Today, like never before, there are powerful forces impacting the defined contribution (DC) industry. Politics, enforcement, business innovation and millions of retiring Baby Boomers are combining to create challenges—and opportunities—for Retirement Advisors.

In this guide, we explore the current state of the DC plan, make sense of how innovation and regulations work together to accelerate the evolution of the industry, and discover practical ways in which Retirement Advisors can take advantage of these interesting times to grow their DC plan business.
DISRUPTIONS IN THE MARKET ARE CREATING OPPORTUNITIES FOR RETIREMENT ADVISORS TO ENHANCE RELATIONSHIPS AND GROW THEIR CLIENT BASE.
INTERESTING TIMES

Many DC plans are not taking advantage of guidance from the US Department of Labor. Now is your chance to take advantage of the “interesting times” and grow your business.

There was once a popular curse: “May you live in interesting times!” Thousands of years of history have shown that interesting times may also be challenging and unpleasant. Today, few industries feel more intensely interesting than financial services, especially for firms that specialize in DC plans. What started in 1981 as a refinement and expansion of the traditional pension has become the primary way millions of Americans will fund their retirement: 401(k) plans are at the cutting edge of both political and demographic attention.

Predictably, the current standard of excellence for DC plans evolved over time as more workers became covered by plans. As a result, the definition of what constitutes excellence in plan design and decision-making has been increasingly hard to pin down, as innovations, regulations and enforcement activity constantly influence one another. This has led to significant confusion among Plan Sponsors about the quality of the plan they are currently managing and what they can do to ensure their plan conforms at least to minimum acceptable standards. As we will see, many DC plans today are not taking advantage of guidance from the US Department of Labor (DOL) that could help fiduciaries meet their obligations.

Such confusion provides a tremendous opportunity for Retirement Advisors (RAs) to secure their existing relationships and expand into new opportunities with prospective clients.

A FULLY PENETRATED, MATURING MARKETPLACE

It may seem that mutual funds have been around forever. But that isn’t the case. They’ve been around since the 1920s, when they slowly began to penetrate the market. By 1981, 5.7% of US households had a mutual fund investment. Then, suddenly and explosively, the culture embraced mutual fund ownership. A large part of this growth was related to the advent of the 401(k), which shifted responsibility for retirement funding from companies and governments to individuals. This created a catalyst for engagement as 4 million Baby Boomers a year turned 35 years old. Mutual fund ownership peaked at 46% of households by the mid-2000s, declined slowly and has leveled off.

These statistics are meaningful. When you see a trend appear, suddenly explode and then level off, the information is important and we should understand what caused it. From there we can frame three questions: What is going to happen next? How do we protect our business? How do we take advantage of opportunities as they emerge?

Historical analysis does not guarantee future results. For illustrative purposes only.

Through December 31, 2018

Source: Investment Company Institute, 2018 Investment Company Fact Book

1 Investment Company Institute, 2018 Investment Company Fact Book, as of December 31, 2018

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TODAY’S DC MARKET

The attractiveness of DC plans has grown significantly over the past 20 years, creating a greater need for Retirement Advisors to gain access to plans and Plan Sponsors.

Even before mutual fund ownership reached 46% of US households—to a great extent within 401(k) plans—the top 1% of the population who had liquid assets had developed a relationship with an RA. The financial-services industry grew rapidly until the turn of the 21st century, when engagement with new family units plateaued. For the past 20 years, new business growth has become harder to achieve, occurring largely by hardworking RAs luring clients away from other advisors with less attractive business models.

At the same time, DC plans have become an attractive business generator for wealth-management practices. With more companies establishing and expanding their DC offerings, growth-oriented RAs recognize that Plan Sponsors are important and efficient gatekeepers to new participants.

The competition will accelerate in the future as the mounting pressures to receive fees and to grow their businesses push more advisors into greater activity. As a result, every plan and its Plan Sponsor will become increasingly targeted by highly motivated and more sophisticated RAs.

ADVISORS WHO CHASE A STANDARD OF EXCELLENCE HAVE BEEN REWARDED

Although the DC plan is an established, almost ubiquitous phenomenon in modern business, the industry itself is still young, and experienced DC providers should expect continued pressure as new players attempt to secure clients. For established providers, gaining a better understanding of the forces at work in the industry will help secure a clear path to the future.

Observations in the marketplace confirm that new business models, which focus on delivering a higher standard of excellence in the design and support of DC plans, are seeing explosive growth as Plan Sponsors become more sophisticated and better equipped to appreciate the lack of consensus in the industry and the need for more thorough protection from enforcement risk. Some Plan Sponsors are seeking more than just to fulfill minimum standards in their plan; they’re increasingly concerned about the quality of the plan they offer to their employees and its ability to deliver an appropriate range of desired outcomes for participants. These Plan Sponsors want to understand the uncertainties in today’s market and to develop confidence that their plan fulfills a higher standard of excellence.
WHY DISRUPTIONS ARE INEVITABLE

The emergence of superior business models is to be expected. To see the opportunities and navigate successfully in a disrupted environment, it’s helpful to understand how disruptions happen.

There are specific forces that drive innovations and disruptions in different industries that make it difficult to predict exactly in what way and at what speed disruptions will happen. Fortunately, there are some general observations of the relationship between innovation and disruption that help us understand our particular situation in financial services.

Innovations create a virtuous cycle within every industry; this is a built-in feature of our free-market economy. Companies compete for market share, and a big part of successful competition is innovating: developing new features and benefits needed to attract customers. When one company innovates effectively, others follow to remain competitive. Over time, even companies with huge advantages become obsolete if they don’t stay current.

**INNOVATIONS + EXPECTATIONS = RISING STANDARDS**

The constant evolution of innovations impacts customer expectations over time. For example, do you expect more from your cellular telephone today than you did five years ago? Do you expect that tool to improve over the next five years? Customer sophistication and expectations rise as innovations continue to proliferate. This creates a virtuous cycle that eventually becomes self-sustaining. Customers demand more, and companies work to stay ahead of their competition by delivering more. On a large scale, this tends to work well for customers but presents a challenge to companies trying to stay competitive.

Over time, this virtuous cycle of rising expectations and frequent innovations causes customer expectations to evolve. This means that something first seen as innovative becomes the recognized standard of excellence in an industry. Once upon a time, FedEx redefined expectations about package delivery and became a dominant player in its industry. Now “overnight” is a standard expectation, not a unique value proposition.

The key insight here is that customer expectations move upward over time. The DC industry isn’t immune to this process. As discussed previously, our industry has shifted from rapid growth and expansion to growth plateau. The first level of innovation of services, which corresponded to the Baby Boomer generation’s coming of age and the invention of the DC plan, is shifting gears.
Clients have experienced several market cycles and understand how the financial-services industry works for them. Because we are still in the early stages of consolidation, innovations in business models are still evolving and an industry-wide standard has not yet fully emerged. This presents a particular dilemma to RAs who want to stay competitive and grow their market share. They wonder whether or not to invest time and energy in innovating: What trends are lasting and need to be followed, and which are passing and can safely be ignored? How do I maintain a standard of excellence for my plan? How do I handle the disruptions change creates?

Fortunately, even though some innovations can create disruptions, change in and of itself is not bad, especially if you are the originator of the next big thing or can take advantage of it. The problem is that most disruptions are only knowable in retrospect. Key players in our industry will innovate in many different directions and various areas at the same time, and no one can know for sure which innovation will be the big winner and which will miss the mark until after the dust settles and consumers have voted with their wallets.

Since an RA cannot know exactly which innovations need to be embraced and which will fizzle, adopting a new idea and reengineering a practice represent risk. As a result, many advisors prefer to wait and see which innovations catch on. Importantly, in a context of heightened competition and aggressive new business activity by more motivated advisors, this wait-and-see approach can be dangerous.

What we can know is the future absolutely will not look like the past, and some type of innovation will be required to stay current. Which specific innovation may be hard to pinpoint at first, and all innovations should be carefully scrutinized and assessed. But as the saying goes, the only constant is change.

**INNOVATION = DISRUPTION**

Change is disruptive. Think back to when your firm updated the software on your workstation. For busy performers, being forced to learn a new way of doing something is frustrating—even when it is more efficient or effective. But adjustments are needed to stay relevant.

As we will see, this is increasingly true in the world of DC plans as innovation, political processes, enforcement, consumer activism and an aging Baby Boomer generation combine to create enormous and disruptive pressure.

This creates a dynamic tension for busy RAs. On one hand, disruptions require adaptations in order to stay competitive. On the other hand, it’s hard to know when an innovation will drive a new standard of excellence and require a response. RAs who are new to the industry find innovations attractive; they have no preconceived ideas about how things “should” be done and no investment in “the way I’ve always done it.” Advisors new to the DC industry have the advantage of being able to adopt the newest, most disruptive innovations.

This is not true for established advisors who are busy running a big, successful practice and have been well rewarded for mastering a previous innovation. In his watershed book *The Structure of Scientific Revolutions*, Thomas Kuhn says that the more successful a scientist is, the more he will resist adopting an unfamiliar idea even when it begins...
to gain traction and validation in his discipline. In his book *Paradigms*, Joel Barker points out that in business, the big winners who adopted a previous innovation are rarely the big winners when the next innovation disrupts their industry. Most adults prefer to learn how something is done and to continue to be rewarded for doing what they know how to do well. As Everett Rogers wrote in his book *Diffusion of Innovations*, a relatively small number of people are natural “early adopters” of new ideas. This means that most advisors will prefer to wait and see rather than embrace new ideas when they emerge.

**EXCELLENCE = COMPETITIVE ADVANTAGE**

One predictable aspect of the innovation cycle for any industry is that excellence is a constantly moving target. For example, at any given time, the structure and processes of a DC plan can be described according to industry standards as anything from obsolete to average to good and all the way to excellent.

There are three important implications to this observation. The first is that time is not static; therefore, the criteria by which a DC plan is determined to be good or excellent are constantly shifting as new innovations drive old patterns toward obsolescence. For example, a state-of-the-art cell phone today bears little resemblance to a top-of-the-line cell phone from 2010. A plan that fulfilled basic requirements adequately two or three years ago is probably obsolete today, and most likely is not taking advantage of the DOL guidelines.

The second implication is that as the innovation cycle continues, it becomes harder for Plan Sponsors to know whether their plan is excellent, merely good or obsolete. New innovations disrupt the status quo, and enforcement activity and client education often lag behind newly emerging standards of excellence. This creates substantial uncertainty, which can be both a challenge and an opportunity for advisors trying to protect their current business relationships or expand into new engagements.

The third implication has to do with value. In a rapidly changing environment, achieving excellence requires more effort than providing an average or good service. The payoff is that a well-informed client will appreciate the value of an excellent service far more than a lesser effort. In an evolving industry, the pursuit of excellence is a competitive advantage that protects existing relationships and opens the door to new conversations.
THE EVOLUTION OF AN INDUSTRY

Innovation and its results are predictable.

PREDICTABLE STEPS
Bruce Tuckman first observed the impact of change on human groups in the mid-1960s and created a four-step model that is still popular today to understand the evolution of groups from sports teams to cultures:

1. Forming: A new innovation or improvement of a process is created and begins to be adopted by members of a group. The value of the innovation is realized, more early adopters embrace the idea and a new standard of excellence emerges.

2. Storming: Adoption of the new approach is uneven; some practitioners adopt quickly while others wait for confirmation. The result is uncertainty and confusion, as the standard of excellence represents the highest level of performance, and minimum acceptable standards can significantly lag behind.

3. Norming: Adoption expands and the new standard of excellence is more widely recognized. Enforcement of higher minimum standards provides greater clarity to the group. A consensus on what constitutes obsolescence, the minimum acceptable standard and excellence emerges.

4. Performing: The industry achieves widespread adoption of the new standards, and performance across providers becomes aligned around the higher standards. Consumers benefit from improved service across the industry.

Inevitably, the process restarts: the innovation cycle continues to drive new and improved approaches into the industry, once again raising the standard of excellence to a new level. In this way, excellence remains a moving target even as it provides a competitive advantage.

Using this model as a guide, we can see that the DC industry is beginning to move out of the Storming stage and toward Norming.

STORMING INTO NORMING
The Revenue Act of 1978 opened the door to a new approach to funding retirement: the 401(k) plan. Originally conceived as a way to fund retirement that would complement a traditional pension, the innovation took on a life of its own in the 1980s and 1990s and replaced the pension as the primary retirement funding approach for most workers in the US.

During the later 1980s and 1990s, the innovation cycle continued to generate new, disruptive ideas designed to improve the investment outcomes of plan participants.

From the early days of Forming the DC industry, we have moved fully into the Storming stage and are approaching Norming: many plans have become obsolete or are not following guidance from the DOL that could help fiduciaries avoid liability. Enforcement activity is increasing, which is to be expected during Storming as the industry struggles with gray areas about what the criteria for obsolescence, minimum acceptable standards and the standard of excellence actually are. As we get closer to Norming, this activity will accelerate as enforcement and educational efforts seek to create consensus.
This will eventually lead to greater stability as we move into the Norming stage. In the meantime, widespread confusion and uncertainty, combined with additional innovations designed to improve participant outcomes, will keep both advisors and Plan Sponsors off balance and somewhat confused about the quality of their plans.

**DISRUPTIONS ARE ACCELERATING**

To determine the best way to respond to the uncertainties of the Storming stage, it’s helpful to see the history of the DC plan unfold. The timeline shows how innovations, disruptions and enforcement activities are accelerating over time, as is to be expected in the later stages of Storming.

As discussed previously, the Revenue Act of 1978 set the stage for the emergence of the 401(k) plan. The Tax Reform Act of 1984 modified and enhanced the rules applying to the 401(k). During these first few years, the industry was in the very early stages of Forming.
Predictably, as adoption of the 401(k) plan expanded and as new innovations were generated from a variety of industry participants, confusion increased and enforcement activity was required. Over the next 20 years, the minimum acceptable standard for a DC plan was enhanced and refined, enforcement standards were defined, and efforts intensified to establish norms within the industry. Each step was the result of creative thinking about how to improve the quality of plans and support better investment outcomes for plan participants. Inevitably, each new innovation increased the Storming within the industry, as providers and Plan Sponsors struggled to learn about, understand and embrace the accelerating pace of innovation.

The hallmark of the transition from Storming to Norming is the acceleration of both innovations and enforcements; everyone in the industry strives to digest new processes and to decide what the various parameters are (and will be). We see this clearly in the increased enforcement and political activity in recent years, as the standard of excellence has been pushed higher by continued creativity.
With each new innovation, the standard of excellence is driven upward: from money market or stable value default investments to the qualified default investment alternative (QIDA), primarily target-date funds. Predictably, innovation drove the standard of excellence upward in other areas: automatic enrollment, automatic escalation, prudent process documentation and other, higher standards are all evolving over time.

**CONFUSION AND REGULATORY ACTIVITY**
The intensity of today’s key issues is evident in industry publications. The areas of fiduciary requirements, enrollment and escalation practices, education policies, QDIA standards, concentrated risk exposures within plans, and the limits that should be placed on advisors who consult on plans remain undefined. The intensification of the struggle is predictable, as the industry naturally seeks to define the consensus around what makes a plan obsolete, what the minimum acceptable standards are and what constitutes the highest standard of excellence for DC plans.

Eventually, the confusion will subside and a consensus will emerge during the Norming stage that leads to a quieter period of Performing, where the focus will be primarily on providing great and reliable service to DC plan participants and Plan Sponsors. That quiet period is still some time in the future; in the meantime, the prudent advisor should expect continued confusion, increased regulatory scrutiny, and both challenges and opportunities for his practice.

**DISRUPTIONS FURTHER ACCELERATE**

- **2006** Congress passes Pension Protection Act
- **2008** Onset of global financial crisis
- **2009** DOL finalizes default investment rules
- **2009** Congress holds hearings
- **2010** DOL and SEC propose enhanced disclosures
- **2011** Government Accountability Office report notes Plan Sponsors face challenges
- **2012** DOL fee and investment disclosure rules take effect
- **2013** DOL publishes “Target Date Retirement Fund Tips for ERISA Plan Fiduciaries”
- **2016** DOL publishes fiduciary rule
- **2018** DOL fiduciary rule struck down; RESA introduced
FIDUCIARY RULES
Section 3(21)(A) of ERISA defines the term fiduciary to include persons who provide investment advice for a fee. An ERISA fiduciary must act prudently and solely in the plan participant’s interest, and must avoid self-dealing and conflicts of interest. The DOL asserts that its existing regulation, which defines “investment advice” for purposes of the fiduciary definition, allows financial professionals to avoid fiduciary status for many transactions with plans and individuals that, the DOL believes, ought to be covered by fiduciary protections. For example, under the current rule, a one-time recommendation to a retiree to take a lump-sum payout from an employer retirement plan and roll it into an IRA would not be fiduciary advice, even though the transaction may be one of the most important financial decisions the retiree makes.

The DOL first proposed a rule that would have changed the definition of fiduciary in 2010 but withdrew it after receiving significant criticism from the financial-services industry. In a press conference in late February 2015, President Obama put his weight behind the changes and announced that the re-proposed rule would be released in the coming months.

In March 2018, a court decision cast a shadow over the proposed DOL fiduciary rule. The rule is effectively on hold at the time of this writing. However, in anticipation of this rule becoming law, many Plan Sponsors are either beginning or completing the process of reviewing the way they partner with their recordkeepers and advisors. The focus on fiduciary responsibilities has become top of mind. It brings greater importance to the review of fees, but it also brings a more direct focus on costs, which in some cases has led to an increase in passive, lower-cost investment options.

The perceived effects of the fiduciary rule have also led to more Plan Sponsors developing and enforcing a more robust investment policy statement—reinforcing the desire to put plan participants’ needs front and center.

The role of fiduciary, and who owns it, will continue to be a driving force in ensuring sound plan management and developing best practices for Plan Sponsors and their participants.

KEY FEATURES
+ IRA rollovers. The proposed rule expands fiduciary advice to include a recommendation to a participant to roll over assets from an employer plan to an IRA and to manage the assets within an IRA. This is a significant change from the existing rules in which, with limited exceptions, IRA rollover recommendations and advice regarding investing IRA assets currently don’t make an advisor an ERISA fiduciary. If the conflict of interest rule is adopted as proposed, it may be challenging for a fiduciary to establish that a rollover from an employer plan to an IRA is prudent and in the participant’s best interests, especially if the fees for the investments in the plan are significantly lower than those of the IRA. As a result, we may see a continuation of the trend in which retirees leave their retirement money in their former employers’ plans and take distributions from the plans over their lifetimes.

+ Contracts with advice recipients. To continue the use of common compensation practices—including commissions, 12b-1 fees and revenue sharing, which would generally be prohibited if paid to a fiduciary—advisors would be required to comply with a proposed prohibit transaction exemption. This best-interests contract exemption would require the advisor and his firm to enter into a written contract with the plan participant, IRA holder or Plan Sponsor prior to rendering advice. In the contract, the advisor and his firm would have to acknowledge fiduciary status, commit to giving advice that is in the retirement investor’s best interests, and warrant that the firm has policies and procedures designed to mitigate conflicts of interest. These policies and procedures may require firms to change how their advisors are compensated so as to minimize the likelihood of conflicts. The advisor would have to give the advice recipient both a disclosure prior to executing a transaction that would show the all-in costs of the recommended investments over one-, five- and 10-year periods and an annual disclosure that shows all fees paid by the retirement investor as well as all direct and indirect compensation received by the advisor and his firm. The advisor’s firm would need to maintain a website that shows all of the investments a retirement investor may obtain through the firm, the costs of those investments, and the compensation that would be paid to the advisor and the firm.

+ Carve-outs from fiduciary status. The rule describes a number of investment-related communications that would not lead to fiduciary status. For example, advice in connection with the sale of assets to fiduciaries of large-employer plans (plans with at least 100 participants or $100 million in assets) would not be considered fiduciary advice, nor would investment education—including education about strategies for lifetime income.

THE PROCESS GOING FORWARD
There is a solid interest in making legislative decisions regarding retirement planning in Washington this year. Regardless of whether this rule makes it through the legislative body, the opportunity for advisors to bring valuable guidance to their clients regarding fiduciary responsibilities is strong.
PLAN SPONSOR NEEDS HAVE CHANGED

It is getting difficult for advisors and Plan Sponsors to sort out the requirements and suggestions provided by both regulatory agencies and firms innovating new products and services. Plans that were minimum acceptable or approaching excellent can become obsolete or even in violation of newly emerging standards quickly and without clear warning. In these conditions, the prudent advisor stays aware of evolutions in standards and advances the quality of the plans she advises. This same knowledge of current conditions and guidelines and of the emerging standards of excellence provides a competitive advantage in acquiring new engagements.

This is where the challenge comes from: during times of accelerating disruption and confusion, it’s easy for RAs to allow plans to drift into obsolescence and to run the risk of losing their role as advisor to Plan Sponsors who become better informed about the state of their plans.

As the DC industry moves toward the Norming stage, enforcement is increasing, attention at the highest level of the federal government is being focused on the industry, and clarifications are being provided more often. General clarity about what distinguishes obsolete from minimum acceptable and from truly excellent is hard to find. As an example, in a 2017 AllianceBernstein (AB) survey, DC Plan Sponsors across all plan sizes (micro to institutional) were asked, “What is your plan default?” The chart above shows the results.

In important ways, these results are understandable. Plan Sponsors often wear many hats and don’t focus on the developments within the DC industry. Instead, they rely on the Plan Advisor, who in many cases may not specialize in DC plans or may find it difficult to stay current. In some cases, the Plan Sponsor and the RA may know the plan is obsolete or not taking advantage of the DOL guidelines but may not perceive the issue as in need of being urgently addressed.

THE MISSING PIECES

A prudent RA can help by providing professional expertise and advice. Whatever the reason for the state of today’s DC plans, it’s clear that many plans are not taking advantage of the DOL guidelines or are obsolete in one or more important ways. Many of the plans that have stayed current with emerging standards have achieved only a minimum acceptable standard in their structure and practices.

Observations of Plan Advisors revealed an interesting behavior: they most often seek to know the minimum requirements of a plan to avoid the risk of enforcement actions. They do not typically investigate excellence in plan design and process. In fact, observations of advisors seeking training in DC plan design and management revealed that the majority of questions asked were about minimum acceptable standard; almost no advisor inquired about the current highest standard of excellence.

**DC PLAN SPONSORS WERE ASKED, “WHAT IS YOUR PLAN DEFAULT?”**

Use of Default Investment Across All Plan Sizes (Percent of Respondents)

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Percent</th>
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<tbody>
<tr>
<td>Balanced or Risk-Based Fund</td>
<td>25%</td>
</tr>
<tr>
<td>Target-Date Fund</td>
<td>20%</td>
</tr>
<tr>
<td>Stable Value/Money Market Fund</td>
<td>19%</td>
</tr>
<tr>
<td>Managed Account</td>
<td>10%</td>
</tr>
<tr>
<td>No Default at This Time</td>
<td>8%</td>
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<tr>
<td>Equity Fund</td>
<td>8%</td>
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<tr>
<td>Don’t Know</td>
<td>5%</td>
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<tr>
<td>Bond Fund</td>
<td>4%</td>
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Numbers may not sum due to rounding.
As of 2016
Source: AB, Inside the Minds of Plan Sponsors, 2017
As a result, newly emerging innovations that push plan design to a higher standard—like digital educational tools and holistic financial well-being efforts—are embraced very slowly in the industry, even when such innovations clearly provide greater benefit to plan participants and are in the best interests of the Plan Advisors. Pursuing such higher standards not only ensures greater protection from enforcement or lawsuits and secures the relationship with the Plan Sponsor, but also provides a substantial competitive advantage when provided as consultation and education to other Plan Sponsors.

This is an important insight for RAs who are interested in growing their DC business. Plan Sponsors are dependent on guidance from their advisors to ensure that they meet their fiduciary responsibility toward their plan participants and that they protect their firm (and themselves) from enforcement risk or lawsuits. This could be a reflection of increased awareness on the part of Plan Sponsors and their desire to create better participant outcomes. Plan Sponsors are shifting their attention away from helping participants accumulate retirement savings to focus on how to distribute those accumulations. The change could also be attributed to Plan Advisors providing updated guidance on the many regulations that seem to change often. Understanding what Plan Sponsors need from their advisors today is a key aspect of developing a competitive advantage and securing new relationships.

**RECOGNIZING OBSOLETE PLANS**

To provide high-quality consultation to Plan Sponsors, the prudent advisor who seeks a competitive advantage would be well served to be able to quickly and easily distinguish plans that are obsolete or in violation of current standards from plans that conform to minimum acceptable standards. Here is a simple checklist of items that, in our view, show a plan is not of a minimum acceptable standard:

+ No Retirement Advisor
+ Employer-directed
+ No definition/recognition of who has fiduciary responsibility
+ No plan committee
+ No investment policy statement
+ No documented process/methodology for investment selection
+ Concentrated risk: single mutual fund family/no diversity in core menu
+ No target-date funds
+ No QDIA-compliant default fund
+ Target-date fund of the recordkeeper
+ Violations
  + Late-timing deposits
  + Use of stable value/money market fund as QDIA
  + Missing participants

When any of these items is missing from a plan’s design or process, either that plan is obsolete or, in more extreme cases, the Plan Sponsor risks not living up to its responsibility as a fiduciary.

**HOW PLAN SPONSOR NEEDS HAVE CHANGED**

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<tbody>
<tr>
<td>Should I offer a DC plan? Why?</td>
<td>2000s</td>
<td>How can I improve my plan design? How can I improve investor outcomes?</td>
<td>2015</td>
<td>How do we move from accumulation to distribution?</td>
<td></td>
<td></td>
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<tr>
<td>Mid-1990s</td>
<td>What investments should I offer?</td>
<td>2010s</td>
<td>What risks am I exposed to? How do I know what regulations affect me? What guidance do I need to comply with?</td>
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<tr>
<td>Today</td>
<td>What is the current standard of excellence for DC plans?</td>
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MINIMUM ACCEPTABLE STANDARDS VERSUS STANDARD OF EXCELLENCE

An RA should know the difference between the minimum acceptable standards and the standard of excellence for all plan sizes. Keep in mind that such criteria tend to change as innovation drives excellent standards downward to minimum acceptable. In fact, based on feedback from advisors, we have made revisions to our list.

The minimum acceptable standards may currently protect a Plan Sponsor and her advisor from potential liability but eventually—and often rapidly—these standards are replaced by higher standards that reduce these to the level of obsolescence.

The RA who wants to establish a competitive advantage can use the obsolete and minimum acceptable standards to help Plan Sponsors understand the current state of their plan and what areas can, should and (in some cases) must be improved to avoid the risk of liability.

Additionally, the prudent RA will be able to articulate the current standard of excellence for all plan sizes so that her clients are provided the best-quality advice available. Not all Plan Sponsors will choose to execute to the highest standard available, but we believe that all Plan Sponsors are well served to at least be informed about what the current standard of excellence is.

Importantly, the pursuit of excellence in DC plan design and processes is a moving target; innovation continues and tends to accelerate, as do enforcement and new editions of regulatory guidance. This provides a continual challenge—and an opportunity—for the Plan Advisor. The challenge is that the prudent advisor must stay fully informed about what constitutes obsolescence, minimum acceptable standards and standards of excellence in the industry. The opportunity is that staying current in this way creates tremendous value for existing and prospective clients.

<table>
<thead>
<tr>
<th>Criteria for Minimum Acceptable Standards</th>
<th>Criteria for Standard of Excellence</th>
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<tr>
<td>Designated plan committee</td>
<td>Financial advice on in and out of plan assets</td>
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<tr>
<td>Clear definition of who has fiduciary responsibility</td>
<td>Regular fiduciary training for Plan Sponsor and advisor</td>
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<tr>
<td>Automatic enrollment into minimum standard QDIA or target-date fund based on expected retirement date</td>
<td>Participant education policy statement</td>
</tr>
<tr>
<td>Limited/constraining investment policy statement</td>
<td>Education for retiring participants on retirement income</td>
</tr>
<tr>
<td>Diverse core investment menu (multiple mutual fund families)</td>
<td>Documented prudent process for QDIA selection following the DOL’s “tips”</td>
</tr>
<tr>
<td>QDIA-compliant and offering risk-based funds as QDIAs</td>
<td>Flexible investment policy statement (assumes innovations)</td>
</tr>
<tr>
<td>Automatic escalation of savings rate</td>
<td>Rationalized fund menus (domestic and international exposure)</td>
</tr>
<tr>
<td>Regular participant meetings for all plan participants with balances</td>
<td>Revenue-neutral investments</td>
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<tr>
<td></td>
<td>Annual reenrollment sweep</td>
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As an advisor, your ultimate goal is to build better outcomes for your clients. At AllianceBernstein, we share your commitment. We’ve put our research to work for our clients around the world:

+ Exploring the opportunities and risks of the world’s capital markets and the innovations that can reshape them
+ Helping investors overcome their emotions and keep their portfolios on track
+ Defining the importance of investment planning and portfolio construction in determining investment success
+ Providing tools to help advisors build deeper relationships that benefit their clients and their practices

Our research insights are a foundation to help you serve your clients. Speak to your AB relationship team to find out how we can help you.