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# RECALIBRATING YOUR DEFINED CONTRIBUTION PLAN

How Reenrollment Can Help Both Plan Participants  
and Plan Sponsors



# REENROLLMENT: PAVING A BETTER WAY TO RETIREMENT

It isn't easy to persuade defined contribution (DC) plan participants to take the wheel regarding their asset-allocation decisions. While some participants are actively involved in choosing investments for their account, many participants don't make the best choices—and some make no choices at all.

Plan sponsors are eager to improve participants' retirement outcomes by making sure they're properly allocated in a sensible investment, such as a target-date fund (TDF). Reenrollment is a powerful way to steer employees into effective investment options. It's a process that places employees' retirement savings into a plan's qualified default investment alternative (QDIA) on a certain date unless they make an active decision to choose another investment.

Reenrollment improves outcomes for DC plan sponsors and participants. Through this process, plan sponsors can:

- + Remove asset-allocation guesswork for employees by moving their assets into a QDIA—usually a TDF—after a 30-day notification period and an opt-out period.
- + Engage workers who might otherwise never have joined the plan, as well as those participants who may have made a “set it and forget it” retirement plan choice when they were first hired. Reenrollment gives the latter group an opportunity to hit the restart button on their plan and reposition themselves with an asset allocation that will appropriately guide them into their retirement years.
- + Obtain fiduciary coverage: in 2006, Congress passed a law creating a fiduciary safe harbor for QDIAs, protecting sponsors from liability against investment-related losses in participant accounts.

IN OUR EXPERIENCE HELPING CLIENTS WITH REENROLLMENT, 60%-80% OF PLAN ASSETS HAVE ENDED UP IN THEIR PLAN'S QDIA.

## WHAT IS A QUALIFIED DEFAULT INVESTMENT ALTERNATIVE (QDIA)?

A QDIA is a default investment fund that the US Department of Labor (DOL) considers suitable for an employee's long-term retirement savings needs. Plan fiduciaries who invest plan participant assets in a QDIA—in the absence of affirmative investment instructions—can receive relief from investment loss liability, according to the amended Employee Retirement Income Security Act (ERISA), section 404(c). Among other requirements, QDIAs must be diversified to minimize the risk of large losses in investments. QDIAs include TDFs, balanced funds and managed accounts.

In the past, new participants were given information and asked to “opt in” to the investments of their choice during an enrollment period. Today's plan designs are different. New employees are set on the right track with a QDIA from day one through auto-enrollment, a process that automatically enrolls new hires into the DC plan's QDIA at a fixed contribution rate. Through reenrollment, existing employees aren't left behind: they're given the same opportunity to “start over” when their assets are automatically allocated into the QDIA.

Some plan sponsors have balked at the idea of reenrollment, saying “there's no need to do it” and “it's too much work.” Others are worried about perceived fiduciary risk—that some employees might react negatively, or take legal action because investment decisions were made for them against their will. We think plan sponsors should take another look at reenrollment. Implementing this process shows a commitment to acting in plan participants' best interests, helping them improve their chances of financial security in retirement.

## ROADBLOCKS: THE BIGGEST REENROLLMENT BARRIERS FOR PLAN SPONSORS

To find out which factors hold plan sponsors back from introducing reenrollment, we surveyed over 1000 plan sponsors. We asked those who haven't conducted a reenrollment in the past three years about the barriers they perceive in doing a reenrollment. Here are their top answers.

### NO NEED TO DO IT (44%)

THESE SPONSORS' BIGGEST RED FLAG IS A FAILURE TO SEE THE NEED FOR REENROLLMENT.

One key metric for a retirement plan's success is a high (and increasing) participation rate. Yet less than half of all plans report having more than 80% of employees participating in the plan. Auto-enrollment, coupled with reenrollment, could be an invaluable way to change that. It would also help employees to save wisely so they can retire on time, and would give them more confidence about their future prospects so they can be more productive now.

### NEGATIVE PARTICIPANT REACTION (43%)

SOME SPONSORS THINK PARTICIPANTS WILL OPPOSE REENROLLMENT AND RESENT BEING MOVED INTO A PLAN'S DEFAULT OPTION.

The opposite is usually the case—most employees appreciate the help. Nine out of 10 participants (90%) are happy with reenrollment; only one in five opt out and pick their own investment mix. Of the ones who pick their own investments, approximately three in 10 (30%) end up choosing the default investment.

### IT'S TOO MUCH WORK (20%)

OTHER SPONSORS THINK A REENROLLMENT STRATEGY IS JUST TOO MUCH TROUBLE TO DEVELOP AND IMPLEMENT.

On the contrary, we've found that reenrollments are simple, inexpensive and benefit both plan sponsors and employees. Reenrollment requires little effort from the participant, and the benefits to plan sponsors outweigh the work in almost all cases.

### PERCEIVED FIDUCIARY RISK (28%)

SOME PLAN SPONSORS ARE CONCERNED THAT INVESTMENT PERFORMANCE ISSUES COULD INCREASE THEIR FIDUCIARY RISK.

If reenrollment into a prudently selected TDF is done properly, the TDF is likely to improve participant outcomes and not increase fiduciary risk. That's because TDFs meet the DOL's requirements for a QDIA, and sponsors gain "safe harbor" from investment losses when they use a QDIA for their reenrollment process.

Respondents could choose multiple answers; the percentages will not sum to 100.  
Source: AB, *Inside the Minds of Plan Sponsors*, June 2019.

SPONSORS EXPECT ONE IN FOUR EMPLOYEES TO RETIRE AFTER AGE 67, AND MORE THAN HALF OF SPONSORS HAVE SEEN THEIR COMPANY'S AVERAGE RETIREMENT AGE RISE IN THE PAST FIVE YEARS. WITH PLAN PARTICIPANTS STAYING IN THEIR JOBS LONGER, SPONSORS MAY WANT TO ASK THEMSELVES IF EXISTING PARTICIPANTS ARE STILL PROPERLY ALLOCATED.

# KEEPING PARTICIPANTS ON TRACK FOR A HEALTHY RETIREMENT

Employees often don't have the time, desire or confidence to take an active role in their retirement-plan investment decisions. Plan sponsors can help keep employees on the right track by conducting a plan reenrollment. But it's critical to keep them engaged.

Inertia and time limitations hinder some participants from actively choosing the investments in their retirement account, but other participants reveal a different hurdle: their confidence declines as they face the complexities of investment decisions. This lack of confidence isn't a surprise, given that survey results show workers often fall short in their knowledge of investment basics.

Only about half of participants were interested in selecting their own mix of individual funds or were comfortable deciding how much to invest in each fund. Even fewer said they had the time to keep an eye on those investments and make changes as their retirement approaches.

It's no wonder a significant percentage of participants don't properly allocate their assets. This is especially true for employees who've been at a company for several years. These veterans may think their plans are in good shape because of the investment choices they

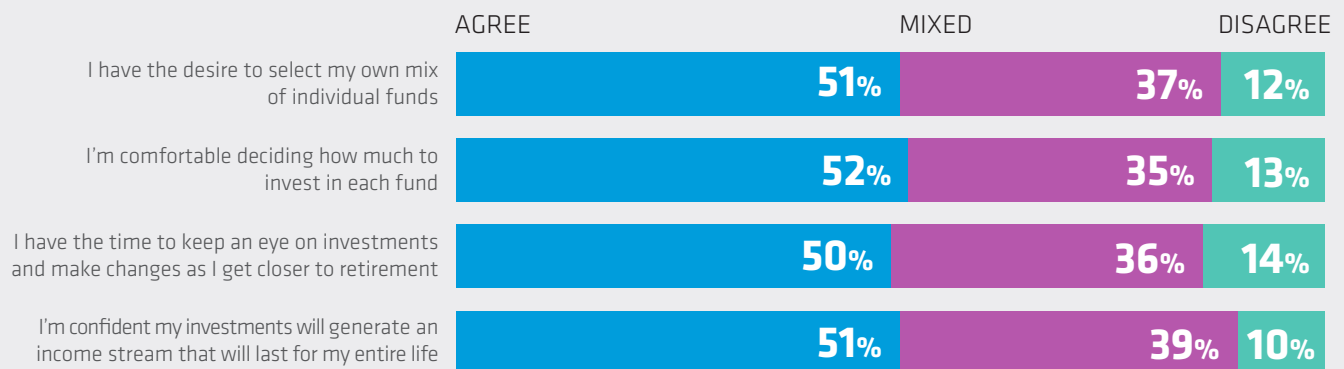
made when they were first hired, but there's a good chance that their allocations are outdated and need to be realigned.

## GETTING MORE MILEAGE OUT OF INERTIA

A small percentage of participants decide to change their plan mix at reenrollment, but most employees defaulted into a QDIA stay put—inertia actually works to plan sponsors' advantage in this case. It's a win-win situation for participants and sponsors.

Reenrollment shouldn't be the final step when participants lack time or investment knowledge—or even when they don't. It's crucial to keep employees engaged before, during and after reenrollment—even if they don't need to take action. Employees who get regular, effective communication respond more positively to change. Communication best practices include positive, straightforward language, more visuals and a simple call to action.

### MANY PARTICIPANTS HAVE ISSUES WITH THEIR INVESTING CAPABILITIES



Answers were on a scale of 1–10 with 8–10 = agree; 4–7 = mixed; 1–3 = disagree  
Source: AB Research, 2018

# GETTING ON THE ROAD TO FIDUCIARY WELLNESS

Being a fiduciary means taking the necessary steps to help guide plan participants in the right direction for retirement. Plan sponsors should be well informed of their fiduciary status and requirements; otherwise, they could face unwanted liabilities.

All DC plan sponsors are considered fiduciaries, but surprisingly, one-quarter of them don't realize that they are. Fiduciaries aren't required to guarantee investment results, but it's important that they understand their responsibilities and be prudent when making plan decisions. The Employee Retirement Income Security Act, or ERISA, requires that sponsors act in plan participants' best interests, "with the care, skill, prudence and diligence" of an expert. Fiduciaries can be personally liable if they fail to meet this high standard. Selecting a plan's default option is arguably one of the most important decisions a fiduciary will make. Many sponsors have the misperception that they'll seem too "paternalistic" if they make decisions on behalf of their participants. But in fact, it's a greater fiduciary risk if participants have asset allocations that may no longer be suitable for them.

Plan sponsors can improve their fiduciary "health" by using a QDIA. QDIA safe harbor status protects sponsors from legal action related to investment losses—as long as the DOL's regulatory requirements and conditions are met. These include adhering to a timeline of providing opt-out and other important notices to participants.

ALL PLAN SPONSORS ARE CONSIDERED FIDUCIARIES, EVEN IF THEY DELEGATE CERTAIN LEVELS OF RESPONSIBILITY. SURPRISINGLY, ONE-FOURTH OF PLAN SPONSORS AREN'T AWARE OF THEIR FIDUCIARY STATUS—INCLUDING SOME SPONSORS WHO OVERSEE VERY LARGE PLANS.

Source: AB, *Inside the Minds of Plan Sponsors*, June 2019.

## CONDUCTING A SUCCESSFUL REENROLLMENT

With a little careful planning and by taking certain steps, sponsors can ensure a successful reenrollment process. Here are four ways to help improve the odds of a successful reenrollment:

- 1. Send clear, concise employee communications.** Let your participants know they have choices, and use all available communication formats to convey the necessary information—including letters, emails, newsletters and internal websites.
- 2. Create a communication timeline and specify deadlines.** In your communications, start early and repeat often. Release announcements 60 and 30 days in advance of the event. In the final weeks, hold employee-education (EE) sessions.
- 3. Review your plan's design and investment options.** Look closely at your plan's investment lineup and your current TDFs. Designate a QDIA as your plan's default investment and implement both automatic enrollment and automatic escalation, which increases participant contribution rates at regular intervals by a predetermined amount or percentage.
- 4. Discuss the timing and costs with your plan provider.** Lay out the costs and create clearly defined roles and responsibilities for both you and your provider.

Once sponsors have their reenrollment strategies in place, it's vital to stick to the communication timeline. It's very important to make sure employees get the necessary plan information—even if they choose not to read it.



### WHY CHOOSE TDFS AS YOUR DESIGNATED DEFAULT?

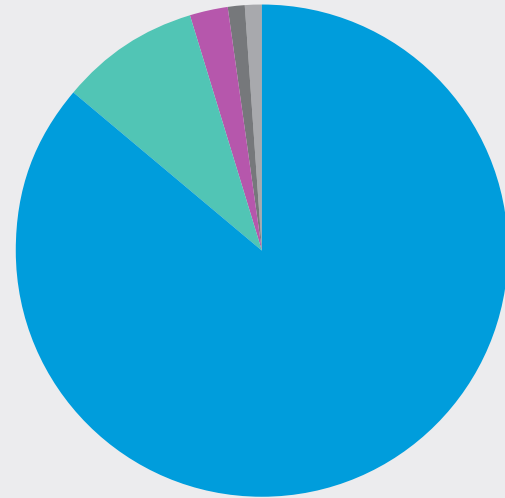
TDFs can make an ideal designated default investment option for your plan for several reasons. They're broadly diversified across asset classes, and their asset allocation automatically adjusts as participants move closer to retirement. TDFs are also one of only three investment strategies that meet the DOL's requirements for QDIAs and the safe harbor protections that go with that status.

For DC plans, TDFs are the most popular of the three QDIAs available—whether or not plan sponsors select them as their plan's designated default. TDFs are ideal for a new plan or a reenrollment because they're comprehensive retirement solutions that gradually adjust their allocation to remain age appropriate. This design helps ensure that a participant's investments are appropriately allocated at any given age. It's an attribute that can significantly improve participants' outcomes.

Leaving investment choices up to chance can expose employees' portfolios to too much risk—including market risk, longevity risk, inflation risk and growth risk. All these risks can lead to a savings shortfall. Investment allocations can also fall short in a necessary asset class, depending on employees' current retirement goals. Equities, for example, could be underallocated in a younger participant's account—even though they're critical in building wealth.

### TARGET-DATE FUNDS ARE THE MOST POPULAR PLAN DEFAULT

Current Plan Default Investment



#### QDIAs

- 86.2% Target-Date Retirement
- 9.2% Balanced/Target Risk
- 2.3% Managed Accounts
- 1.1% Stable Value/Money Market (not a QDIA)
- 1.1% Other

Source: Callan Associates, 2019 Defined Contribution Trends Survey.

Reenrollment can help make a retirement plan effective for more employees—and more successful for plan sponsors. A number of metrics can help gauge the effectiveness of a well-designed and well-executed retirement plan—from employee attitudes to investment performance. Plan sponsors can also incorporate their plan's own specific needs in developing a “dashboard” of plan success.

### PLAN SPONSORS' TOP MEASURES OF PLAN SUCCESS

- + Employee confidence in the possibility of a comfortable retirement
- + Better employee participation
- + Improved employee understanding of investment options
- + Investments that consistently outperform their benchmarks

Source: AB Research, 2019

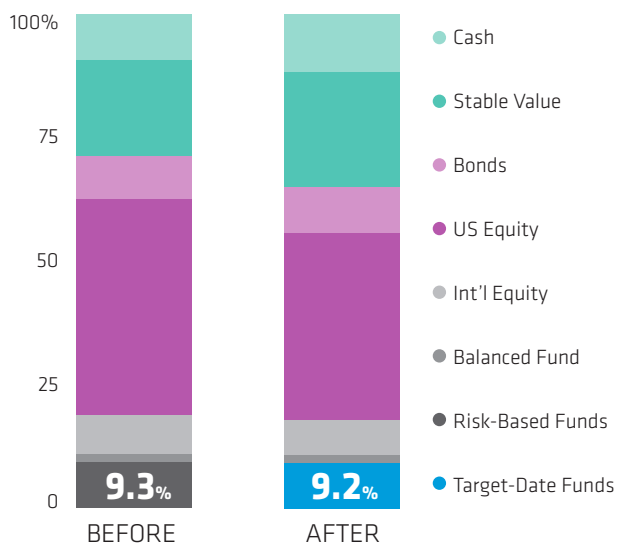
# CASE IN POINT: SHIFTING PLAN GEARS

We've had years of experience developing best practices for DC plans—partly based on our deep expertise in plan reenrollments. The following case studies highlight a broad range of companies' experiences in deploying target-date funds. In this example the plan sponsor implemented “add to the menu” strategy instead of choosing a plan reenrollment; the the remainder of the plan sponsors chose reenrollment. The results were very different.

## CASE STUDY

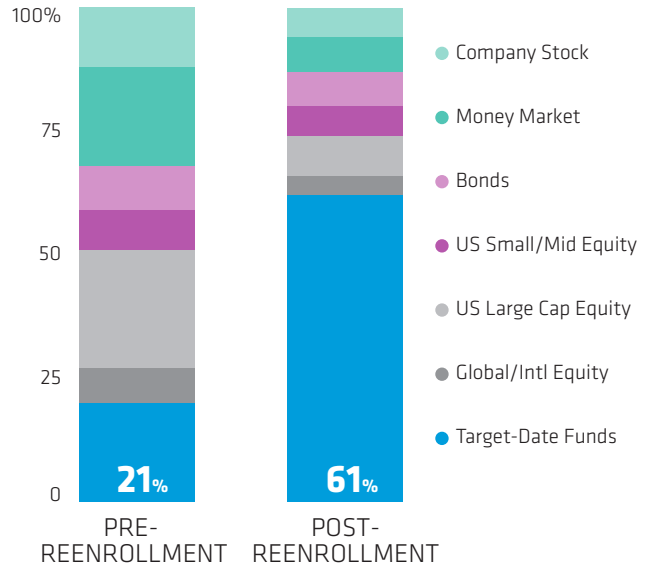
### NO REENROLLMENT/FUND MAPPING

<b>CLIENT:</b> Governmental plan
<b>DC ASSETS:</b> >\$2 billion
<b>NUMBER OF PARTICIPANTS:</b> >100,000
<b>PLAN CHANGE:</b> Closing risk-based funds and adopting a new TDF
<b>CHANGE STRATEGY USED:</b> An age-based mapping strategy
<b>OUTCOME:</b> TDFs represented 9.2% of the total plan assets (risk-based funds had an allocation of 9.3% right before the conversion), resulting in no meaningful change in the plan's assets.



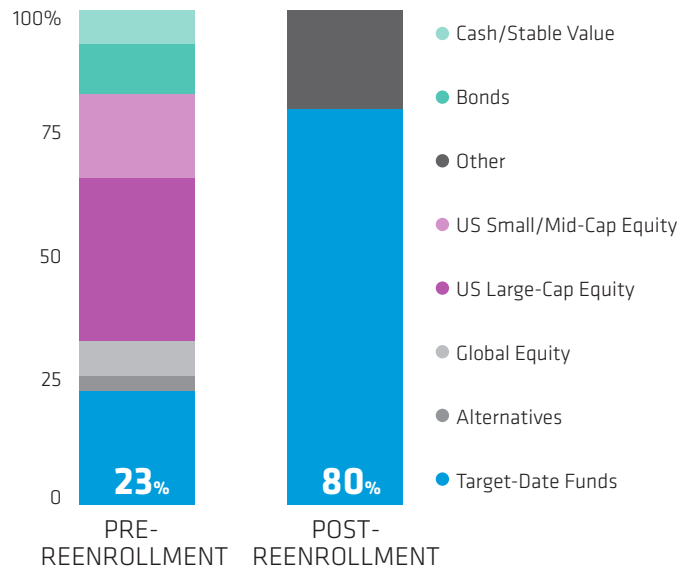
## CASE STUDY LARGE PLAN REENROLLMENT

<b>CLIENT:</b> Multinational corporation
<b>DC ASSETS:</b> Approx. \$2 billion
<b>NUMBER OF PARTICIPANTS:</b> >15,000
<b>PLAN CHANGE:</b> A corporate acquisition resulting in a recordkeeping service change; the acquired plan adopted the investment menu of the parent company and also transitioned from proprietary mutual funds to custom target-date funds.
<b>CHANGE STRATEGY USED:</b> A QDIA reenrollment strategy with a six-week reenrollment window. Failure to make an election during the reenrollment window resulted in participants defaulting to the age-appropriate TDF (also the plan's QDIA).
<b>OUTCOME:</b> 61% of eligible plan assets are now invested in the TDF QDIA.



## CASE STUDY MEDIUM PLAN REENROLLMENT

<b>CLIENT:</b> Insurance company
<b>DC ASSETS:</b> >\$400 million
<b>NUMBER OF PARTICIPANTS:</b> Approximately 6,000
<b>PLAN CHANGE:</b> Replaced all-passive prepackaged proprietary target-date funds with a packaged collective trust target-date strategy using a hybrid (active/passive) investment approach
<b>CHANGE STRATEGY USED:</b> A QDIA reenrollment strategy with a six-week reenrollment window. Failure to make an election during the reenrollment window resulted in participants defaulting to the age-appropriate TDF (also the plan's QDIA).
<b>OUTCOME:</b> 80% of eligible plan assets are now invested in the TDFs.

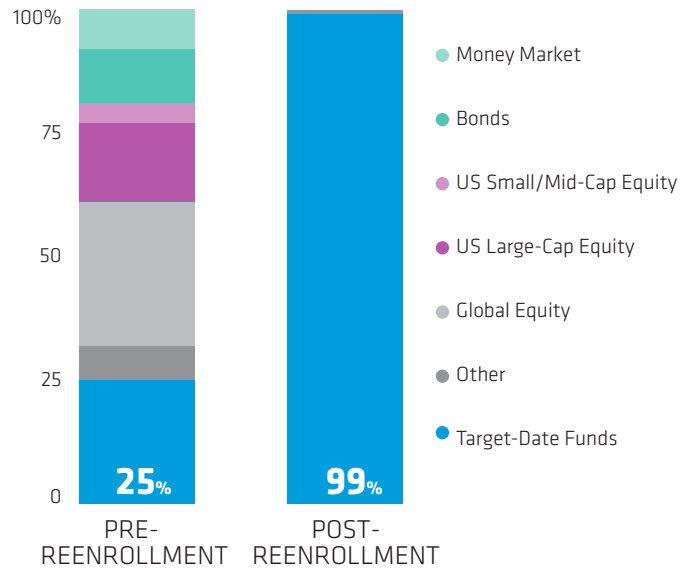




## CASE STUDY

# SMALL PLAN REENROLLMENT

<b>CLIENT:</b> Nonprofit organization
<b>DC ASSETS:</b> >\$16 million
<b>NUMBER OF PARTICIPANTS:</b> 1,000
<b>PLAN CHANGE:</b> Company merger and acquiring company is new to target-date funds
<b>CHANGE STRATEGY USED:</b> A QDIA reenrollment strategy. Failure to make an election during the reenrollment window resulted in participants defaulting to the age-appropriate TDF (also the plan's QDIA).
<b>OUTCOME:</b> 99% of eligible plan assets are now invested in the TDFs.



### WHAT HAPPENS WHEN YOU CONDUCT A REENROLLMENT?

## 8 WEEKS PRIOR

#### INITIAL ANNOUNCEMENT

- + Notify participants of upcoming changes to retirement plan
- + Deliver reenrollment details and key dates

## 4 WEEKS PRIOR

#### NOTIFICATIONS AND DETAILS FOR REENROLLMENT

- + Provide detailed information about employee meetings and next steps for reenrollment
- + Send legal/QDIA notices to all employees (active/retired/terminated)

## 7 DAYS PRIOR

#### EMPLOYEE MEETINGS AND "GO LIVE" INFO

- + Employee information sessions
- + Final reminder of reenrollment date

**EMAILS**

**MAILINGS**

**FLYER/BROCHURE**

**WEBSITE**

**EMPLOYEE MEETINGS/  
INFORMATION SESSIONS**

**EMPLOYEE NEWSLETTER**

**REQUIRED NOTIFICATION**

# CROSSING THE FINISH LINE

A plan reenrollment is the fastest, most effective way to improve participant allocations, enhance retirement outcomes and immediately get Pension Protection Act fiduciary protections by having the majority of participant assets in a QDIA.

In our view, reenrollments can:

- + Boost adoption of the plan's target-date funds (ideally, the plan's QDIA)
- + Improve participants' investment allocations compared with what they choose on their own
- + Capitalize on participant inertia by moving their assets into the plan's QDIA, where they tend to remain invested

"Target date" in a fund's name refers to the approximate year when a plan participant expects to retire and begin withdrawing from his or her account. Target-date funds gradually adjust their asset allocation, lowering risk as a participant nears retirement. Investments in target-date funds are not guaranteed against loss of principal at any time and account values can be more or less than the original amount invested—including at the time of the fund's target date. Also, investing in target-date funds does not guarantee sufficient income in retirement.





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