

BlackRock

Why reenrollment makes sense for you and your employees



Your best thinking, the broadest impact

You provide a thoughtfully designed defined contribution plan, with a carefully selected default option and matching contribution designed to encourage savings and help build retirement security.

You also provide education and other resources to help participants understand how much more they may have to do to enjoy a secure retirement.

But you wonder if you are reaching everybody. Or you've run analytics on participant data and discovered that a significant segment of the population is not on track for retirement readiness. Perhaps you're concerned that legacy populations have been left behind, potentially raising fiduciary concerns.

Reenrollment is a powerful tool that can help you bring your best thinking and recommendations to the broadest number of participants. By creating a new baseline for savings and diversification, it can help you more efficiently manage a heterogeneous workforce into retirement.

This paper will take you through some of the key considerations and logistical questions about conducting a reenrollment that we've learned working with many plan sponsors grappling with similar issues.

Every plan is different and every reenrollment will pursue its own objective. Through our extensive experience assisting plan sponsors on either full or partial reenrollments, we have five identified key considerations:

1

Can create efficiency, equalizes benefits

2

Helps participants help themselves

3

Can be tailored to meet specific needs

4

May align with fiduciary responsibility

5

Seeks to create a financial wellness culture

Of course, as with any plan change, you should evaluate the facts and circumstances of your defined contribution plan and participant population to determine whether reenrollment makes sense for your situation.

1

Can create efficiency, equalizes benefits

Many employers have possibly, and unintentionally, created two populations in their plans: those who benefit from their plan's current best thinking and those who do not.

That's because many plan sponsors assume that current participants may resist changes or that education alone is enough to get longer tenured employees to adopt the changes.

While new employees defaulted into a target date fund, for example, are more likely to have an age-appropriate risk exposure, longer-term workers who were defaulted into an earlier investment option, or who made their own investment choices before any qualified default investment alternative (QDIA) was added, may be invested with too little growth exposure, or too much risk, for the current stage of their career.

That's a problem for workers now relying on their 401(k)s to close their retirement readiness gap between how much they have saved and how much income they want those savings to generate in retirement. We have found that relying on communication to spark an active decision to switch to the target date fund is not likely to achieve results on its own: More than 40% of participants have never changed their investments.¹

By reenrolling employees who aren't currently invested in the QDIA, you can provide the same target date fund benefits to all of your participants, no matter when they joined the plan—so that all participants can benefit from your current best thinking. Realigning the participant population into the target date fund may also create greater efficiency as you manage your workforce into retirement.

Target date fund traction

86%

of defined contribution plans used a target date fund as their QDIA in 2018²

58%

of 401(k) contributions are directed to target date funds³

55%

of participants have their entire balance dedicated to a single target date fund⁴

¹ 2019 BlackRock DC Pulse Survey. BlackRock, April 2019. ² 2019 Defined Contribution Trends Survey. Callan Institute, January 2019. ³ The Cerulli Report—U.S. Defined Contribution Distribution 2019: Opportunities for Differentiation in a Competitive Landscape. Cerulli Associates, October 2019. ⁴ 2016 Universe Benchmarks Study. Aon Hewitt, 2016.

2 Helps participants help themselves

Participants face two challenges when it comes to retirement investing. First, very few have the expertise, time and specialized insight needed to manage their asset allocation—and their retirement spending—throughout their career and after.

Second, even those who make their own investment decisions are unlikely to review or adjust their investments over time, creating the potential for age-inappropriate risk exposure. Nor are they likely to increase their savings rate as their income grows.

Reenrollment addresses both issues, and may even take advantage of participant inertia by automating the investment management and savings rate increases they may need to reach their retirement goals.

Reenrollment into a professionally managed QDIA may improve their investment outcomes. Target date funds, a commonly used QDIA, seek to generally offer investments that are diversified across asset classes and are global in scope, and automatically adjust the allocation over time to reduce risk as investors near retirement. Designing a retirement plan takes hours of due diligence, committee meetings and lengthy reviews. Reenrollment can bring the benefit of your efforts to more employees, while allowing those who prefer to stay as they are to simply opt out.

Inertia is a problem

19%

of eligible employees don't participate in their plan⁵

64%

of participants did not change their contribution rate last year⁶

6.1%

of participants changed the asset allocation of their account balances⁷

⁵ 19th Annual Transamerica Retirement Survey: A Compendium of Findings About U.S. Workers. Transamerica Institute, December 2019. ⁶ Workplace Retirement Plans Tend to Sharpen Focus on Financial Futures. Pew Charitable Trusts, 2018. ⁷ ICI Research Report: Defined Contribution Plan Participants' Activities, First Half 2019, Investment Company Institute, December 2019.

3

Can be tailored to meet specific needs

Reenrollment is a surprisingly flexible tool that can be tailored to meet a number of goals and resources.

- Following a merger or acquisition, a plan sponsor may want to create efficiency by combining all employees into a single plan or create a common experience across the workforce.
- After selecting a new QDIA, many plan sponsors reenroll existing employees to create more efficient workforce management, streamline investment menus or reduce fees by leveraging economies of scale.
- A reenrollment may seek to align participants with new plan design features, such as deferral rates or automatic escalation features.
- Participant level data analysis may reveal concentrations of inappropriate risk, insufficient savings rates or potentially inadequate retirement outcomes that may be addressed through reenrollment and increased deferral rates.
- Reenrollments could be conducted annually along with other benefit enrollments so that participants would have to affirm their choices, as well as associate their retirement plan with their overall benefits package.

In short, reenrollments can be targeted or broad, and they can be used to address a range of issues. BlackRock can work with you to help determine the scope and scale that may be appropriate for your plan.

If a full reenrollment is not currently an option, consider a partial reenrollment or updating your plan features.

The reenrollment spectrum

Reenrollments can take many shapes and sizes, affect all or some of your employee population and happen once or every year. No two reenrollments are the same and each type comes with its own considerations.

If you are beginning to consider reenrollment, it makes sense to first review your participants' existing investments to help you determine what you want to achieve through reenrollment. Outlining your goals will provide you the framework needed to facilitate discussions with your organization's Employee Retirement Income Security Act (ERISA) and corporate legal counsel—and conduct a legal and operational review.

	Plan participants	Investments	Plan features	Potential size of impact
Full reenrollment	<ul style="list-style-type: none"> • All eligible employees; or • All plan participants 	<ul style="list-style-type: none"> • All funds mapped to QDIA on 'opt out' basis 	<ul style="list-style-type: none"> • Include all current plan features 	
Partial reenrollment	Segment of employees or participants, i.e.: <ul style="list-style-type: none"> • Under-savers • Pre-PPA participants (i.e. in plan before 2006) • Those with underdiversified investments participants 	<ul style="list-style-type: none"> • Single fund mapped to QDIA on 'opt out basis' • 'Opt in' fund changes only 	<ul style="list-style-type: none"> • Selected plan features • No change to auto features or default contribution rates 	

For illustrative purposes only.

4 May align with fiduciary responsibility

One of the principle advantages of automatically investing new hires into a QDIA is that it offers a plan sponsor’s “safe harbor” protection. Assuming the requirements are met, a QDIA protects the plan fiduciary for liability regarding participant investment outcomes.

Safe harbor protection may also apply to a reenrollment into a QDIA, assuming the necessary conditioners are met. (Plan sponsor should discuss any reenrollment with their legal counsel.) Taking advantage of this potential protection may have several benefits, including potentially improving the plan’s overall fiduciary standing by:

- helping to put legacy participant populations on an equal footing with more recently hired employees, or have had the opportunity to actively decline.
- potentially eliminating risk exposures that a plan sponsor may be reasonably accused of suspecting were inappropriate.
- potentially eliminating unjustifiably expensive menu options and create efficiencies and economies of scale across the plan that may reduce fees.

One of the overlooked potential benefits of reenrolling participants into a target date fund is that it may enable better oversight and increased predictability in workforce management when it comes to retirement.

Considerations before you reenroll your plan

Factors you may wish to consider when determining whether reenrollment makes sense for your plan:

Existing plan provisions	Consider amending any plan terms that would preclude reenrollment before proceeding.
Current plan restrictions	Consider avoiding negative effects of transferring assets out of any investment options with redemption fees or other transfer restrictions. If there are any restrictions, consider adjusting your timeline for reenrollment.
Reenrollment scope	Identify the employees who will be affected and those who won't, including current participants, non-participants, union plans and retirees.
Current employee investment allocations	Some employee populations may be better off how they are currently invested and should be treated separately.
Investment activity	Gauge how active participants have been in adjusting their portfolios on a consistent basis.
Participants' investment performance	You may want to consider current participant allocations and the long term performance outlook of fund and asset classes.
Fee comparison	Conduct a thorough comparison of the fees charged by, or in connection with, the plan's current investment options with those charged by or in connection with the proposed QDIA.
Company stock as an investment option	Consider any implications of including company stock as part of the reenrollment.

For illustrative purposes only.

5 Seeks to create a financial wellness culture

Plan sponsors are often concerned that participants will find a reenrollment intrusive or over paternalistic.

In actual fact, 65% of participants believe that automatically reallocating their assets to more appropriate investments based on their age would be helpful.⁸ Properly presented as a valuable benefit offered by an employer concerned about their future well-being, a reenrollment may have a positive impact on workplace culture.

Insights from BlackRock on retirement engagement

The 2019 BlackRock DC Pulse Survey also uncovered potential gaps in plan communications efforts, as 37% disagree that their employer's communications help them understand the benefits of their DC plan, and half (50%) disagree the communications help them decide how to manage their retirement savings.

A quality, well-marketed defined contribution plan drives greater employee engagement



Even more, when they get your help creating a sizeable nest egg, they are more likely to retire on schedule. This can help improve the efficiency of your workforce planning, as more than a third of employees currently expect to retire after age 70 for financial reasons.⁹

⁸ 2019 BlackRock DC Pulse Survey, BlackRock, April 2019. ⁹ 2018 U.S. Longer Working Careers Research, Willis Towers Watson, December 2018.

Getting reenrollment right

Through reenrollment, your employees may get to retire when they want—as well as when you expect—as one component of the help you provide to close their retirement readiness gap.

Your employees, and your plan, could potentially benefit in a number of ways: reenrollment can help overcome investment inertia, levels the playing field for all employees, and offers your plan the potential for enhanced fiduciary protection. It's also flexible, meaning you can target a large swath of employees or a smaller segment. And it may boost loyalty while helping to make it possible for people to retire.

As you can see, reenrollment is a powerful lever to pull. As with any plan change, you should evaluate the facts and circumstances of your defined contribution plan and participant population to determine whether reenrollment makes sense for your situation.

If you decide a reenrollment of any type would create value for your plan, BlackRock is committed to partnering with you to help you bring a high quality plan experience to your employees throughout the reenrollment process. Seamless execution is the foundation of a successful reenrollment, and BlackRock is here to help you get it right. Together, we can work to help employees close the gap between how much they have saved and how much income they want those savings to generate in retirement.

Why BlackRock DC

Our purpose is to help more and more people experience financial well-being. As the largest DC investment-only provider,* we are solely focused on serving more than 35 million participants with high-quality investment solutions designed to help people achieve their retirement goals. Today, we continue our history of innovation and thought leadership as we work to pioneer the next generation of retirement solutions, plan design analytics and participant communications.

Our commitment to our clients' best interests is why BlackRock is trusted to manage more money than any other investment firm in the world, with \$7.43 trillion in assets under management.**

For additional information, please visit the firm's website at www.blackrock.com.

* Measured by AUM as of December 31, 2019, based on an annual survey by Pensions & Investments. ** BlackRock, December 31, 2019.

Want to know more?

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Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Index returns are for illustrative purposes only and do not represent actual Fund performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Collective fund performance assumes reinvestment of income and does not reflect management fees and certain transaction costs and expenses charged to the fund. Actual results may differ depending on the size of the account, investment restrictions, when the account is opened, and other factors.

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