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Retirement Report

NEWS AND UPDATES FOR PLAN SPONSORS AND FIDUCIARIES OF DEFINED CONTRIBUTION PLANS

Weathering All Market Conditions

In today's market environment, many people are asking themselves "where can I find opportunity in fixed income?" It is a fair question; as rising rates will inevitably hurt the performance of most fixed income sectors. Participants have been riding a massive wave of decreasing rates and have become accustomed to 8% annual rates of return to their retirement plans from their core fixed income fund. Since those days are likely over, where do you go from here?

Some plans are considering adding alternative fixed income sectors to their core lineups to allow their participants to improve their fixed income risk/return profile in a rising rate environment. Traditionally, a single core fixed income fund has been the staple of the bond offerings of many retirement plans. Comprised mostly of intermediate term, investment grade government and corporate debt, core fixed income funds worked fantastically in the steadily decreasing interest rate environment of the past 30 years. Since interest rates are bounded at zero (cannot have negative rates), interest rates have nowhere to go but up. When rates do turn up, as we have already started to see, most fixed income securities will be negatively affected. Certain classes of bonds, however, have traditionally been affected more than others in rising rate environments. This observation has led plans to consider adding alternative fixed income to their core lineups such as high yield, emerging market debt, or floating rate bond funds. Although the changing investment universe is certainly worth considering when looking at potential investments to include in plan lineups, a more fruitful pursuit is to construct a well-diversified core lineup that will allow the plan and its participants to weather all market conditions. It is problematic to constantly add investment options as the investment horizon shifts. These additions tend to be of non-core asset classes and can make for more difficult monitoring of the lineup. This can also cause confusion on the part of the participants who may not be (and in most cases are not) savvy enough to utilize these newly injected asset classes to their advantage. How many participants would know how to incorporate a floating rate bond fund into their portfolios? Accordingly, when the investment outlook turns unfavorable for these alternative asset classes, what do you do with the fund? Using the same logic as when added, it would then be removed from the lineup. This fund turnover, can be confusing for participants. As mentioned, alternative asset classes are generally more difficult to monitor which can further complicate committee decisions. This is reminiscent of the gold rally during

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One Size Does Not Fit All

The defined contribution industry spends millions of dollars each year on communication materials designed to educate plan participants about the importance of saving for retirement. Much of that money goes to technology enhancements that provide new ways for many plan sponsors to reach and educate their employees. But is escalating the use of technology the right path for all plan sponsors to follow? Industry experts think there is a better way. "Education has to be customized to fit a specific employee base and engage them in a way in which those employees will relate and respond to the message," according to Warren Cormier of the Boston Research Group. With this notion in mind, "one size fits all" may not be the best path for all plan sponsors to follow.

Zachry Holdings Inc. is a San Antonio, Texas-based firm with more than 85 years of history delivering highly specialized engineering, construction, and maintenance support to some of the world's most sophisticated clientele. Zachry's 20,000 employees serve the power, refining, and process sectors around the globe—and the vast majority of the workforce does not sit behind a desk or even in an office. Engaging with this dispersed population presents a unique set of challenges.

Given the highly secure and challenging nature of the company's job sites, technology like mobile apps, text messaging, social media, and even Internet access are not necessarily feasible. Plus, many of its skilled craftspeople are constantly moving from one long-term job site to another. Faced with these daunting challenges, Zachry's plan administrators get creative. The result? They effectively elevate the DC plan as a valued benefit for all employees.

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Understanding Multiemployer Plans

The Labor Management Relations Act of 1947 (also known as the Taft Hartley Act) allowed for the establishment of multiemployer benefit plans, often referred to as "Taft-Hartley plans". A multiemployer plan, not to be confused with a Multiple Employer Plan (MEP), is a collectively bargained plan maintained by more than one employer, usually within the same or related industries, and a labor union. The plan and its assets are managed by a joint board of trustees equally representative of management and labor. The plan trustees are the decision makers who have the fiduciary responsibility to operate the plan in a prudent manner.

Multiemployer plans may vary in size from very few employers to hundreds of employers. The employers agree in the collective bargaining agreement(s) with the union to contribute on behalf of covered employees who are performing covered employment. Contributions may be based on the number of hours worked, the number of shifts worked, or another base negotiated during the collective bargaining process (e.g., employers may be required to pay $2.00 for each hour of covered employment performed by a covered employee). Contributions are placed in a trust fund, legally distinct from the union and the employers, for the sole and exclusive benefit of the employees and their families.

Multiemployer plans are designed for workers in industries where it is common to move from employer to employer. Under this structure, participants are allowed to gain credits toward pension benefits from work with multiple employers as long as each employer has entered into a collective bargaining agreement requiring contributions to the plan. For example, service sufficient to meet vesting requirements may be obtained by working for one or many employers. Similarly, service required to be eligible to retire is dependent on service under the plan, not service with any particular employer. Accordingly, employees are able to change employers, without losing eligibility or service toward vesting, provided the new job is with an employer who participates in the same multiemployer plan. For more information on this subject, please contact your plan consultant.

Complying With ERISA 404(c)

According to ERISA, plans intending to comply with 404(c) must provide that participants: Have the opportunity to choose from a broad range of investment alternatives (which are adequately diversified); may direct the investment of their accounts with a frequency which is appropriate; and can obtain sufficient information to make informed investment decisions. The plan sponsor must provide annual written notification to participants with its intent to comply with 404(c), and be able to provide the following:

- Information about investment instructions (including contact information of the fiduciary responsible for carrying out participant investment instructions);
- Notification of voting and tender rights;
- Information about each investment alternative; and
- A description of transaction fees and investment expenses.

Compliance with section 404(c) of ERISA protects plan fiduciaries from liability for losses that result from the investment decisions made by participants. Conversely, failure to comply with 404(c) could result in liability for losses due to poor investment decisions made by plan participants. To comply with some of the important requirements of 404(c), we encourage our clients to review and execute a formal 404(c) Policy Statement and Employee Notice and send the Notice at least annually to all employees. Contact your plan consultant if you have any questions.

Weathering All Market Conditions

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the summer of 2011 when it seemed like every retirement plan committee wanted to add a gold ETF to its lineup.

Ultimately, much depends on your plan participants. If they are sophisticated and have a working knowledge of investing, then adding these options could be highly beneficial. High yield bond funds, short duration funds, and others could offer fixed income exposure for participants with relatively less interest rate sensitivity than a traditional core fixed income fund. For most, however, the sophisticated investors will be savvy enough to find this desired exposure outside the plan, via an IRA or brokerage account. A good option might be to allow a core plus or multi-sector bond strategy in the lineup, which allows for some manager flexibility to allocate to other fixed income asset classes as they see fit. In rising rate environments, these managers tend to shorten duration and allocate to alternative exposures to reduce interest rate sensitivity. In this manner, participants are receiving the fixed income exposure they need within one professionally managed fund, rather than attempting to allocate to separate funds themselves. This is where the Scorecard™ can be extremely beneficial in finding skillful core plus managers that have proven track records in allocating across the fixed income universe.

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Cynda Reznicek and Andrea Will of Zachry apply the firm’s business model of “plan, build, renew” to their participant engagement and education campaigns. What follows are their insights on adapting “traditional” methods of communication and developing highly customized, extremely effective communications that target successful outcomes.

Face-to-Face Communication

How do you reach employees who don’t necessarily speak the same language, work in disparate locations, and may have limited access to technology? And how do you engage people in a discussion about the importance of maximizing a 401(k) benefit and building their financial futures? “Nothing works like face-to-face communication,” explains Will, Zachry’s supervisor of retirement plans. “It’s not very modern, but we don’t do it to be modern. We do it to be effective.”

Put another way, a plan sponsor must evaluate available employee points of access and seek the most effective option. Zachry saw this challenge as an opportunity to build a program based on in-the-field interaction between well-respected peers and employees, visibly demonstrating a

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corporate commitment to their well-being. “You don’t wear high heels to the job sites, you wear boots and a hard hat,“ Will says. “You also gain a new respect for what they go through on the job.”

Therein lies a critical component for plan sponsors wishing to engage employees about the benefit of the defined contribution plan. Zachry understands not only the challenges of reaching employees but also how those employees relate to and earn respect from other employees. By embracing these cultural nuances, the firm was able to customize a program built around the workday of its employees and start from a foundation that would build rapport with current and future participants.

Benefits Meetings

In this environment, aligning with employees’ schedules and concerns about retirement is essential to delivering the message successfully. “Getting face time on the job site can often be a significant challenge,” Will says. “The Foreman is working under an extremely tight project timeline, and the highly skilled work involved makes these big earning years for a lot of these folks.” So it is critical that Zachry impress upon the Foremen the importance of benefits meetings and get them to buy into the program. To accomplish these goals, Zachry created a specialized position for someone familiar to the craftspeople and Foremen. “It was critical to find someone who had the background, the skill set, and, most important, the relationships on the job site,” says Reznicek, director, Compensation and Benefits. The position remained open for about six months before Zachry found the perfect candidate. Soon Reznicek contacted the supervisor for the post and said, “I really need him. I think he’s the link I’ve been missing!” Finally, Zachry had the communication specialist to educate its employees about enrollment and saving in its retirement plan.

“The gentleman we hired for this role has the relationships with the Foremen and the job site managers,” Reznicek adds. “The benefits staff can talk all day, but if employees don’t see support from the supervisor or somebody on the job site nodding along saying, ‘this is good stuff, you need to sign up,’ then we’re dead in the water.”

Zachry’s manager of benefits communications, Oscar Martinez, is fluent in English and Spanish, and knows how to build consensus. “One of the many things he did that I’m really excited about is getting our vice president of safety to agree that the safety managers at all the job sites would align with our messaging,” Reznicek says. “We now have people directly on the job site called Wellness Champions, with this holistic idea of foundational well-being, and your wellness includes both your physical and financial health.”

Payroll Stuffers

Stuffing enrollment forms in payroll envelopes may sound dated, but Reznicek and Will aren’t chasing trends. They’re focused on what works for Zachry’s employees.

When the firm recently acquired another company, the two determined an old-school communications tool would be the best way to communicate with the new employees. “After considering various options,” Reznicek says, “our primary vehicle for communication is going to be payroll stuffers. The folks on the job site are in and out, working long hours. The only way to get to them is in that payroll check. When employees have questions on the job site about their 401(k), they have two local points of contact—the safety manager or the payroll administrator. We make it our priority to make sure those people are in a position to give valuable answers.”

Effectively communicating with employees and engaging them on the value of a defined contribution benefit plan takes more than the latest gadgets or artfully designed materials. Zachry promotes the overall well-being of its employees through a thoughtful program that can relate to each participant. As Winston Churchill so eloquently stated, “It is not enough that we do our best; sometimes we must do what is required.” In Zachry’s case, the firm is doing what is required to ensure employees have the opportunity for success in their career and beyond.

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