RETIREMENT INSIGHTS

Misperceptions of fiduciary responsibilities persist

Insights from J.P. Morgan's 2019 Defined Contribution Plan Sponsor Survey

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AS WE FOUND IN PRIOR DEFINED CONTRIBUTION (DC) PLAN SPONSOR SURVEYS, many plan sponsor representatives who oversee their companies' 401(k) or other DC plans don't realize that they are fiduciaries under the Employee Retirement Income Security Act (ERISA). And some believe they can offload all of their fiduciary responsibilities for investments to a third party. Plan sponsors who harbor misperceptions like these or who are unaware of their fiduciary status risk violating ERISA's fiduciary standards, harming participants and exposing themselves and their firms to liability.

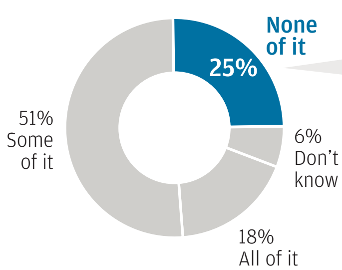
ERISA defines a fiduciary as any person who 1) has discretionary authority or control over the management or administration of a plan, 2) exercises authority or control over the plan's assets or 3) gives plan-related investment advice for a fee. Examples include the plan sponsor, plan investment committee members, plan trustees and investment advisors. Among their responsibilities, fiduciaries must act solely in the interest of plan participants and beneficiaries, and meet high standards of care, skill and prudence. Fiduciaries can be liable for losses to the plan caused by their failure to live up to these responsibilities. All respondents in our *2019 DC Plan Sponsor Survey* defined their responsibilities as ones that would typically categorize them as plan fiduciaries.

RESPONSIBILITIES ARE NOT AS TRANSFERABLE AS MANY BELIEVE

Plan sponsors may delegate some of their fiduciary responsibilities by hiring various service providers. For example, a plan sponsor may hire an investment manager—a so-called 3(38)—to assume responsibility for selecting and monitoring the plan's investment options. However, the hiring of an investment manager or investment advisor, like the hiring of any plan service provider, is a fiduciary act with fiduciary responsibilities. But of our survey's respondents, 25% believe they retain no fiduciary responsibility for selecting and monitoring plan investments, and an additional 6% are unsure if they do (**EXHIBIT 1**).

One in four plan sponsors incorrectly believe they have offloaded all their fiduciary responsibilities for the plan's investment offerings

EXHIBIT 1: HOW MUCH OF THE FIDUCIARY RESPONSIBILITY FOR SELECTING AND MONITORING THE APPROPRIATE INVESTMENT OPTIONS HAS YOUR ORGANIZATION RETAINED?



If not you, who has assumed (some/all) fiduciary responsibility?

45% Plan provider/recordkeeper
33% Advisor/consultant
15% Organization retained for this purpose
6% Law or accounting firm

Note: Assumed some/none of the fiduciary responsibility, n= 594 .
Source: J.P. Morgan Plan Sponsor Research 2019.

J.P.Morgan
Asset Management

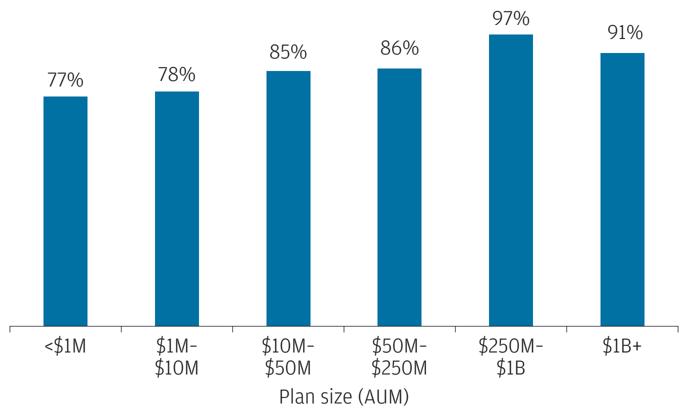
Advantages for plan sponsors who understand they are fiduciaries

On a more positive note, 80% of plan sponsors who recognize that they are fiduciaries are extremely or very confident they are meeting these obligations. This assurance tends to increase with plan asset size: Plan sponsors for more than 90% of the largest plans express a high level of confidence (**EXHIBIT 2**).

Plan sponsors who understand they are fiduciaries tend to be more confident that they are doing the sorts of things that prudent fiduciaries ought to do. On a number of measures—from having appropriate processes in place for selecting and monitoring investments to understanding their plans' target date funds (TDFs)—plan sponsors who are aware that they are fiduciaries are more confident than those who are not aware of their status (**EXHIBIT 3**).

For plan sponsors who recognize they are fiduciaries, confidence in meeting investment responsibilities tends to increase with plan size

EXHIBIT 2: HOW CONFIDENT ARE YOU THAT YOUR ORGANIZATION IS MEETING ITS FIDUCIARY RESPONSIBILITY IN TERMS OF SELECTING AND MONITORING PLAN INVESTMENT OPTIONS? (% RESPONDING "EXTREMELY" OR "VERY" CONFIDENT)

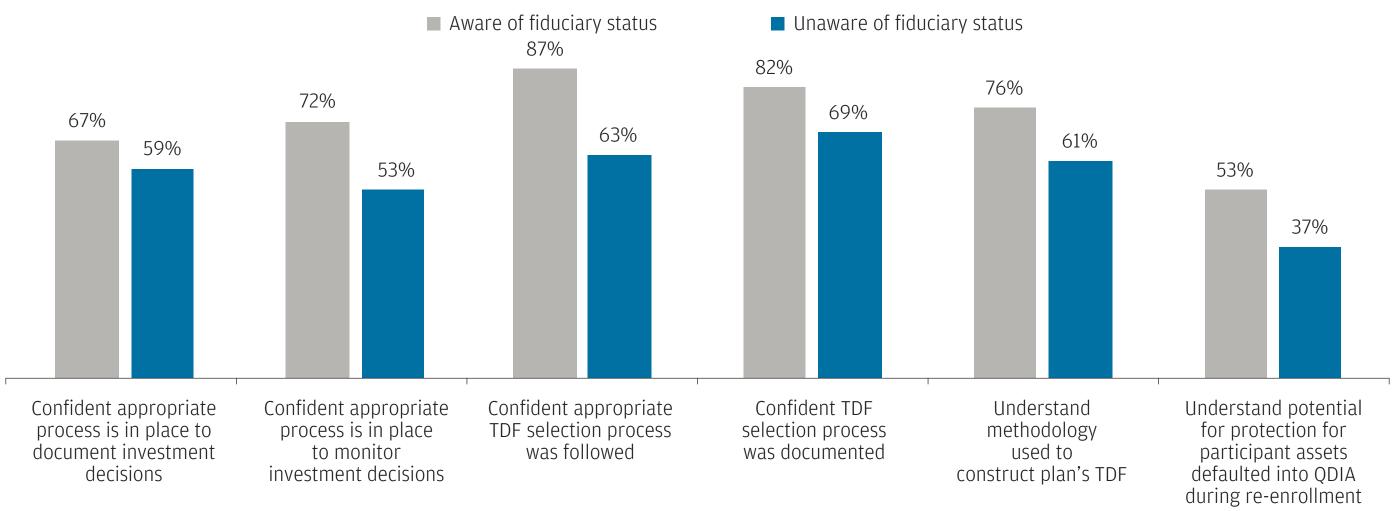


Note: Of those who recognized their fiduciary responsibilities, n=642.

Source: J.P. Morgan Plan Sponsor Research 2019.

Plan sponsors who recognize they are fiduciaries tend to be more confident in their investment review and documentation processes

EXHIBIT 3: PLAN SPONSORS WHO KNOW THEY ARE FIDUCIARIES VS. THOSE WHO DO NOT

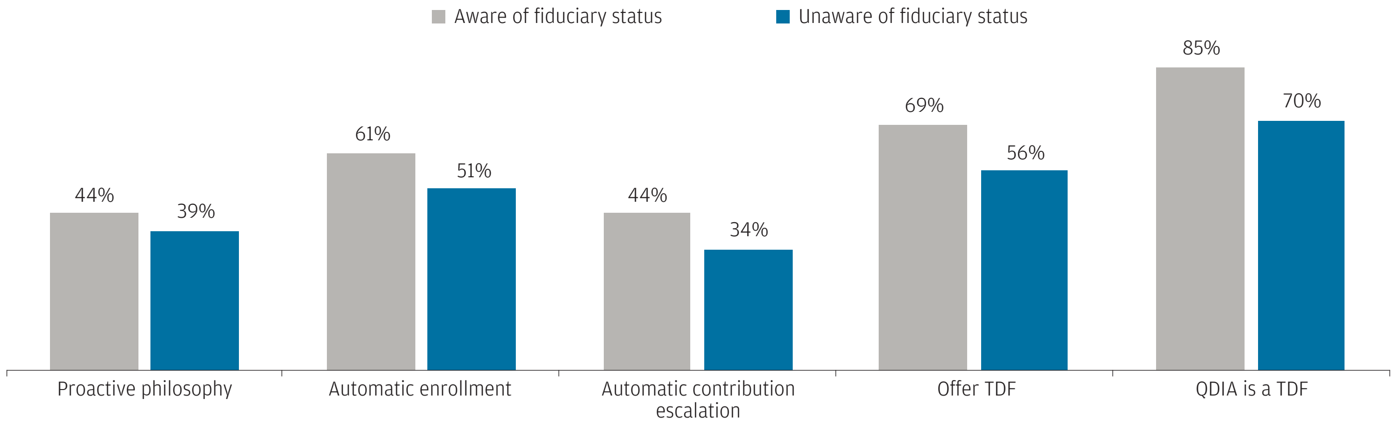


Note: Aware of fiduciary status, n=381; unaware of fiduciary status, n=457. Of those who have a QDIA, n=334.

Source J.P. Morgan Plan Sponsor Research 2019.

Plan sponsors who recognize they are fiduciaries are more likely to be proactive in plan design

EXHIBIT 4: PLAN SPONSORS WHO KNOW THEY ARE FIDUCIARIES VS. THOSE WHO DO NOT



Note: Aware of fiduciary status, n=381; unaware of fiduciary status, n=457. Of those who have a QDIA, n=418.

Source: J.P. Morgan Plan Sponsor Research 2019.

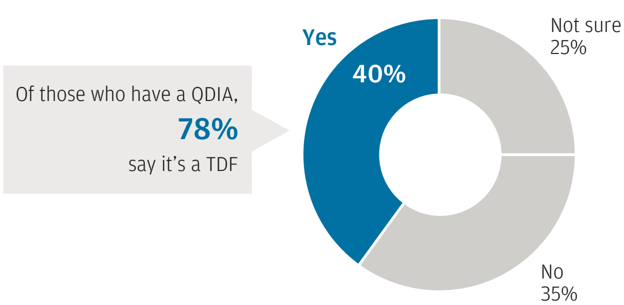
Further, these plan sponsors are likely to be more proactive in helping position participants for retirement success by incorporating such design features in their plans as automatic enrollment, automatic escalation and TDFs (**EXHIBIT 4**).

QDIA confusion

A surprising number of plan sponsors are unclear on whether they offer a qualified default investment alternative (QDIA) in their plan. While 40% say they do and 35% say they do not, 25% are unsure (**EXHIBIT 5**). Of the plan sponsors who know their plan includes a QDIA, TDFs are by far the most popular choice to fill the role, at 78%.

One in four plan sponsors are unsure if their plan features a QDIA

EXHIBIT 5: DOES YOUR PLAN HAVE A QDIA?



Note: Have QDIA, n=418.
Source: J.P. Morgan Plan Sponsor Research 2019.

Understanding fiduciary status and responsibilities is key

A sound understanding of fiduciary status, responsibilities, liabilities and protections can help ensure that plans are well administered and continue to evolve for the best interests of participants while protecting individual plan fiduciaries and their organizations. Plan sponsors who are uncertain about their fiduciary roles—including whether or not they have responsibilities—may want to reach out to experts who can help them improve their awareness and comprehension of what this may mean for expectations of them in this role. Advisors and consultants can be valuable resources in this regard.

The benefits of this knowledge are clear. Plan sponsors who are aware they are fiduciaries are highly confident they are meeting their investment obligations. They also are generally overseeing plans with more proactive features designed to make it easier for participants to save for retirement.

SURVEY METHODOLOGY

To stay in tune with the goals, motivations and progress of employers as they continue to shape the evolution of their defined contribution (DC) plans, we undertook our fourth plan sponsor survey on this topic. From January through March 2019, we partnered with Mathew Greenwald & Associates, a market research firm based in Washington, D.C., to conduct an online survey of 838 plan sponsors. All respondents are key decision-makers for their organizations' DC plans. All organizations represented have been in business for at least three years, offer a 401(k) or 403(b) plan to their domestic U.S. employees and have at least 10 full-time employees.

NEXT STEPS

To learn more about our ***Legislative and Regulatory Program*** or any of our other Retirement Insights programs, contact your J.P. Morgan representative.

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