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HR Solutions Come Full Circle

Critical Areas of Retirement Plan Management: Five Questions Every Fiduciary Should Ask

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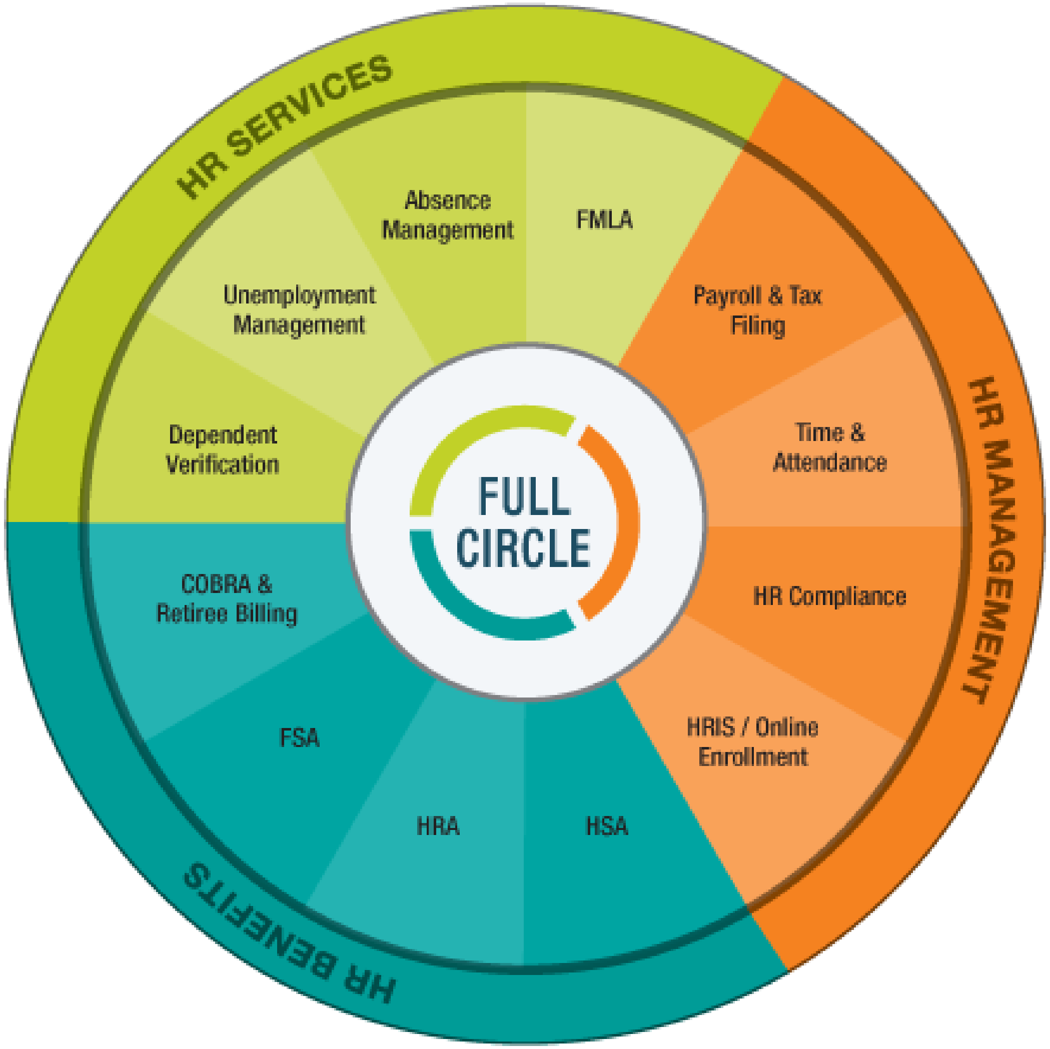


HR solutions should be simple.
Keep it BASIC.

BASIC's integrated HR solutions come full circle for employers nationwide. Consistently recognized as an Inc. 5,000 Fastest Growing Private Company, our expertise allows you to control costs, manage risks and improve staff focus and effectiveness.

Topics for Discussion:

- Current fiduciary landscape
- Enhancing participant experience through Fiduciary Leadership™
- Five questions every fiduciary should ask
- Target date fund appropriateness, selection, and ongoing management best practices
- Request for Proposal best practices

Section 1

What Creates a Fiduciary?

- Discretion
- Influence — Control — Authority
- Paid for Advice

INVOLVES MONEY AND THE PLAN

Committee Duties

- Prudence
- Loyalty and Impartiality
- Diversification
- Monitor and Supervise
- Ensure Reasonable Plan Costs
- Avoid Prohibited Transactions

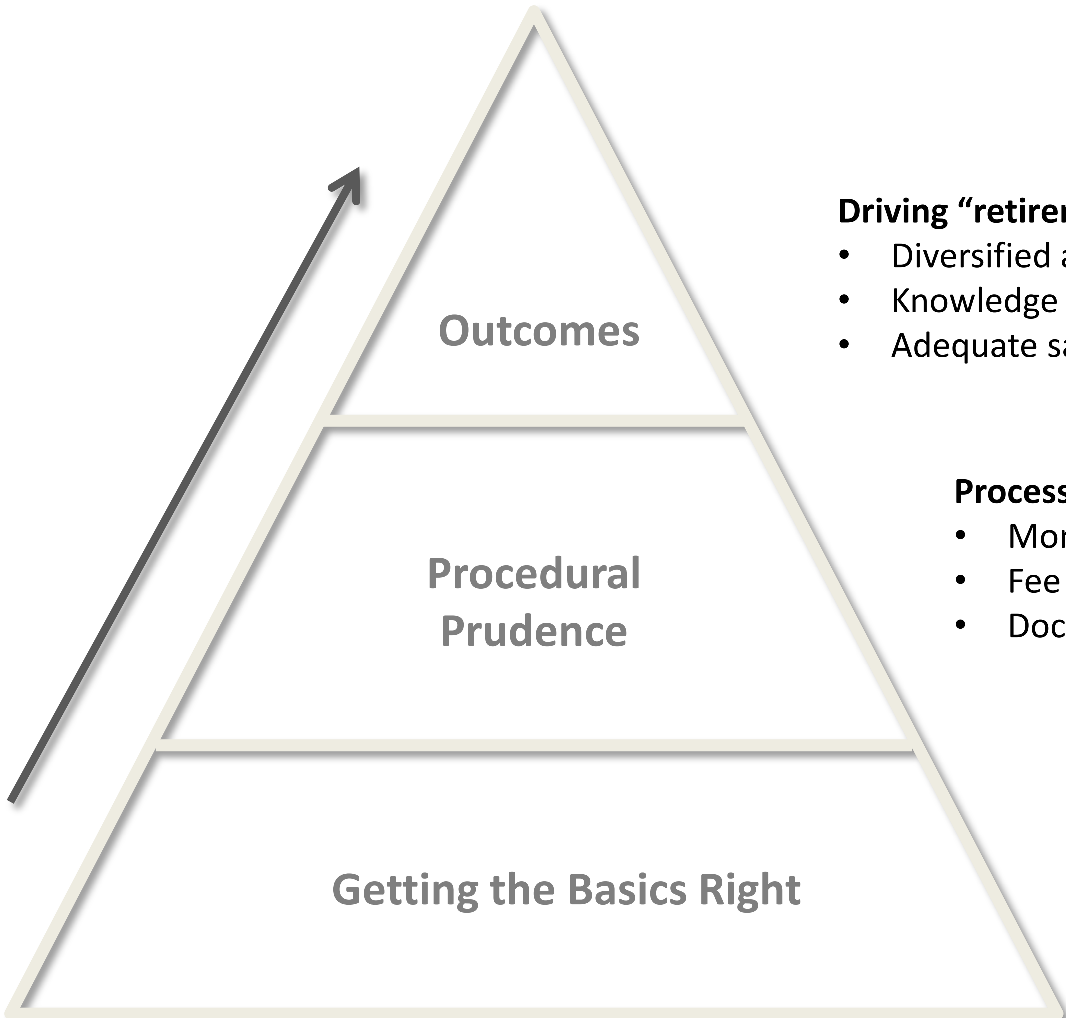
If It Is Not Written Down…

Committee Documentation:

- By-Laws or Charters
- Plan and Trust Documents
- Meeting Reports or Minutes
- Investment Policy Statement

…It Did Not Happen

Evolution of a Plan Sponsor



Driving "retirement readiness":
- Diversified approach to investing
- Knowledge of when and how to retire
- Adequate savings or retirement income

Processes for ongoing management:
- Monitoring of investments
- Fee benchmarking
- Documentation of committee meetings

Building a solid foundation:
- Plan design
- Regulatory compliance
- Investment menu
- Provider selection

TODAY'S TOP FIDUCIARY ISSUES

Plan Management

- Plan design review–can participants maximize deferrals?
- Formal committee meetings and minutes
- Plan is operational compliance?
- Reviewed auto features/safe harbor/QDIA?
- Have you reviewed Roth features?

Overall Plan Costs and Revenue Sharing

- New 5500 Schedule C Disclosure requirements
- Who is receiving revenue sharing and how much?
- 408(b)2 and 404a regulations
- I shares a consideration and fee leveling

Fiduciary Liability

- Independent co-fiduciary to provide advice and share responsibility
- Recordkeeper–provide guidance

Participant Education/Advice

- Education/guidance from plan provider
- Advice and planning from independent specialist
- Global allocation DC, DB, and outside assets
- Need for one-on-one planning

Participant Data

- Participation/savings rates in line with peers
- Acceptable asset allocation at a macroeconomic level

TODAY'S TOP FIDUCIARY ISSUES

Investment Options

- Prudent process to select, monitor, and/or deselect funds
- Are all asset classes represented with limited overlap
- Asset classes which hedge inflation

Target Date Investment/Asset Allocation Tools

- Asset allocation assumptions–are the funds appropriate for your participants
- Comfortable with the Glide Path?
- Have participants been educated properly?

Stable Value Products

- Wrap provider exposure, capacity, and cost
- Is market value/book value ratio acceptable?
- Interest crediting rate reasonable?
- Underlying holdings

Income Products

- Have you reviewed industry options?
- What is available from your plan provider?
- Is this appropriate for participants?

Executive Compensation Plans

- Reviewed the need for a nonqualified plan
- Fee based vs. commission approach

Section 2

Five Pillars of fiduciary leadership™

Plan Design

Participant Engagement

Investment Menu

Fiduciary Process Management

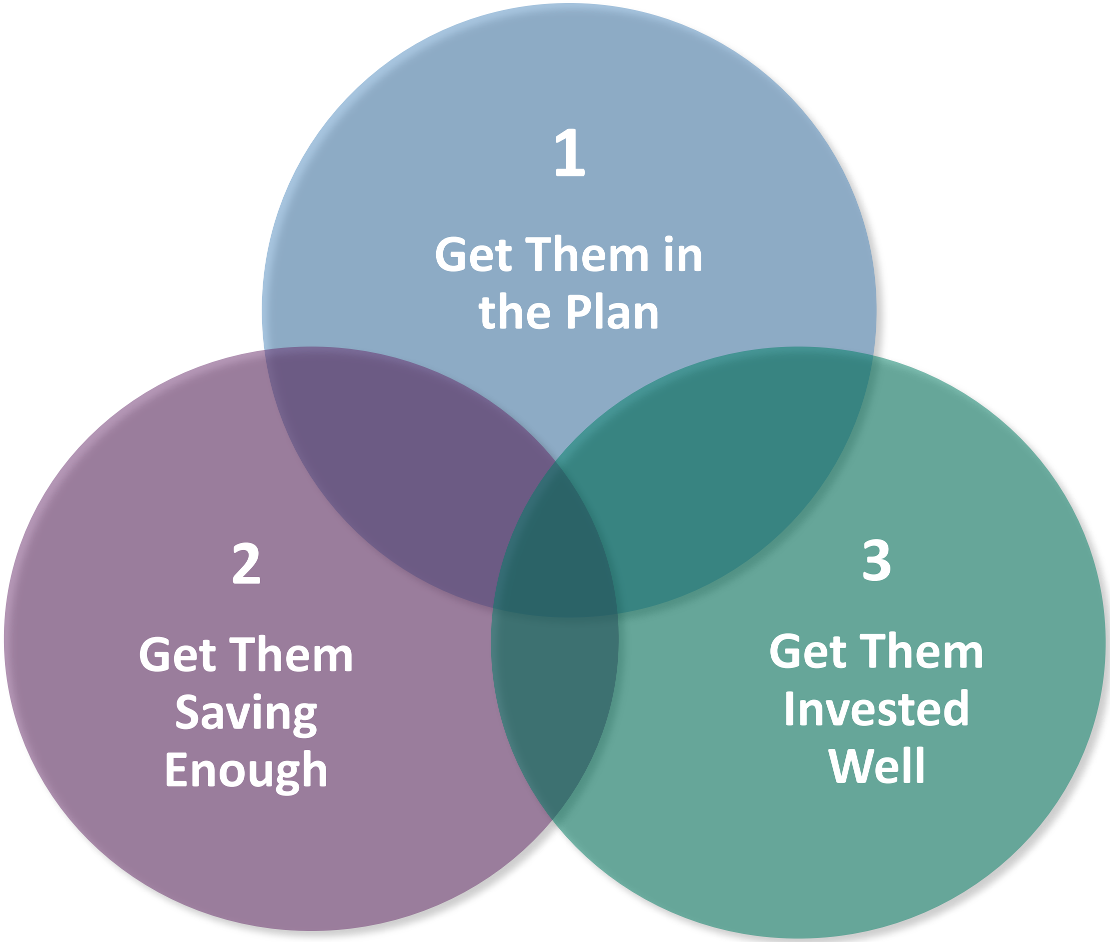
Vendor Management

Participant Segmentation

Segment	Characteristics
Delegators (Disengaged)	• Less than $50,000 in household investable net worth • Defaulted participants • Lower end of wage scale • May skew toward younger or early-career employees
Emerging Savers	• Serious about retirement saving • $50,000-$250,000 of household investable net worth (primarily in retirement plans) • May be mid-career employees • Primary financial goals are retirement and education
Highly Engaged	• Affluent to high net worth • $250,000 or more of household investable net worth • Engaged in saving and investing outside of their retirement plans • Higher income, perhaps management • May skew toward late-career employees

Source: CAPTRUST Research

Roadmap for Success



Plan Design

Getting Them in the Plan and Saving Enough (part 1)

Segment	Issues	Potential Action Steps
Delegators (Disengaged)	• Recognize inertia of new and disengaged employees • Use auto-features and re-enrollment to get them hooked on saving	☐ Auto-enrollment ☐ Auto-escalation ☐ Re-enrollment
Emerging Savers	• Make it easy for them to participate at a meaningful level • Incent them to make positive incremental steps	☐ Delayed enrollment option ☐ Employer match ☐ Non-elective contributions
Highly Engaged	• Already taking advantage of the plan but may not be maximizing • Incent them to make positive incremental steps	☐ Enhanced employer match ☐ Stretch match formula ☐ E-Z enroll forms

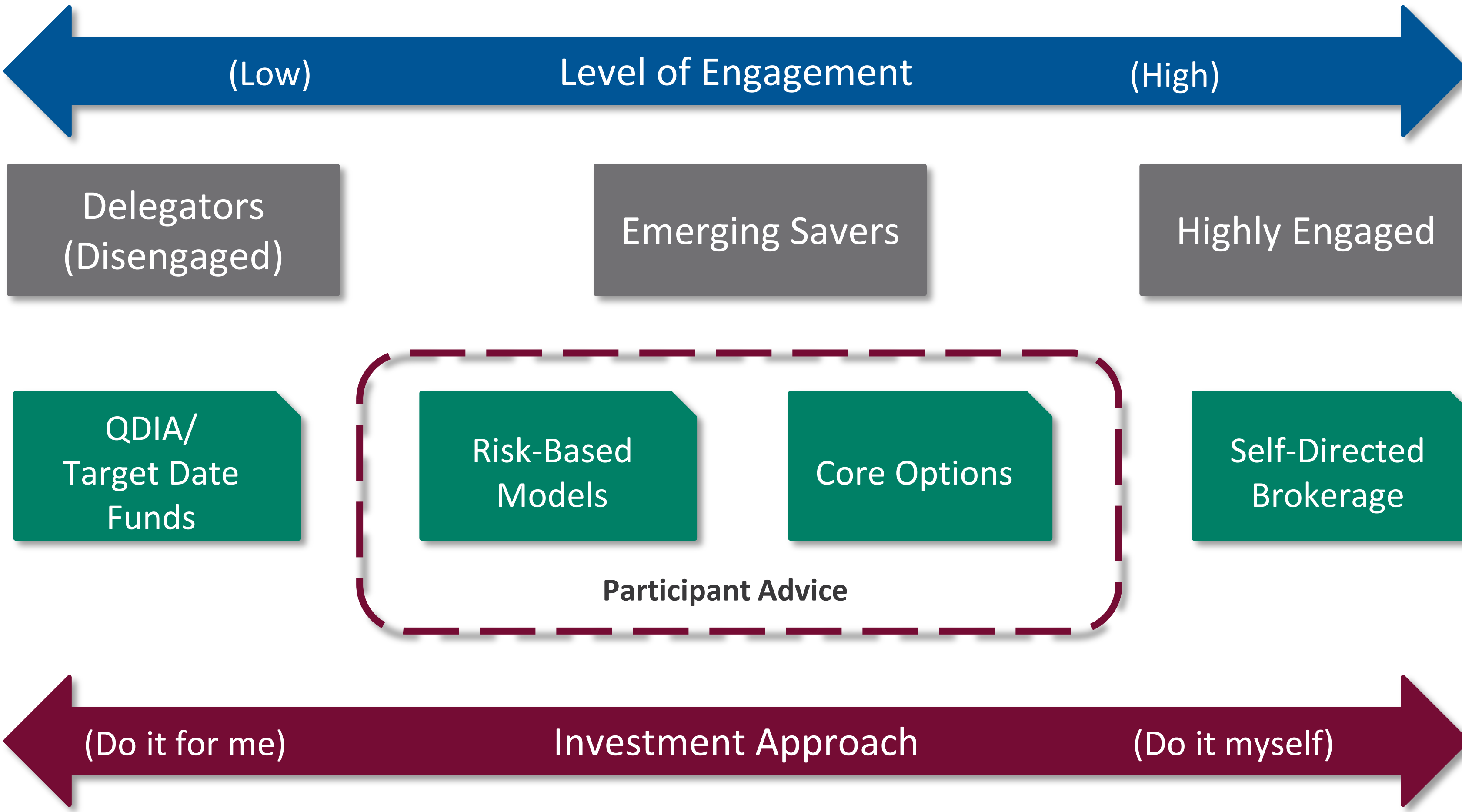
Engaging Employees

Getting Them in the Plan and Saving Enough (part 2)

Segment	Issues	Potential Action Steps
Delegators (Disengaged)	• Recognize inertia of new and disengaged employees • While auto-features may be effective, employers should continue to educate	☐ Auto-features ☐ General education campaigns ☐ Mandatory group meetings
Emerging Savers	• Easy-to-understand education and communication is a must • Show them the difference savings makes	☐ Gap analysis ☐ One-on-one meetings ☐ Enhanced statements ☐ Newsletters
Highly Engaged	• Identify areas to further enhance what they are doing • Topical advice and targeted communication is needed	☐ Plan integration ☐ Targeted campaigns ☐ Life stage counseling

Spectrum of Engagement

Getting Participants Invested Well



Investment Menu

Getting Participants Invested Well

Segment	Issues	Potential Action Steps
Delegators (Disengaged)	• Want decisions to be made for them • One-stop shop for those wishing to delegate investment decisions • Bundling of investments and asset allocation "advice"	☐ Reassess QDIA ☐ Lifecycle or target date funds
Emerging Savers	• Providing choice, but not enough to overwhelm • Simple approach to asset allocation • Linking investment selection to guidance	☐ Reassess core menu ☐ Active and passive options ☐ Asset allocation models ☐ Asset allocation tools
Highly Engaged	• May look to go beyond the core menu • How to incorporate bigger picture • May desire professional management or access to outside experts	☐ Self-directed brokerage ☐ Managed account options

Fiduciary Process Management

Getting the Basics Right

- Duties of a Fiduciary
  - Duty of loyalty and impartiality
  - Duty to be prudent
  - Duty to ensure reasonable costs
  - Duty to monitor and supervise
  - Duty to avoid prohibited transactions
  - Duty to diversify
- 404(c)
- 408(b)(2)
- 404(a)(5)
- What's next?

Best Practices:

- Committee charter
- "Right" committee structure
- Investment Policy Statement
- Quarterly committee meetings
  - Investment review
  - Communication/education review
  - Industry developments
  - Anticipating regulation and legislation
- Committee meeting minutes
- Where the puck is headed mentality!

"The role of the fiduciary is to act prudently and knowledgeably, and for the exclusive purpose of providing retirement benefits for the employees."

- U.S. Department of Labor

Fiduciary Process Management

Fiduciary Topic	Fiduciary Decision	Fiduciary Leadership™
Investment monitoring	Do you have a process?	Document your process in an IPS and ensure documentation of the process being followed
Committee structure	Do you have a committee?	Have a committee charter with proper delegation and structure your committee in the most effective for your organization
Committee meetings	Do you meet regularly?	Carefully document the meeting minutes
Regulatory/ Legislative updates	Do you have a systematic way to keep abreast of regulatory and legislative shifts?	Anticipate future regulatory/legislative shifts and, more importantly, think through their impact
Retirement income	What is the sponsor's role in ensuring reliable lifetime income for participants?	Consider the products available, pros, cons, costs, and benefits relative to your employee base and plan's orientation
Secular market shifts: e.g., fixed income	How should we think about the role of "core fixed income in our investment lineup?	Reassess appropriateness of fixed income benchmark; consider alternative benchmarks and products for income and diversification

Vendor Management

Getting the Basics Right

- Best fit vendor for your needs arrived at through rigorous RFP
- Contractually agreed-upon rates for services provided
- Interpret for reasonableness
- Gather 408(b)(2) disclosures
- Investment availability
- Plan economics
    - Fee methodology
    - Expense reimbursement
    - Share class selection
- Service responsiveness

Best Practices:

- Selection via Request for Proposal (RFP)
- Periodic fee benchmarks
    - Investment managers
    - Recordkeeper
    - Trustee/custodian
- Services audit
- Contracts with service standards
- Ongoing oversight

Fiduciary Leaders will challenge their providers to go the extra mile to enhance the participant experience, improve service, and reduce cost.

Vendor Management

Vendor Topic	Core Issues	Fiduciary Leadership™
Service model	Do the services offered meet your plan's needs?	How can you harness the capabilities and scale of your recordkeeper to further engage participants?
Fees	Are fees reasonable for services rendered?	When did you last perform a fee benchmark?
Fee method	How does your provider allocate fees?	Will your provider support your preferred fee allocation method?
Open architecture	Will your vendor bid and service your plan in a recordkeeper-only approach?	Are you advantaging participants by selecting your QDIA first then finding the vendor that is a best fit for that QDIA?
Legislative insights	Does your provider keep you abreast of legal developments?	Is your provider on the lookout for emerging issues relevant to your plan?
Proactive engagement	Does your provider bring you new ideas and technology to enhance your plan?	Have you challenged your providers to come up with new ideas, programs, campaigns, and initiatives to improve participant experience and reduce cost?

Section 3

What Investment Liability Questions Should Plan Sponsors Consider?

- Do conflicts of interest exist?
- How confident are you with your investment knowledge?
- How involved do you want to be in the investment process?
- What level of risk are you comfortable assuming?
- How much are you willing to pay for these services?

Section 4

What Types of Investments are Right for DC Plans?

- Annuities
- Stable Value
- Separate Accounts, Mutual Funds and Collective Investment Trusts
- ETFs
- Target Date Funds

Target Date Funds

- Dominant QDIA Choice Today
- SEC Scrutiny
- DOL Scrutiny
    - You do not have to use the TDF's managed by your recordkeeper.

BEST PRACTICES FOR TARGET DATE FUND SELECTION

CAPTRUST CHECKLIST FOR DOL TARGET DATE TIPS RELEASE

A checklist for plan sponsors offering target date funds based on the Department of Labor's Employee Benefits Security Administration's *Tips for ERISA Plan Fiduciaries* release

SECTION 1: TARGET DATE FUND SELECTION

1. Review Investment Performance

- ☐ Review investment risk and return for each target date year in question over one-, three-, and five-year trailing periods and since inception against appropriate target date peer groups and indices

2. Review Glidepath and Series' Underlying Funds

- ☐ Against appropriate peer groups
- ☐ Against assumptions (in connection with glidepath construction)
- ☐ Understand the mix of stocks, bonds, cash, and other assets within the target date series, and how this mix changes over time
- ☐ Understand the manager's rebalancing methodology and approach to tactical asset allocation (if applicable)
- ☐ Identify when the series' glidepath will reach its most conservative point – at retirement or sometime after retirement
- ☐ Understand the underlying investments of the target date series
  - ☐ Asset classes utilized
  - ☐ Active versus passive management

3. Review Management Team and Process

- ☐ Team tenure
- ☐ Approach to asset allocation as well as manager and/or security selection
- ☐ Roles and ownership of responsibilities
- ☐ Fund firm

4. Review Plan Demographic Data and Additional Externalities

- ☐ Employee ages and average retirement age
- ☐ Deferral/contribution rates
- ☐ Savings amounts
- ☐ Employee turnover rate
- ☐ Withdrawal patterns
- ☐ Consider the existence of supplemental retirement plans

5. Review the Availability and Applicability of Custom or Non-Proprietary Solutions

- ☐ Inquire with providers as to whether custom and non-proprietary TDFs are available

  a. Weigh the costs and the benefits of custom or non-proprietary target date funds (to include non-financial costs such as administrative burden and complexity for participants and benefits such as the ability to use the plan's core line up as building blocks for the target date series)

6. Review the Series' Fees

- ☐ Document the series' total cost, including any underlying fund's investment management fees
- ☐ Document any non-investment management fees and their purpose

7. Review Employee Communications

- ☐ Provide information that describes what a target date fund is and its purpose in the plan
- ☐ Distribute information to participants regarding the specific target date series offered in the plan

SECTION 2: ONGOING MONITORING PROCESS

1. Periodically Review the Selected Target Date Fund Series

- ☐ Periodically review, at a minimum, whether there have been any significant changes to the selected target date fund series such as changes to:

  a. Management

  b. Asset allocation/glidepath

  c. Investment philosophy

  d. Fees

  e. Underlying funds

- ☐ Periodically review investment risk and return

TARGET DATE FUND SELECTION PROCESS

1. To vs. Through Retirement	Empirical: plan withdrawal activity Philosophical: plan sponsor's view of their role in retirement planning process
2. Active vs. Passive	Empirical: cost impact to plan Philosophical: investor risk tolerance and overall view on active vs. passive management
3. Manager Screen	Empirical: CAPTRUST due diligence process (e.g. glidepath construction, commitment to the space, manager tenure, etc.)
4. Vehicle	Empirical: availability and cost impact to plan Philosophical: plan sponsor comfort with various investment structures

CONSIDERATIONS FOR VARIOUS TARGET DATE FUND TYPES

	To	Through
Active	Typically lower equity and equity-like exposure at retirement versus "through" series May be more appropriate for plan populations with participants who do not stay invested past age 65 Primary objective is to help participants meet their accumulation goals at retirement	Typically higher equity and equity-like exposure at retirement versus "to" series May be more appropriate for plan populations with participants who stay invested past age 65 Primary objective is to help participants maximize their savings throughout retirement
	More expensive than passive Opportunity for out/(under) performance Greatest tracking error opportunity Typically the most revenue sharing available Typically most diverse vis-à-vis asset class inclusion	More expensive than passive Opportunity for out/(under) performance Greatest tracking error opportunity Typically the most revenue sharing available Typically most diverse vis-à-vis asset class inclusion
Hybrid	Typically lower equity and equity-like exposure at retirement versus "through" series May be more appropriate for plan populations with participants who do not stay invested past age 65 Primary objective is to help participants meet their accumulation goals at retirement	Typically higher equity and equity-like exposure at retirement versus "to" series May be more appropriate for plan populations with participants who stay invested past age 65 Primary objective is to help participants maximize their savings throughout retirement
	Cost savings as compared to active Tighter tracking error to benchmarks than active Does not forego opportunitiy for outperformance as does passive Revenue sharing may be an issue	Cost savings as compared to active Tighter tracking error to benchmarks than active Does not forego opportunitiy for outperformance as does passive Revenue sharing may be an issue
Passive	Typically lower equity and equity-like exposure at retirement versus "through" series May be more appropriate for plan populations with participants who do not stay invested past age 65 Primary objective is to help participants meet their accumulation goals at retirement	Typically higher equity and equity-like exposure at retirement versus "to" series May be more appropriate for plan populations with participants who stay invested past age 65 Primary objective is to help participants maximize their savings throughout retirement
	Lowest costs Revenue sharing may be an issue Largely removes the risk of underperformance versus prospectus benchmarks No opportunity for outperformance May limit asset class availability as compared to active	Lowest costs Revenue sharing may be an issue Largely removes the risk of underperformance versus prospectus benchmarks No opportunity for outperformance May limit asset class availability as compared to active

Section 5

Why Plan Sponsors are Conducting Advisor RFPS

- Changes in their retirement plan
- Increased complexity of fiduciary responsibility
- General due diligence
- Fee and service validation
- An understanding of the market
- The need for a formal process

Benefits of Conducting Advisor RFPS

- Alignment of retirement plan goals with services
- Fiduciary risk mitigation
- Better understanding of fees for services
- Detection of trends
- Benchmarking information
- Inherent fairness of process

Request for Proposal Process

<u>Preparation</u>

1. Determine purpose and key stakeholders
2. Gather content and retirement plan information

<u>Implementation</u>

1. Assemble your deliverable
2. Identify recipients
3. Determine and finalize response structure
4. Distribute RFP to candidates

<u>Decision Making</u>

1. Receive and review final responses
2. Determine finalists
3. Conduct finals meetings
4. Select advisor
5. Document process

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Questions

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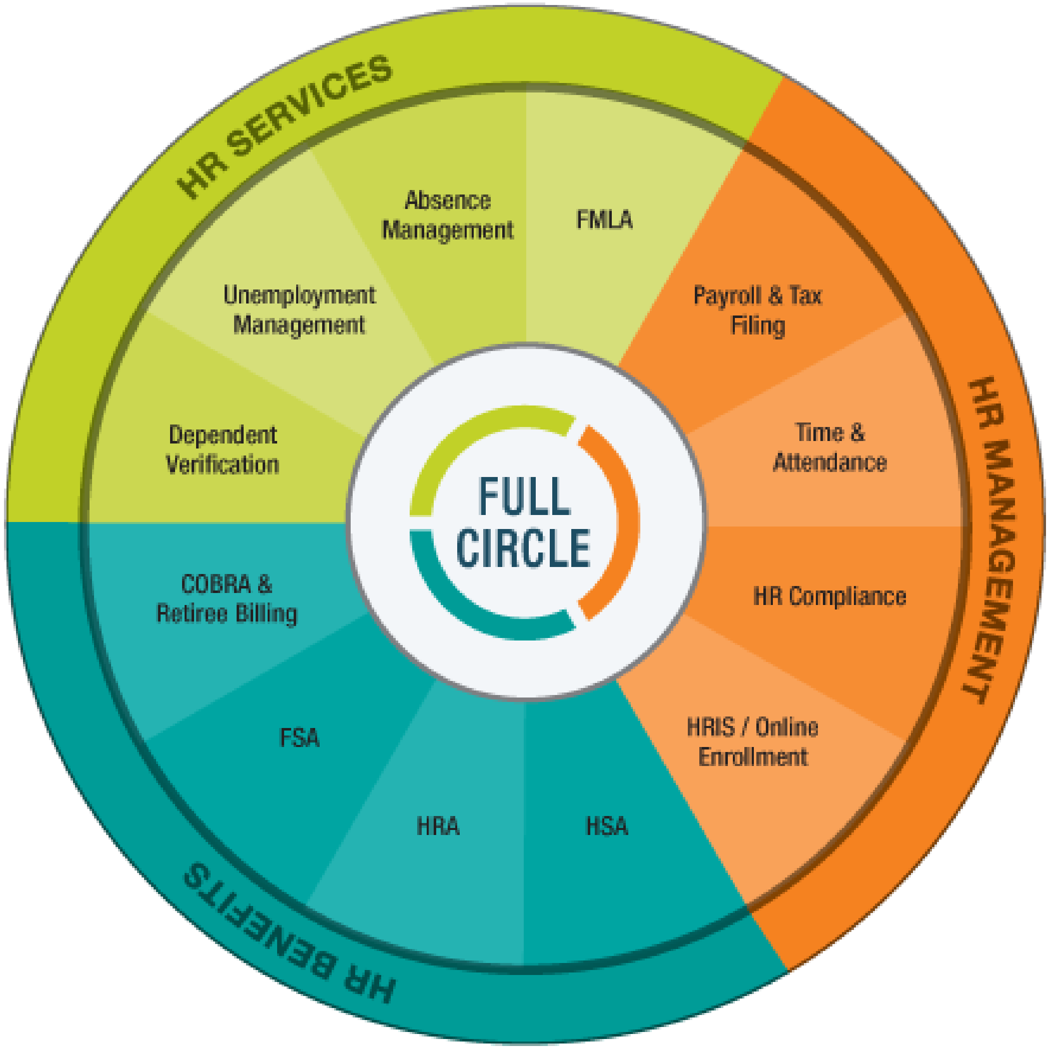

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