Plan Sponsors Ask...

Q: How do we improve participant engagement with our retirement plan?

A: Fostering retirement plan engagement is important, especially since it's a sure first step to helping create successful outcomes for participants.

According to Milliman, the key is integrating your participant education and communication program with your company's culture. Without regular, ongoing communication campaigns tailored to employees' personality and preferences (e.g., do they prefer email over paper communications, or vice versa?), employees may not understand the plan's benefits, how the plan works, or how much to save. Communications should also clearly explain the call to action — what the company wants participants to do.

Moreover, concise content that should address specific issues in appropriate language — DO play on participants' emotions in a proper way; DON'T use descriptive, over-the-top language or fear tactics. Be direct and, again, customize the language to reflect your workforce's culture. Emails that come from the plan sponsor rather than the provider are more likely to be read. One-on-one meetings are also an effective way to boost participant engagement because they offer an opportunity to ask questions and interact with plan experts.

One way to ensure consistency with your company's culture is to create an education policy statement that clearly outlines the frequency of communications, how they'll be distributed, what will be communicated and to whom, and where employees can go for more information.

Discover additional participant communication best practices at http://tinyurl.com/CommunicatingEffectively.

Q: How can we reduce our fiduciary risk when selecting Qualified Default Investment Alternatives (QDIAs)?

A: While the de facto options for most retirement plans are target date funds (TDFs) and risk-based funds, not all QDIAs are created equal. When evaluating funds and providers, watch out for red flags, such as unreasonably high fees or inappropriate glide paths.

Also, TDFs assume that all investors in one age group have similar needs. They don't account for differing risk tolerances, or participants who may end up retiring sooner or later than their projected retirement date due to health concerns, a lack of employment opportunities, or inadequate savings.

Risk-based funds claim to address some of these issues; however, most risk-based funds make inappropriate assumptions about participants' risk tolerance that actually prevent them from taking the proper amount of risk for their situation and time horizon, causing them to fall short of their accumulation goals.

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Avoiding fiduciary pitfalls through proper due diligence and careful research is critical when selecting any fund in your plan's investment lineup, not just QDIAs. Additionally, keeping detailed records of your rationale for choosing certain funds and educating participants about how the funds work, what they do and don't do, and the associated risks are all key to reducing your fiduciary exposure.

Learn more about reducing fiduciary risk when choosing QDIAs here: http://tinyurl.com/QDIARedFlags.

Q: We heard annuities might be offered in retirement plans in the near future. Why should we consider providing such an option in our plan?

A: Most plan sponsors and advisors seem to have an inherent bias against offering a deferred income annuity in their retirement plans. However, retirees' needs are changing, and, therefore, so must the options for taking distributions from their defined contribution plan upon retirement.

A new white paper from Principal Financial shows how in-plan deferred income annuities can help future retirees manage concerns such as interest rate and inflation risks, outliving their savings, and unpredictable market cycles. Deferred income annuities offer a balance between growth and guaranteed investments. Since retirees are likely to live longer, and many may have higher expenses, such as mortgages, credit card debt, and even student loans, these products are one way to help ensure retirees can turn their savings into income when they need it. Ultimately, the idea is to make guaranteed income easier to set up and access within a qualified retirement plan.

The Principal white paper also discusses risks related to making income last throughout retirement, and how an annuity can help address those risks better than other products available today. It also includes details on how plan fiduciaries can research the options and make prudent decisions.

Go to http://tinyurl.com/PrincipalPaper to read the entire Principal paper online.

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