Enhancing DC plan design

Steps plan sponsors can take to help improve plan outcomes

1 ADOPT AUTOMATIC FEATURES

68% of DC plan participants are missing their retirement savings target.[1] Automatic plan features, such as automatic enrollment and automatic contribution escalation, can be successful tools for helping participants reach their retirement savings goals.

While some DC plan sponsors may hesitate to adopt automatic features for fear of employee pushback, our research shows that approximately 3/4 of participants are in favor of or at least neutral toward these features. Among those automatically enrolled in their plans, the vast majority are satisfied with the experience (96%). We see similar satisfaction rates for those whose contribution amount is/was automatically escalated each year (as shown in the table below).

Keys to success

- Automatically enroll all employees, not just new hires
- Execute automatic enrollment annually for non-participants, rather than just a one-time sweep
- Kick-start savings by starting the default contribution rate at 6%, rather than at the typical rate of 3%
- Set a default automatic increase rate of 2%, rather than the typical rate of 1% to help ensure participants quickly reach an appropriate savings rate

Support for automatic features is high among participants

	% in favor of or neutral toward plan feature	% satisfied with experience[b]
Automatic enrollment	75%	96%
Automatic contribution escalation[a]	74%	97%

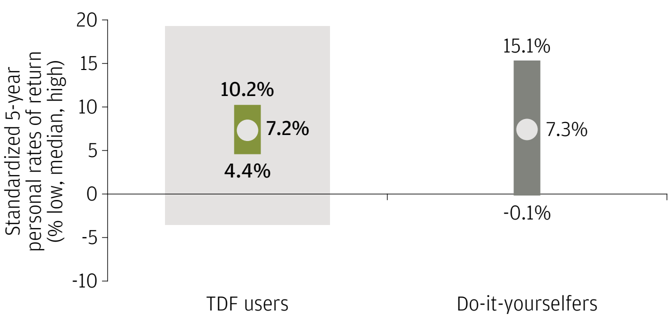
[a] Annual increases of 2% of salary up to 10%.
[b] Of those who have been through automatic enrollment/automatic contribution escalation.
Source: J.P. Morgan Plan Participant Research 2016.

2 SELECT AN APPROPRIATE TARGET DATE FUND (TDF)

Over half of plan sponsors are not confident that their participants have an appropriate asset allocation.[2] At the same time, 70% of participants are not confident about which 401(k) options they should invest in.[1] TDFs can help by providing age-appropriate diversification through professionally managed portfolios that become more conservative as participants move toward retirement.

Relative to less diversified investment options, TDFs may be less volatile, an important factor in helping more participants reach their desired level of income replacement at retirement. As shown in the chart below, participants who use TDFs experience less extreme outcomes in their DC plans than those constructing their own portfolios from a core investment lineup. TDFs are also highly valued by participants: 90% find them appealing, and 75% believe it is important that they are offered within a 401(k) plan.[1]

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



Source: J.P. Morgan retirement research, 2015. Analysis measurement period is December 31, 2010 through December 31, 2015. 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.

Keys to success

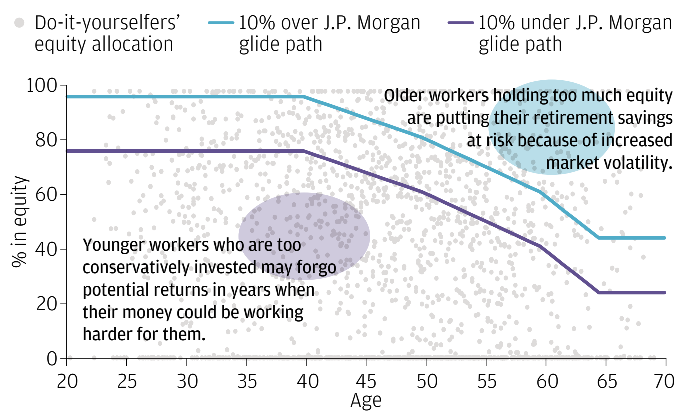
- Determine plan goals and objectives
- Compare and select a TDF that best aligns to the plan's goals and objectives
- Establish a process for periodic review
- Document the process along the way

3 CONDUCT A RE-ENROLLMENT

Despite plan sponsors' efforts to improve participant asset allocation by adding TDFs to the investment lineup, we see that only 1% to 4% of assets go into TDFs when added to plan lineups without an implementation strategy known as re-enrollment.[3] This leaves many participants with asset allocation choices that may not be appropriate for their age (as shown in the chart below). A plan re-enrollment can be a catalyst for getting participants invested in the TDF option.

A plan re-enrollment helps position both new and existing participants for retirement success by defaulting them into the plan's qualified default investment alternative (QDIA), usually an age-appropriate TDF, while still allowing those who want to take a more active role in choosing investments to opt out. Plan sponsors that conduct a re-enrollment typically see 49% to 97% of assets go into TDFs.[3] Some plan sponsors, however, are reluctant to conduct a re-enrollment, due to anticipation of participant pushback. Our research indicates this is likely a misperception: 82% of participants are actually in favor of or at least neutral toward this strategy. In addition, 99% of those who have gone through a re-enrollment and allowed funds to be moved to a TDF are satisfied.[1]

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



Source: J.P. Morgan retirement research. Representative sampling of 3,000 do-it-yourself participants, December 31, 2015. **For illustrative purposes only.** See the "Important Disclosures for Scatterplot Chart Methodology" for additional information.

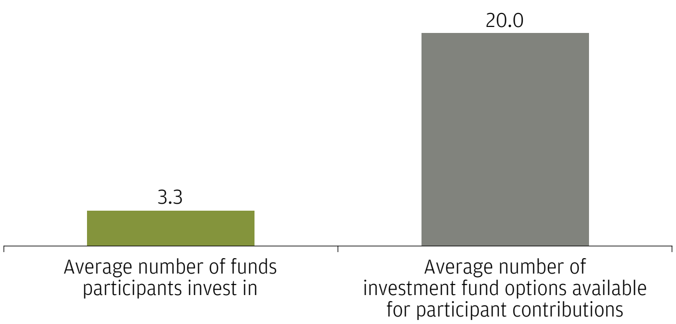
Keys to success

- Request participant-level asset allocation data from plan provider/recordkeeper
- Understand the facts:
  - ERISA safe harbor protection may be available for assets defaulted into a QDIA
  - Participants who want to make their own investment options can opt out

4 OPTIMIZE THE CORE MENU

While a majority of plan participants would benefit from investing in TDFs, some participants may choose to allocate their savings among the different investment options available in the core lineup. For these "do-it-yourselfers," a more streamlined core menu may be best. Research shows that having too many investment choices can lead to confusion, misallocation and even inertia among participants. In fact, even though DC plans offer an average of 20 funds or more, the average participant invests in fewer than four (as shown in the chart below).

More choice does not always lead to better diversification



Source: J.P. Morgan retirement research 2014.

Core menu investors may be better served by fewer, more sophisticated choices that leverage the benefits of diversification and professional management. Plan sponsors can do this by providing a single point of entry into well-diversified portfolios of stocks, bonds or cash equivalents, which offer diversification within a single asset class. This approach ensures that experienced, professional managers, with expertise in investing over different market cycles, are actively driving asset allocation and portfolio construction.

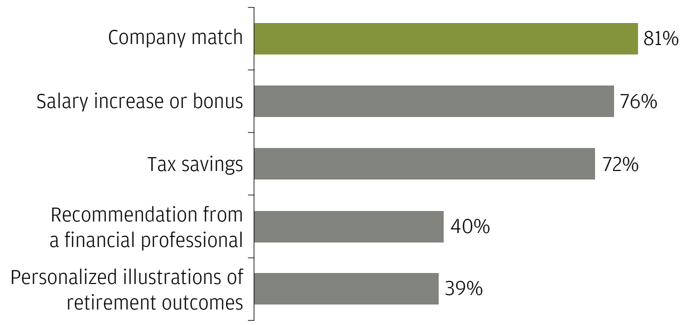
Keys to success

- Consider consolidating the entire core menu into three easy-to-understand investment portfolios: diversified stocks, diversified bonds and diversified cash alternatives
- Understand the benefits:
  - Better diversification, with access to institutional-quality strategies
  - Higher probability of better investment outcomes

5 LEVERAGE THE EMPLOYER MATCH

Many employers include a match as part of their benefits package. An employer match has the power to greatly increase the value of an employer-sponsored retirement savings account, while also providing a greater incentive for employees to contribute to the 401(k) plan. As shown in the chart below, 81% of participants feel the company match is a motivating factor in encouraging them to increase contributions.

Factors motivating participants to increase 401(k) plan contributions, 2016



Source: The Cerulli Edge, Retirement Edition 3Q 2016. % of participants that find these factors most or moderately motivating

Keys to success

- Consider offering an employer match to encourage participant savings
- "Stretch" the match to increase participant savings without increasing plan costs. For example, rather than matching 100% of a participant's savings of up to 4% of pay, a plan sponsor may motivate participants to save more by matching 50% of savings up to 8% of pay

1 J.P. Morgan Plan Participant Research 2016.

2 J.P. Morgan Plan Sponsor Research 2015.

3 J.P. Morgan retirement research, 2015.

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TARGET DATE FUNDS: Target date funds are funds with the target date being the approximate date when investors plan to start withdrawing their money. 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.

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IMPORTANT DISCLOSURES FOR PERSONAL RATE OF RETURN METHODOLOGY. Rate of return is calculated for active participants by an investment strategy using the Modified Dietz method and is based upon volatility between the highest rate of return and the lowest rate of return associated with each investment strategy among such participants. 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.

IMPORTANT DISCLOSURES FOR SCATTERPLOT 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.

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DC-PDSteps

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