Retirement Plan Trends -
How Does Your Retirement Plan Measure Up?

Results of the 2011/2012 Verisight/McGladrey Compensation, Retirement and Benefit Trends Survey

June 20, 2012
Verisight delivers differences that count

For decades we have been redefining the industry by delivering differences that are meaningful to our clients and that stand out among competitors.
Agenda

- Introduction
- Compensation, benefits, and retirement plan survey overview
- Types of retirement plans typically offered by employers
- Common plan features
- Employer contribution levels
- Plan investment trends
- Fiduciary issues facing plan sponsors
Why should employers focus on benefit plan issues?

• Compensation and benefits are some of the largest expenses for many employers.

• However, companies differ in philosophy about the employee benefits they provide.

• Benefit trends by industry, company size, or geography provide important information.

• But successful benefit plans are those that are the right fit for you.
Plan Sponsors Participating in the 2011/2012 Compensation, Retirement and Benefits Trends Survey

Participant Demographics (Total Employment)

- 1,000+ Employees: 11%
- 201 - 1,000 Employees: 22%
- 51 - 200 Employees: 37%
- < 50 Employees: 30%
Plan Sponsors Participating in the 2011/2012 Compensation, Retirement and Benefits Trends Survey

Participant Demographics (Industry)

- Construction and Real Estate: 6%
- Services: 10%
- Healthcare: 12%
- Finance and Banking: 12%
- Not-For-Profit: 14%
- Manufacturing: 22%
- Other: 24%
Survey Results
Types of Retirement Plans Offered
Survey results - types of retirement plans offered

- Defined contribution plans are the dominant form of retirement plan offered in the US today (99%)
- Defined benefit plans (13%)
- ESOP (6%)
- Non-Qualified Deferred Compensation Plan (1%)

- Pattern is consistent across all industries and among large and small employers
Survey Results
Common Plan Features
Polling Question

What type of employer contributions are offered under your company’s retirement plan?

• Matching contributions only
• Non-matching contributions only
• Both matching and non-matching contributions
Survey Results - Employer matching contributions

The first plan feature that we looked at was whether the employer offered a matching contribution to employees.
Survey Results - Non-matching employer contributions

The use of a non-matching employer contribution was much less widespread among survey respondents than an employer matching contribution.

<table>
<thead>
<tr>
<th>INDUSTRY</th>
<th>All Firms</th>
<th>NUMBER OF FULL TIME EMPLOYEES</th>
<th>50 or Fewer</th>
<th>51-200</th>
<th>201-500</th>
<th>501-1,000</th>
<th>1,001+</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n= 514</td>
<td></td>
<td>n= 73</td>
<td>68</td>
<td>26*</td>
<td>—</td>
<td>18**</td>
</tr>
<tr>
<td>“Yes” Offers Contribution Other Than Match</td>
<td>51%</td>
<td>“Yes” Offers Contribution Other Than Match</td>
<td>58%</td>
<td>45%</td>
<td>50%</td>
<td>—</td>
<td>54%</td>
</tr>
</tbody>
</table>
Polling Question

Does your company’s 401(k) or 403(b) plan use automatic enrollment for employee salary deferral contributions?

- Yes
- No, but we are actively considering adding in the next 6 – 12 months.
- No, we decided it was not a good fit for our company.
- No, we have not even considered
- Don’t know
Only one-third of employers in the survey use automatic enrollment for employee salary deferrals.
Survey Results - Default investments

<table>
<thead>
<tr>
<th>CASH</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>29%</td>
</tr>
<tr>
<td>Stable Value</td>
<td>12%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ASSET ALLOCATION</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced</td>
<td>11%</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>7%</td>
</tr>
<tr>
<td>Managed Investment Accounts/Model Portfolios</td>
<td>9%</td>
</tr>
<tr>
<td>Target Date</td>
<td>32%</td>
</tr>
</tbody>
</table>

- Every participant-directed plan must designate a default investment for employees who do not file investment selection forms.

- The default investment selection is a fiduciary issue for the employer unless they use a default investment designated by DOL as a fiduciary safe harbor.
Survey Results
Levels of Employer Matching and Non-Matching Contributions
Survey Results - Matching contribution levels

- 50% match on deferrals up to 6% of pay: 24%
- 100% match on deferrals up to 4% of pay: 20%
- 100% match on deferrals up to 3% of pay: 5%
- 100% match on deferrals up to 3% of pay plus 50% match on next 2% of pay deferred: 5%
- 100% match on deferrals up to 6% of pay: 4%
- 100% match on deferrals up to 5% of pay: 3%
- 75% match on deferrals up to 6% of pay: 3%
- 50% match on deferrals up to 4% of pay: 4%
Survey results - employer non-matching contributions

<table>
<thead>
<tr>
<th></th>
<th>All Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>n=</td>
<td>514</td>
</tr>
<tr>
<td>“Yes” Offers Contribution Other Than Match</td>
<td>51%</td>
</tr>
<tr>
<td>Average</td>
<td>5%</td>
</tr>
<tr>
<td>25th Percentile</td>
<td>3%</td>
</tr>
<tr>
<td>Median</td>
<td>4%</td>
</tr>
<tr>
<td>75th Percentile</td>
<td>6%</td>
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</table>
Plan Investment Trends
Survey results - Plan investment options

- Mutual Funds: 96%
- Collective Funds: 23%
- ETFs: 19%
- Brokerage Window: 9%
- Annuities: 1%
Survey results - Plan investment options

Use of exchange-traded funds (ETFs)

• Nearly 20% of plans reported ETFs as a plan investment option

• Growing use of ETFs attributable to:
  – More trading solutions for ETFs within retirement plans
  – Proliferation of asset classes
  – Appeal of indexing
  – Plan sponsors’ concern for controlling investment fees
Survey results - Plan investment options

Use of international investment options

A significant number of plans reported the use of non-US investment options

- Emerging markets equity: 62%
- International global equity: 73%
- Global bond: 44%
Survey results - Plan investment options

Specialty/other investment options most often reported

<table>
<thead>
<tr>
<th>Investment Option</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate</td>
<td>26%</td>
</tr>
<tr>
<td>Commodities</td>
<td>11%</td>
</tr>
</tbody>
</table>
Polling Question

How many investment options do you offer to participants in your defined contribution plan?

- 1-5
- 5-10
- 11-20
- Over 20
- Don’t know
Fiduciary Issues
Survey results - Criteria for choosing service providers

Top considerations in selecting the plan’s service provider (rated 1, 2, or 3 in importance):

- Cost of investments (e.g., mutual fund management fees) 59%
- Level and quality of service 59%
- Cost of services (recordkeeping, compliance, trust, custody, etc.) 57%
Survey results - Use of third parties in investment selections

- Yes: 87%
- No: 13%
Survey results - Preparedness for fee disclosures

DOL regulations governing fee disclosures to plan participants take effect 8/30/2012.
• Must be provided to all employees who are “eligible” to participate in the Plan
• Provides general plan information, individual participant expense information, and investment-related information
  – Requires specific comparative format of investment information
• Must be provided annually thereafter
• Certain information must be updated quarterly and posted to accessible website

The survey asked plan sponsors if they were adequately prepared to meet these new regulations.

Yes 39%
No 24%
Don’t know 37%
Survey results - Who pays for the costs of the plan?

- Plan Sponsor: 60%
- Paid from Plan Assets: 48%
- Flat Fee Paid by Participants: 15%
- Other: 4%

Multiple responses allowed
Survey results - Who pays for the costs of the plan

Total Fees on Plan w/$5,400,000 in Assets and 140 Participants—Scenario A

- Asset based fees: $4,500
- Record keeping, Administrative, and Custodial: $67,106
Survey results - Who pays for the costs of the plan

Total Fees on Plan w/$5,400,000 in Assets and 140 Participants – Scenario B

<table>
<thead>
<tr>
<th>Category</th>
<th>Fee Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset based fees</td>
<td>$13,424</td>
</tr>
<tr>
<td>Record keeping, Administrative, and Custodial</td>
<td>$15,615</td>
</tr>
<tr>
<td>Savings</td>
<td>$42,567</td>
</tr>
</tbody>
</table>

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Survey results - Participant awareness of plan costs

- Fully Understands All Costs: 68%
- Have a Moderate Understanding of the Costs: 29%
- Have a Very Limited Understanding of the Costs: 3%
Polling Question

Are you completely ready to comply with the new DOL fee disclosures for plan participants?

- Yes
- Not completely ready, but only a few details remain
- Far from ready, but actively working on it at this time
- Just started gathering the necessary information
- Not sure
2011/2012 Verisight/McGladrey Compensation, Retirement and Benefit Trends Survey

• The full 2011/2012 report contains:
  – Industry, geography, and size breakouts for all survey questions
  – Additional detail on incentive targets, healthcare costs, and retirement plan features
  – Valuable charts and trend data

• The 2012/2013 Trend survey will get underway in August 2012
  – Results will be published in October/November so you can use the timely information for annual budgeting
QUESTIONS?

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