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

Scott Matheson:

On optimizing your retirement plan. My name is Scott Matheson and I'm the Defined Contribution Practice Leader here at CAPTRUST. Before we get started here today, we're going to cover a number of kind of housekeeping items. First, all attendee lines will be muted for the duration of today's webinar. We do definitely want your questions though, so please type them into the questions' pane on your control panel. For the sake of time management, I'll suggest we handle all questions at the end. I'm pleased, you should know that all submitted questions will not be visible to other audience members. And next all attendees will receive a copy of the presentation after the webinar. And note please that today's session is being recorded and we'll also send you a link to the replay recording afterwards as well.

At a high level, we want to spend today doing a few things. One, we want to talk about what an optimized retirement program is and how that may vary from and by employer. But ultimately we're going to focus on really optimizing DC plans specifically. Two, we're going to discuss some of the challenges and benefits associated with achieving an optimized DC plan. Three, we'll dig into some of the details on the key elements of an optimized DC plan and then look at some steps plan sponsors can take to be successful. And finally, we'll spend some time talking about what we think is next in the industry and particularly in the area of tools available and trends that we need to tackle in terms of optimizing retirement programs. Again, specifically focused on DC plans.

For background at CAPTRUST, we advise and serve in a fiduciary capacity to now more than 2,500 retirement plans. That's going to include the majority of those in defined contribution that we do have a healthy number of defined benefit plans, as well as a good number of non-qualified deferred compensation plans. Our clients are now located across the United States with combined plan assets of over 270 billion at this point. Let me share with you with that in mind, and that is our backdrop. A few upfront conclusions that you'll see on the slide here. In other words, what we hope you'll take away from today's session. The first conclusion we'll come to is that an optimized retirement program will definitely vary by employer and may include multiple plan types. Again, including things like non-qual, defined benefit, maybe even stock option plans. It's important to understand that no one size fits all because options can vary so significantly by plan sponsor, and that's going to be based oftentimes on employee demographics and needs.

Today again, we are going to not try and bite off all of those different plan types and the idea of an entire program, but instead focus our efforts on the defined contribution aspect of that optimized retirement program. Our second conclusion is that in order to have a successful defined contribution plan, plan sponsors should focus on a few key elements. The first of which is getting employees into the plan. The second of which is getting them to save an adequate amount of money towards that retirement goal. The third is of course, getting people invested appropriately and that's based upon their specific circumstances. And then finally, we want people to get participants in these plans to get engaged in the ongoing process so that they are preparing themselves both in their actual savings and investing, but also mentally preparing themselves for ultimately being able to successfully retire with dignity. And finally, we'll conclude that there are a lot of ways to move the dial on each of these individual areas. And as we all know, there are numerous tools available to plan sponsors in terms of both fulfilling on these as well as monitoring success.

If you've joined us on previous webinars, you're definitely familiar with the two colleagues that I have here joining me today to help me discuss these topics. Jennifer Doss has been with CAPTRUST now for 11 years, serving our institutional retirement plan clients with a focus herself on defined contribution plans and investments specifically in these defined contribution plans. Today, Jennifer runs what we call our Institutional Solutions Team. Her and her team work very closely with our financial advisors to develop the appropriate solutions and deliverables for all of our institutional clients. John Leissner has been with CAPTRUST now for 17 years and he heads up our Defined Contribution Solutions Team focusing his efforts on our current and forward-looking solutions set for our DC plan sponsors. Specifically, John has over 10 years of experience with defined contribution record keepers and is really well versed in the full product set available to plan sponsors in the DC marketplace. But before we get started with those two, I'm going to tee up quickly what we mean when we talk about an optimized retirement program.

Today again, I said we're going to focus on just the defined contribution part of an optimized retirement program, but definitely holistically we consider an optimized program to be specific to the needs and demographics of the employer. And we also just acknowledge as a qualifier that this could include multiple types of plans, again, such as non-qualified deferred compensation plans, or stock option plans, or even defined benefit plans. Here at CAPTRUST, we advise on all these plans and we certainly understand the unique challenges associated with matching an employer's needs with their retirement benefits. But specific to a defined contribution, an optimized DC plan may include many different plan design features and investment options. Again, all unique to the demographics and needs of the participant population. Now we're going to talk about some of the plan design features available to define contribution plan sponsors today such as automatic enrollment, auto-escalation, and we'll also touch on the use of some of the advice programs and other forms of participant communication.

But before we do that, excuse me, we think it's important to cover again what this program is. And as you'll see on this slide, we're talking about the most efficient use of employer resources, the plan sponsor resources, and doing so and deploying those resources in a way that gives employees the best odds of achieving, again, this idea of a distinguished retirement, one that's appropriate for them. Before we get into the specifics here, I do think it's important maybe to cover why an employer should care about having an optimized retirement plan. And so I'll give you a break and let you hear from Jennifer first. And Jennifer, why don't you do us a favor and talk a little bit about the benefits of that optimized DC plan for plan sponsors?

Jennifer Doss:

Sure, so it's a great question. Why should an employer care? And the answer really is that there are lots of reasons why an employer would care about creating this optimized retirement DC plan for their employees beyond just kind of the paternal aspects of that comment. And some of these benefits fall under what we would call more of the people side of people management. Things such as avoiding lost productivity from employees who are stressed out about their finances. And there are numerous studies that show that employees who are stressed about their finances are really more likely to be distracted at work and also to have greater levels of just absenteeism in general. And then the other major reason under this people management column is really a better ability to manage your workforce in terms of hiring new talent and really promoting from within your organization.

If you think about it, the ideal situation for most companies is for workers to move up through the organization and take on greater levels of responsibility over time and then ultimately retire to make room for newer employees that are also wanting to move up the organization and take on varying levels of responsibility. And if you have a large portion of your population that are staying on past retirement, you know you may not have the ability to promote or hire some of those new employees in the way that you might want to. And this leads us to the other side of why an employer should really care about optimizing their retirement plan, which is really the financial impact. And so generally speaking, the older workers in a company are really the ones with the highest, usually the ones with the highest wages, the best benefit packages, and the highest healthcare costs.

And so having lots of employees stay on past retirement age can really directly impact a company's bottom line. A recent study by Prudential showed an incremental cost of over $50,000 for an individual who delays retirement one year. And this incremental cost if you spread it across an entire workforce, can vary between an additional cost of 1% - 1.5% across that entire workforce. And so this problem really is not a small one either, unfortunately. Prudential surveyed those employers and found that over 50% of them believe that a significant portion of their workforce is going to have to delay retirement due to inadequate savings.

Scott Matheson:

Yeah, I think that's definitely consistent with what we're hearing from a lot of our clients as well, be it anecdotally, not surveyed, but we certainly are hearing people concerned about that, the under savings problem and phenomenon that is out there so prevalent in working America. Maybe let's switch gears to talk about, because there are definitely a lot of good reasons for employers to care, no doubt about that. But maybe we need to talk about what success is and maybe Jennifer expand upon what employers might consider a successful retirement plan? And in doing so, what are some of the roadblocks to getting there?

Jennifer Doss:

Sure. Ultimately success, as you kind of talked about before, it's going to be very unique to the plan sponsor. And so success for the employer is really going to be defined by what success is for their employees. And this really again, means it could vary by plan, but generally speaking this is going to be the things that you talked about earlier, which is really getting people into the plan, getting them saving enough, getting them invested well depending upon their individual financial situation, and really getting them engaged in that process on an ongoing basis. And the engagement piece is probably the hardest to achieve and the most important because over time employees financial situations are going to change and it's important that they kind of regularly check in with regards to how they're invested and whether things need to be updated, tweaked or changed. And as we'll discuss, it's easy through plan design measures or it's easier through plan design measures, I should say, to get to these first three items here checked off.

But that fourth is kind of where that rubber meets the road in terms of success. And so in terms of measuring success, plan sponsors can look to things such as the participation rate that we'll talk about, deferral rates, usage of any kind of diversified options they have in the plan such as target date funds or managed accounts. And then in terms of engagement, they can look to participant activity on websites, call centers, who attends in person meetings to measure that level of engagement. And the good news here is that technology has really made that last one a lot easier to measure than in the past, which we'll talk about.

We'll expand on each one of those points and how to measure them in a moment. But I'll just first quickly talk about your other question, which was kind of what stands in the way of success so that we all understand what we're up against here. And so much of investing is, as we all know, very behavioral in nature. And so optimizing a retirement plan is really no different. People are inherently biased in certain ways that can really interfere with their ability to adequately save for their own retirement. And the first bias that we have here is a fancy way of saying it, a status quo bias, but it's really frequently referred to in the industry as inertia. It's really the tendency for people to kind of prefer their current state and delay decisions even when they know that those decisions are in their best interest.

Again, example, we all know that saving for retirement is very important and we all know that we've heard due to the compounding effect of money that it's very important to be started as soon as possible when you start your working career. However, things that require action such as enrolling in a retirement plan or choosing the right investments are things that kind of get pushed out to, I'll do it next week and then that quickly becomes, I'll do it next year and so forth. To give you a sense of how much inertia matters and how impactful it can be, Vanguard analyzed participants on their record keeping platform between the years of 2013 and 2017 and found that three quarters of all investors on their platform made zero trades in their account between those years not even to rebalance their account. Again, to combat inertia, which is a very real problem, many plan sponsors have kind of added auto-enrollment to their plans knowing that if they kind of take that first step for participants by getting them into the plan, it's unlikely that they will opt out.

And participation rates of plans with and without auto-enrollment do tend to support that theory with the average participation rate of plans without auto-enrollment at about 50% versus plans with at 87%. And so real quick, the second bias that is working against plan sponsors here is what we call present bias or really the tendency to place a greater value on the current benefits versus future benefits. And Princeton University conducted a study that found investors tend to discount any future values by about six to 10%. And other studies have been much more pointed about this and shown that when you offer people the choice between, I'll give you $50 now or I'll give you a hundred dollars sometime in the future, most people will choose, give me the $50 now. And so that bias to prefer receiving, in terms of retirement, receiving a higher paycheck now essentially versus accumulating more for the future of your retirement is really a very hard bias for people to overcome.

To combat this plan sponsors have added kind of an auto-escalation feature that we'll talk about in a little while and combined it with this auto-enrollment feature to increase the likelihood of participants saving enough. And just a few additional roadblocks to success for plan sponsors include things like the degree of the financial literacy of your plan participants, how much they really understand about investing. The financial cost, the actual cost that you have to pay to implement programs that will drive success. And really the fact that plans are more commonly comprised nowadays of multiple generations of plan participants, which all could have a very different preference in terms of how they want to be interacted with and they all have different financial needs. The real question is how do plan sponsors overcome all these challenges to create this successful retirement plan?

Scott Matheson:

Yeah, I think that's really good. And certainly those of us, we've been doing this a while and plan sponsors have been doing it a while, know that the whole concept of engagement is a vexing one. And so if you do the math and you know got to save and you need to save to do these things and time helps you, and compounding of returns helps you. It's so simple to say, but it's so hard to implement that present bias that you talk about. I've heard that talked about in terms of getting people to go work out that haven't been working out before or go to the gym, it's the same mindset sets in where it's like, I know if I go to the gym and I've been going to the gym for a while, starting today that all I'm going to do is hurt tomorrow and if I keep going, I'm just going to hurt for a long time before I start to reap the benefits of actually getting into shape and feeling better and getting the acquired results achieved.

And I think that framing is what I take away from that as so very important because if I said to you with that exercise example, okay, you want to go to the gym today, you're going to say no because the pain is today and the value and the benefit is so far in the future. But if I said, Hey, let's start going to the gym next week or next month or even next year, you're going to say yes nine times out of 10 in that situation because the pain has been pushed closer to that end goal, so it's a really important psychological bias that we all have that certainly comes into play in retirement.

To that end, you talked about the roadmap and mentioned this and how do we actually get plan sponsors to overcome all these, how do plan sponsors actually get their participants to overcome these challenges in an effort to create this successful retirement program? And so I think we go back to the key elements of what that successful optimized DC plan in this case is or, and we call it our roadmap. And what our roadmap includes is, as we've said it now a few times, getting employees into the plan, getting them to save enough, getting them invested well, and getting them engaged in that process. John we're coming your way. Maybe you could talk a little bit about each of these items and how employers can monitor or call it measure success in each area?

John Leissner:

Sure. Thanks Scott. As you heard, both Scott and Jennifer mentioned earlier, step one to optimizing the retirement plan is pretty straightforward. To get started, you have to get the participants in the plan. The next three steps towards optimization can't happen unless that first step is made. How do you measure success here? There's really only one statistic to monitor here, and that's participation rate, which is simply the number of employees deferring into the plan divided by the number of actual total eligible employees. Now what's the best method for hitting your goal of driving up this number? Well, there's one thing above all else that will drive results quickly and going forward, and that's adding automatic enrollment. As you heard Jennifer mention, plans with automatic enrollment on average consistently show higher participation rates than plans without this feature. And aside from adding an auto feature, the more traditional method for driving up plan participation would include a multichannel approach to engaging participants, which would include print communications, web tools, maybe in-person meetings.

And I'm actually going to go more in depth on these topics a little later as we'll explore how to get employees more engaged in their retirement planning. Back to participation rate, calculating the number is pretty straightforward, but measuring just how successful you are is not that easy. First off, it's important to know that average participation rates vary greatly by industry. For example, retail organizations that have high turnover could have a much more difficult time keeping participation rates high based on their eligibility requirements when compared to say a professional service firm that's offering immediate eligibility. The positive trend here is that for all industries, the average participation rate has risen sharply in the last decade, primarily due to gaining popularity of auto-enrollment. Moving on to step two, now that participants are in the plan, how do you get them to save enough? We have a few measures to keep under consideration here. The first one being deferral rates. In other words, what's the average rate of employee contributions?

This number's a significant driver of the next bullet, which is the measurement of retirement readiness. This factor lets participants know if they're on track for retirement and most retirement readiness tools that are available, forecast retirement in one of two ways. The first, they're going to track the total amount of assets you need in retirement, but the more common that we've seen as of late is actually showing the percentage of monthly income that you're on track to replace in retirement. Again, there's several tools that are available where you can increase savings rates. And once again, auto features really lead the way. Again, automatic enrollment and specifically here, the starting default percentage really impact the deferral rate significantly. Traditionally, 3% has been the most common starting percentage, but we're seeing a shift recently toward that number going much higher. According to our own research on existing clients, we found that north of 40% of plans offering automatic enrollment start at a default percentage of 4% or higher.

The next automatic feature here is auto-escalation, where each year deferral percentages increase typically by 1%, and the adoption rate of this feature often leads to a really big bump in the average deferral rate over time. The employer contribution structure plays a pretty big role in this as well, just compounding the total contributions as deferral rates increase year over year. It's also important to keep in mind the impact of employee demographics and why they matter. If you are analyzing data, let's say for a 25-year-old with an entry level salary and you compare them to a 55-year-old executive, you would get very different results of retirement readiness and likely have different recommendations for each. It's important to break out these groups in order to identify those employees that really need the most help. To further this point, Scott, we'll take a look at the trends within auto features. You see in the first chart here, the growth in the use of auto features over time is on an upward trend.

Back in 2006, fewer than 30% of plans either offered auto-enrollment or auto-escalation, but a decade later those percentages have doubled, and now roughly half of DC plans are offering these features. And then next, the next graph you'll see that plan size plays a pretty major role in the likelihood of whether or not auto features are being offered to participants. And when we researched our own database of clients, we found that among 401k plans, companies that have more than 5,000 employees are much more likely to offer auto features than smaller firms. And many trends in the 401K universe, we see larger plans adopt these features and make innovations that slowly over time they'll make their way down market to the small plan universe. And we believe this trend will continue with these auto features. With that, you've heard me talk enough about how to get participants in the plan and how to bump up their deferral rates, so I will turn it back over to Jennifer and she'll provide some insights on investing. Jennifer?

Jennifer Doss:

Sure. Once participants are what John just talked about, so we've got them in the plan, we've got them saving the adequate amount, so next it's time to make sure that they are invested appropriately. And the way that we see most plan sponsors doing this is to add a qualified default investment alternative option or QDIA to their plan. And this is the option participants will be defaulted into if they are auto-enrolled and they give no investment direction otherwise. And common types of QDIAs will include model portfolios, managed accounts, balance options, but really most commonly when people talk about QDIA, they're talking about target date funds, that's the most common. According to our most recent DC plan sponsor survey, 89% of plans currently use the target date fund as their QDIA, so it's definitely the most popular option in the market today.

And target date funds along with other types of professionally managed options do have real benefits to employees. And one of the largest benefits is that they reduce the likelihood of what we would call extreme allocations or really the instance of investors holding either a 0% equity exposure or a hundred percent equity exposure. Two allocations that are really most likely not appropriate for most investors really no matter what your age or financial situation. According to Vanguard's How America Saves Study, 0% of investors that are in some sort of professionally managed investment option had these extreme allocations. While unfortunately 20% of those that were not in a professionally managed investment option did hold one of these positions. The participant biases that we discussed earlier in the presentation such as inertia can really mean that many participants are not invested correctly at any given point in time in their career, depending upon their circumstances.

And without interference from a plan sponsor, many participants can really stay in some sort of initial allocation that maybe they had initially kind of gotten into the plan in way longer than is probably appropriate based on their circumstances. And while we hear a lot of arguments against target date funds, they're overly simplistic because they only take your age into account. The good things that they do provide are really diversification to avoid those extreme allocations and really the fact that they automatically kind of de-risk you over time. Again, takes that inertia factor out of the equation. Generally better again than the do it yourself investors accounts that we see. And so the other type of professionally managed investment option it's a little bit more customized and gaining traction in the industry today is the managed accounts. And while many plans don't really currently use this as their QDIA option, we've seen more at it as an additional option to their plans that is gaining traction in the industry as well.

Now, managed accounts take a participant's age into account when designing a portfolio, but they can also customize the allocation just a little bit further based on additional factors such as things like salary or deferral rate, marital status, and outside investment accounts if you have some sort of aggregation tool. And managed accounts have been shown to add a lot of benefits to those that utilize them. According to a Morningstar study, investors that used a managed account service increased their deferral rates by an average of over 2%. Studies have also found a link between improved investment performance for those using some kind of professionally managed help. And that really could be a managed account that we were just talking about the target back to the target date fund we were talking about, or those just really receiving any kind of investment advice so really just any kind of professional help. In a multi-year study, employees who received this kind of professional help had median annual returns that were over 3% higher than those that did not receive help.

There are really a lot of different ways to get employees invested well from adding a QDIA to the plan, to adding managed accounts, to providing investment advice to participants. And one final way that I'll just mention that some plan sponsors have tried to kind of move the dial in this area and combat that inertia problem we keep talking about is through re-enrollment. And this is where the plan sponsor decides to take some portion of the population or the entire population and reset their allocation by mapping their account assets into the QDIA option. And while re-enrollment itself hasn't seen a large uptick in the plan sponsor community, where we do see it utilized does tend to be where they're kind of these outsized allocations to certain asset classes, such as having kind of like 20% of a plan's assets in small cap value or 40% of a plan's assets in stable value. A sign that a reset might be appropriate to kind of get people back on track with their allocations.

John Leissner:

Okay, great. Thanks Jennifer. Now you've got employees enrolled, their deferrals are up and they're diversified within their portfolio. The final step here in optimizing the plan for participants is getting them engaged. As I referenced earlier, a multichannel approach for getting participants on track for retirement is an extremely important step. First, let's talk about print communications. In order to resonate with a participant, we found that these materials really need to be personalized and targeted to a specific audience. One method for targeting demographics is creating specific content that addresses each separate generation. These groups have differing views of retirement and they're facing very different decisions at their various life stages. Lastly, these communications need to be action oriented, maybe to challenge participants to take advantage of the company match, for example, or to address any of the financial gaps they may have in retirement. The next form of engagement would come through the call center. Participants call to take care of really all sorts of things, but from an engagement perspective, plan sponsors need to be able to track why their participants are calling.

We think it's important for a call center to be able to offer advice to participants. Also, they should have the ability to walk participants through difficult rollover decisions. And we also believe it's beneficial to know if the call center has the ability to make outbound calls to specific groups of employees that's based on the plan sponsor's direction. Most importantly, the desire to monitor call activity and what's being recommended to those participants has really grown exponentially as advice offerings continue to evolve by provider. Next we'll move on to technology. Retirement plan websites in our view, have really changed significantly over the past decade where they've migrated from transaction-based screens really now to customize retirement readiness tools. Websites now they'll include things like personalized messages, monthly retirement income projections, and I think most importantly they'll make recommended next steps and allow participants to easily make the recommendations a reality. Lastly, the ability to accomplish all these steps with a mobile phone is becoming increasingly important year after year.

Finally, the last and possibly we think the most effective step for driving individual change and also engagement would be in-person meetings. The ability to give employees one-on-one advice is a huge driver in long-term success. And participants really still generally feel the most comfortable when they're talking to an expert about retirement planning. Sponsors roll out in-person meetings, we think there's a few major considerations that consistently will come up. One, what conflicts of interest exist at the point of giving advice to a participant? And two, can the reps speaking to employees actually be holistic? In other words, can employees obtain education and guidance on their complete financial picture and not just focus on the retirement assets? To sum up, all of these channels of engagement can impact employees to varying degrees. And the goal we think of any sponsor is to be able to measure each method individually to determine what works and more importantly, what's not working and why. Again, those four areas that we just covered are really the traditional methods of engagement, but we've seen two more methods that have really gained traction recently, and that's wellness and gamification.

Financial wellness topics now we see they're in high demand with lots of content being added to the web every day. Also, the ability for retirement providers to factor in healthcare savings is increasing every year as popularity of HSAs and high deductible plans has really grown. And we've also seen many clients use wellness incentives to get participants more engaged in their retirement plan. We've seen things like even gift cards or even reductions in benefit rates for their various offerings. And the other trend that we're seeing, again, this is particularly online, is the gamification of retirement planning. An example here, an employee could get points for achieving certain goals or passing different life stages and the higher the score would indicate, the more prepared they are for retirement. Another effective tool that we've seen has been the benchmarking of a participant against those in their own peer group. We've all seen that people tend to respond when someone else is keeping score and the mentality of Keeping Up with the Joneses, it's seems to be proving to get participants off their feet and take that next best step.

Scott Matheson:

Good stuff. Thanks for all that to you and to Jennifer. Before we turn our attention, we did have some Q&A coming in, so before we turn our attention to that. I was going to spend a little bit of time getting you guys to talk about what's next. I was actually on a panel yesterday in DC and the panel that preceded mine was calling Reading the Tea Leaves, which led me and my curious mind into Googling where that whole concept came from and the art of tasseography that it derived from. If those of you listening in are fans of Wikipedia, you should go check that out because it's very bizarre where reading the tea leaves, that common cliche statement came from. To that end, John, why don't you do your best reading of the tea leaves for us and tell us what's coming on the horizon.

John Leissner:

I will do my best. What we see here, we see three themes facing the industry and each one really will have an impact on best practices for retirement plans over time, some more in the short term and others more in the long term. First off, we see the demand for technology growing year over year. We think the shift to mobile technology is real and the average person is looking at their phone for financial help every day. And we think firms are going to need to adapt in order to reach those individuals more effectively. This fact is taking a step further when considering the next bullet, millennials are now the largest portion of the US workforce. Their comfort level with technology and online providers is far greater than that of Gen X or the Boomer generations. And technology really aims to keep the complex simple, so the ability to aggregate accounts into one website or into one retirement readiness tool, that's a larger need now than ever before.

Employees that want to take action, they want to do so in as few clicks as possible. And websites we see are being built really around this behavioral shift. The next theme, the impact of healthcare and retirement are intersecting. More and more participants we see now have retirement accounts as well as HSA accounts, and each of those is going to play a huge factor that impacts their long-term savings. The cost of healthcare continues to rise, so the priority of savings specifically for healthcare is now near the top of that savings checklist for most employees. And then lastly, the final theme here is the evolving view of retirement. We read about it every year. People are living longer, which is great, but there's an impact to retirement readiness and also the importance of why we need to optimize retirement plans.

The other evolution taking place is that more and more people each year are employed while in retirement in some form or another. Many of those folks are employed out of a need to replace income, but many others just flat out due to their desire to work on something meaningful to them specifically. These last two bullets highlight the importance of specifically the DC landscape in retirement planning. You've all seen the math and the headlines regarding the future of social security and at some point the administration will need to tackle a pretty complex issue here because we all know it's not going away anytime soon. And compounding this issue is that active pension plans are generally becoming pretty hard to find, making this new version of retirement much different from that of our parents.

Scott Matheson:

Yeah, I think that last theme, the third theme there is really, really important and really interesting of course as well. And certainly we know that even from our own employee base, the younger you are, unless you come into the workforce at age 22, 23 thinking that you're going to punch the clock until you're 65 and then go sit on a beach somewhere. And with people living longer and healthier lives, the prospects of doing so, not just the financial math behind doing so, but the prospects of doing so as a fulfilling life seem to be evolving, so that's important for us as an industry to continue to watch, important for employers to continue to watch.

Because it certainly does conflict with some of the stats that Jennifer was talking about earlier in terms of increased costs associated with people working a year longer, so it's certainly not easy and that's important. Flip now there are a few questions that did roll in here. I'll do my best to navigate those on the remaining time and then we'll wrap things up. The first one you mentioned the popularity of account aggregation tools in the industry. John, I think that was you. The question is, what is the current usage of those tools by plan participants?

John Leissner:

Well, yeah, that's a great question. We do see aggregation is growing in popularity and this is a topic that comes up quite a bit when we're conducting RFPs for retirement providers. I guess I would say that it is true adoption rates of this tool continue to be fairly low. Unfortunately, I don't really have any stats in front of me, but I think here the key reason for the low usage really, it can be pointed back to what Jennifer mentioned earlier, which is inertia of participants. Unfortunately, I would even say many participants probably aren't aware that these tools even exist. But in my opinion, I think these are great tools and a little bit of guidance from an expert in a call center or someone in person or even the plan sponsor.

I think any conversation with those folks are a great way to help participants get more engaged, which is kind of the theme here. And I guess I'll just add one last point. I did mention adoption rates are fairly low, but I don't want to make it sound like it's not important because plan sponsors when we're in a finals for an RFP or we're looking at web demos, people are constantly asking about access to these tools and it's really become an expectation I think, that the top providers in the industry need to have the ability to offer account aggregators regardless at the end of the day of how many participants are actually signing up.

Scott Matheson:

Yeah, I think that's important too. And it's also, we tend to hear from our plan sponsor clients that while they may be frustrated with the level of engagement and usage, to your point for those that do engage and actually use it is impactful, so having it is important. It's a great point. Here's one that actually we got a number of questions on, so let me try and piece together a good question here for you, Jennifer. A lot of questions are on managed accounts as qualified default. Obviously this is a trend we're hearing about in the industry and clearly our listeners are too. What is maybe the current percentage of plan sponsors that are using managed account as their qualified default or QDIA option? What do you think in terms of what that's going to look like? Do you see it increasing over the next few years?

Jennifer Doss:

Yeah, that's a really interesting question because I think it's something that does come up a lot nowadays, more in the last couple of years than it has in the past. While the percentage, I think I mentioned this when we were talking about investing, while the percentage of QDIA usage for managed accounts is pretty low. It's usually less than 10% depending upon what kind of survey you're looking at and how that's defined. Sometimes people don't do a great job in surveys of defining what a managed account is and it gets kind of confused with some other tools, they're available at record keepers. But when we're really talking about a true managed account, which is customizing an allocation based on an individual person's needs just further than age, I do see that increasing in the coming years.

And I think there's a few factors driving that because some of the big criticisms against using a managed account as a QDIA I think are being kind of slowly tackled, so one of the big criticisms is the cost, right? I can put somebody in a target date fund for 10 basis points if it's passive and then a managed account, we were looking at 50 basis points or are up plus investment costs, which is just a big difference in terms of how customized is it? Does that justify the additional cost? But we are seeing some ways around that in terms of the cost for managed accounts are coming down. There's also things that people are kind of referring to as kind of a dynamic QDIA, right where you kind of start people off where maybe even if you were customizing according to some more unique factors, you just don't get a very different outcome.

So for your younger investors, your 25-year-old, how different is that doing a managed account versus what you would get out of a target date fund? We've seen some people come up with this idea of putting people into a target date fund and then over time transitioning them as their financial situation becomes more complex, transitioning them to a managed account where it can be much more customized and you can use the account aggregation tools that John talked about and really make it meaningful. And then the other criticism has been, again, in the past it's like, okay, well how many data points can you get to really customize it for a participant and make it meaningfully different then that target date fund? And the number of automatic things that you can get from a record keeper nowadays are significantly better than they were even a few years ago.

A few years ago, it's like, okay, I can get age and then if they engage, I can get all these other cool things. Nowadays, you can get a lot of things directly from the record keeper without the participant engagement, so to really customize, you can get things like salary, and deferral rates, and their marital status, and all kinds of things that you can get from a record keeper to really again, customize that and make that meaningful. I think all those things are going to mean that as we tackle those hurdles over time, I do think that you're going to see that trend increase.

Scott Matheson:

Yeah, there's a lot of talk obviously you know this well in the industry about this concept and cost does continue to be a hurdle, but these hybrid or dynamic solutions seem to be gaining some traction there, so it's certainly for plan sponsors an item that they want to continue to watch. And it's nice that the intersection of these conversations is happening at this same time where you are getting more than your kind of standard five data points out of a census file. Some of them I understand to be as high as 14 individual pieces of census data to really refine the allocation without the plan participant even digging in, so good stuff there. All right, maybe one more question. Time for one more here. Back to you John, because this is about driving participant engagement. What new technologies are you seeing or do you see driving participant engagement into the future?

John Leissner:

I guess some of the tools that we see, well, I guess one I hit on a little bit earlier, which is gamification. I didn't go into a lot of detail there, but I see providers getting very creative in how they're positioning gamification with participants. I've seen a lot of graphics on websites, things like cars, and roadmaps, and emojis, and I'm sure there's probably a lot more. But again, I think it's that creativity and really the evolution of websites that we've seen. But I guess specifically to your question on topics that maybe we didn't cover some of the tools, I think one that's pretty interesting would be the ability for record keepers and providers to be able to send info and web links to participants via text messages. We think that's growing in popularity. Most of you are obviously aware that that's the preferred method of communicating for an awful lot of people out there.

It really feels like the next natural progression if you want to reach certain demographics and certain audiences. I think another neat idea that I've seen is people tend to get their content from things like YouTube and others, so we've seen a lot of custom videos being made for participants just very quick hitting videos, 90 seconds, a couple of minutes, and you can actually pull in participants info and it feels specific to them. It feels personalized to them and they seem to respond well to that. But again, a lot of creativity out there. And I think especially those last two, it's now less about how providers might be able to change the behavior of a participant and rather they're adapting to how participants are already behaving and building tools around that.

Scott Matheson:

Yeah, it's pretty cool stuff happening. Certainly the marketing industry and everyone's thinking about this through the lenses of how do you get people to make decisions and the pressure and the feeling of belonging through social networking and things of that nature are fascinating trends that are going on. And that's across all generations, frankly, the new evolution of mankind I guess. All right, so we'll stop with the questions. Maybe just a quick few takeaways here. Definitely thank everybody for all the questions and feel free to follow up with us if there's anything that you feel like we didn't answer. We definitely always appreciate engagement like that and appreciate everyone tuning in. Before we conclude, let me just give you these few takeaways, which you've seen before. And I'll go beyond the mentioning I did of the reading tea leaves and the fact that that's called tasseology.

You're all welcome for that. Beyond that, we definitely discussed that an optimized retirement program is and should be different for each plan sponsor, those specific to DC plan sponsors. We do think that plan sponsors should focus on a few items. Again, get people in the plan, get them saving more, get them invested appropriately, and get them engaged in the ongoing process. And we all recognize the latter is the most difficult. We also discussed a few ways plan sponsors can move the dial on each of these items, including plan design features such as auto-enrollment, auto-escalation, and combining that with some sort of qualified default option as we just talked about, be that target dates or some hybrid of that, managed accounts, or who knows what's next or other form of maybe professional help such as advice programs.

And then finally, on the engagement side, as we said, that's in the hard pile and we learned that there are numerous ways to engage participants today be that from the kind of easier targeted communication campaigns to the heavier, harder to do one-on-one meetings, to innovative things like text messaging and gamification. Looking forward, there are certainly a lot of new items on the horizon for these DC plans, including more integration with technology, more integration with healthcare, and ultimately solving for the evolving view of retirement plans and retirement in and of itself. And so we hope you enjoyed our webinar today. If you have any follow up questions, again, please don't hesitate to reach out. Thanks as always for tuning in.