

The coming DC storm

How to avoid a crisis in the DC market

Figures are past results and are not predictive of results in future periods.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

**“The longer we ignore the
looming retirement crisis,
the worse it will be.”**

Sen. Susan Collins (R-Maine)

Chair, Special Committee on Aging

But wait ... there's more to the story.



401k deferral rates have increased to 7.4%*



Not the 12%-15% many experts say we need for comfortable income replacement ratios



Account balances are up to \$197,048 for someone in their 60s†



This is only \$657 per month at a 4% withdrawal rate

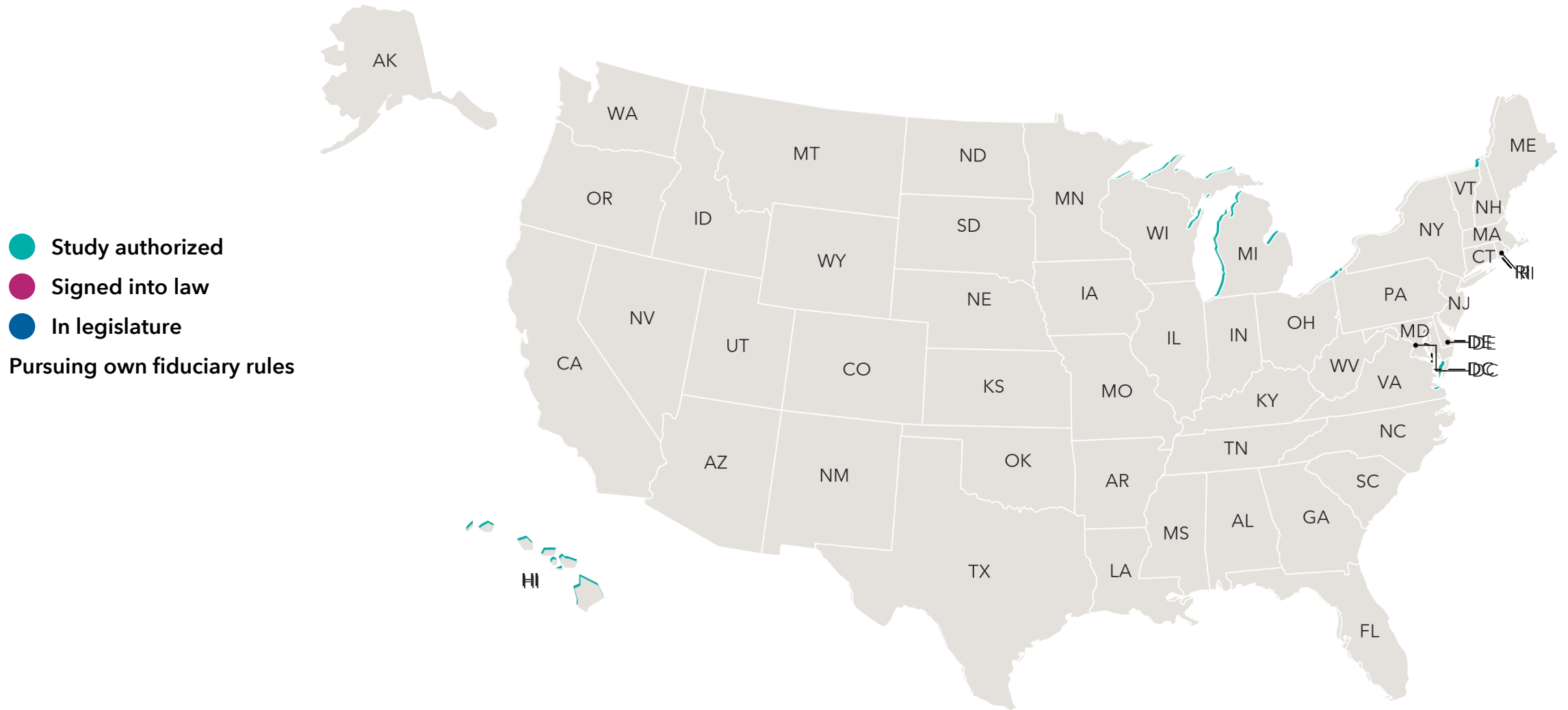
* PSCA's 60th Annual Survey of Profit Sharing and 401(k) Plans, 2018. Data as of December 31, 2016.

† EBRI Issue Brief. No. 458, September 10, 2018. Data as of December 31, 2016.

We need to get this right!

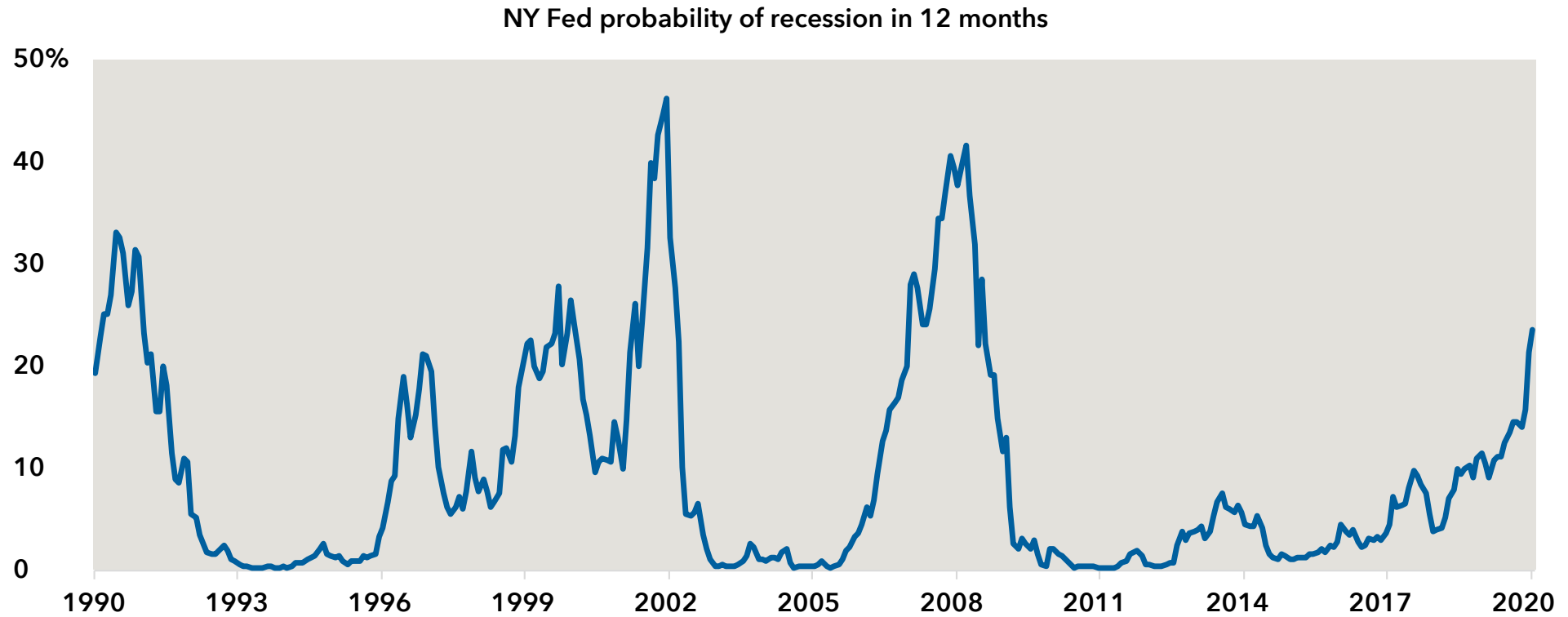
Otherwise, the government might try to “fix” it for us.

A political storm



Sources: Georgetown University's Center for Retirement Initiatives, as of January 8, 2019; "These Six States Have Pursued Fiduciary Rules," WealthManagement.com, October 23, 2018.

The chance of a recession hasn't been this high since the Great Recession.



Source: Federal Reserve Bank of New York, as of January 31, 2019.

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A lighthouse on a rocky island with waves crashing against the base. The lighthouse is tall and dark, with a red lantern room on top. The waves are white and foamy, crashing against the base of the lighthouse. The sky is dark and overcast.

How do you define retirement plan success?

We believe Americans deserve to
**retire with dignity and
sustain that dignity
throughout retirement.**

Start with why

**Improving
participant
outcomes**



Agenda

Fees: The changing landscape

Plan design: Use *all* your tools ... to their fullest

Investments: Simplify ... less is more

A lighthouse with a red lantern room stands on a rocky island. The sea is turbulent, with white-capped waves crashing against the base of the lighthouse. The overall scene is dark and moody, with a greyish-blue color palette.

Fees

The changing landscape

It's been a bull market for fee litigation.

Braden v. Wal-Mart Stores, Inc.
Taylor v. United Technologies Corp.
Martin v. Caterpillar, Inc.
Kanawi v. Bechtel Corp.
Brotherston, et al. v. Putnam Investments
Krueger v. Ameriprise Financial
American Century
Franklin Templeton
Clark, et al. v. Duke University
Divane, et al. v. Northwestern University
Vellali, et al. v. Yale University, et al.

Stephen M. Sisko, J. Scott Hildebrand
Principals, Groom Law Group

Source: Capital Group

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Case law: Hecker, et al. v. Deere & Co., et al.

“The fact that it is possible that some other funds might have had even lower ratios is beside the point; **nothing in ERISA requires every fiduciary to scour the market to find and offer the cheapest possible fund** (which might, of course, be plagued by other problems).”

Judge John C. Shabaz

United States District Court

Case law: Steve Wildman, et al. v. American Century

“ERISA does not require a retirement plan to offer an index fund or a stable value fund, and the failure to include either in the Plan, standing alone, does not violate the duty of prudence. ... Rather, the issue is whether the Defendants considered these options and came to a reasoned decision for omitting them from the Plan.”

Judge Greg Kays

United States District Court

ERISA Section 408(b)(2)

109 pages

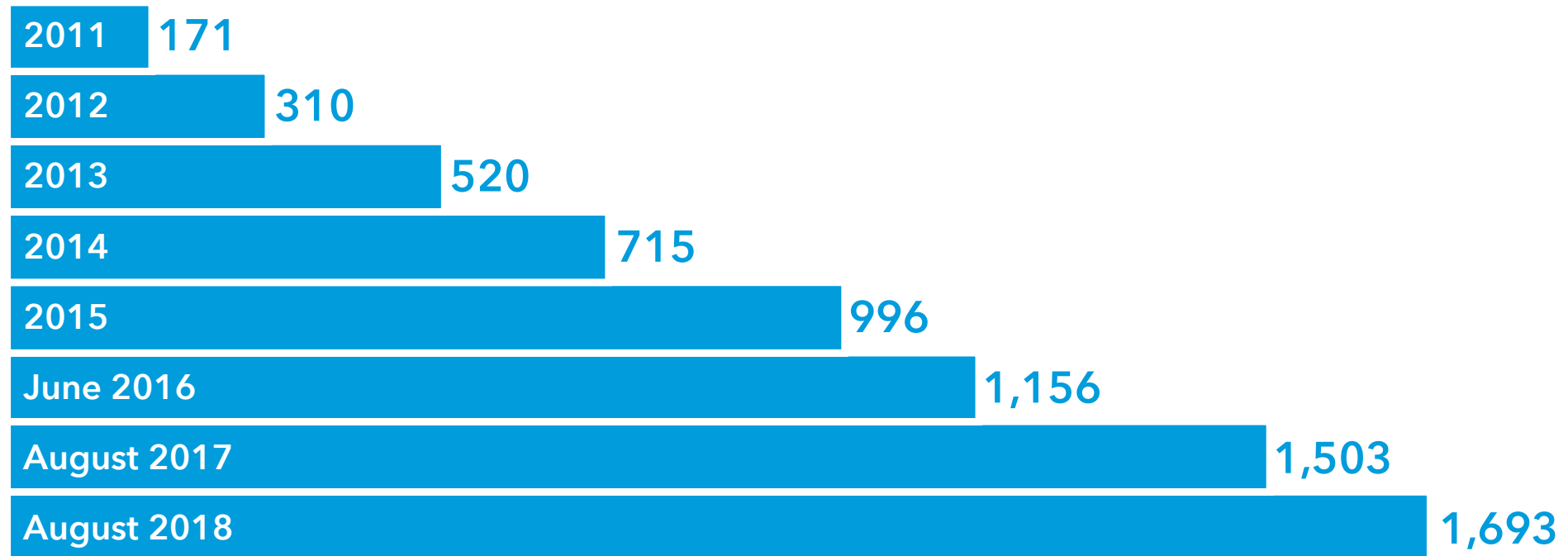
53 references to "reasonable"
or "reasonableness"

0 references to "lowest"
or "cheapest"



The trend to transparency

Number of mutual funds with clean shares available for DC



Sources: Morningstar Advisor Workstation, Sway Research analysis, 2019.

Only includes shares that are restricted to qualified plans, thus excluding Class Z shares from several firms.

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A lighthouse with a red lantern room stands on a rocky island. The sea is turbulent with white-capped waves crashing against the shore. The scene is captured in a dark, moody, and somewhat desaturated color palette, emphasizing the rugged and isolated nature of the location.

Plan design
Use *all* your tools ...
to their fullest

Financial stress impacts the bottom line.

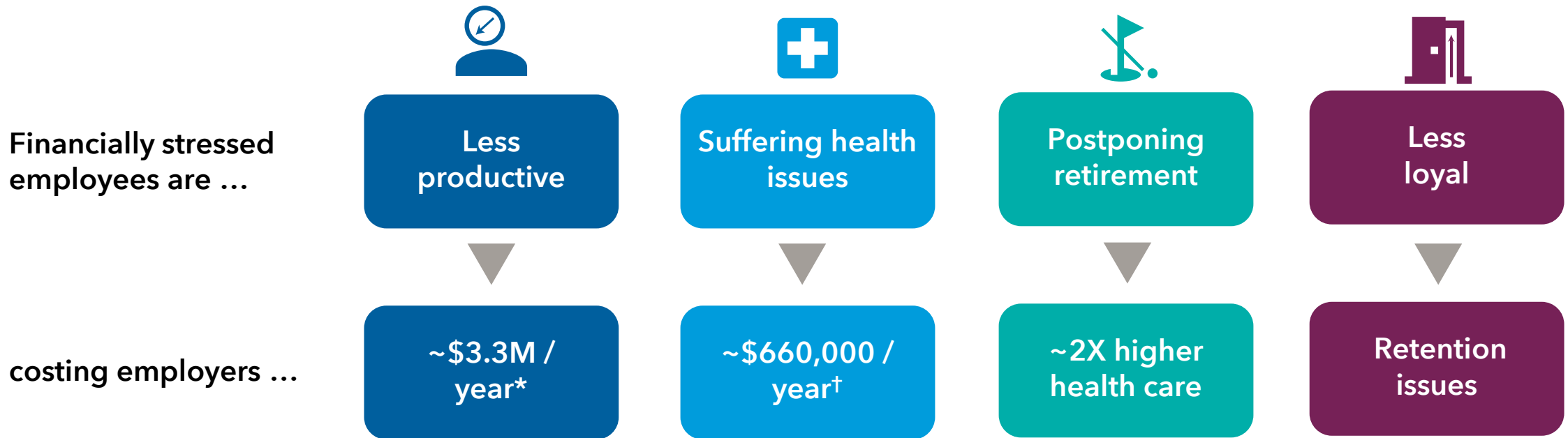
53%

of employees are stressed about their finances,
and it is costing employers.

Source: PWC. Special Report: Financial stress and the bottom line, 2019.

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Financial stress impacts the bottom line.



* Estimate for a company with 10,000 employees with 30% distracted by financial stress

† Estimate for a company with 10,000 employees with 28% of all employees saying their health is impacted by financial stress

Sources: PWC Special Report: Financial Stress and the Bottom Line, 2012; Prudential, Why Employers Should Care About the Cost of Delayed Retirements, 2017.

What percent of plans have auto-enroll?

a. 0%

b. 8%

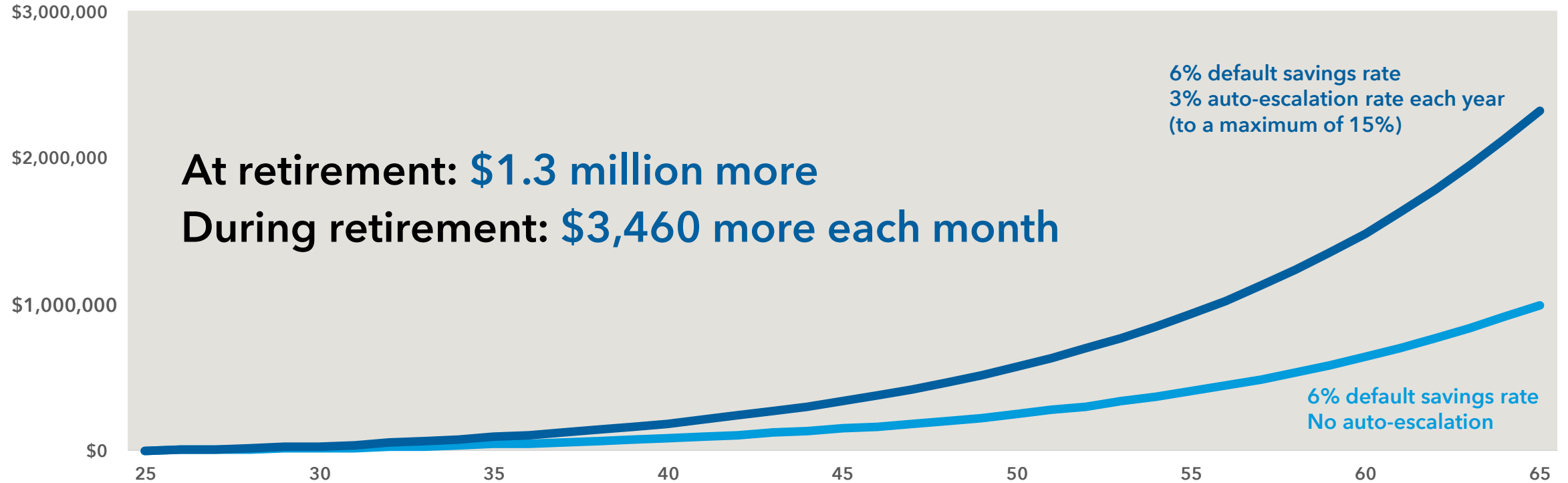
c. 51%

d. All of the above

Source: PSCA's 60th Annual Survey of Profit Sharing and 401(k) Plans, 2018.

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Auto-escalation: How high can we go?



Source: Capital Group. For illustrative purposes only. Not an actual investment.

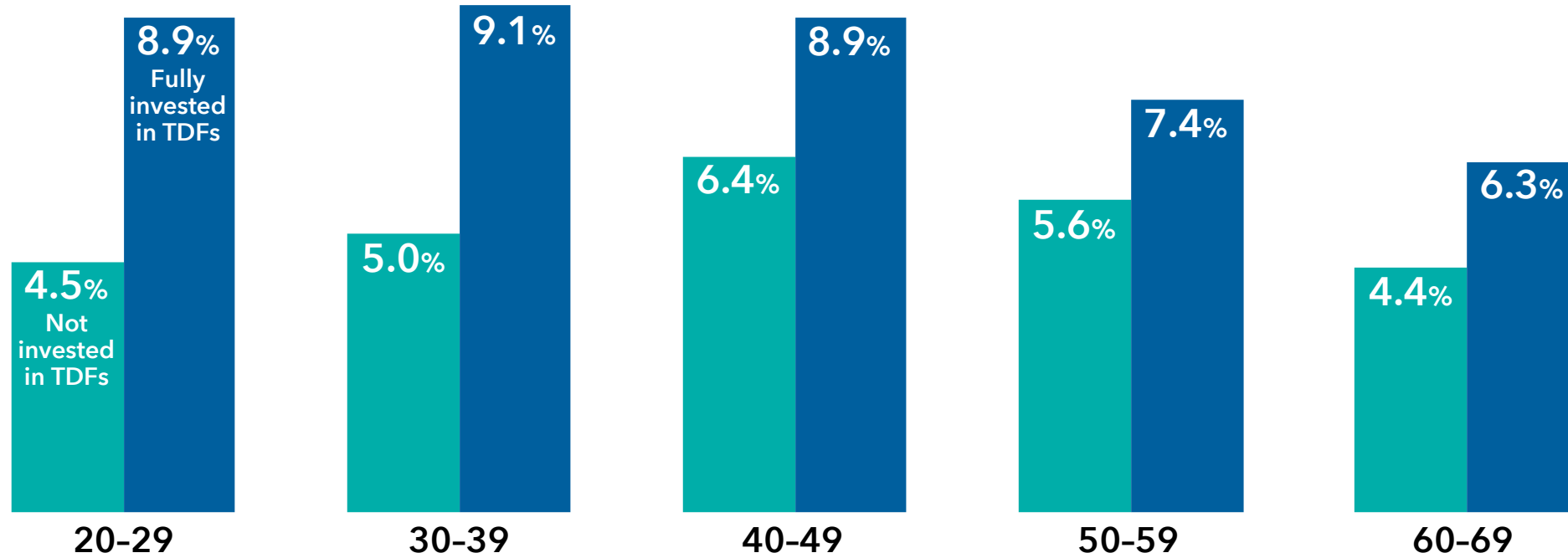
Assumptions: A hypothetical employee enrolls in the employer's retirement plan at age 25, at which time she is earning \$40,000 a year, and then retires at age 65. The salary is assumed to grow 3% annually. Both scenarios assume participant contributes 6% in the first year and that the portfolio will grow by a flat rate of 8% each year. In the 3% auto-escalation scenario, we assume the plan has an automatic default escalation rate of 3% each year until year four, at which time the salary deferral rate continues at 15% until retirement. Monthly retirement income projections assume a withdrawal rate of 4% each year over 30 years of retirement. The scenario assumes the portfolio grows 2.5% annually after retirement.

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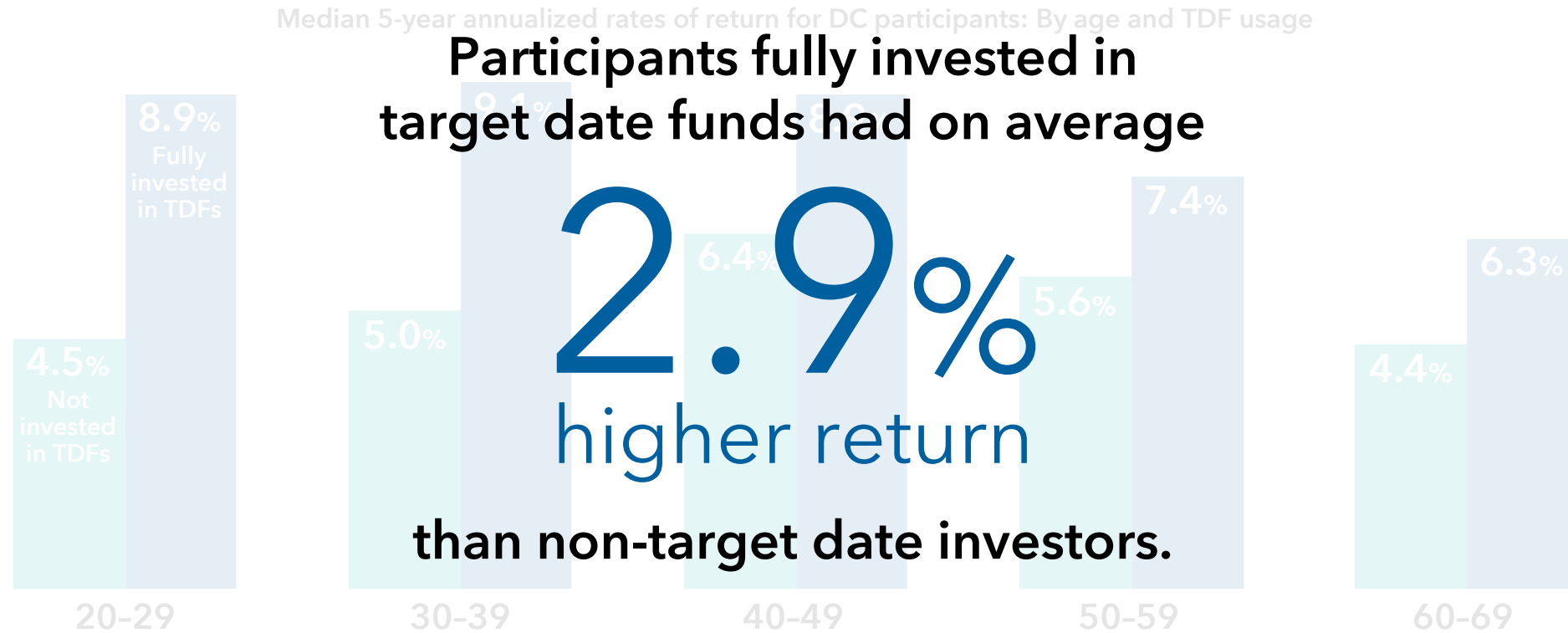
Investment re-enrollment

Median 5-year annualized rates of return for DC participants: By age and TDF usage



Source: Aon Hewitt, Target-Date Funds: Who Is Using Them and How Are They Being Used?, 2016.

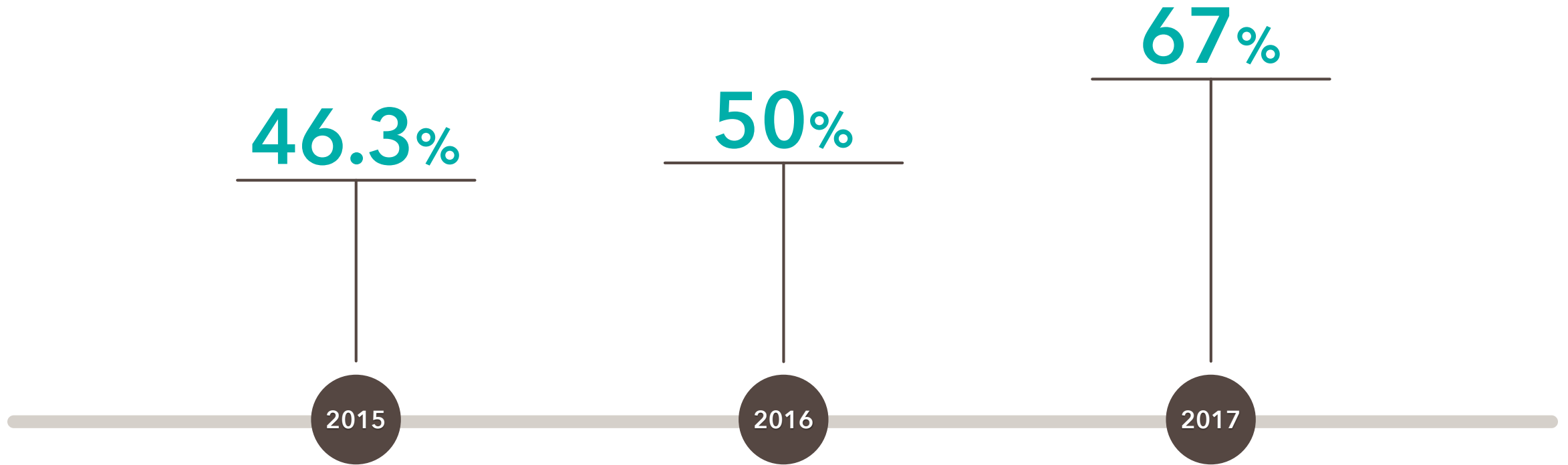
Investment re-enrollment



Source: Aon Hewitt, Target-Date Funds: Who Is Using Them and How Are They Being Used?, 2016.

Offering retirement income solutions is becoming the norm!

Plan sponsors that offered some type of retirement income solution to employees



Source: Callan, 2018 Defined Contribution Trends, 2018.

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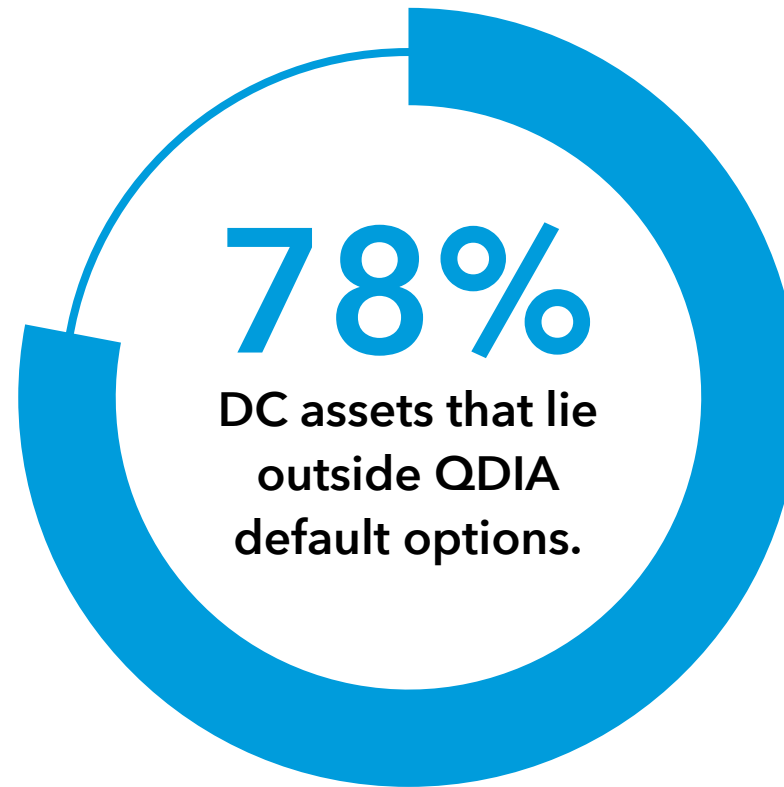
A lighthouse with a red lantern room stands on a rocky island. The sea is turbulent, with white-capped waves crashing against the base of the lighthouse. The overall scene is dark and moody, with a greyish-blue color palette.

Investments

Simplify ... less is more

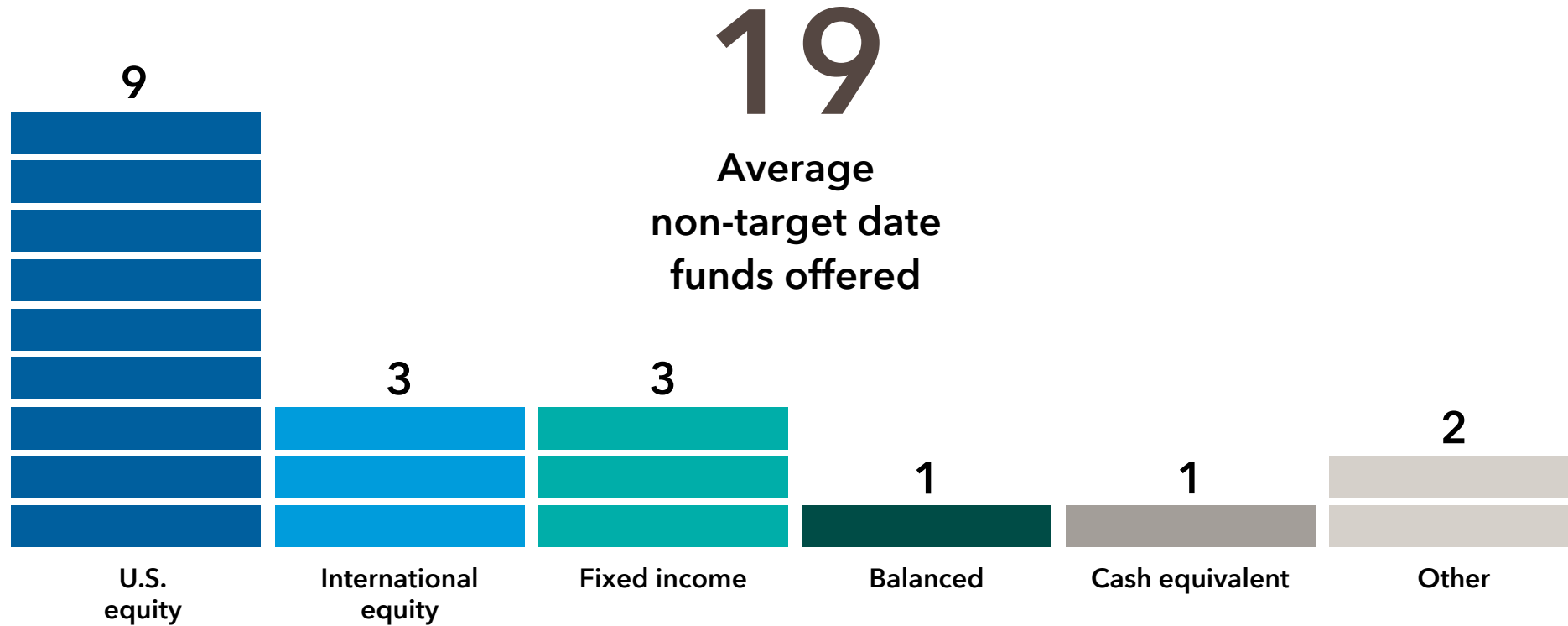
**Occam's razor tells us:
The simple solution is
often the best solution.**

Most DC assets are in the core menu.



Source: The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2015. BrightScope and Investment Company Institute, March 2018.

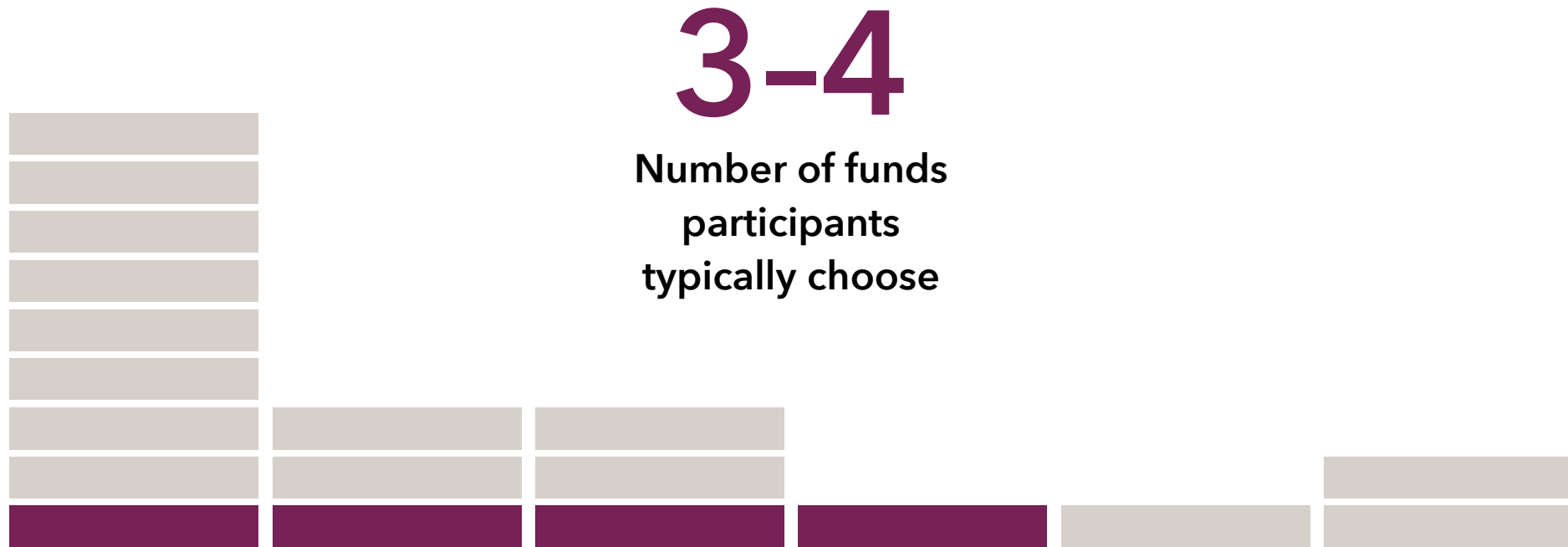
What does the core menu look like?



"Other" includes guaranteed investment contracts, commodity funds, real estate funds and individual stocks (including company stock) and bonds.

Sources: The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2015. BrightScope and Investment Company Institute, March 2018; Gur Huberman and Wei Jiang, Offering vs. Choice in 401(k) Plans: Equity Exposure and Number of Funds, Columbia Business School, 2014.

What does the core menu look like?



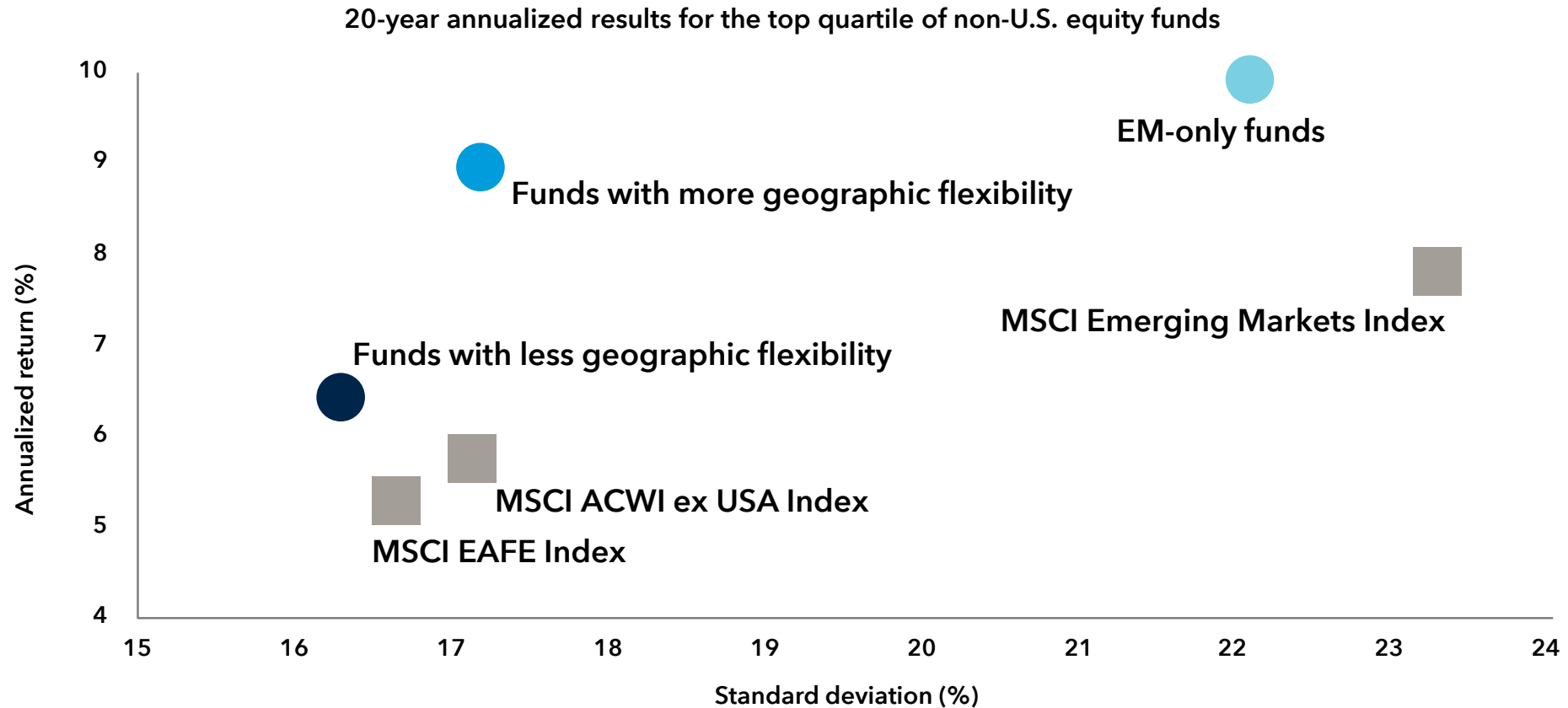
Sources: The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2015. BrightScope and Investment Company Institute, March 2018; Gur Huberman and Wei Jiang, Offering vs. Choice in 401(k) Plans: Equity Exposure and Number of Funds, Columbia Business School, 2014.

Are you getting the right exposure?

Credit: NASA. NASA Earth Observatory images by Joshua Stevens, using Suomi NPP VIIRS data from Miguel Román, NASA GSFC, 2016.

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For skilled non-U.S. managers, geographic flexibility can help boost results.



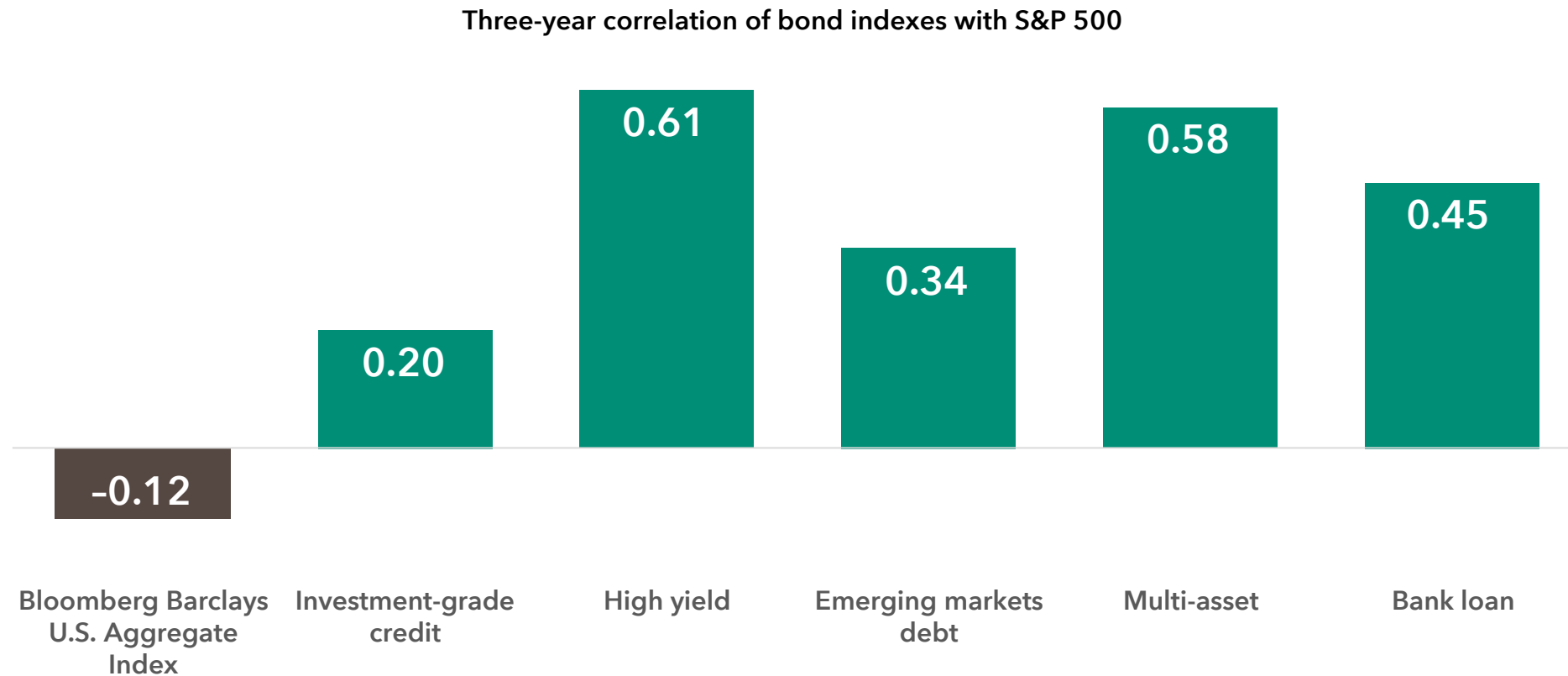
Source: Capital Group, based on Morningstar data as of December 31, 2017. Funds were actively managed funds in Morningstar's Large Foreign Growth, Large Foreign Blend and Large Foreign Value categories. The "more geographic flexibility" category included those funds whose average emerging markets exposure over their respective lifetimes exceeded the peer median; the reverse was used for the "less geographic flexibility" category of funds.

Past results are not predictive of results in future periods.

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Not all fixed income is negatively correlated with equities.



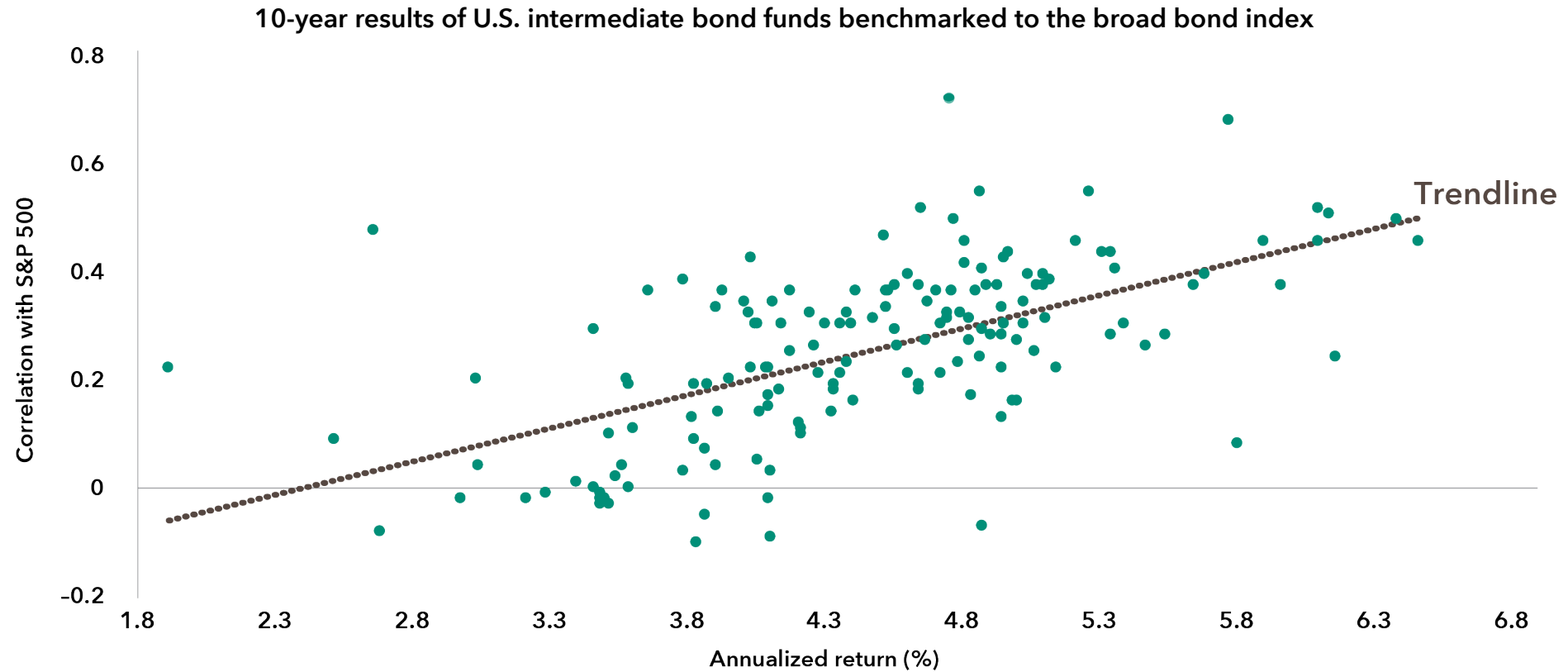
Source: Morningstar. Data as of August 31, 2018. Indexes are, for investment-grade credit (Bloomberg Barclays U.S. Credit Index), high yield (ICE Bank of America Merrill Lynch U.S. High Yield Index), EM debt (J.P. Morgan Emerging Markets Bond Index Global), multi-asset (Morningstar Conservative Target Risk Index) and bank loan (S&P/LSTA Leveraged Loan Index).

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Choose a core fixed income fund that holds up tough markets.



Source: Morningstar. As of September 30, 2018. Funds were those in the Morningstar Intermediate-Term Bond category whose prospectus benchmark was Bloomberg Barclays U.S. Aggregate Index. Fund results are based on oldest share class.

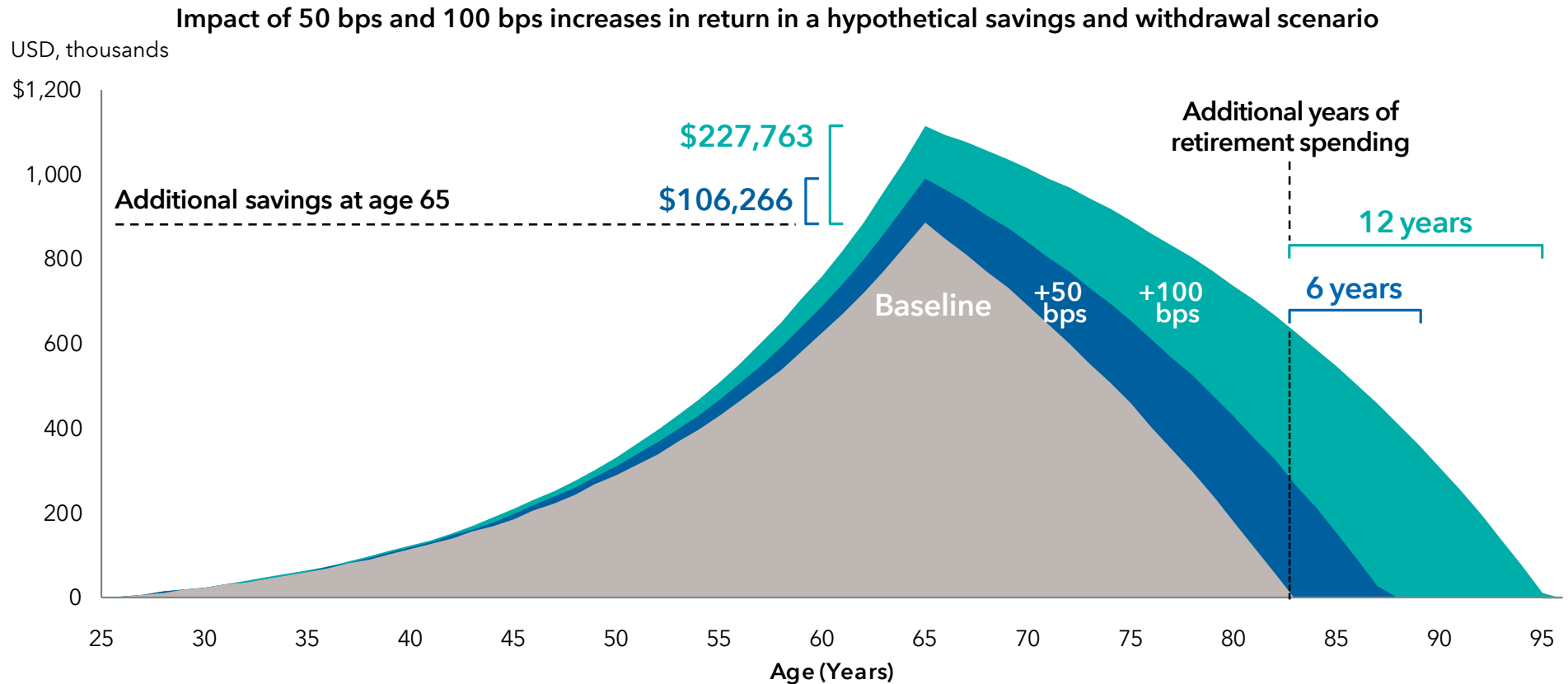
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Select active vs. passive.

Even a small increase in returns can dramatically improve outcomes.



Source: Capital Group. The demographic assumptions, returns and ending balances are hypothetical and provided for illustrative purposes only, and are not intended to provide any assurance or promise of actual returns and outcomes. Returns will be affected by the management of the investments and any adjustments to the assumed contribution rates, salary or other participant demographic information. Actual results may be higher or lower than those shown. Past results are not predictive of results in future periods. Based on an exhibit from Russell Investments.



Wrap-up

Fees: Understand all the fees and focus on "reasonable."

Plan design: Tools are useless hanging on the wall, so make sure and use them.

Investments: Less is more ... as long as it's the *right* less.



1

Challenge
conventional
wisdom

2

Put the facts
on trial

3

Focus on
outcomes

4

Let us help

A lighthouse with a red lantern room stands on a rocky island. The base of the lighthouse is surrounded by white, crashing waves. The background shows a vast, dark sea with rolling waves under a dark sky. The overall image has a dark, moody, and somewhat desaturated color palette.

Thank you

Important information

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.

Important information

Content contained herein should not be used as a primary basis for investment decisions and is not intended to serve as impartial investment or fiduciary advice. The content has been developed by Capital Group, home of American Funds.

The market indexes are unmanaged and, therefore, have no expenses. Investors cannot invest directly in an index. There have been periods when the fund has lagged the index.

Investing outside the United States involves risks such as currency fluctuations, periods of illiquidity and price volatility, as more fully described in the prospectus. These risks may be heightened in connection with investments in developing countries.

Important information

The return of principal for bond funds and for funds with significant underlying bond holdings is not guaranteed. Fund shares are subject to the same interest rate, inflation and credit risks associated with underlying bond holdings.

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Select active vs. passive.

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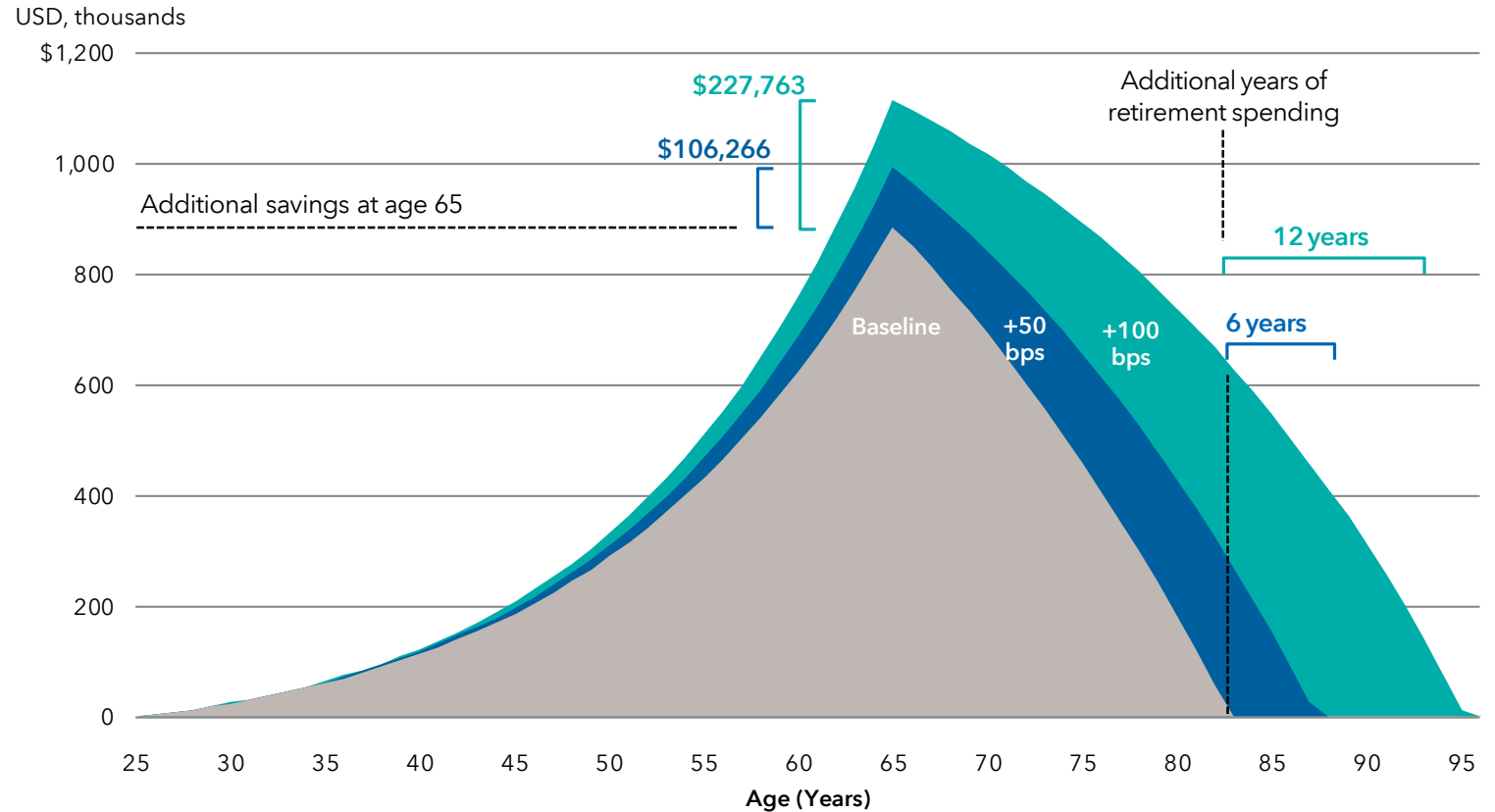
Demographic assumptions

Starting balance	\$0
Starting age	25
Starting salary	\$40,000
Annual salary growth rate	3%
Annual contribution rate	10%
Retirement age	65
Ending salary at 65	\$130,482

Scenario assumptions

	Baseline	+50 bps	+100 bps
Returns before 65	5.5%	6.0%	6.5%
Returns after 65	4.0%	4.5%	5.0%
Account balance at 65	\$886,415	\$992,680	\$1,114,177
Withdrawal (percent of ending salary)	50%	50%	50%
Annual withdrawal amount	\$65,241	\$65,241	\$65,241

Impact of 50 bps and 100 bps increases in return in a hypothetical savings and withdrawal scenario



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