Honorable Mention

By Editorial Staff *Thu, Dec 14, 2017*

Fujitsu settles excessive fee case, Holland debates retirement age hike, T. Rowe Price enhances its financial wellness offerings, Quebec enriches mandatory defined contribution plans, CIT assets reach $2.8 trillion in US, and Wells Fargo surveys retirement optimism.

Fujitsu settles excessive fee case for $14 million

In the settlement of a class action lawsuit over excessive retirement plan fees, Fujitsu Technology and Business of America, Inc., has agreed to pay $14 million to the participants of the Fujitsu Group Defined Contribution and 401(k) Plan. The settlement equals about $600 per class member and about one percent of plan assets, NAPA Net reported this week.

In addition to the payout, Fujitsu agreed to undertake a request for proposal (RFP) process "to reduce the amount of recordkeeping expenses paid by the Plan and already has voluntarily taken steps to reduce the amount of investment management fees paid by the Plan."

In the suit, filed in 2016 in the U.S. District Court for the Northern District of California plaintiffs claimed that in 2013, total fees amounted to approximately 0.88% of plan assets (about $11,400,000), and that in 2014, total fees amounted to approximately 0.90% of plan assets (about $11,900,000) – fees that they claimed were almost three times higher than the average for plans of similar size – and that the suit alleged made it one of the five most expensive defined contribution plans out of approximately 650 plans with assets of more than $1 billion.

Holland ponders the effect of raising its pension age

If the Dutch government raised the country's state pension age in line with life expectancy, it would mean that if people were to live till 110, they would have to work past their 90th birthday, according to the Netherlands Bureau for Economic Policy Analysis, or CPB.

The director of the CPB, Laura van Geest, called such an increase "unrealistic." The Dutch government has already decided to increase the retirement age to 67 in 2020. One year later, the AOW age will increase again by another three months.

In a new report on working longer, the government's accountants have warned that low-paid workers and the fast-growing group of self-employed workers (known as zzp'ers in the Netherlands) could face serious problems if the state pension (AOW) age keeps rising.

The government opted for this solution as a way of keeping the state pension affordable, with state finances under pressure since the financial crisis. Van Geest proposed a more gradual increase of the AOW age – for example an annual rise of three months – to enable the current generation of older workers to prepare for working longer.

According to Van Geest, such a slowdown of the rising retirement age would cost the government €1.1bn in 2021, but would be almost budget-neutral in the longer term.

The CPB also said that many self-employed hardly saved for their pension and that most of them had no short-term disability insurance, in contrast to full-time employees. This meant zzp'ers lacked a social safety net if they couldn't work any longer before retirement age. Van Geest also suggested that the government should assess whether self-employed workers could be persuaded or forced to insure themselves.

"Although the government has made different choices for zzp'ers, research has shown that people don't think properly about their future and don't expect to get ill," she said. "If they do get ill, it is too late to arrange something."

If the retirement age rises, it would be cost-effective for the government to help people take better care of themselves, she added. Life expectancies of lower-educated workers was at least four years less than that of higher-educated employees because of higher rates of smoking, drinking, eating unhealthy food and not exercising, van Geest said.

T. Rowe Price offers cash flow management tool to participants

To enhance its "financial wellness" services for plan sponsors and participants, T. Rowe Price Retirement Plan Services has integrated a third-party online cash flow management tool, **DoubleNet Pay**, into its Workplace Retirement website.

Participants can use DoubleNet Pay to manage their "competing financial priorities by automating their spending and saving for short- and long-term goals," according to a T. Rowe Price release.

With more plan sponsors becoming aware of the adverse impact of financial anxiety and retirement un-readiness on productivity and workforce management, major plan providers have been adding these types of functionalities to their menus of online participant services. Such tools are increasingly perceived as competitive necessities for plan providers.

Users of DoubleNet Pay can set up regular deductions from their bank accounts to pay bills, manage debt and fund an emergency savings account. "Each month the identified dollar amounts will be automatically deducted from an individual's paycheck so they can clearly see and understand their disposable income," the release said.

"DoubleNet Pay was created to help people easily pay their bills on time and to start a savings fund before spending their money on discretionary items," "The tool is significant because individuals are able to enroll in the service annually for less than the cost of a bounced check or the late fee on a credit card," said Brian Cosgray, DoubleNet Pay's founder and CEO, in the release.

Quebec raises contribution, replacement rates of DC plans

TowersWatson, the benefits consulting firm, issued a report last week on a recently proposed Canadian law that would raise mandatory contributions to the Quebec Pension Plan (QPP), an earnings-related pension program within the Canadian social security system.

Bill 149, introduced in November, would increase benefits and employer/employee contributions gradually over a seven-year period starting January 1, 2019. It will also amend the Supplemental Pension Plans Act (SPPA), which applies to employer-provided plans in Quebec.

The proposed enhancements mirror those enacted by the federal government in December 2016 for the Canada Pension Plan (CPP), which applies to workers in the other Canadian provinces. Bill 149 calls for these changes to the QPP:

- From 2019 to 2023, the income-replacement rate at retirement for a Quebec worker will increase in stages from 25% to 33.33% of pay, up to the year's maximum pensionable earnings (YMPE).
- From 2019 to 2023, a 2% increase in contributions (1% by employers and 1% by workers) up to the YMPE will be phased in to fund the above benefit enhancements.
- Covered earnings for determining benefits and contributions under the QPP will be extended by 7% of the YMPE in each of 2024 and 2025, resulting in a final ceiling of 114% of the YMPE.
- The resulting increased benefits will be funded, from 2025, by an 8% contribution (4% by employers and 4% by workers) on pay above the YMPE.

Bill 149 would also enact changes to the SPPA, affecting employer-provided pension plans registered in Quebec, notably the following:

- Contributions made to reduce a letter of credit will be accounted for in the employee reserve maintained by the employer.
- The appropriation and allocation of surplus assets during the life of a pension plan would become increasingly flexible, according to rules that differ from the current default provided under the SPPA.

"Employers and pension plan sponsors will be able to analyze how these changes impact costs, their labor forces' retirement preparations and the goals they set for their pension programs," a TowersWatson release said.

Quebec Bill 149 received its first reading on November 2, 2017; however, with the planned changes to the CPP coming into effect in 2019, it is expected that the QPP will be amended to follow suit, TowersWatson said.

U.S. collective investment trust assets reach $2.8 trillion in 2016

Assets in collective investment trusts (CITs) grew to roughly $2.8 trillion as of year-end 2016, representing a year-over-year growth of approximately 11.6%, according to Cerulli Associates, the global research and consulting firm.

The increase reflects the "increasing demand for lower-cost vehicles among institutions," said Christopher Mason, senior analyst at Cerulli, in a release. "CITs can often be priced lower than mutual funds."

"Nearly 95% of plan sponsors value the cost savings compared to mutual funds as one of the most important attributes of CITs. Similarly, roughly 90% of consultants feel that the cost savings compared to mutual funds is a very important attribute of CITs."

"Managers that do not offer CITs should consider doing so, particularly for asset classes or strategies in which cost savings can be passed on to the end-investor," says Mason.

Cerulli's latest report, "North American Institutional Markets 2017: Strategies for Implementing Customized Services Across Client Segments," provides coverage of the rise of institutional custom solutions, particularly liability-driven investing among corporate defined benefit plans, the increased use and adoption of CITs, and the ongoing influence of investment consultants.

Savers want safety and freedom in retirement: Wells Fargo

The Wells Fargo/Gallup Investor and Retirement Optimism Index held steady in the fourth quarter at +140, statistically unchanged from +138 in the third quarter. The index is near its September 2000 high of +147.

Three-quarters of non-retired investors in the survey have a 401(k) plan, and 57% say the most valued feature of their plan is the "match contribution from their employer." The next most valued feature is the tax deferral on the money they contribute, which was noted by 33%.

Forty-six% say they would "save less" or "stop saving" in their 401(k) if the tax deferred status of their plan was taken away, whereas 42% say they would "save the same amount." The survey was conducted by telephone with 1,015 U.S. investors Nov. 1–5, 2017, 67% of whom are non-retired and 33% of whom are retired.

Nearly all non-retired investors agree that "it is important to have a guaranteed income stream in retirement, in addition to Social Security," but about half of investors are unsure about what products offer guaranteed income throughout retirement.

Six in ten (61%) want a guaranteed monthly income stream that lasts as long as they need it, even if that meant "giving up access to some of their money." But 75% of non-retired investors also want the freedom to spend their money as they wish in retirement, even if that means they may run out of money "too soon."

About half of non-retired investors (53%) have a savings "number" in mind for retirement. Non-retired investors with a specific number in mind say $1 million (median) is the right objective, although 29% say $500,000 or less.

Forty-one percent of non-retired investors have a specific savings number in mind and can also estimate what that sum will generate annually in retirement, but many of these estimates are unrealistic.

Nineteen percent of non-retired investors have a savings goal in mind and a somewhat realistic assumption of withdrawing up 1 to 5% of their savings every year throughout retirement. The rest are unsure about what their annual draw down would be, or they estimate more than a 5% annual withdrawal rate.

Wells Fargo Asset Management estimates that a five percent inflation-adjusted annual distribution carries a 20%–30% risk of running out of money in retirement, assuming a well-diversified investment portfolio.

Investors who say they need to save $1 million or more expect to draw 5% per year, on average, while those who say they need to save less than $1 million expect to draw an average of 7% per year.