments (P&I) and conducted during September and October 2018 by Signet Research, a marketing research firm. The survey universe is a list of plan sponsors and consultants selected from the P&I database. Responses were received from 210 plan sponsor officials. Not all survey respondents completed all survey questions. Respondents participated via online surveys and were offered a chance to win prize awards as incentives for their participation. T. Rowe Price designed the survey questions and is solely responsible for the interpretation of the results. For more information visit troweprice.com/dcio.