



RETIREMENT SOLUTIONS

# QUALIFIED DEFAULT RETIREMENT INVESTMENT



## Qualified Default Investment Alternatives (QDIA)

The final 2007 QDIA regulation extends a safe harbor process for plan fiduciaries to invest employee and employer contributions when the participant does not provide affirmative investment direction. The QDIA legislation provides plan sponsor and fiduciaries the confidence to nudge employees to save for retirement and to invest contributions under the following circumstances:

### 1. Auto-enrollment

When a plan auto enrolls employees, the employer can invest the ongoing contributions from employees and employers in the plan's default investment option without the need to receive an affirmative investment instruction from employees.

### 2. Changing investment options

When a plan option is terminated or removed from a self-directed defined contribution plan, such as a 401(k) or 403(b) plan, the liquidated proceeds from the terminated fund can be invested in the default invest option unless participants have provided affirmative investment instructions.

## Types of Qualified Default Investments

The final regulation provides for three types of investments that would be deemed QDIAs. They are summarized as follows:

### 1. RISK-BASED

A multi-asset investment product that takes into account the characteristics of the group of employees "as a whole" (e.g. a balanced fund)

### 2. AGE-BASED

A multi-asset investment product that takes into account each participant's "age" (e.g. a target-date fund)

### 3. PARTICIPANT-BASED

An investment management service that allocates contributions to provide an asset mix that takes into account the participant's age and other factors (e.g. a managed account service) but is not required to take into account risk tolerances, investments or other preferences of an individual participant.

## Fiduciary Relief Safe Harbor

To receive fiduciary relief, the following summary actions must be adhered to:

1. Plan sponsor must prudently select and monitor any qualified default investment alternative under the plan
2. Participant assets are invested in a qualified default investment alternative
3. Participants had the opportunity to direct their investment of the assets
4. Participants are furnished a notice of default investment at least 30-days in advance and at least 30-days in advance of each subsequent plan year
5. May transfer, in whole or in part, such assets to any other investment options available under the plan

