The Bucket

By Editorial Staff *Thu, Jul 18, 2013*

Brief or late-breaking items from the Employee Benefit Research Institute, Lincoln Financial, Transamerica, Employee Fiduciary, The Principal and NEST.

EBRI reports results of policy forum

At "Decisions, Decisions: Choices That Affect Retirement Income Adequacy," a recent policy forum hosted by the Employee Benefit Research Institute in Washington, D.C., the general topic was retirement readiness and the follow specific issues were addressed:

- The impact of the sustained low-interest-rate environment on retirement savings and retirement income
- The influences of the employer match in 401(k) plans
- Suggestions on how to help plans and participants distribute their 401(k) savings, either through IRA rollovers, direct drawdown or income annuities.

Findings presented at the policy forum, and published in the July EBRI Notes (online at www.ebri.org) included:

- About 25% of Baby Boomers and Gen-Xers will run short of money in retirement if today's interest rates are a permanent condition; the lowest-income group wouldn't be affected.
- The current interest rate environment, and its duration, will determine the types of fixed-income investments defined contribution plans offer, as well as the kinds of stable-value and target-date funds.
- The slow economy has affected employer contributions to 401(k) plans. Of the plan sponsors that suspended their matches, many have restored them. A few employers have moved annual matching cycles but most provide a match with each paycheck.
- The level of the match affects contribution levels in voluntary-enrollment 401(k) plans more than in automatic enrollment plan designs.
- The adoption of automatic enrollment has not affected employer match behavior.
- All but a few defined benefit (pension) plan participants who weren't required to annuitize chose lump-sum distribution.
- Plan design affects participant savings decision and post-retirement financial decisions.

EBRI-ERF holds at least two roundtable discussions per year, attracting plan sponsors, congressional and executive branch staff, benefit professionals and experts, and members from interest groups, labor, and academia. The next EBRI policy forum will be held Dec. 13, 2013, in Washington, D.C.

Patrick McAllister to lead Investment Strategy and Analytics at Lincoln

Lincoln Financial Group (announced that Patrick McAllister has joined the company as vice president and managing director of Investment Strategy and Analytics, effective today. In his new role, McAllister is responsible for Strategic Asset Allocation and Liability-Driven Portfolio Construction. He joins Lincoln Financial from Morgan Stanley, where he most recently served as executive director in the Global Capital Markets division.

Prior to joining Morgan Stanley in 2006, McAllister served as managing director of Equity Derivatives for Societe Generale. Previous positions also included serving as principal for Constellation Financial Management, and head of Quantitative Methods for Risk Management in the Capital Markets Group at First Union Corp., now Wells Fargo.

McAllister holds a doctoral degree and a bachelor's degree in Economics from Stanford University. His articles have been published in the *Journal of Banking and Finance*, *Annals of Operations Research*, *Journal of Economic Theory* and *Journal of Policy Modeling*.

Transamerica to collaborate with MIT's AgeLab

Transamerica and the Massachusetts Institute of Technology (MIT) AgeLab have entered into a long-term research partnership.

MIT AgeLab's goal is to design, develop and deploy innovations that touch how the world's aging population will live, work, and play tomorrow. The inventions and research focus on health and wellness, transportation and community, housing and home services, business and policy innovation, retirement and longevity planning, as well as innovations for work and the workplace.

Transamerica's Individual Savings and Retirement (IS&R) division is leading the engagement with the MIT AgeLab. IS&R focuses on financial strategies and solutions that help people save for retirement, as well as protect their savings leading up to and throughout retirement. This critical phase of life is when the effects of aging can significantly impact the finances of those individuals and their families.

The MIT AgeLab research, white papers, and presentations will help frame how Transamerica and its business partners communicate with and advise their customers. Joseph F. Coughlin, Ph.D., who teaches policy and systems innovation at MIT, is the director and driving force behind MIT AgeLab. The lab is based within MIT's School of Engineering's Engineering Systems Division.

Employee Fiduciary now serves over 2,000 small and

mid-sized 401(k) plans

Employee Fiduciary, LLC, an independent low-cost 401(k) recordkeeper and consultant specializing in small and medium-sized plans, said it now serves more than 2,000 plans with more than $2 billion in assets.

"Employee Fiduciary set out nine years ago to disrupt and disprove the notion that smaller businesses must settle for expensive and inefficient 401(k) services," the company said in a release. The firm has averaged 40% annual growth.

Employee Fiduciary provides recordkeeping and administration services to smaller professional firms and high tech businesses that use Employee Fiduciary to help attract and retain talent by enhancing employee benefits.

CEO Greg Carpenter blogs about the 401(k) business at "The Frugal Fiduciary."

The Principal releases plan to increase DC savings

New research from the Principal Financial Group shows retirement plan participation rates increase by up to 70% when plans use automatic enrollment, automatic increases, online deferral changes or employer contribution. Retirement plans with at least two of those features have an average total participant savings rate of 11%, or more than twice the national average.

To make the largest impact on savings, The Principal recommends:

- Automatic enrollment for all employees at 6% deferral
- Automatic annual increases of at least 1% annually
- Online deferral changes available to participants
- Employer contribution or match

"Most Americans need to save in general between 11% and 15%, including employer contributions, over an entire working career to replace 85% of income in retirement. This new research identifies plan design features that can encourage employees to save at those higher levels," said Jerry Patterson, senior vice president of retirement income strategy at The Principal.

The Principal Retirement Readiness initiative, based on surveys of 25,000 sponsors, recommends a three-step approach to improvement: strategic measurement, meaningful plan design changes and goal-driven participant education.

NEST shifts assets to U.S. from U.K.; hit with $2.1

million fraud

Britain's National Employment Savings Trust (NEST) has lowered its exposure to UK investments markedly in the last year, with domestic holdings now only 30% of assets, down from nearly 50% last March. Publishing its annual report for the financial year 2012-13, the "public option" defined contribution plan said its default investment options, retirement date funds, performed as expected.

The fund also said NEST Corporation, the entity responsible for the day-to-day running of the fund, had been the victim of a $2.1 million fraud. Chairman Lawrence Churchill said the plans defenses had been strengthened since the £1.4m (€1.6m) payment had been uncovered. He added that, despite the money not coming straight from members' pots, if the scheme were unable to recover the money, it might increase running costs.

"They have delivered above-inflation returns within our given risk budgets while protecting members from excessive volatility in uncertain conditions," the report said. The 2021, 2040 and 2055 retirement date funds all saw double-digit returns. A member retiring in eight years saw investments grow by 12.2% over the year and by 10% since the fund was launched in August 2010. A member retiring in 27 years saw returns of 13.6% over the year.

Members with a greater risk appetite invested in the NEST Higher Risk Fund saw returns of 15.6%, only 1.1 percentage points above the Sharia-compliant fund. Those who opted for the lower-risk fund only saw returns of 0.4%, in line with the option's benchmark return both last year and since the fund's inception.

NEST has also significantly rebalanced its asset allocation away from the UK; instead, it increased investment in North America to 35.9%, its single largest regional exposure. A greater emphasis was also placed on Continental Europe, up nearly 3 percentage points to account for 18.4% of investments. Latin and South America remained the smallest identified region, with investments in the area nonetheless rising over the 12 months from 0.4% to 1.9% of total assets.

In other matters, NEST justified its decision to allocate 20% of its assets in growth-oriented funds to real estate as "reasonable" and essential to its mandate to offer above-inflation returns. NEST appointed Legal & General Investment Management to a "property mandate," thus helping NEST invest in UK property and a global real estate investment trust (REIT) index.

NEST CIO Mark Fawcett described the allocation as hedge against investment risk. "There is this strategic question as to how much we should have in real assets, and then there is this risk management question [on] relative attractiveness of other assets in the shorter term," he told *IPE.com*. "About one-fifth in real assets – almost whichever way we run the models and crunch the numbers – that seems to be a reasonable position." He explained that, in NEST's view, real assets are a "good way of hedging some of that inflation risk" – with the fund seeking to outperform the UK consumer prices index (CPI).