



Pensions&Investments West Coast

Defined Contribution Conference

October 27-29, 2014 | Manchester Grand Hyatt | San Diego

Plan Governance: a Balancing Act

Moderator:

- Ross Bremen, CFA, Partner, NEPC, LLC

Speakers:

- Alfred Artis, VP of Treasury & Risk Management, Del Monte Foods, Inc.
- Chip Castille, Managing Director, Head of US Retirement Group, BlackRock
- John McCareins, CAIA, CIMA, Practice Lead, Outsourced CIO Solutions, Northern Trust

NEPC 2014 Plan Sponsor Survey

1. Please describe your current role:

Answer	
Committee member	27%
Investment staff professional	42%
Human resources staff professional	22%
Legal/Attorney	1%
Other	8%

2. Please describe your defined contribution plan:

Answer	
Asset size between \$0 and \$300 million	29%
Asset size between \$301 and \$1 billion	35%
Asset size between \$1 and \$2 billion	6%
Asset size between \$2 and \$5 billion	14%
In excess of \$5 billion	16%

* May not sum to 100% due to rounding

n = 113



NEPC 2014 Plan Sponsor Survey

3. In the last 24 months, managing a defined contribution plan has become:

Answer	
More time consuming / More challenging	89%
Less time consuming / Less challenging	11%

4. Do you believe that the majority of your plan participants will have sufficient savings at retirement?

Answer	
Yes	36%
No	64%



NEPC 2014 Plan Sponsor Survey

5. Do you believe that due to inertia, lack of expertise or other factors, the average plan participant in your defined contribution program would be invested more appropriately in a target date fund than a self-selected mix of non-target date fund offerings?

Answer	
Yes	87%
No	13%

6. Do you believe that the diversifying investment options which have benefited defined benefit programs could similarly benefit defined contribution plans?

Answer	
Yes	70%
No	30%



NEPC 2014 Plan Sponsor Survey

7. Do you think your plan participants would benefit from saving more, saving earlier, and improving diversification?

Answer	
Yes	99%
No	1%

8. Do you feel the Investment Committee decision making process currently employed can be challenging due to full agendas, lack of expertise, competing priorities and/or infrequent meetings?

Answer	
Yes	48%
No	52%



NEPC 2014 Plan Sponsor Survey

9. Does your plan have any intention to investigate the merits of pursuing a plan re-enrollment in the next 24 months?

Answer	
Yes	19%
No	64%
We have already completed or are in the process of completing a plan re-enrollment	17%

10. Does your plan intend to investigate Custom Target Date funds in the next 24 months?

Answer	
Yes	20%
No	52%
We already offer custom target date funds	28%



NEPC 2014 Plan Sponsor Survey

11. Does your plan intend to investigate the merits of a discretionary or outsourced CIO model for your defined contribution programs in the next 24 months?

Answer	
Yes	4%
No	91%
We make use of a discretionary model	6%



NEPC 2014 Plan Sponsor Survey

12. Please place the following potential 2014 agenda items in order of importance with 1 being the most important:

Agenda Item Overall Rank

Answer		1	2	3	4	5	6	7	8	9	10
1	Plan fees	39	22	18	9	11	3	1	0	0	2
2	Participant education	33	20	15	12	9	4	7	5	0	0
3	Traditional core menu of investment offerings	9	18	13	21	14	10	11	5	4	0
4	Auto Features	9	14	17	16	14	12	12	7	2	2
5	Custom target date funds	5	10	12	16	7	7	19	12	11	6
6	Lifetime income offerings	1	6	8	15	20	13	18	15	8	1
7	Advice/managed accounts	5	4	11	5	13	16	13	25	12	1
8	Inclusion of "alternatives"	3	4	7	5	9	25	15	17	15	5
9	Re-enrollment	1	7	3	6	6	13	7	11	23	28
10	Outsourced CIO	0	0	1	0	2	2	2	8	30	60

Agenda Item Respondent Importance



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Investment Policy Statement: Safety Belt or Smoking Gun?

Establish a policy and adhere to it. Good governance is about the process (not the results).

Investment Policy Statement Key Tenets

Plan

- Plan purpose
- Desired outcomes
- Deferral goals
- QDIA
- ERISA 404(c) “Safe Harbor”

Governance

- Committee structure
- Roles and responsibilities
- Decision criteria
- Evaluation process
- Education

Investments

- Asset classes
- Investment Options
- Hire, monitor, fire framework
- Review frequency

Administration

- Documentation
- Cost and fee management
- Hire, monitor, fire framework
- Review frequency
- Participant services



Advice, Execution, and Accountability: Who is Responsible?

Fiduciary Duty and Decisions	No Outside Fiduciary	Section 3(21) Fiduciary	Section 3 (38) Fiduciary
Develop and maintain Investment Policy Statement	Plan Sponsor	Plan Sponsor	Plan Sponsor
Select and monitor advisor to sponsor and plan service providers	Plan Sponsor	Plan Sponsor	Plan Sponsor
Select and monitor advice provider to participants	Plan Sponsor	Plan Sponsor	Plan Sponsor
Select, monitor and terminate investment options and managers	Plan Sponsor	Plan Sponsor	Investment Advisor
Monitor manager and compliance with prospectus and guidelines	Plan Sponsor	Plan Sponsor / Consultant	Investment Advisor
Investment menu compliance with ERISA requirements (i.e. prudence)	Plan Sponsor	Plan Sponsor / Consultant	Investment Advisor



Avoidable Impediments: Unpacking the Fund Line-Up

DC Plan 1.0

A la Carte

Multitude of Retail Investments

Brand Awareness Influences

Change is a Herculean Task

Information Overload

Leads To



Participant Confusion, Investment Inflexibility & Administrative Burden

DC Plan 2.0

White Label

Streamlined Investment Options

Asset Allocation Possibilities

Investment Agility

Less Participant Noise

Leads To



Participant Confidence, Investment Liberty & Administrative Relief



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Three Key Strategies to Consider

- **Let's Redefine Risk:**
 - *Risk is whatever threatens the participant's ability to retire on time.*
- **Focus on the Future:**
 - *Understand how plan design drives results*
- **Information, Not Education:**
 - *Give participants the information they need, when they need it.*



An Opportunity to Reboot

- **Sponsor executed a spinoff of its Consumer Business**
- **The spinoff resulted in a new company that had to create a DC and a DB Plan from Scratch**
- **Key Learnings:**
 - Consultants really do know structure better than we do; everything has been taken for granted
 - Learning about your Plan is good for you
 - Keep the work at the level where it is understood and valued
 - Debate the issues before committing but don't be afraid to change
 - Differences in participant involvement are similar to differences in Governance philosophies
 - Do we owe Participants anything more than the basics?
 - Can we accommodate the desires of the actively involved versus clueless participants?
 - Should we have a plan to educate our Governance body?
 - What should the Investment line-up be?
 - Should we schedule regular investment line-up reviews?
 - Who should be reviewing the investment line-up in the first place?
 - Participants will act if you give them something upon which to act

