



In the public eye

Understanding and serving government plan sponsors

White paper

Introduction

Since defined contribution plans are becoming increasingly important for millions of public workers, Lincoln undertook an extensive study of government deferred compensation and defined contribution plans to ensure that our industry understands these plan sponsors and their needs. In a survey of 4,100 plan sponsors from the federal to the local levels, we gathered information about their goals and expectations, along with their views of the consultants, advisors and plan providers supporting them. The findings show significant gaps between government plan sponsors' goals and outcomes, pointing to **a need for better service and more results-oriented solutions**. Furthermore, low satisfaction ratings point to opportunities for consultants, advisors and plan providers to collaborate more and find better ways to help government plan sponsors and their participants achieve better outcomes. If these groups are not more proactive in helping government plan sponsors meet their goals, plan sponsors made it clear they would be willing to make changes.

Based on the findings, consultants, advisors, and plan providers should take three steps that will help transform the current sentiment among government plan sponsors into opportunities for better experiences and lasting relationships.

1. Consider a more coordinated value proposition for consultants, advisors and plan providers.

Government plan sponsors are interested in value propositions that emphasize people, relationships, trust, loyalty and commitment. Consultants, advisors and plan providers can build long-term relationships with government plan sponsors if their value propositions are better aligned with plan sponsor expectations.

2. Understand the specific needs of each plan.

Sponsors across all government segments are aligned when defining their objectives for offering a deferred compensation or defined contribution plan (as show in Figure 1), but each plan faces a unique set of challenges and circumstances that call for a more individualized approach.

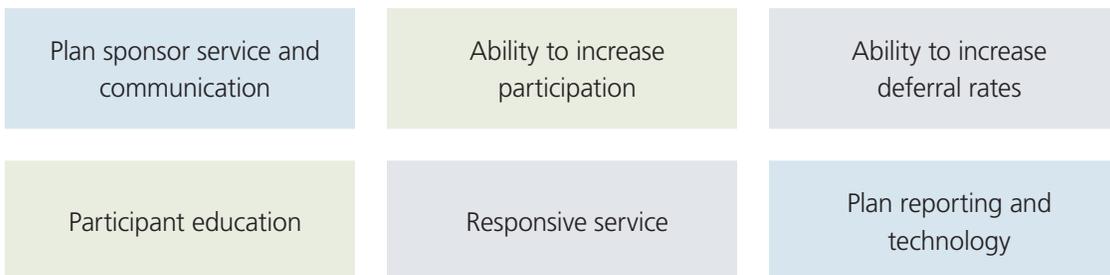
Figure 1: Primary reasons for offering a defined contribution plan



3. Turn areas of dissatisfaction into areas of satisfaction.

Figure 2 highlights the areas in which plan sponsors feel the most dissatisfaction. Finding solutions that drive better outcomes in these areas will lead to greater plan sponsor satisfaction.

Figure 2: Top areas of government plan sponsor dissatisfaction



Background

This study was prompted by the transition in many parts of the U.S. where there is a shift from the reliance on traditional defined benefit plans. Growing pension liabilities and budget strains in recent years have forced government plan sponsors to modify their pension benefits and to add supplemental strategies, particularly defined contribution plans, to help employees fill the savings gap. In the last twenty years, total assets in state and local deferred compensation and defined contribution plans have more than doubled, from \$215 billion at the end of 1997¹ to nearly \$493 billion as of third quarter 2016.² At the same time, many government employers remain committed to defined benefit plans. (See “A look into public sector plans.”)

As defined contribution plans become increasingly important to public workers, the industry needs a deeper understanding of government employees and their plan sponsors. While government employers differ significantly in terms of size, scope, locale, and regulatory constraints, many government defined contribution plans face similar challenges. Previously, these plans weren't viewed as a primary driver to retirement readiness as compared to pension plans, but changes may be on the horizon. Between 2009 and 2014, half of state pension plans and one third of local pension plans cut benefits for new employees.³ These circumstances have set the stage for an important opportunity for consultants, advisors and plan providers to lend their support to plan sponsors. If consultants, advisors and plan providers expect to effectively serve governmental defined contribution plans and their participants, we need to put ourselves in their position and look at the world through the public eye.

A look into public sector plans

Defined benefit plans remain an important part of government retirement benefits programs—and with good reason. For many government employers, a pension plan helps attract and retain those who often accept lower cash compensation to serve the greater good. Pension benefits are also critical for about one-third of state and local government employees—mostly public safety and education workers—along with workers in several states who do not participate in Social Security and cannot rely on that income source in retirement.

¹ Matthew Hoops, Irina Stefanescu, and Ivan Vidangos. “Defined Contribution Pension Plans for State and Local Government Employees in the Financial Accounts of the United States,” Federal Reserve Bank, April 20, 2015. Figure does not include assets in federal defined contribution plans.

² Federal Reserve Bank, “Financial Accounts of the United States,” Third Quarter 2016. Figure does not include assets in federal defined contribution plans.

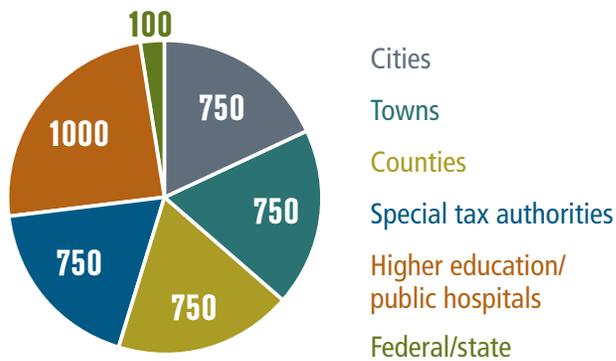
³ Jean-Pierre Aubrey and Caroline V. Crawford. “State and Local Pension Reform Since the Financial Crisis,” Center for Retirement Research, Boston College, January 2017.

Methodology

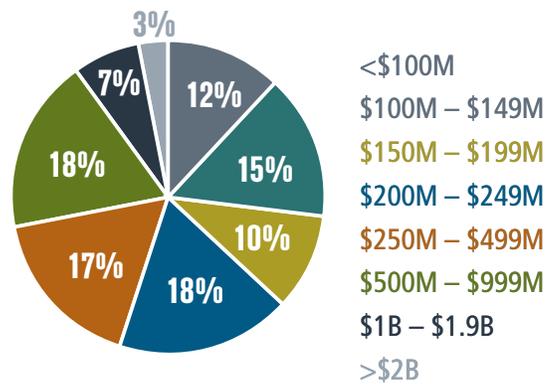
This study involved phone and online surveys of 4,100 governmental defined contribution plan sponsors. Respondents represent federal, state and local levels of government with plan assets ranging from under \$100 million to over \$2 billion. This research was conducted from April to August of 2016 by the Lincoln Financial Group Research and Insights Office in partnership with Qualtrics, a well-respected U.S.-based, global research firm.

About the respondents

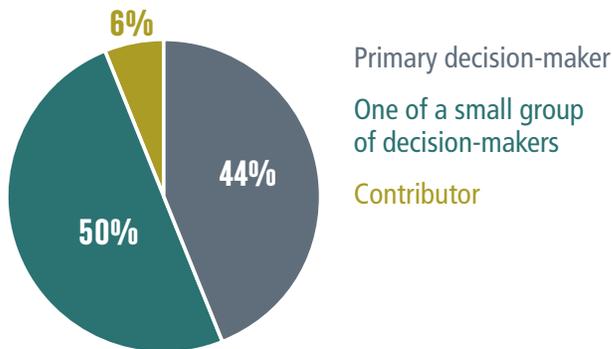
Government entities



Plan assets



Respondents' roles



Key Findings

Learning the point of view

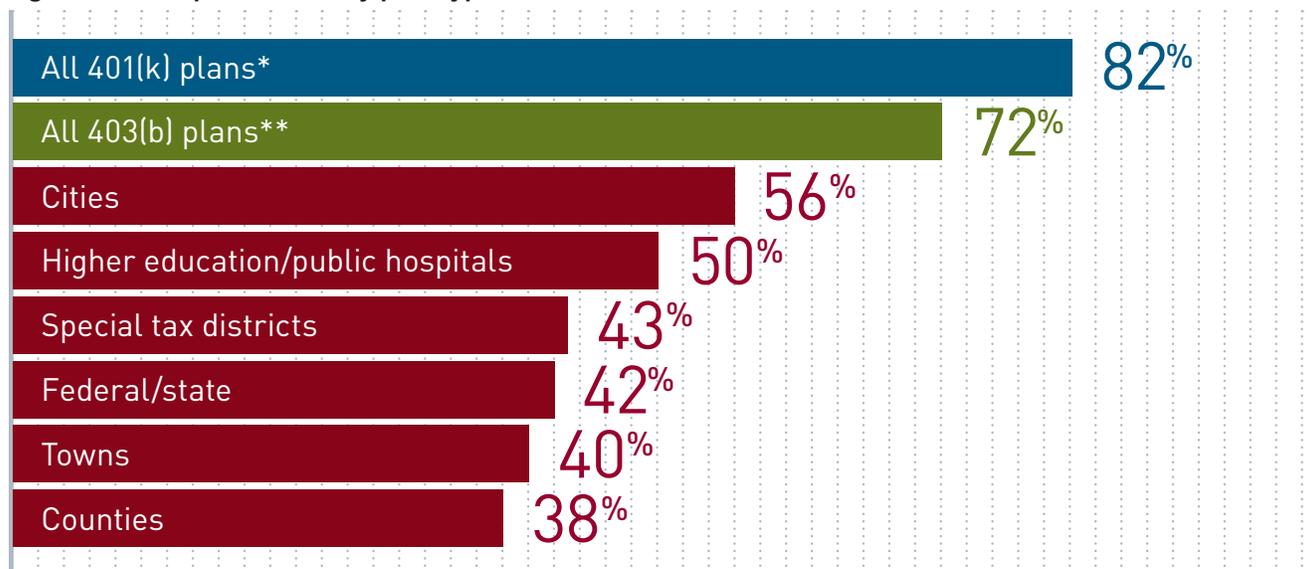
Government defined contribution plans differ significantly from the rest of the industry, starting with their goals. About half of government employers (53%) surveyed offer a deferred compensation or defined contribution plan to help workers save for retirement. About four out of 10 (39%) look to attract and retain workers, and 8% use the plan to boost employee satisfaction. While defined contribution plan sponsors in other industries may be more focused on retirement readiness, government plan sponsors approach retirement benefits differently. Survey respondents confirm that a majority (86%) of government plan sponsors—from federal to local employers—currently view the defined contribution plan as supplemental to the defined benefit plan.

Though the defined contribution plan may not be the primary driver of government retirement benefits, a majority of plan sponsors surveyed know they can do a better job at meeting their goals. Only slightly over half of government plan sponsors say they have been effective in helping workers save

for retirement (56%) and attracting and retaining workers (53%). Slightly more say the plan has effectively boosted worker satisfaction (63%).

Data about plan demographics paint an even bleaker picture in terms of effectiveness. Average participation rates in governmental deferred compensation or defined contribution plans range from 38% (among county plans) to 56% (among city plans)—much lower than average participation rates in 401(k) and 403(b) plans (as shown in Figure 3). Similarly, average deferral rates in governmental defined contribution/deferred compensation plans languish in the range of 2% to 4% (as shown in Figure 4). Although participants in other deferred compensation and defined contribution plans, such as 401(k) and 403(b) plans, bear considerable responsibility for their savings accumulation, it hardly explains why deferral rates in some governmental deferred compensation plans (e.g., those of counties and towns) lag other plan types by nearly 70%. Other factors must be contributing to these gaps.

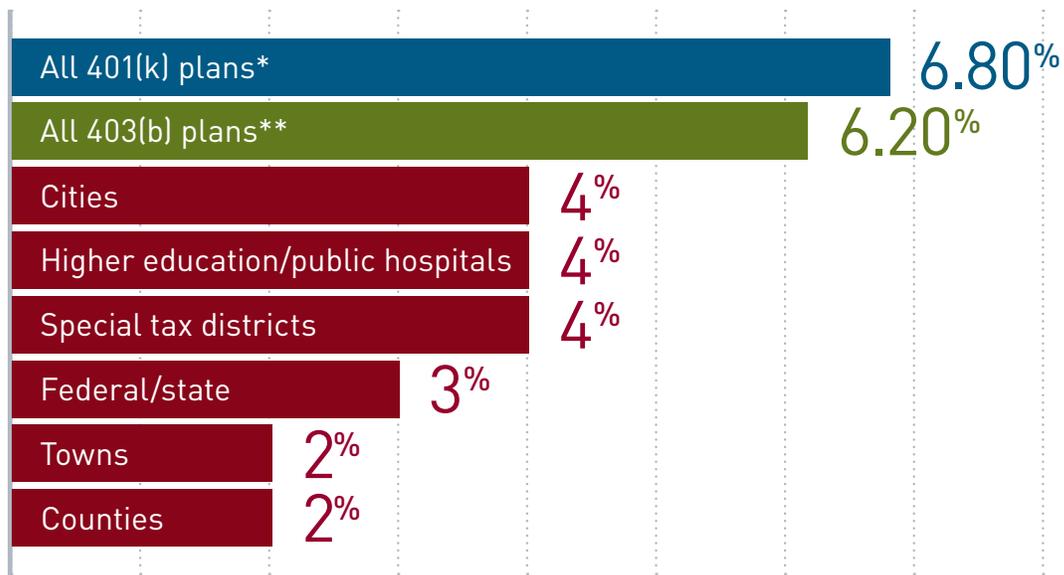
Figure 3: Participation rates by plan type



* Source: Plan Sponsor Council of America, 59th Annual Survey of Profit Sharing and 401(k) Plans, 2016.

**Source: Plan Sponsor Council of America, 403(b) Plan Survey, 2016.

Figure 4: Average deferral rates by plan types



* Source: Plan Sponsor Council of America, 59th Annual Survey of Profit Sharing and 401(k) Plans, 2016.

**Source: Plan Sponsor Council of America, 403(b) Plan Survey, 2016.

Where the opportunities are

Based on survey findings, one factor may hold the key to reversing these trends: better service. Almost unanimously, government plan sponsors feel a deep sense of dissatisfaction in nearly all aspects of the service they receive—from communications to education to technology (as shown in Figure 5). In fact, the areas where government plan sponsors are most satisfied include fees (65%) and investments (75%).

Figure 5: Areas where satisfaction scores are the lowest



The disconnect between plan sponsors' needs and the services they receive may be fueling this dissatisfaction. When asked about their top strategies to meet their plan goals, half of government plan sponsors (50%) cite communication to workers, approximately a third (36%) identify plan design, and the rest (14%) say investments and administration. When asked how consultants, advisors and plan providers spend their time, government plan sponsors say investments and administration draw much of their attention, and minimal time is spent on communication or plan design, as illustrated in Figure 6.

Figure 6: Mismatched interests: What plan sponsors want and where time is spent



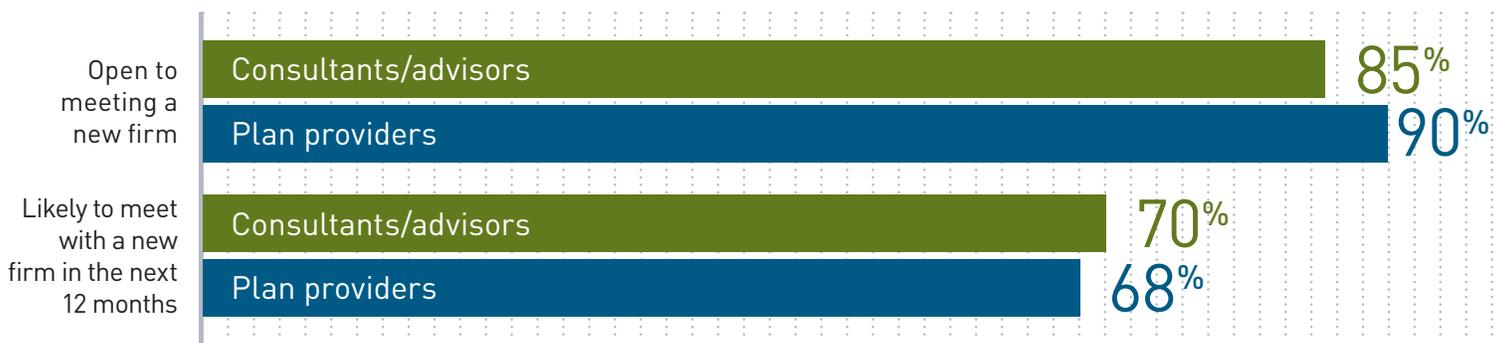
This misalignment of interests carries through most of the survey findings.

95% or more of government plan sponsors identified communication and education for workers, one-on-one guidance, and plan design, and 90% want plan providers to spend less time on investment monitoring, selection and removal. The pattern persists when asked about their consultants and advisors: 90% or more of respondents look for more support from their consultants and advisors on communication and education for workers, one-on-one guidance, and plan design, and 85% want less time spent on investments.

Breaking point: When government plan sponsors feel compelled to make changes

This dissatisfaction underscores the need to change to better serve government plan sponsors and their participants; otherwise, these plan sponsors will find the support they want elsewhere. Respondents of this survey indicate not only a willingness to meet with new consultants, advisors and plan providers, but a significant likelihood that they will meet with a competitor within the next 12 months (as shown in Figure 7). As one respondent explains, “It doesn’t cost us anything to meet with other providers. Consultants call us all the time, suggesting [that] they can introduce us to a better provider—one that will change our plan for the better.”

Figure 7: Plan sponsors will consider new consultants, advisors and providers



At the same time, government plan sponsors aren’t interested in change for the sake of change. Survey respondents across all types of government employers share certain minimum requirements for changing a plan provider as well as a consultant or advisor. **It comes down to results.** Plan sponsors want hard evidence that a new consultant, advisor or plan provider can achieve plan goals and deliver better service (as shown in Figure 8).

Figure 8: The must-haves: Requirements for making a change

	Consultant/advisor	Plan provider
Track record for increasing participation	92%	95%
Track record for increasing deferral rates	90%	92%
Track record for more effective participant and plan sponsor communication and service	86%	91%

Vendor consolidation

Apart from dissatisfaction, government plan sponsors also say that vendor consolidation might compel them to make a change. A majority of government plan sponsors currently work with two or more plan providers. While opinions vary across plan types, a predominant number of plans in a multi-vendor arrangement express interest in consolidating to one provider (as shown in Figures 9 and 10). As one plan sponsor explains, “Having four providers created so much confusion... that many employees never joined the plan or opted for a low deferral rate because they weren’t sure they were making good decisions.”

Government plan sponsors see the wisdom in having a more coordinated effort across the board. For them, consolidation means more streamlined plan design, less time spent on vendor management, simplified reporting, more streamlined investment choices and more focused, targeted participant education programs. Qualitative feedback suggests that plan sponsors may be looking for more cooperation among consultants, advisors and plan providers, too. As one plan sponsor explains, “Asking an employee to navigate options from three providers was a huge mistake on our part... and so now we have very low participation because of that. [But] it would have been great if our consultants did a better job, or even if our providers coordinated better. They were all just out for themselves, not us, and definitely not our employees.”

Figure 9: Plans using multiple plan providers

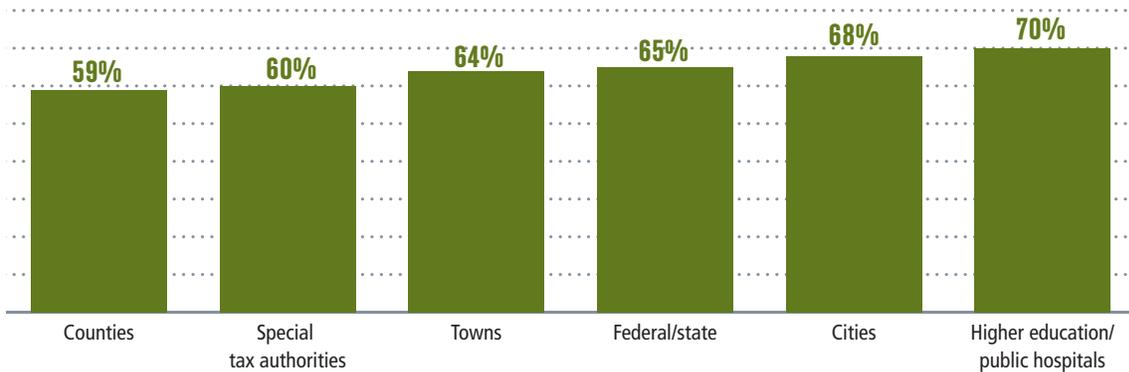
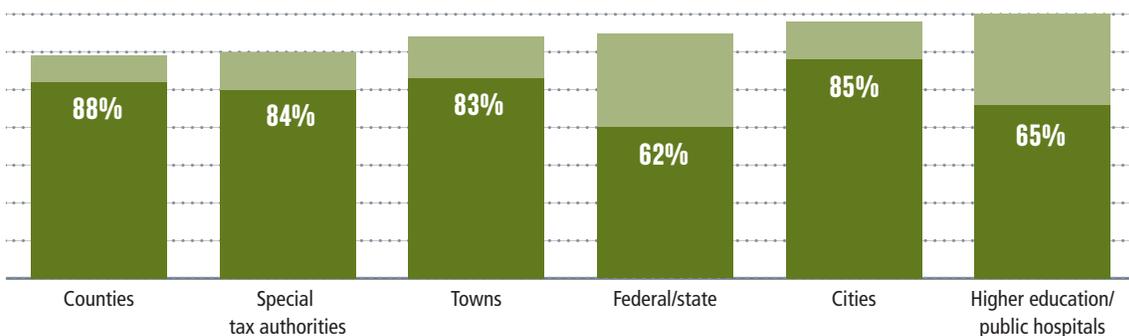


Figure 10: Plans interested in consolidating to one provider



Conclusions

Government plan sponsors face a unique set of retirement plan challenges relative to private employers and nonprofit organizations, **but they want what most plan sponsors seek: consultants, advisors and plan providers who understand their needs and put them first.** The industry can reverse this trend of deep dissatisfaction by acknowledging the needs of government plans and making **a stronger commitment to service.** That involves:

1. Adopting a more collaborative approach

In their survey responses, government plan sponsors make little distinction between consultants, advisors and plan providers when calling for more participant education, one-on-one guidance, and plan design support. It indicates that they're less interested in who assumes these responsibilities, so long as the work happens and they achieve their goals for plan participation and higher average deferral rates.

This model of shared accountability demands a more collaborative effort among consultants, advisors and plan providers. It involves understanding plan sponsors' goals, reaching a common understanding about strategy, and working closely to execute a plan while maintaining open lines of communication throughout the process. This approach not only leverages the minds of many to yield better, more innovative solutions, it also fosters greater trust and understanding among consultants, advisors and plan providers, which ultimately leads to a better plan sponsor experience.

2. Treating each plan individually

While this survey indicates broad consensus among government plan sponsors, it does not advocate for a unilateral approach. Government plan sponsors face a variety of challenges related to their retirement benefits, such as participant demographics, availability of Social Security benefits, their pension funding status, and the relationship between defined benefit, deferred compensation and defined contribution plans. These factors heavily influence the direction of deferred compensation and defined contribution plans and plan sponsors' goals.

Consultants, advisors and plan providers can build long-term relationships with government plan sponsors by recognizing what's important and tracking it closely. Using plan analytics and comparative data, consultants, advisors and plan providers can show progress and help plan sponsors understand their results as compared to those of their peers. This data-driven approach allows for more strategic conversations that will optimize plan sponsors' experiences and help them move towards their goals.

3. Focusing on results-oriented solutions

Most importantly, government plan sponsors want solutions that yield positive plan results, especially increased participation and deferral rates. These expectations echo what is important to most defined contribution plan sponsors in the private sector and elsewhere, which means consultants, advisors and plan providers can draw upon their experience and expertise to share what works, such as:

- An omnichannel approach that enables participants to stay connected with their plans wherever and whenever they want
- Technology-driven solutions that work hand-in-hand with default investment options, automated contribution increases, and other plan design features to help employees enroll with ease, make informed decisions and effortlessly increase their contributions
- Personalized interactions with highly trained professionals that help participants understand how to make the right savings decisions for their circumstances

The key is the proper alignment of resources with government plan sponsors' goals and expectations. For example, nearly all respondents to this survey (92%) agree that one-on-one guidance is effective. We would agree. Participants are four times more confident that they will achieve a comfortable retirement after working with a Lincoln retirement consultant.¹ Despite these results, only 36% of government plan sponsors offer one-on-one support. We have the opportunity to change that trend. Together, consultants, advisors and plan providers can deliver solutions that not only fulfill plan sponsors' expectations but also make meaningful impacts on participants' lives and the government plan sponsors we serve.

¹ Lincoln Financial Group Plan Participant Satisfaction Research, 2016.

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LCN-1717359-022217

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Order code: LAP-GOV-WPR001



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