DEFINED CONTRIBUTION PLAN FEES CONTINUE TO DECLINE: 2013 NEPC PLAN & FEE STUDY

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Summary

Fees related to retirement investment accounts hit another record low this year, according to a survey by NEPC, LLC. Once again, recordkeeping costs, the second largest component of total fees, saw the sharpest fall.

The steep drop in recordkeeping fees, or costs related to documenting participant activity, has been fueled by new rules aimed at making fees more transparent and well publicized litigation. While recordkeeping fees continue to be charged primarily through revenue-sharing arrangements or asset-based fees, they continue to fall, despite rising asset balances. The price setters squeezing recordkeeping fees appear to be the bundled providers offering lower fees and plan reimbursement accounts to retain and promote their asset management businesses.

To this end, sponsors may potentially be in a position to take advantage of this fall in prices. Sponsors, at a minimum, should assess the contracts they have in place and check in with their vendors. Importantly, sponsors should evaluate whether service levels could be impacted by fee changes and whether fee changes represent actual savings to participants or merely a shifting of payments.

Overview

NEPC's Defined Contribution Practice group conducts an annual Defined Contribution Plan & Fee Survey ('Survey') to help plan sponsors, that is, employers, understand the fees, pricing and structure of their defined contribution plans.

In its eighth year now, the 2013 Survey includes data from 95 plan sponsors, encompassing over one million plan participants. A detailed break-out by plan assets and number of participants is available to our clients, prospects and survey participants; Summary findings are publicly released.

The NEPC Survey, unlike others that gauge sentiments, attitudes and perceptions, is based on numerical data. It is an in-depth study of plan fees. We don't simply ask sponsors to quantify fees. Instead, we calculate them based on data gathered from recordkeepers, custodians and trustees.

Key Findings

In any study involving defined contribution plan fees, the following three key data points garner the most attention: total plan cost, investment management fees and recordkeeping fees.

In our 2013 survey:

- The annual median total plan cost for plan sponsors was 0.53%, or 53 cents for every $100 in fund assets, compared to 0.55% in 2012;
- The annual weighted average expense ratio was 0.52%, or 52 cents for every $100 in fund assets, this is unchanged from the 2012 Survey; and
- The annual median recordkeeping fee was $80 for each plan participant, compared to $92 in 2012.

In 2006, when NEPC first conducted this survey, recordkeeping fees totaled $118 per year for each plan participant. At the time, the median weighted average expense ratio stood at 0.57%.

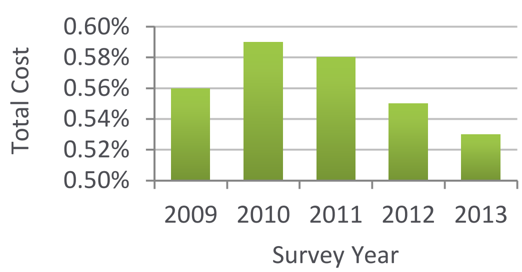
Survey Results

In this next section, we present trends for the components of defined contribution plan fees. As a reminder, there are a variety of fees that contribute to overall plan costs. The largest costs in a defined contribution plan are investment management fees followed by recordkeeping payments. Investment management fees are charged by money managers for running the funds in a plan; recordkeeping fees are costs related to documenting participant activity.

In addition to charging investment management fees, many investment companies include so-called revenue-sharing arrangements within their funds to help offset, and, in some instances, completely pay for, all plan-related expenses, including recordkeeping. Essentially, a portion of a fund's expense ratio is "shared" to pay for plan expenses.

Total Plan Cost: Total plan fees have declined steadily in recent years amid regulatory changes and a litigious environment.

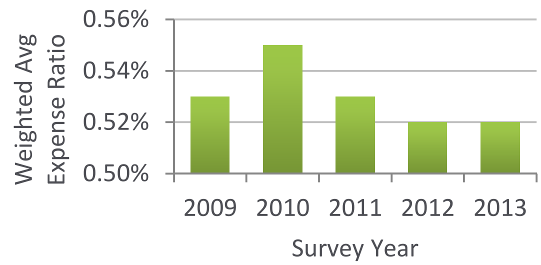
Total Plan Cost



Definition: Total plan cost is a Plan's all-in cost, including fees related to investment management, recordkeeping and all other administrative services. This is the total fee paid by plan participants and the plan sponsor.

The Weighted Average Expense Ratio: Plan expense ratios have also declined in recent years. Traditionally, weighted average expense ratios range from 0.52%-0.60%. NEPC's 2013 Survey findings indicate a plan median of 0.52% which is unchanged from 2012.

Weighted Average Expense Ratio



Definition: An asset-weighted average expense ratio of all funds offered in a plan. This ratio's calculation is influenced heavily by participant allocations. Large plans tend to have lower expense ratios than smaller plans because they enjoy economies of scale stemming from their more substantial asset bases. Large plans also tend to have lower record keeping and/or revenue-sharing requirements per participant.

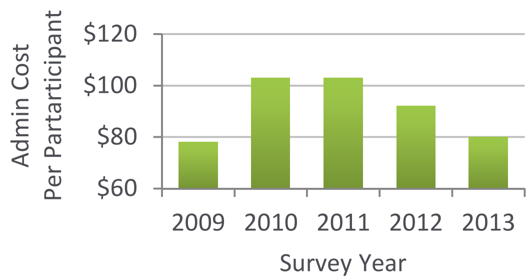
Recordkeeping Fees: The cost attributed to the administration of the plan has dropped the most year over year.

The 2013 survey results show a median recordkeeping fee of $80 per year for each participant, compared to $92 in 2012. During the same period, the Standard & Poor's 500 Index gained 3%. This is a continuation of a trend that began last year, where assets have grown yet fees have fallen on the heels of legislative changes and fear of potential litigation. The increased attention to these fees by plan sponsors, their advisors, and recordkeepers themselves has also helped fuel this downward trend.

Interestingly, recordkeeping fees saw a sharper fall (13%) than the overall expense ratio (unchanged) of which they are often a component. This may be explained, in part, by recordkeepers shifting fees to one part of the business from another; for instance, accepting a lower administrative revenues on one side but seeking higher investment management revenues on the other. To this end, plan sponsors should press recordkeepers for a reduction in total fees and not settle for a mere rebalancing of the different fee categories.

As a practical consideration, with record keepers looking to increase investment revenues to offset lower record keeping margins, getting proprietary assets under management has re-emerged as a key focus. Record keepers really want to manage the target date funds, for example. When considering changes to capture fee savings, Plan sponsors must make prudent decisions incorporating all factors and they shouldn't operate in a vacuum.

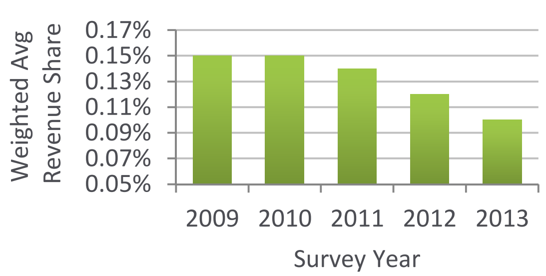
Recordkeeping Fees



Definition: The median per head plan recordkeeping fee. Recordkeeping fees can be explicit (per plan participant) or implicit (based on asset based fees). While we reference "recordkeeping" fees, our definition of recordkeeping fees encompasses administrative costs, such as, trust/custody services and communications, in addition to recordkeeping. The general rule is that the more participants in a plan, the lower the recordkeeping fees per head.

Weighted Average Revenue Sharing: Consistent with our survey's findings, revenue sharing arrangements have declined year over year. While there has been much discussion in the industry about the appropriateness of revenue sharing arrangements, Regulators have been generally supportive of the practice of using revenue sharing to support the payment of plan admin expenses.

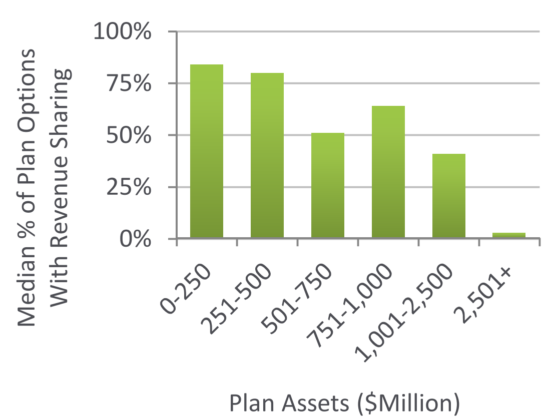
Weighted Average Revenue Share



Definition: This is an average of the different levels of revenue-sharing among options offered in a plan. Typically, sponsors focus on the fee per participant, but this number comes in handy when sponsors wish to estimate a reasonable level of fees for a plan of a particular size. It is also helpful for those plan sponsors who are evaluating whether other plan sponsors are moving away from asset based fee models.

Median % of Plan Options With Revenue Sharing: To help sponsors better observe revenue sharing trends, the 2013 Survey now captures the percentage of plan funds that collect revenue sharing; on average 61% of plan options have some form of revenue sharing. While those results indicate that revenue sharing remains a prevalent practice, we also measured the number of plans where there is no form of revenue sharing from any of the fund options. 13% of plans in the survey fell into that category and not surprisingly, most were on the larger end of the asset spectrum. Digging deeper into those results, the majority of the plans in the survey with over $2.5 billion in assets had zero plan funds with revenue sharing. A detailed break out of the Medians (by Plan Size) is listed below:

Median % of Plan of Plan Options With Revenue Sharing



Definition: The chart illustrates the prevalence of revenue sharing by presenting the percentage of fund options that provide revenue sharing. The Median % of Plan Options With Revenue Sharing is broken down into six categories based on plan asset size. The chart shows the prevalence of revenue producing funds, particularly in the smaller plan sizes.

Other Findings

In addition to fees, the Survey investigates a number of other investment and plan design related data. Consistent with the focus on fees, the data shows more plans benefiting from plan expense reimbursement accounts than in any previous year. From an investment perspective, numbers of investment options have not changed and target date funds continue to be the turnkey solution for most plans.

While managed accounts have received a great deal of attention in the press, they have failed to increase in market prevalence. Several of the data points from the Survey include but are not limited to the following observations:

	Survey Results 2012	Survey Results 2013
Average participation rate:	75%	78%
Cost		
Average weighted-average expense ratio:	0.52%	0.52%
Estimated annual cost of administration (per participant):	$92	$80
Have Plan Expense Reimbursement Accounts (PERA):	29%	37%
Investment Structure		
Median number of investment options:	22	22
Offer Target date/lifestyle funds:	100%	100%
– Offer lifestyle	5%	4%
– Offer Target date	97%	95%
Offer company stock:	22%	20%
Offer non-mutual fund vehicles:	81%	74%
Use diversified investment option as default:	98%	96%
– Target date	95%	92%
– Other	3%	4%
Plan Features		
Offer brokerage window:	45%	42%
Offer managed accounts:	20%	16%
Offer Roth 401(k):	41%	44%
Use automatic enrollment:	49%	51%
– Use diversified default	100%	100%
– Average deferral rate with automatic enrollment:	3.60%	3.70%

Recent guidance from the Department of Labor suggests that Sponsors should consider whether "custom" target date funds make sense for their population. According to this year's Survey 14% of respondents offer custom target date funds.

Conclusion

The 2013 Survey findings point to an evolving marketplace in which recordkeepers and plan sponsors continue to adjust to new regulations and pertinent questions posed by litigation.

The results show a sizable change in per participant recordkeeping fees. The lower fees are in line in with the trend of declining costs. Administrative fees have steadily declined since we conducted our first survey in 2006.

This study is intended as a tool to help plan sponsors benchmark their plan fees. If you have questions about the survey, or would like to be included in the results, contact your NEPC consultant at 617-374-1300.