

Please note: This is a transcription so there may be slight grammatical errors.

Audrey Wheat: When you're designing or redesigning an investment lineup for your employer-sponsored retirement plan, there is no one size fits all solution, but there are a few best practices you can follow to make sure your investment menu aligns with your participants' needs and goals.

As a retirement plan sponsor, choosing which investments you will offer to participants is a critical part of designing your plan. Thoughtful investment menus can increase participation and have a positive impact on employees' retirement outcomes. When designing your unique lineup, here are five key guidelines to keep in mind. First, consider offering a range of investment options that cater to different types of investors. Of course, you have a fiduciary duty to help participants diversify their investments, but how you do that can vary depending on your philosophy as a committee. For instance, you may want to give participants access to domestic equity, but will you choose to do that via active management, passive management, or a combination of the two? Will you separate your large cap strategy from your mid and small cap strategy? Or will you offer a white label fund that combines all three market caps into one investment option? You may choose to make these decisions yourself or work with a financial advisor.

Second, keep things simple. While it's important to offer diverse options, it's also important to make sure that your menu is streamlined and easy to understand. Participants should be able to quickly and easily identify which investments are best suited to their needs. If your lineup is overwhelming or confusing, you could see participation decrease. Try to simplify and organize investment choices in ways that are easy to navigate. For instance, you might group investments by time horizon or by risk. To understand what participants want, consider asking them to self-select their level of engagement, their time horizon, and their goals. Risk tolerance questionnaires are one way to help guide participants through the selection process. However, more plan sponsors are now offering one-on-one participant advice sessions in addition to online tools and resources to help participants navigate their investment options.

Another best practice is to offer a QDIA, or qualified default investment alternative. If a participant doesn't specify how they want their money invested, it is automatically placed into the plan's QDIA. While most plan sponsors utilize target date funds as their QDIA option, more are considering a hybrid approach that uses target date funds for younger participants and moves to a managed account for older participants who may require more customization.

Third, remember to account for all types of investors. While some will want to set it and forget it with automatic features, others will want to make their own educated investment decisions by periodically updating their asset allocations. A robust menu should include a range of investment options across different asset classes so that each participant can create their own diversified strategy. It's also a good idea to include both passive and active options for investors who want broad market exposure at a lower price point.

For your most active participants, you might also consider offering a self-directed brokerage option that is separate from the broader investment menu. A brokerage window provides each participant with access to a larger range of investment options, allowing them to select and change allocations at their own risk. As the plan sponsor, you can typically set broad limits as to how much participants can invest and what kind of investment options are offered.

Fourth, regularly review all investment options to be sure they are performing well and continuing to meet the needs of plan participants. It's important to stay up to date on which investment options are available as this can change over time, as can the needs of your participants.

Lastly, remember that a well-designed retirement plan menu should be accompanied by educational resources to help participants make informed investment decisions with appropriate tools and advice like savings calculators, retirement planning tools, and access to financial advisors, participants can learn to make the most of the retirement plan lineup that you have designed.

Want help determining which investment options might be best for your participants? Call CAPTRUST. Our team of retirement plan advisors can help you navigate menu design and more.

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