Prescience 2017

Expert Opinions on the Future of Retirement Plans

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Panel of Experts

We are grateful to our panel of experts for participating in this survey and for sharing their much-valued insight.

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Introduction

prescience \ ʻpre-sh(ē-)ən(t)s, ʻpr ē,-s(ē-) ən(t)s

Foreknowledge of events; human anticipation of the course of events; foresight.

About the Survey

Transamerica Retirement Solutions' Prescience 2017 is the fifth iteration of a modified Delphi Study conducted in the second quarter of 2013. The study examines trends in retirement plans with $25 million to $1 billion in assets. Fifty-five retirement plan experts from 45 organizations across the nation answered the 85-question survey. Transamerica Retirement Solutions chose survey participants based on their positions as thought leaders and experienced professionals in the retirement plan business. Because of their involvement with major industry players, members of this panel are well suited to foretell high-level trends that will determine the road ahead for the retirement industry.

Panel participants represent trade groups, research organizations, consulting firms, academic institutions, financial professionals, investment management firms, service providers, and trade media. The survey participants possess a deep understanding of the retirement plan business and a working knowledge of major markets and providers. The purpose of the study is to present executives responsible for retirement plan management with insights on the industry's future so they can develop and evaluate their organizations' plans and strategies. *Prescience 2017* explores upcoming trends in regulations, technology, investments, plan design, participant education, and communication for the corporate, not-for-profit, healthcare, higher education, and Taft-Hartley markets.

About Transamerica Retirement Solutions

Transamerica Retirement Solutions (Transamerica) is a leading provider of customized retirement plan solutions for organizations of every size. Transamerica partners with financial advisors, third party administrators, and consultants to cover the entire spectrum of defined benefit and defined contribution plans including 401(k) and 403(b) (traditional and Roth), 457, profit sharing, money purchase, cash balance, Taft-Hartley, multiple employer and nonqualified deferred compensation plans, and rollover and Roth IRAs. Transamerica helps more than three million retirement plan participants save and invest wisely to secure their retirement dreams. For more information about Transamerica Retirement Solutions, please visit **trsretire.com**.

Market Intelligence

The market intelligence group at Transamerica Retirement Solutions is dedicated to:

- Presenting a comprehensive picture of the private retirement plans market.
- Providing retirement plan sponsors and their advisors with comprehensive benchmarking information.
- Analyzing trends to assist with the strategic evaluation of retirement plans.

The market intelligence group periodically assembles experts from all facets of the retirement plans market to evaluate the current and future impact of trends shaping the industry.

Background

Although a great deal of information is available about recent trends affecting the business, there is a lack of reliable information about future directions. In a fast-changing environment, retirement plan sponsors, providers, consultants, and professional advisors need a clear vision of the retirement plans business four or five years from now so they can invest in the development of products, services, systems, and processes that will meet the needs of plan sponsors and participants well into the future.

Prescience 2017 delivers exactly this vision. It supplements Transamerica Retirement Solutions' other innovative research reports to draw a comprehensive picture of the private retirement plans business today and into the future. These research reports focus on current trends and practices and uncover emerging market development that could have a profound impact on retirement plans.

"The next five years will bring an interesting blend of investment evolution, consolidation in both the recordkeeping and advisory space, and a change in how sponsors and participants view their plans. We are seeing a change in conversation from whether retirement plans are simply a benefit to be 'chosen' by the employee to take advantage of—to a push to force them down the right path to savings."

Executive Summary

The application of a cluster of innovations enhancing the retirement readiness of American workers will be the trademark of the period 2013 – 2017. Concerned with the impact of ever larger numbers of older employees on the cost of healthcare and welfare benefits that we label the Aging Worker Syndrome (AWS), as well as the constraints of the Age Discrimination in Employment Act of 1967 (ADEA), many employers will have adopted an outcome philosophy of retirement plans reminiscent of the income benefit philosophy of old, given the presence of and focus on defined benefit plans.

Experts surveyed for *Prescience 2017* estimate that 59% of plan sponsors will have received a plan-level retirement readiness report. Thirty-nine percent will have changed the design of their plan to enhance the readiness of their participant population, 55% will have implemented automatic enrollment, and 45% of those will have adopted default deferral rates of 6% or higher. Most retirement plan service providers will be showing employees if they are on track to achieve a successful retirement and telling them how much they need to save to be on track. Going beyond accumulation in their quest to help participants achieve retirement success, one-quarter of plan sponsors will have conducted a search for an in-plan retirement income solution, and 10% will have implemented such a solution. Providers will be working furiously to develop solutions that meet the needs of highly compensated employees imperfectly served by 401(k), 403(b), 457, and 409A nonqualified deferred compensation plans.

Evolving attitudes of regulators will do their part to contribute to the move toward an outcome philosophy of retirement benefits: lifting limits to maximum default deferral levels, expanding the scope of IB 96-1 to cover in-plan annuities and other retirement income guarantees, and changing safe harbor employer contribution formulas to models more likely to help workers achieve a successful retirement. Experts also anticipate that the Department of Labor will issue revised rules defining the term “fiduciary,” applying them to IRAs to eliminate the regulatory competitive advantage retail advisors enjoy over plan advisors when meeting with a participant eligible for a distribution of plan assets. Federal government budget constraints will result in cutbacks of pretax contribution limits; we can’t expect that tax credit for low- and middle-income earners will be expanded either. As an alternative to reduced 402(g) and 415(c)(1)(A) limits (experts predict those will not be changed), the Obama Administration has proposed a lifetime cap on contributions that would be hard to implement. In the end, some other option may win, such as a review of required minimum distribution rules that encourage employees to stay in the workforce past age 70½, regardless of account balance, earnings, or hours worked.

The evolution of the workforce composition over the period 2013 – 2017 will affect long-term growth prospects for traditional retirement plan providers. The period will see a sharp increase in the number of 1099 contractors typically not covered by retirement plan benefits, but no net increase in the population of W-2 employees. In the short term, retirement plan vendor success depends on coverage, participation, and deferral rates, all of which will be on the rise over the period. Coverage in the 50- to 100-employee size band will grow to 70%, adding more than one million 401(k) plan participants. The rise in workforce participation (part-time and full-time) among those ages 70 and over will increase the ranks of those employed past the age of eligibility for full Social Security benefits by more than 25% and lead many employers to review return-to-work and phased retirement policies.

Greater reliance on mobile technology for communication will change the frequency, purpose, effectiveness, and tone of messages. The success of the gaming industry with mobile technology will inspire retirement plan service providers to conceive fun, engaging, even playful retirement learning paths. Frequent retirement readiness alerts, short and to the point, with a specific point-and-click call for action will prove more effective than anything we have seen to date. The period 2013 – 2017 will also see greater use of mobile technology with plan sponsors to facilitate fiduciary process documentation.

Equity markets will be up over the period, and sponsors will be looking for fixed income products incorporating a guarantee, seeking protection from a reversal in long-term interest rate trends. The retirement investing industry will develop new QDIAs featuring a retirement income distribution option, offering ultimate convenience for participants throughout their lifecycle. One-quarter of plan sponsors will have adopted fee equalization to distribute the cost of recordkeeping among participants in a fair and equitable manner.

The market presence of Professional Retirement Plan Advisors will continue to grow. By year-end 2017, a number of plan advisor practices will have combined into larger national teams. Fee compression will lead advisor teams to reduce their involvement in less lucrative activities such as vendor due diligence searches and group education meetings to focus on emerging specialties more valuable to plan sponsors, such as searches for retirement transition counseling services and defined benefit plan consulting.

Reflecting on the many trends documented in *Prescience 2017*, we conclude that the retirement readiness movement will lead to a widespread adoption of the outcome philosophy of retirement plans, reminiscent of the income benefit philosophy of yesteryear, with the benefit of participant choice. Employers' adoption of a retirement system combining plan design, investment options incorporating income options, and retirement readiness reporting, brings us to the cusp of a new era.

Retirement Readiness

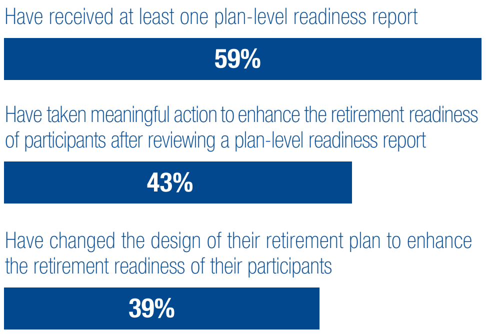
Retirement readiness will increase in importance over the next three years. Missing the trend could set back a retirement plan practitioner's business as clients are drawn by the sirens of the competition on this topic.

For the last two decades, the gradual erosion of defined benefit (DB) plans has frustrated employers that support a benefit philosophy of retirement. Indeed, defined contribution (DC) plans only imperfectly meet the need to provide a specified level of post-retirement income to long-term associates. When DC plans were supplemental in nature, outcomes were ancillary to the responsibilities of DC plan fiduciaries. Now that so many American workers rely exclusively on a DC plan, the level of income they can expect to receive in retirement becomes critical knowledge for participants. Experts predict a fundamental shift in sponsor attitudes over the next three years. The widespread delivery of retirement readiness reports to participants is key for fiduciaries seeking to provide their associates a dignified retirement income. Plan-level readiness reports aggregating results for all participants help measure plan effectiveness and monitor progress. Committees that aspire to do more than document that they follow a process now have the tool they need to enhance outcomes.

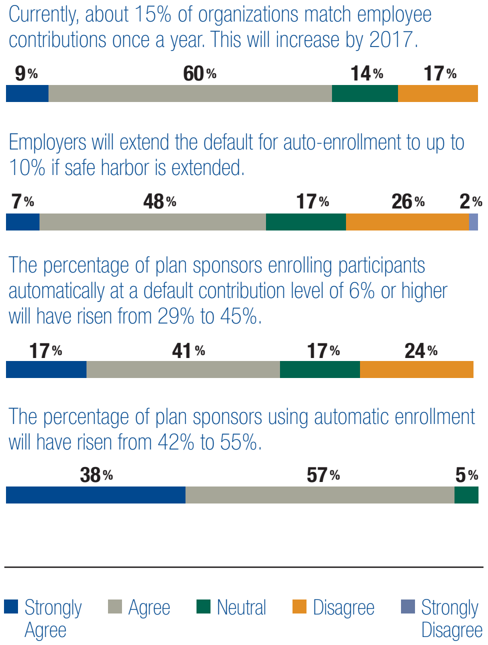
Not all employers are in an economic situation to focus on retirement outcomes, however. Sponsors concerned primarily with performing the tasks demonstrating their exercise of fiduciary responsibility, while committed to offering a plan competitive with that of similar organizations, may not be ready to dedicate resources to place participants on track to achieve a stated outcome. Still, we believe the number of committees that adopt an outcome-based approach to the plan will be on the rise. Economic growth will contribute to the trend. Another factor will be the expanding cost of healthcare and welfare benefits for employers with large numbers of staff forced to work past age 75 due to insufficient retirement savings. To control the cost of healthcare and welfare benefits, employers most affected will have no choice but to maintain a benefit approach to their retirement plan, with lower goals than most.

Presented with plan-level retirement readiness results that could stand to be improved, we surmise that many sponsors will take steps to enhance outcomes. Retaining the services of a Professional Retirement Plan Advisor could be a first step. A survey of plan sponsors has shown that clients of Professional Retirement Plan Advisors more often achieve superior plan-level retirement readiness levels, but many sponsors do not yet rely on the services of a specialized advisor (*The Value of a Professional Retirement Plan Advisor*, 2011, EACH Enterprise, Inc.). A second step could involve a campaign to encourage plan participants to consolidate retirement assets so reports provide a more accurate picture of their readiness level.

In a third step, the advisor may recommend redesigning the plan to incorporate features conducive to enhanced readiness, such as automatic enrollment of all employees, default deferral level above 6% of pay, and periodic automatic deferral increases. Restructuring the match formula to encourage employees to increase their contributions is one option likely to be considered. For example, if a plan sponsor that is currently matching employee contributions dollar-for-dollar up to 4% of pay changes to a


Have received at least one plan-level readiness report
Have taken meaningful action to enhance the retirement readiness of participants after reviewing a plan-level readiness report
Have changed the design of their retirement plan to enhance the retirement readiness of their participants

> *"There will be more emphasis on development of personalized information in easily used formats to assist participants in preparing a retirement plan and executing the right strategy for them as individuals. The focus of retirement services will shift toward a personalized participant-centric and goals-oriented service; as a result, more participants will feel a greater degree of control and commitment to retirement goals."*


Currently, about 15% of organizations match employee contributions once a year. This will increase by 2017.

Employers will extend the default for auto-enrollment to up to 10% if safe harbor is extended.

The percentage of plan sponsors enrolling participants automatically at a default contribution level of 6% or higher will have risen from 29% to 45%.

The percentage of plan sponsors using automatic enrollment will have risen from 42% to 55%.

match of 50 cents on the dollar up to 8% of pay (also known as a stretch match), their plan would probably reach a higher incidence of retirement readiness. Indeed, behavioral finance research has shown that many plan participants seek to maximize their employer contribution; plan-level average deferrals are correlated with the upper limit for matching contributions.

Panelists surveyed for *Prescience 2017* project that by December 31, 2017, 59% of plan sponsors will have received a plan-level retirement readiness report, 43% will have taken meaningful action based on the report, and 39% will have gone as far as to change plan design with the objective of enhancing the retirement readiness of the participant population. Specifically, the percentage of plan sponsors who auto-enroll employees will rise from 42% to 55%, and the percentage of plan sponsors who automatically enroll participants at a deferral rate of 6% of pay or better will grow from 29% to 45%. These numbers are a clear indication of the groundswell change in the retirement plan business expected over the next three years.

Trends documented in other sections of this report, such as evolving regulator attitudes toward automatic enrollment, will contribute to the retirement readiness movement. A change in the definition of automatic enrollment safe harbors would trigger mass adoption of default deferral levels at 10%. Prompt adoption of mobile technology facilitates the delivery of effective retirement readiness alerts calling for immediate action.

In response to the heightened demand for retirement readiness tools and resources, by 2017 about half of all retirement plan providers will offer participants a service that tells them how much to save to reach a fully funded retirement. Going further, most retirement plan providers will offer a service that shows each participant if he or she is on track to reach a fully funded retirement.

As a natural extension of the retirement readiness movement, many plan sponsors, including those who historically favor a benefit approach to retirement, will be looking for solutions to provide participants an income in retirement. One obstacle to the development of in-plan retirement income solutions has been the lack of regulatory guidance from the Department of Labor on these options. Over the last few years, plan advisors have kept clients apprised of developments in this area, but in the future they are more likely to recommend that plan sponsors proactively search for a solution. Experts project that at some point in the next three years, the Department

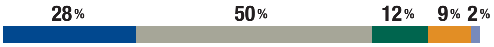
of Labor will address in-plan annuities in an interpretive bulletin expanding the scope of IB 96-1 to include in-plan annuities and other income guarantee options. Subsequently, many plan advisors will recommend that clients investigate these solutions to decide on applicability to their organization.

Experts project that at least 25% of plan sponsors will have conducted a search for retirement income solutions, and at least 10% of plans will have implemented a solution by year-end 2017.

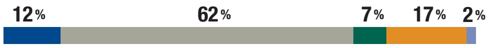
The retirement readiness movement will present a challenge for highly compensated employees for whom 401(k) plans and 409A nonqualified deferred compensation plans are imperfect solutions. The challenge will be exacerbated if a lifetime contribution cap is implemented as the Obama Administration has suggested. Experts concur that demand for retirement planning solutions will spur product development activity in this area over the next three years. Whether new solutions will be developed remains to be seen.

> *"Retirement readiness will be a very 'normal' part of employer-sponsored retirement plans."*

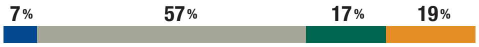
By 2017, most retirement plan providers will offer a service that shows if participants are on course to a fully funded retirement.



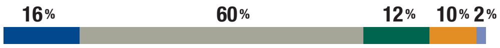
Currently, very few retirement plan providers offer a service that tells each participant the amount he or she needs to save to reach a fully funded retirement. By 2017, about half of retirement plan providers will offer this service.



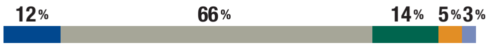
At least 40% of Retirement Plan Advisors will be comfortable recommending that client plans conduct a search for or due diligence of a retirement income solution of some sort.



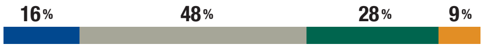
At least 25% of retirement plan sponsors will have conducted due diligence of or a search for retirement income solutions for their plan.



At least 10% of plans will have implemented a retirement income solution of some sort.



The demand for retirement planning solutions for highly compensated employees will have spurred product development activity.

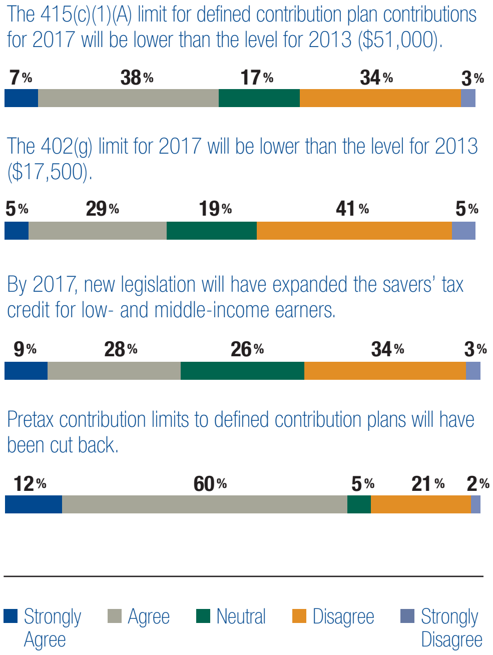


■ Strongly Agree ■ Agree ■ Neutral ■ Disagree ■ Strongly Disagree

> *"There will be a much greater emphasis on achieving adequate savings levels among participants as a key measure of plan health and success."*

Legislative and Regulatory Change

"Regulations will separate money management from recordkeeping and communication service."



"The coming Department of Labor regulations requiring a projection of retirement income based on current account balances will have a significant impact on how advisors and plans interact with participants, as well as on how participants perceive their retirement readiness."

Many trends identified in this report will either result from or be greatly facilitated by regulatory or legislative change. Policy change may come about with elections, fiscal necessity, political action, or opinion shifts from haphazard events or concerted media coverage. All these elements will be at play over the next three years, affecting the tax status of DC plans, the definition of automatic enrollment safe harbors, and the treatment of investment elections offering guarantees.

The tax status of plan contributions has been most discussed, and is one area of consensus among experts surveyed. Pretax contribution limits to 401(k) plans will be cut back in some form in the coming year. However, cutbacks will not affect 402(g) limits or 415(c)(1)(A) limits. Budget constraints, political action, and media coverage will be major factors impacting the course of events. One alternative championed by the Obama Administration in its 2014 budget proposal would set a lifetime contribution cap. Most affected by a lifetime cap would be older participants closest to retirement who have saved diligently to fund a dignified retirement. Although some highly compensated employees would be affected, the impact on them will be less due to the testing limits to which they are already subject. The industry mounted a vigorous campaign to oppose the proposal, and it is not clear how the concept of a lifetime cap could be implemented in the absence of historical contribution records. It is also not clear what other proposal will be advanced. Although some would like to see the savers' tax credit for low- and middle-income earners expanded, panelists do not believe such a move is in the cards. A change in the Presidential Administration after the 2016 elections could cause a major shift in fiscal policy.

In some cases, safe harbor rules established by the Department of Labor have not kept up with the times. Current safe harbor rules encourage plan sponsors to set a dollar-for-dollar match to 4% of pay, in spite of the fact that a stretch match would achieve higher retirement readiness levels. Similarly, automatic deferral safe harbors stipulate that automatic increases may not raise a participant's deferral level above 10% of pay. The majority of experts anticipate the maximum deferral level for automatic enrollment will be lifted by the year 2017. This could happen through regulatory channels or through legislation such as the Safe Annuities for Employee (SAFE) Retirement Act of 2013, proposed by Senator Orrin Hatch.

Panelists also expect that regulators will move to facilitate the distribution of accounts in a lifetime income stream. Interpretive Bulletin 96-1 sets forth circumstances under which information about investment options distributed by plan sponsors does not constitute advice, but does not address in-plan annuities or retirement income guarantees. Experts expect the Department of Labor to solve this shortcoming, easing burdens on plan sponsors offering Qualified Default Investment Alternatives that include these guarantees.

Another area where regulations have not kept up with the times is the definition of the term "fiduciary." In 2010, the Department of Labor proposed a rule defining the term, addressing the fiduciary role of a plan advisor under different circumstances. Pressed by the industry and plan sponsors, the Department of Labor announced in 2011 that it will issue a second version of the proposed rule. This rewrite has yet to take place, and may need to cover IRAs to address the provision of participant advice at the time of distribution, a move that would raise issues of jurisdiction among federal government agencies. Frustrated with the lack of clarity and hoping for more responsiveness, some legislators have suggested that jurisdiction over the definition of a fiduciary should be turned over to the Department of the Treasury. A move by the Department of Labor to propose and finally adopt a second version would preempt legislative action.

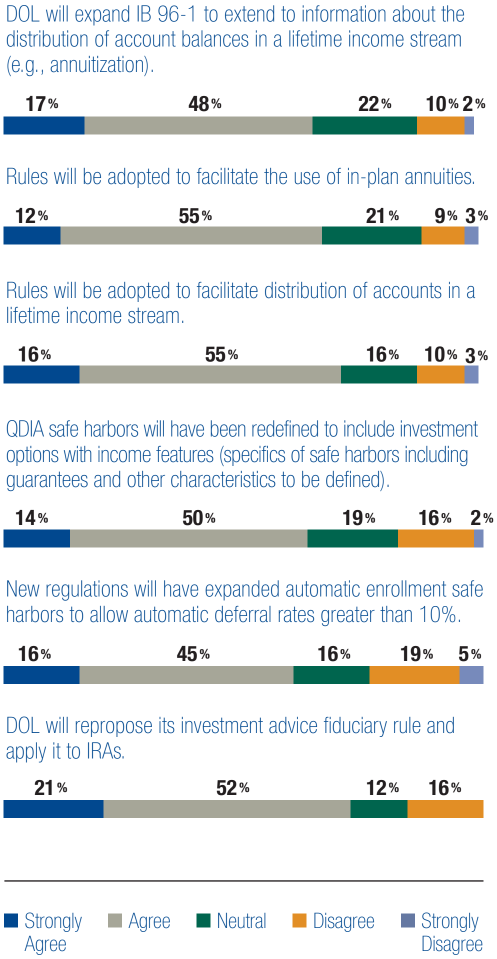
Another area where regulations have fallen behind the times is the distribution of mandated disclosures. Whether regulatory mandated communications are sent electronically or on paper is not a central issue, but the Department of Labor has argued that the elderly and the poor who most need protection are less likely than others to have access to electronic media. It may be time to revisit this position. Data from the Pew Research Center suggests that the percentage of adults who own a smartphone has grown to 56% (fewer than 10% do not own a cell phone), and 70% have access to broadband Internet at home. Ownership of a smartphone appears to be higher in segments that have lower access to broadband Internet at home. Faced with budget constraints, the Department of Labor may well decide to focus on more important issues. Over 80% of experts anticipate that the Department of Labor will have issued safe harbor regulations for the systematic e-delivery of plan communications, and that e-delivery will be allowed for all mandated notices.

Coverage in the small and micro business market has preoccupied local legislators in some areas. Although nearly all private employers with more than 100 employees offer a 401(k) or a 403(b) plan, only 63% of employers with 50 to 100 employees make a plan available to their associates. Experts on our panel project that coverage will rise to 70% within the next three years. Good economic conditions and consistent equity market growth will make 401(k) plans a very attractive benefit over the period, as employers in states offering a healthcare insurance exchange disengage from the healthcare market. Based on 211,393 establishments in the small and micro business market employing nearly 14.5 million workers as reported by the United States Census Bureau, we project over one million workers will gain access to a 401(k) plan by the end of 2017 who do not have access today, in this size band alone.

To address the issue of coverage in the small and micro business market, three states (California, Massachusetts, and Oregon) are currently studying the feasibility of implementing a state-administered retirement plan for some or all private employers. Few experts anticipate that these plans—if implemented—will garner more than a 5% market share. No surprise, focus groups with plan sponsors suggest employers distrust states when it comes to managing retirement plans for government employees, let alone their own employees (*Plan Sponsor Views of Professional Retirement Plan Advisors*, 2013 EACH Enterprise, Inc.).

In open-end comments, experts mention other policy changes that would have a major impact on retirement plans.

"Media scrutiny and misinformation may trigger some changes that aren't anticipated."



"A lot depends on what happens in the 2016 elections, particularly the White House. One need only look at the difference in tact/approach/priority of the Obama Administration versus the Bush Administration to appreciate just how quickly those priorities can shift."

"The discussion about retirement will change to a discussion about life choices and options for an individual, of which retirement may be one. The longevity issue will change what 'retirement' means."

Workforce

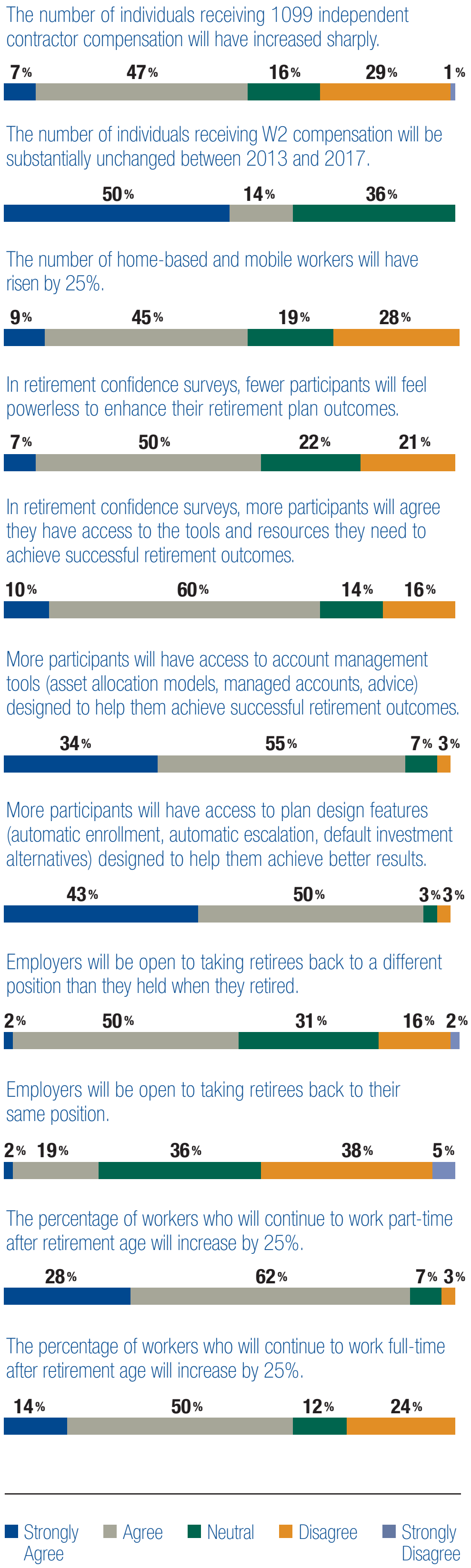
Over the next few years, retirement plan providers will contend with the stagnation of traditional employment; the majority of experts expect the number of W2 employees to remain substantially unchanged to year-end 2017. The growth of retirement plan assets will hinge on increased coverage, increased participation, enhanced contribution levels, market performance, and the industry's ability to tap into the 1099 independent contractor market that is projected to grow sharply in numbers. Independent contractor incomes are more volatile. Contractors have a greater need for retirement security, lack access to an employer-sponsored retirement plan, and need solutions adapted to their unique situation in terms of advice, features, and pricing. Although retail solutions are available, these workers would benefit from the fiduciary oversight normally exercised by plan sponsors. Will advisors offer solutions specifically designed for this growing market niche?

The number of home-based and mobile workers will increase by 25%, affecting the way they can be reached: In-person group education meetings will be less relevant than ever before, leading retirement plan providers to develop account management tools designed to help participants achieve successful retirement outcomes. Access to these tools, plan designs that drive participants to successful retirement outcomes, and equity market performance will enhance the retirement confidence of participants. Fewer will feel powerless to enhance their retirement readiness.

As the workforce is evolving, so is the concept of retirement. For many, the date of retirement is driven by factors other than their own choosing: personal health, employer's economic conditions and human resource policies, and increasingly personal financial condition. Large numbers are staying in the workforce longer than expected, past traditional retirement age.

By 2020, 22.6% of those ages 65 and over will be in the labor force (Bureau of Labor Statistics, Monthly Labor Review, January 2012). The delay in the eligibility age for full Social Security benefits contributes to the increase in labor force participation among those ages 65 to 69, but labor force participation among those ages 70 and over rises even faster. Improved health, declining availability of defined benefit pensions, and low levels of retirement assets play a role, as do tax rules concerning distributions. Indeed, those still employed on April 1 after reaching age 70½ can delay distribution until April 1 after the year they retire, encouraging workforce participation—at least part-time—past age 70. Our panel of experts anticipates that the percentage of workers who continue to work part-time in retirement will increase by 25%. Equally telling, they also expect the percentage of workers who work full-time in retirement to increase by 25%.

Psychologists recognize several phases of retirement: the honeymoon period, followed by some disenchantment, a period of reorientation, and a new routine, often ended by disability and dependence. The period of reorientation phase more often will involve a return to the workforce in the future. Many employers will be open to hiring retirees back, but to a position other than their pre-retirement occupation. Return-to-work and phased retirement policies will be tightened. Retirement transition counseling will become big business for employee assistance organizations and others: career counseling, life planning, distribution counseling, and participant advice. Plan advisors will become increasingly involved in search activity for this enhanced service.



The number of individuals receiving 1099 independent contractor compensation will have increased sharply.

The number of individuals receiving W2 compensation will be substantially unchanged between 2013 and 2017.

The number of home-based and mobile workers will have risen by 25%.

In retirement confidence surveys, fewer participants will feel powerless to enhance their retirement plan outcomes.

In retirement confidence surveys, more participants will agree they have access to the tools and resources they need to achieve successful retirement outcomes.

More participants will have access to account management tools (asset allocation models, managed accounts, advice) designed to help them achieve successful retirement outcomes.

More participants will have access to plan design features (automatic enrollment, automatic escalation, default investment alternatives) designed to help them achieve better results.

Employers will be open to taking retirees back to a different position than they held when they retired.

Employers will be open to taking retirees back to their same position.

The percentage of workers who will continue to work part-time after retirement age will increase by 25%.

The percentage of workers who will continue to work full-time after retirement age will increase by 25%.

Mobile Technology

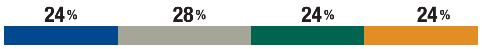
Rise in workforce mobility, increased access to smartphones, technological advances in data transmission, market demand, and public policy more favorable to e-delivery will encourage providers to optimize their websites for handheld devices and to develop applications that even go beyond what is available on the website.

Functionality would not necessarily be much different from the websites that exist today, but access and navigation will be quite different. Entertaining learning paths consistent with the ludic environment participants enjoy in other apps will be called for. Service providers that can most swiftly reallocate technology budgets, develop competencies, and hire new talent will stand apart.

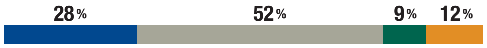
For once, technological innovation in the retirement plans business may have a positive impact on utilization. Indeed, greater reliance on communications designed for use on mobile devices may require more frequent communication, itemized messages, shorter copy, more personalized content, and more immediate point-and-click response mechanisms. The pace of communication will change. Providers will be in a position to make greater use of alerts that prompt participants to act on focused calls to “increase contribution by 1% of pay” or to “rebalance your portfolio.”

Mobile technology will also be handy with plan sponsors, facilitating fiduciary documentation, storage of meeting handouts, attendance records, annotations, and minutes. Greater use of mobile technology may affect plan-level retention for providers, advisors, and advisory firms. The nature of records that need to be migrated in the event of plan transition will be affected.

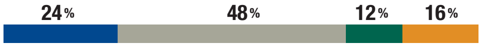
Nearly all retirement plan providers will offer apps for mobile devices with functionality beyond that available on the optimized website.



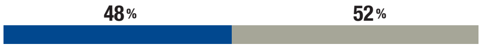
More than three in four plan providers will offer exactly the same transactional capabilities on their mobile app as are available on the website.



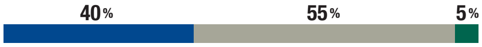
More than three in four plan providers will offer exactly the same information on their mobile app as is available on the website (on the computer).



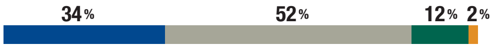
Nearly all retirement plan providers will offer websites optimized for use on handheld devices.



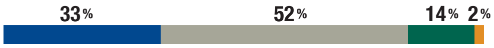
Nearly all retirement plan providers will make it possible for participants to receive alerts on mobile devices (text or instant messages) for notifications such as statement availability and disclosures.



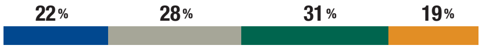
More than three in four retirement plan providers will make it possible for participants to receive alerts on mobile devices (text or instant messages) for transactions such as contributions receipt, automated rebalancing, loan issue, and distribution processing.



More than half of retirement plan providers will make it possible for participants to receive alerts on mobile devices (text or instant messages) for trigger events that may call for action such as seminar notifications, anomalous market volatility, or unusual account activity.



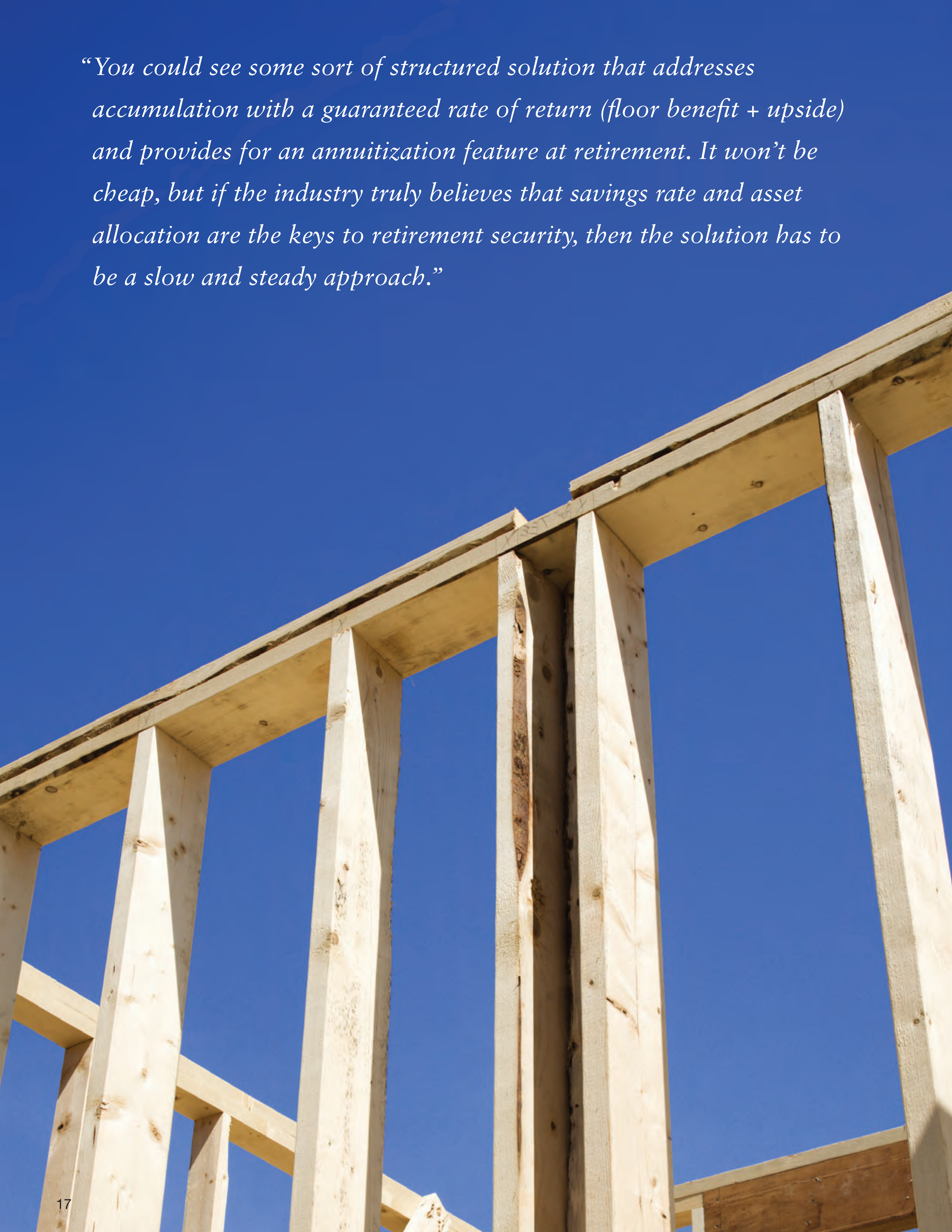
More than three in four providers will offer at least one entertaining retirement plan learning path that mimics the user experience of online games.



🟦 Strongly Agree ▨ Agree 🟩 Neutral 🟧 Disagree 🟪 Strongly Disagree

“Government takes a run at taking over the whole system (a la Australia).”

"You could see some sort of structured solution that addresses accumulation with a guaranteed rate of return (floor benefit + upside) and provides for an annuitization feature at retirement. It won't be cheap, but if the industry truly believes that savings rate and asset allocation are the keys to retirement security, then the solution has to be a slow and steady approach."



Investments

Experts anticipate the current strong market to continue for some time. On average, they anticipate that the Dow Jones Industrial Average will have reached 17,500 by year-end 2017, and retirement plan assets will grow nearly 40% to $26.6 trillion.

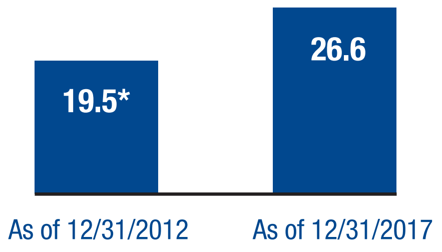
When it comes to style-specific funds, the fixed income category probably calls for the most attention in the coming years following the interest rate cycle reversal. Most experts agree that many plan sponsors will be looking for investment options that combine fixed income investments and limits to down-market capture ratios.

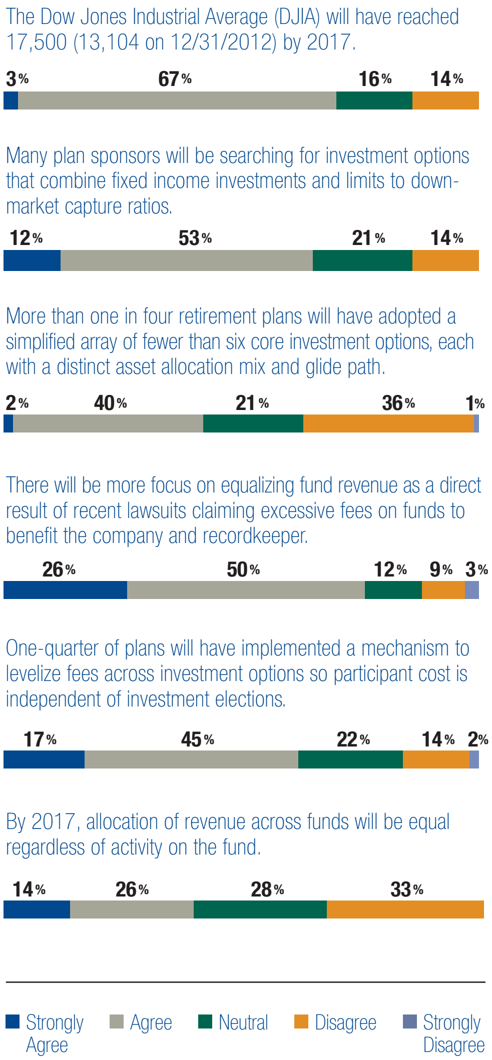
Participants invest a large percentage of their contributions into Qualified Default Investment Alternatives (QDIAs), and industry conference speakers have suggested that it might make sense for some plan sponsors to reduce their investment array to a choice of these default vehicles. Experts believe fewer than 25% of plan sponsors will have adopted this type of investment array by year-end 2017. Regulatory changes and market trends will likely foster the development of bundled products facilitating retirement readiness for the ultimate convenience of participants. These new products, including retirement income guarantees, could be described as “decision-free for participants” in that investments would automatically convert to an income flow of some sort at a pre-determined retirement age.

The advent of mandated participant-level fee disclosures raised concerns among plan sponsors with investment arrays that include low-cost actively managed funds, index funds, and some more expensive investment options. The fear of participant lawsuits spearheaded by class action attorneys has led many to implement strategies so all participants contribute equally to the cost of recordkeeping, regardless of asset allocation. The recordkeeping mechanism makes it possible for a plan sponsor to allocate the sum total of fees charged by investment funds available in the plan among all participants in proportion to the account balance of each, so all participants share equally in the cost of recordkeeping. Experts anticipate that by 2017, 25% of all plans will have implemented fee levelization.

As an alternative, a plan sponsor might consider offering index funds or no-revenue investment options exclusively, adding a participant-supported administrative fee. However, such an option is not always practical as some funds are not available in a low-cost or no-cost share class. Many plan sponsors prefer to rely on revenue from investment funds to support the plan rather than increase their contribution to the cost of plan operations.

Retirement Plan Assets ($ Trillion)




The Dow Jones Industrial Average (DJIA) will have reached 17,500 (13,104 on 12/31/2012) by 2017.

Many plan sponsors will be searching for investment options that combine fixed income investments and limits to down-market capture ratios.

More than one in four retirement plans will have adopted a simplified array of fewer than six core investment options, each with a distinct asset allocation mix and glide path.

There will be more focus on equalizing fund revenue as a direct result of recent lawsuits claiming excessive fees on funds to benefit the company and recordkeeper.

One-quarter of plans will have implemented a mechanism to levelize fees across investment options so participant cost is independent of investment elections.

By 2017, allocation of revenue across funds will be equal regardless of activity on the fund.

*Investment Company Institute (ICI), The U.S. Retirement Market, Fourth Quarter 2012

Plan Advice, Consulting, Sales, and Distribution

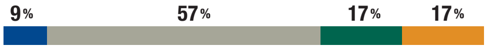
It is no surprise that experts project that the consolidation of plan recordkeepers will continue to the year 2017. More interesting is the merger and acquisition trend they anticipate in the plan advice business. Historically, tens of thousands of plan advisors vied for retirement plan business. Recent years have seen the emergence of a group of Professional Retirement Plan Advisors who partner primarily or exclusively with retirement plans. These advisors may be affiliated with a national firm or operate independently. It is estimated that 3,500 advisors derive most of their revenue from retirement plans. From that population, a growing group of approximately 800 larger plan practices focuses on plans with $10 million or more in plan assets. Experts project that these practices will go through a period of mergers and acquisitions. Other research suggests some regional practices are merging to develop a firm with a national presence. Practices with five or more plan advisors plus additional staff will become commonplace. Experts project more than 50 such teams in the country by the end of 2015 (Transamerica Retirement Solutions *Advisor Practices of the Future 2012-2015)*.

Attention to fee benchmarking is fundamentally changing the role of Retirement Plan Advisors. Advisors are expected to have more knowledge to support technical functions as well as investments. Fee compression is leading them to let go of less lucrative functions and to focus on tasks plan sponsors find more valuable. Qualitative research suggests advisors whose primary value-add is to conduct service provider due diligence searches or to comparison shop do not have a sustainable business model.

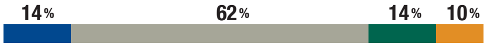
As practices consolidate and the number of specialized advisors grows, the market share of top advisory firms expands, and provider relationships with the right advisors and consultants become key drivers of plan sales for recordkeepers. With fast growth comes the need for talent acquisition and development: recruiting, selection, support structure, training, and management ability become success factors. The population is no longer segmented by firm, geography, or status (RIA vs. benefits broker vs. broker/dealer representative) but by business model. Points of differentiation include staff, skill set, client base/references, the advisor's role in the delivery of participant education, the level of fiduciary services, investment policy (in particular the approach to QDIAs), mix or mode of compensation, and affiliated businesses.

The consolidation of advisor practices into larger teams and the net cost of conducting DC plan provider due diligence will lead to a slowdown in DC plan turnover over the period. Indeed, experts predict that DB plan searches will pick up steam as sponsors get in the habit of conducting plan administrative searches every three to five years as they do for defined contribution plans. The technical knowledge required to conduct a defined benefit plan administration services search opens new avenues for advisors seeking to expand value-add services that leverage their skill set. The growth in the demand for DB plan administration services occurs at the same time as the sophistication of payroll systems enhances the quality of payroll data, enabling the development of consolidated employment and compensation history databases that make it easier to administer defined benefit plans.

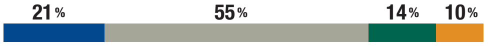
By the end of 2017, increased attention to fee benchmarking will have fundamentally changed the role of Retirement Plan Advisor.



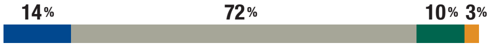
Consolidation will continue at a rapid pace both in the recordkeeping business and the advisory business.



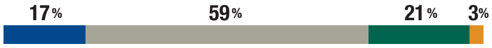
Consolidation will continue at a rapid pace in the recordkeeping business.



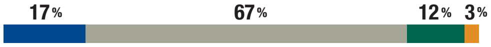
The number of advisor practice mergers and acquisitions will be on the rise.



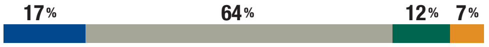
There will be more than 50 advisor team practices with five or more retirement plan advisors.



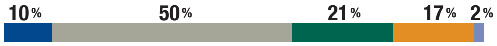
Mergers and acquisitions will increase the market share of the top advisory firms.



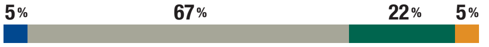
Provider relationships with investment consultants and advisors will be key drivers of defined contribution plan sales.



Currently, the administration of defined contribution plans is typically put out to bid every three to seven years. By 2017, the administration of defined benefit plans should be put out to bid at least that often.



Payroll data quality will improve considerably among mid-sized employers with increased usage of sophisticated payroll systems.



■ Strongly Agree ■ Agree ■ Neutral ■ Disagree ■ Strongly Disagree

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“There will be continued consolidation on the recordkeeping side of the industry. There will either be advisory firm consolidation or an emergence of specialty firms focusing on fiduciary acceptance for plan administration functions.”

Conclusion

Underlying the trends foreseen in *Prescience 2017* is a fundamental change in society spanning decades. The period 2013 – 2017 will be marked by the application of a cluster of innovations geared to enhance the retirement readiness of individual participants at all stages of their careers. Among these innovations are:

- Personal retirement readiness reports for use by participants.
- Retirement readiness alerts calling for immediate action sent to participants' smartphones with some frequency.
- Bundled investment products including preprogrammed retirement income distribution mechanisms and some level of guarantee.
- Expanded retirement transition counseling.
- Consolidated employment and payroll history databases.
- Aggregated plan health reports allowing committees to monitor progress in the retirement preparedness of their participants.

These innovations are symptomatic of a benefits culture concerned not only with the application of a fiduciary process but also with personal outcomes.

In the days when 401(k), 403(b), and 457 plans merely supplemented DB plans, the focus on fiduciary process made good business sense for plan sponsors. Indeed, the major risk employers faced with defined contribution plans was that of a participant lawsuit for lack of due diligence. Now that traditional DB plans are diminishing, many plan sponsors also face the economic risks associated with employees overstaying their invite, the Aging Worker Syndrome (AWS). Employers affected by AWS find that their associates want to maintain an income from work past the age of eligibility for full Social Security benefits. Some retirees want or need to return to the workforce after an initial honeymoon period, beginning a second work career that ends with disability and dependence. Over the period 2013 – 2017, unsustainable healthcare and welfare benefit costs will cause many employers to revisit their return-to-work and phased retirement policy with an eye to containing cost.

The cure for AWS also involves redesigning plans to help associates achieve successful retirement outcomes. Advisors recommend plan designs incorporating automatic enrollment for all employees, an automatic contribution level above 6%, a matching contribution formula encouraging participants to save more, and frequent automatic deferral increases while staying within the budgetary constraint of the organization. New plan designs, investment options, and retirement readiness reports in combination form a retirement system consistent with an outcome philosophy that will keep an employer AWS-free and ADEA-compliant.

While both the traditional DB plan and the new retirement system have a focus on retirement outcomes, retirement outcome in the new system is the responsibility of the individual. The cluster of innovations that will transform retirement plans in the 2013 – 2017 period comes at the cusp of a decades-long cycle of public attitudes. In the days of defined benefit plans, employees were happy to relinquish the responsibility for decisions (retirement age, benefit level, contribution amounts, investment choice, and asset allocation) to their employer. The culture changed in the mid-1980s when workers started to demand total choice and control, a preference prevalent through the '90s. Mentalities changed again with the dot-com bubble burst of 2001. What the dot-com bubble did not accomplish, the Great Recession completed. Today, American workers want their employer to call the default choices likely to bring about success while retaining the option to make alternative choices.

Although the emphasis on outcomes is reminiscent of the age of DB plans, it is clear that workers today want a retirement system that calls for individual responsibility. Ironically, public policy has not kept up with the times, and the period 2013 – 2017 will bring about policy changes that reflect the dominant culture: systematic use of e-delivery, safe harbors more likely to bring about retirement success, and a tax code that eases participants into retirement. Initiatives (private or public) that aim to reduce the role of individual responsibility, leaving decisions solely in the hand of the employer or the government face solemn rejection by public opinion.

Experts did not sway on the next stage of evolution beyond 2017 when a large percentage of the population will be better equipped for achieving a successful retirement thanks to the new retirement system adopted by many plan sponsors. It is likely the penetration of the new retirement system will continue past 2017. We surmise that the most pressing need then will concern retirees whose employers did not espouse an outcome philosophy of retirement. Those with insufficient savings will be forced to rely on reverse mortgages, family, and public assistance to make ends meet. By the end of 2017, we believe public attention will be turning to poverty in retirement: the time will be right to discuss serious reform to save the Social Security retirement program and other components of the public safety net.

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