The Guardian Small Plan 401(k) RetireWell Study℠: What's Working and Not Working For U.S. Small Businesses

KEY TAKEWAYS:

1. 401(k)s are delivering for many small employers
2. Providers and financial professionals can help improve the experience in several ways
3. Small plan sponsors need help navigating the fiduciary thicket
4. Financial professionals are a powerful, positive force in the small-case 401(k) market
5. Non-sponsors are paralyzed by the complexity of retirement plans
6. Many non-sponsors want to setup a plan
7. Financial Professionals should leverage service providers to maximize success

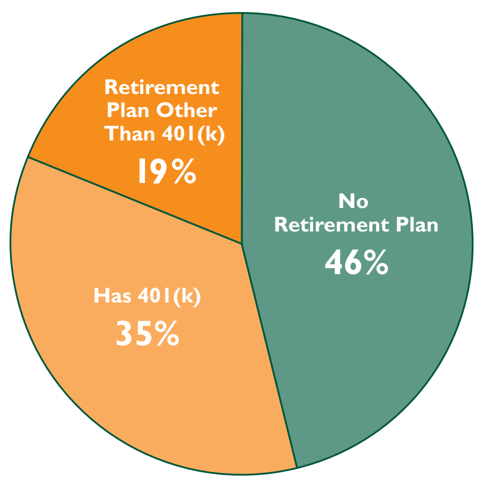
Summary

The Guardian Small Plan 401(k) RetireWell Study℠ was commissioned by Guardian Retirement Solutions™ to explore the successes and challenges for America's smaller companies when it comes to workplace retirement plans. The research includes sponsors and non-sponsors of 401(k)s and other plan types with a view toward expanding access to workplace retirement plans for all working Americans.

This research was conducted online between November 12 and December 14, 2013, among a representative sample of 451 employers with 25 to 249 employees nationally. Respondents were senior executives responsible for selecting and evaluating providers of employee benefits such as health and retirement plans.

Among employers this size, about one-third (35%) offer a standard or safe harbor 401(k), about one-fifth (19%) offer some other type of retirement plan (typically SEPs, SIMPLEs or single-person 401(k)s) while about half (46%) offer no retirement plan at all (Table 1). Of note, 52% of employers offering no retirement plan already offer a health insurance plan.

Table 1: Private Sector Employers
25 to 249 Employees Nationally



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KEY TAKE-AWAY:

- Small market plan sponsors are generally satisfied

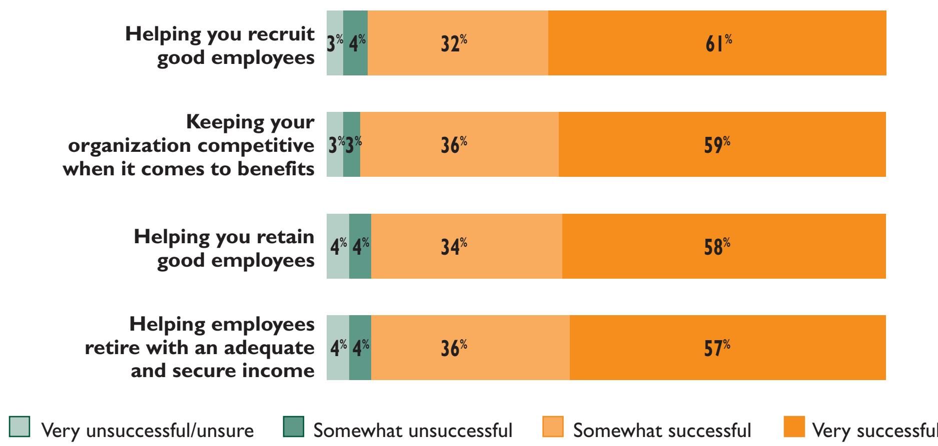
I. 401(k)s are delivering

About six out of ten small-market 401(k) plan sponsors give their plans top marks for helping them recruit and retain good employees, staying competitive when it comes to benefits and helping employees retire with an adequate and secure income — exactly what 401(k)s are supposed to do (Table 2).

Table 2: Success of 401(k) Plan: Organization

Base: Organization offers 401(k) plans

How successful would you say your 401(k) plan has been for your organization when it comes to each item below:



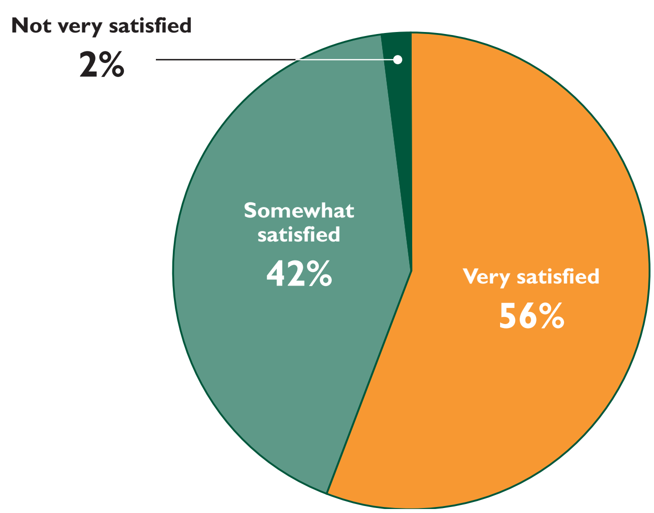
At least half of these plan sponsors also rate their plans "very successful" on making retirement savings easy, providing employees with retirement income planning tools and supporting and encouraging disciplined, systematic savings by employees.

So it comes as no surprise that overall satisfaction with 401(k)s among existing plan sponsors is virtually 100%, including a majority (56%) who are "very satisfied" (Table 3).

Table 3: Overall Satisfaction with 401(k) Plan

Base: Organization offers 401(k) plans

All things considered, how satisfield would you say you are with your 401(k) plan:



2. Room for Improvement

In terms of disadvantages to their organizations, plan sponsors point almost equally to cost (especially the cost of matching participant contributions up to some level) and fiduciary risks. Staff and executive time required to manage a plan, complexity and the need to educate employees to manage investments are also prominent disadvantages. From a participant standpoint, plan sponsors focus as well on underlying fees and expenses in the plan as a major disadvantage.

How do the pluses and minuses net out for most plan sponsors? Overwhelmingly positive, to be sure, especially in terms of the ease of doing business with their providers, providers' responsiveness to participants and investment choices available in the plan.

Plan sponsors are conspicuously less satisfied, however, with the same three issues they cite as 401(k) disadvantages, especially how well employees understand and manage the investments in their plan, the cost of the plan and fiduciary protection (Table 4).

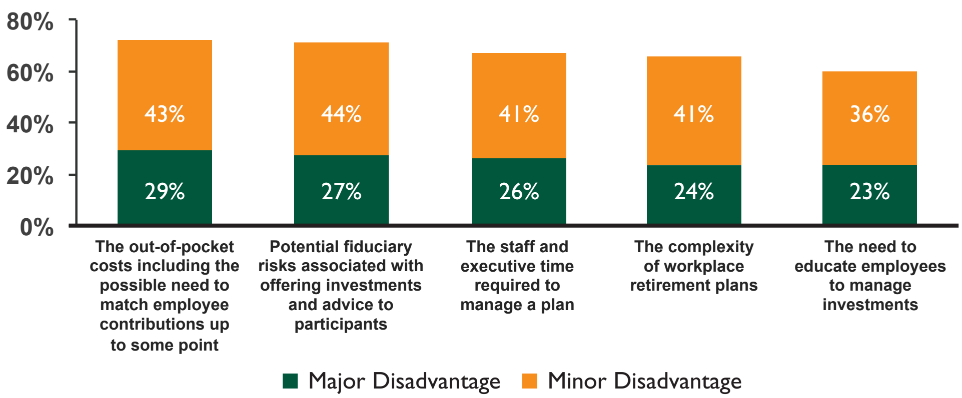
KEY TAKE-AWAY:

- While many plan sponsors are satisfied, there are still areas where employers and employees need help

Table 4: Employer Disadvantages

Base: Organization Offers 401(k)

Please indicate if you consider or would consider this a major disadvantage to your organization, a minor disadvantage, or not a disadvantage at all?



3. Fiduciary support and education are needed

Small plan sponsors are across the map with their understanding of their fiduciary responsibilities. Almost 1/3 of plan sponsors do not understand that they are a plan fiduciary.

In order to gauge small plan sponsors' knowledge of their role as fiduciaries, we have developed The Small Market Fiduciary Awareness Score. This benchmark measures the level of understanding and misunderstanding of fiduciary responsibility and fiduciary best practices in the small employer 401(k) market based on answers to 15 questions. If the plan fiduciary gets them all right, he/she scores +15, and he/she has an excellent understanding of fiduciary responsibility

KEY TAKE-AWAY:

- Fiduciary roles and responsibilities are confusing to small business owners

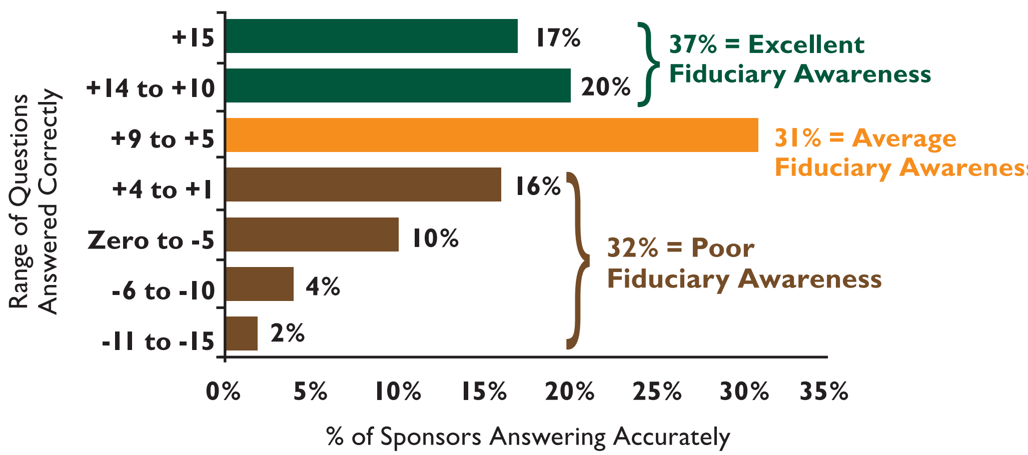
As it relates to satisfaction with their fiduciary support services (specifically 3(21) and 3(38) fiduciary support): **21%** are either **dissatisfied, somewhat dissatisfied,** or **completely unsure**.

and best practices. If the plan fiduciary gets them all wrong, he/she scores -15 and he/she probably needs to speak with a financial professional and legal counsel to understand his/her fiduciary role. Scoring zero means the plan fiduciary got as many wrong as right, not necessarily impressive.

Table 5 demonstrates the distribution of the score; only 17% of plan sponsors get everything right. Fortunately, only a handful get everything wrong. The median score for all plan sponsors is +7 meaning most of them are wrong on multiple items. Put differently: about a third score +10 or higher representing reasonably solid fiduciary awareness; about a third score +1 or lower representing poor fiduciary awareness and about a third score in the cluster around the median (+5 to +9) representing confusion about fiduciary issues.

Table 5: The Small Plan Market Fiduciary Awareness Score

How well do small market plan sponsors understand their fiduciary responsibilities?



Perception of Plan Success Drastically Improves with Presence of a Financial Professional.

61% Very Satisfied
(work with a financial professional)

VERSUS

40% Very Satisfied
(no financial professional)

4. Financial professionals are a powerful, positive force in the small-case 401(k) market

Almost three-quarters (73%) of 401(k) plans this size work with a financial professional; life and health insurance agents (66%) and accountants (64%) are the most prominent types of financial professionals in this segment. RIAs and other fee-based financial professionals are less prominent in the small plan market.

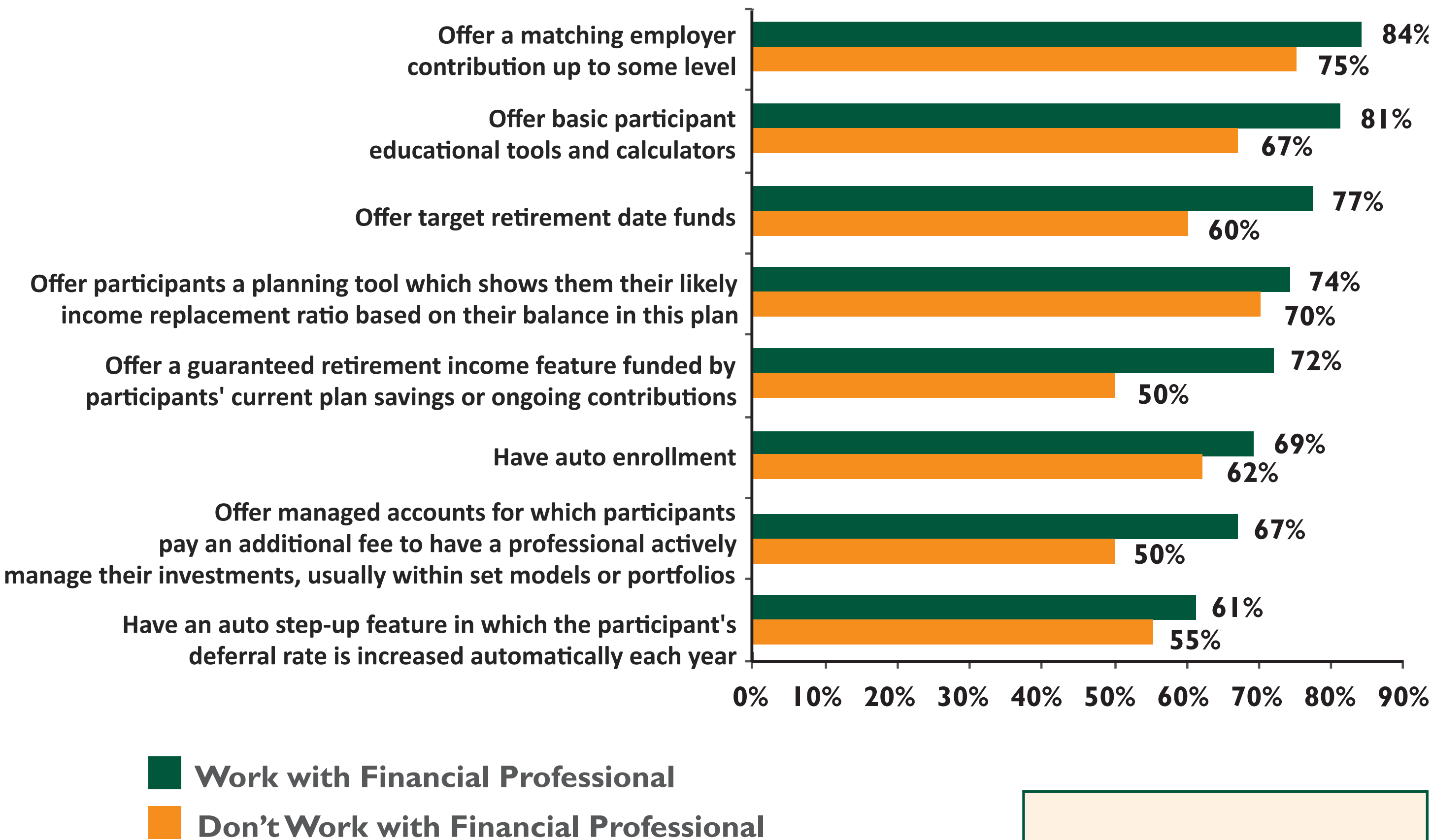
Plans with a financial professional are strikingly more successful than plans without a financial professional in every respect. Plan sponsors with a financial professionals are vastly more likely to be "very satisfied" with their 401(k) plan overall than plan sponsors without a financial professional.

Plans with a financial professional are consistently more likely to utilize advanced plan design than plans without a financial professional. Whether the financial professional is providing these services or is working with a third party administrator to implement a solution, advanced plan features are more likely to be utilized (Table 8).

Table 8: Plan Design Improves with Financial Professional

Base: Organization Offers 401(k)

Does your 401(k) plan have this feature, or not?



KEY TAKE-AWAY:

- Financial professionals add significant value

Additionally, financial professionals seem to receive a "halo effect" in areas of the 401(k) plan where the financial professional typically has little direct impact on the plan. Success metrics such as:

1. How well the plan helps plan sponsors recruit and retain employees
2. Keeping the organization competitive when it comes to benefits
3. Helping employees retire with adequate & secure income
4. Providing tax advantages to the organization

Generally speaking, these are benefits any qualified plan will provide. However, plans that work with a financial professional see an almost 15% increase in perception of success for each of these items versus those plans who are not working with a financial professional.

50% of Business Owners who do not offer a plan and who work with an accountant, would turn to them for retirement plan guidance, followed by their insurance-based financial professional or financial planner.

5. Non-sponsors are paralyzed by the complexity of retirement plans

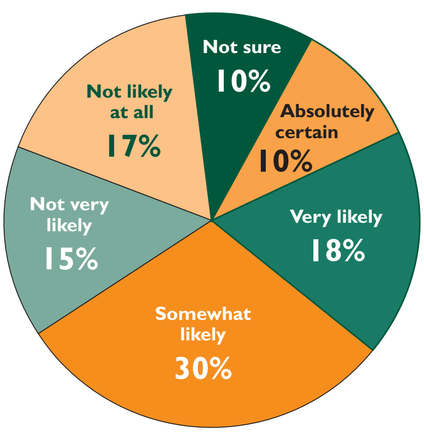
Non-sponsors are intimidated by the potential cost of workplace retirement plans, may be considering other benefits before adding a retirement plan and are quite possibly spooked by the ambiguities stemming from the employer mandate of the Affordable Care Act late in 2013. About one-quarter (27%) cite fiduciary concerns as a reason to avoid sponsorship and about a fifth (21%) say they are held back by the lack of a reliable third-party financial professional to support the process.

They are only vaguely familiar with most types of workplace retirement plans and don't systematically associate any particular strengths or weaknesses with any specific plan types. What plan would they choose today if they were considering a retirement plan for their company? Answer — not sure.

Table 12: Likelihood of Establishing a Retirement Plan

Base: Organization does not offer a retirement plan

How likely would you say it is that your organization will set up a retirement plan in the next three years?



6. Many non-sponsors would like to set up a plan

Intimidated, uninformed and uncertain they may be, but for many non-sponsors the appeal of a 401(k) plan runs deeply.

Among those currently sponsoring a retirement plan other than a 401(k) (this includes 19% of all employers of between 25 and 249 employees), 5% consider themselves "absolutely certain" and an additional 26% consider themselves "very likely" to install a standard 401(k) plan in the next three years. Another 31% are receptive ("somewhat likely") to the idea.

Among employers in this size range currently offering no retirement plan (46% of these companies), 10% are "absolutely certain" and an additional 18% are "very likely" to install a 401(k) plan in the next three years. Another 30% are receptive to the idea (Table 12).

7. Financial professionals and plan sponsors should leverage service providers

About half (48%) of 401(k) plans this size use a third party administrator (TPA). In plans with both a financial professional and a TPA, financial professionals generally get credit for orchestrating a host of services to the plan sponsor, many of which are in fact executed by the service providers (TPA, Fiduciary Support Providers, Recordkeeper) that the financial professional has suggested to the plan sponsor.

When it comes to recordkeeping, for example, 28% of plan sponsors say they receive recordkeeping services from their financial professional (utterly improbable) and 27% from their TPA (maybe). And approximately 33% associate recordkeeping with their provider.

Stretching even further, financial professionals are seen as the likeliest party to prepare Form 5500s (34%) while providers and TPAs trail behind (29% and 26% respectively).

Financial professionals are very successful at coordinating service delivery to their clients, irrespective of which party actually provides the service.

KEY TAKEAWAY:

- Financial professional's value is given senior importance and gets credit for suggesting the right service providers

Summary

For all the challenges confronting defined contribution plans in the public policy arena, these findings are a powerful reminder that 401(k)s are working on the ground where they matter. Even in the small companies represented in this research, where employee benefits aren't necessarily a top priority, 401(k) plans are succeeding at what they were designed to do — help these companies attract and retain talent and help to provide a secure retirement income for participants.

That's not to say the system is perfect. Indeed, plan sponsors consistently come back to cost, how well participants understand and manage their investments and their own fiduciary exposure as limitations. But overall satisfaction with 401(k) plans is nearly unanimous.

Fiduciary confusion is deep and distressing in this community. Barely six in ten plan sponsors recognize that they are in fact a fiduciary on their own plan; only seven in ten have an investment policy statement. More than half say they select the lowest cost service provider they can find even as they misunderstand or misinterpret their fiduciary responsibilities.

Financial professionals can and do help. Not just when it comes to fiduciary issues, but in every aspect of designing and servicing a plan. Plans that work with a financial professional are happier with their plans than their counterparts who do not work with a financial professional.

Financial professionals active in this part of the 401(k) market are adept at coordinating the complex web of service providers required by these (often unbundled) plans. When TPAs are involved, in fact, financial professionals often get credit from the plan sponsor for providing services which are almost surely carried out by TPAs instead. This points to the significant value in working with a local TPA.

Finally, about a quarter of today's non-sponsors are strong candidates to launch a 401(k) in the next three years, indicating that 401(k) plans still have appeal and potential success in the marketplace.

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GP016953-A (04/14)
2014—3463 (Exp. 04/15)

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