PROGRESS NEVER STOPS

How plan sponsors are sharpening their focus to strengthen plans and improve outcomes

2017 Defined Contribution Plan Sponsor Survey Findings

J.P.Morgan
Asset Management

TABLE OF CONTENTS

METHODOLOGY AND RESPONDENT PROFILE

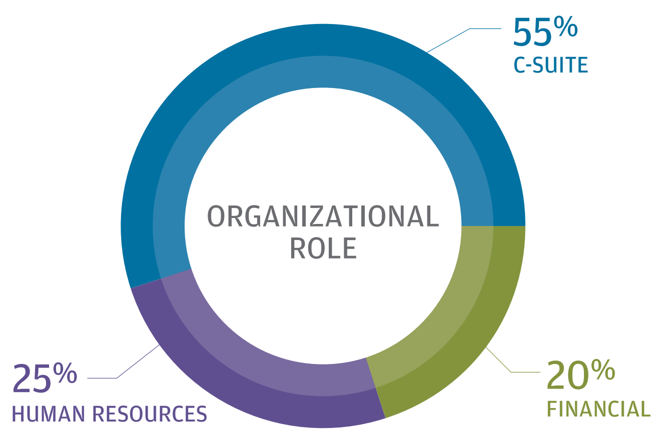
TO STAY IN TUNE WITH THE GOALS, MOTIVATIONS AND PROGRESS of employers as they continue to shape the evolution of their defined contribution (DC) plans, we undertook our third plan sponsor survey on this topic. From January 4 through January 31, 2017, we partnered with Mathew Greenwald & Associates, a market research firm based in Washington, D.C., to conduct an online survey of 968 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.

Below are breakdowns of our sample of plan sponsors, both by plan assets and by organizational role. Results aggregated across plan size categories were weighted to reflect the size distribution of plans in the U.S. DC plan universe.

RESPONDENT DISTRIBUTION BY TOTAL DC PLAN ASSETS

Plan size (AUM)	Number of respondents	
Less than $1 million	227	
$1 million to just under $10 million	238	
$10 million to just under $50 million	184	
$50 million to just under $250 million	154	
$250 million to just under $1 billion	92	165
$1 billion or more	73	
TOTAL	**968**	

RESPONDENT COMPOSITION BY ORGANIZATIONAL ROLE (% OF TOTAL)[1]



In this paper are direct quotes from plan sponsors in response to the following question:

> Over the past few years, a lot has changed in the role of DC plans as an employee benefit. How, if at all, has your thinking and decision-making surrounding your DC plan changed?

[1] Organizational role definitions: "C-suite" is an owner/partner, chairman, president, CEO, executive director or other general senior management position; "Human resources" is a human resources or employee benefits position; "Financial" is a CFO, chief investment officer or other financial, investment or treasury position.

EXECUTIVE SUMMARY

OVERVIEW

THE RESULTS OF OUR THIRD DEFINED CONTRIBUTION (DC) PLAN SPONSOR SURVEY ARE IN, AND WE ARE ENCOURAGED BY THE PROGRESS WE SEE IN HOW PLAN SPONSORS ARE THINKING ABOUT AND ACTING TO STRENGTHEN THEIR PLANS.

We conducted our first plan sponsor survey in 2013 to gain perspective on how plan sponsors were responding to the 30-year transition of DC plans from a supplementary benefit to a primary building block of retirement security. Our goal was to establish a baseline and process for monitoring the continuing evolution of DC plans from a plan sponsor's view.

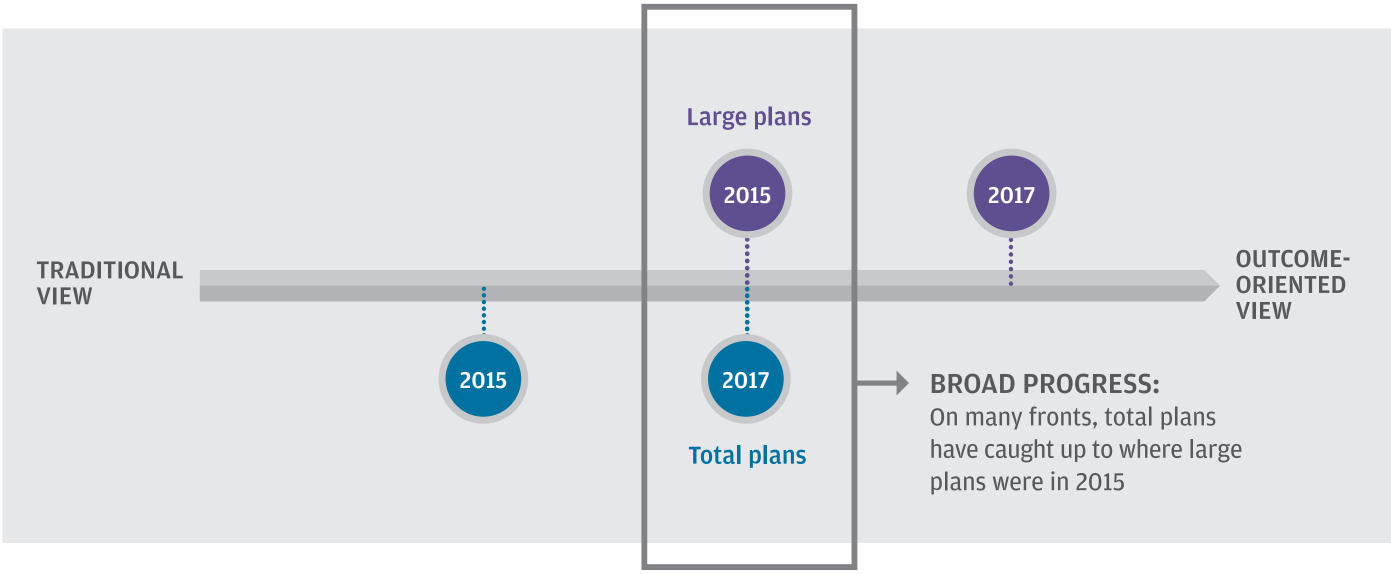
Our 2015 survey update suggested that an evolution, not a revolution, was taking place. Yet the observed changes over two years were enough to assure us that progress was underway—most notably among large plans (with assets of $250 million and above), but also among all plans, though more slowly and with further to go.

Including results from our latest survey, conducted in January 2017, we now have observations on plan sponsors' efforts over a four-year period. This time frame has allowed some clear and inspiring trends to emerge.

KEY FINDINGS

Our latest findings confirm that the evolution of DC plans continues. Plan sponsors and their organizations are transitioning from a traditional view of their DC plans—for example, as a way to attract and retain employees—to a sharper focus on achieving the ultimate retirement outcome: helping as many employees as possible reach a financially secure retirement. This focus is evident in plan sponsors' stated philosophies, objectives and, most important, actions. And while the evolution of DC plans continues to be led by large plans, significant progress is now apparent among all plans. In fact, as indicated throughout this report, on many measures aggregate results for all plans have progressed to levels close to those reached by large plans in our 2015 survey (see **EXHIBIT**, next page).

Plan sponsors are transitioning from a traditional view of DC plans to a greater focus on participants' retirement outcomes



Note: For illustrative purposes only.

Focusing on retirement outcomes

Our research indicates that plan sponsors' sharper focus on participants' retirement outcomes begins with the growing sense of responsibility they feel for their employees' financial well-being and carries over to:

- the increasing importance they assign to outcome-oriented plan goals and success criteria, such as helping ensure participants have sufficient income in retirement
- the factors driving their plan design decisions
- their greater adherence to a philosophy focused on proactively placing participants on a solid saving and investing path

Linking goals and philosophy to action

Plan sponsors are also linking their sense of responsibility, goals and proactive placement philosophy to actions. We examine what plan sponsors are doing to strengthen their plans:

- implementing automatic enrollment: 85% of large plans; 64% of all plans
- implementing automatic contribution escalation: 77% of large plans; half of all plans
- including target date funds (TDFs) in investment lineups: 80% of large plans; 62% of all plans

- choosing TDFs as their qualified default investment alternative (QDIA): 93% of large plans with QDIAs; 78% of all plans with QDIAs
- conducting/planning to conduct a plan re-enrollment (albeit at a slower pace): 20% of large plans; 13% of all plans

No time for complacency—opportunities to improve retirement outcomes

Let there be no mistake. This is not a time for complacency. The above-mentioned progress notwithstanding, savings rates are still too low and some plan sponsors are not confident that their participants have an appropriate asset allocation. Additionally, among the plan decision-makers surveyed, 43% are not aware that they are plan fiduciaries—a disappointing finding, unchanged from our 2015 results.

Finally, while the percentages of plans implementing and/or considering automatic plan features and strategies are encouraging, too many plans have not yet taken advantage of the potential for these tools to help:

- improve participant savings behavior
- simplify investment decisions
- allow inertia (the human tendency toward inaction) to work for, not against, participants

Our report identifies factors that may be impeding DC plan evolution. More important, we point to opportunities to address misperceptions, shrink information gaps and enhance understanding of the features and strategies available to help plan sponsors continue strengthening their plans.

Implications

Seizing these opportunities to help ensure the continued evolution of DC plans is a necessity and will require a collaborative effort:

- *Participants* should be actively engaged in planning for their retirement.
- *Plan sponsors* can deepen their understanding of participant behavior, gain clarity on their fiduciary roles and responsibilities and set outcome-oriented goals for their plans.
- *Plan providers* and *financial advisors/consultants* should help plan sponsors sharpen their view at the individual participant level, stay apprised of regulatory developments and maintain awareness of plan innovations.
- *Policymakers* can seek to incorporate a broader range of viewpoints—from participants, plan sponsors, providers and financial advisors/consultants—when formulating regulations and providing guidance.

Only through a persistent, concerted effort can we be certain that progress toward secure retirement outcomes never stops.

FOCUSING ON RETIREMENT OUTCOMES

MORE PLAN SPONSORS NOW DEFINE DC PLAN OBJECTIVES IN TERMS OF RETIREMENT OUTCOMES—AND CHARACTERIZE THEIR PHILOSOPHIES AS FOCUSED ON PROACTIVELY PLACING PARTICIPANTS ON A SOLID PATH TO A SECURE RETIREMENT

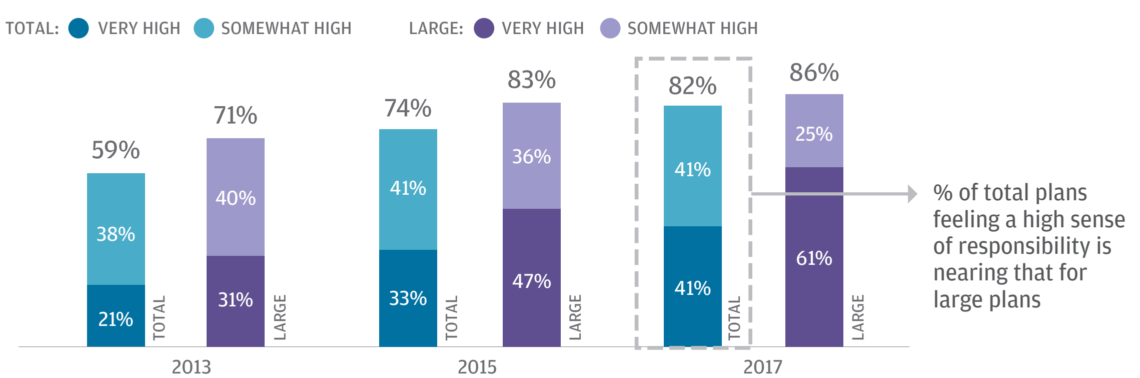
The gradual transition from defined benefit (DB) to defined contribution plans over the last three decades has placed much of the risk and decision-making involved in saving and investing for retirement in participants' hands. Yet many employees do not have the investment knowledge, time, interest or motivation to fully rise to that challenge. In response, plan sponsors are focusing on strengthening their DC plans in ways that can help participants achieve the ultimate outcome—a secure retirement. We see this focus on outcome-oriented objectives as driven by a greater sense of responsibility for participants' financial well-being. And this emphasis is empowered by a philosophy that values placing participants on an effective saving and investing path to retirement.

PROGRESS BEGINS WITH CONCERN AND MOTIVATION

Our survey findings indicate a significant, steady increase in the sense of responsibility plan sponsors feel for employees' overall financial wellness. Across all ("total") plan sponsors surveyed, 82% say they feel a "very high" or "somewhat high" sense of responsibility. This represents a 23 percentage point increase over 2013 and brings the level for all plans close to that for large plans (**EXHIBIT 1**).

Plan sponsors' sense of responsibility for employees' financial wellness is climbing

EXHIBIT 1: "AS AN EMPLOYER, WHICH OF THE FOLLOWING BEST DESCRIBES THE LEVEL OF RESPONSIBILITY YOU FEEL FOR THE OVERALL FINANCIAL WELLNESS OF YOUR EMPLOYEES?"



Note: Total n = 396 (2013), 756 (2015), 968 (2017); Large (>$250M) n = 62 (2013), 125 (2015), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2015, 2017.

CHANGE CAN OCCUR WHEN A SENSE OF RESPONSIBILITY DRIVES PLAN OBJECTIVES

Results suggest a continuing trend toward more retirement outcome-oriented objectives (for example, helping ensure participants have sufficient income in retirement and/or are able to retire at their targeted age). We see this in the main reasons plan sponsors give for offering their plans, as well as in the importance they assign to different plan goals, success criteria and the factors driving their plan design decisions.

Why offer a DC plan?

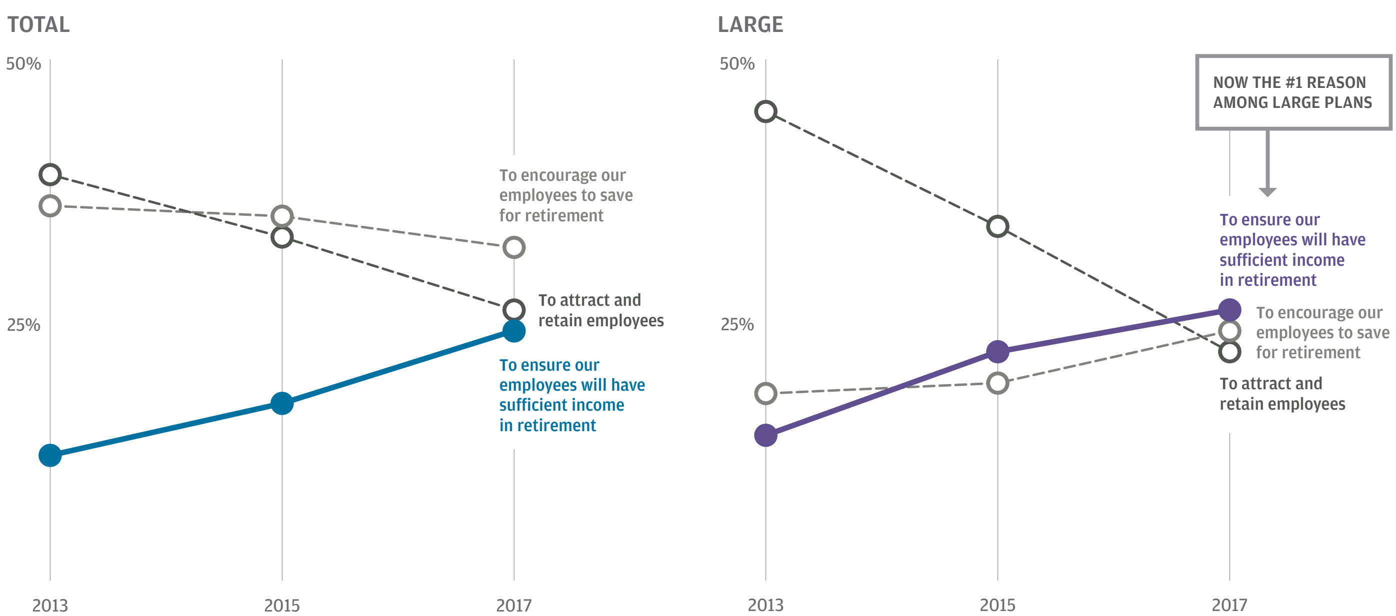
In past surveys, when plan sponsors were asked to select the main reason their organizations offered DC plans, traditional objectives—namely, "attracting and retaining employees" and "encouraging employees to save for retirement"—alternated between No. 1 and No. 2 among all plans, while the more outcome-oriented objective of "ensuring employees have sufficient income in retirement" was a distant third. In our latest survey, the percentages of plan sponsors citing the two traditional objectives declined, while the percentage citing sufficient income in retirement increased, greatly narrowing the gap. Among large plans, the gap has closed between traditional and outcome-oriented objectives, with sufficient income in retirement now the most frequently cited reason for offering a DC plan (**EXHIBIT 2**).

DC plan goals

A variety of goals—some traditional, some outcome-oriented—are rated highly ("extremely" or "very") important by a clear majority of plan sponsors, among all plans and large plans. One outcome, "helps allow employees to retire at their targeted retirement age," while viewed as somewhat less important, has seen the most pronounced increase since 2013, rising 22 percentage points among large plans (to 84%) and 16 percentage points among all plans (74%), bringing it close to the level for large plans in our 2015 survey (75%) (**EXHIBIT 3**, next page).

Outcome-oriented vs. more traditional goals are increasingly cited as the main reason for offering a DC plan

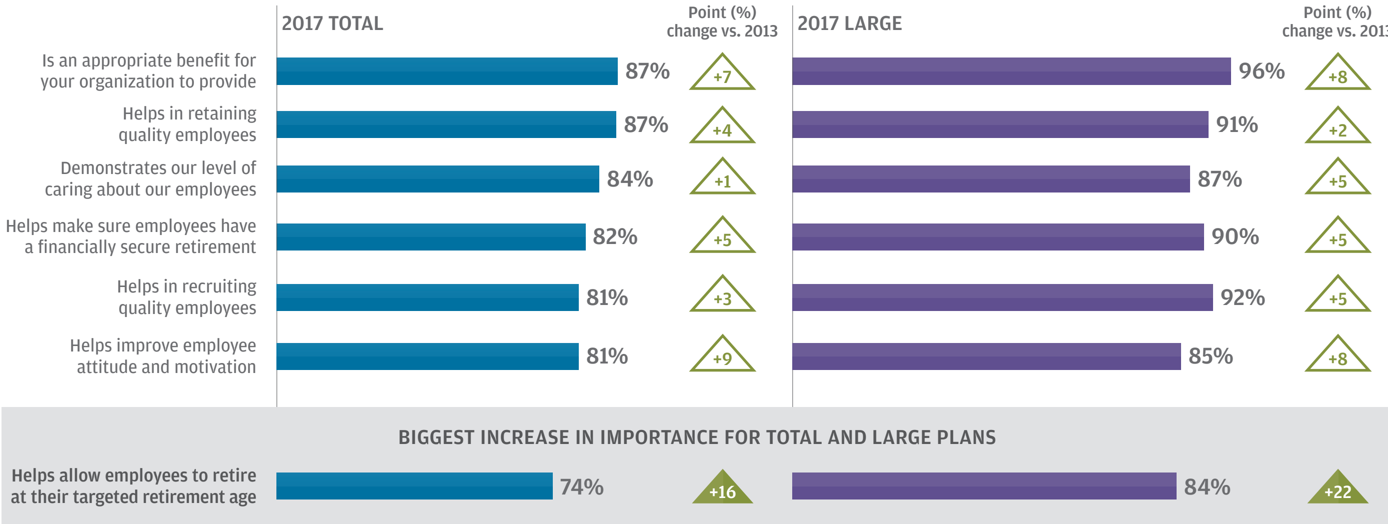
EXHIBIT 2: "WHICH ONE OF THE FOLLOWING COMES CLOSEST TO THE MAIN REASON THAT YOUR ORGANIZATION OFFERS A DEFINED CONTRIBUTION PLAN?"



Note: Total n = 796 (2013), 756 (2015), 968 (2017); Large (>$250M) n = 125 (2013), 125 (2015), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2015, 2017.

Enabling participants to retire at a targeted age is catching up to other objectives plan sponsors view as highly important

EXHIBIT 3: "HOW IMPORTANT TO YOUR ORGANIZATION ARE EACH OF THE FOLLOWING POTENTIAL GOALS FOR YOUR DEFINED CONTRIBUTION PLAN?" (% RESPONDING "EXTREMELY" OR "VERY" IMPORTANT)



Note: Total n = 796 (2013), 968 (2017); Large (>$250M) n = 125 (2013), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2017.

Plan success criteria

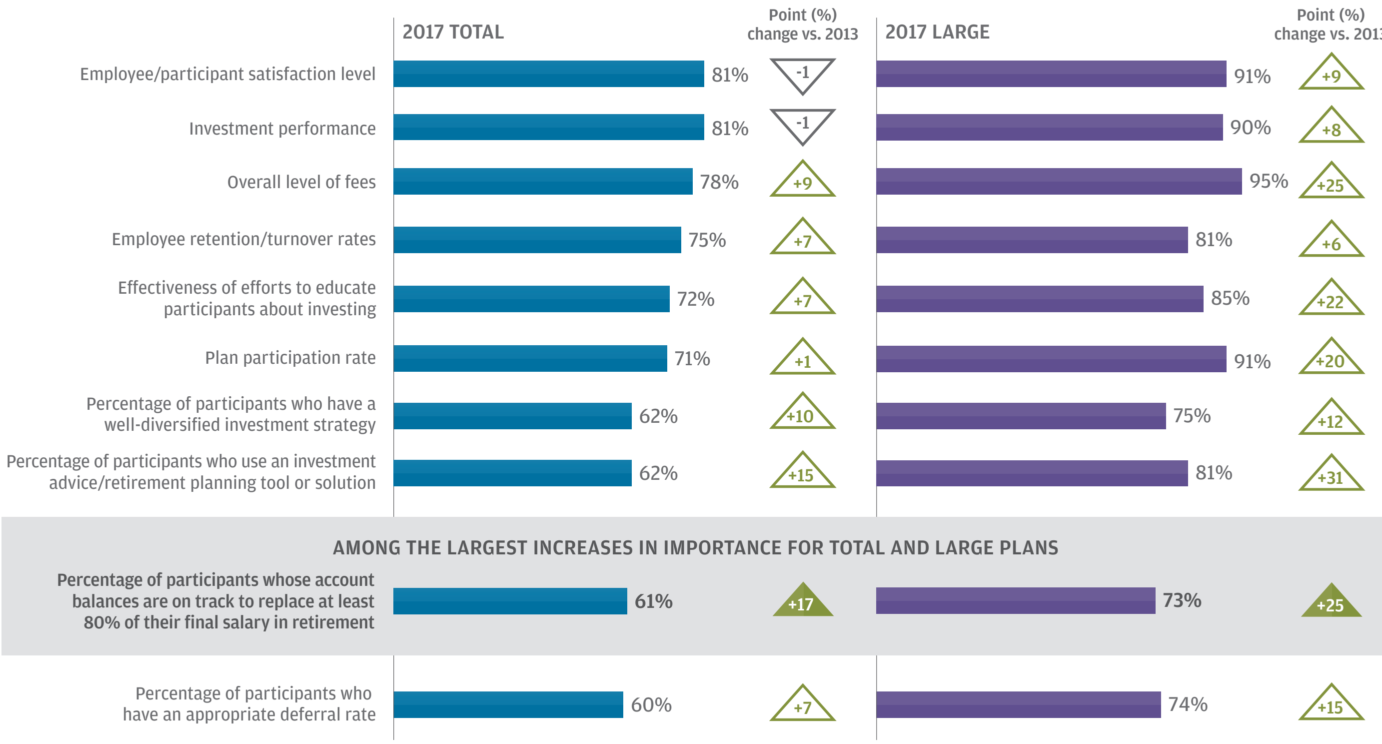
Do plan sponsors use outcome-oriented criteria to measure their plans' success? Here the trend toward an outcome-oriented view is less evident; traditional criteria such as employee satisfaction, investment performance and overall fee level remain key measures of success. This is understandable, to a degree: Performance and fees are obviously relevant, as well as readily measurable. Nevertheless, it is encouraging that "the percentage of employees with account balances on track to replace 80% of income in retirement" has seen the greatest increase in the percentage of all plan sponsors who consider it a highly important criterion—up 17 percentage points, from 44% in 2013 to 61% currently. This is just below the percentage for large plans in 2015 (66%). Among large plans, the percentage on track to replace 80% of income in retirement has increased by a dramatic 25 percentage points since 2013 (**EXHIBIT 4**, next page).

Drivers of plan design decisions

Our findings indicate a more encouraging trend in what organizations are basing their plan design-related decisions on. Here we do see an outcome-oriented shift. "Meeting participant needs" remains the most important factor driving design decisions among all plans as well as large plans. However, the percentage of respondents who say they base their design decisions primarily on "getting the maximum number of participants to experience adequate income replacement in retirement" has, over the past four years, roughly doubled—from 11% to 23% for all plans and from 14% to 26% for large plans (**EXHIBIT 5**, next page).

Traditional criteria still dominate in measuring plan success, but the importance of outcome-oriented criteria is rising

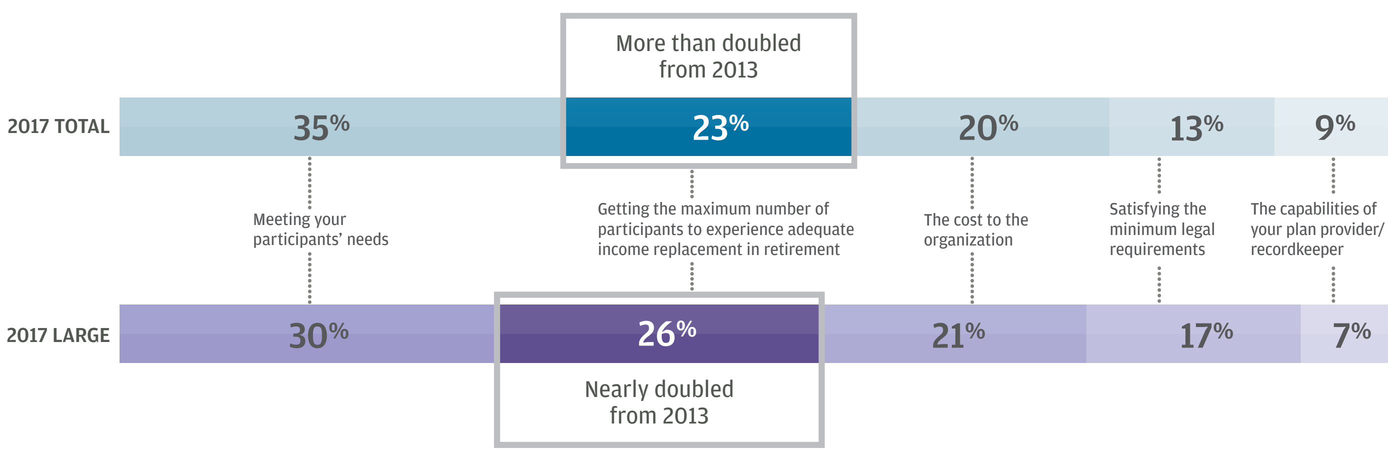
EXHIBIT 4: "HOW IMPORTANT ARE THE FOLLOWING CRITERIA FOR YOUR EVALUATION OF THE SUCCESS OF YOUR DEFINED CONTRIBUTION PLAN?" (% RESPONDING "EXTREMELY" OR "VERY" IMPORTANT)



Note: Total n = 796 (2013), 968 (2017); Large (>$250M) n = 125 (2013), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2017.

Income replacement in retirement is becoming a more important factor in plan design decisions

EXHIBIT 5: "WHICH OF THE FOLLOWING BEST DESCRIBES HOW YOUR ORGANIZATION MAKES DECISIONS ABOUT THE DESIGN OF ITS DEFINED CONTRIBUTION PLAN? YOU BASE YOUR DECISIONS PRIMARILY ON ..."



Note: Total n = 796 (2013), 968 (2017); Large (>$250M) n = 125 (2013), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2017.

A PROACTIVE PLACEMENT PHILOSOPHY CAN PROVIDE MOMENTUM

A positive shift appears to be taking place among plan sponsors in their viewpoints on driving participant decisions. An increasing percentage say their organizations ascribe to a "proactive placement" philosophy—one that focuses on placing participants on a solid path to a secure retirement, from which they can opt out, vs. a "participant choice" philosophy that focuses on participants making their own decisions.

In our past surveys, a participant choice philosophy was the majority view; we noted that this might be slowing the pace of DC plan evolution. Our latest survey shows that the balance has shifted; now more plan sponsors say their organizations have a proactive placement vs. a participant choice philosophy (55% vs. 45%). This is similar to the balance among large plans in 2015 (57% vs. 43%), which itself has shifted dramatically to 78% proactive placement vs. 22% participant choice (**EXHIBIT 6**).

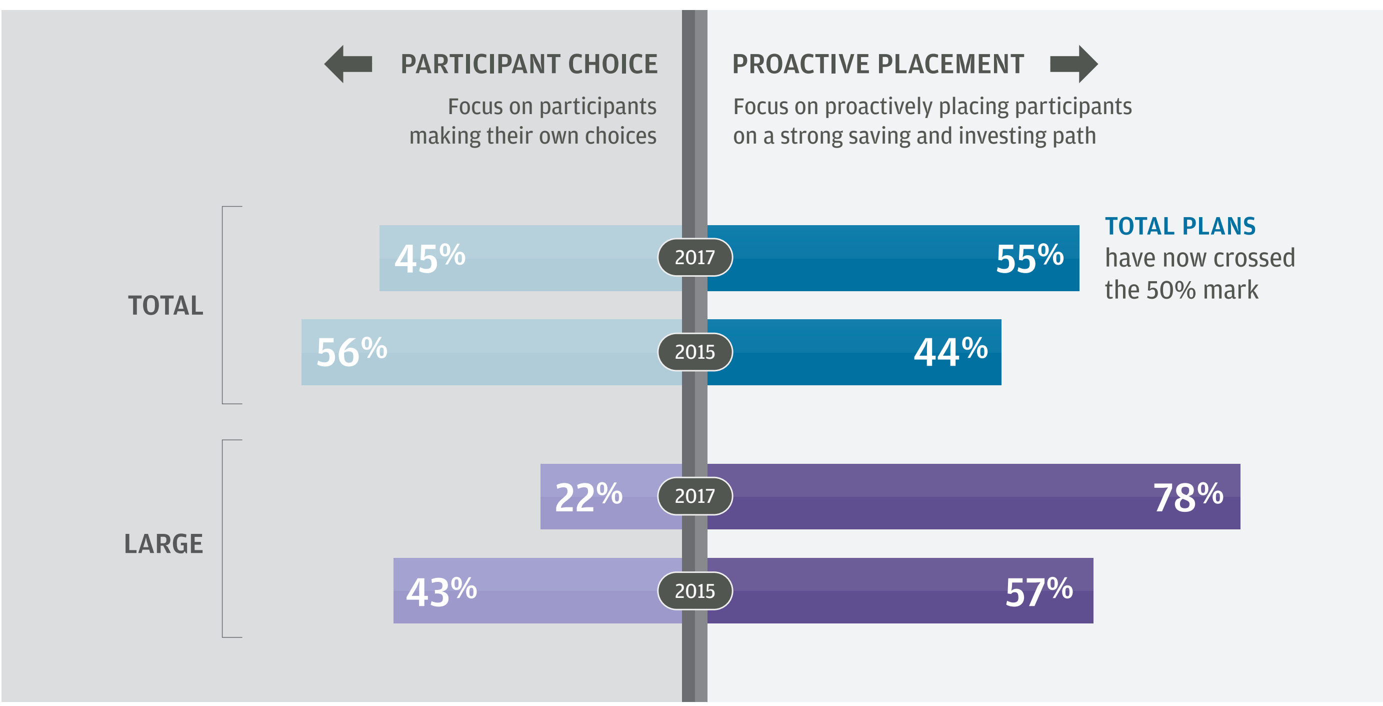
This proactive placement philosophy may be better aligned with what participants want from their employers. Our research suggests that participants are receptive to trading some degree of autonomy for plan features and strategies designed to offer a disciplined approach to saving, simplified investment decision-making and the potential for improved asset allocation.[2]

In our view, the increase in the share of organizations with a proactive placement philosophy may be driving some of the progress we see in our latest survey results. Should this philosophy continue to gain ground, it may have the potential to speed the pace of DC plan evolution.

[2] J.P. Morgan Plan Participant Research 2016.

More than half of plan sponsors say their philosophy focuses on proactively placing participants on a solid retirement path with the ability to opt out vs. participants making their own choices

EXHIBIT 6: "WHICH ONE OF THE FOLLOWING COMES CLOSEST TO YOUR ORGANIZATION'S PHILOSOPHY ON DRIVING PARTICIPANT DECISIONS?"



Note: Total n = 756 (2015), 968 (2017); Large (>$250M) n = 125 (2015), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2015, 2017.

LINKING GOALS AND PHILOSOPHY TO ACTIONS

MANY PLAN SPONSORS ARE IMPLEMENTING INNOVATIVE PLAN FEATURES AND STRATEGIES TO PLACE THEIR PARTICIPANTS ON A SOLID SAVING AND INVESTING PATH TO A SECURE RETIREMENT

While our surveys clearly indicate plan sponsors' growing sense of responsibility for participants' financial well-being, the rising importance they assign to outcome-oriented objectives and their leaning toward a more proactive placement philosophy, the story doesn't end there. Plan sponsors are taking action to strengthen their plans.

INNOVATION AND POLICY SUPPORT

Innovative plan features and strategies—automatic enrollment, automatic contribution escalation and plan re-enrollment (see **"WHAT IS A PLAN RE-ENROLLMENT?,"** next page)—have been developed to help plan sponsors transform plan goals and organizational philosophies into actions and outcomes.

Asset managers have developed investment vehicles, such as TDFs, designed to help simplify participant investment decision-making, enhance diversification and provide sound professional management of retirement assets that gradually becomes more conservative as participants approach a targeted retirement date.

Policymakers, through the passage of the Pension Protection Act (PPA) of 2006, cleared the way for employers to offer automatic features and provided plan sponsors with fiduciary protection for assets defaulted into a qualified default investment alternative (QDIA), which may be a TDF, as defined by the Department of Labor (DOL).

WHAT IS A PLAN RE-ENROLLMENT?

A plan re-enrollment is a process by which participants are notified that their existing assets and future contributions will be invested in the plan's QDIA (which may be a TDF), based on their date of birth. All participants' assets are automatically moved into the QDIA on a certain date unless a participant makes a new investment election during a specified time period. Before conducting a re-enrollment, a plan sponsor must engage in a prudent process for determining whether a re-enrollment is appropriate for the plan and its participants.

Building stronger DC plans

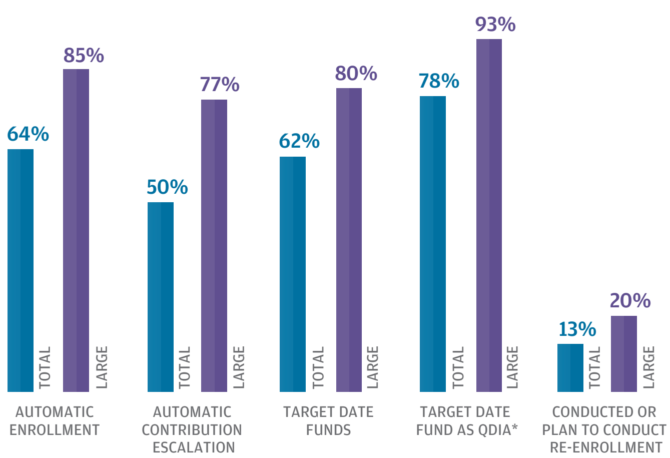
Our survey results show that many plan sponsors are taking advantage of these innovative design features and investment vehicles to strengthen their DC plans (**EXHIBIT 7**).

Automatic enrollment has experienced the greatest rate of adoption—64% among all plans and 85% among large plans. A slightly lower percentage of plans automatically escalate participant contributions (50% of all plans; 77% of large plans).

A majority (62% of all plans; 80% of large plans) include target date funds in their investment lineups. Among plans with a qualified default investment alternative, TDFs are the most frequent QDIA choice, selected by more than three-quarters of all plans and an almost unanimous 93% of large plans.

Plan sponsors are taking definitive steps to fortify DC plans

EXHIBIT 7: USE OF INNOVATIVE PLAN FEATURES AND STRATEGIES



Note: 2017 Total n = 968, Large (>$250M) = 165.
*For those with a QDIA, Total n = 540; Large (>$250M) = 110.
Source: J.P. Morgan Plan Sponsor Research 2017.

Re-enrollment has, to date, experienced the slowest uptake, but we are encouraged by two survey findings:

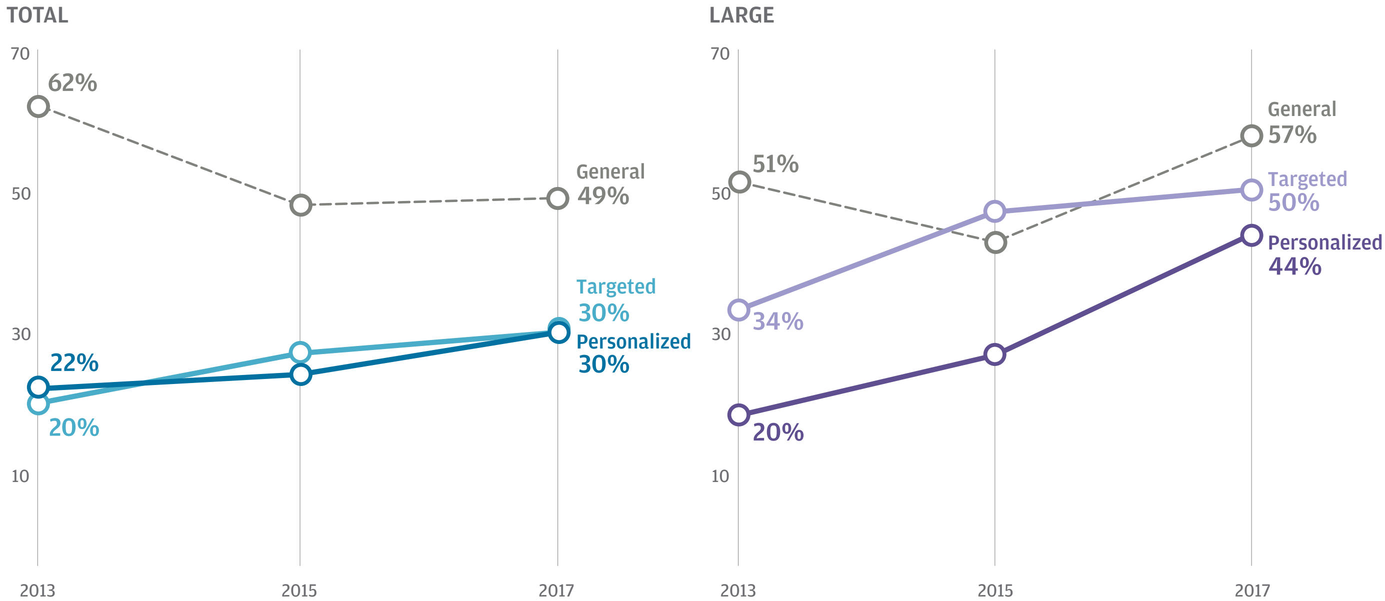
- Over half (58%) of all plan sponsors and 84% of those with large plans say they agree (strongly or somewhat) that their organizations should conduct a re-enrollment—i.e., ask existing participants to re-evaluate their investment selections and, if they do nothing, place them in a QDIA, which may be a target date fund.
- The percentage of large plans that intend to conduct a re-enrollment in the next 18 months has increased fourfold since 2015 (from 4% to 16%).

We see in these results the willingness of many plan sponsors to proactively place employees on a solid saving and investing path to a secure retirement. Not surprisingly, our research shows that those who characterize their philosophy as proactive (vs. those who focus on participants making their own choices) are almost twice as likely to have adopted automatic enrollment (80% vs. 44%) and automatic contribution escalation (64% vs. 32%) features. They are also more likely to have added TDFs to their investment lineup (67% vs. 57%). In our view, these results suggest significant progress—with room for even broader implementation.

> "We have an increased realization that employees don't understand savings, investments or how much they will need in retirement."

Communications are becoming less general and more targeted and personalized

EXHIBIT 8: "WHICH OF THE FOLLOWING BEST DESCRIBES YOUR PLAN'S APPROACH TO PARTICIPANT COMMUNICATIONS?" (MULTIPLE RESPONSES ACCEPTED)



Note: Total n = 796 (2013), 756 (2015), 968 (2017); Large (>$250M) n = 125 (2013), 125 (2015), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2015, 2017.

Personalizing and targeting participant communications

While plan design and a diversified investment lineup may be among the most effective levers for strengthening DC plans, that strength is reinforced when other elements, such as plan communications, are managed toward a common set of goals. If the goal is to help as many participants as possible reach a secure retirement, then perhaps more targeted communications (geared toward an individual's age or financial situation) and/or more personalized information (such as an estimate of what the participant is on track to receive in retirement) with a clear call to action may be more motivating and effective. Overall, the plan sponsors surveyed seem to be moving in this direction. When asked what approaches they take to participant communications, they gave responses that revealed notable increases in targeted and personalized messaging and, among all plans, a shift away from more general saving and investing information (**EXHIBIT 8**).

Exercising due diligence

As fiduciaries, plan sponsors are ultimately liable for the selection and monitoring of the investments offered through their plans, including TDFs. Plan sponsors appear to be educating themselves on the complexities and differences across the variety of TDF strategies available. Among those whose plans include TDFs as an investment option, 75% say they understand the methodology used to contruct their plans' TDF "completely" or "reasonably well." Plan sponsors also appear to be considering the guidance provided by the Department of Labor in "Target Date Retirement Funds—Tips for ERISA Plan Fiduciaries."[3] Relative to our 2015 findings, those surveyed are assigning a greater and more equalized level of importance to the DOL's suggested criteria, though some criteria still may not be getting the full attention they deserve (see **"SELECTING APPROPRIATE TARGET DATE FUNDS FOR ERISA PLANS,"** pages 14-15).

[3] U.S. Department of Labor, Employee Benefits Security Administration, "Target Date Retirement Funds—Tips for ERISA Plan Fiduciaries," February 2013.

SELECTING APPROPRIATE TARGET DATE FUNDS FOR ERISA PLANS

Investment objectives and approaches to portfolio construction vary greatly across the universe of TDF strategies. Our research has shown that these variances—in crucial areas such as asset class diversification, risk management, glide path stucture and equity exposure—can result in very different investment outcomes for participants. The impact on participant outcomes is further complicated by the interaction of these TDF design differences with participant investment behaviors.*

In February 2013, the DOL issued "Target Date Retirement Funds—Tips for ERISA Plan Fiduciaries," emphasizing the importance of careful due diligence and providing practical guidance in the selection of TDFs most appropriate for a plan's goals and participant characteristics. Notwithstanding the QDIA-related protections afforded under the PPA, plan fiduciaries remain liable for prudently selecting and monitoring the plan's QDIA.

Weighing the criteria

In our 2015 survey, we asked plan sponsors to rate the importance of the criteria they used in selecting their TDFs. Not surprisingly, performance and fees were most frequently rated as highly important, while other key factors also mentioned by the DOL, such as participant demographics and glide path structure, were given less consideration.

The encouraging news in this year's survey is that the level of importance assigned by respondents to each criterion has increased and the differences in importance among criteria are less pronounced. However, performance and fees are still rated most important in selecting TDFs while participant demographics and glide path structure continue to lag.

We see each of the DOL's tips as clearly valuable in selecting TDFs. In our view, it is important for plan sponsors, as fiduciaries, to consider fees and performance in selecting a TDF strategy for their plan. It is equally important that they understand how fundamental differences in the glide path structure and design of TDFs, overlaid with the effects of participant behaviors, can impact retirement outcomes. In addition, once a TDF strategy has been selected, it should be monitored to ensure it continues to fit with the plan.

There are

61 **OPEN-ENDED TARGET DATE FUND SUITES**

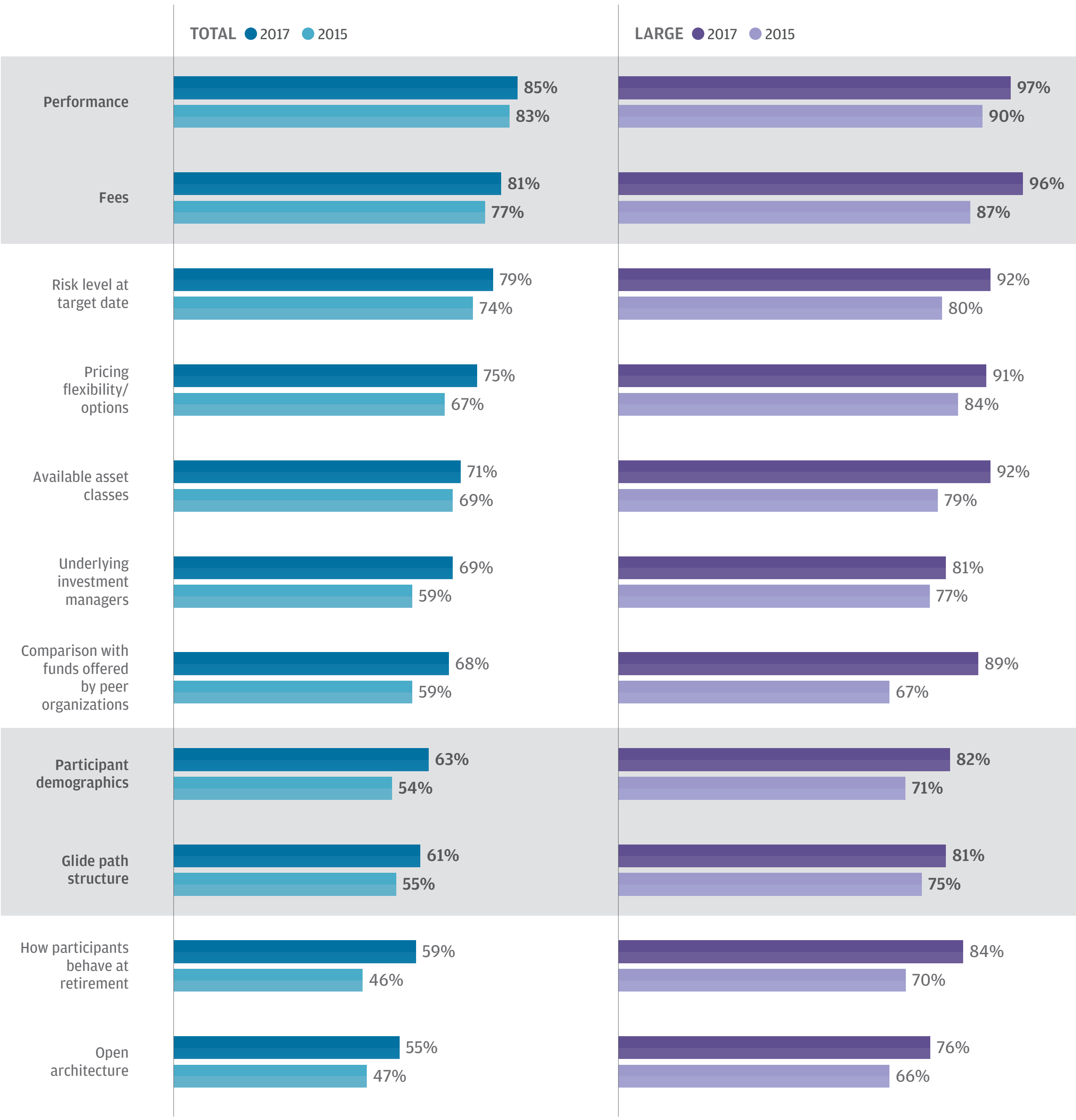
available for purchase by qualified retirement plans.**

*"Ready! Fire! *Aim?* 2015—Incorporating insights from more than 10 years of real-world participant behavior into target date fund design," Retirement Insights (J.P. Morgan Asset Management, December 2015).

**Source: Morningstar, June 30, 2017.

The importance of all TDF selection criteria has increased, but demographics and glide path structure still lag

"HOW IMPORTANT WERE EACH OF THE FOLLOWING CRITERIA WHEN SELECTING YOUR TARGET DATE FUNDS?"
(% RESPONDING "VERY" OR "EXTREMELY" IMPORTANT)



Note: Total n = 432 (2015), 671 (2017); Large (>$250M) n = 87 (2015), 134 (2017).
Source: J.P. Morgan Plan Sponsor Research 2015, 2017.

NO TIME FOR COMPLACENCY

STEPS HAVE BEEN TAKEN TO STRENGTHEN DC PLANS… BUT THERE ARE STILL CHALLENGES TO ADDRESS AND OPPORTUNITIES TO SEIZE

We are very much encouraged by the findings from our latest survey and the progress—among large plans as well as all plans—over the past four years. Plan sponsors are exhibiting a greater sense of responsibility for participants' financial well-being, a sharper focus on outcome-oriented objectives and a more proactive mindset. They are taking concrete steps to strengthen their DC plans. Major strides notwithstanding, however, this is clearly no time for complacency:

- Savings rates are still too low. While 54% of plan sponsors agree that a savings rate of at least 10% is appropriate for participants to be on track to a financially secure retirement, only 23% say their plans' average contribution rate is 10% or more.
- Too few plan sponsors (only 56%) say they are confident that the majority of their participants have appropriately allocated their DC plan assets.
- Many plan sponsors are not aware of their fiduciary status. In fact, findings are unchanged from the 2015 survey: 43% do not know that as plan decision-makers they are fiduciaries of their organizations' DC plans.
- There is room for an even broader implementation of plan design features and investment strategies intended to strengthen DC plan outcomes. Roughly a third of all plans have not yet implemented automatic enrollment; half have not implemented automatic contribution escalation; even fewer have conducted a re-enrollment. Additionally, our survey suggests that opportunities exist to improve the way these features are implemented to help ensure they have the desired impact on participant outcomes.

We see in our survey results several factors that may be slowing down the evolution of DC plans—as well as opportunities for mitigating these potential hindrances.

KNOW WHAT PARTICIPANTS WANT

Fear of employee pushback is among the responses most often cited by plan sponsors as the "main reason" they have not implemented automatic features—for both automatic enrollment (25%) and automatic contribution escalation (20%). It was also among the most frequent explanations given by those who had not conducted and were not planning to conduct a re-enrollment (24%).

Our 2016 Defined Contribution Plan Participant Survey indicates, however, that this fear of employee pushback may be overstated. Our findings show that a majority of participants are conceptually in favor of or at least neutral toward these programs (**EXHIBIT 9**).

This level of acceptance is likely due, at least in part, to participants' ability to opt out. This opt-out element is critical; it leaves control in the hands of employees but puts the force of human inertia (the tendency to do nothing) to work for participants.

The fact is, among participants who have experienced the implementation of these features and strategies, few have opted out and almost all are satisfied. What's more, an encouraging number admit they were unlikely to have participated in their plan and/or increased their contribution rates if not for these automatic features. For example:

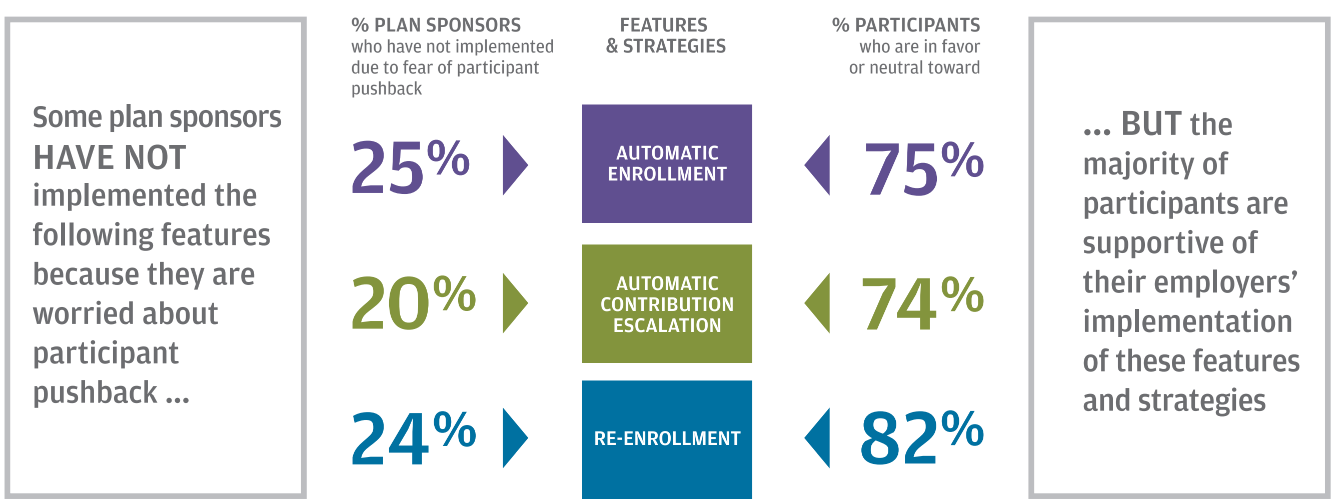
- Among those automatically enrolled in their plans, less than 1% opted out and the vast majority (96%) are satisfied with their experience. More important, over 30% admit they were unlikely to have enrolled otherwise.
- Among those automatically enrolled whose contribution amount is/was automatically increased each year, virtually all (97%) are satisfied and 15% say they would not have escalated their contribution if it had not been automatically increased.
- Among participants whose employers conducted a re-enrollment with a target date fund as the QDIA, only 27% opted out (by making a different investment election during the appropriate period so that their existing balances and current contributions would not be moved to the QDIA). Among those whose funds were moved during re-enrollment, 99% are satisfied.

Additional research further illustrates how these programs can tap this power of human inertia to potentially increase savings and improve participants' asset allocations—two essential steps for enhancing retirement outcomes. We have found, for example, that when plan sponsors conduct a re-enrollment (with TDFs as the QDIA), 49% to 97% of plan assets end up in the plan's TDFs. When TDFs are simply added to an investment lineup, only about 1% to 4% of plan assets end up in these strategies.[4] In short, simply given the option to invest in TDFs, most participants do nothing, but when defaulted into these strategies, few opt out.

[4] J.P. Morgan retirement research; data as of December 31, 2016.

Do plan sponsors fear implementing what participants may favor?

EXHIBIT 9: MISPERCEPTIONS–PLAN SPONSORS FEARING (%) VS. PARTICIPANTS FAVORING (%)



Note: 2017 Total n = 968. Of those who have not implemented automatic enrollment, n = 275; automatic contribution escalation, n = 400; re-enrollment, n = 843.
Source: J.P. Morgan Plan Sponsor Research 2017; J.P. Morgan Plan Participant Research 2016.

While all plans and participants are different, these findings suggest that some plan decision-makers could implement plan features and strategies that have the potential to improve participants' retirement outcomes without inciting the participant pushback plan sponsors may fear.

AVOID UNINTENDED CONSEQUENCES

Automatic features, if not carefully implemented, may have unintended consequences. Automatically enrolling participants at too low a contribution rate, especially if not coupled with an appropriate automatic contribution escalation schedule, could result in undesirable retirement outcomes. Automatic contribution escalation schedules that increase too slowly or are capped at too low a rate may lead some participants to assume they are saving adequately when they are not.

Among plans surveyed that have initiated automatic enrollment, 31% enroll employees at a deferral rate of 3% or less, while 65% use a deferral rate of 6% or less. In the case of automatic contribution escalation, more than half of plans cap deferral schedules at a rate under 10%, while roughly a quarter set the cap at 5% or less—rates well below what many in the industry (and in this survey) view as generally required for a secure retirement. Some plan sponsors may be concerned that higher deferral rates would be too burdensome for certain participants. The important point, as noted above, is that participants always have the final say and can opt out of these features if they do not meet their needs.

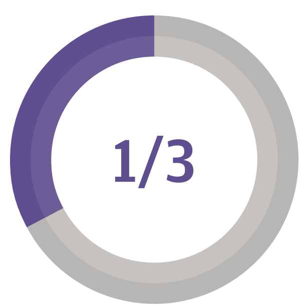
BASE ASSESSMENTS ON PARTICIPANT-LEVEL DATA, NOT ON PLAN AVERAGES

Many plan sponsors appear to rely on plan averages vs. participant-level data when assessing their plans. But plan averages can be misleading; they tend to cloud the view of what really matters—the view at the individual participant level. Relying on, for example, average deferral rates or the overall investment allocation of plan assets can result in poorly informed plan decisions that ultimately may lead to suboptimal participant outcomes.

The fact is, only 31% of plan sponsors surveyed say they receive contribution rate information at an individual participant level. As we've seen, contribution rates, even at an aggregate plan level, appear too low. But these averages could be hiding an even more dismal reality in which individual participant deferrals may range from above adequate to levels that are distressingly off track for a secure retirement. Understanding deferral rates at this more granular level can lead to better informed plan design decisions.

Similarly, only 27% of respondents say they receive individual participant-level asset allocation data. At the same time, a much larger 56% say they are very confident that the majority of their participants have an appropriate asset allocation. Is this confidence based on an understanding of individual participant asset allocations or the overall investment allocation of plan assets? And how might this assessment affect plan decisions?

Consider this: 21% of plan sponsors who have not conducted and don't plan to conduct a re-enrollment say this is because they are comfortable with their plan's overall asset allocation. Yet our research shows that among participants making their own investment decisions, asset allocations can vary tremendously. In fact, based on our analysis, 88% of these "do it yourself" participants had either too much or not enough of their assets allocated to equity, based on their age.[5] Plan-level asset allocations simply can't reflect this individual participant reality. Nor does such data capture the potential benefits of offering participants the opportunity to re-evaluate their asset allocation and, if they don't opt out, placing them in an appropriate QDIA, which may be a TDF.



ONLY 1/3 of plan sponsors are **RECEIVING** contribution rate and asset allocation data at the participant level

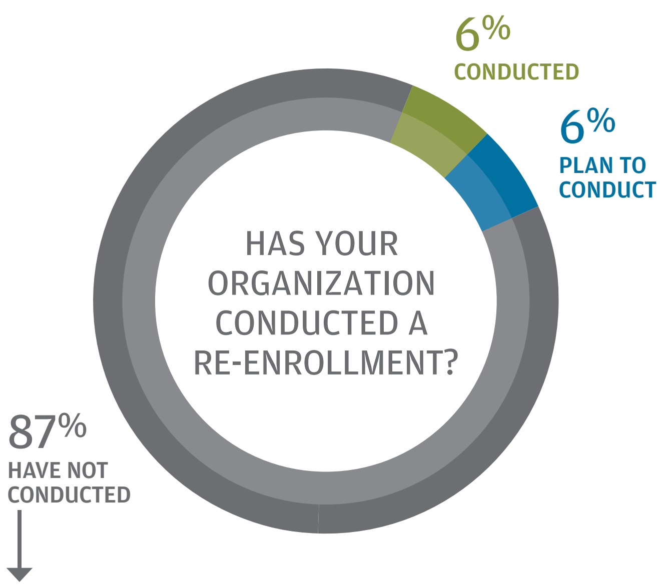
[5] J.P. Morgan retirement research; data as of December 31, 2016.

IMPROVE AWARENESS AND KNOWLEDGE OF RE-ENROLLMENT

We've seen two potential explanations for the slow uptake of re-enrollment by DC plans. Among plan sponsors who have never conducted a re-enrollment and don't plan to do so in the next 18 months, 24% attribute this to a fear of participant pushback and an additional 21% are comfortable with their overall plan asset allocation (as discussed earlier).

Broader adoption of re-enrollment requires an ongoing education effort

EXHIBIT 10: REASONS FOR NOT HAVING CONDUCTED A RE-ENROLLMENT



AMONG THOSE WHO HAVE NOT CONDUCTED A RE-ENROLLMENT...	
24%	felt they would get too much pushback from employees
21%	were comfortable with their plan's overall asset allocation
16%	lacked awareness/understanding
15%	thought it would be too much work to implement
11%	felt it would be too much risk from a fiduciary perspective
13%	had other reasons

Note: Total n = 968 (2017); Large (>$250M) = 165 (2017). Totals may not equal 100% due to rounding.
Source: J.P. Morgan Plan Sponsor Research 2017.

An additional 16% said they were unaware of or didn't know enough about re-enrollment. A further 15% felt implementing re-enrollment would involve too much work, while 11% were concerned about fiduciary risks and 13% had other reasons (**EXHIBIT 10**).

Implementing re-enrollment can be more complex than incorporating automatic design features, but it has the potential to quickly impact the asset allocation of a large percentage of participants.

As for plan sponsors' understanding of fiduciary protection for assets transferred into a QDIA during re-enrollment, it has improved since our last survey, but almost 40% of plan sponsors still say they don't know if or don't think they would receive protection. More education on and awareness of re-enrollment is clearly needed, including but not limited to a better understanding of potential for fiduciary protections.

HELP PLAN DECISION-MAKERS UNDERSTAND THEIR FIDUCIARY ROLE AND RESPONSIBILITIES

Despite the many positive trends identified in our surveys, one measure remains largely unchanged. Among the plan decision-makers surveyed, 43% are not aware of their status as a fiduciary—the very same result found in our last survey. Our research reveals some interesting differences between those who are aware of their fiduciary status and those who are not (see **"FIDUCIARY MISPERCEPTIONS,"** pages 20-21).

> "It has made me more aware of my own lack of education on the process, which is why we have brought professionals in to make sure we are up to date."

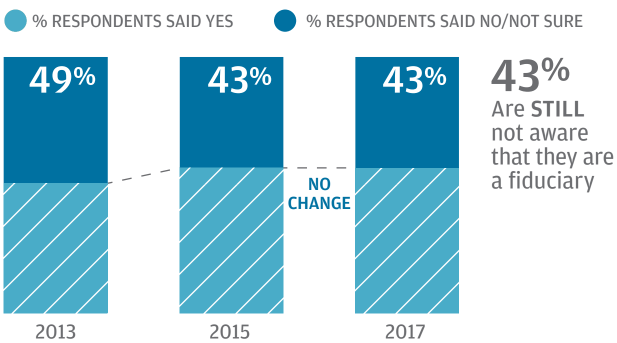
FIDUCIARY MISPERCEPTIONS

Simply stated, under ERISA, fiduciaries have the obligation to prudently select and monitor a plan's investments. Our survey suggests that some DC plan sponsors, to varying degrees, lack clarity regarding their fiduciary status and the nature of their responsibilities.

Who is a DC plan fiduciary?

A fiduciary is essentially someone who has authority over the management of the plan, whether as one of a small group of decision-makers or someone with considerable influence on plan decision-making. All survey respondents defined their responsibilities as ones that would categorize them as fiduciaries. Yet in this survey and our last, 43% said they were not a fiduciary to their organization's plan or were not sure of their fiduciary status.

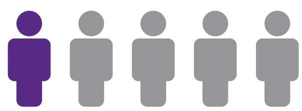
100% of respondents are fiduciaries, yet many are not aware of this fact



Note: Total n = 796 (2013), 756 (2015), 968 (2017); Large (>$250M) n = 125 (2013), 125 (2015), 165 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2015, 2017.

Fiduciary responsibilities are not as transferable as some plan sponsors may think

Fiduciary accountability for investment selection and monitoring is almost always held, or at least shared, by plan sponsors. However, 17% of plan sponsors said they retain none of this responsibility, stating they have off-loaded it to another party—a plan provider/recordkeeper, a financial advisor/consultant, an organization specifically retained for this purpose or a law/accounting firm. In fact, this off-loading of accountability is rarely an absolute transfer. In general, fiduciary responsibility for choosing and overseeing any designated professional still resides with the plan sponsor. Large plans appear to be more aware of the responsibilities they retain: Only 4% say they retain no fiduciary accountability for investment selection and monitoring.



Nearly **1/5** of PLAN SPONSORS

think they can fully off-load their fiduciary accountability for investment selection and monitoring

Opportunity for change

A clear understanding of fiduciary status, responsibilities, liabilities and protections can help ensure that DC plans are administered and continue to evolve for the benefit of participants, while protecting plan sponsors and their organizations. If plan sponsors are not certain that each individual plan fiduciary understands their roles and responsibilities they may want to reach out to experts who can help them improve fiduciary awareness and comprehension.

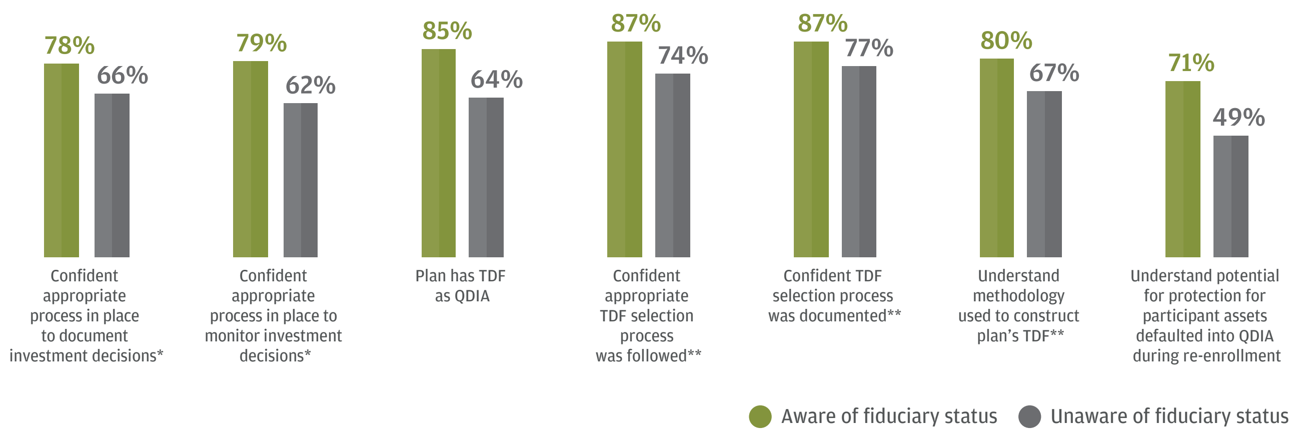
Comparing responses: Plan sponsors who know vs. those who don't know they are fiduciaries

Our results show some interesting distinctions between the survey responses of plan decision-makers who realize they are plan fiduciaries and those who do not. We compare the responses of these two groups to two different sets of questions:

- **FIDUCIARY-RELATED ACTS:** questions specifically related to plan investment decisions (i.e., decisions tied directly to a plan sponsor's fiduciary role).
- **NON-FIDUCIARY-RELATED ACTS:** questions related to plan design decisions and certain other non fiduciary matters.

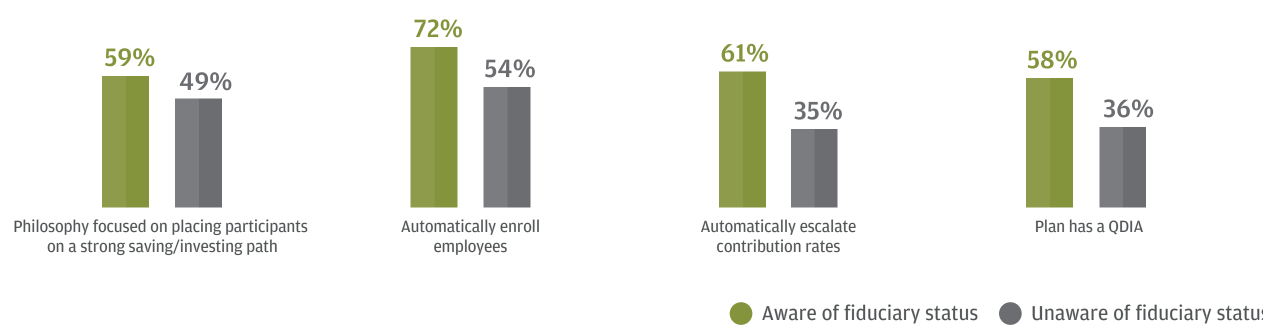
Fiduciary-related acts

Those who know they are fiduciaries are more confident in their investment selection processes and procedures and their understanding of selected investment strategies, more aware of certain fiduciary protections and more likely to follow best practices in due diligence



Non-fiduciary-related acts

Those who know they are fiduciaries are more likely to have a proactive placement philosophy and to have implemented automatic DC plan features and strategies in their plans



Note: Total n = 968 (2017).
Source: J.P. Morgan Plan Sponsor Research 2017.
*For confidence around process, n = 441. **For plans with a TDF, n = 671.

IMPLICATIONS

BETTER RETIREMENT OUTCOMES FOR MORE MEMBERS OF THE U.S. WORKFORCE IS A CRITICAL GOAL. A STRONG ALLIANCE AMONG DC PLAN PARTICIPANTS, PLAN SPONSORS AND PROVIDERS CAN MAKE IT A REALITY

We believe that further evolution of DC plans is a necessity to help ensure that as many participants as possible achieve a secure retirement. Seizing the opportunities to continue, if not expedite, the strengthening of these plans will require a collaborative effort. Participants, plan sponsors, policymakers, plan providers/recordkeepers and financial advisors/consultants all have a role to play. We share our thoughts on how each can contribute to future progress on the path to secure retirement outcomes.

PLAN PARTICIPANTS

Participants should be actively engaged in planning for their retirement. This doesn't mean becoming an investment expert; it means focusing on the basics. That starts with defining a goal, crafting a plan and knowing whether you are on track to a secure retirement. Participants have to know themselves: Are they "do-it-yourself" or "do-it-for-me" investors? Highly motivated or subject to inertia? They should be aware of the retirement benefits, tools and options available through their plans and take advantage of those that can motivate and help them to plan, save, invest and ultimately reach their retirement goals.

PLAN SPONSORS

Plan sponsors play a central role in DC plan evolution, coordinating with policymakers, industry providers and their own institutions to strengthen their plans and help employees achieve retirement security. We believe plan sponsors are most effective when they operate with a clear comprehension of their fiduciary roles and responsibilities, understand their participants' saving and investing behaviors, set outcome-oriented goals for their plans and ensure plan design, strategy and investment options are consistent with those goals. This means making their views known to policymakers; working with recordkeepers to get the participant-level data and insight required to support informed plan decisions; partnering with financial advisors/consultants to stay on top of regulatory changes, assess the potential advantages of plan design and investment innovations and, where appropriate for the plan, ensure their effective implementation.

POLICYMAKERS

Policymakers can benefit from maintaining a 360-degree perspective on regulatory issues: What do participants say they need to reach a secure retirement? What do plan sponsors and plan providers/recordkeepers see as the potential impact of new regulations? What fiduciary concerns might be preventing plan sponsors from taking proactive steps that have the potential to benefit participants—and how might these impediments or misperceptions be addressed?

PLAN PROVIDERS/RECORDKEEPERS

Plan providers and recordkeepers can help plan sponsors analyze and understand participant behavior at the individual level and monitor whether plan components and features are having the desired impact. They can work with plan sponsors to implement automatic design features and strategies efficiently and cost-effectively. Plan sponsors want and need plan providers that take initiative: 72% of plan sponsors say working with a provider/recordkeeper that "proactively brings new ideas on how to achieve plan goals" is highly important, yet only 18% define their plan provider/recordkeeper in these terms (**EXHIBIT 11**).

FINANCIAL ADVISORS/CONSULTANTS

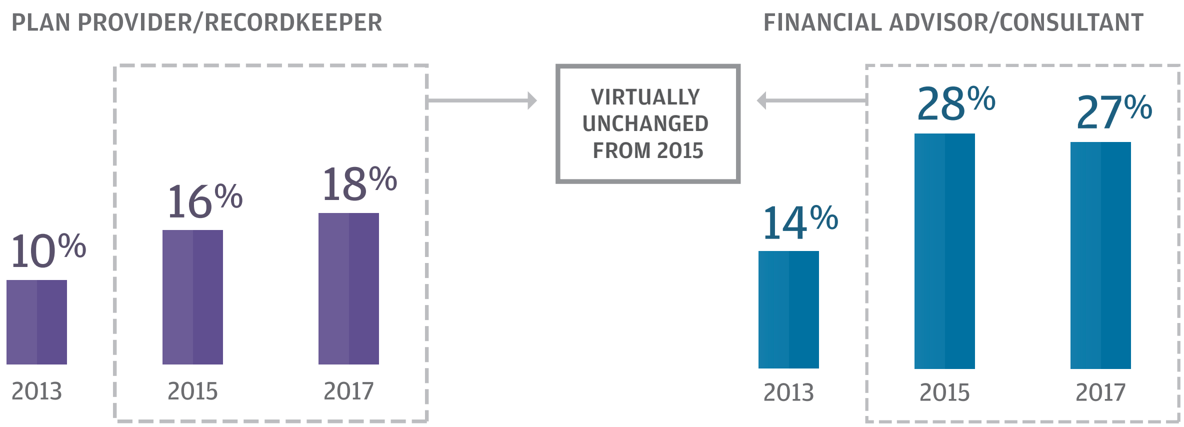
Financial advisors/consultants have an opportunity to build stronger relationships with plan sponsors by being the proactive partners these decision-makers look to for innovative ideas, industry best practices and cost-effective solutions for evolving their DC plans. While 78% of plan sponsors say they use a financial advisor/consultant, only 27% describe this relationship in proactive terms (**EXHIBIT 11**). Financial advisors/consultants can be more proactive by providing updates on regulatory changes, new investment strategies and plan design innovations, and by helping plan sponsors understand the benefits of automatic features and strategies and how best to implement them. Finally, they can clarify their own fiduciary duties as financial advisors/consultants and help plan sponsor fiduciaries to understand theirs.

IN CONCLUSION

Our surveys indicate that considerable progress has been made in strengthening DC plans for their role as a primary building block of retirement security. But this is not a time for complacency. A persistent, concerted effort is needed to ensure the progress never stops.

Opportunity exists for proactive providers and advisors

EXHIBIT 11: % DESCRIBING PARTNER AS ONE WHO PROACTIVELY SUGGESTS NEW IDEAS AND SHARES BEST PRACTICES TO EVOLVE THE PLAN



Note: Total n = 796 (2013), 756 (2015), 968 (2017); has a financial advisor/consultant, n = 611 (2013), 603 (2015), 781 (2017).
Source: J.P. Morgan Plan Sponsor Research 2013, 2015, 2017.

THE PROGRESS NEVER STOPS

At J.P. Morgan Asset Management, we are committed to supporting the continuing evolution of DC plans. Our biennial plan sponsor and participant surveys help us to stay on top of trends and developments impacting DC plans, understand the challenges faced by plan sponsors and their participants and remain in the forefront of the financial industry's response to the need for greater retirement security.

FOR ADDITIONAL INSIGHTS FROM THIS SURVEY, OR TO EXPLORE THE RESEARCH BY PLAN SIZE AND THEME, VISIT OUR INTERACTIVE WEBSITE AT JPMORGAN.COM/DCRESEARCH

July 2017

RI-WP-PSR2017

J.P. MORGAN ASSET MANAGEMENT
270 Park Avenue | New York, NY 10017

RI-WP-PSR2017