



DEFINED CONTRIBUTION

Defined Contribution in Review

A Quarterly Briefing for Plan Sponsors: 2Q18

What's Inside?

Our **Defined Contribution in Review** is designed to help institutional plan sponsors and consultants stay informed on 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

Plan Sponsors' Corner: Timely insights about plan sponsors' retirement readiness

Legislative Review: A summary of new and pending legislation

Regulatory Review: News out of 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

Defined Contribution Capabilities: Janus Henderson defined contribution capabilities

| Quarterly Highlights

Quarterly Highlights

PLANSPONSOR Announces 2018 Best-in-Class 401(k) Plans*

Allianz Asset

The Boeing Company

Brunswick

Delta Airlines

Farm Credit Foundations

Ford Motor Company

Halliburton

Lexmark

Sony USA

Swiss Re Group

United Launch Alliance

William Blair

**Plan sponsors <\$500M in total plan assets have been included on the list.
For additional information, please visit plansponsor.com/awards*

Defined Contribution in Review 2Q18

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Quarterly Highlights

Methodology Used by *PLANSPONSOR* for Selecting Best-in-Class Plans

- + Recipients of the 2018 Best-in-Class 401(k) Plan designation were selected from the 3,018 401(k) plans that responded to the 2017 PLANSPONSOR Defined Contribution (DC) Survey
- + Plans were rated using a proprietary system that weighted usage/implementation of 35 criteria related to plan design, oversight/governance and participant outcomes
 - Examples of evaluation criteria include employee participation and deferral rates, level of employer contributions, eligibility/vesting requirements, existence of an investment committee and having an investment policy statement (IPS)

Quarterly Highlights

PLANSPONSOR Best-in-Class: Plan Measures & Investment Choices

Plan Measures

	Best-in-Class Plans	All Other 401(k) Plans	Percentage Difference
Participation rate	95%	80%	+19%
Avg. deferral rate	9%	7%	+36%
Retirement confidence	21%	16%	+32%

Investment Choices

	Best-in-Class Plans	All Other 401(k) Plans	Percentage Difference
Roth provision	87%	71%	+23%
Index funds	95%	88%	+8%
Managed Account	56%	32%	+72%

Quarterly Highlights

PLANSPONSOR Best-in-Class: Plan Design

	Best-in-Class Plans	All Other 401(k) Plans	Percentage Difference
Eligibility within 3 months	95%	60%	+60%
Auto-enrollment	99%	41%	+144%
Auto-escalation	100%	35%	+189%
Default deferral rate >3%	79%	41%	+92%
Re-enrollment	39%	21%	+85%
Loan payment post-separation	66%	22%	+194%

Quarterly Highlights

*PLANS*SPONSOR Best-in-Class: Employer Contributions & Oversight Practices

Employer Contributions

	Best-in-Class Plans	All Other 401(k) Plans	Percentage Difference
Effective match >3%	79%	53%	+49%
Match vested within 2 years	76%	44%	+71%
True-up match contributions	77%	43%	+80%

Oversight Practices

	Best-in-Class Plans	All Other 401(k) Plans	Percentage Difference
Investment committee	100%	74%	+35%
Investment policy statement	100%	77%	+30%
Fee equalization	77%	52%	+48%

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Quarterly Highlights

*PLANS*SPONSOR Best-in-Class: Financial Education Offered

	Best-in-Class Plans	All Other 401(k) Plans	Percentage Difference
Saving and budgeting	74%	39%	+88%
Investment basics/strategies	68%	32%	+111%
Credit/debt management	53%	17%	+219%
College savings	39%	15%	+154%
Home buying	19%	9%	+112%
No financial education	8%	48%	-83%

Quarterly Highlights

Hearst Corporation Partners with Morningstar to Create Target-Date Solution

- + Officials at the Hearst Corporation conducted an extensive analysis of 20 active and passive target-date funds and found that none had outperformed the three Morningstar indexes that were used as a benchmark
- + The company approached Morningstar who agreed to make the indices investable and the target-date series was launched in July 2015
- + The company estimates that over 35 years the average participant cost savings realized from a reduction in the target-date fund's expense ratio would be at least \$200,000

Quarterly Highlights

Abbott Laboratories Offers Unique Solution to Help Employees with Student Loan Debt

- + A new benefit program has been introduced at Abbott Laboratories that provides a 5% employer contribution into the company 401(k) for any U.S. – based employee who puts at least 2% of their salary towards student loan payments
- + According to company officials, only about a third of millennials are currently contributing to the 401(k) plan, compared with 90% of the workforce overall
- + Research conducted by the Society for Human Resources Management found that more than 100 companies put some money toward employees' student loans, however, the money in these cases is treated as taxable income

| Plan Sponsors' Corner

Plan Sponsors' Corner

EBRI: Workers More Confident, Retirees Less Confident

- + The *2018 Retirement Confidence Survey* conducted by the Employee Benefit Research Institute (EBRI) found that since 2017, worker confidence increased while retiree confidence decreased
- + The survey suggests that increase in worker confidence may be due to workplace DC retirement plans
 - More than four out of five with a DC plan report being very or somewhat satisfied with the plan and eight in ten workers expect that these plans will be a major source of income in retirement
- + Conversely, retiree confidence has shown signs of decline, and this drop may be due to their ability to afford rising medical and long-term care expenses
 - More than four in 10 retirees report that their health care costs are higher than expected and another one in four say long-term care costs are higher

Plan Sponsors' Corner

New Report Rebuffs U.S. Census Findings on Retirement Coverage

- + A new report by the Investment Company Institute (ICI), *Who Participates in Retirement Plans, 2014*, found that 63% of workers age 26 to 64 in 2014 participated in a retirement plan or had a spouse who participated, and that retirement plan participation has held steady since 2008
- + These findings are in contrast to the U.S. Census Bureau's Current Population Survey which found a sharp participation rate beginning in 2014, the year in which a new questionnaire was used to collect data
 - From 2008 to 2013, the U.S. Census participation rate was 5% lower compared to IRS data, and 12% lower from 2014 to 2016
- + Additionally, the ICI report found that retirement plan participation increases with age and income

Plan Sponsors' Corner

Prudential Study Offers Insights into Financial Wellness Programs

- + A new study by Prudential, *The Benefits and Beyond: Employer Perspectives of Financial Wellness*, found that 79% of employers believe that it is advantageous to have a workforce that is financially secure and 76% believe that it is important to ensure employees are educated on key trends of financial wellness
- + The most common financial wellness programs currently offered are:
 - Digital portal through which all tools and content can be accessed (67%)
 - Tools and calculators to help employees gauge their financial wellness (66%)
 - Retiree planning (62%)
 - Access to financial advice and/or advisors (60%)
- + Metrics commonly used to measure effectiveness are increased employee satisfaction (49%), increased productivity (41%) and increased retirement participation (40%)

Plan Sponsors' Corner

Follow-Up is the Key to Effective Financial Education Programs

- + A new report, *Assessing the Impact of Financial Education Programs: A Quantitative Model*, issued by the Pension Research Council at The Wharton School at the University of Pennsylvania concludes that programs which follow up with participants or that are offered continuously are most effective
- + Programs with these characteristics delivered to employees around the age of 40 will optimally enhance savings close to 10% at retirement
- + By contrast, programs that provide one-time education generate short-term but few long-term effects

Plan Sponsors' Corner

Gender and Age Impacts Retirement Savings Behaviors

- + According to the *Consumer Financial Literacy Survey* by the National Foundation for Credit Counseling, millennials and Gen Xers are doing better at saving more than last year compared to older adults
- + At the same time, fewer women than men appear to be saving (35% do not have any non-retirement savings). In addition, women are more likely to be saving less than last year (21% versus 16%), including one in 10 who are saving significantly less
- + The most commonly identified finance-related fear among survey respondents was retiring with inadequate savings

Plan Sponsors' Corner

Female Millennials Have 34% Less Saved Than Male Counterparts

- + According to *PNC Investment's Millennials & Investing Survey*, female millennials are well behind their male counterparts regarding several aspects of personal finances. For example:
 - Females have saved an average of \$66,700 for retirement, less than the \$101,500 males have saved
 - Only 46% of females save 6% or more annually, compared to 57% of males
 - Twice as many males say they embrace risk
 - Males are more likely to rely on themselves and the knowledge they attain through media and Internet sources
- + Interestingly, only 43% of males and 32% of females feel that they are in control of their financial well-being

Plan Sponsors' Corner

New Survey Highlights Investing Attitudes of Asian Americans

- + MassMutual has released a new survey of the investment preferences and philosophies of Asian Americans approaching retirement as well as retirees. Among the key findings:
 - Asian Americans are more vigilant investors compared to Americans overall, as making a poor investment decision (67% vs. 54%) and taking on too much risk (69% vs. 44%) are more concerning
 - Asian Americans are less likely to work with an advisor – over one in three Americans are not currently working with an advisor (35%) compared to nearly seven in 10 Asian Americans (69%)
 - Fewer Asian Americans are confident projecting how many years they will spend in retirement and therefore are not planning to meet those needs. Over half of Asian Americans (53%) are uncertain about the length of their retirement compared to over one-third of Americans (36%)

Plan Sponsors' Corner

Empower Retirement Identifies Plan Features that Drive Success

- + In a new whitepaper, *Scoring the Progress of Retirement Savers*, Empower Retirement analyzed data from a survey of 4,000 working adults under age 64 to determine which plan features result in improved retirement confidence and preparedness
- + Based on the results, suggestions for employers include:
 - Clearly articulate the match: 56% of employees with a plan that offers a match contribute, however, 73% of employees who are aware of the match take full advantage of the feature
 - Offer advice: Those who have a paid advisor have a median retirement progress score of 91% compared to only 58% for those without an advisor
 - Adopt auto features: Features such as auto-enrollment and auto-escalation drive higher retirement progress scores

Plan Sponsors' Corner

Mercer Issues New Report on Target-Date Trends

- + In a new report, *Target-Date Funds Highlights and Trends*, Mercer professionals review over 50 target-date fund strategies during 2017. Among the key findings:
 - Total target-date fund providers assets increased from \$1.3T in 2016 to \$1.7T in 2017
 - The largest provider has a 36% market share and almost 2.5 times its nearest competitor
 - In general, target-date funds have a strong home (U.S.) equity bias
 - Fee compression continues
- + Plan sponsors are reminded that “the fact that so many participants simply default into TDFs does increase the importance of the plan sponsor’s selection of the TDF provider”

Plan Sponsors' Corner

Study Highlights Advantages of Managed Accounts

- + According to Alight Solutions, over the 10-year period from 2007 to 2017, consistent managed account users earned higher returns, net of fees, than consistent target-date and self-directed users
 - In the last years, the analysis found that managed account users achieved superior returns in five years, target-date users in two years and self-directed users in three years
- + The study also found that managed account users more consistently made greater contributions to the plan (8.5%) compared to target-date users (6.1%)
- + Alight found that more than half of workers who used a target-date fund also had a portion of their balance invested in other funds – only 11% of those surveyed knew that TDFs were designed so workers need to invest in only one fund instead of several funds

| Legislative Review

Legislative Review

Industry Urges Lawmakers to Move Forward on Key Legislation

- + In May 2018, industry professionals testified before the House Subcommittee on Health, Employment, Labor and Pensions recommending Congress move forward on proposed retirement plan legislation
- + The bills discussed included:
 - Increasing Access to a Secure Retirement Act of 2017 – clarify safe harbor rules when selecting an annuity provider
 - Retirement Plan Modernization Act – increase the cash out limit from \$5,000 to \$7,600 and defray some of the administration costs for small employers
 - Retirement Security for American Workers Act – eliminate the “common nexus” requirement and “one bad apple” rule for multiple employer pensions (MEPs)
 - Receiving Electronic Statements to Improve Retiree Earnings Act – authorizes the electronic disclosure of retirement plan information

Legislative Review

Bill Would Create Retirement Commission

- + Senators Todd Young (R-IN) and Cory Booker (D-NJ) have introduced the Commission on Retirement Security Act of 2018 which would create a commission that would study Americans' retirement security and make recommendations to Congress for improvements
- + The commission would be expected to complete a review and report to Congress in no later than two years
 - Public input through hearings and testimony would be sought by the commission during this period

Legislative Review

Social Security Board Revised Depletion Date

- + The Social Security Board of Trustees announced that the Old-Age and Survivors Insurance (OASI) Trust Fund is projected to become depleted in late 2034, as compared to last year's estimate of early 2035; at that time only 77% of benefits will be payable
- + In its annual report, the Board urged Congress to “keep Social Security strong by taking action to ensure the future of the program”

Legislative Review

State Run Retirement Plan Roundup

- + Oregon, the nation's first state to sponsor a savings program, recently announced that 954 employers have registered for the program, and 51,993 (73%) employees have enrolled
- + The Illinois plan is entering a pilot stage, permitting employers to enroll on a voluntary basis, with full implementation expected by the end of 2019
- + New York has passed legislation that established a Roth IRA program for private sector employers that do not offer a qualified retirement plan
- + In California, the Howard Jarvis Taxpayers Association has filed a complaint in the United States District Court to halt the ongoing implementation of the state's Secure Choice program

| Regulatory Review

Regulatory Review

Reminder: Third Quarter Compliance Calendar

July

- + July 27: Deadline for sending Summary of Material Modification
- + July 31: Deadline for filing Form 5500 (without extension), Form 5558 to request automatic extension, and Form 5330 – Return of Excise Taxes Related to Employer Benefit Plans

September

- + September 14: Extended deadline for filing tax returns for partnerships and contribution deadline for deductibility
- + September 28: Deadline for distributing Summary Annual Report to participants, provided deadline for Form 5500 was not extended

Regulatory Review

SEC Issues Guidance for Investment Advice

- + Following the Fifth Circuit's March 15, 2018, decision to strike down the DOL Fiduciary Rule, the SEC released proposed guidance for broker-dealers and investment advisors who make recommendations to retail clients
- + The guidance consists of three parts:
 - Regulation Best Interest for broker-dealers
 - Clarification on fiduciary obligations for registered investment advisors
 - New disclosure requirements in the form of Customer Relationship Summary; plus restrictions on broker-dealers not calling themselves advisers or advisors

Regulatory Review

IRS Asks for Input on Determination Letter Program

- + In Notice 2018-24, the IRS requested comments on the potential expansion of the determination letter program for individually designed plans
- + The program was revised in 2017 to dramatically limit when a plan could seek a determination on its tax-qualified status
 - Under the new rules, a determination letter can be requested for the initial qualification, plan termination and other circumstances identified in future guidance
 - To date, the IRS has not identified any other circumstances that would allow a plan to seek a new determination letter

Regulatory Review

Government Accountability Office (GAO) Investigates ESG Factors

- + The GAO recently examined the use of ESG factors by U.S. retirement plans, the use of ESG factors by selected retirement plans in other countries and the DOL's guidance on the use of ESG factors by the private sectors' U.S. retirement plans
- + A recommendation has been made to the DOL to clarify whether the liability protection offered to qualifying default investment options allows use of ESG factors
- + The DOL has neither agreed nor disagreed with the GAO's recommendations

Regulatory Review

DOL Threatening Sponsors With Late Deposit of Employee Deferrals

- + The Employee Benefit Security Administration (EBSA) office in Chicago has sent a letter to plan sponsors who, on Form 5500, reported the late deposit of participant contributions and/or loan repayments and correction outside of the Voluntary Fiduciary Correction Program (VFCP)
- + The letter threatens “alternative enforcement measures” if the plan sponsor does not file a VFCP application within 60 days of receiving the letter

Regulatory Review

Industry Groups Urge More Use of Electronic Delivery

- + The American Retirement Association (ARA) released a new study that concluded shifting the default delivery of 401(k) disclosures from paper to electronic delivery would save participants hundreds of millions of dollars annually
- + The ERISA Advisory Council has also recommended the streamlining of retirement plan disclosure requirements, including the ease at which plans can deliver mandatory communication to participants and beneficiaries electronically

| Legal Review

Legal Review

Mixed Bag of Results for 403(b) Excessive Fee Cases

- + A new lawsuit has been filed against the University of Rochester alleging the school breached its fiduciary responsibilities by allowing participants to incur excessive fees while similar lawsuits against Vanderbilt University and Yale University survived motions to dismiss
- + The University of Chicago has agreed to pay \$6.5M and make changes to its retirement program in a preliminary settlement
 - Among the changes, the University agreed not to increase the per participant recordkeeping fee for three years and to use commercially reasonable efforts to continue to reduce recordkeeping fees
 - The 403(b) plan's investment lineup has already been revamped and now consists of fewer investment options
- + Northwestern University successfully had its excessive fee lawsuit dismissed, becoming the second college (University of Pennsylvania) to prevail against similar allegations

Legal Review

Capital Preservation Options at the Center of Two Cases

- + A lawsuit has been filed against the fiduciaries of the Philips North America 401(k) plan which alleges, among other things, that participants lost nearly \$41M in retirement savings between February 2010 and June 2017 because the plan offered a low-yielding money market rather than a stable value fund
- + The First Circuit Court of Appeals upheld the District Court's decision to dismiss a lawsuit against CVS Health Care that alleged the 401(k) plan's stable value fund was invested too conservatively compared to other stable value funds

Legal Review

Lowes, FirstGroup America Face Lawsuits Due to Fund Selection

- + Two separate lawsuits have been filed by employees of Lowes and FirstGroup America for the selection of a fund that is affiliated with the plan's fiduciary
- + These lawsuits allege that the fund in question was untested and new when added to the plans, was underperforming its benchmark at the time it was added and was not used by fiduciaries of any similarly-sized plans

Legal Review

Two More Stock Drop Cases Defeated

- + A lawsuit against executives at Edison International Inc. that claimed the company retained allegedly inflated stock in the 401(k) plan has been dismissed
- + A similar lawsuit against Phillips 66 was also dismissed; in this case, however, the plaintiffs argued that the stock in question was transferred from the company's former parent plan and therefore was no longer an "employer security" under ERISA

| Global Headlines

Global Headlines

Fidelity Suggests an Extra £35 a Month Can Close Gender Gap

- + Fidelity International's *Financial Power of Women Report* suggests that women could close the current gender pension gap above 10% by dedicating an additional 1% of their salary towards their pension early in their careers
 - This increase would be translated into £35 per month in contributions over 39 years
- + The report also found that 52% of women holding a pension do not know where it is invested and 37% do not know how much their pensions are worth
- + When it comes to saving into an Individual Savings Account (ISA), women prefer cash while men favor stocks and shares ISAs

Global Headlines

Average Person Will Need £260,000 in Retirement

- + A new report issued by Royal London, *Will We Ever Summit the Pension Mountain?*, contends that the average person will need to generate an income of just over £9,000 a year on top of their state pension at age 65 – to achieve this income, with some inflation protection, the person will need to save approximately £260,000
- + For those retirees who do not own their homes, the amount increases to £445,000 due to the extra £6,554 needed annually to pay rent
- + The report suggests that most savers in the government's auto-enrollment program were likely to accumulate only half the target amounts

Global Headlines

Hong Kong Affluent Don't Trust Advisors

- + According to a recent Charles Schwab Hong Kong survey, only 34% of the rising affluent work with an advisor when making investment decisions
- + The survey indicated that almost half have had a bad decision with a financial advisor, 60% do not know where to find information on trustworthy firms and 80% believe that they are more knowledgeable than an advisor
- + A majority of those surveyed rely on their family and friends (71%) and media (70%) for investment decisions

Global Headlines

Australians Losing AUD10 Bn in Superannuation Savings

- + A study commissioned by the AustralianSuper and Cbus Super concludes that an estimated 2.3 million Australian workers are missing out on AUD 10B in superannuation each year as a result of the rise of the “gig” economy and the shift to casual employment
 - Those missing out on Australia’s universal superannuation levy of 9.5% were employed in the “gig” economy and “non-traditional” work environments
- + The study said women, particularly those in part-time work, were overwhelmingly penalized by the provision that restricts superannuation payments to individual jobs paying more than AUD 450 per month

Global Headlines

South Korean Pension Funding Requirements Toughen

- + Effective January 1, 2019, South Korea's required Defined Benefit (DB) plan funding target will increase from 80% to 90%, and to 100% in 2021
- + According to Willis Towers Watson, over 96% of DB plan assets are placed in investments with short-term maturities, and the returns will not keep up with liability growth generated by salary increases
 - Sponsors are encouraged to reevaluate their investment strategy to include products that may offer higher returns over time
- + Willis Towers Watson also notes that there has been an increase in the popularity of incentive DC programs, where incentive bonuses are partially or fully contributed to employee DC accounts and taxed eventually as retirement income rather than as current income

| Defined Contribution Capabilities

Janus Henderson

Defined Contribution Capabilities

- + 45+ years of industry experience
 - + Pioneering investment solutions for retirees and plan sponsors
 - + Key DC Offerings:
 - Fixed Income
 - U.S. Equities
 - Global/International Equities
 - Multi-Asset
 - Alternatives
- + \$30.3 billion in DC Assets Under Management as of 3/31/18
 - + Products utilized by the top 25 DC record-keepers in the industry
 - + Availability on over 200 recordkeeping platforms

For more information, please visit janushenderson.com.

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