Re-Enrollment Can Lead to Better Participant Outcomes

Improve diversification through re-enrollment.



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The investment options a plan offers — especially its default option — have the potential to significantly influence how participants allocate their assets. By offering a qualified default investment alternative (QDIA) such as a target date fund (TDF), sponsors can help ensure that their participants are appropriately diversified.

TDFs represent a current best practice for new plan design. While new enrollees tend to choose QDIAs, such as TDFs, or end up being defaulted into them, many existing participants remain invested in a portfolio of individual funds that were available when they initially enrolled. Their accounts may not be suitably allocated given their current goals or the options available to them, a situation that may reflect participant inertia, a lack of investment understanding or simply indecision.

To address these issues, leading plan fiduciaries have pursued re-enrollment, a process that is much more straightforward than many realize. The plan sponsor announces that, as of a specific date, current balances and future contributions to the plan will be automatically invested in the plan's QDIA unless participants opt out by re-selecting their current investments. Participants can then revisit their plan selections to correct imbalances or take advantage of investments that were not available when they originally enrolled. In effect, the re-enrollment is more of a reallocation that can help improve the participant's long-term retirement outcome.

The case studies on the following page describe the experiences of two companies that have pursued re-enrollment with a high degree of success. (The experience of others may differ.)

Weigh Participant and Fiduciary Concerns Against Plan Objectives

While some sponsors may wonder how participants will respond to a re-enrollment, in our experience, they tend to appreciate the help.

- TDFs are a convenient option. Many participants prefer TDFs because of the built-in diversification and automatic rebalancing they provide.
- Participants can still make changes. Participants retain the ability to change their investment selections in the future.
- Fiduciary protection may be expanded. Default investments in QDIAs are covered by an ERISA safe harbor.
- There is no wrong time. Because markets rise and fall without warning, plan fiduciaries are not expected to try to time a re-enrollment based on market events.

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Tips for a Successful Re-Enrollment

1. Announce early and repeat often. Announce the event 60 to 90 days in advance and explain the benefits with on-site meetings.
2. Manage the contact list. Verify current addresses, especially for former employees and beneficiaries. Have a process in place to track undeliverable mail.
3. Go beyond emails and signs. Use newsletters, texts and even a confirming telephone call as the re-enrollment period nears its end.
4. Tell participants they have choices. Selections can and should be revisited regularly, and participants should consider their non-plan assets as well.
5. Consider making other plan changes at the same time. Take the opportunity to implement other plan improvements, such as updating the investment menu, while you have participants' attention.

Re-enrollment in Action

The charts on page 21 demonstrate how re-enrollment can help participants to become better allocated. In this example, participant allocations vary greatly before re-enrollment. During re-enrollment, however, most participants elected or defaulted into the QDIA.

Conclusion

Sponsors are committed to looking out for the best interests of participants. Conducting plan re-enrollments is an expression of that commitment, as they can help participants positively improve their financial security in retirement.

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For more information on how American Funds can help you plan a successful re-enrollment, contact your American Funds representative or call us at (800) 421-9900.

Investors should carefully consider investment objectives, risks, charges and expenses. This and other important information is contained in the fund prospectuses and summary prospectuses, which can be obtained from a financial professional and should be read carefully before investing.

The statements above are the opinions and beliefs of the speakers expressed when the commentary was made and are not intended to represent their opinions and beliefs at any other time.

CASE STUDY 1: AN ACCOUNTING FIRM BASED IN CONNECTICUT

Re-enrollment date	Participants	Total plan assets	Avg. Account balance
January 1, 2014	20	$3 million	$150,000

Prior participant investments	QDIA rolled into	After re-enrollment
Balanced fund as QDIA, along with other funds	TDFs	79% in QDIA

Successes and challenges faced

"We explained that TDFs may be a better QDIA than a balanced fund because they are age-appropriate investments that suit each employee's investment timeframe."
— Advisor with large wirehouse firm

"TDFs strip out a lot of the emotion, allowing people to feel comfortable that their investments are being professionally managed with retirement and life goals in mind."
— Principal of the accounting firm

CASE STUDY 2: UTILITY COMPANY BASED IN THE WEST

Re-enrollment date	Participants	Total plan assets	Avg. Account balance
January 1, 2014	7,500	$1.2 billion	$150,000

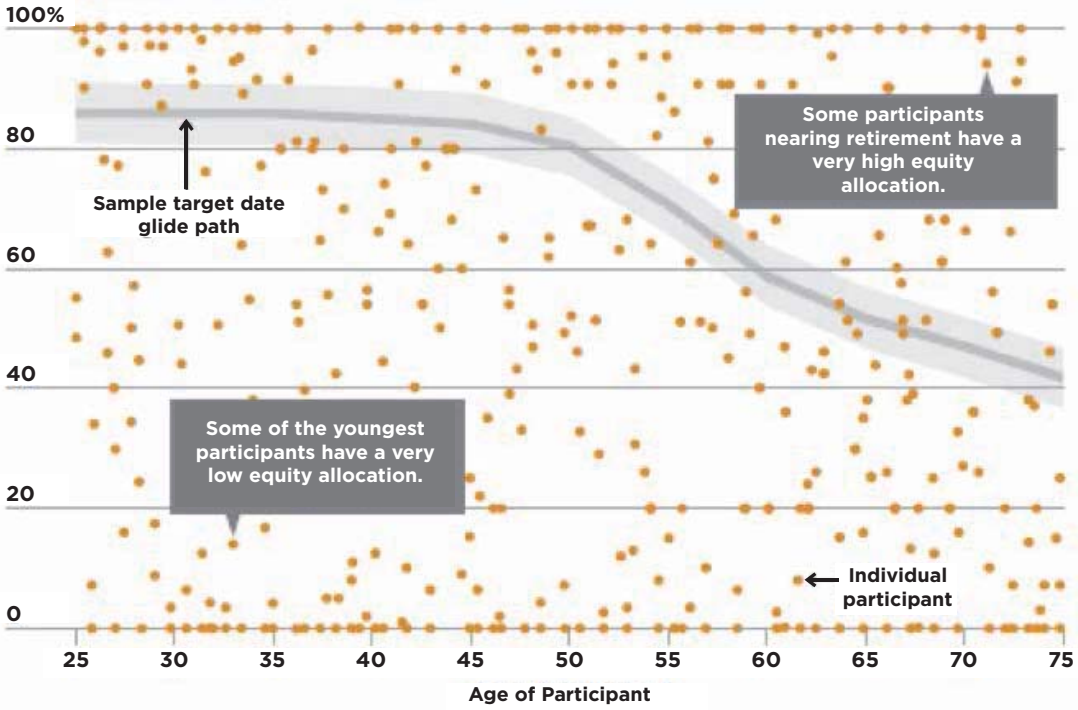
Prior participant investments	QDIA rolled into	After re-enrollment
15 core fund	Custom TDF	60% in QDIA

Successes and challenges faced

"There was a good deal of upfront work from both the plan sponsor and administrative team, so it's important to have the right resources in place in advance. But the investment is absolutely worth it. I believe very strongly that re-enrollment is the right thing for participants, and I would encourage plans that are considering it. From a plan sponsor's perspective, it's a good work-force management practice. In the end, you'll have participants who are better prepared to retire."
— Consultant with large global consulting firm

BEFORE RE-ENROLLMENT

Level of equity as a percent of total assets



AFTER RE-ENROLLMENT

Level of equity as a percent of total assets