

*2007 Defined Contribution Plan Survey*



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## **Introduction**

The visibility of the Defined Contribution (DC) Plan is reaching new heights as the implications of the Pension Protection Act of 2006 (PPA), enacted on August 17, 2006, become more apparent. Since Wilshire Consulting's first survey, six months prior to the passage of the PPA, the Department of Labor (DOL) has ruled on a number of plan innovations and recommendations. These are broadly viewed as essential updates to ERISA and provide DC plans with the capabilities to fulfill their now recognized responsibility as the primary retirement savings vehicle for a majority of Americans<sup>1</sup>. While automatic enrollment provisions, automatic escalation features, and default investment options have been on the radar for sometime, the passage of the PPA has sanctified their use.

On the horizon is the next step that will implement changes designed and legislated to increase the probability that retirees meet their retirement income goals. Specific to this year's survey, we paid careful attention to how PPA provisions manifested themselves in our sample of plans. While a full year has not passed since the passage of the PPA, we noticed that many plans proactively moved ahead of the curve.

### *Survey Methodology and Data*

The survey was formulated to solicit both quantitative and qualitative responses regarding DC plan design. A total of 46 questions were included, which queried organizations about plan administration and costs, participation, advice, investment options, deferral rates, matching contributions, auto-enrollment and savings escalator provisions. Of the total survey responses, some questions were not widely answered. In some cases, answers had to be supplemented with information collected from publicly available sources<sup>2</sup> while other answers had to be inferred from those responses that were received. The following table provides the allocation of questions across various broad categories.

**Exhibit 1: Survey Question Structure**

<b>Question Category</b>	<b>Number of Questions</b>
Plan Description	9
Matching Contributions and Deferral Options	9
Auto-enrollment and Savings Escalators	7
Plan Costs and Coverage	8
Investment Options and Advice	10
Open-ended topic	3

<sup>1</sup> U.S. Department of Labor. Private Pension Plan Bulletin Historical Tables; Table E5

<sup>2</sup> Resources: Corporate 10K filings and Form 5500 information from [www.freeerisa.com](http://www.freeerisa.com).

*The Retirement Plan Environment and Current Trends*

In our 2006 DC Plan Survey, we noted the dramatic shift in retirement funding from Defined Benefit (DB) to Defined Contribution (DC) plans. In 2008, we are beginning to see the first wave of baby boomers reaching age 62. When this cohort was 36 years old in 1981, large corporations began adopting 401k plans as supplemental retirement plans. This first cohort will mark the first group of workers to partially, if not substantially, fund their retirements with defined contribution plans. Exhibit 2 below displays the actuarial probability of survival once an individual has reached age 65<sup>3</sup>. Roughly 50% of men and women have a chance of surviving past their 85<sup>th</sup> birthday. With an average 401k account size of \$193,701 among 60 year old workers with 30-years+ tenure with their current employer<sup>4</sup>, the potential for short-fall risk appears imminent.

**Exhibit 2: Retirement Funding and Mortality Risk**

Longevity Risk: Probability of Survival at Age 65		
TO AGE	FEMALE	MALE
70	93.9%	92.2%
75	85.0%	81.3%
80	72.3%	65.9%
85	55.8%	45.5%
90	34.8%	23.7%
95	15.6%	7.7%
100	5.0%	1.4%

Source: Society of Actuaries RP-2000 with Full Projection

As a result of the retirement plan landscape shifting in favor of greater participant financial responsibility, the risk of individuals falling short of their retirement needs also has increased. With the decentralization of investment decisions from educated pension staffs and boards to individual participants, today's defined contribution plans will have to evolve rapidly to incorporate beneficial design features of traditional defined benefit plans into the line-up of defined contribution investment options. Ultimately, the goal of retirees maximizing the probability of successful income substitution also achieves the goal of minimizing the probability of future fiduciary risk.

*Summary of Survey Respondents*

In aggregate, 48 organizations responded to our second annual survey, up from 32 last year. Thirteen respondents were public-sector sponsors and the remaining 35 were corporate sponsors. The plan breakdown by asset size and organization type is displayed below in Exhibit 3.

<sup>3</sup> Exhibit 7, EBRI Issue Brief No. 308 • August 2007. Found on the Internet at <http://www.ebri.org>

**Exhibit 3: Plan Sponsors by Plan Type and Market Value (\$ in millions)**

Range of Assets	Count of Plans			Market Value		
	Corp	Public	Total	Corp	Public	Total
\$350 to \$1,050	10	2	12	\$7,379	\$1,787	\$9,166
\$1050 to \$1,700	9	3	12	\$11,455	\$4,259	\$15,714
\$1,700 to \$3,000	8	4	12	\$19,466	\$9,090	\$28,556
\$3,000 to \$21,119	8	4	12	\$65,320	\$21,957	\$87,277
<b>Total</b>	35	13	48	\$103,620	\$37,092	\$140,712

For the 2006 reporting year, \$141 billion in total DC plan assets were represented, covering approximately 1.5 million workers. All 48 organizations sponsored a DC plan for their employees with 37 of the respondents sponsoring a DB Plan with aggregate assets of \$398 billion. Almost one-third of those sponsoring a DB plan, however, had closed their plan to new employees. Broken out separately, corporations had a higher average employee participation rate in DC plans than the public sector organizations. This lower observed participation rate among public sector plans followed our expectations. DB plans have traditionally played a more dominant role in public sector retirement and thus have diminished the role DC plans are required to play relative to the corporate sector. Going forward however, we would expect the gap between public sector and corporate sector participation rates to shrink if public sector institutions begin to go the same route as corporations and close and/or freeze their traditional defined benefit plans.

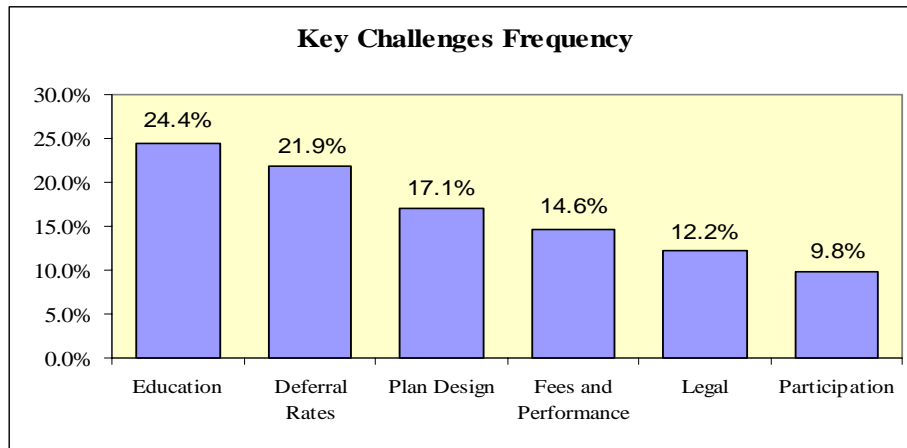
- Public-sector DC plan average participation rate = 60.4%
- Corporate DC plan average participation rate = 77.6%
- Total DC plan average participation rate = 73.4%

**Survey Participant Landscape**

*Common Issues Faced and Research Interests*

Respondents were asked to discuss the key challenges faced as DC plan sponsors. The range of our respondents' key challenges and research interests was broader in this year's survey with the addition of concerns regarding plan design and fees. Below in Exhibit 4 is a graph of the response frequency.

#### Exhibit 4: Plan Sponsor Key Challenges Ranked by Response Frequency



Topping this year's list of DC plan sponsor challenges for a second year in a row was participant education. Specifically, sponsors were interested in learning how they might increase participants' awareness of their retirement income replacement needs. Further to achieve this goal, interest was focused on providing effective general investment education so that participants could intelligently identify their growth and risk profiles and consequently choose the correct asset allocation. The primacy of this issue clearly reflects the current awareness of the potential short fall in retirement income substitution.

Deferral Rates were the runner up in this year's survey, followed by Plan Design challenges. Since the passage of the PPA, automatic enrollment and escalation features have been provided safe harbor and as a result should help to increase deferral rates. Increased deferral rates in conjunction with plan design features that specify more appropriate default investment alternatives should ease concerns of under-funding risk and translate into a higher probability of successful retirement income replacement.

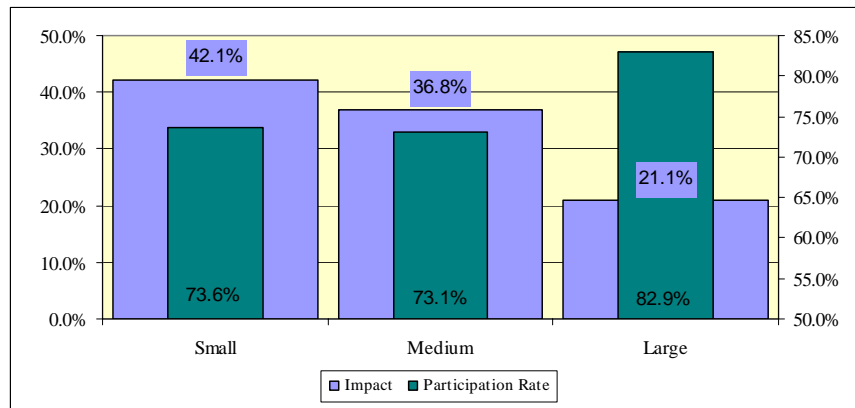
Fees and performance posed challenges on a few fronts. First, performance measurement of investment options with a specific interest in benchmarking target maturity funds was a common challenge. Next the selection of more competitively priced fund structures from retail and institutional mutual funds to commingled and separate account structures was cited. Finally, monitoring the competitiveness of fees and their translation to competitive product sourcing was of broad general interest.

Legal challenges were cited in complying with newly adopted PPA provisions and ranged from general compliance with all regulations and filings to fiduciary responsibility. Lastly, while participation rates fell to the bottom of this year's list of challenges, we suspect that the high interest in education, deferral rates, and plan design features are motivated by participation rate concerns.

### Impact of the PPA

Survey participants were also asked to discuss the impact of the PPA on their organization's retirement benefits. The resulting responses were then identified as representing a perceived Large, Medium, or Small impact. Below in Exhibit 5 is a chart of the frequency of those responses<sup>5</sup> and the average participation rate per category.

**Exhibit 5: Impact of PPA**



Interestingly, of our respondents, 42.1% felt that the PPA would not have a significant impact on their company's retirement benefits. For the next largest frequency, 36.8% thought the PPA would have some impact on plan features but would not represent a universal change. For the smallest percentage of our respondents, the PPA's impact was perceived as a comprehensive change in the defined benefit space. Incidentally, those respondents who perceived the largest impact also displayed a surprisingly large difference in participation rate. Although the sample of responses was relatively small, only 19 plans furnished a response, we hypothesize that plans with the greatest sensitivity to the legislative environment may also display a greater sensitivity to plan innovations that increase participation.

### Plan Governance

To gauge the defined contribution plan governance environment, we asked our survey respondents if they had written a DC plan policy statement and if they used a consultant to help manage their fiduciary risk. Exhibit 6 below summarizes our initial findings and matches the responses to those generated in Exhibit 5 above regarding the perceived impact of the PPA on their DC plans.

<sup>5</sup> 28 of 48 survey participants did not furnish a response.

**Exhibit 6: Perceived Impact of the PPA and the use of a DC Plan Policy Statement and the use of a Consultant**

Governance Issues	Yes	Large PPA Impact	Medium PPA Impact	Small PPA Impact
DC Plan Policy Statement	89.5%	75.0%	100.0%	100.0%
Use of a Consultant	57.9%	75.0%	57.1%	75.0%

79.2% of plans furnished a response

Moving ahead of the curve, nearly 90.0% of our survey respondents had a written DC Plan Policy Statement to help guide them through future changes in operations and oversight. Slightly more than half of the respondents utilized a consultant. Most who responded to the perceived impact of the PPA had a written DC Plan Policy Statement, and of that same sample more than half used a consultant.

**DC Plan Design, Investment Options, and Cost**

*Auto Enrollment*

The provision for automatic enrollment of employees in DC plans is one of the most significant new reforms of the PPA. Previously, automatic enrollment or negative election conflicted with some state laws on withholding wages without employee consent. The PPA preempts any state law that would prohibit automatic enrollment for ERISA plans<sup>6,7</sup>. In our survey we found that roughly half the plans offered automatic enrollment with an additional 22% of plans considering adopting the option. Furthermore, of the plans that did offer an auto-enrollment option, 75% had specifically structured the auto-enrollment option to meet the PPA's non-discrimination safe harbor.

**Exhibit 7: Auto Enrollment and Impact on Participation**

Auto Enrollment	% of Respondents	Participation Rates
Yes	53.33%	80.20%
No	24.44%	60.30%
No, but considering it	22.22%	74.50%

Note: 3 participants did not provide sufficient data to be included in exhibit.

Since the passage of the PPA, as long as employees have the right to opt out, employers are safe to automatically enroll new employees in their plans. This particular legislative move should provide continuing impetus behind this already established trend. For instance, in contrast to last year's survey, we found among the returning respondents that the number of plans with auto-enrollment rose from 50% in 2006 to 75% in 2007, with

<sup>6</sup> Public sector plans do not yet enjoy this same preemption unless it has been legislated at the state level

<sup>7</sup> Technical Explanation of H.R. 4, The "Pension Protection Act of 2006," As Passed By The House On July 28, 2006, And As Considered by The Senate On August 3, 2006. Prepared by the Staff of the Joint Committee on Taxation.

the remaining 25% balance of plans considering adding the feature. We continue to expect future surveys to reveal broader adoption of auto-enrollment.

Further, we asked whether the auto-enrollment feature applied only to new employees or had been expanded to include all employees, including those who began employment when DC plan participation was by positive election. Cross referenced with this response was whether the sponsor had changed the default investment option associated with the auto-enrollment feature. Exhibit 8 below displays our results.

**Exhibit 8: The Scope of the Auto Enrollment Feature**

Scope of Auto Enrollment	% of Respondents	Δ in Default Option
New Employees Only	87.5%	50.0%
All Employees	12.5%	33.3%

Most respondents who had an automatic enrollment feature only applied it to new employees. With respect to the PPA, while there is no fiduciary duty requiring expanding the feature to all employees, it is likely to become best practice. Significantly, both groups displayed a large turnover in their default investment option.

Automatic enrollment of employees increases the importance of default investment options. The PPA has thus established a safe harbor for default investment options, and the DOL has published guidelines that identify three Qualified Default Investment Alternatives (QDIA): Balanced Funds, Target Retirement Date Funds, and Discretionary Managed Accounts.<sup>8</sup> Target Retirement Funds refer to dynamic pre-diversified funds that rebalance toward a more conservative asset allocation over time as the target date approaches. Of the plans who offered automatic enrollment, we found that 50% had changed their default investment option in the past year to be compliant with the PPA and that 38.5% are planning on changing their default investment option in the next year. Exhibit 9 displays the frequency of the current default investment offerings.

**Exhibit 9: Default Investment Alternatives and Plan Asset Range**

	Default Investment Offering	Average Plan Assets
Lifestyle Fund	47.8%	\$4,269
Target Date Maturity	39.1%	\$2,700
Stable Value/Money Mkt	8.7%	\$4,300
DMA	4.3%	\$840

The popularity of Lifestyle Funds as the default investment in the plurality of DC plans was a mixed surprise, as many plans had offered lifestyle funds in their line-up of

<sup>8</sup> Federal Register: 29 CFR Part 2550: Default Investment Alternatives Under Participant Directed Individual Account Plans; Final Rule. Department of Labor, Employee Benefits Security Administration, October 24, 2007.

investments prior to the passage of the PPA. Importantly however, lifestyle funds, which typically refer to static risk-based pre-diversified funds often named “conservative,” “moderate” or “aggressive,” are not accepted unqualifiedly as QDIA under the PPA. For a lifestyle fund to qualify as a QDIA, its portfolio must be an appropriate default investment based on the underlying employee demographic of the plan. Given this distinction, we expect to see a change to the legislated QDIA in the near future.

The large percentage of plans using a Target Date Maturity Fund as the primary default investment option was expected. Those plans looking to add an auto-enrollment feature to their plan would most likely be presented with one of the three QDIA’s as their default investment option and thus the observed popularity of target date maturity funds. Stable Value and Money Market funds also fell in line with our expectations as they have not been identified as QDIA by the DOL<sup>9</sup>. Discretionary Managed Account’s (DMA) last place in market share was a mixed surprise. From the perspective of its QDIA status, it is surprising that DMA is less prevalent than a stable value or money market fund. However, from the perspective of new product adoption, new products tend to have a lag in take-up rates.

In addition to safe harbor for default investment selection<sup>10</sup>, the PPA also extended safe harbor to automatic increases in salary deferral rates. From our survey we found that while plans with automatic savings escalators displayed an above average participation rate, average deferral rates rested close to the average survey deferral rate of 6.7% for all plans. We do however expect these measures to change as plan sponsors begin to implement them to increase plan assets and avoid plan discrimination tests.<sup>11</sup>

Automatic Savings Escalator Offered: (37.5% Yes, 62.5% No<sup>12</sup>) [100% response rate]

- Automatic Savings Escalator Offered: 6.6% Avg. deferral rate
- No Automatic Savings Escalator Offered: 6.8% Avg. deferral rate

The relatively insignificant outcome of our measurement did not follow our expectations of higher deferrals among plans with savings escalators. Automatic escalators, however, are usually created under auto enrollment arrangements. Auto enrollment arrangements generally set low initial deferral rates and therefore might explain the close to average deferral rate observed in our study. Due to our small sample of positive responses and short time period following the passage of the PPA, we suspect once automatic salary deferral and salary escalators have had a longer adoption period that the average deferral rates for plans with savings escalators will rise above the average deferral rate for plans without these features.

<sup>9</sup> With the exception of certain transitional investment cases expanded further in the PPA.

<sup>10</sup> Technical Explanation of H.R. 4, “The Pension Protection Act of 2006,” as Passed by The House on July 28, 2006, and as Considered by The Senate on August 3, 2006; p. 148.

<sup>11</sup> Alliance Bernstein, Inside the Minds of Sponsors: What They Care About and Want

<sup>12</sup> 2 blank responses were included in the “NO” response category. The average deferral rate in the “NO” response category without the blank response inclusion was 7.71%.

### *Deferral Options & Matching Contributions*

At the core of all retirement plans are the questions; how to save and how much to contribute. Across our survey participants, we found some common forms of matching employee deferrals but no significantly dominant method. We expect however that the number of plans offering qualifying matching contributions or non-elective contributions to satisfy top-heavy safe harbor rules to increase.<sup>13</sup>

- 85.4% of Employers offer a matching contribution
- 37.5% of Employers offer a contribution regardless of employee deferral.
- The average DC plan participation rate rose from our survey average 73.4% to 77.6% when the company provides a matching contribution to the employee plan

Below in Exhibit 10 we summarize the matching schedules of our survey participants.

#### **Exhibit 10: Characteristics of Matching Formula's**

<b>Matching Formula</b>	<b>Frequency</b>
100% on the first 3%	4.9%
100% on the first 3%, and then 50% on the next 3%	9.8%
100% on first 4%	9.8%
100% on the first 6%	12.2%
100% on first 5%	12.2%
50% on the first 6%	19.5%
Custom	31.7%

Custom matching schedules clearly dominated this year's survey and reflect the different needs among employers to find the optimal compensation scheme to motivate their workers. Outside the custom schedules, the typical employer appears to offer a match in the range of 3% to 5% of eligible pay.

We expect some compression in matching schemes toward fewer custom arrangements to a more standard set of offerings driven by the desire to comply with the non-discrimination safe harbor for auto-enrollment under the PPA. Principally, a cost / benefit analysis will help determine the difference between the cost of additional employee matching contributions and the cost of annual discrimination testing. Additionally, the competitive impact that a matching schedule has on employee recruitment and retention may increase as under-funded retirements of the baby boom generation receive more publicity.

<sup>13</sup> Technical Explanation of H.R. 4, "The Pension Protection Act of 2006," as Passed by The House on July 28, 2006, and as Considered by The Senate on August 3, 2006; p. 217

### *Investment Advice & Deferral Rates*

Whether to offer investment advice has historically been a controversial question for plan sponsors, who, acting as fiduciaries, assumed the liability of providing advice and thus were viewed as potentially culpable for adverse investment performance. As a result, many plans defaulted participants into a stable value or money market fund. On the other hand, the perceived benefits of providing advice were increased deferrals, higher average plan participation, and better investment decisions, thereby improving the likelihood that participants meet their retirement savings needs. The PPA now better clarifies what the plan sponsor's responsibilities are when providing investment advice to plan participants if the advice is provided by a "Fiduciary Advisor" under what the Act defines as an "eligible investment advice arrangement." The sponsor is required to prudently select and periodically review the Fiduciary Advisor; however, the sponsor is not required under the PPA to monitor the specific investment advice given to individual plan participants. This clarification would appear to provide some relief regarding issues that in the past have been a concern to plan sponsors<sup>14</sup>.

#### Advice Offering: (63% Yes, 37% No) [95.8% response rate]

- Advice Participation: 78.1%
- No Advice Participation: 65.5%

In the past, we had observed anecdotally that participant usage of stand-alone investment advice had been quite low, with generally less than 10% of participants utilizing offered advice tools. In this year's survey we found that an average of 15% of plan participants used the offered advice tools.

In line with our expectations, the provision of investment advice in this year's survey via telephone, internet, in person, and DMA did display a positive correlation with increased participation rates in DC Plans. These surprising results may indicate the success of offering advice through multiple channels allowing greater customization of a participant's involvement in the investment process. The current positive correlation may also indicate a turn in the tide of educated participants coming to appreciate the convenience of a broad selection of advice offerings and consequently the advantages of saving early for retirement.

Counter intuitively, there was no difference in average deferral rates between plans that offer advice and those that do not.

#### Average Deferral Rate Excluding Match: [77.1% response rate]

- Deferral Rates with Advice 6.7%
- Deferral Rates without Advice 6.7%

<sup>14</sup> The Pension Protection Act of 2006. The One Hundred and Ninth Congress of the United States of America.

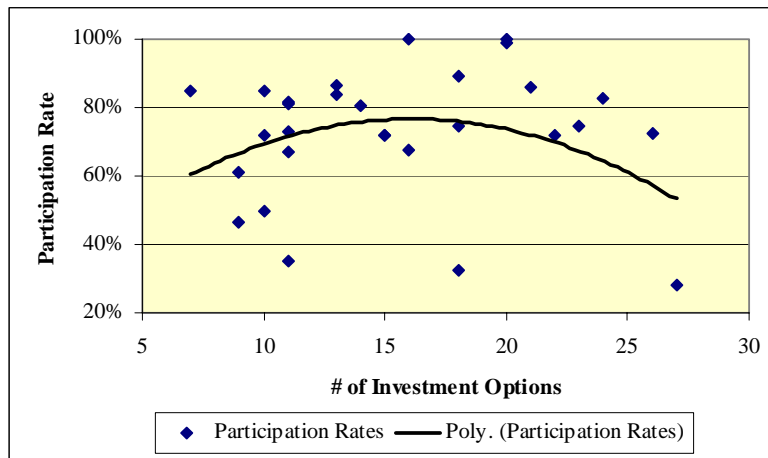
While it was suspected that the provision of advice would increase deferral rates, the optimal deferral rate for each participant is probably too complex to simplify to a function of the level of advice provision. Nonetheless, we suspect that the asset allocation of educated investors will more closely reflect the risk tolerance of the participant and in many cases will hopefully raise the deferral rate to provide a higher retirement income substitution.

*Investment Options*

Survey respondents were asked to provide detailed information about the available investment options in their plans. Specific to our interest in the impact of the PPA on our survey respondents, we asked several questions regarding changes made to their plans' investment option line-up.

Consistent with last year's survey, Wilshire observed a bow shaped effect on average plan participation rates in relation to the number of investment options offered in a defined contribution plan. Exhibit 11 below displays this relationship.

**Exhibit 11: Participation Rate by # of Investment Options**



# of Investment Options Offered	Distribution of Plans	Average Participation Rate
5 to 12	35.5%	61.1%
13 to 20	41.9%	79.8%
21 to 28	22.6%	67.0%

These results may indicate a split in plan participant perception. When too few investment options are offered, participants might feel the upward potential of their DC plan savings is too limited, leading to a relatively low participation rate. Alternatively, when too many investment options are offered, participants might feel the process of investment selection intimidating, which may again explain the low participation rates

displayed in the 21 to 28 investment options category. While more than half of the plans reside in the sub-optimal region of the curve, it is encouraging to see that the largest single distribution of plans is in the optimal offering region.

Plan sponsors were also asked to provide information regarding their plan investments across a broad spectrum of asset classes. Exhibit 12 below summarizes the asset size of 31 out of 48 responding investment plans, the number of investment styles offered in each respective plan and the available number of investment options. Surprisingly, the size of a plan and the asset and style mix available to plan participants is random. We had expected that larger plans would offer both greater depth in style options and be more sophisticated in their choice of expanded investments such as High Yield, Emerging Markets Equity, REITS, and Commodities but, this was not the case. We do, however, expect to see growth in favor of these expanded investment offerings that provide greater diversification benefits as the new PPA provisions add growth impetus to the DC plan market and fiduciaries, in turn, become more sophisticated.

**Exhibit 12: Investment Style Summary**

Investment Style Sectors	Plan \$	\$7,600	\$6,945	\$6,471	\$4,850	\$3,852	\$3,780	\$3,124	\$2,947	\$2,917	\$2,594	\$2,389	\$2,385	\$2,358	\$2,171	\$2,142	\$1,888	\$1,687	\$1,487	\$1,359	\$1,300	\$1,295	\$1,100	\$1,098	\$1,031	\$976	\$917	\$840	\$811	\$754	\$714	\$500	% of Plans	
US Equity		3	7	4	4	4	5	10	7	9	5	10	12	6	6	6	19	7	6	7	6	8	5	8	7	6	8	5	12	8	5	6	100.0%	
Non-US Equity		1	2	1	1	2	4	1	2	3	1	2	1	2	1	2	3	1	1	1	2	2	1	2	1	2	3	1	2	1	2	1	100.0%	
Emerging Markets Equity				1	1																								1			9.7%		
REITS					1	1	1					1												1		1							19.4%	
Fixed Income		1	1	2	1	4	3	1	3	6	1	2	4	2	1		4	1	1	1	2		3	1	1	4	2	1	1	3	1	1	93.5%	
High Yield				1			1			1				1									1			1				1			22.6%	
Commodities																						1											3.2%	
Stable Value / Money Mkt		1	1	1	1	1	1	1	1		1	2	1	1	1	4	1	1	1	2	1	1		1	1	2	1	1	1	2	1	1	93.5%	
Brokerage			1	1				1							1						1						1						19.4%	
Target/Lifestyle/DMA		1	9	1	1	3	6	5	8	3	3	6		11	1	1		1	2		4	1		1	6	3	10	3	11	6		80.6%		
Investment Style Sub-Sectors	Plan \$	\$7,600	\$6,945	\$6,471	\$4,850	\$3,852	\$3,780	\$3,124	\$2,947	\$2,917	\$2,594	\$2,389	\$2,385	\$2,358	\$2,171	\$2,142	\$1,888	\$1,687	\$1,487	\$1,359	\$1,300	\$1,295	\$1,100	\$1,098	\$1,031	\$976	\$917	\$840	\$811	\$754	\$714	\$500	% of Plans	
US Large-Cap Core		2	1	1	1	1	4	2	1	2	1	3	4	1	1	2	3	1	2	1	2	1	1	2	1	1	1	1	1	1	1	1	1	93.5%
US Large-Cap Value			2		1	1		2	1	1		1	2	1	1	2	3	1	1	2	1			1	1	1	1	1	1	1	2	1	2	83.9%
US Large-Cap Growth			2		1	1		2	1	1	2	1	1	1	1	2	4	2	1	1	1	1	2	2	1	1	3	1	1	1	1	1	90.3%	
US Mid-Cap								3		2		1	3	1			4				1		3	1	1	1	2		1	3	2	1	1	54.8%
US Small-Cap Core			1	1	1	1	1		1	1	1	1	1	1		1									1			1	2		1		51.6%	
US Small-Cap Value									2	2		2			1	1	2	1	1	1	2	1			1			1	1		1		48.4%	
US Small-Cap Growth									2				1		1		1	1	1		1	1	1		2				1				35.5%	
Company Stock		1		1					1	1	1			1									1		1								25.8%	
US Real Estate					1	1	1					1													1		1						19.4%	
Global Equity					1	2				1												1	1			1				1			22.6%	
Int'l Equity Developed		1	2	1	1	1	2	1	2	2	1	2	1	2	1	2	3	1	1	1	1	1	1	1	2	1	1	3	1	2	1	1	100.0%	
Emerging Markets Equity				1	1																									1			9.7%	
US Core Fixed Income		1	1	1	1	4	2	1	2	5	1	2	4	1	1		2		1	1	2		2	1	1	3		1	1	1	1		83.9%	
US Fixed Income High Yield				1			1			1				1									1							1			22.6%	
X-US Fixed Income																	2	1									2			1		1	16.1%	
Stable Value		1	1	1	1	1			1		1	1	1	1	1	4	1	1	1	1	1	1	1		1	1	1	1	1	1	1	1	1	87.1%
Money Market							1	1				1									1					1				1			19.4%	
Commodity																						1											3.2%	
Lifestyle					1	3	6			3	3			1				1	2		4			1	1	3	1	3		1	6		51.6%	
Target Date Fund		1	9	1				5	7			6		10	1	1						1			5		9			10			41.9%	
Directed Brokerage			1	1				1							1						1						1						19.4%	
<b>Total # of Styles</b>		7	20	10	10	15	20	18	21	21	11	23	18	22	10	13	27	11	11	11	15	13	9	14	16	18	24	11	16	26	15	9		

### Plan Costs and Coverage

When we queried our survey participants about how they allocated the cost of advice, we found participation rates were above our 73.4% average when advice costs were allocated only to the participants that utilize the service or paid by the plan sponsor. When the cost of advice was allocated to all employees and the sponsor, we found participation rates were well below the average.

- Participants pay for advice: Avg. PR = 81.3%
- Sponsor pays for advice: Avg. PR = 76.9%
- Everyone pays for advice: Avg. PR = 66.5%

With regard to the allocation of plan costs to participants, we found that average participation rates were significantly lower when those costs were born entirely by the employer, about average when participants paid all costs, and highest at 80.6% when the sponsor paid administrative costs and the participants paid the balance. While these results may appear counter-intuitive, it is suspected that the high participation rate in the cost sharing category is reflective of an environment that fosters informed participant responsibility.

- Participants bear all costs: Avg. PR = 73.6%
- Sponsor pays just administration costs: Avg. PR = 80.6%
- Sponsor pays all costs: Avg. PR = 58.1%

Finally, respondents were queried about the total costs contributed by trustee/custodial, legal, audit, consulting, and other plan fees. Below in Exhibit 13 are those fees summarized per participant.

**Exhibit 13: Plan Fees per Participant<sup>15</sup>**

	Trustee & Custodial	Legal Fees	Consulting Fees	Audit Fees	Other Fees
<b>Average</b>	\$24.78	\$7.94	\$9.31	\$4.24	\$10.20
<b>Min</b>	\$2.33	\$1.68	\$2.07	\$0.83	\$1.94
<b>25%</b>	\$8.82	\$4.77	\$2.87	\$2.33	\$3.34
<b>50%</b>	\$17.89	\$5.54	\$6.59	\$3.73	\$9.48
<b>75%</b>	\$27.29	\$9.92	\$15.07	\$6.67	\$14.84
<b>Max</b>	\$91.92	\$19.79	\$22.54	\$8.58	\$25.41

### Investment Approach and Account Structure

Plans in our survey displayed a strong preference for active investment management. The overall ratio of active management to passive management in available investment

<sup>15</sup> Large outliers trimmed from sample.

options was 3:1. Active management was particularly popular among the following asset classes:

- U.S. High Yield
- Non-U.S. Fixed Income
- Stable Value
- U.S. Small Cap Growth
- Global Equity

Alternatively, passive management was most common in both U.S. large cap and small cap core equity and U.S. real estate investments. To some extent, these results follow Wilshire Consulting's belief that passive strategies yield the best returns in efficient markets while active management is best suited for inefficient markets.

Respondents also provided information regarding account structures in their plans<sup>16</sup>. From a structure perspective, we found that separate accounts represent the prevalent investment account structure holding 36.1% of all retirement assets.

Broadly, Retail Mutual Funds exhibit the greatest diversity of style options followed by Separate Accounts, Commingled Trusts, and Institutional Mutual Funds. These results followed partially with our expectations.

Historically, the first DC plans offered retail mutual funds and thus we expected the observed high style diversity. As the market and competitive forces grew, we observed lower cost institutional mutual funds displacing retail funds in DC plans. In this year's study however, we observed institutional funds with the least diverse style offering and separate accounts with the second largest style offering. This observation leads us to speculate that perhaps plan sponsors have substituted separate accounts for institutional mutual funds and that those remaining plans with retail funds have yet to make a transition to a more cost effective investment vehicle. Commingled trusts display the third largest style diversity followed lastly by institutional mutual funds.

Finally, we gathered specific information regarding fund expense ratios, revenue sharing and asset allocation by account structure. Active funds in all but one account structure had higher expense ratios than passive funds. The exception was the separate accounts category with revenue sharing where the average expense ratio for passive management was 1.4bps higher than the same active management category. The Revenue Sharing category also showed this apparent anomaly, which leads us to suspect that our sample for revenue sharing separate accounts was statistically too small to derive a conclusion. Below in Exhibit 14, are our findings.

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<sup>16</sup> 19.4% of Investments were unidentified by account structure.

**Exhibit 14: Management Approaches by Account Structure, Assets, Expense Ratio, and Revenue Sharing<sup>17</sup>**

Active Management	% of Active Assets	Average Expense Ratios (bps)		Average Revenue Share (bps)
		Funds w/o Revenue Share	Funds with Revenue Share	
Retail	29.2%	67.3	83.0	15.3
Institutional	9.8%	58.9	75.6	12.7
Commingled	18.5%	34.3	51.8	5.7
Separate	39.3%	48.2	32.5	0.9
Total Assets	\$56,336			

3.2% of assets were unidentified by account structure

Passive Management	% of Passive Assets	Average Expense Ratios (bps)		Average Revenue Share (bps)
		Funds w/o Revenue Share	Funds with Revenue Share	
Retail	12.4%	19.6	50.0	2.3
Institutional	16.5%	52.7		
Commingled	47.9%	10.3	15.0	1.1
Separate	21.6%	5.1	33.9	3.6
TOTAL	\$17,946			

1.6% of assets were unidentified by account structure

**Conclusion**

One of the most significant changes of the PPA is the clarity it has provided plan sponsors with regard to new defined contribution plan innovations. With this next generation of product innovation, it has been suggested that the responsibilities of plan sponsors, under ERISA's prudent expert rule, have also evolved<sup>18</sup>. This evolution of fiduciary responsibility indicates an added impetus behind future plan changes throughout the structure of defined contribution plans. As a result, Wilshire expects not only the pace but the degree of plan change in future surveys to accelerate and more accurately document the increasing importance of defined contribution plans as the country's primary retirement vehicle.

<sup>17</sup> 35.4% of participants did not supply information regarding available investment options.

<sup>18</sup> Evolving Fiduciary Duty Standards for Defined Contribution Plan Sponsors – The Impact of New Thinking About Employee Participation and Investment Selection. June 2007. Alliance Bernstein. Laurence E. Cranch and Daniel A. Notto.

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