

NEPC 2019 DEFINED CONTRIBUTION PROGRESS REPORT



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DEFINED CONTRIBUTION PROGRESS REPORT

14th
Annual
Survey

About the Report

NEPC conducted our 14th annual Defined Contribution Plan & Fee Survey, also known as the NEPC Defined Contribution (DC) Progress Report. In this 2019 report, we are continuing to focus on measuring financial success for DC plans and participants. While defined contribution plans are inherently participant-directed programs, there are features that plan sponsors and fiduciaries can adopt in order to improve financial success for participants and retirees. This year, our report focuses on the prevalence of plan features relating to increasing savings rates, professionalizing the investment decision, and facilitating the distribution of assets at retirement.

Sample Size and Respondents

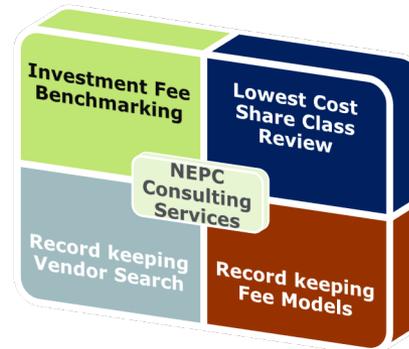
121 Defined Contribution Plans
- 71% Corporate
- 20% Healthcare
- 9% Public, Not-for-Profit and other
\$135 billion in aggregate assets
1.5 million participants

Average Plan
\$1.1 billion in assets
12,437 participants

Median Plan
\$512 million in assets
5,440 participants

Additional Consulting Resources for Due Diligence of Plan Fees & Services

To support our clients' due diligence of record keeping, trust, custody and investment fees, NEPC offers additional consulting services including: record keeping vendor search services, administrative consulting around different fee models, and investment expense studies to certify lowest cost investments.



Report Methodology

NEPC gratefully acknowledges the assistance of the industry's largest DC record keepers to assemble the data used in this report. These include but are not limited to,

- Alight Solutions
- Ascensus
- Empower Retirement
- Fidelity Investments
- ICMA
- John Hancock Financial
- Lincoln Financial
- MassMutual
- Schwab Retirement Plan Services
- Prudential Financial
- T. Rowe Price Group
- Transamerica
- The Vanguard Group
- Transamerica Retirement Solutions
- Voya Financial
- Wells Fargo

Data is as of December 31, 2018 and is reflective of information provided by client record keepers and other service providers. Statistics marked with a "-" did not have a large enough sample size to include. The survey sample changes year over year which can affect the comparability of results.

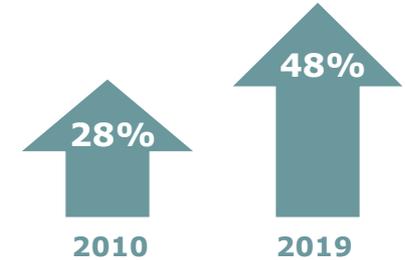
REPORT HIGHLIGHTS

Auto-features have been broadly adopted



Plan features like automatic enrollment and automatic increase are widely considered solutions to the retirement savings problem, as inertia has proven to be a very powerful behavioral trait. Per our 2019 report, **68%** of plans offer auto-enrollment and **53%** offer auto-escalation.

Auto-Escalation as an Opt-Out Feature*



Investment menus have stayed largely the same



The number of core menu investment options (**11**) and the provision of target date funds (offered by **96%** of plans) have remained relatively stable over the past several years. What has changed is where participants have their assets invested, with **39%** of plan assets now invested in target date funds, on average.

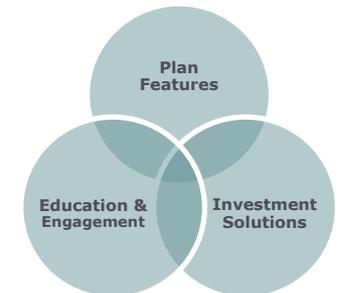
Plan Assets Invested in Target Date Funds*



"Retiree-friendly" distribution features are common



The majority of plans in our 2019 report offer several types of distribution options, including lump-sums, partial withdrawals, installment payments and in-service withdrawals. Distribution flexibility matters to older workers and retirees, as they'll need tools to create the income stream that best suits their retirement needs.



INCREASING SAVINGS RATES

PLAN DESIGN FEATURES

	Overall	Corporate	Healthcare
Automatic Enrollment	68%	76%	54%
<i>Average Default Deferral (%)</i>	3%	4%	3%
Automatic Escalation	53%	65%	25%
<i>Offered as an "Opt-Out" Feature (%)</i>	48%	44%	-
<i>Average Deferral Cap (%)</i>	9%	9%	-
Average Plan Participation Rate	81%	83%	70%

Source: NEPC 2019 Defined Contribution (DC) Progress Report which includes 121 participating plans, including both NEPC clients and other organizations. Data is as of December 31, 2018 and is reflective of information provided by client record keepers and other service providers. Statistics marked with a "-" did not have a large enough sample size to include.



PROFESSIONALIZING INVESTMENT DECISIONS

INVESTMENT FEATURES

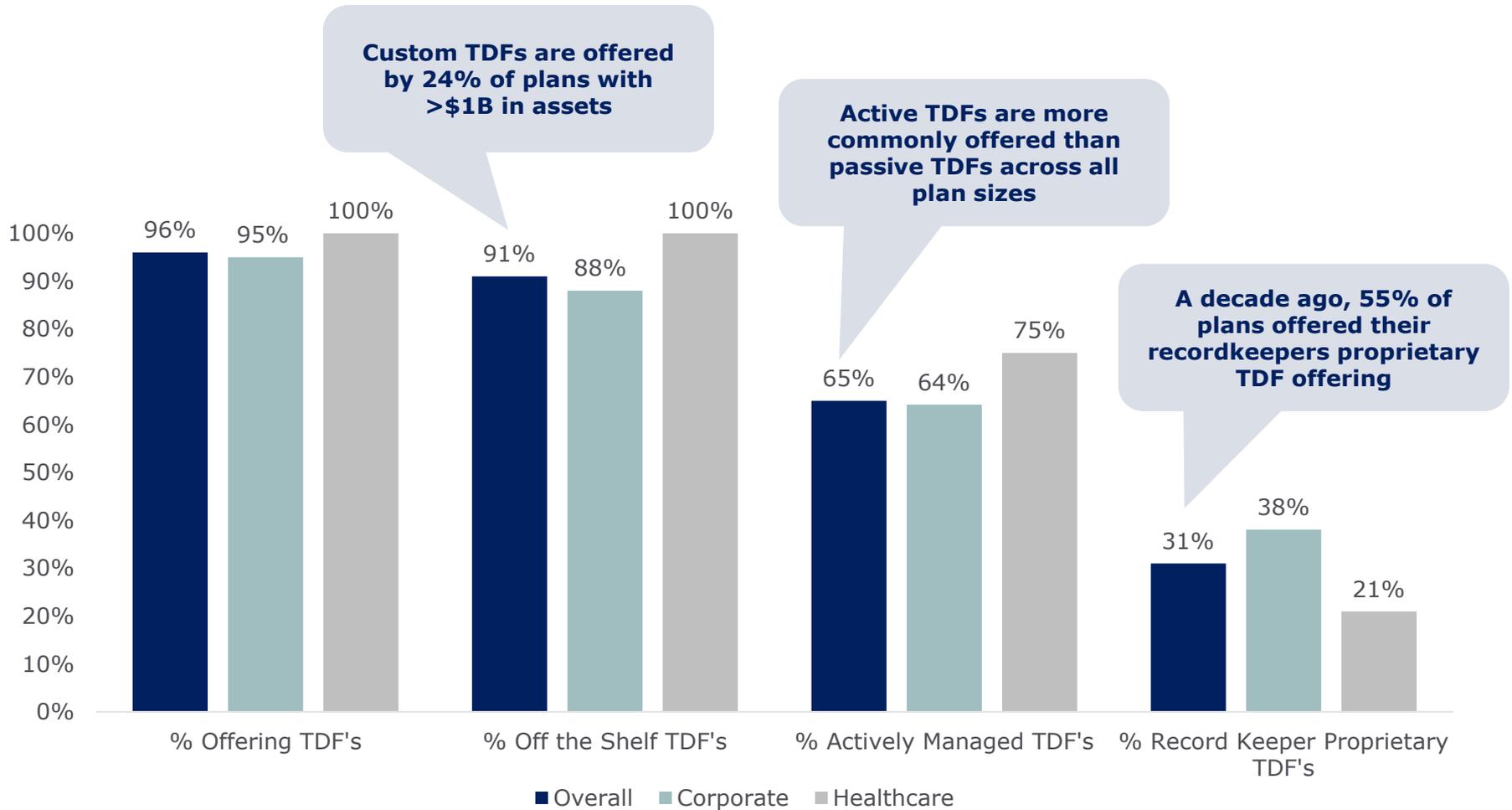
	Overall	Corporate	Healthcare
Total Number of Investments Offered	23	23	23
<i>Target Date Funds Offered</i>	96%	95%	100%
<i>Plan assets invested in TDFs (%)</i>	39%	37%	59%
<i>Number of Core Investments Offered</i>	11	11	12
Brokerage	60%	58%	79%
Managed Accounts	37%	34%	42%

Source: NEPC 2019 Defined Contribution (DC) Progress Report which includes 121 participating plans, including both NEPC clients and other organizations. Data is as of December 31, 2018 and is reflective of information provided by client record keepers and other service providers. Statistics marked with a “-” did not have a large enough sample size to include.



PROFESSIONALIZING INVESTMENT DECISIONS

TARGET DATE INVESTMENTS



Source: NEPC 2019 Defined Contribution (DC) Progress Report which includes 121 participating plans, including both NEPC clients and other organizations. Data is as of December 31, 2018 and is reflective of information provided by client record keepers and other service providers. Statistics marked with a "-" did not have a large enough sample size to include.



PROFESSIONALIZING INVESTMENT DECISIONS

CORE MENU OPTIONS

Capital preservation observations

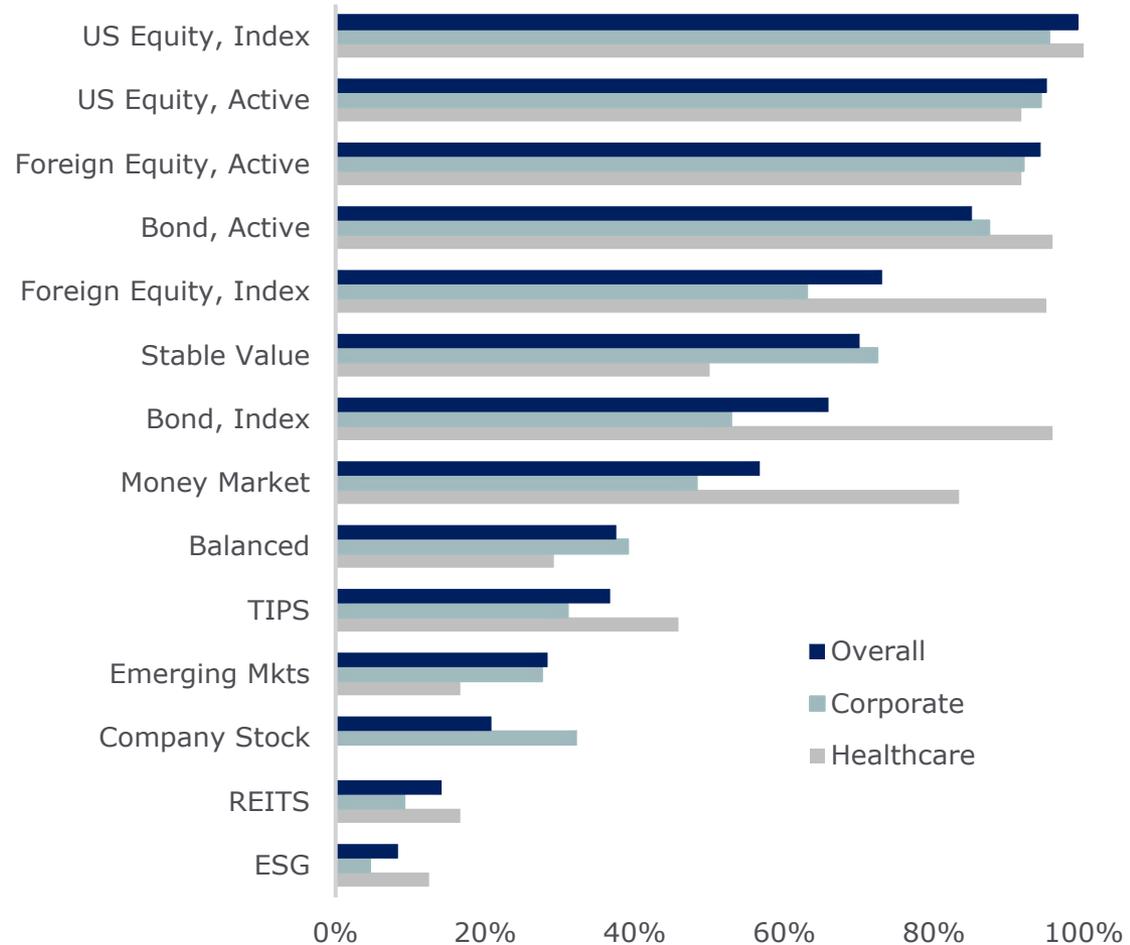
- 37% of plans offer money market as the sole capital preservation option today versus 27% in 2010
- The provision of both stable value and money market options is most common among large plans, with 23% of plans with >\$1B in assets offering both

Passive management observations

- 60% of plans offer a passive tier, defined as 3 or more passively managed funds including at least one fixed income option

Large market observations

- Consolidated core menus: 73% of plans with >\$2.5B in assets offer between 6-10 options
- Broader use of white-label options: 40% of plans with >\$1B in assets offer at least one white-label option



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DISTRIBUTING RETIREMENT ASSETS

FLEXIBLE SOLUTIONS

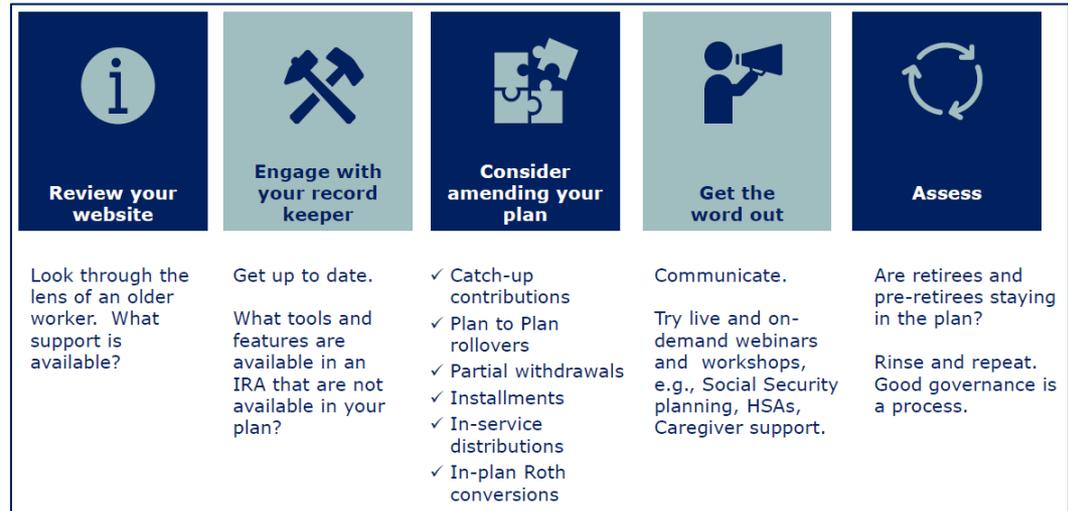
Distributing Retirement Assets

- The reference book for older workers and retirees hasn't been written
- We'd like to shift the focus to older workers and retirees, and how defined contribution plans can better support their needs

Plan sponsors and/or fiduciaries should consider the role they want the DC plan to play for retirees

- **Define your demographic:** What % of your workforce and retirement plan is 50 or older?
- **Discover your Plan:** Look at your plan rules. How are you set up to support older workers?
- **Determine your philosophy:** Do you want to support your workforce "through" retirement?

Shifting the focus to older workers and retirees



NEPC presented on this topic at our annual client conference in May 2019. Visit www.nepc.com or click [here](#) for a brief summary of the discussion.

FEE REVIEW

NEPC, LLC

2019 INVESTMENT AND PLAN FEE REVIEW

IMPORTANT CONSIDERATIONS

Why review plan fees?

- Plan fiduciaries have an obligation under ERISA to ensure that the fees of a plan are reasonable for the services provided
- From a fiduciary perspective, the fee benchmarking data included in this report can help inform fiduciaries and serves as an interim check-up on certain Plan fees relative to other plans and peer groups¹

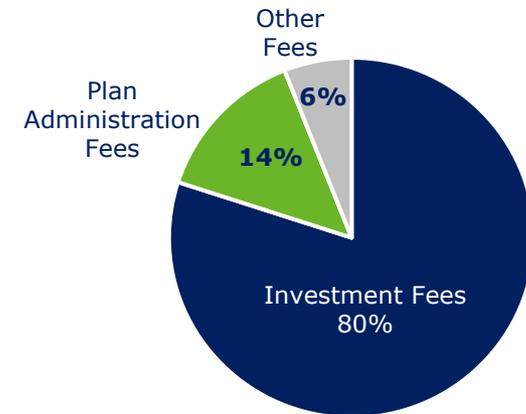
What are the primary types of plan fees?

- Investment Fees: Fees paid for management of plan investments
- Plan Administration Fees (i.e. Recordkeeping and Trust / Custody Fees): Fees paid for services such as recordkeeping, safekeeping of investments and payment of benefits
- “Other” Fees: Additional fees earned by record keepers for ancillary services such as loan origination, loan maintenance, QDRO’s, and managed accounts

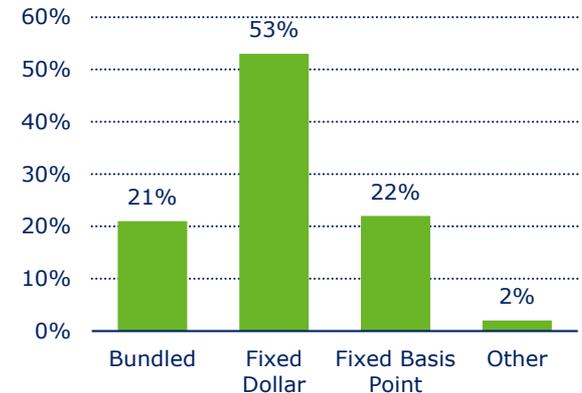
How are plan administration fees paid?

- Bundled: All fees paid by revenue sharing
- Fixed Dollar: Flat dollar amount per account
- Fixed Basis Point: Fixed percentage of account assets
- Other: Various combinations of the above

**Overall NEPC Universe:
Composition of Total Plan Costs**



**Overall NEPC Universe:
Method of Contracting Plan Administration Fees
(By Number of Plans)**



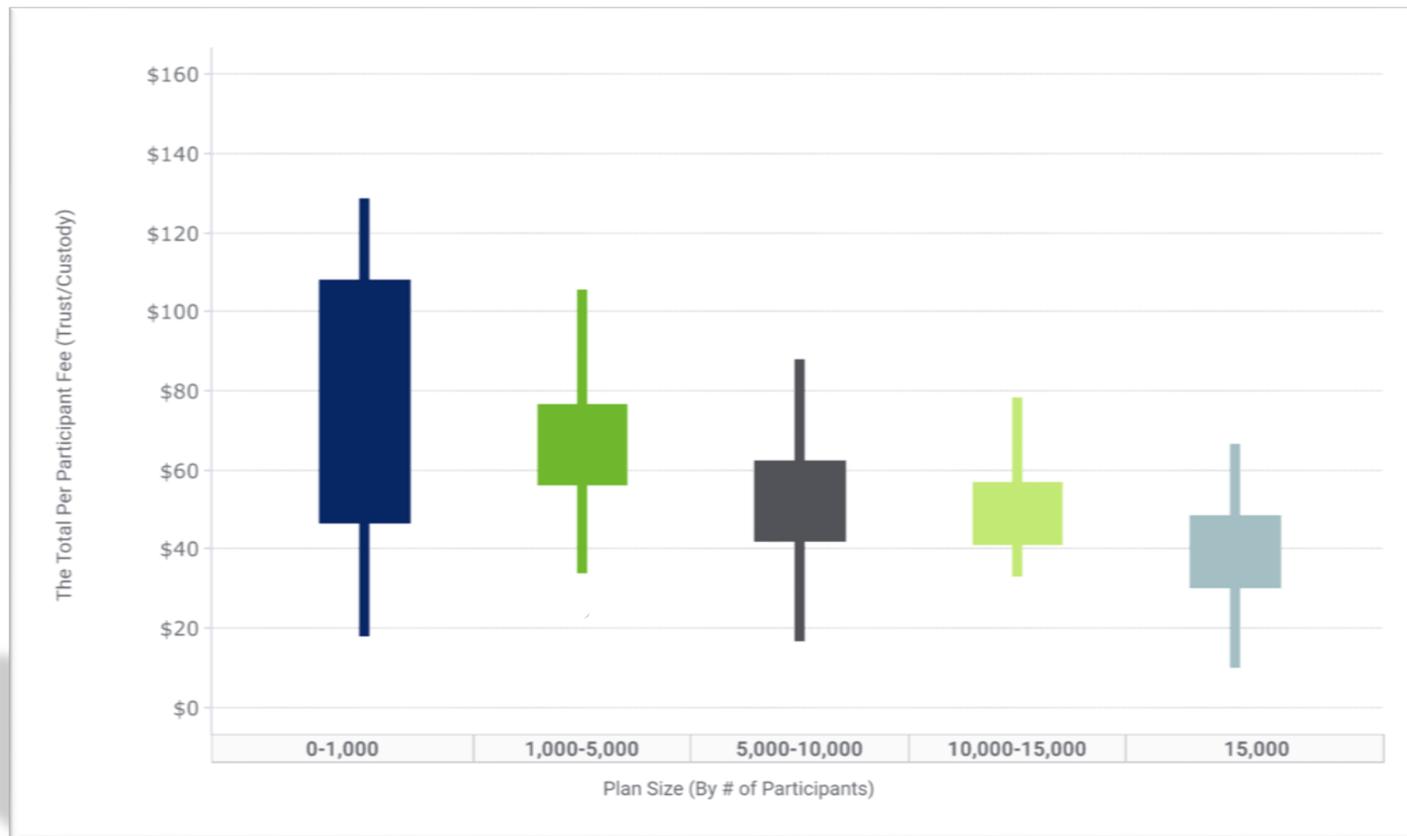
¹This report is not a substitute for a full record keeper vendor search and it is not intended to validate that a Plan offers the lowest-cost share class and/or most appropriate investment vehicle

2019 RECORD KEEPING FEE REVIEW

Record Keeping, Trust and Custody Per-Participant Cost by Plan Size

All plans are not created equal. Higher (or lower) record keeping fees are a function of plan size and complexity, and the package of services the plan sponsor has contracted for.

While there is scale pricing (i.e., larger plans can access lower fees), operational complexity and service levels drive meaningful differentiation in price. Best practice is to compare fees and services through a record keeping vendor search Request for Proposal ("RFP") process.



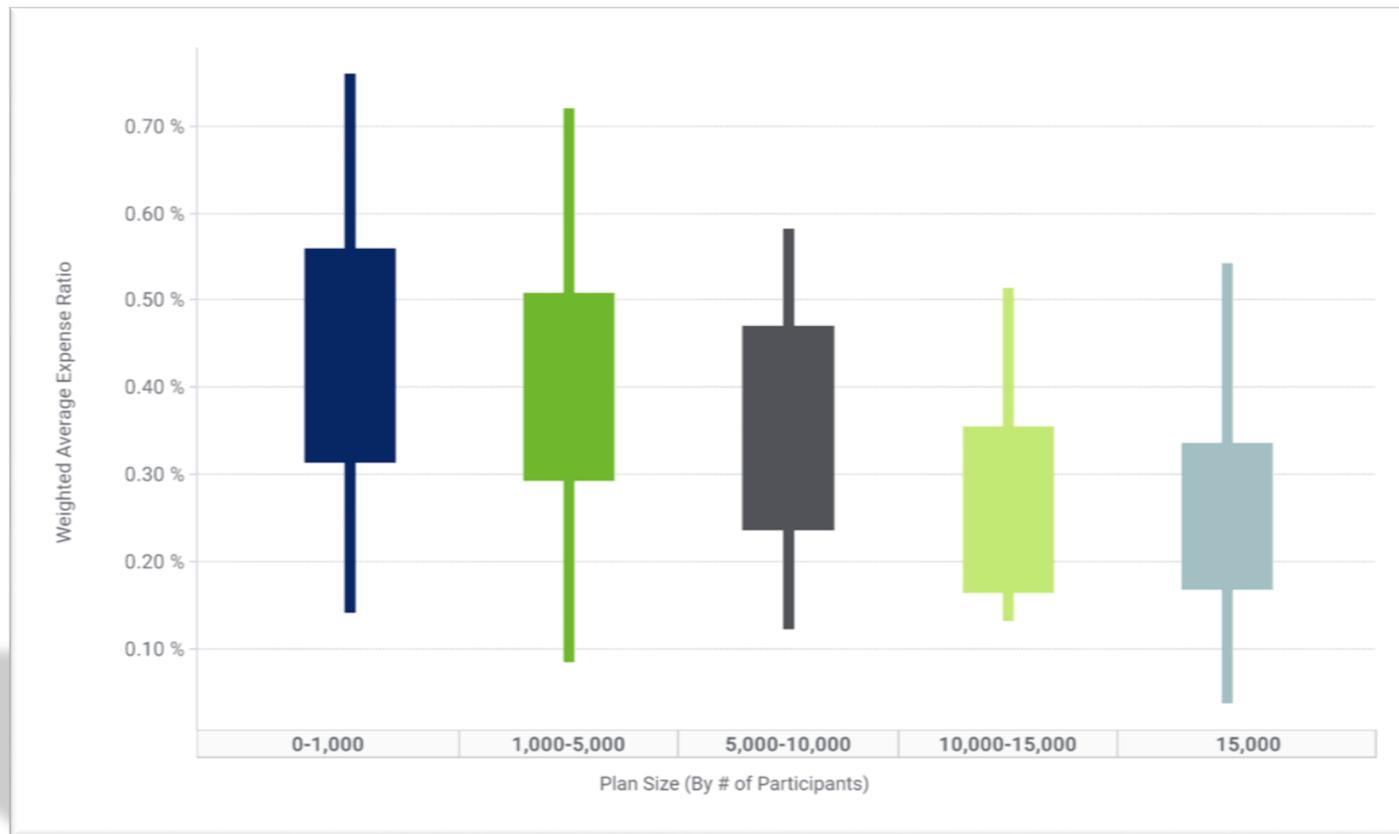
Each box plot provides a pictorial representation of record keeping, trust and custody costs by plan size, according to NEPC's 2019 Defined Contribution Plan & Fee Survey which included 121 defined contribution and deferred compensation plans. Fees were gathered from participating plans' service providers and recast in a uniform format. Displayed are the 95th percentile, 75th percentile, 25th percentile and 5th percentile plan cost points. The data represents broadly what plans pay and not how they pay.

2019 INVESTMENT FEE REVIEW

Asset-Weighted Expense Ratios by Plan Size

Asset-weighted expense ratios are a function of how much plan investment options cost and where participants allocate their assets.

The exhibit illustrates the range of pricing across plan sizes. Larger plans have lower asset-weighted expenses because of their access to scale pricing, less use of revenue sharing, and because a portion of plan assets (for corporate plans) may be invested in employer securities with low or no expense. Any plan with substantial index assets plots at the lower end of the range.



Each box plot provides a pictorial representation of asset-weighted expense ratios by plan size, according to NEPC's 2019 Defined Contribution Plan & Fee Survey which included 121 defined contribution and deferred compensation plans. Investment options, asset balances and expense ratios were gathered from participating plans, with NEPC calculating the asset-weighted expense ratio. Displayed are the 95th percentile, 75th percentile, 25th percentile and 5th percentile plan cost points.

DISCLOSURES

NEPC, LLC

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