DC plan emphasizes clarity over choice

Midwest manufacturer hires Russell Investments to provide comprehensive OCIO services

Client case study

The organization

When a Midwest-based corporation with more than 12,000 employees and $930 million in defined contribution (DC) plan assets wanted to hire a delegated investment advisor to manage its DC and non-qualified plans, it chose Russell Investments as its outsourced chief investment officer (OCIO).

The primary long-term objectives of hiring a delegated investment advisor were to reduce total fees, receive expert investment guidance, accelerate the manager transition process, and add another layer of operational and fiduciary support to the internal teams.

The challenges

This privately held company has a corporate culture of taking care of its employees and was named one of America's Best Employers in 2019 by Forbes. Managing the funded status of its closed defined benefit plans had consumed much of the Investment Committees' capacity. Even with the support of a third-party investment consultant, the DC plan design had become outdated.

The Committee was concerned that many employees were not saving enough. A retirement readiness report conducted by Russell Investments at the outset of the engagement confirmed that about 65% of participants were not contributing enough to receive the full employer match and most participants were not on track to reach their retirement goals.

The investment menu consisted of several overlapping strategies, with little diversification benefit for their employees. There was significant overlap in holdings between all the passive domestic equity options. The company also offered different investment menu options in the qualified and non-qualified plans and wanted to have greater uniformity in the investment menus across plans.

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The strategic solution

The Committee believed that the best means of fulfilling their ongoing fiduciary responsibilities was through a greater focus on strategic decisions, delegation, and oversight, rather than on day-to-day implementation and monitoring.

They also believed that the majority of their employees were best served by the plan's default solution, a suite of target date funds, and therefore they were seeking a partner that had significant experience conducting full plan re-enrollments into the qualified default option.

Accordingly, the Plan moved from a traditional consulting arrangement with a different provider, to an OCIO relationship with Russell Investments, where Russell Investments is not only delivering advice, but also implementing that advice on an ongoing basis. Together, Russell Investments and the Committee worked through a plan design review and retirement readiness study, which led to multiple recommendations designed to simplify participant investment decisions, increase savings behavior, and improve participant asset allocation.

These recommendations included:

1. Consolidate style-based U.S. equity funds (i.e., growth and value) into core multi-manager/multi-style funds
2. De-brand the investment menu by using asset class names instead of fund brand names
3. Conduct a plan re-enrollment into the target date funds
4. Add auto-rebalance and auto-escalation features

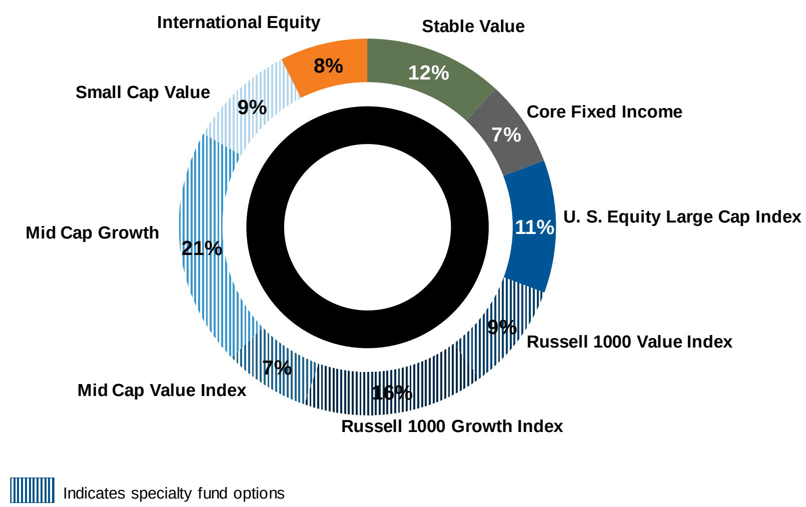
Recommendations were made to:

- Simplify participants investment decisions
- Increase savings behavior
- Improve participant asset allocation

1. Consolidate style-based U.S. equity funds (i.e., growth and value) into core multi-manager/multi-style funds

A review of the plan's core menu suggested that many participants were likely mis-allocated for their age and were not rebalancing. The core menu was originally segmented into two tiers: Core Funds and Specialty Funds. The Core Funds represented core asset class exposures like U.S. Large Cap Equity, International Equity and Fixed Income. The Specialty Funds represented different investment capitalizations, like small-cap and mid-cap equity, and more narrow investment styles, like growth and value equity. The Specialty Funds were intended to be used by engaged participants who wanted to assume more control and responsibility for their investment selections, ongoing monitoring, and rebalancing. This group generally represents the minority of participants in most DC plans, yet in this particular plan, more than 55% of plan assets were held in the Specialty Funds. Further, the fact that the largest concentration of participant assets was held in the funds that had historically been the best performers suggested participants were not rebalancing their assets. There was also evidence of performance chasing behavior by participants.

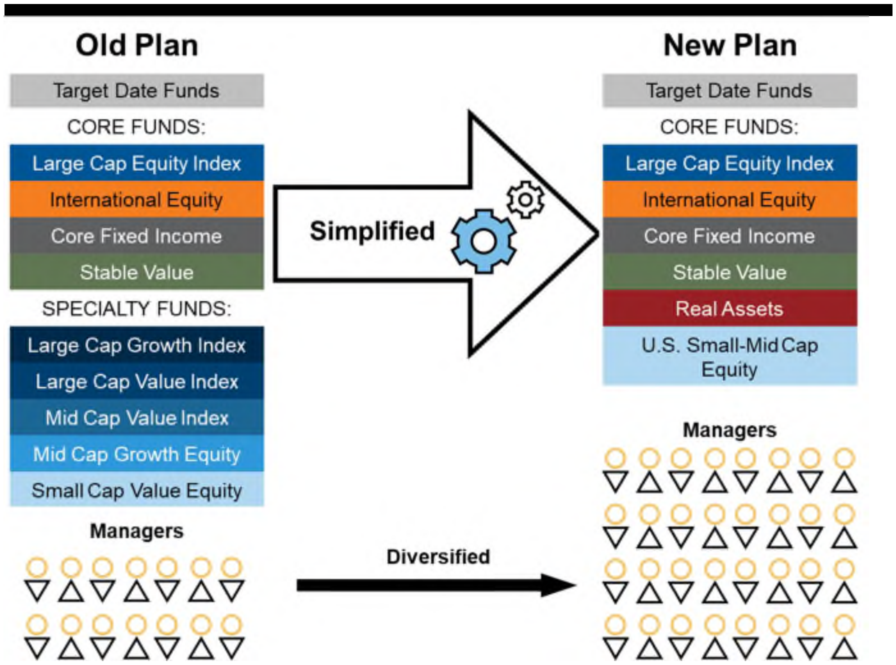
Exhibit 1: Original plan design, core and specialty fund assets



Source: Data provided by client

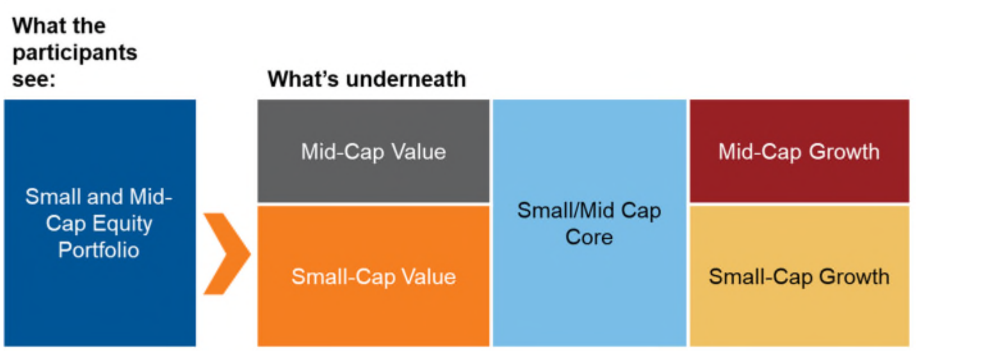
The newly designed individual fund menu consists of six multi-manager funds rather than the nine single-manager funds originally offered. These six new funds still provide ample opportunity for participants to construct a diversified portfolio, without offering funds that have overlapping objectives or holdings. For the first time, the plan now offers a Real Asset Fund, which provides participants with access to investments that are less correlated to stocks and bonds and that can help manage the effects of inflation. Russell Investments assisted the plan recordkeeper in creating a customized participant communication highlighting the benefits of the new plan structure for participants.

Exhibit 2: Plan design



The multi-manager implementation also means that investment manager changes can be made quickly and easily within the existing funds as circumstances dictate, without incurring participant disruption or additional recordkeeping and communication costs. For participants who want more choice, the brokerage window was maintained as an alternative to the core menu options.

Exhibit 3: What's below the waterline



For illustrative purposes only

The plan also implemented a new auto-rebalancing feature that rebalances participants back to their target asset allocations at the beginning of every quarter unless they opt out. The plan's three non-qualified deferred compensation plans also adopted the same investment menu as the qualified plan.

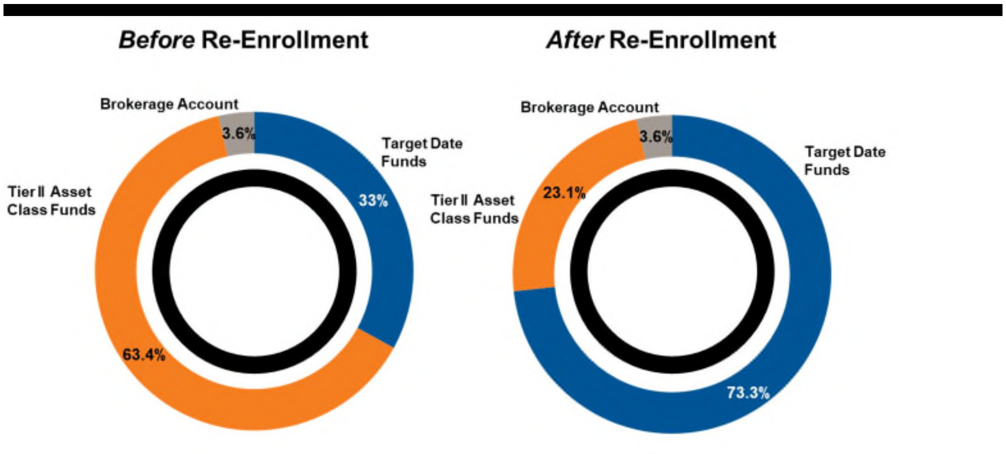
2. De-brand the investment menu by using asset class names instead of fund brand names

De-branding is the process of replacing an investment option's traditional marketing brand name with a generic name that describes its asset-class, with the intent of giving participants a better chance of understanding the fund's investment strategy and allocating to it properly. The Committee embraced the idea of de-branding the plan's investment menu and adopting a white-label fund naming convention. They felt this would teach their participants to focus on fundamentals and potentially improve their asset allocation decisions, which the Committee understood was the key determinant of their investment performance. Russell Investments recommended white-label fund names for each of the investment options and tailored them slightly based on the Committee's input. The white-label fund names were used in the participant communications as well as on the Plan's recordkeeper and internal websites.

3. Conduct a plan re-enrollment into the target date funds

Russell Investments conducted a detailed target date fund review at the outset of the relationship and the results supported the Plan's choice of target date fund provider and glidepath. The Committee agreed that that most participants would be best served by being in a professionally managed asset allocation solution, so they agreed to conduct a plan re-enrollment into the Plan's existing target date funds. This meant that unless participants opted out during the month-long re-enrollment window, their current account balances and future investment elections were transferred to the target date fund with the target date closest to the year when they would reach age 65. This resulted in more than 73% of participants' assets re-allocated from the "do-it-yourself" core menu options to the target date funds. The vast majority of participants are now receiving the benefits of a professionally managed asset allocation that is automatically de-risked over time, with the option to opt out at any time. Exhibit 4 illustrates the shift in fund holdings before and after re-enrollment.

Exhibit 4: Allocation before and after re-enrollment



Source: Data provided by client

Results

The results for this Plan have been substantial. By retaining Russell Investments as a delegated OCIO provider with fiduciary responsibility for investment manager and plan menu changes, the Committee has increased their fiduciary protection and allowed themselves more capacity to focus on the strategic initiatives that have the largest impact on their employees' ability to secure a successful retirement.

- Simplified core menu and consolidated the number of options from 9 to 6 options, while increasing the diversification provided to participants
- Gained greater visibility into the retirement readiness of employees of different ages and with different benefit structures
- Significantly increased employee participation in the target date funds
- Reduced investment expenses by 27%, which translates to participants saving more than $600,000 in investment management fees annually

For more information

Call Russell Investments at **855-771-2966** or visit **russellinvestments.com/dc**

Important information

This case study represents a unique situation faced by a large corporation seeking to hire a investment advisor to manage its DC and non-qualified plans to help reduce fees, receive expert investment guidance, accelerate the manager transition process, and add another layer of operational and fiduciary support. Case studies are problem-solving stories. We select a situation that is indicative of problems clients in this category are facing. The recommendations described do not represent a standard strategy or set of recommendations made for all advisory clients with similar issues. Each client has unique requirements, challenges, and constraints, and our advisory solutions are tailored to each client's specific needs. Every client's situation, experience and needs are different, and Russell Investments does not imply that the solution herein is appropriate for any other client.

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