Sherryann Plessé: Hi, welcome to today’s live Vanguard webcast. I’m Sherryann Plessé. I’m a principal, and I lead Retirement Plan Client Services. There are a lot of changes going on in the retirement plan industry, and a lot of people are talking about them.

I’m here with two of them, and we’ll try to shed some light on the current trends in the retirement landscape. I’m joined today by Gene Paranczak and Wendy Tyson of Vanguard Strategic Retirement Consulting. They’re both ERISA attorneys just like me. So, you folks have chosen to spend a Friday afternoon in July with three ERISA lawyers, and we are so grateful that you did. We’re going to make this as fun and informative as possible.

The three of us have been up and down the road together for years, and I know that they’ll be able to give some great insights today. Thank you so much for joining us.

Wendy Tyson: Oh, thank you, Sherryann.

Gene Paranczak: Thank you.

Sherryann Plessé: I also want to thank the audience for joining us. We’re going to discuss several key trends that are top of mind for Vanguard’s experts, and then shift gears to answering your questions. Many of you have already submitted questions during registration, and I’ll be handling them throughout. Thank you so much for those. I have a great list to start with. And don’t forget you can submit questions throughout our discussion. We encourage you to join the live conversation.

Before we start, I have a few reminders. If you experience any technical difficulties at any time, please click the blue Resource icon at the bottom of your screen. We have staff here to help you. Also, if you’re interested in thought leadership related to our discussion, you’ll definitely want to click the green Resource icon. There’s some fantastic content there.

Now both of you travel the country talking to plan sponsors. I want to know what keeps them up at night?

Wendy Tyson: I would say litigation worries.

Gene Paranczak: Yes, litigation worries definitely, especially related to breach as a fiduciary duty.

Sherryann Plessé: Gene, you know, we hear that term fiduciary duty a lot thrown around in the industry. I’d love it if you could talk to us a little bit about who’s a fiduciary and what is fiduciary duty.

Gene Paranczak: Okay, sure. So simply, a fiduciary—the key word there is discretion—so someone that has discretion over the administration of the plan or over plan investments, that’s a fiduciary.

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What are the duties of the fiduciary? Several rules. One of the most common rules is to be prudent, and that means to acquire expertise and knowledge in order to make sort of thoughtful and good decisions.

Secondly, you want to act for the exclusive benefit of plan participants. This is to avoid conflicts of interest. So whatever actions you are taking, you’re doing so not for your own benefit but for the benefit of the plan participants. And an offshoot of acting for the benefit of plan participants is to be mindful of the fees and expenses that you’re paying for the plan. So paying only reasonable administrative expenses is one of the duties of an ERISA fiduciary.

Wendy Tyson: And that’s really what we see at the heart of so many of these claims.

Gene Paranczak: Absolutely. And these suits are centered around several different processes. They really gear toward doing and acting in a certain discipline process. So they want you to pay attention and ask questions. So what are some of those questions that these suits are focusing on?

For example, are you investing, or do you have the opportunity to invest in the lowest share or the lowest-priced investment options? That’s a key component of these lawsuits. And if you don’t have the lowest-priced options now, what do you have to do to get those options in the future?

Secondly, are your fees reasonable compared to benchmarks? Are you paying more than plans of similar size or similar profile to yours? So how do you relate in comparison to similarly sized plans?

And then third is dealing with sort of investment quality. So, if you have underperforming investments, what are you doing to scrutinize those investments, perhaps replace those investments with viable alternatives?

Wendy Tyson: And fourth, review plans have not, I mean, they’ve been targeted as well.

Gene Paranczak: Yes. And then normally we talk about 401(k) plans, but this is one area where 403(b) plans also have been swept up into the litigation.

Sherryann Plessé: Largely, Wendy, because so many are in a multivendor environment.

Wendy Tyson: Correct. That’s correct.

Sherryann Plessé: I see we have a first question here, and it’s relevant to this, so before we start to talk about how to mitigate some of that scariness, I’d love to address this. Michael from right here in Malvern wrote in with a live question here, and I’d love to be able to address this. “There has been a heightened focus that plan sponsors and consultants have been talking about on always having the lowest share class. Also, how should plan sponsors be thinking about lowest cost versus reasonable costs?”

Wendy Tyson: That’s a great question.

Sherryann Plessé: Wendy, why don’t we start here.

Wendy Tyson: Sure. I think it’s important, as was noted, that ERISA doesn’t necessarily require the lowest cost, and I’ll start with that, but rather that it be reasonable. So what is the value that the plan is getting for a particular feature or particular investment?

Gene Paranczak: Yes, I agree. There was actually one particular case that dealt with this issue where the judge actually, in essence, said, “You get what you pay for.” So just because you’re scurrying the market to try to get the lowest price, that’s not what ERISA requires. ERISA requires you to make a reasonable, to pay no more than reasonable expenses, not necessarily the lowest expense.
**Wendy Tyson:** And with respect to, I think, the lowest share class, it’s similar. It’s a similar conversation. So, while the lowest share class may be appropriate for a given plan, I think it’s important that plan sponsors ask the question in terms of what’s available to them. And perhaps it is, as I said, appropriate, but it may not be. It is facts and circumstances, and it’s not always the lowest that’s I think just positive.

**Sherryann Plessé:** Let’s stick on this vein because this seems to be where all the industry talk is and the concern of our plan sponsors. I want to go a little bit deep here. Tell us what are the best things that plan sponsors can do to protect themselves. We always say, “You might get sued, but there are things you can do to defend yourself from that.” So let’s spend a little bit of time on mitigation.

**Wendy Tyson:** I think that’s a great question. So ERISA is a process-driven statute and that means that facts and circumstances matter. And what we see in many of these cases, they have bad facts. So plan fiduciaries can put themselves in a position where they have the best facts and circumstances possible. How do you do that? There’s a few ways.

One, start with the committee. Are the right people on the committee? Do they have the requisite training or knowledge to be on there? Are they meeting regularly?

Second, the fund, the fund lineup. Do you have guiding principles around which you’re choosing, selecting, monitoring funds, and are you abiding by them?

Third, fees. We talked about fees. That’s very important. Not necessarily do you have the lowest, but rather, are they reasonable? And do you know what you’re paying for? Ask questions.

And then, finally, follow the plan document. ERISA says that you should follow the terms of the plan document as the plan fiduciary and the document should follow the law. So I think if plan sponsors can keep those things in mind, they go a long way toward mitigating risk and putting themselves in the best facts and circumstances.

And just a quick plug. We have some really robust tools available. We have a fiduciary best practices book, which talks about these best practices and much more. And I think that’s available in the show notes. There’s a link. We have white papers on such things as fee reasonableness. And, you know, some plan sponsors want fiduciary training sometimes on an annual basis. And if that’s the case, they should talk to the relationship manager.

**Sherryann Plessé:** Let’s go deeper here. I see a question from Christopher from Missouri, and it’s pertaining to—you mentioned investments. Gene, this is going to come to you. It’s around sort of investment selection. And Chris from Missouri asks, “What new trends do you see in plan investment menus?”

**Gene Paranczak:** It’s a great follow-up. So Wendy mentioned this idea of monitoring investments. There was a recent, actually, Supreme Court case that talked about—and this is an important takeaway—the monitoring of these investments needs to be done on an ongoing basis. It’s not you put an investment in the lineup and then you set it and forget it. You need to constantly be reviewing it.

So, as a result of that, we’re starting to see more and more sponsors wanting to sort of tidy up their lineup. If they’re going to have to be responsible for looking at each investment, they don’t want to be looking at 60 and 80 investments. They want a tight lineup. So what does that mean? It means they’re tiering their lineups. Tiering, in the most sort of typical fashion, occurs where you put target-date funds, which are perhaps the plan’s qualified default option, as Tier 1. Many times you’ll have Tier 2, which will be what we call an index core, which are passive investments in Tier 2. And then other sponsors will then add a Tier 3, which will be sort of a supplemental option, which may include active.

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And just as a sort of statistical point, we researched this about ten years ago, only about one in four plans had this sort of target-date and the index core combination. Now that number is up to 60%, and for larger plans, it’s over 70% and growing, so it’s a definite trend.

*Sherryann Plessé:* And through the years, Gene, you know, trends on and off with respect to the value of investment policy statements. Love to go a little bit deeper here. Your thoughts on investment policy statements.

*Gene Paranczak:* Investment policy statements. Well that’s a good one because investment policies are important because they provide a blueprint for fiduciaries to do the work we just described. It’s important to have an investment policy statement, but even more important, follow what the investment policy statement says. The worst thing you can do is to have an investment policy statement and ignore it.

*Wendy Tyson:* And that means, if you change your approach, if your guiding principles change, make sure you update the investment policy statement. They should always go hand in hand.

*Sherryann Plessé:* This is one of the key points I always think for plan sponsors. If you want to mitigate risk, write it down. Write it down. And we always say, right, “If you didn’t write it down, it didn’t happen.”

*Gene Paranczak:* Didn’t happen.

*Sherryann Plessé:* Even though you had a robust debate in a discussion, if it’s not in writing and memorialized somewhere, it didn’t happen. So very, very key point there. Thank you for those insights.

We’ve been seeing a lot of questions and a lot of talk in the industry amongst both consultants and clients around plan design. I’d like to spend a minute around plan design trends that are happening.

*Gene Paranczak:* Sure, I’ll take that. So clearly, design and design considerations are on the uptick, and that really comes from the availability of data and doing data mining. So a lot more information has become available for plan sponsors. Vanguard works very closely with our sponsors to provide information. And so you start to see some optimization schemes that are occurring by using the data. Some of the more common and sort of prevalent designs, for automatic enrollment, for example, years ago people were automatically enrolling at a default percentage of 3%. And when we started looking at the data and started providing more information to sponsors, we’re seeing trends where that default percentage is going from 3% to 6%. Similarly, with these automatic enrollment plans, they were being capped.

So one of the things you do is you enter someone into an automatic enrollment plan and then you increase them. Sometimes that’s called automatic increase or automatic pilot. In the old days, sponsors were sort of capping that at 6%, and now we’re seeing more and more sponsors increasing that cap to 10% or even higher.

And then, sort of the last—this is sort of the oldie but goodie, a classic example of how you use data and make plan design decisions—meet the match. So, if you have a matching formula, take a look at your plan data. And if you have employees that are in the plan, that’s good, but they’re leaving money on the table if they’re not saving up to match. So encouraging your employees to save at least up to the match to sort of maximize their participation in the plan.

*Sherryann Plessé:* Let me take one of our questions from Colin, who brings up a great question around plan design. What are you seeing, Gene, with relation to is there much interest in defaulting autoenrollment to Roth contributions instead of pretax?
**Gene Paranczak:** Wow, that’s a good one. So you’re combining sort of two potent concepts there: automatic enrollment, which we have found to be really the best way to increase participation in a plan and to help maximize retirement savings. Roth, and we might touch on this a bit later, Roth is a tax diversification scheme where contributions are made on an after-tax basis and then, if you meet certain conditions, you can withdraw that money tax free.

While both of those concepts are popular, we have not seen them combined. It’s a pretty potent combination to combine them. The reason is because Roth is after-tax, your take-home pay gets reduced on a pretax basis. With an after-tax basis, it gets reduced even further, so sponsors are a little nervous about having the default going to Roth. So, have not seen it combined with automatic enrollment, although both of those concepts remain very viable.

**Sherryann Plessé:** Gene, I would think that plan sponsors would also be concerned about uncertainty of future tax law and future tax rates.

**Gene Paranczak:** Sure. That’s part of the issue. There’s a lot of scheming and planning around who’s advantaged by Roth, who should take advantage of Roth, and sponsors are a little nervous about sort of imposing that kind of tax uncertainty on their participation or their participants as a whole. I think most of them view that as an individual decision, so it may be good for you. It may not be good for Wendy. Let the individuals make that decision. So that’s why you’re not seeing automatic enrollment into Roth.

**Sherryann Plessé:** And while there is so much uncertain around many aspects of retirement planning, there are some things that are certain. We have more data than ever before on participants. And so I’d love to sort of, Wendy, tell us what are the best ways that plan sponsors can use data, and perhaps how Vanguard can help them understand what might be the most helpful for their participants.

**Wendy Tyson:** Sure. So I think plan sponsors are using data in a few ways. One, of course, to optimize or to understand the opportunities and plan design for a given plan, but also to help drive and understand participant behavior. And so, what we’re seeing are a few things. Benchmarking, plan sponsors always want to understand how well their participants are doing saving for retirement, are they going to be ready for retirement, and how effective their plan design is.

I think, in addition, plan sponsors always want to understand how well their participants are doing saving for retirement, are they going to be ready for retirement, and how effective their plan design is.

And with respect to the latter question, for example, we have a wonderful tool called the Vanguard Plan Effectiveness Index. I’ll call it VPEI for this purpose. And VPEI helps a plan sponsor understand effectiveness by looking at three key metrics. One, participation: Are employees participating in the plan? Second, saving: Do they have enough saved? And then, third, portfolio construction.

And really, what it’s designed to do are three key things. First, identify opportunities within the plan, right. So would auto enrollment help get people in, help with participation? Those sorts of design questions can be answered through VPEI. Second would be participant behavior. So it’s a great tool for identifying pockets of participants where perhaps there’s either plan design opportunity or targeted education opportunity.

**Gene Paranczak:** Yes. What you may see there is by design, so if you’re autoenrolling people at 3%, they’re not moving off the 3%. Or, if you have a 6% cap, people aren’t saving beyond the 6%, so this VPEI would—
**Wendy Tyson:** That’s exactly right. Nonsavers of those who are overly invested in company stock. And then, finally, it’s a wonderful tool for tracking progress. So, for plan sponsors that do make design changes or choose to do a different form of education, targeted education, VPEI can be used year after year to track progress by looking at that index number.

And, remember, it can be slow, right. The progress isn’t always immediate, but over time, many plan sponsors will see a real increase in the effectiveness of their plan, especially when they implement plan design changes.

**Sherryann Plessé:** And, you know, Wendy, one of the things I’ve seen plan sponsors become increasingly willing to do is, rather than sort of wait for all these things sometimes to take effect, if they’ve identified through data a particular population that might be overinvested in company stock, or a particular population that might be underdiversified, they are more and more willing to use re-enrollment to move that dial more quickly.

**Wendy Tyson:** Oh absolutely. Absolutely. And so re-enrollment is another tool. In fact, we have a white paper on re-enrollment. But we have seen plan sponsors, and there’s the fiduciary piece of it as well because it offers some fiduciary protection. But when they’ve identified a portion of a population that can benefit perhaps from re-enrolling into the plan’s QDIA, the qualified default investment alternative, as a way, as you said, of really addressing that population. And this tool can help identify those populations that could benefit.

**Sherryann Plessé:** I’d like to, before we leave investments and plan design, we have a question that has come in from Bernie that a number of plan sponsors have asked me. And I’m actually going to ask you both to comment. Wendy, we’re going to start with you. The question is, “Does it help a plan sponsor to meet their fiduciary duty by having at least enough low-cost index funds in their menu to allow a participant to achieve broad diversification using index funds alone?”

**Wendy Tyson:** I would think yes. I mean, under 404(c), you certainly want a number of investment options available in the plan, but I—

**Gene Paranczak:** Well I think that’s right. I think that’s the safe answer if you’re asking from a risk mitigation question. So just having an array of index, low-priced index funds and that’s all you provide. From a managing risk, that’s fine. I think we would say though there’s nothing wrong with including active funds in your lineup. But, you know, from—

**Wendy Tyson:** And it goes back, of course, to the guiding principles and what your goals are as a plan fiduciary. So there is nothing wrong with that. No, I would agree. There’s also nothing wrong with having other funds in the lineup. It just depends on what the goal is, and I think what the overall principles are, your investment principles.

**Gene Paranczak:** The idea is to have a mix.

**Sherryann Plessé:** I think following the investment policy statement?

**Wendy Tyson:** Absolutely.

**Sherryann Plessé:** And also, as you said, Gene, there’s certainly nothing wrong with active lineups. Tiering can certainly help. I know that a number of plan sponsors feel like sometimes it’s hard to beat the transparency and ease of monitoring that an index fund can provide.

**Wendy Tyson:** Absolutely.

**Sherryann Plessé:** But, thank you for the question. Terrific question.

Let me shift to a topic that’s getting a ton of attention in the industry, and we’ve certainly been making a ton of investment in it. I want to talk about advice and wellness for
participants. So plan sponsors are beautiful. And I say that because I think, sometimes, perhaps the regulators or perhaps others in the industry forget how concerned plan sponsors are about the effectiveness of their retirement programs. They want participants to be able to retire successfully. They care deeply about the outcomes that they are driving. And many plan sponsors talk to us about advice and wellness in helping their participants along their path.

I’d love to hear from both of you, really, perspectives from the participants. What are you hearing?

Gene Paranczak: Well, we’re sort of switching gears. We were mostly talking about sponsors. Now we’re going to talk about how it affects the participants. So I think when you talk about financial wellness, the idea there is that’s a big topic. That’s more than just what you’re saving in the 401(k) plan. And I think if you look at sort of the macroeconomic trends in this country, so what are they? So increasingly you have a highly mobile workforce. You have employees that may not be staying at a job for long periods of time. You have what some people refer to as the gig economy, where people are working, but they’re working on a part-time basis or they’re working as independent contractors. So this attachment where, in former times, you might have seen an employee working with the same employer for 10, 20, 30 years, that’s much less common. So it becomes more difficult to have one employer plan sort of satisfy the needs sort of more holistically. And when you talk about what is enough, that’s the question I would start at. What would be enough?

So Vanguard’s research says that generally between 12 and 15 percent is what an employee should be saving. Twelve or fifteen percent includes both employer and employee contributions. They’re slightly different for different income groups, but that’s the general range. But that could be easier said than done. And what we have found increasingly is that depending on where you’re at in life, you may not want to be, you may not be putting 401(k) savings first.

So, Wendy, I don’t know, when you look at the difference between a younger employee that might be worried about student loan debt, which has become a huge issue, or paying for housing costs. And then you’ve got midcareer people that might be worrying about sending their kids to college and paying for that or perhaps caring for elderly parents. And then older—

Wendy Tyson: And the aging population, which would have different needs even yet.

Gene Paranczak: And they’re worried about longevity and making sure they have enough to save through retirement.

Wendy Tyson: To save through retirement.

Gene Paranczak: So all these generational factors are sort of competing with just putting money in the 401(k) plan, so it’s a much broader concern.

Sherryann Plessé: Now I want to get to the generational impact, and I also want to get to mobility. But before I do, I do want to pause here. There’s been some talk in the industry lately of additional focus in a mobile society of lost participants.

Gene Paranczak: Oh, yes.

Sherryann Plessé: And this is on numerous plan sponsors’ minds. Let’s just talk about this. It’s been in the trade press. What can we say for employees who have had many jobs and employers who are worried or concerned about them being lost participants? Best advice.

Gene Paranczak: Well, you are right in saying that it is a concern.
Wendy Tyson: And they’re not alone.

Gene Paranczak: They’re not alone. And there is a responsibility and duty to try to—I mean the key there is to try to locate participants and there’s various ways to do that. Part of the concern that sponsors have is just how much effort and/or cost they need to undertake in following up with these participants.

The trade groups, our government relations group have been pressing regulators in Washington to give us guidance, to give us sort of a blueprint or sort of what’s called a safe harbor that, if you do these three or four things, then you’ll be deemed to have satisfied your fiduciary duty in trying to locate those participants.

As a matter of fact, the Employee Benefit Secretary, Preston Rutledge, from the Department of Labor, last Friday publicly announced that the Department of Labor is looking to issue guidance in this regard. So more to come on that. But I agree that it is a growing concern and keeping track of this highly mobile workforce is a challenge that service providers and plan sponsors have alike.

Wendy Tyson: I would agree, and I would say, you know, some plan sponsors have asked about using social media to find these participants, and they have concerns about that as well from a fiduciary standpoint, so it really is a problem and, hopefully, we will see some guidance on that.

Sherryann Plessé: And let me speak directly to the plan sponsors listening now. If you have these concerns about your specific populations, please reach out to your Vanguard contact or your relationship manager. We can talk about some creative solutions, perhaps, to help you solve the problem.

Let’s get back, if we can, a bit more to this mobility and this sort of notion of being able to preserve retirement assets, either through advice and wellness or plan design solutions. Love to talk about this, Wendy. We know the workforce is more mobile, but we also know that it’s aging.

Wendy Tyson: Yes.

Sherryann Plessé: What thoughts do you have for there on the consequences to retirement savings?

Wendy Tyson: Yes, that’s a great question and a somewhat complex question, and it crosses, it’s the spectrum, right? So, on one hand, we talked about a more mobile workforce, and the truth is people don’t stay in jobs as long. And this creates issues around portability. People have an expectation that their money is going to follow them when they go to a new job. But that also then presents leakage issues, right? Every time you leave a job, you have a distributable event, which could mean that you could take your money. And so, plan sponsors concerned about having adequate retirement savings for their participants, savvy ones are encouraging rollovers in, so that plan participants can consolidate those funds and take advantage of a plan.

On the other end of the spectrum, you have an aging population, which brings up longevity risk, the risk that participants will outlive their assets. But it also means that many of these participants are looking to their 401(k) plan as a source for their retirement benefits. And so, again, plan sponsors have to think about this from a plan design standpoint. Once upon a time, you know, it was typical to have full distribution at retirement. But more and more we’re seeing that plan sponsors are adding other options: systematic withdrawal options, installments, partial distributions. And that is, really, to help that population to keep those assets in the plan and use them strategically through their retirement.

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A quick note on that: So education advice comes into play here as well, Sherryann, because if we take the, perhaps, younger generation, it doesn’t have to be younger, but the mobile generation, education around the importance of keeping assets in a qualified plan; education on rollovers and how to do that; and, frankly, making the rollover process easy.

And then on the other end, when we talk about retirement, we talk about a population that is aging and looking to this to be a source of retirement funds, education, what that means. Drawdown strategies, as well as perhaps annuities outside of a plan. And so they really need that, and participant advice, frankly. And I think plan sponsors who don’t have it should think about it, adding participant advice as well.

**Gene Paranczak:** If I just may add onto Wendy’s comment, this idea of putting in distribution options, it’s actually been one of the stranger things I’ve noticed over the years in dealing with plan sponsors.

Many times, plan sponsors don’t even realize what that distribution option is. It was, the plan was drafted. It had a lump sum only option. It was put in 20 years ago. And then you talk to them about these drawdown strategies, or creating flexibility for participants, and they’re, like, they didn’t even realize it. And, frankly, it’s almost, I can’t even really think of a good reason why a sponsor wouldn’t want to allow that flexibility. It’s completely, at that point, to provide the maximum opportunities for their retirees.

And as you mentioned, Wendy, there’s a lot of complicated strategies about when to take money. You know, are you taking it pretax, Roth? When do you start Social Security? So it would seem like the best practice would be to give participants the maximum flexibility as they’re going through those drawdown strategies.

**Wendy Tyson:** I would agree, and I think some plan sponsors view it as counterintuitive, right? If we allow this, the money will come out of the plan. But what we’ve seen, I think, is the opposite. That, actually, it gives them flexibility and options and the money stays in the plan.

**Sherryann Plessé:** You know, it’s funny because we’ve discussed offline maybe one of the biggest sort of demographic trends or one of the biggest plan sponsor trends through the years since. When we were first practicing over 20 years ago, each of us, the trend was for plan sponsors to have people retire and have them leave the plan.

**Wendy Tyson:** Right.

**Sherryann Plessé:** And now, that has almost been a complete reversal. We have so many plan sponsors who, frankly, have worked so hard. This is why I always say plan sponsors are beautiful, because they’ve worked so hard to help the participants accumulate the assets through the years, they don’t necessarily want those assets to be in jeopardy at that point of retirement.

So coming up with creative ways to incent participants to stay in the plan for a variety of reasons is a trend that we’re going to keep our eyes on very, very closely.

**Wendy Tyson:** Absolutely.

**Sherryann Plessé:** Switching maybe a little bit, so we’ve talked about our retiree population and how to sort of protect their assets and a little bit of the role of annuities, I do want to talk about millennials. Is it true that they don’t care about retirement, that they only care about their paycheck, Gene, the father of three millennials? Let’s come to you.

**Gene Paranczak:** That’s a question that strikes home. So, yes, I, the father of three millennials—and I don’t think my children are really—I think they’re very representative of the
millennial community. So high mobility. So I, you know, I’ve got one daughter that’s getting ready to start her third job in the last five years, so they’re highly mobile. They do care about trying to maximize their education and the workplace.

They do care about other things. They care about housing. Where are they going to live? How can they afford housing? They care a little bit about health care, so I’ll get questions about health savings accounts.

What I don’t get a lot of questions about, and, oh, the big one, I almost forgot, is student loan debt. All three of my kids are very focused in on student loan debt. It’s top of mind for millennials.

But what you don’t hear a lot of conversation, even with dad working at Vanguard and advocating for retirement savings, while they understand retirement, it is way in the future. So they’ll participate in the plan, perhaps sort of at a baseline, and if it’s automatic enrollment, right, that’ll be a good way to sort of get them in. But they’re not, they’re not focused on retirement.

Wendy Tyson: I would agree. I think the data has shown that millennials especially set it and forget it. If you can get them into the plan, they stay in the plan, and they save. They don’t take the money out. And so, really, that’s a great example of where plan sponsors can use data to drive plan design and, ultimately, to drive participant behavior with that population. So automatic solutions.

Gene Paranczak: Yes, I think sponsors just need to be aware that millennials, their participation is going to be, they’re going to have these competing interests. They’re going to be worrying about these other things.

Wendy Tyson: As does every group.

Gene Paranczak: Right, right.

Wendy Tyson: But I think plan design, I think we would agree that plan design can go a long way to help with that.

Sherryann Plessé: Let’s shift gears now, perhaps back to one thing that’s always on plan sponsors’ minds, the legislative and regulatory environment in DC. We’ve got a question here from Nick in the other Washington, Washington State. He asks that he understands that there’s several legislative proposals that could impact 401(k) plans. Maybe I could ask you, Gene, to summarize what they are and what would the impact be?

Gene Paranczak: Well, sure, and maybe I’ll start with the one act that actually is not a proposal. It actually became law.

So in February of this year, the Bipartisan Budget Act was passed, and it’s—the biggest impact it had was on hardship withdrawals. So hardship withdrawals in 401(k) plans historically had both a precondition and a postcondition. And the precondition was if you were going to take a hardship withdrawal, you could only do so if you exhausted your plan loan. So that was sort of the precondition. Did you take a plan loan out? If one was available, you had to take that. If not, you could get a hardship.

And then it also had a postcondition. So, once you took the hardship withdrawal, you were suspended from making any further elective contributions into the plan for a period of six months. This was sort of the so-called safe harbor. The vast majority of plans that have hardship withdrawal provisions had these conditions. Take the loans out beforehand, suspend you from participating for six months afterwards.
This new law, effective January 1, 2019, eliminates both those conditions. So, what we’ll see, I think, is it’s a much more flexible opportunity for people to take hardship withdrawals. We feel that plan sponsors that have that provision will overwhelmingly adopt this provision, and Vanguard’s working sort of behind the scenes to make sure that we’re geared up to be able to administer that provision.

**Wendy Tyson:** Great.

**Sherryann Plessé:** I want to say that we actually breathed a big sigh of relief after the law passed because there were some things in there that were scary, around nonqualified plans and around Roth mandatory, so I think we dodged a bullet there.

**Gene Paranczak:** Absolutely.

**Sherryann Plessé:** And I’d love to be able to really use the remainder of our time to get to as many plan sponsor questions as possible because there’s an awful lot coming in.

So let me just start here. One, Neil from British Columbia asks, “What about personalization?” It’s a theme they’re hearing more and more about.

**Wendy Tyson:** That’s a great question, and I think it’s a trend we’ll see more and more of. And I’m happy to say, I think we can say Vanguard is really on the cutting edge in this area. We have, in our participant education area, we have something called “Participant Journeys, Personalized Participant Journeys.” And we have used behavioral science, financial behavioral science, as well as academic research to help drive these personal messages and nudges, I think, with great results. So I think that’s a trend we’ll see going forward.

**Gene Paranczak:** Absolutely, yes.

**Sherryann Plessé:** Excellent.

Let me turn to Chuck from Wawa, Pennsylvania. We’re going back a little bit now toward fiduciary responsibility, always a hot topic. “How are brokerage windows affected by fiduciary responsibility? Do you think there’s still a viable option for plan sponsors?” And I’ll just throw in, “And how do you monitor them?”

**Gene Paranczak:** That’s a great one. That’s a great question.

**Wendy Tyson:** We can share that one.

**Gene Paranczak:** Brokerage windows create a situation where sponsors allow through the brokerage option for participants to have almost, it’s almost open season, depending on how they’re structured, where it allows participants to decide what particular investments that they want to enter into.

The problem, as you alluded to, Sherryann, is we talk about fiduciary monitoring. So what are your responsibilities for your participants to enter into these investments? Sponsors like to think that they’re washing their hands of it, that they don’t have that responsibility.

But there is a guidance. You do have to sort of follow the—you still have to sort of monitor the option. You have to make sure that—

**Wendy Tyson:** Of putting brokerage in to begin with.

**Gene Paranczak:** Correct.

**Wendy Tyson:** I think that’s right.

**Gene Paranczak:** Yes, yes.

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Sherryann Plessé: How about this one, Wendy? We’ll come to you on this. It’s such an important question, and we get it a lot.

Barbara from Missouri: “How can we, in the retirement industry, create support for retirement income options like annuities and withdrawal options?” Is there anything more we can be doing?

Wendy Tyson: Well, I mean, certainly, from a plan sponsor standpoint, think about your plan design, right? So we talked a little bit about that. So what options are you providing to your plan participants, educating them around those options?

But then I think in the broader context, being vocal in the industry, both with Washington and through industry groups, that these are important options to participants. So I think it’s both on the local level as well on a broader level.

Gene Paranczak: Absolutely. I think flexibility and design, we talked about a little bit of that earlier with adding periodic withdrawals or partial distributions. That’s certainly something. And then educating around. It’s basically a longevity risk question. You want to provide ways so that the money will be available for longer periods of time.

Sherryann Plessé: How about this one, maybe going back to our millennial conversation a bit, but one I’ve heard from a number of plan sponsors. Any thoughts about matching student loan payments into a 401(k) plan?

Wendy Tyson: Well, we could share this one. There’s been a lot of conversation, I think, around this. Plan sponsors are questioning what to do about student loans, recognizing there’s competing interest. And so there has been some discussion of do you match it and how do you do that?

So do you match it in a plan, and, potentially, I think there could be discrimination issues or other problems with that, or do you set up a different type of incentive so that people who have student loans are able to, perhaps, still put money from their paycheck into a plan?

So, I think we’re at the kind of beginning stage of a lot of these discussions. It goes back very much to what Gene was talking about earlier in terms of recognizing the workforce has changed and that people have different needs. But I don’t know if you’ve heard additional—

Gene Paranczak: Yes, I think it really is, perhaps, like an inside or outside the plan.

Wendy Tyson: That’s exactly right.

Gene Paranczak: I think it’s a great objective, and clearly, we’ve said repeatedly during the session today how important student loan debt is to millennials and how it becomes a competing interest.

The issue is if you try to integrate it inside the plan, it becomes a little bit more complicated because it might be great for certain companies that may have a high degree of college graduates, but then, as you mentioned, Wendy, it’s discrimination. Like are they, what’s—

Wendy Tyson: Who’s benefitting?

Gene Paranczak: Who’s benefitting and—

Wendy Tyson: Yes, yes.

Sherryann Plessé: Well let’s jump in on that because a number of questions from plan sponsors similarly related to HSAs. What’s the role of HSAs in the future of retirement savings, and would you have similar concerns, sort of, about matching HSA dollars? Perhaps a word on HSAs in your opinion.

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Sure, do you want to take it?

I’ll take it. Yes, so HSAs are another sort of competing interest, and so—

But a potential retirement vehicle.

A lot of benefits. So HSAs have triple tax advantages. If they’re done the right way, they’re not taxed in. The earnings within them are not taxed, and they’re not taxed on the way out. It’s a supercharged tax vehicle to provide savings for health care costs.

And in some respects, there’s a debate about, like, do you maximize your HSA? You maximize your 401(k) up to the match, then you maximize your HSA contributions, and then maybe you come back into the 401(k) plan after you’ve done that. As far as matching HSAs, that just provides further incentive. So we do see employers that offer HSA options, oftentimes matching or providing employer contributions to incent employees to go into HSAs, and we find it increasingly becoming a popular topic and increasingly plan sponsors are asking us about adding HSAs alongside the 401(k).

And forgive me for being a bad moderator. HSA is health savings accounts.

Savings accounts.

Pretax savings into an individual account that the employee establishes.

True.

Okay, so that’s a great question. So reenrollment is when you have a participant base that’s perhaps overly weighted in company stock or some other potential investment, and you make the decision to reenroll them into, say, your QDIA, your plan’s qualified default investment alternative.

Typically, a target date.

A target date, which would be the norm. But it can be whatever the plan has designated.

And that’s a process. You would identify the participants or the pool of participants, provide notice, give them the opportunity to opt out and not be reenrolled. But those who didn’t respond would be then reenrolled into this target-date fund or other fund.

And the idea behind it is, you know, first of all, you’re identifying populations that perhaps don’t have the optimal portfolio construction; but also, you’re reenrolling them into sort of a safe harbor investment. So, if they’re given proper notice, you as the fiduciary may not, should not, have then fiduciary liability for any losses associated with that fund going forward after that period. So it’s a strategy some plan sponsors use.

So, I may add, I always view reenrollment in two ways. One, Wendy, is the way you described it. I would call that an investment reenrollment. So you’re trying to steer,
you’re trying to right course the people that might be off on their portfolio mix. But there’s also a savings reenrollment, so it’s really two kinds. So if you have a part of your population, so our data would reveal this, so you may have great participation, but maybe you have 10 or 15% of your population that’s not in the plan.

So what we’ve seen sponsors doing increasingly is every two or three years, they’re looking at that population, and they’re reenrolling the nonsavers. They’re bringing them into the plan.

**Wendy Tyson:** Sweeping them in, right.

**Gene Paranczak:** They’re sweeping them in. So sometimes this term, reenrollment, refers to two different things, an investment reenrollment and a participation reenrollment.

**Sherryann Plessé:** And they both have their place.

**Gene Paranczak:** Yes, yes.

**Sherryann Plessé:** Very true. Well, I want to sort of ask you here very quickly, if plan sponsors take nothing else from this, very quickly, one final thought.

**Wendy Tyson:** I’d say, know your goals and use data to help drive plan design so you reach those goals.

**Gene Paranczak:** I would say, have a process, be disciplined, and follow that process.

**Sherryann Plessé:** Thank you both. Thank you both. Well said.

I want to sort of share, you know, Vanguard’s core purpose is to take a stand for all investors, to treat them fairly, and give them the best chance of investment success. There is no better way for us to be able to fulfill that purpose then to continue to partner with you to help your participants achieve a secure retirement. It’s what drives us every day.

I want to thank you so much for the time that you have spent with us today and your thoughtful questions. We will send a replay and transcript of today’s event shortly, so keep an eye out for those.

Also, if I could just have one more moment of your time, I’d ask that you complete our events survey by clicking the red icon at the bottom of your screen. For those of you who submitted questions that we did not get to, please engage with us, engage with your relationship manager. We’d love to be able to consult with you offline. We truly value your time and your partnership, and we want to ensure that all of our future webcasts are worthwhile, so please give us your feedback.

Thanks again for joining us and enjoy the rest of your day.

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