UNIVERSITY CONFERENCE SERVICES

Spring 2014 Benefits Spotlight

Defined contribution plans have become the dominant retirement savings vehicle for American workers over the past two decades as defined benefit plans have fallen out of favor. Since the "DC" approach seems to be falling short for many workers, the talk has turned to making 401(k) and other defined contribution plans more like traditional pensions through strategies such as automatic enrollment and auto escalation of deferral rates. Now there is a lot of talk about this same sort of "DC" approach taking hold in the employer-sponsored health benefits arena. This relatively new concept seems to have come about because of the confluence of a number of factors, foremost of which is the skyrocketing cost of health care premiums. According to an August, 2013, press release by the Kaiser Family Health Foundation, premiums in employer-provided plans have increased 80% since 2003. Another factor is the advent of "marketplaces," as private insurance exchanges take a page from the Affordable Care Act to offer employers a vehicle for breaking away from the traditional model to something more akin to a defined contribution approach. What lessons, if any, can employers take away from their experience with defined contribution retirement plans and apply to a defined contribution health benefits strategy? This *Benefits Spotlight* offers insights from several recent publications.

Can Defined Contribution Plans Meet the Retirement Income Needs of American Workers?

That's the topic of the Employee Benefits Research Institute's January 2014 issue of *Notes*. The report concludes that under the right circumstances, it is possible for DC plans, when combined with Social Security benefits, to produce a 60% retirement income replacement ratio for between 83 and 86 percent of workers. The full report is available here.

One of the parameters the EBRI report cites as critical to success is "automatic features"--auto enrollment, auto escalation of deferral rates and auto rebalancing. The Department of Labor endorsed the strategy and gave fiduciary cover to plan sponsors when they place participants in Qualified Default Investment Alternatives (QDIAs). One of the most popular of these, target date funds (TDFs), provide age-appropriate asset allocation and re-balancing over time as the participant ages to a landing point for equity exposure, referred to as the glide path. But TDFs are not without their critics and not all experts agree on what an appropriate asset allocation really is. An April 14 article in *PlanSponsor* highlights what it calls one fund provider's "very conservative" approach. According to the author, Target Date Solutions has taken a "to retirement" approach and designs its funds to fall below a 10% equity allocation at the retirement date on the assumption that most participants will fully withdraw the account balance at retirement.

A Vanguard White Paper takes an in-depth look at factors beyond the glide path that employers should consider when selecting TDFs. According to the authors, the other elements that need to be examined as part of the plan sponsor's due diligence efforts are the funds' sub-asset allocation, their cost (this is a Vanguard paper, after all!) and the tactical flexibility of the glide path. The paper provides a comparison of glide paths among the five largest providers of TDFs, Vanguard being one of the five. As the charts and narrative in the White Paper clearly illustrate, there is divergence among these five providers about investment philosophy, whether a "to or through retirement" approach is the appropriate glide path, and even what the equity landing point should be within those two strategies. So much for the "set it and forget it" approach to investing! That may be fine for individual participants, but plan sponsors have their work cut out for them in selecting, evaluating and monitoring the TDFs that they include in their plan's investment menu.

Is the End of Employer-Provided Health Benefits Near?

That's a question that a March 27 blog post on HR Executive Online asks. Citing the Affordable Care Act's exchanges--despite the well-documented debacle of the rollout--and the growing number of private exchanges, the author notes that this is an issue to watch carefully. A number of surveys--typically done by the large consultancies and brokers who offer exchanges--indicate that interest in private exchanges is expected to rise steadily over the next several years, especially as ACA's Cadillac Tax looms as a possibility in 2018.

The 2013 Healthcare Benefits Trends Study, conducted in the fall of 2013, surveyed 300 HR executives, benefits specialists and other benefit decision makers about the current state of health benefits and their expectations for the future in light of the Affordable Care Act. Among the issues explored were a defined contribution approach to healthcare benefits, insurance exchanges and wellness plans. While this is an admittedly small sample size, the findings may provide insight on how much of an impact a DC strategy for healthcare will have in the future and the role that insurance exchanges will play in effecting such a change. Among the most striking findings: better than four out of ten respondents were completely *unfamiliar* with the concept. On the survey's scale of 1 to 5, with 1 equaling not familiar, 40.6% of respondents rated their familiarity a 1; another 13.9% rated their familiarity a 2--an indication that for this strategy to take off, there is a need to educate decision makers about it.

Interviews with Retirement and Healthcare Benefits Professionals and Practitioners

Last month's San Francisco ***Mid-Sized Retirement & Healthcare Plan Management Conference*** gave us a great opportunity to sit down and talk briefly with industry luminaries, experts and colleagues who are on the front lines of managing their benefit plans. Here are links to a few interviews that we thought you would enjoy:

- Joel Shapiro, Senior Vice President ERISA Compliance, with 401(k) | 403(b) Advisors, talks about how to give participants an edge in retirement planning.
- Marybeth Gray, Senior Consultant at Trion, discusses the emergence of private exchanges, what they are and how to determine whether they are right for your organization.
- David Peterson, AVP, Total Rewards, HRIS and Equity Administration, at Hologic, Inc., highlights the importance of benefit programs in recruiting and retaining top talent and how to make those benefits cost-effective.
- Janet Turner-Ezell, Manager, Benefits and Compliance, at Apex Systems, shares her views on how to make the case for wellness programs with the CFO.

Take a Look at Our New Website!

We hope you'll take a few minutes to visit our redesigned website and let us know what you think. You can post your comments on our LinkedIn company page or by sending us an email.

One of the website's features that we think you will find useful is our **Resource Center**. We've weeded through surveys, white papers, federal government publications and lots of other sources to post information of on-going value--not the latest "hot" news stories. Our intent is to be a reference source where you can easily find relevant, factual information about employer-provided retirement and healthcare topics. We've made the Center searchable and divided it into seven categories:

Retirement Plan Management **Healthcare Plan Management**

Benefits Compliance & Legal Issues **Topical Benefits Issues & Analysis**

[Benefits Research & Surveys]   [Employee Benefit Education]

[Federal Government Links]

Entries are cross-referenced to make things easy to find. You can even look at all 18 of the Affordable Care Act's FAQs if you are so inclined!

We hope you find the Resource Center helpful and will check it frequently.