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DEFINED CONTRIBUTION

Defined Contribution in Review

A Quarterly Briefing for Plan Sponsors: 3Q17

What’s Inside

Our **Defined Contribution in Review** is designed to help CEOs, CFOs, Treasurers, Human Resource and Benefits Professionals and Investment Committees stay abreast of recent events that could have an impact on plans or plan participants. Inside you will find the following information:

Quarterly Highlights: A summary of plans and sponsors making the news

Participants’ Corner: Timely insights about the retirement readiness of plan participants

Legislative Review: A summary of new and pending legislation

Regulatory Review: News from the Department of Labor and other regulatory bodies

Legal Review: An update on high-profile ERISA cases

Global Headlines: A brief synopsis regarding global retirement issues

We hope you will find the information helpful and we are happy to answer any questions you may have.

Quarterly
Highlights

Quarterly Highlights

Aon Drops Company Stock Fund from its 401(k)

- Aon plc is terminating the company stock fund as an investment option in its $5.3B 401(k) plan
- According to an SEC filing, the Aon Stock Fund will be liquidated and removed from the plan by December 2017; employees who have contributed to the Fund, which held $238.3M in assets as of the end of 2016, will need to select a different investment option
- The company eliminated the option "to encourage greater diversification of retirement savings," according to a company spokesperson

Quarterly Highlights

University of California 403(b) Plan Adds Two CITs

+ The University of California announced that it is replacing two institutionally priced mutual funds with collective investment trusts (CITs); the managers will be retained, but by moving to a CIT structure, fees will be reduced from 66 basis points to 43 basis points for domestic equity and from 92 basis points to 58 basis points for international equity
+ Having obtained a private-letter ruling from the IRS, the university may be the first non-church 403(b) plan to offer CITs
+ Additionally, the university is removing the plan's $1.6B balanced option and, unless participants elect otherwise, assets will be automatically mapped into the plan's target-date investment series

Quarterly Highlights

CITs Added to the New York State Deferred Compensation Plan

- The New York State Deferred Compensation Plan announced investment changes to its $19.4B plan that services 218,516 participants
- The plan's institutionally-priced target-date mutual fund series, with expenses ranging between 43 and 60 basis points, will be replaced with a CIT structure reducing fees to an average of approximately 38 basis points
- Also, the plan is folding three large-cap core equity options (two active and one passive) into an S&P 500® Index using a CIT structure
- CITs were also added to the fixed income, large-cap value and small- and mid-cap asset classes

Quarterly Highlights

Small Employer Finds Success with Plan Design and On-Site Guidance

+ Norman S. Wright Mechanical Equipment, a Phoenix-based company that represents air-conditioning manufacturers in their dealings with contractors, has 65 employees across Arizona, Texas and New Mexico
+ The company boasts a higher than 80% participation rate, in part, due to the company match of 50% of the first $3,000 a worker contributes, up to $1,500 annually
+ About two dozen mutual funds are available, including several target-date portfolios, and a local Certified Financial Planner is available to provide guidance for employees that need assistance
+ Employees may take only one loan at a time and can only borrow against their contributions, not company-matching funds

Quarterly Highlights

Pensions & Investments Announces its 2017 Eddy Award Winners

+ The Eddy Awards were created to identify and reward the best practices in providing investment education to defined contribution participants
+ 53 DC plan education programs were honored
+ Additional information about the Eddy Awards can be found at www.pionline.com/article/20170320/ONLINE/170329987/pampi-announces-2017-eddy-award-recipients

Quarterly Highlights

2017 Eddy Award Winners: Retirement Readiness

	Corporate: 5,000+ Employees	Public: 5,000+ Employees
1st Place	Nestlé USA	Municipal Employees' Retirement System of Michigan
2nd Place	Hilton Worldwide Holdings	

Quarterly Highlights

2017 Eddy Award Winners: Automatic Re-Enrollment

1st Place	2nd Place
Bank of New York Mellon	Sheet Metal Workers' Local No. 2

Quarterly Highlights

2017 Eddy Award Winners: Plan Transitions

	Corporate: 5,000+ Employees
1st Place	UPS 401(k) Savings Plan
2nd Place	MacAllister/ Michigan CAT
3rd Place	United Airlines

Quarterly Highlights

2017 Eddy Award Winners: Conversions/403(b) Consolidations

	Corporate: 5,000+ Employees	Corporate: 1,000-5,000 Employees	Not For Profit: 5,000+ Employees	Public: 5,000+ Employees	Union
1st Place	Safelite Group	Domtar	Washington University, St. Louis	District of Columbia	Board of Trustees of the IATSE Annuity Fund
2nd Place	Hendrick Automotive Group		West Virginia University Hospitals/University Health Associates	Minnesota State Retirement System	IBEW Local 1141
3rd Place	Solvay SA		University of Southern California		

Quarterly Highlights

2017 Eddy Award Winners: Ongoing Investment Education

	Corporate: 5,000+ Employees	Corporate: Fewer than 1,000 Employees	Not For Profit: 5,000+ Employees	Not For Profit: 1,000-5,000 Employees	Public: 5,000+ Employees	Union: 5,000+ Employees
1st Place	Four Seasons Hotels and Resorts	The Beck Group	California Institute of Technology	St. Jude Children's Research Hospital	Maryland Supplemental Retirement Plans	California Teachers Association
2nd Place					California State Teachers' Retirement System	
3rd Place					Municipal Employees' Retirement System of Michigan	

Quarterly Highlights

2017 Eddy Award Winners: Special Projects

	Corporate: 5,000+ Employees	Corporate: 1,000-5,000 Employees	Not For Profit: 5,000+ Employees	Public: 5,000+ Employees	Public: 1,000 to 5,000 Employees	Union: 1,000 to 5,000 Employees
1st Place	MGM Resorts International	BMC Software	University of California California Institute of Technology	Texa$aver 401(k)/457 Program	Kern County	Iron Workers of Pennsylvania
2nd Place	SkyWest Airlines	Movement Mortgage	Legacy Health Hennepin Healthcare System	Missouri State Employees' Retirement System Municipal Employees' Retirement System of Michigan		
3rd Place	Southeastern Freight Lines	Evening Post Industries	McLaren Health Care	Texa$aver 401(k)/457 Program		

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Participants' Corner

Participants' Corner

Middle-Income Women Struggling to Save for Retirement

+ A new study by MassMutual found that 44% of women with household incomes between $35,000 and $150,000 indicated that saving for retirement is not economically feasible, compared to 14% of men
+ The *2017 MassMutual Middle America Men & Women Finances Study* also found that 51% of women say they worry at least once a week about money, compared to 45% of men, and only 20% of women have an emergency fund of $10,000 or more, compared to 30% of men
+ The study suggests that employers can make a difference in how financially secure their employees feel, not only by offering a broad menu of health and welfare benefits, but by offering education programs to help workers make better financial decisions

Participants’ Corner

ACLI: 65% of U.S. Households on Track, or Nearly on Track, to be Financially Secure

+ According to the American Council of Life Insurers’ latest assessment of American financial and retirement security, 45% of U.S. households are on track and 20% need to take some modest actions to be on track
+ Additional findings include:
  - Households that consistently protect against risk are most likely to be financially secure – 80% of secure households have life insurance and 73% have disability insurance
  - Employees with access to employer-sponsored workplace retirement savings accounts are more likely to save for retirement; when employers offer auto enrollment, there is a one-third increase in annual median employee contributions
  - Level of education does not determine financial security – one in six financially secure households did not pursue education beyond high school
  - Income alone does not determine financial security – 25% of the most financially secure households earn less than $50,000

Participants' Corner

Bank of America Merrill Lynch: Employee Engagement On the Rise

+ The Bank of America Merrill Lynch *2017 Plan Wellness Scorecard* found that employees are taking a more active role preparing for retirement, using their employer's 401(k) offering. The scorecard found:
  - Employee engagement sees double-digit growth
  - Employers are using plan design to support a culture of wellness
  - Digital and mobile technology are increasingly important resources for managing 401(k) accounts
  - Employees are increasing their use of Roth 401(k) accounts
  - Health Savings Accounts are also seeing a significant increase in participation

Participants' Corner

Callan Offers Plan Sponsors Eight Tips for Avoiding Fiduciary Traps

+ Callan's eight tips include:
  - Stale IPS: According to Callan, only 60% of plan sponsors have reviewed their IPS in the last 12 months, and fewer than half (45%) have reviewed AND updated their IPS
  - Sloppy Documentation: Review all plan documentation including investment structure, suitability of the QDIA, performance monitoring, fee calculation and benchmarking and other vendor decisions such as managed account and advice providers
  - Fiduciary Training: Only 37% of plan sponsors list formal fiduciary training as one of the top five measures taken in 2016; formal fiduciary training should be part of the investment committee agenda and cover best practices, regulations, litigation and DC trends

Participants' Corner

Employer Perspectives About Delayed Retirement Revealed

+ The Transamerica Center for Retirement Studies released its *17th Annual Retirement Survey*, collecting responses from more than 1,800 employers of for-profit companies. The survey asked employers about their views on their employees' future retirement. Among the key findings:
    - The majority of employers believe their employees expect to work past age 65
    - Most employers feel that employees plan to work in retirement
    - Approximately 80% of employers say they support employees working past age 65
+ Despite employers' recognition that many of their employees envision a flexible or phased transition into retirement, few have programs in place to support them:
    - Only 39% have flexible schedules
    - 31% enable employees to shift from full-time to part-time
    - 24% encourage employees to take on positions that are less stressful or demanding

Participants' Corner

US SIF Creates Resource Guide for Adding SRI Options to Defined Contribution Plans

+ The US SIF Foundation, a 501(c)3 organization and leading voice of advancing sustainable, responsible and impact investing, has created a resource guide, *Adding Sustainable and Responsible Investing Options to Defined Contribution Plans,* for plan sponsors
+ The resource guide offers a five-step approach to adding a socially responsible investment (SRI) option:
  - Increase knowledge of SRI and related performance and fiduciary questions
  - Gauge participants' interest in adding an SRI option
  - Discuss implementation with consultant and/or plan administrator
  - Choose a fund or funds (and monitor performance)
  - Educate participants
+ The guide also contains a list of resources including SRI educational sources, SRI mutual funds, SRI and fiduciary standards and a sampling of SRI indices

Participants' Corner

Auto-Enrollment Default Rates Increase Among 403(b) Plans

+ According to the ninth annual Plan Sponsor Council of America benchmarking survey of 403(b) plans, the percentage of plans with a default deferral rate of more than 3% increased from 21.6% to 34%
+ The survey also found:
  - The usage of automatic enrollment in 403(b) continues to slowly increase and is now used in 21% of plans (up from 19% in 2016 and 16.2% in 2014)
  - More than half (52%) of plans that use automatic enrollment also use auto-escalation, up from 43% in 2015
  - Organizations are shifting from using money market funds (down to 9.8% of plans) to target-date funds (up to 65.8% of plans) as the default investment option for participants that enroll in the plan and don't choose an option

Participants' Corner

Study Finds DC Fees Leveling Off

+ NEPC's annual defined contribution and fee survey found that recordkeeping, trust and custody fees remained flat over the past year, the first time fees haven't declined since 2010
+ According to the survey, the average administrative fee per participant was $59, up from $57 in 2016, while the asset-weighted expense ratio fell to 0.41% from 0.42%
+ The survey also found that:
  - 77% of plans use some form of revenue sharing, however, smaller plans are beginning to eliminate revenue sharing altogether
  - Only 5% of plans have excess revenue retained by the record-keeper, while 73% use it to offset fees, and another 33% return it to participants

Participants' Corner

SHRM Survey: More Employers Increasing, Rather Than Decreasing, Benefits

+ The Society for Human Resources Management (SHRM) released its *2017 Employee Benefits* survey of more than 3,200 HR professionals and their company's benefit packages. Among the key findings:
  - Nearly one-third of organizations increased their overall benefits offerings in the last 12 months, with health (22%) and wellness (24%) benefits being the most likely ones to experience growth; meanwhile, only 6% of organizations had decreased benefits overall
  - The top reason for increasing benefits was to remain competitive in the talent marketplace; 68% were experiencing recruiting difficulty and skills shortages for certain types of jobs in 2016
  - Of the organizations that decreased benefits, the top reasons were to remain financially stable or as a result of a merger or acquisition

Legislative
Review

Legislative Review

Bill Introduced to Kill DOL Fiduciary Rule

+ Rep. Ann Wagner (R-Mo.) has introduced a bill that would effectively repeal the Department of Labor's new fiduciary regulations
+ The bill introduces a different best interest standard that would require full disclosure of compensation and any conflicts of interest by amending the Securities Exchange Act of 1934

Legislative Review

Treasury Department to End myRA Program

- The Treasury Department has announced that it will end its myRA program due to low demand and high costs
  - After three years, 30,000 people have opened a myRA and, of those, only 20,000 have saved money in the account
  - The program has cost $70M since inception and was expected to cost $10M annually
- Participants will be able to transfer their myRA balance into a Roth IRA

Legislative Review

Vermont to Introduce a Multi-Employer Plan (MEP)

+ Legislation has been enacted in Vermont that creates a voluntary retirement program for businesses with 50 or fewer employees
+ The Green Mountain Secure Retirement Plan will be a MEP that automatically enrolls employees while giving them the choice to opt out
+ The plan will be funded by employee contributions, with an option for future voluntary employer contributions
+ Implementation is expected on or before January 15, 2019

Legislative Review

States Looking Closely at Fee Disclosures in 403(b) Plans

- Connecticut recently enacted legislation that would require fee disclosures for non-ERISA 403(b) plans; the requirements are similar to ERISA plans and become effective January 1, 2019
- A similar bill was introduced in New Jersey

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Regulatory
Review

Regulatory Review

Reminder: Third Quarter Compliance Calendar

October	December	December 31
+ October 15: Deadline for adopting a retroactive amendment to correct an IRC Section 401(a)(4) nondiscrimination failure for 2016 + October 16: Extended deadline for filing form 5500	+ December 1: Deadline for sending annual 401(k) and (m) safe harbor notice, annual QDIA notice and annual automatic contribution notice + December 15: Extended deadline for distributing SAR to participants	+ Deadline for processing corrective distributions for failed 2016 ADP/ACP test with 10% excise tax + Deadline for amendment to convert existing 401(k) plan to safe harbor design or remove safe harbor status for next plan year + Deadline for amending plan for discretionary changes implemented during plan year + RMDs due

Regulatory Review

DOL Delays Full Requirements of the Fiduciary Rule

- The Department of Labor (DOL) has announced that the full requirements of the fiduciary rule that were scheduled to go into effect January 1, 2018, have been pushed back to July 1, 2019
  - Certain parts of the fiduciary rule remain effective, including the best interest standard, no misleading statements and reasonable compensation requirements
- Separately, the DOL also released Frequently Asked Questions (FAQs) to provide additional guidance to service providers regarding the coordination of the Fiduciary Rule with 408(b)2 disclosures
- The FAQs also provide examples of communications that are not considered investment advice such as:
  - A targeted email or phone call recommending that a participant increase deferrals
  - A brochure that recommends individuals save 15% per year
  - A discussion with a plan sponsor recommending the adoption of automatic enrollment at a specific percentage

Regulatory Review

IRS Provides Relief to Hurricane Victims

+ The IRS has issued special rules for taxpayers impacted by Hurricanes Harvey or Irma allowing loan and hardship distributions to be taken before plan documents are formally amended to permit them
  - Plan documents must by amended no later than the last day of the 2018 plan year
+ Further, plan administrators must only make good-faith efforts to comply with the standard plan requirements for supporting documentation for hardship distributions and loans; however, the plan must make a reasonable attempt to assemble the required documentation as soon as possible
+ Finally, distributions may be made for reasons other than those listed in existing regulation, such as for food and shelter, and the six-month suspension of deferrals does not apply in these situations

Regulatory Review

Changes Made to Pre-Approved Qualified Plans

+ On June 30, 2017, the IRS issued Revenue Procedure 2017-41 which makes significant changes to the IRS opinion letter program for preapproved plans. On the same day, the IRS issued the 2017 Cumulative List, which outlines the necessary changes that must be made for pre-approved plan submissions during the third six-year remedial amendment cycle
  - The third cycle begins October 2, 2017, and ends on October 1, 2018
+ The changes to the program increases the types of plans eligible for preapproved status, affords greater flexibility in the design of preapproved plans and eliminates the distinction between master and prototype and volume submitter plans
  - The new opinion letter program involves two types of plans: standardized and non-standardized preapproved plans

Regulatory Review

IRS Offers Tips to 403(b) Sponsors

+ In August 2017, the IRS revised Publication 4483 which lists commonly found 403(b) mistakes
+ Some of the mistakes highlighted include:
  - Not having a written plan document
  - Failing to follow the universal availability rules
  - Miscalculating the 15-years-of-service catch up contribution amounts
  - Mishandling of post-severance contributions

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Legal
Review

Legal Review

Tibble 401(k) Case Reaches Conclusion

+ On August 16, 2017, the U.S. District Court in Los Angeles, California, accepted the parties' agreement to damages of $7.52M from 2001 to January 31, 2011, for 17 mutual funds that the plaintiffs argued should have been institutionally priced rather than retail priced
+ On September 5, 2017, the parties filed a joint stipulation with the court, setting aside additional damages of $5.64M, which covers the period from February 1, 2011, through July 31, 2017

Legal Review

Three More Excessive Fee Cases Filed

+ In *Larson v. Allina Health System*, the plaintiffs allege that the fiduciary defendants “did not try to reduce the Plans’ expenses or exercise appropriate judgement to scrutinize each investment option that was offered in the Plans to ensure it was prudent.” This case involved Allina’s 401(k) and 403(b), which have nearly $2.3B in assets and 47,500 participants
+ Pioneer Natural Resources USA Inc., with plan assets exceeding $500M, is accused of causing participants to pay excessive fees by failing to offer available, low-cost share classes of mutual funds as plan investment options
+ Gucci America Inc. is accused of allowing its plan record-keeper to fill the investment lineup with expensive, proprietary funds and the company failed to rein in the revenue sharing that the record-keeper received from the $96.5M plan

Legal Review

One Higher Ed Lawsuit Moves Forward, Another Filed

+ A federal judge will allow claims against New York University's retirement plans alleging excessive recordkeeping fees and poorly performing actively managed mutual funds to move forward
    - The judge, however, dismissed claims regarding too many investment options and expensive mutual fund share classes when identical institutional share classes were available at a lower cost
+ A class-action lawsuit has been filed against Brown University alleging that its two retirement plans contained high-cost, poorly performing investment options, causing participants millions of dollars in losses

Legal Review

Three Victories in Stock Drop Cases

+ Arch Coal Inc. defeated a lawsuit by employees accusing it of failing to divest their 401(k) plan of the company's stock during a three-year period when its value declined from $680 to $1.42 per share
+ The U.S. District Court in Minnesota held that participants didn't sufficiently allege any alternative action that Target Corp. could have taken that would have been consistent with the securities laws and that a prudent fiduciary wouldn't have viewed as more likely to harm the stock fund than help it
+ A motion to dismiss was granted against Reliance Trust Company by the U.S. Court of Appeals for the Tenth Circuit for a lawsuit involving retirement plan participant losses incurred after SandRidge Energy Company filed for bankruptcy in 2016

Legal Review

Court Rules on IRA Exemption Post-Petition

+ When a bankruptcy petition is filed, an “estate” is created that holds all of the debtor’s property; a debtor would then submit a list of exempt assets such as an IRA and, in some states, a residence and insurance policies
  - Parties have an opportunity to file objections to those exemptions; after that time ends, the exempted property reverts back to the debtor
  - Technically, until the exemptions are finalized, the property belongs to the estate, and the debtor has no right to use it
+ In this case, the debtor withdrew his Roth IRA immediately after filing a bankruptcy petition; the trustee claimed the debtor destroyed the exemption since the IRAs belonged to the estate and had no right to the funds
+ The courts ruled in favor of the debtor, finding that the withdrawal of the IRAs resulted in no harm to the estate

Global
Headlines

Global Headlines

Defined Contribution Plans Introduced In Germany

+ The German parliament recently approved a reform of the country's pension system allowing employers to provide pure defined contribution (DC) plans beginning in 2018
+ Only employers that have signed a collective labor contract will be able to offer these arrangements
+ Employees will be automatically enrolled in the plans, with contributions and other terms negotiated among employers, employees and unions; employees will have an opt-out provision

Global Headlines

Target-Date Funds Catching on in South Korea, UK

+ According to fund researcher KG Zeroin, 37 target-date fund products in South Korea with a net asset value of 1B won or more have a combined 378.7B won under management, more than seven times larger than the amount at the end of last year
+ Separately, the UK's pension freedom legislation that allows individuals to take a portion of their money in a tax-free lump sum has also contributed to the rising popularity of target-date funds
  - According to Spence Johnson, owned by Broadridge Financial Services, the total UK target-date fund markets stood at £3.2B in 2016, up from £1.9B in 2014, and estimates that the market will grow to £102B by 2025

Global Headlines

Aegon: Gap Between Retirement Expectations and Reality “Stark”

+ A survey conducted by Aegon of 14,400 workers and 1,600 retired people in Australia, Brazil, Canada, China, France, Germany, Hungary, India, Japan, the Netherlands, Poland, Spain, Turkey, the UK and the U.S. found that only 14% of workers have a written retirement plan and only one-in-three workers have a backup plan in the event they become unable to continue working before reaching their planned retirement age
+ According to the Aegon Retirement Readiness Index, the global score is 5.92; scores of 8 or higher are considered to have high retirement readiness, scores of 6 to 7.9 are considered medium retirement readiness and scores of less than 6 are considered low

Global Headlines

Corporations Continue to Freeze Defined Benefit Plans

+ A number of companies in the UK have recently announced plans to freeze their Defined Benefit plans including British Airways, BMW and GKN plc
+ Meanwhile, the trends continue in the United States as UPS, General Mills and L.L. Bean have made similar announcements

Defined Contribution

Capabilities

Janus Henderson

Defined Contribution Capabilities

- 45+ years of industry experience
- Retirement excellence and leadership
- Three highly specialized investment managers: Janus Henderson, Intech and Perkins
- Experience in:
  - Fiduciary responsibility
  - Industry trends
  - Legislative and regulatory updates

- $25.8 billion in DC Assets Under Management as of 6/30/17
- Products utilized by the top 25 DC record-keepers in the industry
- Availability on over 200 recordkeeping platforms

Janus Capital Management LLC, Intech Investment Management LLC and Perkins Investment Management LLC are subsidiaries of Janus Henderson Group plc and serve as sub-advisers on certain products.

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Continuing Education

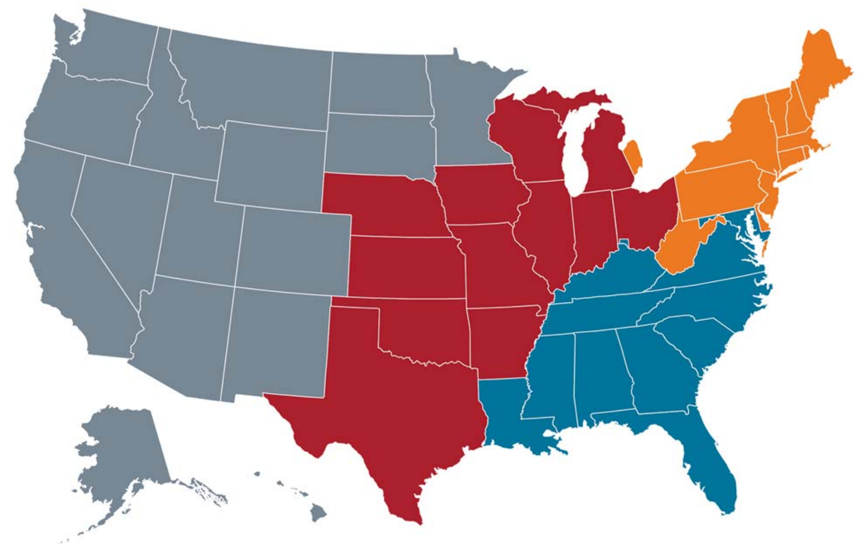
- Janus Henderson offers accredited continuing education seminars for financial advisors, CPAs, human resources professionals and other retirement and financial industry participants
- Each seminar qualifies for one credit hour of continuing education (CE) credit
- Live, in-person, on-demand and webcast options available
- Available for CFP®, CIMA®, CPWA®, CRPC®, CRPS®, CRC®, AIF®, CPA, HR and CEBS designations

Janus Henderson

Additional Support

Experience in:

- Fiduciary Responsibility
- Wealth Management
- Industry Trends
- Legislative and Regulatory Updates



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Matt Sommer is Vice President and leads the Defined Contribution and Wealth Advisor Services team at Janus Henderson. In this role, he provides advice and consultation to financial advisors surrounding some of today's most complex retirement issues. His expertise covers a number of areas including regulatory and legislative trends, practitioner best practices, and financial and retirement planning strategies for high-net-worth clients.

Prior to joining Janus Henderson, Mr. Sommer spent 17 years at Morgan Stanley and its predecessors, where he held a number of senior management positions including Director of Financial Planning at Citi Global Wealth Management and Director of Retirement Planning at Smith Barney.

Mr. Sommer received his undergraduate degree in finance from the University of Rhode Island and received an MBA with a specialization in finance from the Lubin School of Business at Pace University. Mr. Sommer currently serves on the CPWA® examination task force, is an adjunct professor at the College for Financial Planning of CFP and CRPS programs, and teaches graduate level advanced finance classes. He is also a Ph.D. candidate at Kansas State University.

For more information, please contact your
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A retirement account should be considered a long-term investment. Retirement accounts generally have expenses and account fees, which may impact the value of the account. Non-qualified withdrawals may be subject to taxes and penalties. For more detailed information about taxes, consult a tax attorney or accountant for advice.

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