# What DC Plan Sponsors Prefer Retiring Participants Do and Why It Matters

Postretirement thinking should inform plan sponsor decisions.

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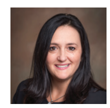

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## KEY INSIGHTS

- According to T. Rowe Price research, only 17.8% of DC plan sponsors prefer participants to leave their plans at retirement. This raises the question: Should we consider the implications of longer-term involvement with participants after they retire?
- Keeping retired participants in DC plans is more than an academic question. On average, retired participants made up 14.3% of plan populations within our survey pool.
- There is strong agreement among plan sponsors on the benefits of taking a longer-term view—including periods up to and through retirement. Notably, this agreement persists, even among those preferring that participants leave their plans at retirement.
- Considering participants' long-term retirement journey also adds important context for making plan decisions, including communications strategies, availability of plan distribution options, and qualified default investment alternative (QDIA) selection.

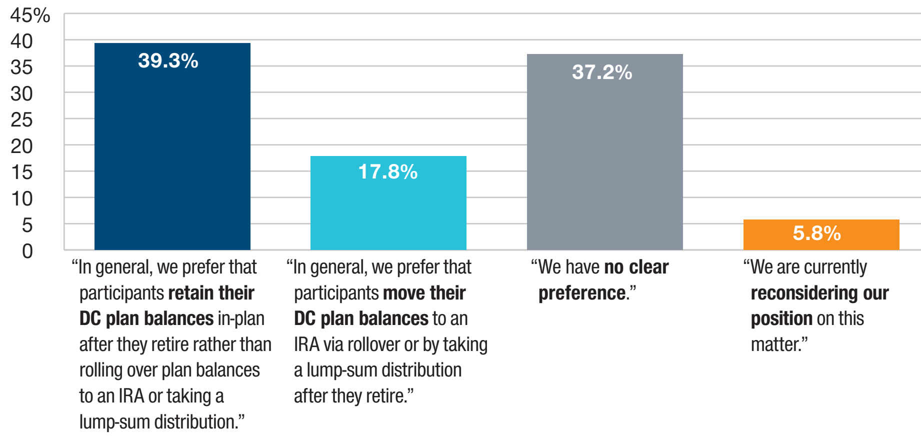
In T. Rowe Price research on plan sponsors' understanding of risk and long-term objectives conducted in 2018,[1] we found that a strong majority of plan sponsors prioritized keeping retiring participants in their plan. This perspective contrasts with a conventional view that a plan sponsor's responsibility predominantly extends to the point of the participant's retirement. However, greater interest in retaining retired participants in plan seems to be a rapidly developing trend among plan sponsors. After all, assessment of in-plan retirement income solutions—and, presumably, keeping participants who would use them—has been extensively discussed within the DC industry. In particular, the *strength* of plan sponsors' preference for retaining retired participants in plan presented a compelling opportunity for further study.

The current research profiled in this report provides a more complete understanding of what's driving plan sponsor preferences concerning what participants do with their DC

[1] See Advancing the Way We Think About Perceptions of Risk and Achieving Outcomes at troweprice.com/dcio.

## (Fig. 1) All Respondents

Q: When your employees retire, what would your organization prefer that they do with their DC plan balances?[2]




...rising concern for what happens *after* a participant retires should reframe plan objectives and targeted outcomes.

plan balances at retirement. Deeper exploration of these issues can also help us understand the broader influence of postretirement thinking. Increasingly, DC plan design and oversight is influenced by an objectives-based approach. Given that orientation, rising concern for what happens *after* a participant retires should reframe plan objectives and targeted outcomes.

This research provides basic data to help plan sponsors understand where they stand versus peers on retaining retiring participants. It can also help investment consultants, plan service providers, and asset managers better calibrate the evolution of plan design, investment solutions, and communications strategies.

Beyond plan features and solutions that directly address the needs of retiring participants, changing attitudes and objectives can more broadly influence other plan decisions. This includes communications with participants as they approach retirement age and the evaluation and selection of plan QDIAs.

### A Plurality of Plan Sponsors Prefer Participants Keep Their DC Plan Balances in Plan When They Retire

More than 39% of plan sponsors prefer that participants keep their DC assets in plan after retirement. Only 17.8% of plan sponsors preferred that participants exit the plan upon retirement (e.g., rolling over balances to an IRA, taking a lump-sum distribution, etc.).

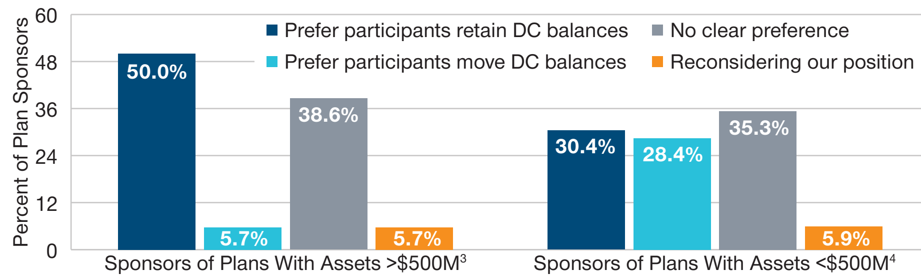
Further, 5.8% of plan sponsors reported that they were reconsidering their position regarding retention of retiring participants, signaling that the positions of some plan sponsors are in flux. More interestingly, a large segment of plan sponsors reported "no clear preference" (37.2%) on the issue. This should not necessarily be interpreted as simple indifference in all cases. Many plan sponsors seem open to both options—support for participants who choose to exit the plan *as well as* for participants to remain in their DC plans. The views of plan sponsors in this group may skew more to principled *neutrality* rather than simple *ambivalence*.

Overall, these findings may reflect an evolution of thought among plan sponsors. Rather than simply focusing on the needs of current employees, many plan sponsors

[2] Results from 191 respondents.

### (Fig. 2) Responses Based on Reported Plan Assets, >$500M and <$500M

Q: When your employees retire, what would your organization prefer that they do with their DC plan balances?




appear increasingly open to supporting the needs of participants over longer time frames, including periods after retirement.

#### Sponsors of Larger Plans Are More Likely to Prefer Participants Stay in the DC Plan After Retirement

Our data demonstrate a clear discrepancy between the retention preferences of sponsors of larger plans (assets of $500M or greater) and sponsors of smaller plans (assets less than $500M). Sponsors of larger plans are much more likely to favor retaining retiring participants in plan. Plan size—in and of itself—is probably not the direct cause. Smaller employers may simply be more concerned about their ability to provide administrative support for relatively large pools of retired participants over time.

The preferences of larger plan sponsors can have a more deterministic effect on DC plan service providers and asset managers, driving product and feature development that can downstream to smaller plans. The broad effect on the DC marketplace may be increased availability of more effective and efficient features, solutions, and resources intended for retired participants in the future.

#### "They're Here…": Retired Participants Are Already a Reality in Many DC Plans

Plan sponsor preferences aside, a substantial percentage of the plan participant base may *already* be retired in many plans. Plan sponsors typically only force a participant out via mandatory distribution upon termination of employment if the account balance is less than $5,000.[5] In reality, nearly all plans will carry a population of former employees (retired or otherwise).

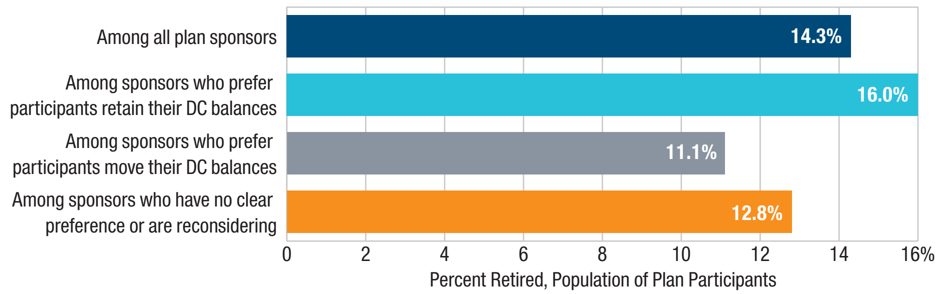
However, the percentage of retired participants (14.3% average) reported within our research sample suggests that some are inclined to remain within the DC plan beyond a short transitional period after separating from service. Separate research from T. Rowe Price on a more expansive sample of DC plan participants adds broader context. Forty-five percent of DC plan participants who separated from service (retired or otherwise) left balances in a prior employer's plan or consolidated it within the plan of a new employer; only 38% elected to roll over DC plan balances to an IRA.[6] In other words, participants more often chose to keep accumulated balances within the DC system than not.

[3] Results from 88 respondents.
[4] Results from 102 respondents.
[5] Pursuant to Internal Revenue Code § 401(a)(31)(B)(ii).
[6] RSS4 © 2018 NMG Consulting. All rights reserved. T. Rowe Price engaged NMG Consulting to conduct a national study of 3,005 adults age 21 and older who have never retired and are currently contributing to a 401(k) plan or are eligible to contribute and have a balance of at least $1,000. We also included an oversample of 1,005 adults who have retired with a rollover IRA or left-in-plan 401(k) balance.

Even plan sponsors who prefer participants to leave the DC plan at retirement often acknowledged that their DC plan can provide advantages.

## (Fig. 3) Portion of Participants Who Are Already Retired[7]

Average Values by Plan Sponsor Retention Preference



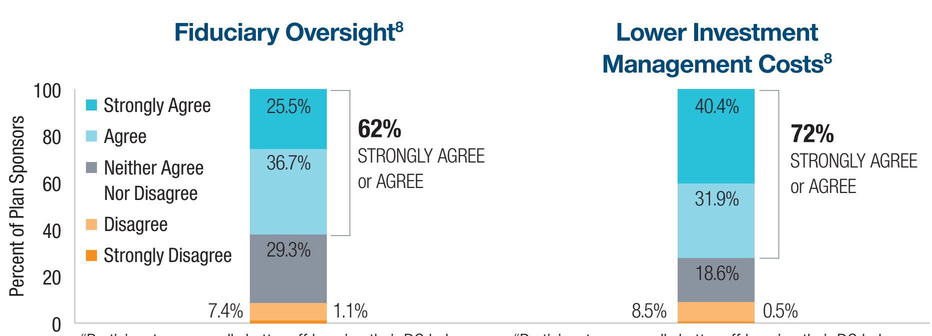

Although the number of retired participants will vary by plan, it's often incorrect to assume all participants will leave the plan when they retire. With a significant number of retirees remaining in their DC plans, plan sponsors who have not yet considered how to address their needs should ask themselves: Is this a sustainable and justifiable approach, or is it better to consider the possibility of longer-term involvement?

### Plan Sponsors Are Confident Their DC Plans Can Offer Advantages for Retiring Participants

An individual participant's decision to stay in plan or roll over assets to an IRA can be complicated and based on several factors. However, there are two common reasons why remaining within a DC plan may be appealing.

First, the large scale of DC plans offers the advantage of institutional pricing and potentially lower overall investment costs compared with an IRA. Second, the Employee Retirement Income Security Act (ERISA) requires the application of rigorous standards and oversight within DC plans under its jurisdiction, whereas an individual may or may not receive this same standard of care outside of the plan.

## (Fig. 4) Participants are usually better off keeping DC plan balances because of...



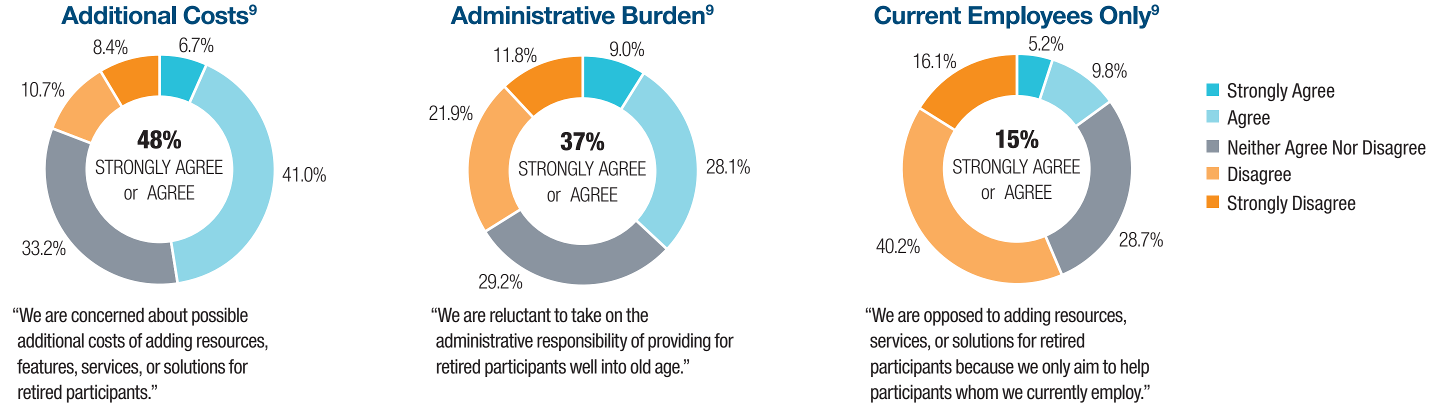

"Participants are usually better off keeping their DC balances in plan than rolling over to an IRA after retirement because of ongoing fiduciary oversight of plan investment options."

"Participants are usually better off keeping their DC balances in plan than rolling over to an IRA after retirement because of the likelihood of lower investment management costs."

[7] For "Among all plan sponsors," results from 165 respondents. For "Among sponsors who prefer participants retain their DC balances," results from 65 respondents. For "Among sponsors who prefer participants move their DC balances," results from 29 respondents. For "Among sponsors who have no clear preference or are reconsidering," results from 63 respondents.

[8] Results from 188 respondents.

## (Fig. 5) Plan Sponsors' Concerns About Retaining Retiring Participants Can Vary




Within our research, most plan sponsors agreed that participants are better off keeping their DC plan balances in plan because of ongoing fiduciary oversight provided within the plan and the likelihood of lower investment management costs.

### If Not, Why Not?

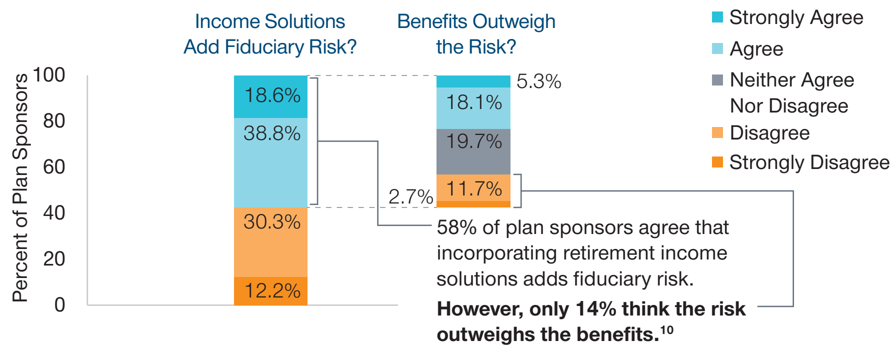
There are valid concerns in setting objectives to provide for retired participants, including the potential for additional direct costs and increased responsibility for incorporating certain retirement income options.

Nearly half (48%) of plan sponsors reported concern about additional costs of adding resources, features, services, or solutions for retired participants. In addition, 37% admitted reluctance in taking on the administrative responsibility of providing for retired participants well into old age. However, only 15% indicated outright opposition to adding resources, services, or solutions for retired participants, signaling openness to including retirees.

### Focus on Fiduciary Risk

More than half (58%) of plan sponsors report that incorporating retirement income solutions within the plan's investment menu adds fiduciary risk. Of course, the addition of *any* investment solution to a DC plan could be seen as a source of incremental risk, so additional context is needed to fully interpret this finding.

## (Fig. 6) Focus on Fiduciary Risk




[9] Results from 178 respondents.
[10] Results from 188 respondents.

> ...DC plans are often the primary retirement savings vehicle for many participants.

Responding to a follow-up question, only 14% of plan sponsors reported that these risks override potential advantages. In other words, although most plan sponsors agreed that retirement solutions can add some fiduciary risk, very few felt that risk outweighed the potential benefits.

### Plan Sponsor Philosophies Align With Longer-Term Objectives

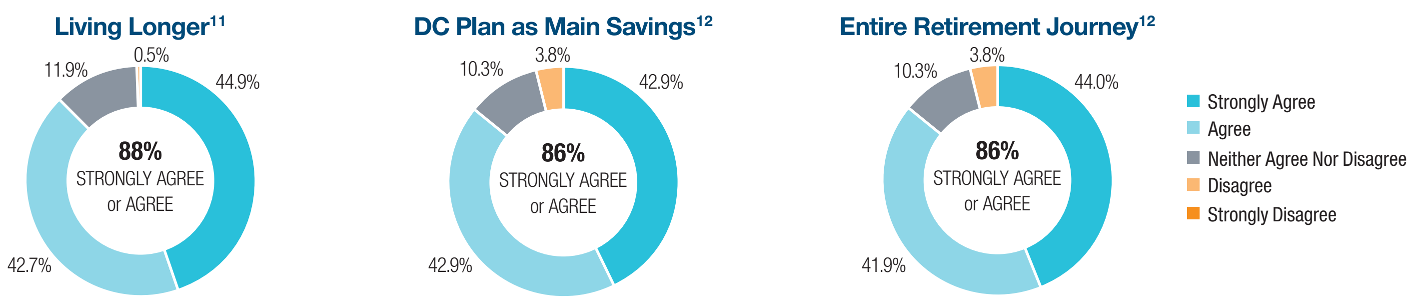
Overall, 88% of plan sponsors agree that since people are living longer and spending more years in retirement, these demographics should influence DC plan design and/or investment choices. Further, 86% of plan sponsors agree that special consideration is warranted since DC plans are often the primary retirement savings vehicle for many participants. The same majority (86%) agrees that a broader perspective, including periods leading up to and through retirement, should be considered to better target desired participant outcomes.

### A More Complete Perspective on the Participant's Retirement Journey

Taking a broad view of a participant's retirement journey—including consideration of participant outcomes well into retirement—does not necessarily mean that a plan sponsor will (or *should*) provide access to a dedicated retirement income solution. However, a broader view will often inform plan objectives and desired outcomes and alter the assessment of risks. In turn, these factors influence tangible plan decisions, like the evaluation and selection of plan investments (including target date funds), participant access to partial plan distributions and other payout options in retirement, and what the plan sponsor will communicate to retiring participants and the broader community of eligible employees.

A skeptic might assume plan sponsors would accommodate the needs of retired participants only to the extent required by regulations. However, our findings suggest many plan sponsors have decided to take a broader view of their responsibility with respect to the participant's entire retirement journey. These plan sponsors acknowledge significant benefits to keeping participants within the DC system.

### (Fig. 7) Among Plan Sponsors, Some Philosophical Views Are Remarkably Consistent




"The fact that people are living longer and spending more years in retirement should influence DC plan design and/or investment choices."

"DC plan sponsors should carefully consider the needs of retired participants now that DC plans are the main retirement savings vehicle for most employees and guaranteed income pension benefits are often not available."

"Plan sponsors should consider the participant's entire retirement journey—including periods leading up to and through retirement—in order to better target desired outcomes."

[11] Results from 185 respondents.
[12] Results from 184 respondents.

### Survey Methodology

T. Rowe Price's survey was sponsored by Pension & Investments (P&I) and conducted during September and October 2018 by Signet Research, a marketing research firm. The survey universe is a list of plan sponsors and consultants selected from the P&I database. Responses were received from 210 plan sponsor officials. Not all survey respondents completed all survey questions. Respondents participated via online surveys and were offered a chance to win prize awards as incentives for their participation. T. Rowe Price designed the survey questions and is solely responsible for the interpretation of the results.

## FINAL THOUGHTS

In the end, choosing to partner with participants on their longer-term retirement journey may be well worth the time and effort involved given the growing importance of DC plans in achieving better retirement outcomes. While a matter of individual plan circumstances, considering retired participants could involve the addition of investment solutions specifically intended for them or an overall shift in perspective to prioritize longevity across all plan design and investment decisions.

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