



Fee Focused

This year's survey of plan sponsors' approaches, attitudes and intentions shows a shift in focus from fiduciary risks and duties to the importance of fees. Is this a good thing? Maybe. Or maybe not.

Now in its tenth year, the PLANSPONSOR/Janus Capital Group annual defined contribution (DC) investment study sheds light on some interesting information from more than 4,800 U.S. plans of all sizes. With nearly 77% of plans now offering at least one target-date fund (TDF) in their lineup, there is increased confidence that TDFs are the best qualified default investment alternative (QDIA) for many DC plans: now more than 60% of all plan sponsors believe TDFs are the best QDIA for their plan participants. In 2012, less than half of plan sponsors expressed the same sentiment. Similarly, this year the percentage of plan sponsors "not sure" of what type of QDIA is best dropped to an all-time low of just under 18%. Clearly, plan sponsors are more confident—and more knowledgeable—about default investment options in their plans.

Fees Now in the Spotlight

Perhaps this confidence is misguided, however, as this year's data shows that plan sponsors may have taken their proverbial eye off the ball in terms of their fiduciary duties. Fees show a heightened focus in this year's survey, particularly among small plans. A mere five years ago, low fees were the least important consideration for plan sponsors when selecting a QDIA; this year, fees are the number three consideration overall (behind performance and quality of underlying funds). Quality of a QDIA's underlying funds also showed a marked increase in importance over 2015. The importance of fiduciary risk, by contrast, went from the third largest concern in 2012 with 20% of plans citing it as the top concern in QDIA selection, to less than 11% in 2016. "Only focusing on fees, and not fully benchmarking or understanding the underlying makeup of a target-date fund, could potentially be a dangerous decision," notes Russ Shipman, Managing Director and Senior Vice President of Janus' Retirement Strategy Group. "Fund fees, while an important input into a well-designed and executed fiduciary process, should not necessarily be among the top defining priorities when selecting a QDIA for a diverse participant population," he continues.

Increased Confidence in TDFs

Once a QDIA is selected for a plan, most plan sponsors are satisfied with their chosen vehicle. Those answering that they are "very confident" in their QDIA significantly increased in

every plan size in 2016 over the prior year. Plan sponsors are also more confident this year that participant education is effective when it comes to TDFs, and that participants are using TDFs correctly. "Confidence in target-date fund usage is up among plan sponsors overall this year, implying plan fiduciaries are as engaged as ever with respect to this specific plan structure decision," Shipman adds.

Although single-manager TDFs are still used by more than 40% of plans, there was an increase this year in the usage of other TDF types, particularly multi-manager versions and professionally managed accounts. Usage of multi-manager TDFs saw a significant increase over 2015 among micro and mega plans. "Professionally managed accounts can provide a more individualized approach than TDFs—but with higher fees. So some plans with TDFs as their QDIA are adding managed accounts as another option," says Michael Volo, Senior Partner with Cammack Retirement Group. For those using or considering custom TDFs, mid-sized plans are leaning more on defined contribution recordkeepers and financial advisers to build their custom TDFs. Also, there was an uptick in plans relying on third party fiduciary providers to help build custom TDFs.

QDIA Benchmarking Less Prevalent

In terms of how often plan sponsors benchmark their TDFs, surprisingly there was a large increase in plans indicating that they do not evaluate their TDFs to determine "best fit" for their participants. This increase was particularly the case among micro and mega plans. On the other hand, those "not sure" if they evaluate/benchmark their TDFs did decrease markedly, suggesting that survey respondents understand the processes taken (and not taken) to review investments.

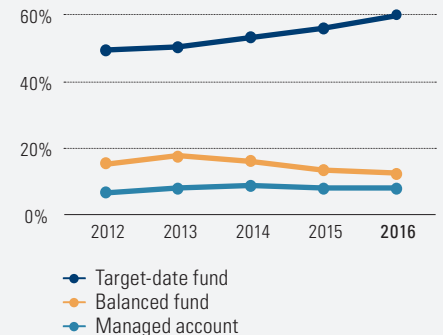
Clearly, selecting the right QDIA for a plan's participants is no easy task. The fiduciary consequences are daunting, and the choices are abundant. However, like all decisions when it comes to plan design, even a well vetted QDIA option needs to be re-evaluated on a regular basis, and not just to look at fees. Markets, participant demographics, manager performance—among other things—are subject to change. "When it comes to fiduciary oversight, there is no such thing as 'set it and forget it,'" concludes Shipman. ■

METHODOLOGY: In conjunction with *PLANSPONSOR*, Janus Capital developed a series of questions for defined contribution plan sponsors specifically pertaining to target-date and QDIA fund knowledge, satisfaction, and construction. These questions were included in the *PLANSPONSOR* 2016 Defined Contribution Survey, which was conducted via an online questionnaire from July to September 2016. More than 4,800 respondents participated in the survey. For more information, contact surveys@strategic-i.com.

Micro=<\$5MM; Small=\$5MM-\$50MM; Mid=>\$50MM-\$200MM; Large=>\$200MM-\$1B; Mega=>\$1B

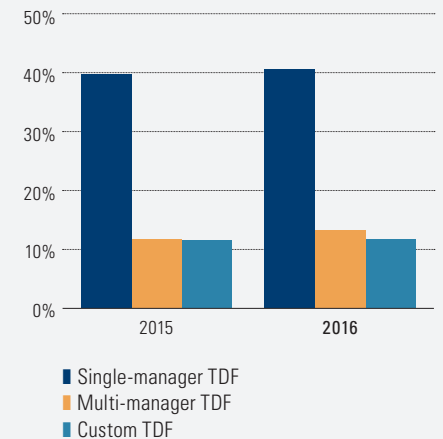
Which of the following is the best QDIA option for your employee population?

	All	Micro	Small	Mid	Large	Mega
Target-date fund	60.4%	46.2%	56.6%	71.3%	79.5%	84.6%
Balanced fund	11.9%	13.8%	14.0%	12.0%	6.1%	3.1%
Professionally managed account	7.9%	7.5%	10.0%	5.8%	6.6%	5.6%
Not sure	17.9%	31.4%	17.4%	8.2%	5.2%	4.3%
Other	2.0%	1.2%	2.1%	2.7%	2.6%	2.5%



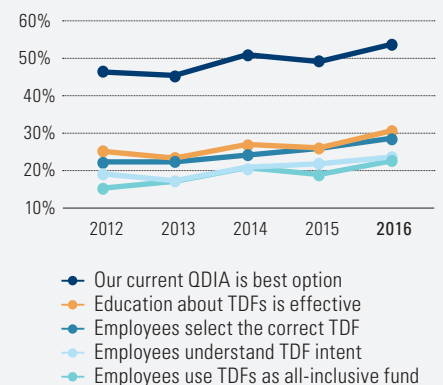
If you've selected a target-date fund as your QDIA, what type are you using?

	All	Micro	Small	Mid	Large	Mega
Custom target-date fund (made up of existing investment options in the plan lineup)	11.7%	11.1%	13.1%	8.2%	9.9%	16.1%
Single-manager target-date fund	40.5%	29.6%	34.6%	49.1%	59.4%	62.6%
Multi-manager target-date fund	13.1%	14.2%	12.6%	15.2%	11.8%	9.0%
Not applicable - we use a professionally managed account (participant-level allocation model) as our QDIA	9.7%	12.0%	11.7%	7.4%	4.7%	3.9%
Not applicable - we use a balanced/target-risk fund as our QDIA	9.0%	9.7%	11.8%	8.2%	4.7%	1.3%
Not applicable - we do not use a target-date fund for our QDIA	16.1%	23.4%	16.2%	11.9%	9.4%	7.1%



How confident are you that:

	Very confident	Somewhat confident	Not at all confident	Don't know
Your plan's current QDIA is the best option for the majority of employees	54.4%	34.0%	1.7%	9.9%
Your plan's participant education about target-date funds is effective	31.3%	46.1%	6.6%	16.0%
Employees understand the structure and intent of target-date funds	24.1%	49.9%	10.8%	15.2%
Employees are selecting the correct target-date for their expected retirement	29.2%	46.0%	6.9%	17.9%
Employees are using target-date funds as a single, all-inclusive fund	23.2%	43.2%	11.6%	22.1%

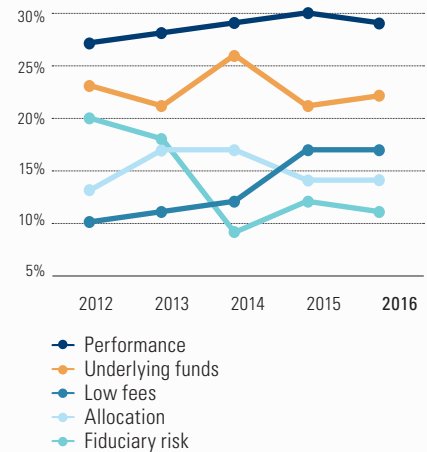




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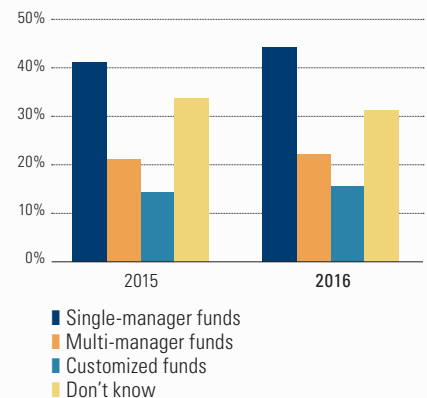
What is the most important consideration for your plan when selecting a QDIA? (% ranked first)

	All	Micro	Small	Mid	Large	Mega
Low fees	17.4%	19.6%	17.0%	16.6%	11.9%	20.7%
Investment transparency	5.2%	7.1%	4.8%	5.2%	2.9%	2.7%
Investment allocation	13.9%	6.8%	11.6%	19.3%	20.8%	30.9%
Quality of fund/underlying funds	22.0%	20.6%	22.1%	23.7%	24.0%	20.1%
Best overall performance	29.5%	38.6%	29.8%	21.6%	25.8%	12.3%
Fiduciary risk	10.8%	8.9%	12.3%	11.5%	11.1%	9.5%
Participant demographics	3.9%	3.0%	3.6%	4.5%	6.3%	4.0%
Other	1.1%	1.1%	0.9%	1.1%	0.7%	2.0%



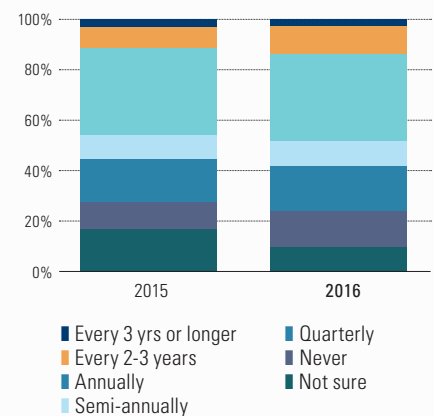
What type of target-date funds does your DC provider/recordkeeper offer?

	All	Micro	Small	Mid	Large	Mega
Target-date funds composed of funds from one firm (single-manager funds)	44.2%	32.7%	42.2%	55.6%	57.8%	56.9%
Target-date funds composed of funds from multiple firms (multi-manager funds)	22.2%	19.9%	22.8%	24.4%	23.2%	22.9%
Target-date funds composed of funds from your plan's current fund lineup (customized funds)	15.5%	13.0%	15.9%	16.3%	16.6%	20.3%
Other target-date fund types	2.2%	1.1%	2.7%	1.9%	4.3%	2.6%
Don't know	31.3%	41.1%	30.5%	21.9%	22.8%	26.8%



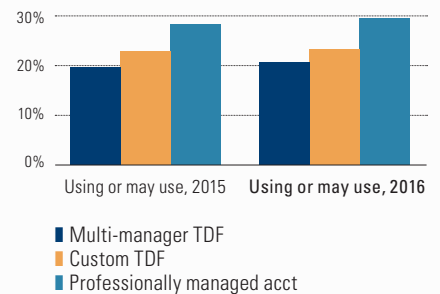
How frequently do you evaluate or benchmark your target-date fund series to determine "best fit" for your participant demographics?

	All	Micro	Small	Mid	Large	Mega
Quarterly	17.7%	9.6%	16.5%	25.6%	30.8%	21.6%
Semi-annually	10.2%	7.5%	15.1%	9.4%	7.7%	3.3%
Annually	34.5%	36.5%	35.4%	33.2%	28.1%	33.3%
Every 2-3 years	11.2%	9.5%	8.9%	12.6%	16.7%	18.3%
More than 3 years	2.5%	2.0%	3.0%	1.4%	0.9%	5.9%
Not sure	9.6%	15.3%	8.0%	5.4%	6.8%	5.9%
Never	14.4%	19.6%	13.1%	12.3%	9.1%	11.8%



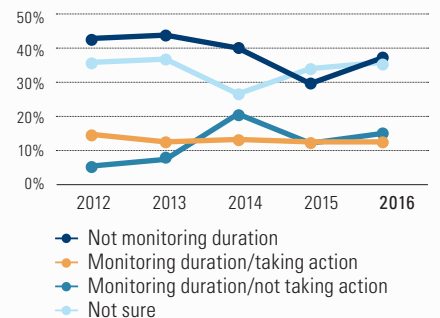
Have you considered utilizing any of the following in your plan?

	Already use	Considered, may use in the future	Not sure	Have not considered	Considered, but decided not to use
Multi-manager target-date fund	13.3%	7.4%	26.1%	44.8%	8.4%
Custom target-date fund (made up of investment options in the plan lineup)	12.5%	10.9%	22.2%	42.7%	11.7%
Professionally managed account (participant-level allocation model)	18.1%	11.5%	23.4%	36.8%	10.3%



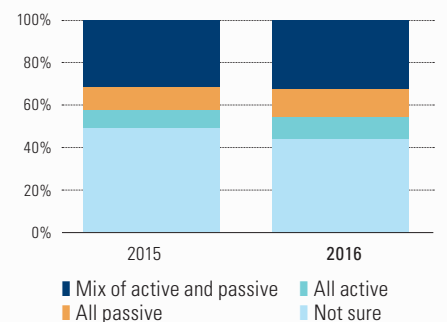
Within your target-date fund series, are you monitoring the duration of the fixed income component, and if so, are you taking action to address and adjust duration?

	All	Micro	Small	Mid	Large	Mega
No, not monitoring duration	37.0%	46.4%	36.3%	28.0%	29.0%	33.8%
Yes, monitoring duration; not taking action	15.4%	6.6%	12.5%	26.3%	23.3%	28.0%
Yes, monitoring duration; taking action	11.8%	8.8%	12.3%	15.5%	15.5%	7.9%
Not sure	35.9%	38.2%	38.9%	30.1%	32.1%	30.2%



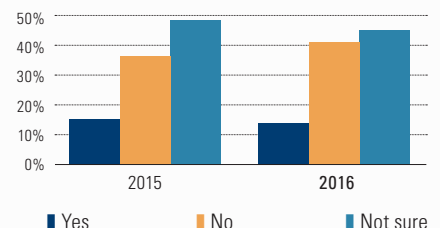
What is your target-date fund composed of?

	All	Micro	Small	Mid	Large	Mega
All passive investment strategies	12.9%	7.6%	8.1%	12.8%	23.6%	40.1%
All active investment strategies	10.7%	6.2%	10.0%	13.2%	21.6%	11.8%
A mix of active and passive investment strategies	32.3%	29.7%	34.7%	36.8%	29.3%	27.6%
Not sure	44.0%	56.6%	47.2%	37.2%	25.5%	20.4%



Does your target-date fund series currently utilize alternative asset classes such as hedge funds, real estate, commodities and others to provide diversification?

	All	Micro	Small	Mid	Large	Mega
Yes	13.8%	11.2%	11.3%	18.1%	13.8%	27.5%
No	41.1%	35.1%	39.9%	44.0%	52.9%	47.7%
Not sure	45.1%	53.8%	48.8%	38.0%	33.3%	24.8%



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