Financial Benefits for the Business

How Outstanding Retirement Plan Advisors Help CFOs Mitigate the Adverse Effects of Workforce Aging on Company Financials

Executive Summary

Retirement Advisor Council

FOR ADDITIONAL INFORMATION

Ask the sponsors of this research about FINANCIAL BENEFITS FOR THE BUSINESS:
How Outstanding Retirement Plan Advisors Help CFOs

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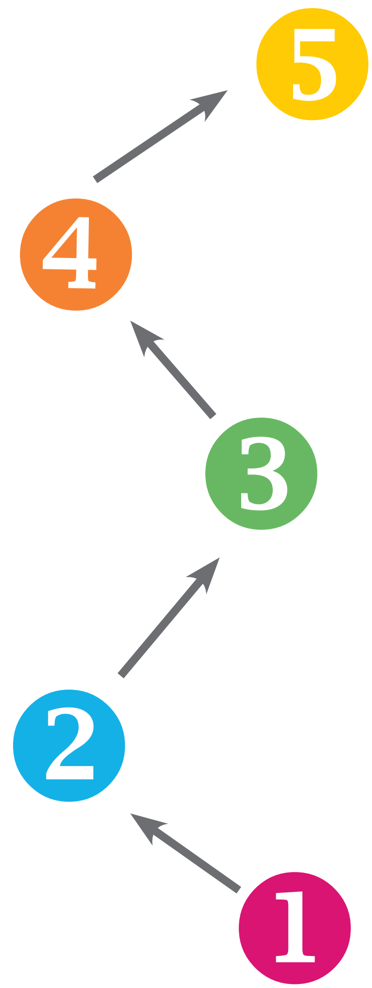
ACTION STEPS FOR CHIEF FINANCIAL OFFICERS (CFO)

In all economic sectors, even those experiencing cutthroat competition, employers thrive because a Retirement Plan Advisor helps contain labor cost and business expenses associated with workforce aging. An outstanding Retirement Plan Advisor can partner with the Chief Financial Officer to leverage the retirement plan and increase profits.

1. Ask the Retirement Plan Advisor of your firm to model the consequences of workforce aging on the financial results of your firm today and five years from now
2. Ask for a count of your workforce by age band today to get a sense of the impact aging already has on company financials
3. Consider strategies to mitigate workforce aging when making financial decisions for the business:
    a. Change the allocation of your benefits budget to counteract adverse self-selection in recruiting and employee retention
    b. Design your retirement benefits program to reduce the need for onerous early-retirement programs
    c. Where fiduciary rules allow, play an active role in the retirement plan committee. Provide input into decisions that help contain labor cost, curb activities that neither add value nor support your fiduciary duty
    d. Support plan features that set employees on a track to achieve a successful retirement by default:
        i. Automatic enrollment of all employees – current and new - at a responsible default contribution level
        ii. Automatic increase of contribution levels
        iii. Adoption of appropriate Qualified Default Investment Allocation elections
    e. Monitor the retirement readiness and financial wellness of your employee population every year
    f. Be financially responsible and set an example
    g. Communicate with employees the need to act responsibly when it comes to business financials and personal financials



Credits: FINANCIAL BENEFITS FOR THE BUSINESS: How Outstanding Retirement Plan Advisors Help CFOs, a fundamental research study sponsored by John Hancock Investments, MassMutual Financial Group, MFS Investment Management, Principal Financial Group, and Transamerica Retirement Solutions for the benefit of the Retirement Advisor Council, © EACH Enterprise LLC, 2017

MAJOR FINDINGS

Employers can reap tangible business benefits from partnering with a Professional Retirement Plan Advisor. While overseeing the organization's retirement plan and instituting changes for the exclusive interest of plan participants, an outstanding advisor also eases the burden of the plan sponsor and improves plan performance. S/he creates business benefits that are highly relevant to the CFO, namely containing labor cost and remedying the adverse effects of workforce aging, which can ultimately impact the organization's bottom line.

Retirement Plan Advisors help achieve these business results by helping:

(1) Curb workforce aging and associated liabilities

(2) Allocate benefits dollars to mitigate adverse employee self-selection

(3) Implement plan designs that ease more employees into successful retirement

WORKFORCE AGING, LABOR COST, AND PROFIT

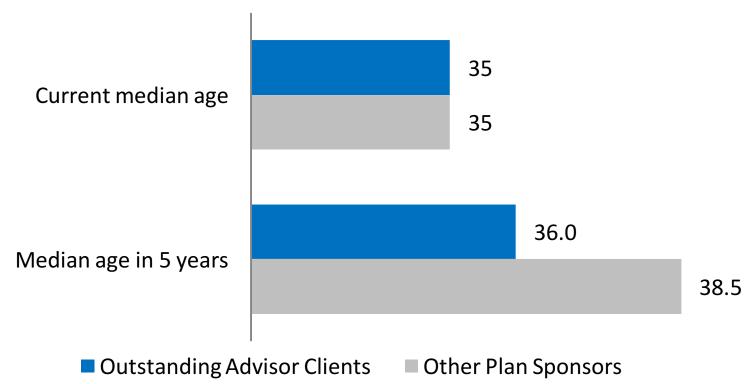
Outstanding advisors help their clients contain workforce aging, taking steps now to foster adequate retirement saving rates in the employee population.

Today, the median employee age at firms that partner with outstanding plan advisors and at other employers alike is age 35.

Five years from now, clients of outstanding advisors project that the median employee age at their firm will be age 36. Other plan sponsors project a median employee age of 38.5.

Setting employees on a path toward retirement success helps contain labor cost creep and helps enhance competitiveness.

Figure 1 - Median Age of Employees



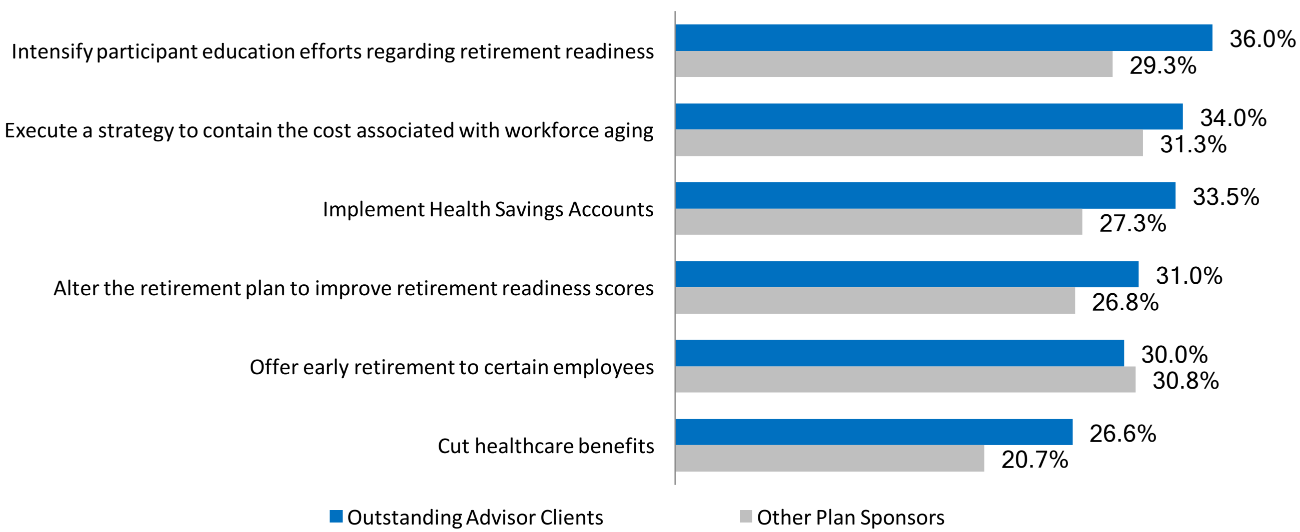
One way outstanding plan advisors help their clients achieve stronger business results is by encouraging plan committees to discuss the subject of workforce aging. More than three-quarters of plan sponsors who partner with an outstanding advisor have done so.

Going beyond a mere discussion of the issue, more than three-quarters of employers who partner with an outstanding plan advisor have precisely quantified the potential liabilities associated with workforce aging at their firm. Among other employers, fewer than three in five have done so. Employers who quantify the impact of workforce aging on the bottom line are in a better position to decide the steps that will help them contain labor cost and make a profit.

OUSTANDING ADVISORS SHIFT THE BENEFITS BUDGET AROUND

To contain workforce aging and its impact on labor cost, employers who partner with an outstanding plan advisor take a broad range of actions beyond intensifying participant education that promotes retirement readiness. Strategies involve implementing High Deductible Health Plans and Health Savings Accounts (HSAs), and altering the retirement plan design. By contrast, employers that do not partner with an outstanding advisor are more likely to resort to early retirement programs, perhaps because they are unwilling or unable to reform benefits popular among job applicants and senior employees.

Figure 2- Percent of Plan Sponsors Who Have Taken Steps to Address the Issue of Workforce Aging

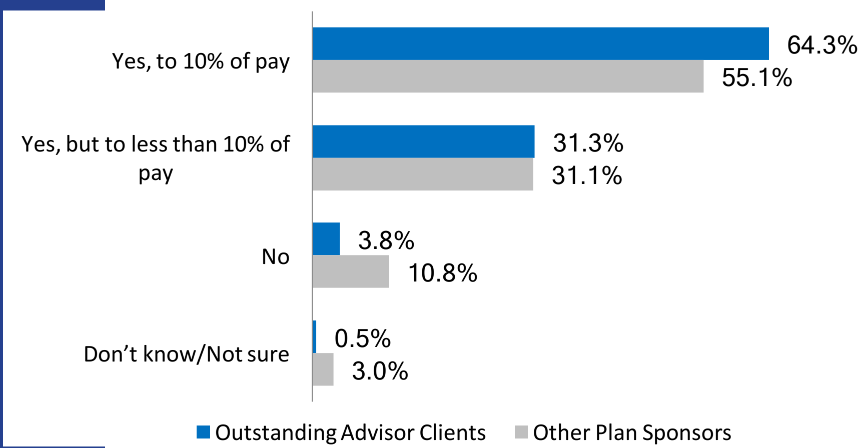


The simple step of reducing the portion of the employer benefits budget allocated to health benefits and increasing the dollar contribution to the retirement plan can alter the demographics of the employee population without employee termination. A lower allocation to healthcare (80% for instance) can bring about a change in the profile of applicants who self-select for open positions. Lowering the share of employee benefits dollars allocated to healthcare allows an employer to offer a retirement program that makes the firm shine in the segment of the labor pool with the most in-demand skillset. Employer and employee self-interests are better aligned.

In turn, higher senior management support enhances plan success and sustainability of the business. Clients of outstanding advisors are even more likely than others to have discussed the issue of workforce aging with their plan advisor (93% vs. 87%). This discussion could have taken place at a committee meeting or individually between the advisor and any member of the plan committee.

OUTSTANDING ADVISORS OPTIMIZE PLAN DESIGN

Figure 3- Percent of Plans Using Automatic Deferral Increases



Realizing the pitfall of workforce aging, outstanding advisors help set employees on a track to achieve retirement success by means of plan design changes.

One strategy is to implement automatic enrollment of new and existing employees at a contribution level likely to result in retirement success (e.g., combined employer and employee contribution in the range of 10% to 15% of salary).

Plan design can be more effective than any amount of participant counseling and education at changing participant behavior. Including the implementation of automatic enrollment at a high deferral rate and automatic annual deferral increases that push deferrals of salary consistently over 10% are two changes many employers consider.

Among employers who partner with an outstanding advisor, more than four in five have rolled out automatic enrollment to new AND existing employees. Among those who offer automatic enrollment, more than one in five enroll employees at 10% of salary, and more than 64% escalate employees to contribute 10% of pay. More than 35% have seen average employee contribution rates increase by 4% to 6% between 2015 and 2017.

BUSINESS BENEFITS AND PARTICIPANT INTEREST ALIGNED

CFOs have more than business benefits to gain from partnering with an outstanding retirement plan advisor. Our survey finds these employers:

- More confident with the investment array;
- More confident their plan complies with applicable rules, regulations, and stated policies;

- Finding it easy to administer their plan;
- Having a good handle on the fees their service provider and investment managers are charging;
- Confident that fees are reasonable.

Bottom line: Employers who partner with an outstanding advisor spend less time administering the plan and more time doing their job running the organization.

ABOUT THE STUDY

Questionnaire administered to 401 plan sponsors December 16 - 30, 2016. Respondents screened from among a panel of 2,037 plan sponsors.

- Private-sector employers (privately-held, exchange-traded, and not-for-profit);
- 100 employees or larger;
- 401(k), 403(b), profit sharing and money purchase plan sponsors;
- Plan assets in the $5 million to $500 million range;
- Head of the retirement plan committee or fiduciary named in the plan document.

Research conducted by EACH Enterprise LLC, an independent firm specializing in retirement plan research. EACH Enterprise's clients include retirement plan service providers and investment managers across markets, plan sizes, distribution channels, and asset classes.

ABOUT THE RETIREMENT ADVISOR COUNCIL

The Council advocates for successful qualified plan and participant retirement outcomes through the collaborative efforts of experienced, qualified Retirement Plan Advisors, investment firms and asset managers, and defined contribution plan service providers. The Council accomplishes this mission by its focus on:

- Identifying duties, responsibilities, and attributes of the Professional Retirement Plan Advisor;
- Sharing our professional standards with plan sponsors who are responsible for the success of their plans;
- Providing collective thought capital to decision makers, product providers, legislators, and the public;
- Giving voice to the Retirement Plan Advisor community; and
- Offering tools to evaluate Advisors, ensuring the quality of services needed for successful retirement outcomes.

The Council does not provide legal or tax advice, nor does it function as a retirement plan advisor. The decision to hire a retirement plan advisor is entirely at the discretion of a plan sponsor.

RETIREMENT
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