



# THE WHITE PAPER

Timely Insights for Your Financial Future

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## DC Plan Trends: Sponsors Focused on Improving Participant Outcomes

Defined contribution plan sponsors are rethinking ways to improve investment offerings in an attempt to elevate retirement outcomes for plan participants. The Towers Watson *2014 U.S. Defined Contribution Sponsor Survey* revealed a few key themes.

### Improving Portfolio Diversification

Historically, DC investment options have leaned heavily toward single, stand-alone actively managed funds, each with a style and market-cap bias. Realizing the inefficiency in this siloed approach, 40% of plan sponsors acknowledged that combining several investment strategies together in a custom-built, diversified investment structure offered a more efficient approach to active management. For plan participants, such an approach could maximize their buying power and simplify investment selection by offering fewer, more diversified options that may lead to better long-term outcomes.

### Assessing Custom TDFs

Plan sponsors are beginning to see the value in "thinking outside the glidepath" when it comes to their target-date fund offerings. They fully recognize the value of TDFs as default investments and the role they play in anchoring participant accounts. As a result, many want to have more control over the structure and implementation of their TDF offerings. The 2014 study found that 49% of plan sponsors see the value of featuring a custom TDF series. Of those, 22% have already implemented a custom TDF solution, while 27% are exploring the possibility of doing so.

### Reevaluating TDF Selection Criteria

Interest in customization aside, plan sponsors' criteria for selecting TDFs currently are driven largely by standard investment metrics -- e.g., the glide path roll-down of equity exposure (71%), active versus passive management (47%), and portfolio construction (47%) -- rather than the more holistic assessments of how successful the TDF is at improving the retirement outcomes of plan participants as measured by improved income replacement ratios (12%) and retirement success rates under various drawdown scenarios (8%).

### Outsourcing DC Plan Oversight

Recognizing a) the heightened complexity of investment approaches and governance requirements and b) the ever-increasing pressure to facilitate successful retirement outcomes for plan participants, a third of DC plan sponsors surveyed are currently taking advantage of outsourcing solutions or considering delegating all or a portion of their investment oversight to a third-party provider.

### Considering Broader Investment Themes

When asked what types of investments/investment themes they are considering for the future, plan sponsors responded with a litany of options from expanding bond offerings and broadening equity exposure (to include more international and emerging markets opportunities), to inflation-protection offerings (e.g., diversified real return, Treasury inflation-protected securities, and real estate investment trusts) and lifetime income options, both in and out of plan. Plan sponsors were united in saying they would not be adding company stock to their plan lineups.

*Source: Towers Watson, "Plan Sponsors Raising the Bar: Investment Trend Highlights, 2014 U.S. Defined Contribution Sponsor Survey and Commentary," October 2014.*

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