Janus Henderson
INVESTORS

Top DC Trends and Developments

1Q23 edition

Why Janus Henderson

A defined contribution partner with more to offer

For over 45 years, we've helped to inform retirement decisions in an evolving retirement landscape, providing:

Active management solutions that we believe will lead to better long-term retirement outcomes for participants

Access to an experienced team of investment professionals uncovering differentiated investment opportunities around the globe

A wide selection of competitively priced vehicles appropriate for a variety of DC plans and participants

DEFINED CONTRIBUTION CAPABILITIES

45+ years of industry experience

$21 B in DC assets under management

Top 25 Products utilized by the top 25 DC record-keepers

Over 200 Availability on over 200 recordkeeping platforms

We offer our investments in vehicles appropriate for retirement plans, including zero-revenue sharing mutual fund share classes, subadvised portfolios and through a suite of Collective Investment Trust products

Note: Not all record-keepers provide quarterly DC AUM data, therefore AUM data is based on the most recently available information. Data as of 3/31/23.

DEFINED CONTRIBUTION STRATEGIES

Strategy	Available Vehicles	Mutual Fund N share Fee*	Category Avg	Difference	AUM	Inception Date
Equities						
US Research Growth Equity	MF, CIT, SA	53 bps	70 bps	17 bps	$17.2B	8/1/2007
Concentrated Growth	MF, COM, CIT, SA	67 bps	70 bps	3 bps	$22.1B	10/1/1994
Growth and Income	MF, CIT, SA	63 bps	70 bps	7 bps	$6.5B	5/15/1991
Mid Cap Growth	MF, SA, CIT	66 bps	85 bps	18 bps	$24B	4/1/1989
SMID Cap Growth	MF, SA, CIT	66 bps	96 bps	29 bps	$7.9B	3/1/2005
Small Cap Growth	MF, SA, CIT	67 bps	96 bps	29 bps	$3.2B	1/1/1993
International Alpha	MF, SA, CIT	74 bps	85 bps	11 bps	$3.4B	1/1/2016
Global Alpha Equity	MF, SA	69 bps	86 bps	17bps	$2.3B	8/3/2012
Global Life Sciences	MF, SA	67 bps	91 bps	24 bps	$11B	12/31/1998
Global Real Estate	MF, SA	100 bps	91 bps	(9 bps)	$2B	11/28/2007
Global Technology and Innovation	MF, SA	67 bps	91 bps	24 bps	$5.7B	12/31/1998
All Cap Emerging Markets	MF, SA	103 bps	106 bps	3 bps	$249M	10/1/2019
Asset Allocation						
Balanced	MF, SA, CIT	57 bps	75 bps	18 bps	$40.3B	9/1/1992
Fixed Income						
Multi Sector Fixed Income	MF, SA	60 bps	65 bps	5 bps	$3.0B	4/1/2014
Core Plus Fixed Income	MF, SA, CIT	43 bps	47 bps	4 bps	$5.1B	7/7/1987
Developed World Bond	MF, SA, CIT	56 bps	62 bps	6 bps	$5.6B	9/30/2003
High Yield Bond	MF, SA	62 bps	69 bps	7 bps	$1.6B	12/29/1995

*Fees are for mutual fund N shares unless stated otherwise

Source: Morningstar. As of 3/31/23.

What’s inside

Our quarterly Top DC Trends and Developments is designed to help CEOs, CFOs, treasurers, human resource and benefits professionals, and investment committees stay up-to-date on recent events that could have an impact on plans or plan participants.

Inside you will find the following information:

- **Participants’ corner:** Timely insights about the retirement readiness of plan participants
- **Legislative review:** A summary of new and pending legislation
- **Regulatory review:** News from the Department of Labor and other regulatory bodies
- **Legal review:** An update on high-profile ERISA cases
- **Quarterly highlights:** Best practices for plan sponsors

Participants’ corner

Participants' corner

Most plan participants exhibited patient investment behavior during 2022

- According to the Investment Company Institute's (ICI) annual survey of leading recordkeepers, most DC plan participants stayed the course in 2022, with only 8.0% changing their asset allocation for existing balances.
  - For comparison purposes, 9.1% changed their allocation in 2021 and 10.6% in 2020.
- Even fewer participants (4.0%) changed their allocation for future contributions in 2022, compared to 5.3% in 2021 and 6.3% in 2020.

Holden, Sarah, Daniel Schrass, and Elena Barone Chism. "Defined Contribution Plan Participants' Activities, 2022." ICI Research Report.

Participants' corner

Bank of America reports slightly lower average contribution rates in 2022

- An analysis of over 3 million DC participants by Bank of America has revealed that the average retirement contribution rate was 6.4% in 2022, down slightly from 6.6% in 2021.
- The study also found that:
  - More than one-in-four participants (26%) contribute 3% or less
  - Baby boomers are the generational cohort with the largest percentage of participants contributing 3% or less (43%), although 24% are saving at least 6%
  - Millennials are the generational cohort with the largest percentage of participants contributing 7% or more (47%)

"Retirement Research & Insights: 401(k) Participant Pulse – Tracking the confidence of plan participants." Bank of America. December 2022.

Participants' corner

Vanguard: Majority of retirement-age participants preserve tax deferral

- In a study of plan participants age 60 and older who terminate from their employer, nearly nine in 10 retirement dollars are preserved, either in an IRA or employer plan.
- Most retirement-age participants leave their employer's plan within five years of separating from service, mostly for IRA rollover accounts.
  - When plans permit flexible distributions, however, retirement-age participants are more likely to remain in the employer's plan.
  - The percentage of plans that offer flexible distributions has doubled in the past five years along with increased adoption of in-plan advice and retirement income solutions.

Clark, Jeffrey W., and Joseph C. Walsh. "Vanguard Viewpoints: Retirement distribution decisions among DC participants." Vanguard. February 2023.

Participants' corner

EBRI finds that employee well-being is age dependent

- A new report by the Employee Benefit Research Institute (EBRI) found employees between the ages of 35 and 49 were more concerned about financial well-being than younger cohorts, while younger cohorts were more concerned about emotional and physical well-being versus older cohorts.
- The top three financial stressors for employees between ages 35 and 49 were saving enough for retirement (41%), paying monthly bills (38%), and affording children's college tuition (17%).
- The top three benefits valued most (other than compensation) by this cohort were flexibility in work location (33%), quality health care coverage (32%), and quality retirement savings (28%).

"Fast Facts: Which Benefits are Valued Most Depends on Age of Workers." EBRI. January 26, 2023.

Participants' corner

Georgetown University makes the case for alternatives within target-date funds

- Researchers at Georgetown University's Center for Retirement Initiatives modeled the expected performance of three types of target-date funds that included:
  - Stocks and bonds only
  - An allocation that included very modest amounts of real assets and private credit
  - An expanded portfolio that included private equity, while increasing the allocation to real assets and private credit
- The analysis found only a modest improvement between the stock and bond mix with the portfolios that included a modest amount of real assets and private credit, however, the expanded portfolio improved expected annual retirement income by 6%, and worst-case annual retirement income by 8%, net of fees.

Antonelli, Angela M. "The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes." Georgetown University McCourt School of Public Policy Center for Retirement Initiatives. June 2018.

Participants' corner

Plan sponsors remain lukewarm on annuities four years after SECURE Act 1.0

- In a survey of 90 plan sponsors with a median number of 12,250 employees, Alight reported that interest in offering annuities as part of a DC plan remains lukewarm four years after the enactment of the SECURE Act of 2019.
  - 51% of sponsors surveyed expressed no interest while 35% reported moderate interest.
- The three primary reasons cited for a lack of interest were fiduciary concerns (47%), waiting to see the market evolve more (44%), and difficulty with plan participation (44%).

"2023 Hot Topics in Retirement and Financial Wellbeing Report." Alight Solutions.

Participants' corner

TIAA tests American's longevity literacy

- In a survey of over 3,500 Americans, TIAA tested respondent longevity literacy by asking, "What is the life expectancy among 60-year-old men/women in the U.S.?"
- 37% of respondents answered correctly (about 22-25 more years) while 28% answered, "I do not know," and 25% underestimated the correct life expectancy.
- Correctly answering the longevity literacy question was associated with higher levels of overall financial literacy, future orientation, and retirement preparation through savings and calculating income needs.

Yakoboski, Paul J., Annamaria Lusardi, and Andrea Hasler. "Financial Literacy, Longevity Literacy, and Retirement Readiness: The 2022 TIAA Institute-GFLEC Personal Finance Index." TIAA Institute and The George Washington University School of Business and Global Financial Literacy Excellence Center (GFLEC). January 2023.

Participants' corner

Cryptocurrency ranks last as preferred retirement savings vehicle

- According to Ubiquity Retirement + Savings' "State of the Industry" survey, only 3.5% of plan participants selected cryptocurrency as their preferred retirement savings vehicle, behind 401(k)s, outside stocks and bonds, savings accounts, checking accounts, and gold.
- Additionally, 59% of respondents self-assessed their financial literacy as average or below average and 58% reported they do not think they are saving enough for retirement.

Ubiquity Retirement + Savings. "2023 State of the Industry Survey." January 2023.

Participants’ corner

Employers are easing plan eligibility and vesting requirements

- According to Vanguard’s “The Changing Workforce Environment,” 72% of employers allowed participants to start contributing to the plan immediately upon hire, up from 58% in 2012.
  - 86% of plans allowed for entry within three months of employment.
- As of 2021, almost half (49%) of plan sponsors offered immediate vesting for matching contributions and only one quarter of all plans had a five- or six-year vesting schedule for matching contributions.
  - By comparison, 40% of plans had immediate vesting for nonelective contributions, with 34% having a five- or six-year vesting schedule.

Preston, Shelly, Mike Palumbo, Wendy Tyson, and Jeffrey E. Clark. “The changing workforce environment: How employer plans can help attract and retain employees.” Vanguard. March 2023.

Participants' corner

Key takeaways for plan sponsors

- Review existing target-date fund offerings given new advancements in the market regarding more personalized glide paths and portfolio composition.
- Incorporate the planning challenges associated with longevity into existing financial education and wellness programs.
- Consider allowing the ability for retired participants to take periodic distributions from their 401(k) plan.
- Ensure plan eligibility and vesting schedule requirements are aligned with broader recruiting and retainment needs.

Legislative review

Legislative review

Biden vetoed congressional attempt to overturn DOL ESG rule

- On March 20, 2023, President Biden issued the administration's first veto of the bill that attempted to overturn the Department of Labor's November 2022 DOL rule; this rule states that retirement plan fiduciaries may, but are not required to, consider environmental, social, and governance (ESG) factors when making retirement plan investment decisions.
- Separately, a lawsuit is pending in the Northern District of Texas that was filed by a coalition of attorney generals representing 25 states asking the court to set aside the 2022 rule.

Mulholland, Paul. "Biden Uses First Veto to Uphold DOL ESG Rule." PLANSPONSOR. March 2023.

Legislative review

Several concerns raised regarding SECURE 2.0

- Several concerns have been raised regarding provisions contained in SECURE 2.0 that were signed into law on December 29, 2022, as part of a $1.7 trillion omnibus spending bill, specifically:
  - Collective investment trusts (CITs) are still not available in 403(b) plans until Congress passes additional securities law and legislation.
  - A technical error in the drafting of the legislation prohibits any catch-up contributions beginning in 2024; the Treasury Department and the Joint Committee on Taxation have been alerted and attempts to remedy the error have started.

Mulholland, Paul. “CITs a No-Go for 403(b) Accounts.” PLANSPONSOR. January 2023.
Sullivan, John. “Major SECURE 2.0 Error Puts Catch-Ups in Jeopardy: ARA’s Graff.” January 2023.

Legislative review

New bill would roll back DOL guidance on cryptocurrency

- Senator Tommy Tuberville (R-AL) reintroduced the Financial Freedom Act that would repeal guidance issued by the Department of Labor in 2022.
- The DOL guidance noted that employers and investment firms could be subject to investigation and enforcement if they allow individuals using brokerage windows to invest in cryptocurrency.

Adams, Nevin. “Tuberville Resets 401(k) Crypto Crusade.” National Association of Plan Advisors. February 2023.

Legislative review

Key takeaways for plan sponsors

- Discuss with your service providers how, if at all, the SECURE Act of 2022 impacts your plan and participants.
- If your plan provides a brokerage window, review adoption and use with your service providers.

Regulatory review

Regulatory review

IRS proposes continuation of remote witness requirements

- On December 30, 2022, the IRS issued a proposed regulation that would continue to allow remote witnessing of spousal consent indefinitely, in the presence of either a notary public or plan administrator, as an acceptable alternative to the physical presence requirement if certain conditions are met.
  - These rules were originally put in place January 1, 2020, due to the COVID-19 pandemic and were scheduled to expire December 31, 2022.
- For defined contribution plans, spousal consent is required for a distribution or loan of plan assets subject to a qualified joint and survivor annuity (QJSA) or when married participants wish to designate a beneficiary other than a spouse.

Zuss, Noah. “IRS: Remote Notarization, a Pandemic Development, May Stay.” PLANADVISOR. January 2023.

Regulatory review

Proposed regulations clarify the deadline for using forfeitures

- On February 27, 2023, the U.S. Treasury Department issued proposed regulations that require forfeitures to be used no later than 12 months following the end of the plan year in which they were incurred for:
  - Reasonable plan administrative expenses
  - Reducing employer contributions
  - Increasing benefits to other eligible participants
- If finalized, the regulation would be effective for plan years beginning on or after January 1, 2024.

Godbout, Ted. "IRS Proposes Regs to Clarify Timing and Use of Forfeitures." National Association of Plan Advisors. February 2023.

Regulatory review

New Form 5500 rules provide relief for small plans

- New rules released on February 24, 2023, provide that the 100-participant threshold will be based on the number of participants with balances as of the first day of each year, rather than counting all participants during the year, beginning with the 2023 plan year.
- The regulatory package also provides guidance for multiple employer plans (MEPs), pooled employer plans (PEPs), and groups of plans (which the DOL now calls defined contribution group reporting arrangements, or DCGs).

Iekel, John. “DOL Issues Final Rules on Changes to 2023 Form 5500, SF.” American Society of Pension Professionals and Actuaries. February 2023.

Regulatory review

Key takeaways for plan sponsors

- If your plan has vesting requirements, review how forfeitures are presently being used.
- To ease administrative burdens, consider permanently adopting the provisions allowing for remote witnessing of spousal consent.

Legal review

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Legal review

District court vacates DOL interpretation of investment advice

- In *American Securities Association v. United States Department Labor*, a U.S. District Court in Florida ruled that the DOL's new interpretation of the regular basis prong of the "five-part test" was arbitrary and capricious because it contradicted the 1975 fiduciary investment advice regulation.
- At issue was Frequently Asked Question #7 contained within the DOL's 2021 guidance, which stated that a rollover recommendation to a plan participant would satisfy the "regular basis" prong, even if no prior advice had been rendered, because ongoing advice would be provided in the future.
- It is largely anticipated that the DOL will appeal this ruling.

Zuss, Noah. "Federal Judge Strikes Down DOL Rollover Advice Guidance." PLANSPONSOR. February 2023.

Legal review

University of Southern California lawsuit settled

- First filed in 2016, the excessive fee lawsuit involving two retirement plans sponsored by the University of Southern California has reached a settlement. Under the terms of the agreement, the defendants agreed to:
  - A cash settlement of $13,050,000 to be reimbursed to participants after fees and expenses
  - Prohibition of cross-selling products and services by the record keeper
  - Initiating a request for proposals for record keeping and administrative services
  - Annual training to plan fiduciaries

Steyer, Robert. “USC to pay $13 million to settle ERISA suit over retirement plan fees.” Pensions & Investments. February 2023.

Legal review

DOL takes small plan sponsor to court over fiduciary breaches

- The Department of Labor has filed a civil lawsuit against the co-owner of Professional Sports Planning Inc., alleging that the company obtained, retained, and used plan assets for non-plan uses, including general business operations.
- The specific violations cited in the lawsuit include:
  - Failure to operate the plan in the participants' best interests
  - Failure to operate the plan with the necessary care, skill, prudence, and diligence
  - Engaging in transaction that fiduciaries knew, or should have known, were in violation of ERISA
  - Dealing with assets of the plan in the plan sponsor's own interests
  - Engaging in transactions with a party whose interests were adverse to the interests of the plan
- The DOL is seeking reimbursement to the plan of $76,769 plus lost opportunity costs.

Zuss, Noah. "Professional Athlete Sports Agency is Accused of Retirement Asset Theft." PLANSPONSOR. January 2023.

Legal review

Key takeaways for plan sponsors

- Ask service providers about cross-selling activities that may include non-plan products, including IRA rollovers.
- Ensure the timely remittance of payroll deductions to the defined contribution plan and trust.

Quarterly highlights

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Quarterly highlights

Vinik Sports Group revamps plan design

- The owner of an NHL franchise, a collegiate athletics property, two event venues, a digital media company, and retail and e-commerce platforms recently revamped its 401(k) plan to include:
  - Auto-enrollment with a default rate of 3%
  - Employer match of 100% on the first 3% of employee deferrals and 50% on the next 2%
  - An increase of the auto-escalation rate from 7% to 10%
  - Lower eligibility age, from 21 to 18
- The investment committee meets quarterly, and its members consist of people throughout the organization including ticket sales, analytics, partnerships, and finance.

Source: PLANSPONSOR Awards, 2022 Finalist.

Quarterly highlights

University Health Alliance take a hands-on approach to saving

- The investment committee for the Hawaii-based health care provider reaches out quarterly to all employees saving less than 10%, encouraging them to take full advantage of the plan's 50% match on deferrals up to 10% of compensation.
- The organization directly pays all plan fees except for the investment management costs, which is a weighted average of 0.34% that consists of a mix of index and actively managed funds.
- An analysis of the plan's stable value fund resulted in a higher crediting rate for plan participants invested in the capital preservation option.

Source: PLANSPONSOR Awards, 2022 Finalist.

Quarterly highlights

Targeted communications adopted by IMT Insurance

- The personal and commercial insurer recently adopted an employee education program centered on “age banding” to ensure participants would receive the most relevant information.
- Annual workshops are held for all IMT employees and participants who are within five to 10 years of retirement age are eligible to receive a comprehensive financial plan at no cost.
- The company’s wellness program credits employees with cash compensation or paid time off for increasing their 401(k) contributions, contributing up to the annual IRS deferral limit, and attending annual workshops.

Source: PLANSPONSOR Awards, 2022 Finalist.

Quarterly highlights

Outstanding loans drop at Dawn Food Products

- Upon learning that approximately 25% of employees had at least one outstanding loan, company officials at Dawn Food Products decided to change their 401(k) plan to only allow one loan at a time and introduced special programs to help employees reduce debt and build emergency savings.
  - As a result of these efforts, the percentage of employees with loans dropped to 15%.
- The plan uses a managed account as its Qualified Default Investment Alternative. Of the 65% of total participants that use the service, about half are defaulted in and half choose it on their own.
- The company's human resources department conducts diversity, equity, and inclusion audits of the 401(k) and other benefits to ensure they reach and can help everyone.

Source: PLANSPONSOR Awards, 2022 Finalist.

Quarterly highlights

Income replacement ratios the focus at EBSCO Industries, Inc.

- EBSCO Industries is one of the largest privately held and family-owned businesses in the U.S.; the company started out as a small subscription agency but grew to become the leader within the library services industry.
- EBSCO has set a retirement income replacement goal of 80%. Currently, approximately one-third of all plan participants are at the 70% or higher level.
- To help participants manage the retirement decumulation stage, the company has introduced a financial wellness and investment counseling service.
- Additionally, the plan has been amended to provide systematic withdrawals to accommodate participants who choose to leave their savings in the plan during retirement.

Source: PLANSPONSOR Awards, 2022 Finalist.

Quarterly highlights

Healthcare Financial Management Association bucks common trends

- The Illinois-based non-profit offers its employees a 7% profit-sharing contribution after one year of service rather than a match and uses a managed account services as its qualified default investment alternative (QDIA).
- The $22.5M plan with 87 total participants boasts a 99% participation rate and 9.6% average deferral rate.
- Retirement education meetings are offered multiple times per year and the leadership team often discusses the importance of participating in the 403(b) plan during all-staff meetings.

Source: PLANSPONSOR Awards, 2022 Finalist.

Quarterly highlights

Clif Bar offers participants access to financial mentors

- Clif Bar & Company partnered with financial wellness provider Financial Elements which offers on-demand educational webinars and access to mentors who can assist with budgeting, debt management, and financial stress.
- The company’s 401(k) plan has adopted a 5% auto-enrollment default, allowing participants to capture the full company match; employees also receive an annual 7% ESOP contribution.
- Approximately 98% of employees participate in the 401(k) plan and the average deferral is 7.5%.

Source: PLANSPONSOR Awards, 2022 Finalist.

Quarterly highlights

Key takeaways for plan sponsors

- Use a targeted communication strategy to ensure participants receive relevant information.
- Redefine success metrics from average deferral rates and balances to pre-retirement income replacement ratios.
- Reevaluate your plan’s matching and/or profit-sharing contributions.
- Ask your service providers about adopting a financial wellness program.

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