Understanding re-enrollment

Benefits for participants and plan sponsors

IN BRIEF

A plan re-enrollment is a process by which participants are notified that their existing assets and future contributions will be invested in the plan's qualified default investment alternative (QDIA), which may be a target date fund (TDF), based on their date of birth. All participants' assets are automatically moved into the QDIA on a certain date unless the participant makes a new investment election during a specified time period.

Participant benefits

- potential for improved asset allocation
- helps new and existing participants

Plan sponsor benefits

- potential for protection from investing liability
- better participant experience

MANY PLAN SPONSORS HAVE ADDED TDFs TO THEIR DEFINED CONTRIBUTION (DC) plans, with the goal of better positioning employees—especially those who don't have the time, interest or knowledge to make investment decisions—for retirement success.

But even when coupled with robust education efforts, participant inertia may leave plan sponsors feeling disappointed with low TDF adoption rates.

How TDFs are implemented, however, can have a significant impact on whether employees will use the particular investment option. To combat participant inertia, more plan sponsors are considering re-enrollment. In fact, plan sponsors that conduct a re-enrollment typically see a 49% to 97% adoption rate of TDFs. By contrast, plans that just add TDFs as a new option in their lineups see an adoption rate of less than 5%, even a few years later.[1]

[1] J.P. Morgan retirement research; data as of December 31, 2017.

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WHY CONDUCT A RE-ENROLLMENT?

Get participants on the appropriate path

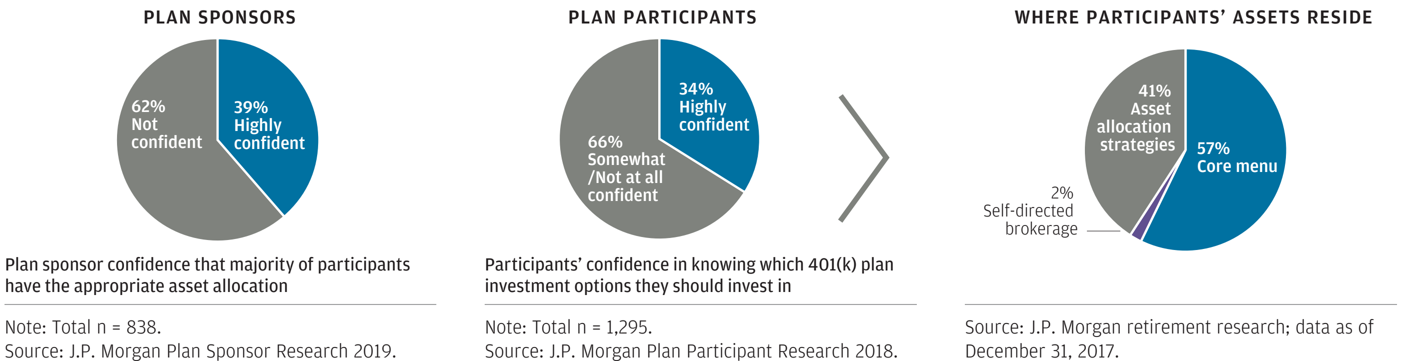
Despite participant education efforts and the availability of simplified investment decision-making options, there is a general lack of confidence that participants are well diversified within their 401(k) plans. As **EXHIBIT 1** illustrates, too few plan sponsors (only 39%) say they are highly confident that the majority of their participants have an appropriately diversified allocation. Participants are even less confident on this measure, with only 34% highly confident in their ability to appropriately allocate across available investment options. Despite this lack of plan sponsor and participant confidence, the majority of DC assets remain in core menu options that require participants to build their own asset allocation and manage it over time. Conducting a re-enrollment can help get participants into a diversified portfolio and can help ensure their asset allocation changes with them over time.

Address diversification for existing participants

While plan sponsors can put new hires on an age-appropriate retirement path by automatically enrolling and defaulting them into a TDF, what can they do about existing participants? In **EXHIBIT 2**, each gray dot represents the equity allocation of an actual participant, while the blue and purple lines represent a 10% range over and under the J.P. Morgan target date glide path. Given the wide dispersion of gray dots, the illustration clearly depicts that participants' equity exposure can vary widely. Although a participant's 401(k) plan allocation may be the result of a holistic investment strategy across investment accounts, this dispersion may be one of the factors that plan sponsors may wish to consider when determining whether a re-enrollment might be right for their plan and participants. A re-enrollment uses participant inertia to help delegators—who typically rely on others—who could benefit from professionally managed options by defaulting them into age-appropriate portfolios, while still allowing more sophisticated and active participants to make their own investment decisions.

The lack of confidence in participants' ability to allocate does not align with how investment decisions are made

EXHIBIT 1: CONFIDENCE IN PARTICIPANTS' ASSET ALLOCATION VS. WHERE ASSETS RESIDE



Plan sponsor confidence that majority of participants have the appropriate asset allocation

Note: Total n = 838.
Source: J.P. Morgan Plan Sponsor Research 2019.

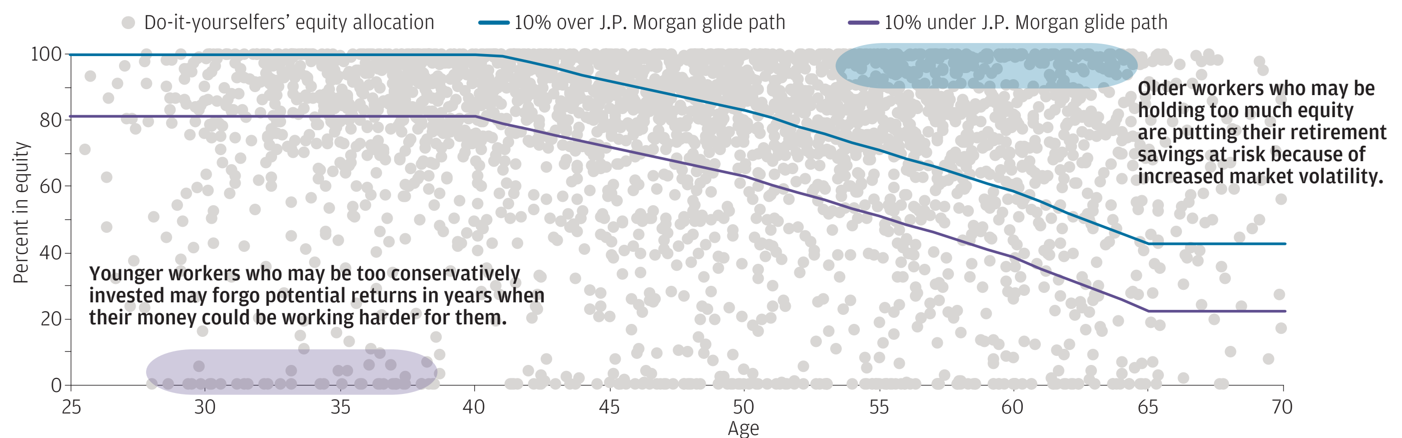
Participants' confidence in knowing which 401(k) plan investment options they should invest in

Note: Total n = 1,295.
Source: J.P. Morgan Plan Participant Research 2018.

Source: J.P. Morgan retirement research; data as of December 31, 2017.

Participants making their own asset allocation choices often have too much or not enough equity exposure

EXHIBIT 2: DO-IT-YOURSELFERS' EQUITY POSITIONS VS. J.P. MORGAN GLIDE PATH



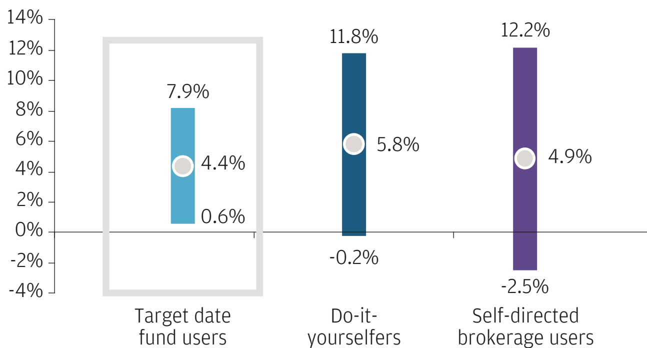
Source: J.P. Morgan retirement research; data as of December 31, 2018. Representative sampling of 3,000 do-it-yourself participants. For illustrative purposes only.

Keep participants on track

Re-enrolling participants into investment options that provide professional management and increasingly conservative risk/return profiles as retirement approaches not only helps to improve asset allocation within the 401(k) account, but also maintains a well-diversified allocation over time. These options are intended to minimize extreme outcomes—which may provide participants with a more consistent investment experience than the portfolios individually constructed by most do-it-yourselfers (see **EXHIBIT 3**).

TDF investors have a tighter range of outcomes than do-it-yourselfers

EXHIBIT 3: STANDARDIZED FIVE-YEAR RETURNS—HIGHS, LOWS AND MEDIANS BY INVESTMENT STRATEGY



Source: J.P. Morgan retirement research. Analysis measurement period is December 31, 2013, through December 31, 2018. The above data represents a sampling of participant data. It does not represent the returns of any individual product or portfolio. Exclusive reliance on the above is not advised. This information is not intended for a recommendation to invest in any particular manner. Rate of return for the measurement period is aggregated by investment strategy. Historical rate of return is not a guarantee of and may not indicative of future results. See the "Important Disclosures for Personal Rate of Return Methodology" for additional information.

RESEARCH CORNER

52% OF PLAN SPONSORS aren't aware of the potential to receive fiduciary protection for participant assets that were defaulted into their plans' QDIA during a re-enrollment.[2]

FIDUCIARY CONSIDERATIONS

Before conducting a re-enrollment, a plan sponsor must engage in a prudent process for determining whether a re-enrollment is appropriate for the plan and its participants. Plan sponsors that conduct a re-enrollment may gain safe harbor protection for defaulted assets, assuming the notification requirements described below are met. The re-enrollment approach typically results in a higher percentage of plan assets that are considered defaulted.

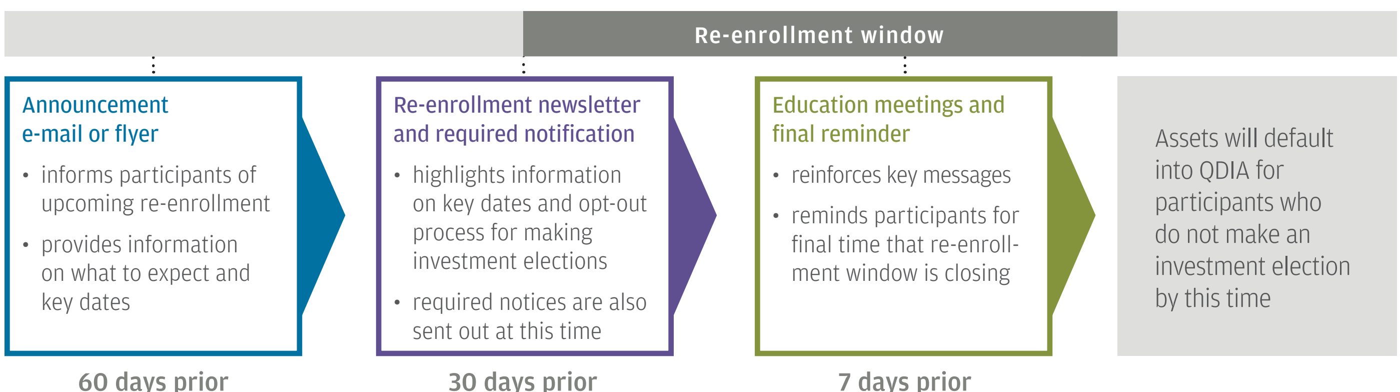
- **Initial opt-out notification:** Participants must be given the opportunity to make a new investment election before they are defaulted into the plan's QDIA. The initial notice must be provided at least 30 days before the participants' assets are invested in the QDIA (i.e., the end of the re-enrollment window) to satisfy the minimum legal requirements. Although not required, announcement and reminder notices are often sent in advance of the initial opt-out notification and before the re-enrollment window ends, respectively, to ensure that no participant is inadvertently defaulted.
- **Annual notices:** Annual notices must be provided to remind participants that they were defaulted into the QDIA and that they have the right to direct the investments in their accounts.

[2] Source: J.P. Morgan Plan Sponsor Research 2019.

WONDERING WHAT ACTUALLY HAPPENS WHEN YOU CONDUCT A RE-ENROLLMENT?

The illustration below represents a typical re-enrollment process timeline. Specifics, of course, vary by recordkeeper.

EXHIBIT 4: COMMUNICATIONS BEST PRACTICES FOR CREATING AN OPTIMAL PARTICIPANT EXPERIENCE



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IMPORTANT DISCLOSURES FOR PERSONAL RATE OF RETURN METHODOLOGY: Rate of return is aggregated by investment strategy and calculated based on the Internal Rate of Return methodology. Ranges of return are based upon the difference between the highest and lowest standardized rate of return associated with each investment strategy among such participants for the time periods shown. Services associated with the identified investment strategies were available as of the last day of the measurement period, but may not have been available throughout the measurement period.

Target date fund users are participants with at least 70% of their account balance invested in target date funds as of the first and last day of the measurement period. Do-it-yourselfers are participants with less than 70% of their account balance invested in target date funds as of the first and last day of the measurement period and also includes participants using online advice services, if applicable. Self-directed brokerage users are participants with at least $1 in a brokerage account as of the last day of the measurement period.

IMPORTANT DISCLOSURES FOR SCATTER PLOT CHART METHODOLOGY: Do-it-yourselfers are participants with less than 70% of their account balance invested in target date funds as of the day of the measurement period and also includes participants using online advice services, if applicable. The analysis excludes self-directed brokerage and managed account users.

TARGET DATE FUNDS: Target date funds are funds with the target date being the approximate date when investors plan to retire. Generally, the asset allocation of each fund will change on an annual basis with the asset allocation becoming more conservative as the fund nears the target retirement date. The principal value of the fund(s) is not guaranteed at any time, including at the target date.

CONFLICTS OF INTEREST: Refer to the Conflicts of Interest section of the Fund's Prospectus.

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