

Rocatōn

INSIGHTS

Rocatōn / Pensions & Investments
2015 Survey of Defined
Contribution Viewpoints

December 2015

203.621.1700 | rocaton.com

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Disclosures

Note: All survey responses reflect the views of individuals who work at plan sponsor organizations, asset management firms, firms with recordkeeping (which may or may not have asset management) and consulting firms. For brevity, at times we will refer to the respondents using descriptors such as plan sponsors, asset managers, recordkeepers and consultancies, but in all cases this reflects individual respondents who work at those types of firms and who have provided their personal viewpoints.

Numbers may not add to 100 due to rounding or when multiple answers were allowed.

Section A | Executive Summary

Rocatón Investment Advisors and Pensions & Investments conducted a survey to gather the perspective of over 400 defined contribution plan sponsors and industry professionals at asset management, recordkeeping and consulting firms. These real-time insights can help inform plan sponsors and others of the potential direction in which the industry may be headed regarding a variety of topics and shed light on changing viewpoints and emerging best practices. By polling both constituencies, it allowed us to directly compare and contrast the viewpoints of plan sponsors and industry professionals. Rocatón's analysis of the survey results follows.

Selected Highlights:

When asked about their personal views....

- » Participants' participation rates and savings rates are keeping plan sponsors up at night.
- » Plan sponsors would like to include a retirement income solution if they could change one thing about their DC plan, and also believe a comprehensive safe harbor for in-plan retirement income solutions is the one piece of DC regulation most needed.
- » Industry professionals expressed similar views. Concern about retirement adequacy across the system is keeping up industry professionals, and they would also like plans to include a retirement income solution and they favor a comprehensive safe harbor for such solutions.

Retirement Income – still waiting for broader protection, the ordering of the three most popular retirement income options currently utilized among plan sponsors is exactly the same from our 2012 survey of plan sponsors. Both plan sponsors and industry professionals selected the same top two reasons for not yet implementing a retirement income solution: (1) waiting for clearer fiduciary protection from the DOL and (2) waiting for products to mature and gain broader adoption.

(continued)

Executive Summary

Investment Menu – the survey demonstrates evidence of investment menu simplification (across plan sponsors that have already taken steps to reduce investment options in the menu).

The need to be a fiduciary – 68% of plan sponsors indicated they would not work with an adviser who is not a fiduciary, while an additional 14% were undecided.

Conservative Investment Options – 50% of plan sponsors and 56% of industry professionals believe plan sponsors will replace prime money market funds with Government or Treasury money market options. The majority of respondents—both plan sponsors and industry professionals—believe there should be proactive disclosure to participants about gates and liquidity when retaining a prime money market fund in a DC plan.

Custom Target Date Funds – plan sponsors and industry professionals have differing views when it comes to why it makes sense to implement a custom solution. While plan sponsors selected plan demographics as the most popular reason to consider a custom target date solution, industry professionals believe the ability to use the plan's core investment lineup is the most compelling reason.

Managed Account Providers – too few or too many? 38% of plan sponsors say they can already choose from more than one managed account provider and 40% indicated they already can or would like additional choice of managed account providers at their recordkeeper.

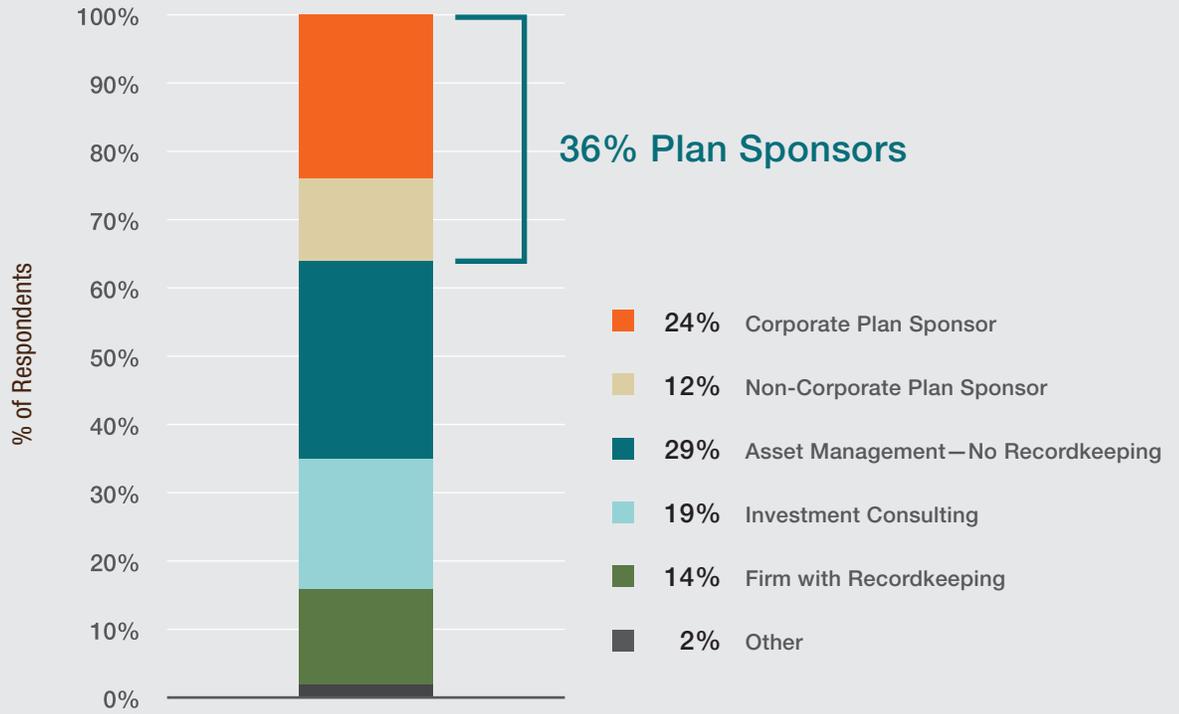
This year's survey focused on personal views about DC plans, retirement income solutions, the investment menu, fiduciary concerns, conservative investment options, custom target date funds and managed accounts. The rest of the survey results follow.

Section B Survey Results

Part I: Respondent Profile

Respondents have an average of 19.3 years of industry experience, and 36% represent those with more than 20 years of industry experience.

Respondents by Employer Type



Survey Results

Part II: Personal Views About DC Plans

Plan Sponsors' View

- » Plan sponsors are worried about participants' participation rates and savings rates, as well as the changing regulatory landscape and overall plan administration burdens.
- » Over the next 12 months, plan sponsors believe the most important priorities to be improving participant communications, addressing fees and enhancing or implementing auto features.

Industry Professionals' View

- » Industry professionals are concerned about retirement adequacy across the system, continued pressure on fees and the impact of new regulations.
- » Industry professionals are focused on trying to develop new products in the areas of retirement income solutions, custom target date solutions and other multi-asset options.

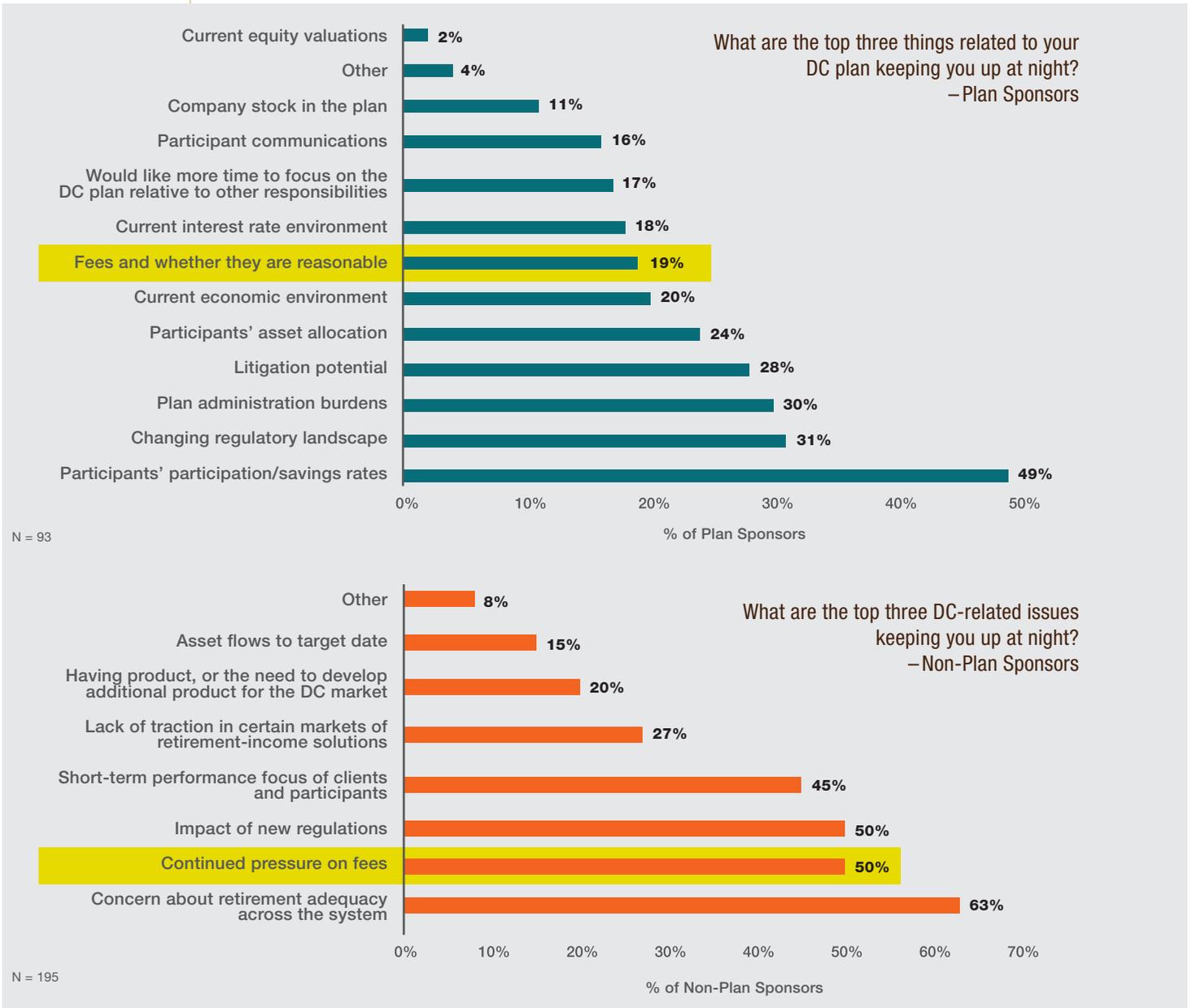
Rocatón Takeaways

- » While industry professionals are very focused on continued pressure on fees (at 50%, the second most popular answer), only 19% of plan sponsors indicated fees are keeping them up at night.
- » Although fees are not keeping plan sponsors up at night, they rank highly on a list of priorities over the next 12 months.
- » When asked if you could change one thing about your DC plan or DC plans in general, the most popular answer for plan sponsors was to include a retirement income solution and the most popular answer for industry professionals was also to include a retirement income solution.
- » Despite the differences in views displayed in the survey, not to mention the lukewarm use and reaction to retirement income solutions in other questions, both groups selected adding retirement income solutions as the one thing to change in DC plans today.
- » For the one piece of DC regulation needed, both groups selected a comprehensive safe harbor for an in-plan retirement income solution as their top response.
- » Again, the current use of retirement income solutions may be low, but respondents would like help in seeing that change.

Survey Results

Part II: Personal Views About DC Plans

Personal Views: What's Keeping You Up at Night?

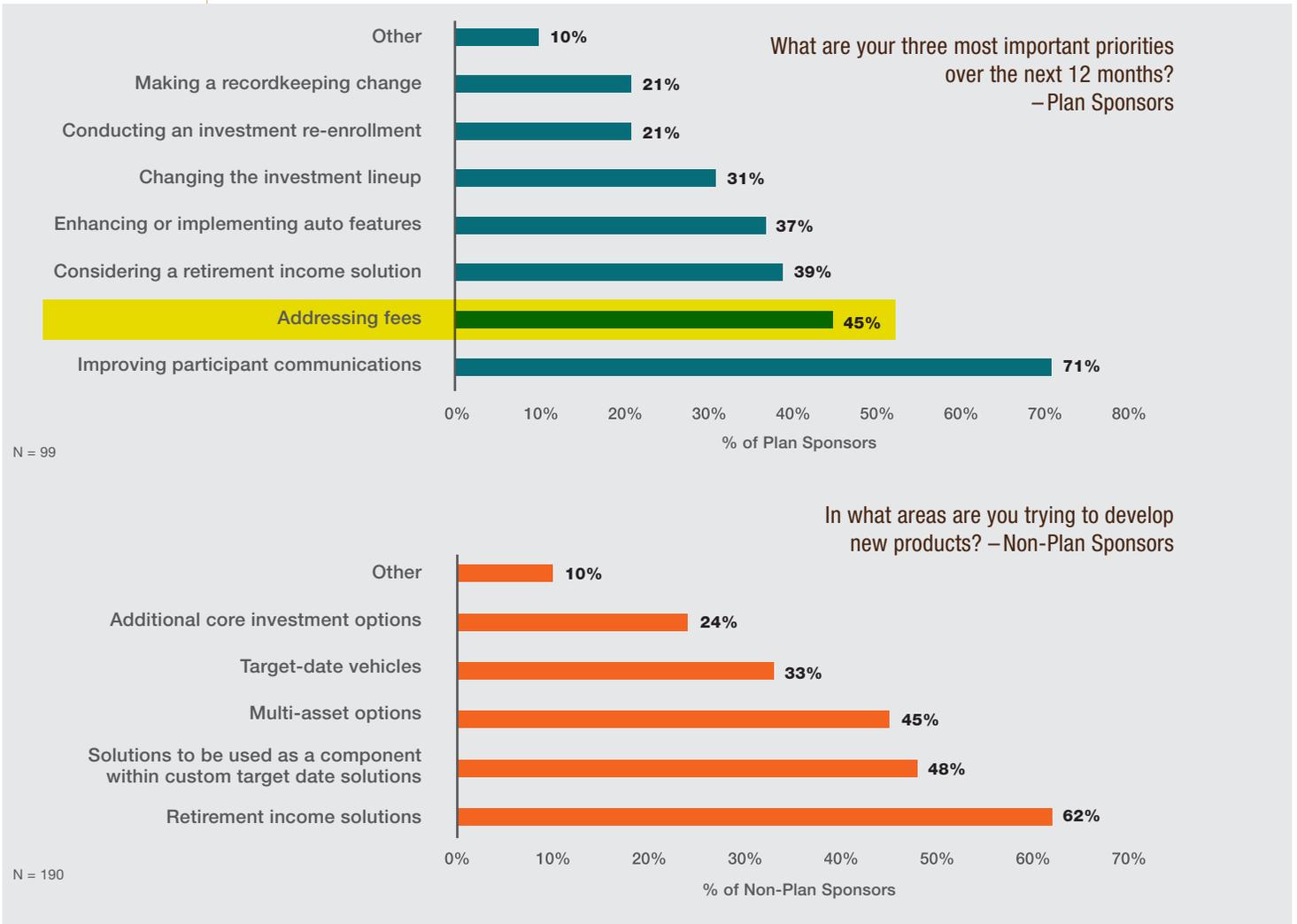


- » Plan sponsors are worried about participants' participation rates and savings rates, as well as the changing regulatory landscape and overall plan administration burdens.
- » Industry professionals are concerned about retirement adequacy across the system, continued pressure on fees and the impact of new regulations.
- » While industry professionals are very focused on continued pressure on fees (at 50%, the second most popular answer), only 19% of plan sponsors indicated fees are keeping them up at night.

Survey Results

Part II: Personal Views About DC Plans

Personal Views: Priorities and New Products

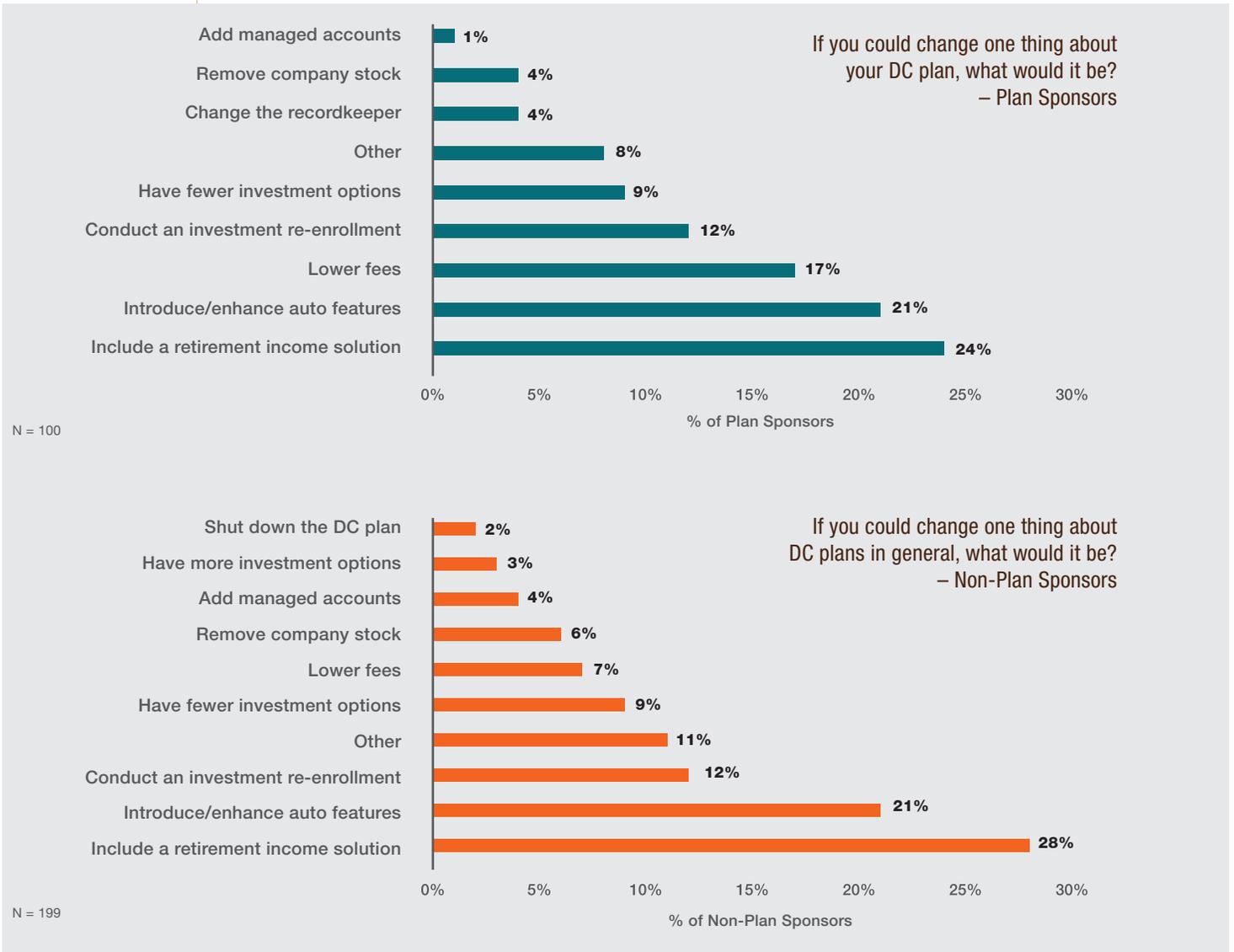


- » Over the next 12 months, plan sponsors believe the most important priorities to be improving participant communications, addressing fees and enhancing or implementing auto features.
- » Industry professionals are trying to develop new products in the areas of retirement income solutions, custom target date solutions and other multi-asset options.
- » Although fees are not keeping plan sponsors up at night, they rank highly on a list of priorities over the next 12 months.

Survey Results

Part II: Personal Views About DC Plans

Personal Views: If You Could Change One Thing About DC

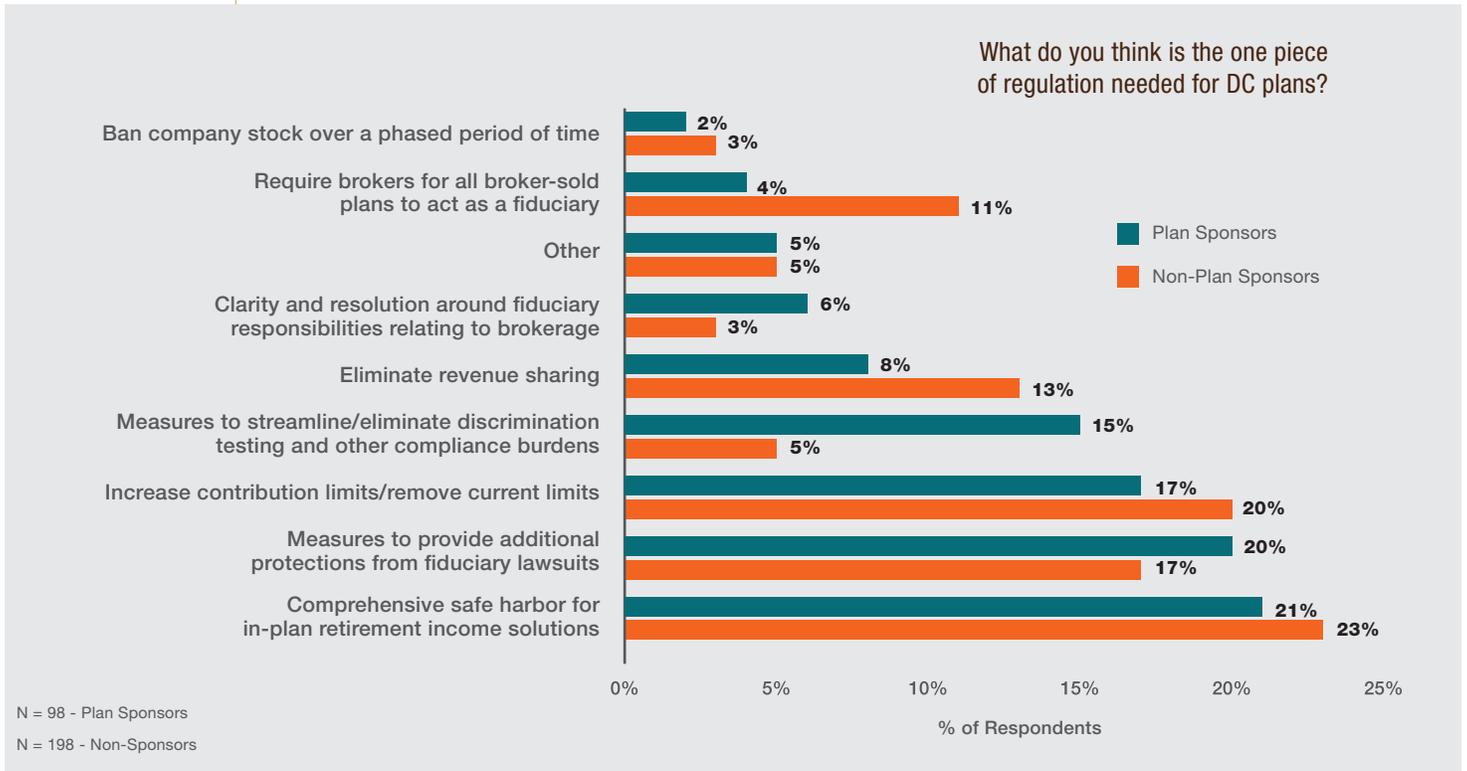


- » When asked if you could change one thing about your DC plan or DC plans in general, the most popular answer for plan sponsors was to include a retirement income solution and the most popular answer for industry professionals was to include a retirement income solution.
- » Despite the differences in views displayed in the survey, not to mention the lukewarm use and reaction to retirement income solutions in other questions, both groups selected this as the one thing to change in DC plans today.

Survey Results

Part II: Personal Views About DC Plans

Personal Views: One Piece of DC Regulation Needed



- » For the one piece of DC regulation needed, both groups selected a comprehensive safe harbor for in-plan retirement income solution as their top response.
- » Again, the current use of retirement income solutions may be low, but respondents would like help in seeing that change.

Survey Results

Part III: Retirement Income Solutions

Retirement Income Solutions – Still Waiting for Broader Protection

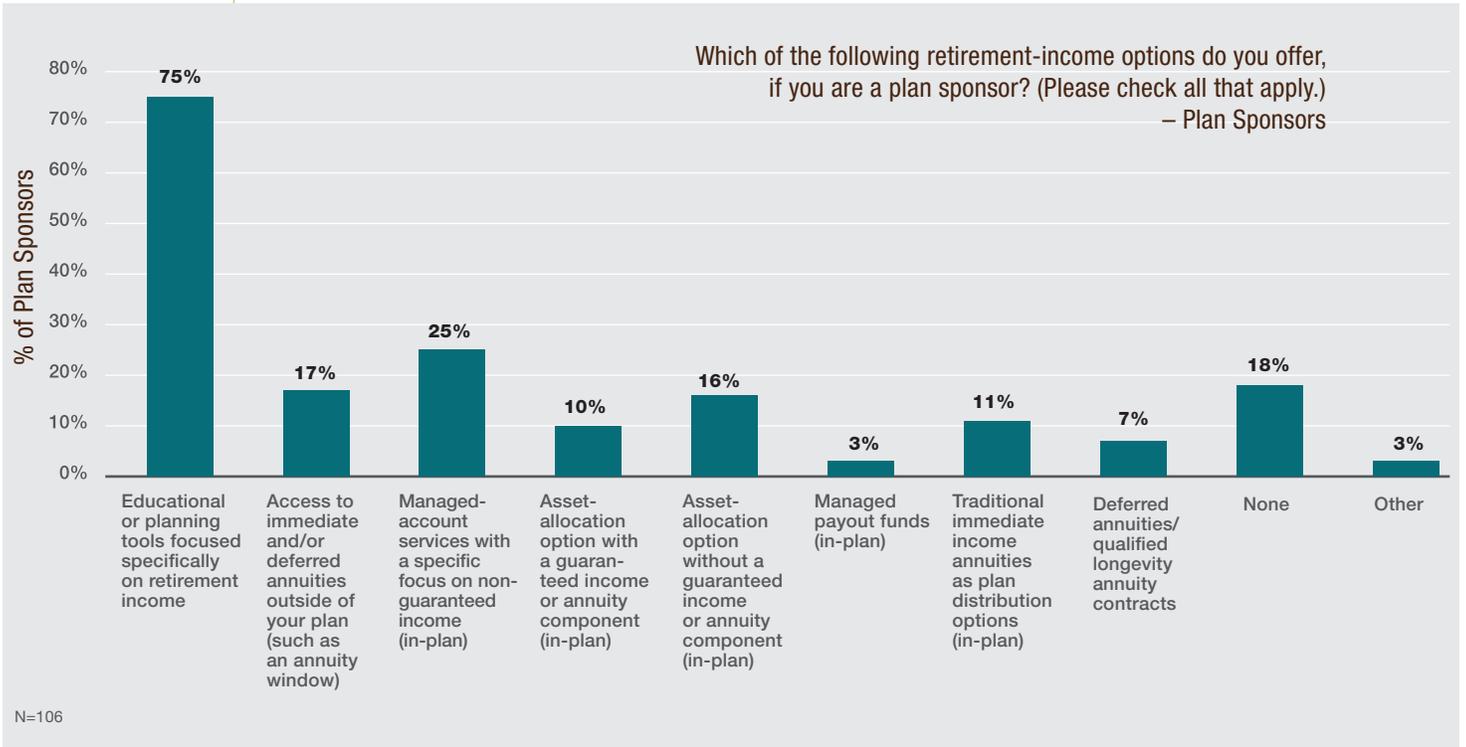
Rocatón Takeaways

- » The ordering of the top three most popular retirement income options currently utilized among plan sponsors (education, managed accounts and none) is exactly the same order we witnessed with our 2012 DC Survey of Plan Sponsors (and also with similar percentages).
- » For future considerations, plan sponsors gave more weight to the various forms of retirement income solutions, with access to educational tools still largely outpacing the rest.
- » Industry professionals also gave more weight to other forms of retirement income. Notably, industry professionals had similar percentages as plan sponsors when it comes to planning tools and managed account services, but have a higher regard for access to annuities (over 10% higher), asset allocation options with guarantees (10% higher) and deferred/longevity annuities (over 10% higher).
- » Both plan sponsors and industry professionals selected the same top two reasons for not yet implementing a retirement income solution: (1) waiting for clearer fiduciary protection from the DOL and (2) waiting for products to mature and gain broader adoption.
- » Overwhelmingly, when asked directly, three-quarters of plan sponsors said they would be more likely to offer an in-plan asset allocation option with a guaranteed income component if the DOL were to issue clearer fiduciary protection. This percentage is consistent with plan sponsors' views in our 2012 DC Survey.
- » Yet, 47% of plan sponsor respondents do not believe the regulatory developments in 2014 were enough and an additional 8% were not even aware that there had been some regulatory development in 2014 with respect to retirement income.

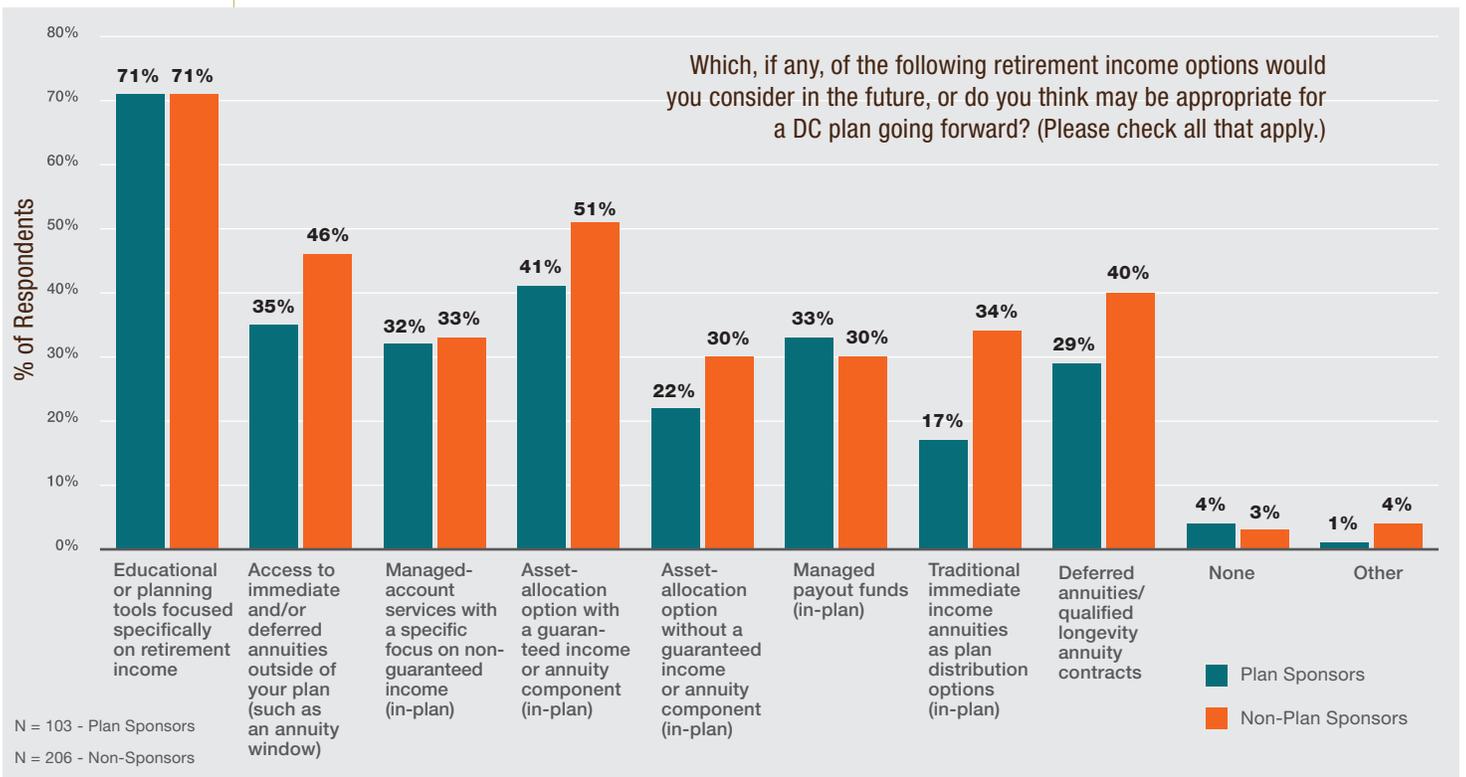
Survey Results

Part III: Retirement Income Solutions

Retirement Income Solutions: Current View



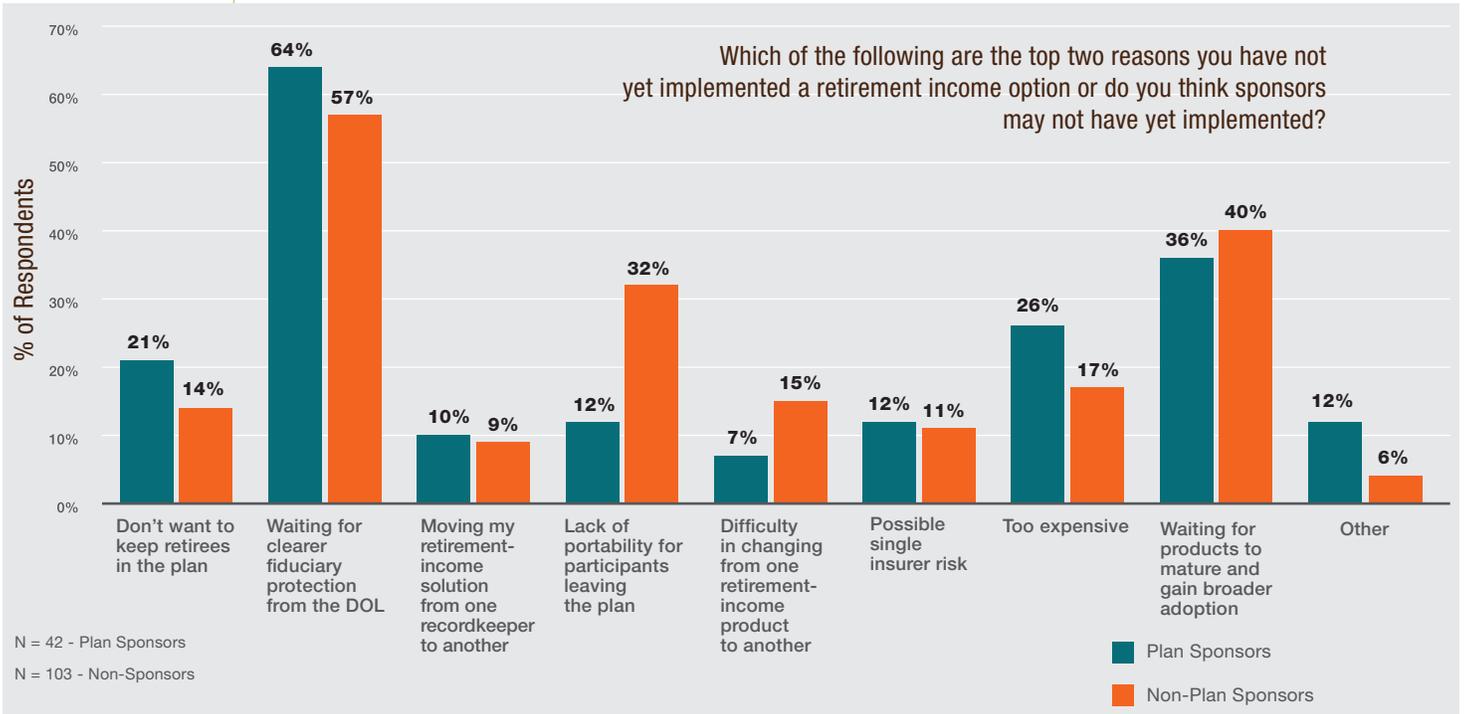
Retirement Income Solutions: Future View



Survey Results

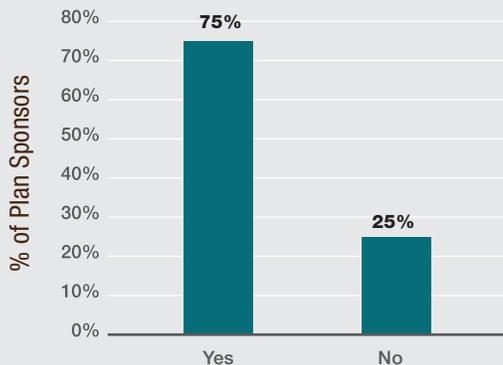
Part III: Retirement Income Solutions

Retirement Income Solutions: Barriers to Implementation



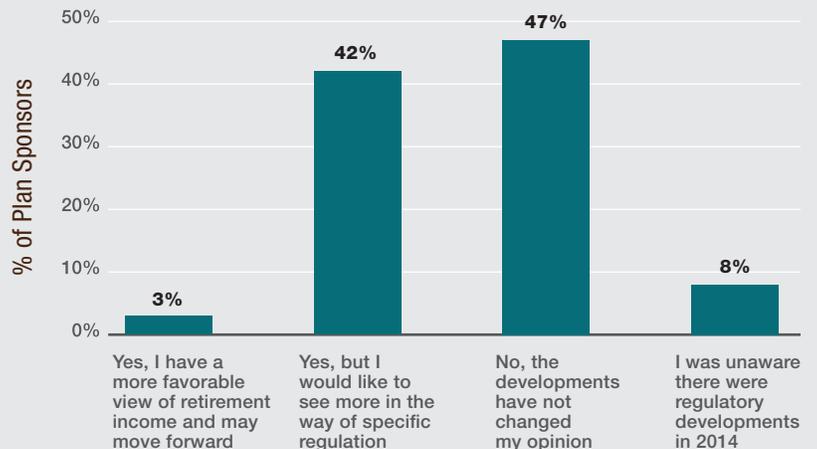
Retirement Income Solutions: Fiduciary Protection and Regulatory Developments

Would you be more likely to offer an in-plan asset allocation option with a guaranteed income or annuity component if the DOL issues clearer fiduciary protection? –Plan Sponsors



N=101

Have the regulatory developments and guidance specifically from the DOL and IRS in 2014 influenced your view on retirement income? –Plan Sponsors



N=102

Survey Results

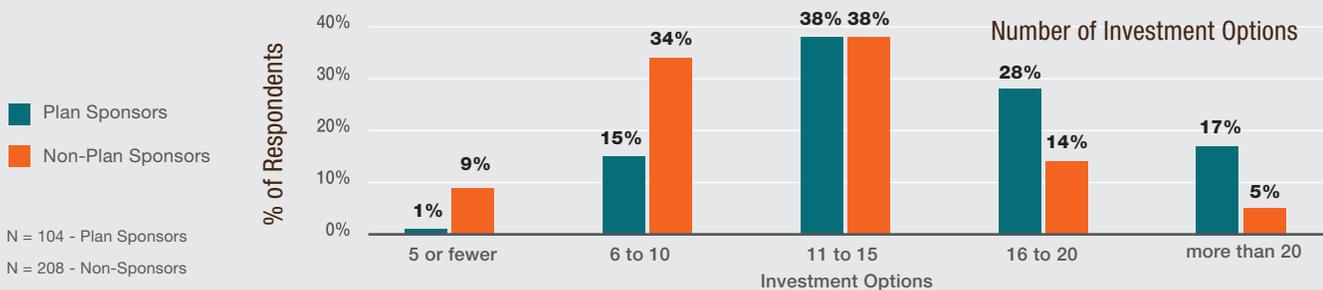
Part IV: Investment Menu

The Investment Menu—Evidence of Menu Simplification

Rocatón Takeaways

- » Plan sponsors tend to offer over 11 investment options in their DC plans, with 38% offering 11-15 options, and 45% offering more than 16 options.
- » Industry professionals tend to suggest fewer investment options. While a similar 38% suggest 11-15 investment options, 43% argue for 10 or fewer. This is consistent with the industry effort focused on streamlining investment menus.
- » 27% of plan sponsors have reduced the number of investment options over the past two years and an additional 4% indicate a plan to reduce the number of investment options offered to participants in the future.
- » The level of interest in significant streamlining (a movement to only 3–4 total investment options) is 42% when including those that are somewhat or very interested, and those that say they have already implemented. This is somewhat consistent with our 2012 survey results, although the percentage not interested at all has increased by 10% (to 22%).
- » While 35% of all plan sponsors responded that they currently have white labeled investment options in their plans, it is far more common for larger plans to have these options. 33% of plans over \$500 million but less than \$5 billion and 58% of plans greater than \$5 billion indicated the presence of white labeled investment options.
- » Industry professionals agree on their use and appropriateness, with 73% responding that white labeled investment options make sense in a DC plan.

The Investment Menu: Number of Options



Above Question:

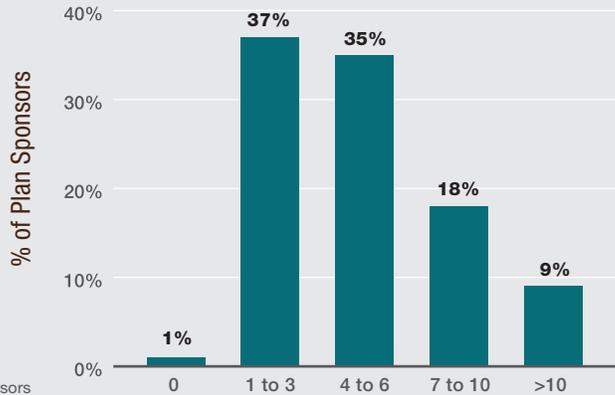
- » Plan Sponsors: How many investment options do you offer participants, counting target date funds as a single option?
- » Non-Plan Sponsors: How many investment options do you think is the appropriate number to offer participants, counting target date funds as a single option?

Survey Results

Part IV: Investment Menu

Investment Menu: Passive Options

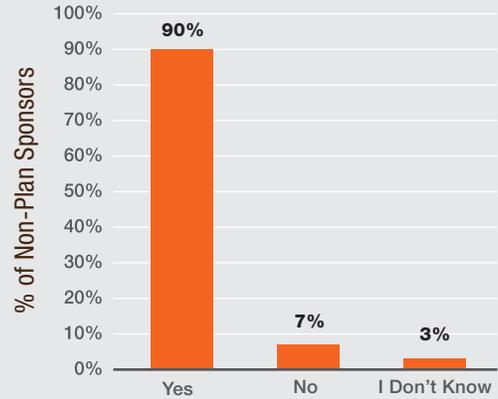
How many passive options do you offer participants?
– Plan Sponsors



N=93 – Plan Sponsors

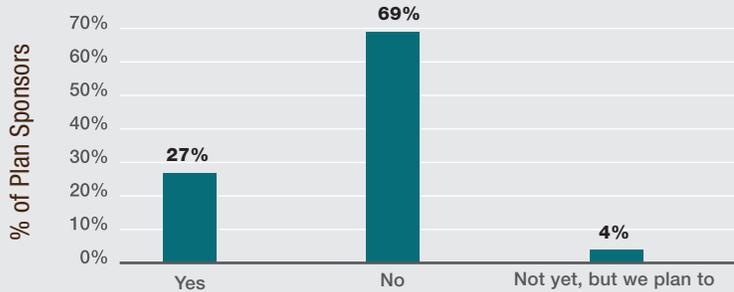
N=207 – Non-Plan Sponsors

Do you think there should be passive options offered to participants in the core menu?
– Non-Plan Sponsors



Investment Menu: Streamlining the Menu

Have you reduced the number of investment options in the past two years? – Plan Sponsors

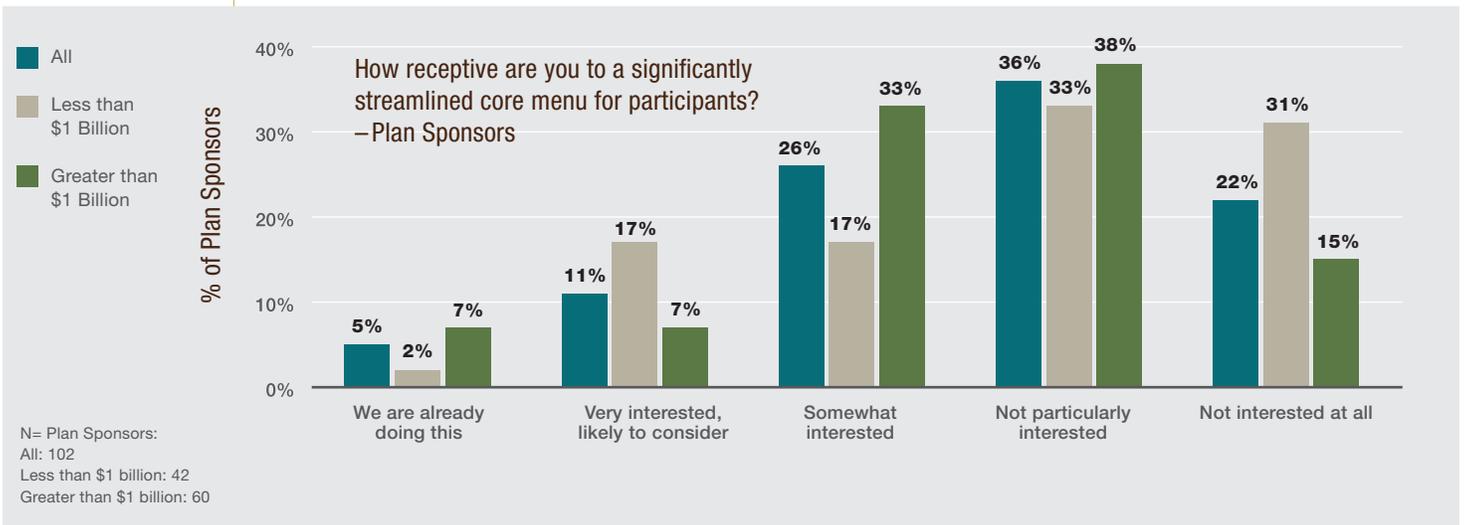


N=104

Survey Results

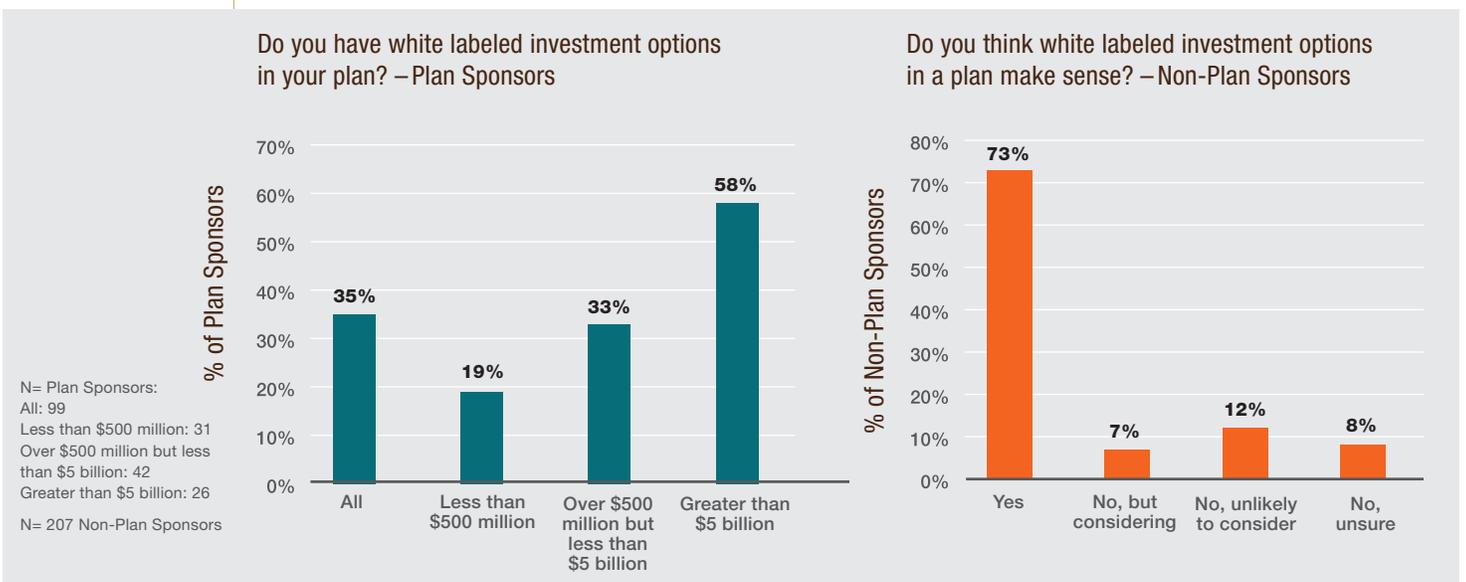
Part IV: Investment Menu

Investment Menu: Significant Streamlining



Question: How receptive are you to a significantly streamlined core menu (consisting of just three to four investment options) for participants? Examples include structures that are organized by major asset classes (e.g. stocks, bonds, cash) or organized by objective (e.g. growth, inflation protection, income generating). Target date (or other asset allocation solutions) and self-directed brokerage could also be offered.

Investment Menu: White Labeling



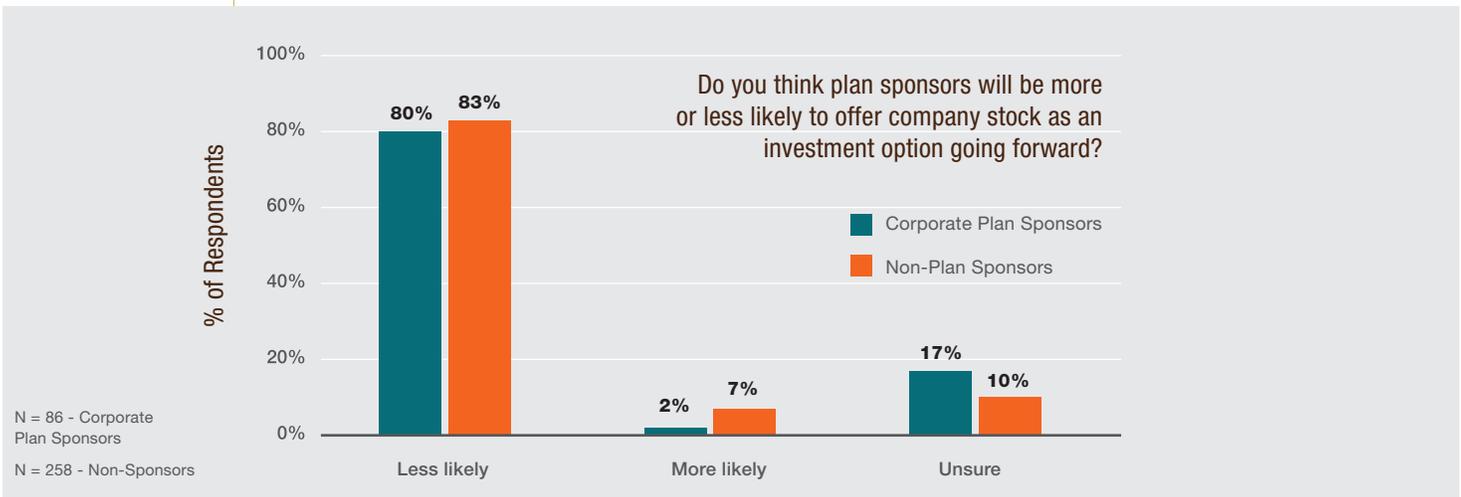
Survey Results

Part V: Fiduciary Concerns

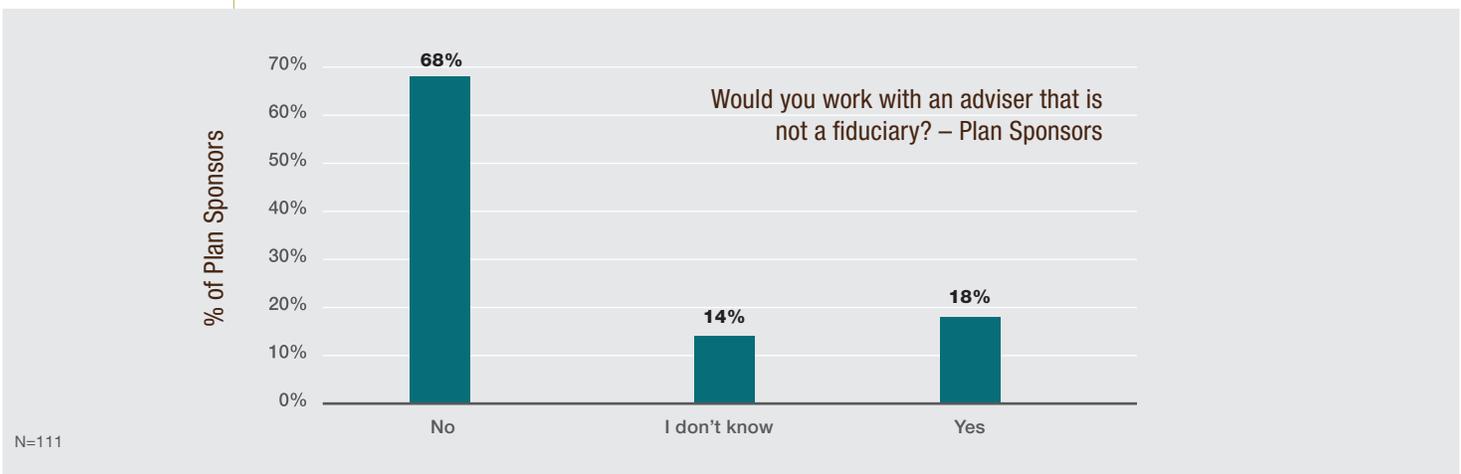
Rocatón Takeaways

- » There is agreement between plan sponsors and industry professionals that going forward, plan sponsors will be less likely to offer company stock as an investment option.
- » Over 80% of both plan sponsor and industry professional respondents indicated it will be less likely to see company stock in DC plans going forward.
- » With the Conflict of Interest Rule for Investment Advice still under consideration and likely final regulation in 2016, 68% of plan sponsors indicated they would not work with an adviser that is not a fiduciary, while an additional 14% were undecided.

Company Stock – Plan Sponsors vs. Industry Professionals



Fiduciary Status



Survey Results

Part VI: Conservative Investment Options

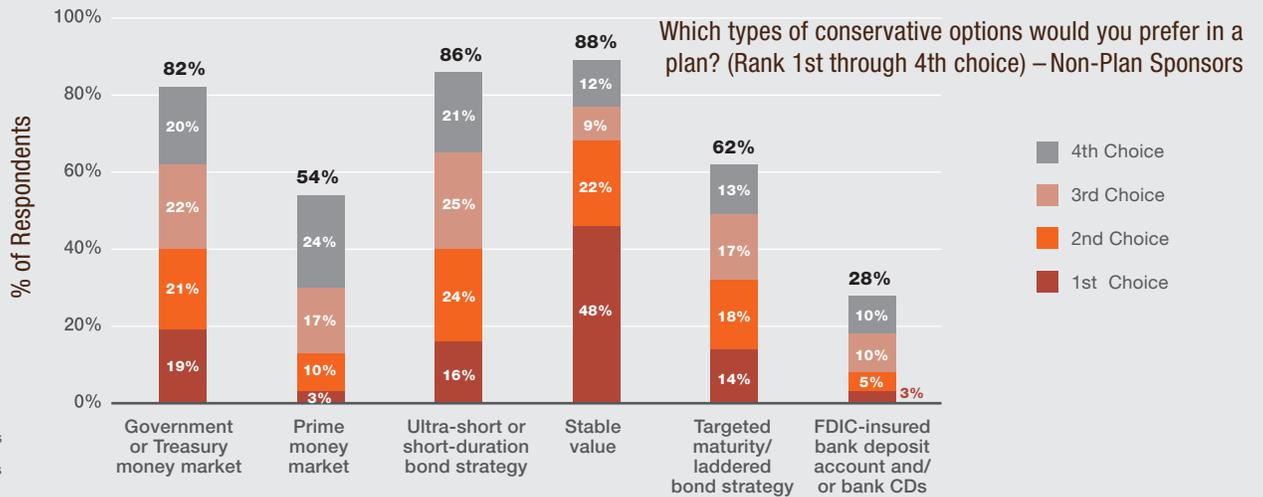
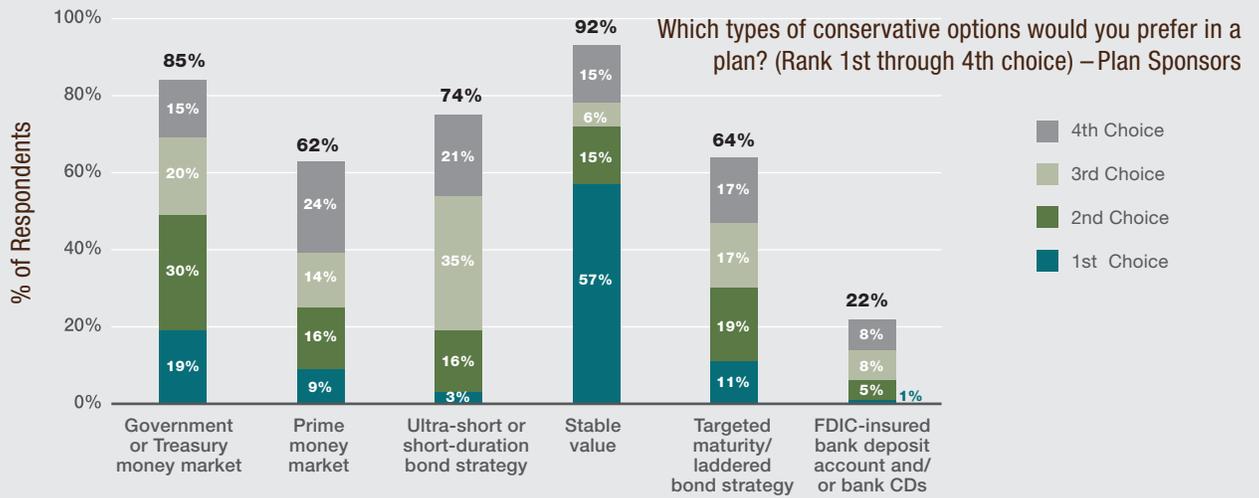
Rocatón Takeaways

- » Plan sponsors and industry professionals have similar preferences when it comes to which types of conservative investment options they would like to see in a DC plan.
- » Interestingly, industry professionals showed a greater preference for ultra-short or short-duration bond strategies than plan sponsors.
- » Plan sponsors and industry professionals also have similar preferences when it comes to how they believe plan sponsors with prime money market funds will respond to the SEC's money market reform. 50% and 56% from each group, respectively, believe plan sponsors will replace prime money market funds with Government or Treasury money market options. Only a smaller percentage of each group believes sponsors will retain prime money market. These responses are consistent with our findings in our 2014 Survey.
- » The majority of respondents – both plan sponsors and industry professionals – believe there should be proactive disclosure to participants about gates and liquidity when retaining a prime money market fund in a DC plan.
- » While plan sponsors do not seem to have a concern about recordkeepers' capabilities to administer prime money market funds, industry professionals (including those that work at recordkeeping firms) feel this is a greater concern.

Survey Results

Part VI: Conservative Investment Options

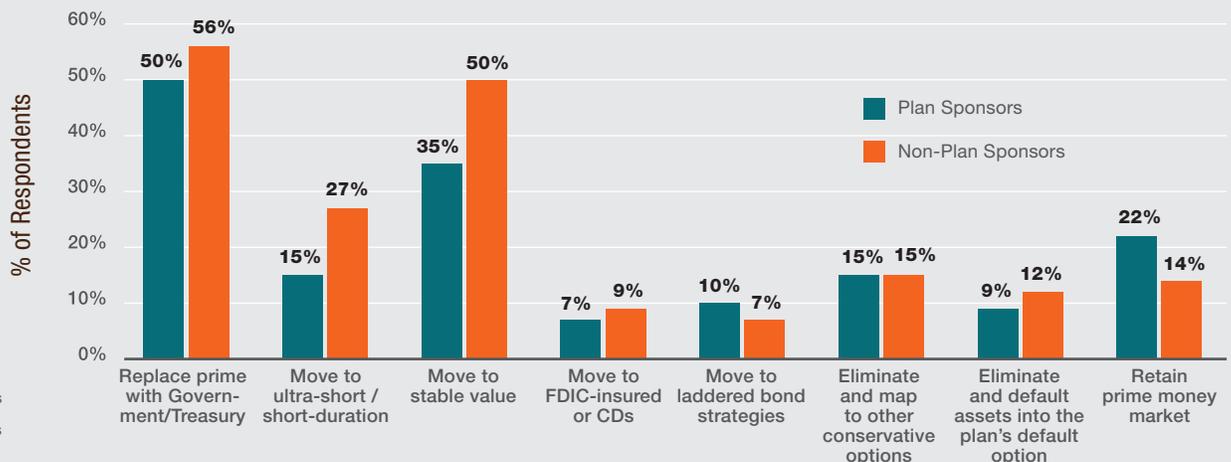
Conservative Investment Options: Preferences



N = 106 - Plan Sponsors
N = 217 - Non-Sponsors

Conservative Investment Options: Impact of SEC Reform

In light of the SEC's money market reform, do you think plan sponsors with prime money market funds will...? (Please check all that apply.)



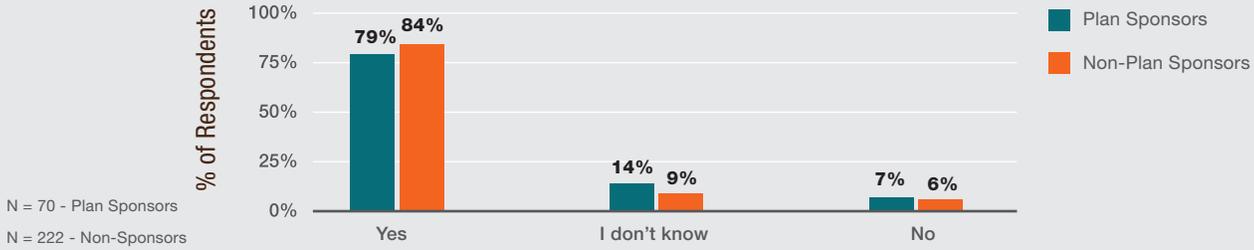
N = 102 - Plan Sponsors
N = 226 - Non-Sponsors

Survey Results

Part VI: Conservative Investment Options

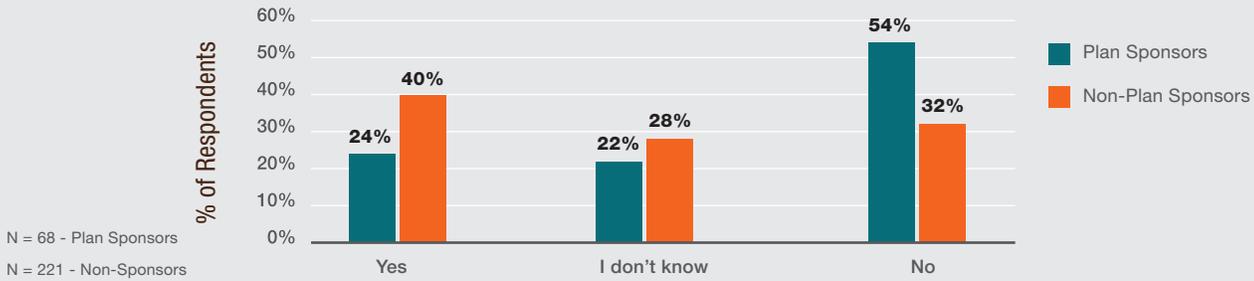
Money Market Reform: Participant Disclosures

For those plans retaining prime funds, do you feel there needs to be a proactive disclosure to participants about gates and liquidity?



Money Market Reform: Recordkeeping Administration

Do you have concerns about recordkeepers' capabilities to administer prime funds, or if you are a recordkeeper, is this a concern?



Survey Results

Part VII: Custom Target Date Funds

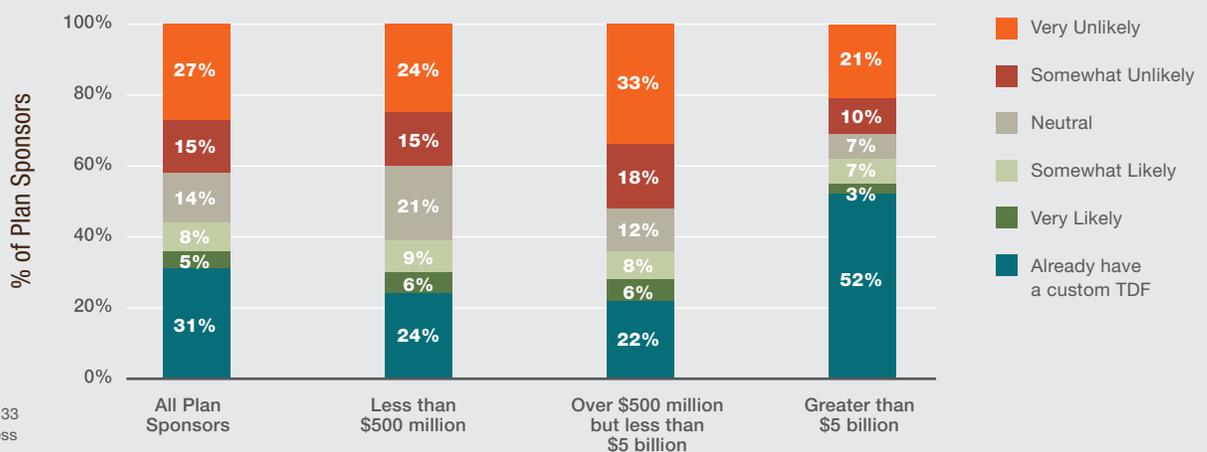
Competing Reasons for Implementing a Custom Target Date Solution

Rocatón Takeaways

- » When looking at plan size, smaller sized plans are less likely to have a custom target date fund in place today, but over half of respondents with plans over \$5 billion already have a custom TDF
- » Industry professionals feel that custom solutions may be appropriate, but 63% say it depends on the plan.
- » While plan sponsors selected plan demographics as the most popular reason to consider a custom target date solution, industry professionals believe the ability to use the plan's core investment lineup is the most compelling reason.
- » Industry professionals also place more emphasis on having a view on active management and the ability to allocate a larger percentage to alternative asset classes than plan sponsors (note: this survey was open to respondents before news about the pending litigation a large plan sponsor faces regarding significant use of alternatives in its DC plans was announced.)
- » When polled in our 2014 DC Survey, industry professionals cited making alternatives more commonplace in DC as a top R&D or new product initiative.

Custom Target Date Funds: Plan Sponsor Perspective

How likely are you to offer custom target date funds (TDFs) in the next two years?
– Plan Sponsors



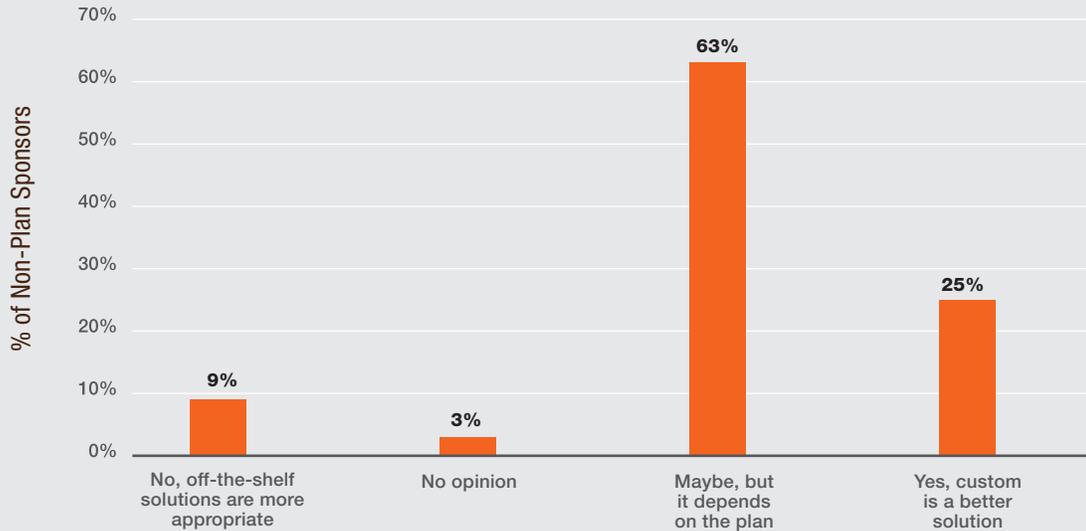
N: All: 111
 Less than \$500 million: 33
 Over \$500 million but less than \$5 billion: 49
 Greater than \$5 billion: 29

Survey Results

Part VII: Custom Target Date Funds

Custom Target Date Funds: Industry Perspective

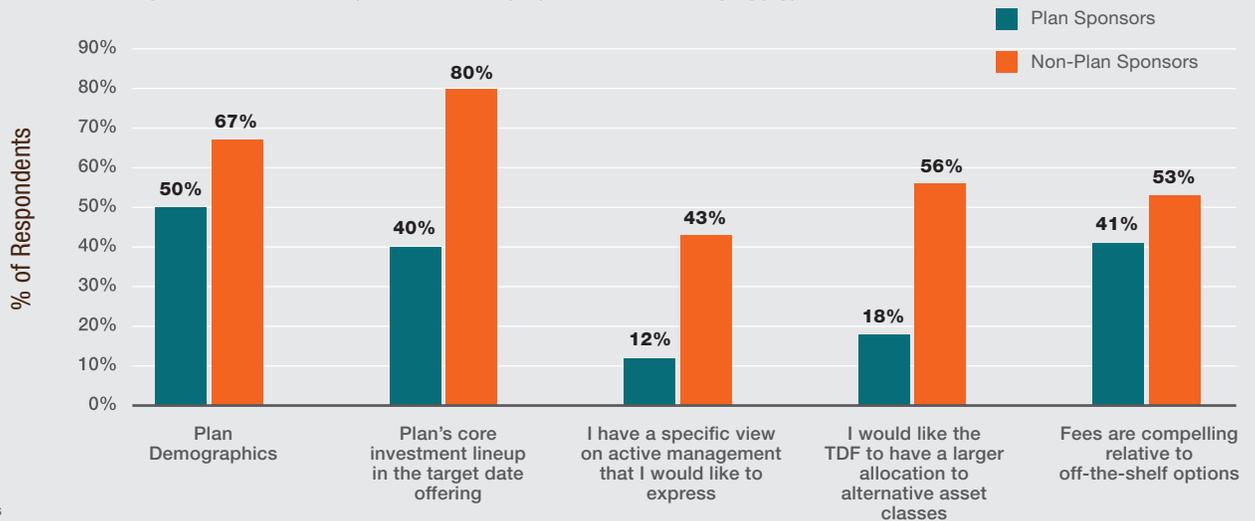
How strongly do you feel that plan sponsors should implement a custom target date solution over an off-the-shelf product? – Non-Plan Sponsors



N=225

Custom Target Date Funds: Considerations

If you were to offer custom target date funds (or have already), what are the main reasons you would consider (or did consider)? (Check all that may apply)



N = 90 - Plan Sponsors

N = 193 - Non-Sponsors

Survey Results

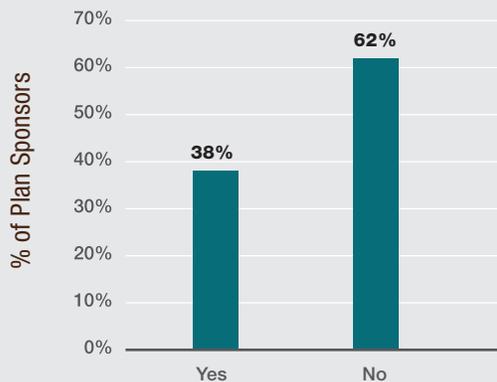
Part VIII: Managed Accounts

Rocatón Takeaways

- » When asked if they could choose from more than one managed account provider at their recordkeeper, 38% of plan sponsors said they currently could.
- » When asked if they would like additional choice among managed account providers, 40% of plan sponsors indicated they either already have or would like to have that additional choice.
- » However, because 38% of plan sponsors polled claim they can already choose from more than one provider, there may be a percentage that feels there already is sufficient choice in the marketplace.
- » If there were a newly launched managed account solution, 56% of plan sponsors indicated it would need to have \$1 billion or more in assets before it could be considered a viable choice for their plan.
- » This is consistent with the broader industry viewpoint that it is often hard to launch a new product – reflected here and in other types of product launches – because of the need for sufficient scale before there is plan sponsor interest.

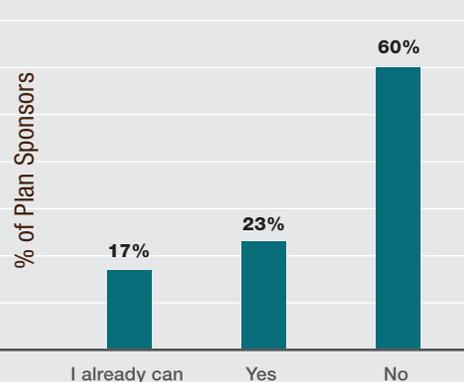
Managed Accounts: Too Few or Too Many?

Can you currently choose from more than one managed account provider at your recordkeeper? – Plan Sponsors



N=100

Would you like to have additional managed account choices available at your recordkeeper? – Plan Sponsors



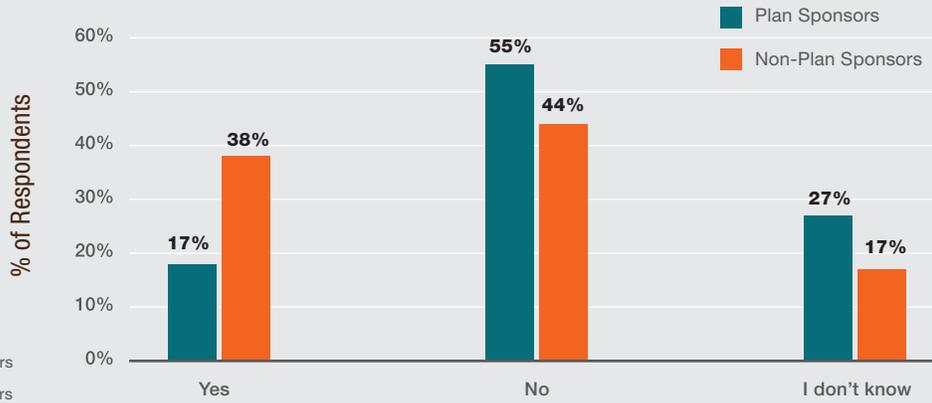
N=101

Survey Results

Part VIII: Managed Accounts

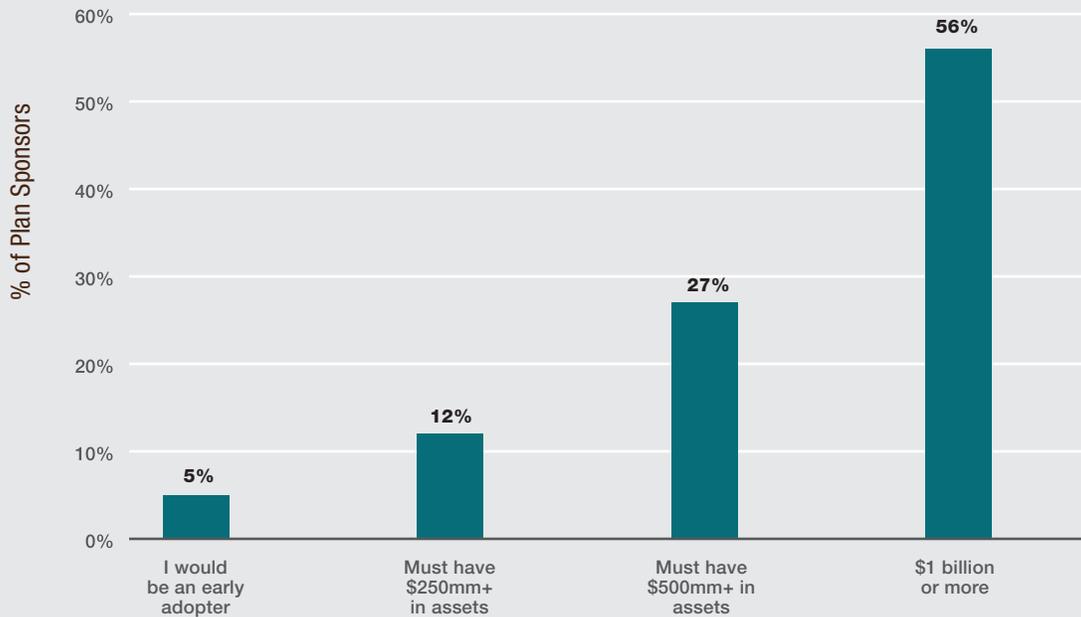
Managed Accounts: More?

Do you think the industry needs more managed account providers?



Managed Accounts: New Providers

If there was a newly launched, thoughtful managed account solution – at what asset size would you need it to be to consider it a viable choice for your plan? – Plan Sponsors



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2015 Survey of Defined Contribution Viewpoints

Disclosures

Based on information provided by respondents and not independently verified by Rocaton.
Commentary provided by Rocaton.

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