



The Ongoing Evolution of the 403(b) Plan Marketplace

403(b) Plan Trends and Best Practices

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Today's Objectives

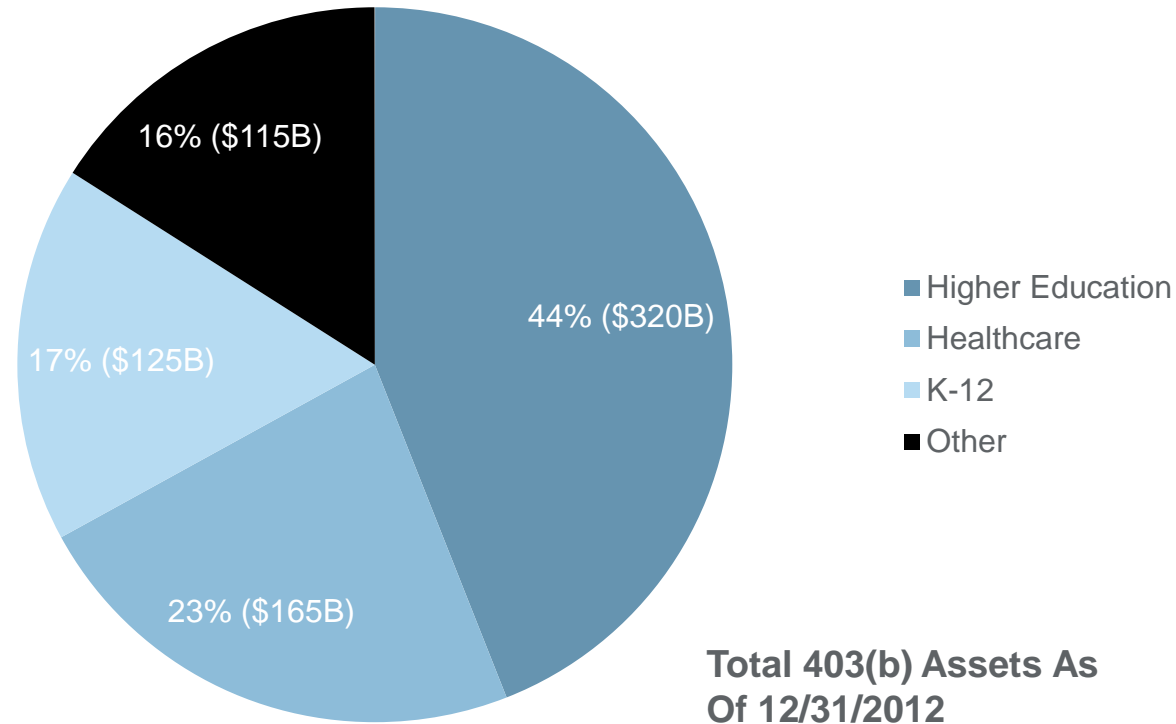
- The 403(b) Marketplace
 - A Brief Overview
 - Current Plan Sponsor Trends
- Plan Design
 - Plan Design Trends
 - Investments
 - Tiered Investment Menus
- What's Next For 403(b) Plans?
 - Retirement Readiness
 - Income Replacement
 - Preventing Asset Leakage

The 403(b) Timeline

- **1958** – Addition of 403(b) to IRS Code
- **1961** – 403(b) Added for Public Education Institutions
- **1974** – Employee Retirement Income Security Act (ERISA)
- **1982** – Tax Equity and Fiscal Responsibility Act
- **1986** – Tax Reform Act
- **1996** – The Small Business Job Protection Act
- **1997** – The Tax Payer Relief Act
- **2001** – The Economic Growth and Tax Relief Reconciliation Act
- **2006** – The Pension Protection Act
- **2009** – The Final 403(b) Regulations Effective (originally issued in 2007)

The 403(b) Plan Market Today

The 403(b) Marketplace



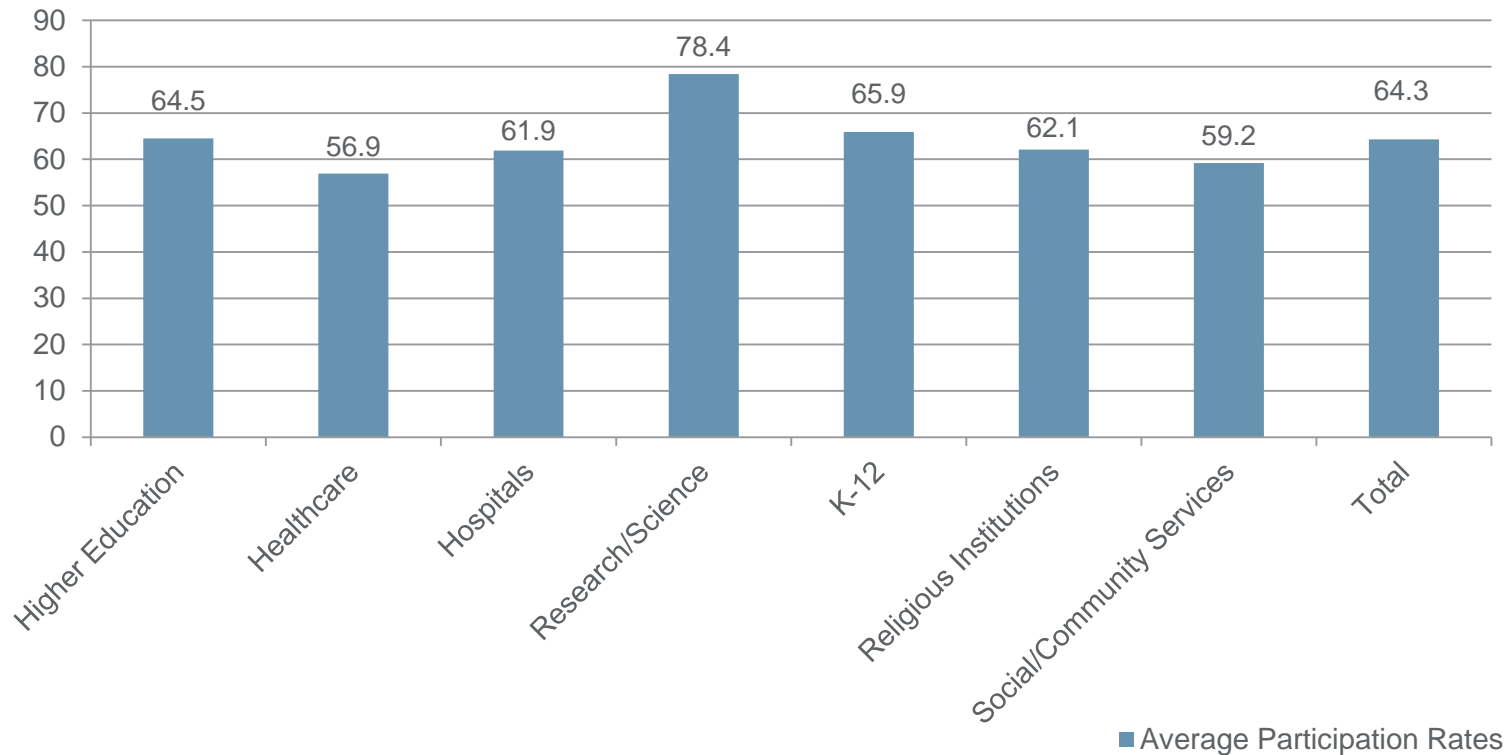
Source: LIMRA Report, Exploring 403(b) Plan Practices and Trends.

Current Plan Sponsor Trends

- Emphasis on Fiduciary Responsibility
 - Establishing Plan Governance
 - Policy Statements
 - Monitoring Investments
- Benchmarking Plans
 - Investment Performance
 - Plan Fees
 - Service
- Vendor Consolidation
 - Leveraging Efficiencies
 - Reducing Costs
 - Mitigating Liability
- Open Architecture
 - No Proprietary Fund Requirements
 - Self Directed Brokerage Accounts
 - Re-evaluation of Target Date Funds

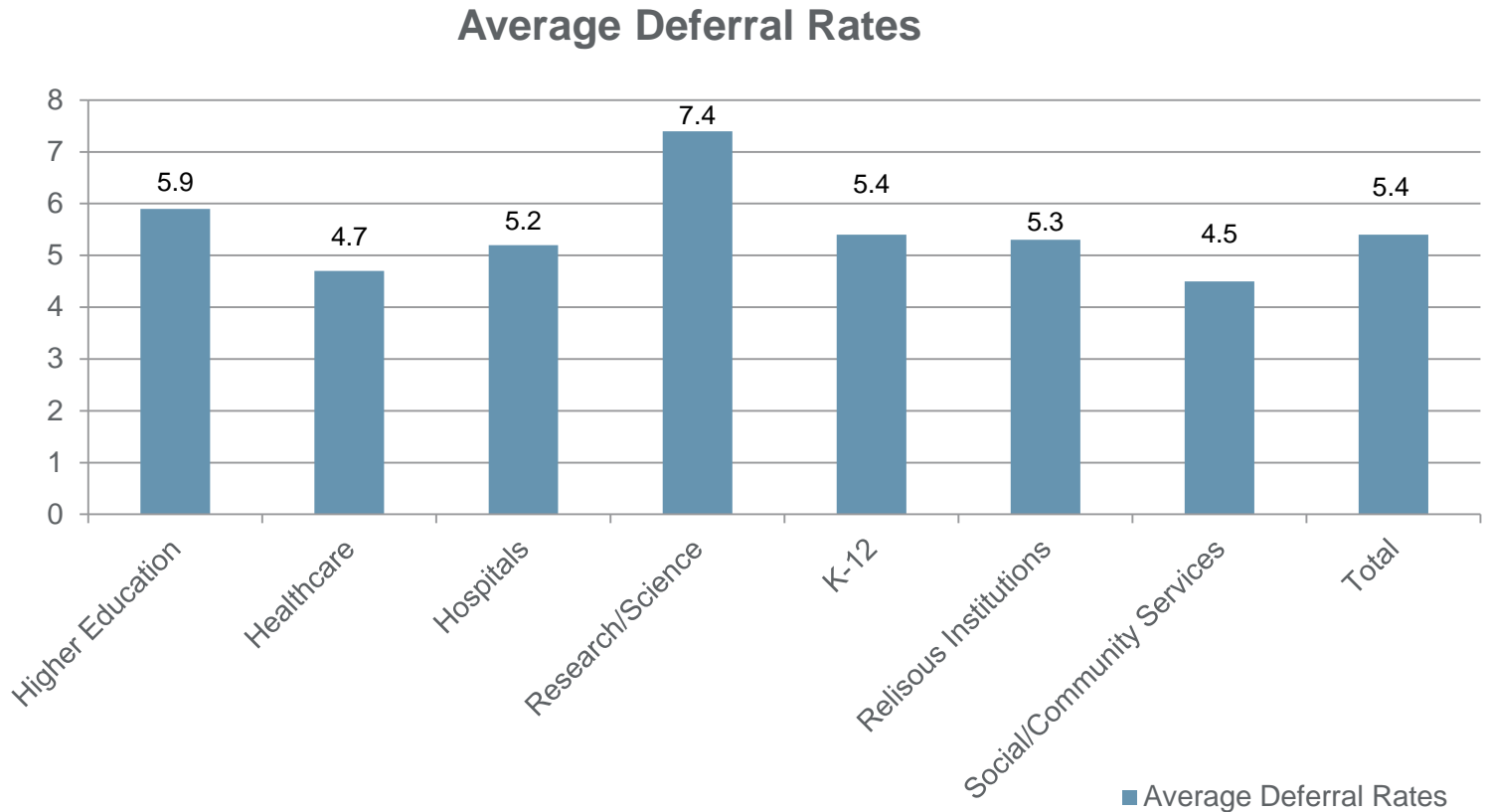
Plan Design Trends

Average Participation Rates



Source: Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey

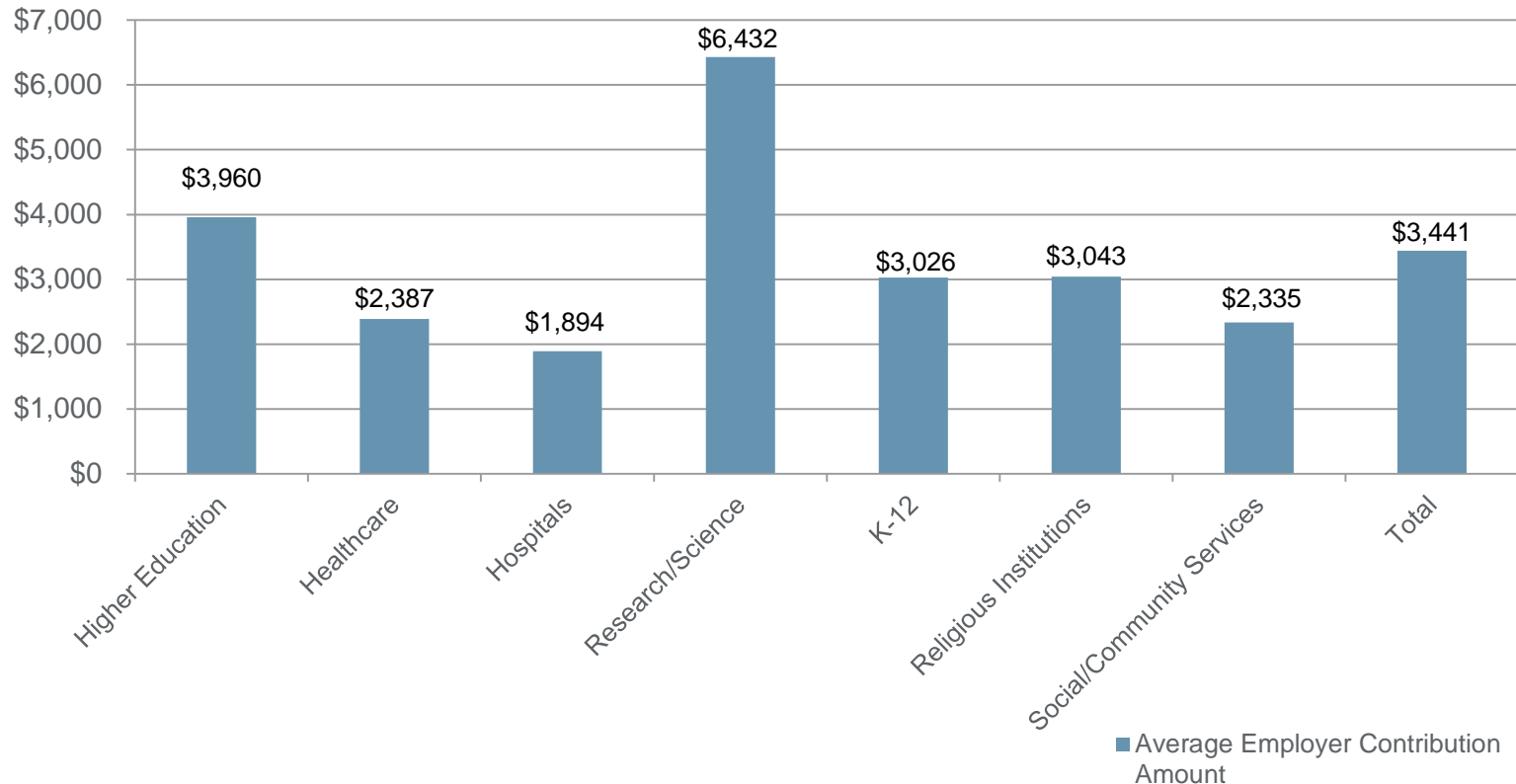
Plan Design Trends



Source: Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey.

Plan Design Trends

Average Employer Contribution Amount

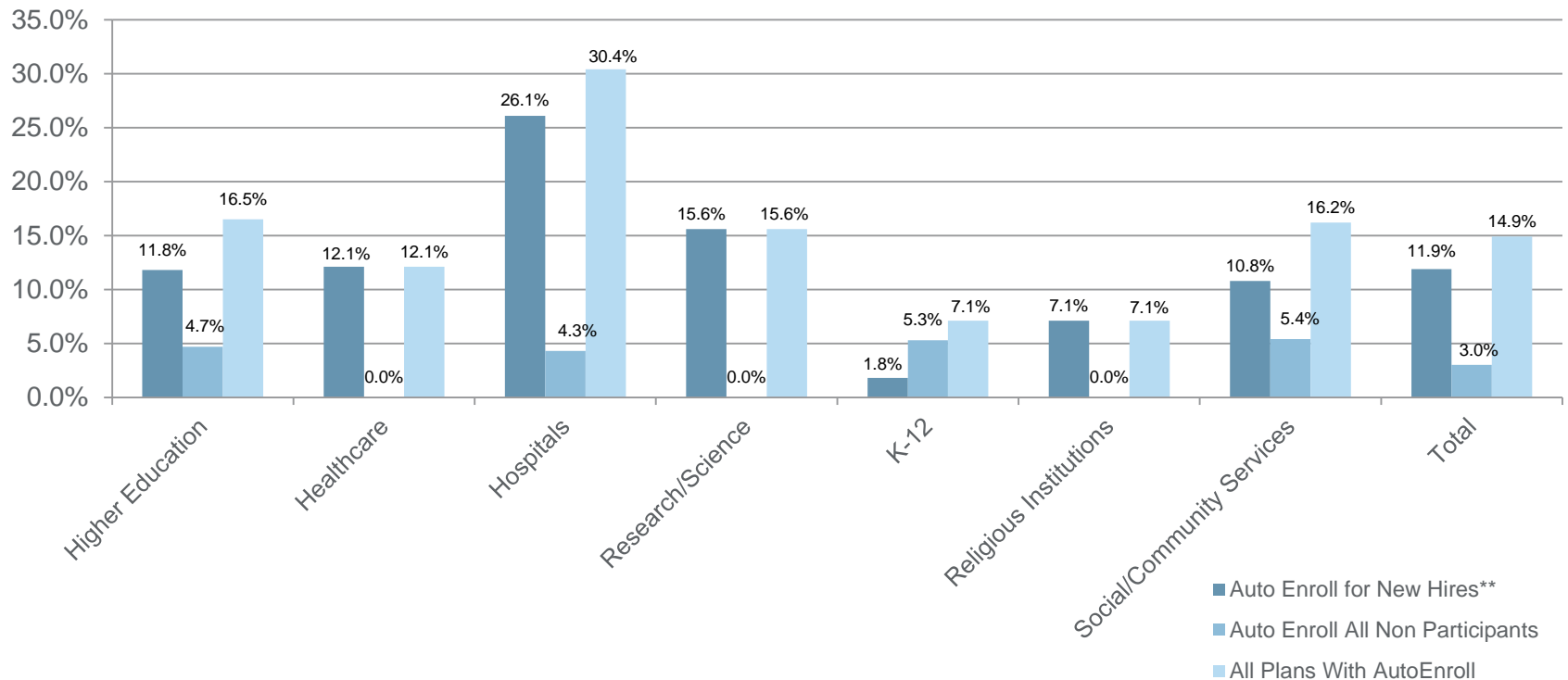


Source: Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey

Plan Design Trends

Among plans that automatically enroll eligible participants, the median deferral percentage is 3 percent. This default deferral rate is common in the broader DC plans market, but is unlikely to lead to adequate savings levels for employees.*

Automatic Enrollment

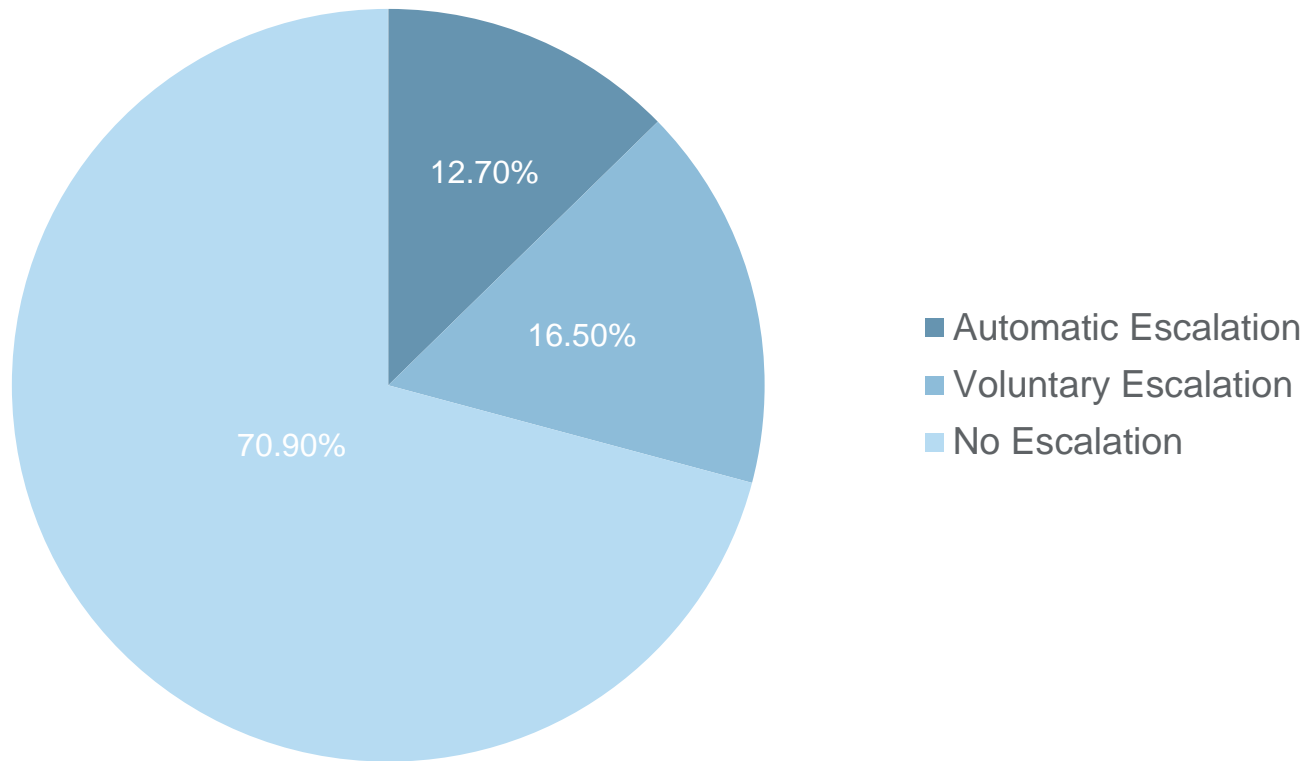


Source: * LIMRA Report, Exploring 403(b) Plan Practices and Trends.

** Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey

Plan Design Trends

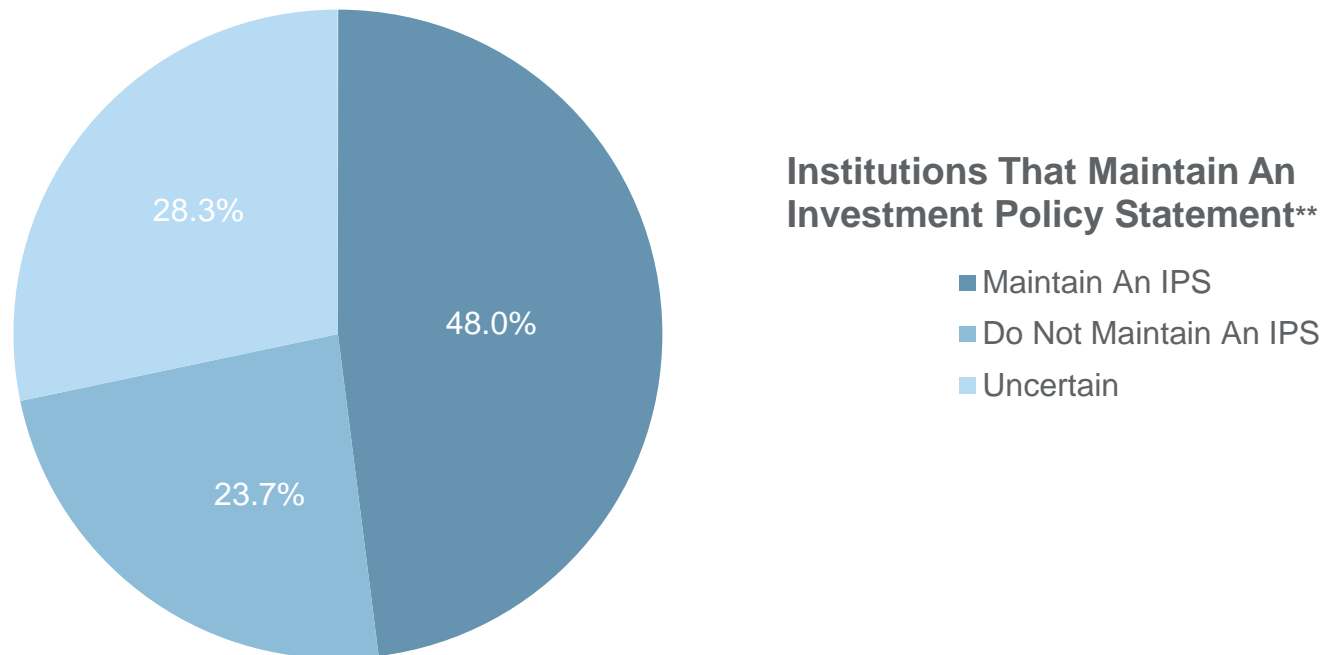
Automatic Deferral Increase (Auto Escalation)



Source: Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey

Investments – Investment Policy Statements

403(b) Plan Sponsors Need an Investment Policy Statement, Plan or Investment Committee that Meets Quarterly and They Need a Fiduciary File Cabinet.*

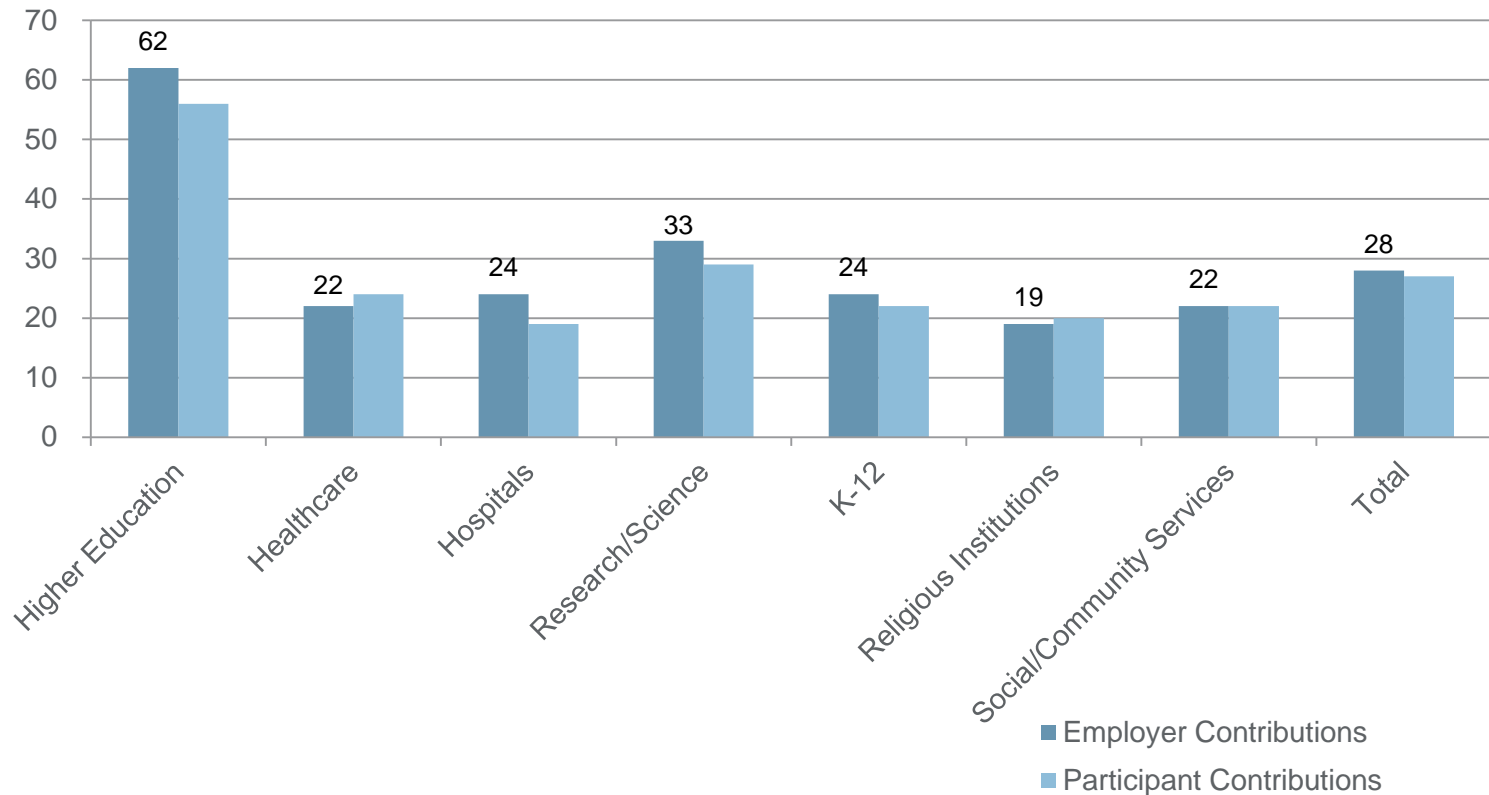


Source: *Cleaning Up Loose Ends for 403(b)s, September 23, 2013 (PLANSPONSOR.com)

** Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey 2012.

Investments – Menu Options

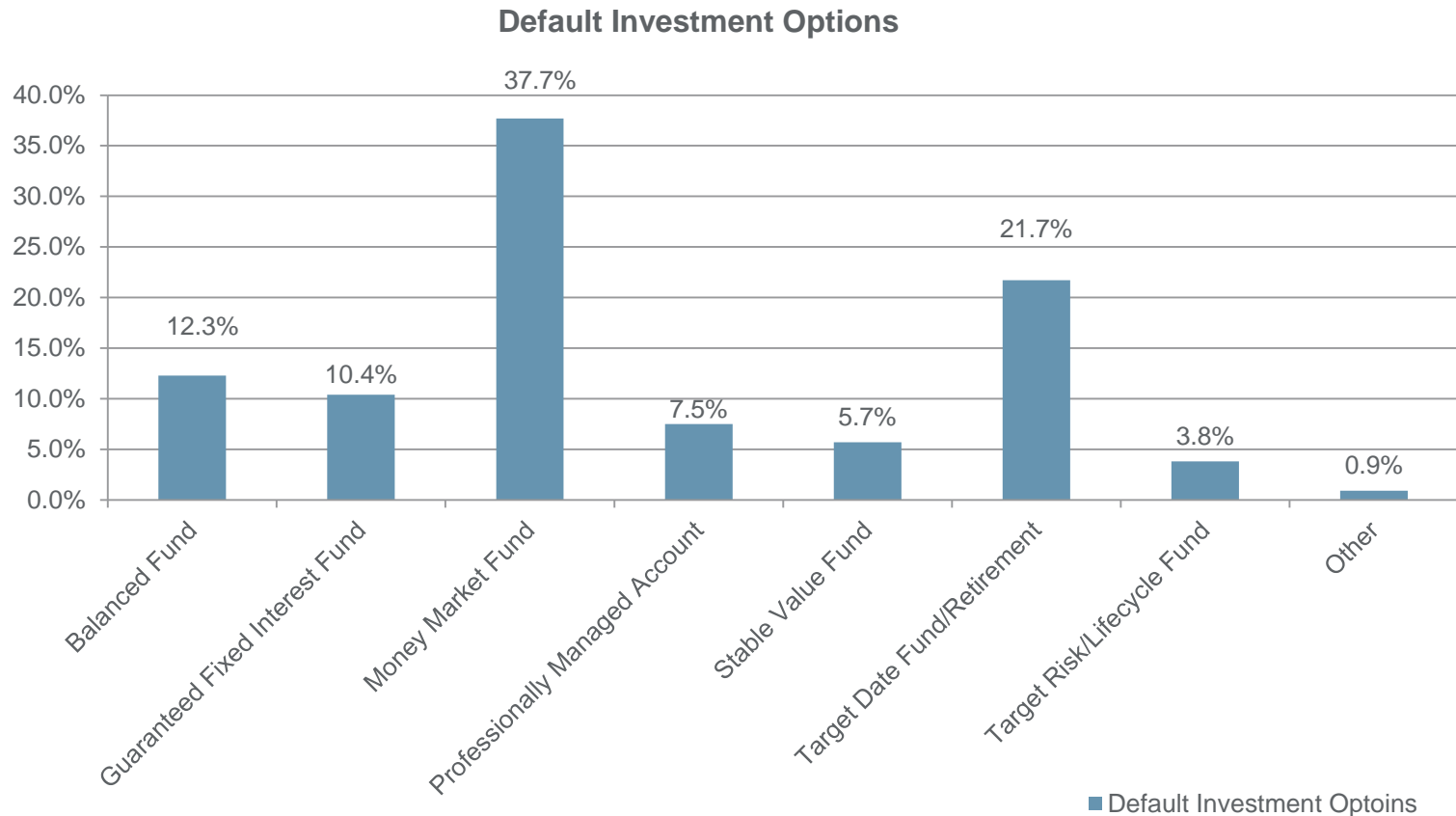
Average Number of Investment Options



Source: Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey.

Investments – Default Options

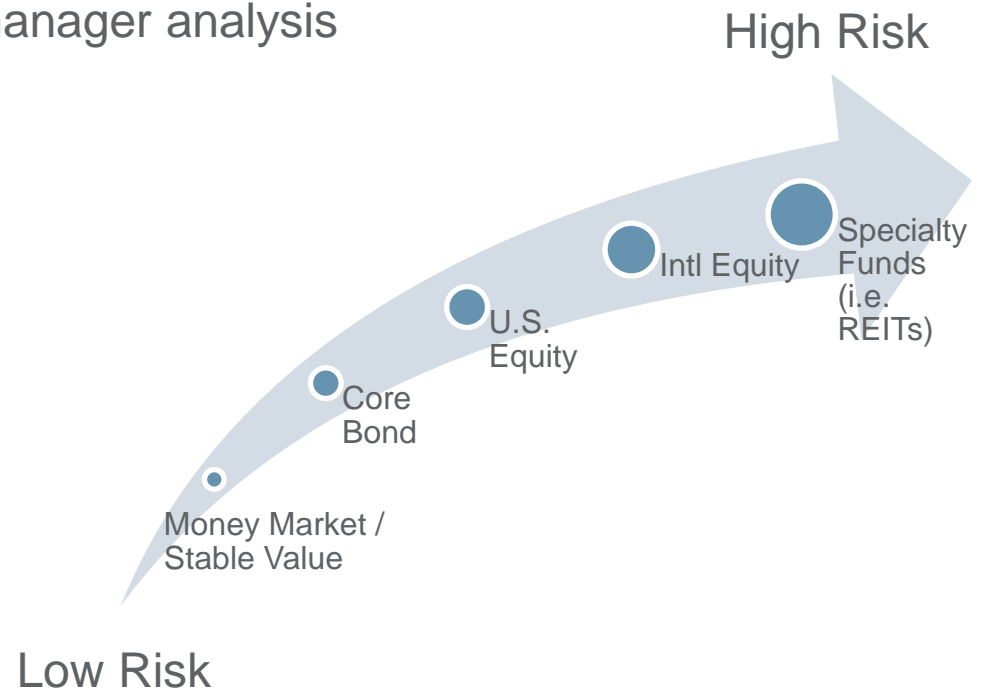
70.9 % of Plan Sponsors Have a Default Option for Participants Who Enroll In a Plan but Do Not Select an Investment Option.



Source: Plan Sponsor Council of America's (PCSA) 2012 403(b) Plan Survey

Tiered Investment Menus - Old Paradigm

- All participants are active investors
- More choices lead to better portfolios
- Fiduciary focus on 404(c) protection
- Focus on investment products/manager analysis
- Vendors compared on features



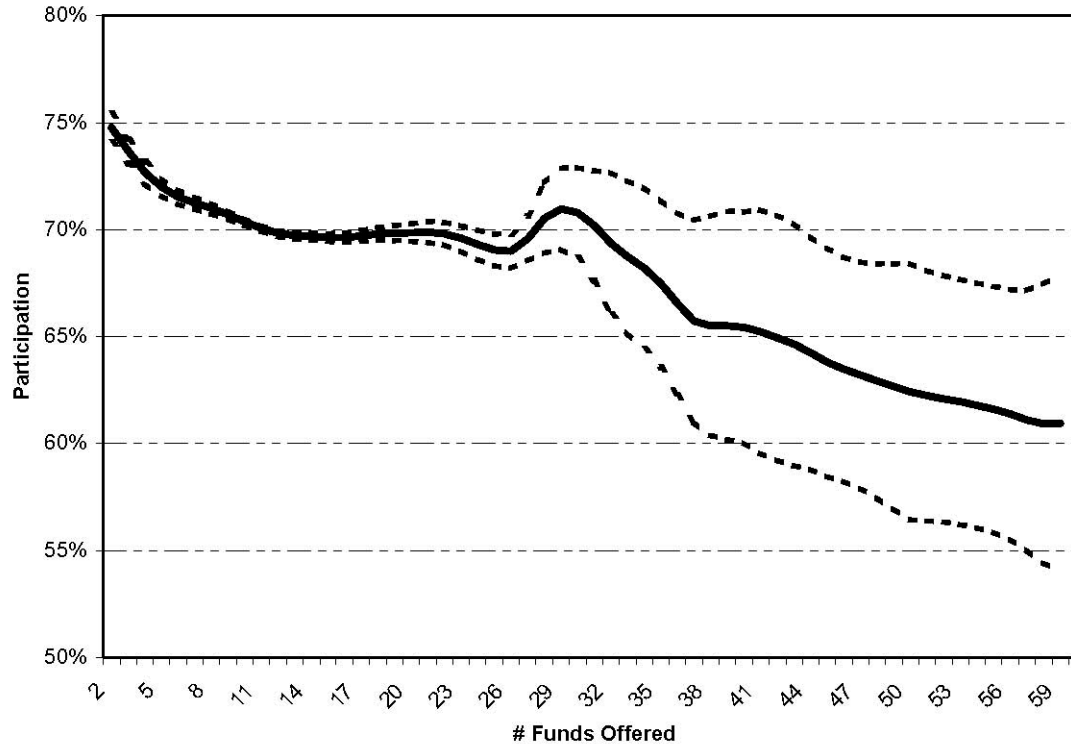
Tiered Investment Menus - the Evidence

Participant Type	How Participants Self-Identify
Delegators	69%
Do-It-Yourselfers	30%
Self-Directed Sophisticates	1%

Source: J.P. Morgan Retirement Plan Services

Tiered Investment Menus - the Evidence

Impact of Choice on Participation Rates



Source: Iyengar, Sheena S.; Jiang, Wei; Huberman, Gur "How Much Choice is Too Much?: Contributions to 401(k) Retirement Plans"

Tiered Investment Menus - New Paradigm

- Not all participants are the same
- Incorporate behavioral finance knowledge into retirement programs
- Fiduciary focus on participant outcomes
- Focus on menu construction
- Vendors compared on solutions

Tier One

Tier Two

Tier Three

What's Next For Plan Sponsors?

- Governance and Benchmarking
- Retirement Readiness
- Turning Account Balances Into Income
- Addressing Retirement Income Needs
- Plan Leakage (Loans, hardships)

Disclosures

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