The Ideal 401(k) Plan for Unions

- Union 401(k) plans are replacing underfunded defined benefit pension plans, so 401(k) defined contribution plans are growing in importance
- The first generation of workers in 401(k) plans is entering retirement. They've been responsible to save enough and invest wisely. Plan designers are learning from their experience.
- There is an ideal 401(k) plan design that encourages financial wellness and provides sound investment options. There are a lot of considerations in getting this right.

Unions and state-and-locals are the last holdouts of defined benefit pension plans, but these plans are underfunded, which means that promised benefits might be in jeopardy. The PBGC estimates that as of 2015, multiemployer union pension plans in the United

States had a combined $638 billion in unfunded liabilities, while state and local plans had a $6 trillion unfunded liability. Further, 96 percent of the more than 10 million union workers and retirees affected are in multiemployer pension plans that have less than 60 percent of the funding needed to pay benefits.

Consequently, defined contribution, namely 401(k), plans have become the primary source of retirement savings. Many union workers have both types of plans, as defined benefit plans are being fazed out. 401(k) plans are increasing in importance for union workers, so it's important to provide the best possible design. [$5.6 trillion is currently held in US 401(k) plans].

During my 50-year pension consulting career I have advised several $trillion and seen a lot. If I were to design the ideal 401(k) plan for an international union and its locals, here are the main characteristics I recommend:

1. It would be a Multiemployer Plan to benefit from the numerous advantages within the Taft-Hartley Act
2. Investment options would be low cost, worker friendly, and limited in number to avoid confusion.
3. Annuities with equity market upside potential would be offered, providing pension like retirement income for life.
4. The qualified default investment alternative (QDIA) would be safe, diversified and low cost while accommodating participant risk tolerance (Conservative, Moderate and Growth)
5. Extensive education and Retirement Income Calculator Tools would be provided to get participants on track for a dignified retirement
6. Employer matches, auto enrollment and auto escalation flexibility would be provided

Here are some of the details

1. Advantages of a Multiemployer Plan

A Multiemployer Plan is a distinct type of 401(k) retirement plan in which employers join together to pool their purchasing power within a single plan. Multiemployer Plans make it easy and cost-effective for any size employer to offer a high-quality institutional level retirement plan.

Multiemployer Plans bring together a comprehensive array of plan services, fiduciary support and investment platform to offer employers and their participants a seamless retirement plan solution. A Multiemployer Plan is a powerful tool to help employers help their employees, including non-collectively bargained employees within limits, achieve successful retirement outcomes. The main benefits to employers are fiduciary relief, professional oversight , and streamlined administration

<u>Fiduciary relief and professional oversight.</u> Multiemployer Plans offer the ability to largely outsource fiduciary responsibility and provide an elevated level of governance and attention to detail—governance and oversight that are difficult to obtain without costly assistance. By participating in a Multiemployer Plan, sponsors transfer significant fiduciary responsibility for the management of the retirement program—the employer's name comes off the legal documents as Named Fiduciary, Trustee and Plan Administrator—largely eliminating the primary fiduciary responsibilities that come with sponsoring a retirement program.

<u>Streamlined administration.</u> Under a Multiemployer Plan, administrative responsibilities for ERISA 3(16) administrative duties are outsourced—shifting the burden for plan administrative responsibilities. What's more, a Multiemployer Plan uses a single plan document, which means that only a single restatement and letter of determination are needed for adopting employers. Multiemployer Plans also streamline plan operations, as disclosures, notices and education materials are nearly identical for adopting employers. That translates into less time spent managing the retirement program, with more time to focus on managing the business.

2. Investment options would be low cost, union friendly, and limited in number to avoid confusion.

In creating this new Multiemployer Plan I'd provide investment options that are very broadly diversified and low cost, below 7 basis points, almost all passive, in the following asset classes: US stocks, Foreign Stocks, US Bonds, Treasury Inflation-

Protected Securities (TIPS), Real Estate and protected, like Stable Value. To the extent possible, these funds would be union friendly, which includes proxy voting that supports unions.

3. Annuities with equity market upside potential would be offered.

Participants could choose something like Prudential's Day One® IncomeFlex Target with the following attributes:

- No sales commissions
- "In plan" investment option
- "High water mark" feature
- No Surrender Charges upon termination

Annuities are a major participant need given an increasingly mobile workforce, DB Plan funding status & lack of PBGC support.

4. The qualified default investment alternative (QDIA) would be safe, diversified and low cost.

At $2.5 trillion and growing, target date funds (TDFs) are by far the most popular QDIA, but most are not safe or inexpensive. The average TDF is 85% in risky assets at the target date (55% equities and 30% long-term-bonds) and costs 65 basis points They are also one-fits-all, a recognized shortcoming.

My plan's new QDIA is an innovative special kind of target date "fund" that costs less than 10 bps all-in. It is a conservative target date model/managed account that tracks the patented Safe Landing Glide Path that ends at the target date with 85% in safe assets like Stable Value. Non-defaulted participants can choose this conservative default glide path, or they can opt for more aggressive moderate or growth paths/models, thus eliminating the one-size-fits-all deficiency. You could call this approach "Personalized Target Date Accounts." These Accounts invest in the funds that have been approved in Step 2 above.

5. Extensive education would be provided

I'd set up a financial wellness program something like the following. The main focus would be on saving adequacy.

January	February	March	April	May	June
How financial wellness plays into overall wellness	Managing debt and budgeting	Establishing and maintaining savings	Managing family finances	Visualizing your future	101: Retirement planning and investing
July	**August**	**September**	**October**	**November**	**December**
Preparing for life in retirement (Early-Mid-Late Career)	Adjusting savings strategies as "life happens"	Dos and don'ts of retirement saving and planning	Preparing for your retirement and the long-term	Protecting what you've worked hard for	Managing family finances (Part 2)

6. Employer matches, auto enrollment and auto escalation would be provided

Retirement with dignity can only be achieved with adequate savings. Investment performance is secondary. Beneficiaries need to be encouraged to save through education, plan design (i.e., auto enrollment and auto escalation) and employer incentives like contribution matches.

Conclusion: The Ideal Exists

The new Office and Professional Employees International Union (OPEIU) National Retirement Savings Plan has all the characteristics that I believe make an ideal. It is still new, recently reaching $85 million, and is on a trajectory to grow rapidly in the future.

As shown in the following chart, it takes a team:

3(38) DISCRETIONARY FIDUCIARY

THE LONGVIEW EQUITY INDEX FUNDS
AFL-CIO PROXY VOTING & ACTIVE OWNERSHIP

PERSONALIZED TARGET DATE ACCOUNTS
3(38) Target Date Glide Path Manager

COLLECTIONS (MULTIEMPLOYER PLANS)

PLAN COUNSEL

PLAN ACCOUNTANTS

Accountable Advisory Services LLC
Customer Relationship Management (CRM)

Ronald Surz is CEO of Target Date Solutions that manages the target date glidepath used by the OPEIU Plan.