Callan

CALLAN INSTITUTE

Survey

2017 Defined Contribution Trends

10th Anniversary Edition

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Key Findings

Callan fielded our 10th annual *Defined Contribution (DC) Trends Survey* in the fall of 2016. Survey results include responses from 165 plan sponsors, primarily large and mega 401(k) plans. We highlight key themes and findings from 2016 and expectations for 2017.

10 YEARS

26% of plan sponsors expect to conduct a recordkeeper search in 2017

See page 49 for additional details

2016 was a big year for automatic contribution escalation

63% of plans auto escalate, up from 46% in 2015

51% of those who do not are very likely to auto escalate in 2017

See page 17 for additional details

It's a tie for plan sponsors' most impacted areas given the DOL's 2016 Definition of a Fiduciary Rule

- Communication regarding plan rollovers
- Educational materials

37% are unsure how their plan will be affected, or believe there will be no impact

15% of plan sponsors don't know what steps they will take to prevent plan leakage

The DOL's 2016 Definition of a Fiduciary Rule

See pages 12 and 40 for additional details

1/2 of plan sponsors offer retirement income solutions

See page 41 for additional details

Most important step to improving fiduciary position:

Reviewing Plan Fees

See page 11 for additional details

3 most important factors in measuring plan success

PARTICIPATION

CONTRIBUTION RATE

INVESTMENT PERFORMANCE

See page 10 for additional details

Key Findings

In 2016, **49%** of plan sponsors took action related to their target date fund

#1 action is evaluating the suitability of the glide path

See page 25 for additional details

84%

of plans offer investment guidance/ advisory services

See page 36 for additional details

35% Increase in collective trusts

9% Decrease in mutual funds

Continued momentum for collective trusts (48% in 2012 to 65% in 2016) at the expense of mutual funds (92% in 2012 to 84% in 2016)

See page 29 for additional details

4 out of 5 plan sponsors say they engage an investment consultant

35% are unsure if their consultant has discretion over the plan

8% reported using a discretionary consultant

39% relied on their consultant to ensure ERISA 404(c) compliance

See pages 7 and 9 for additional details

47%

of plan sponsors reported making a fund change due to performance-related reasons

This is the highest in the survey's history

35% replaced a large cap equity fund (most common)

See page 34 for additional details

68%

of plans now offer a Roth feature

See page 19 for additional details

Top 2017 Priorities

1. PLAN FEES
2. COMPLIANCE
3. PARTICIPANT COMMUNICATION

See page 13 for additional details

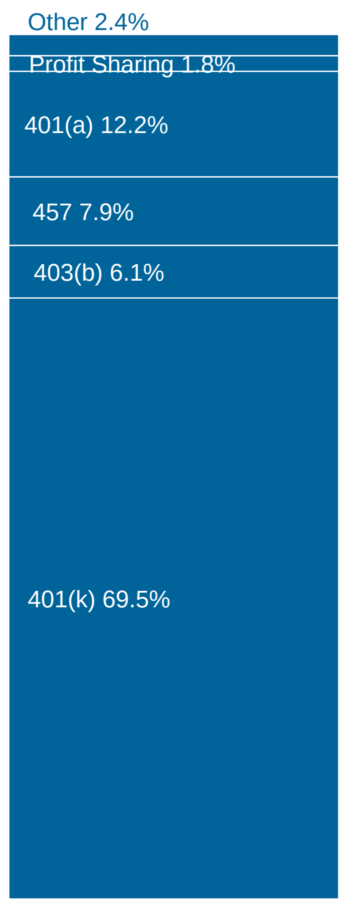
Respondent Characteristics

Callan conducted our 10th annual *Defined Contribution (DC) Trends Survey* online in September and October of 2016. The survey incorporates responses from 165 plan sponsors, including both Callan clients and other organizations.

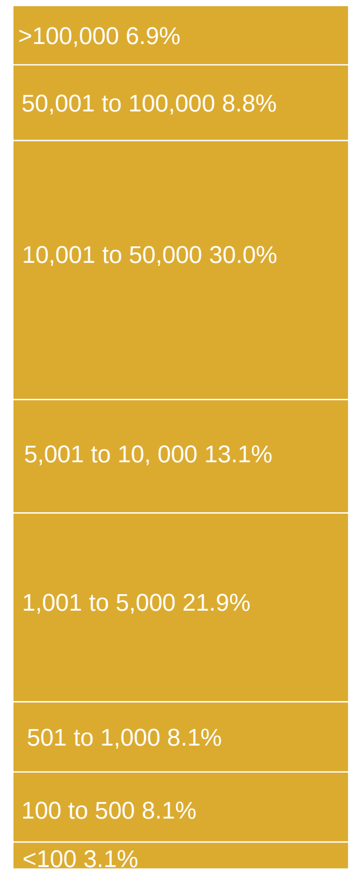
The majority of respondents offer a 401(k) plan (69.5%) as the primary DC plan. Another 12.2% offer 401(a) plans and 7.9% sponsor 457 plans.

Over 80% of plans in the survey have more than $100 million in assets; nearly half (45.7%) are “mega plans” with greater than $1 billion in assets. The proportion of mega plans held constant from last year’s *DC Trends Survey*.

What is the primary DC plan that you offer?



How many participants are in the primary DC plan?



What is the size of the primary DC plan?

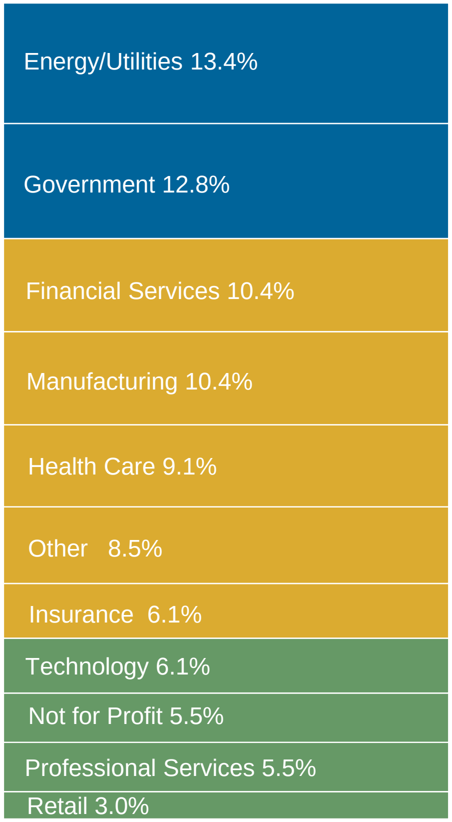
Note: Throughout the survey, charts may not sum to 100% due to rounding.

Respondent Characteristics

Fewer than two-thirds of the DC plan sponsors surveyed also offer a defined benefit (DB) plan, although over a fifth of respondents indicate their DB plan is frozen. In 2015, 67.4% of sponsors reported that they made a DB plan available to their employees.

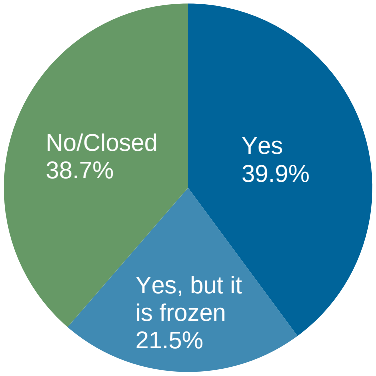
Respondents span a wide range of industries. The top industries include energy/utilities (13.4%), government (12.8%), financial services (10.4%), manufacturing (10.4%), and health care (9.1%).

In what industry is your firm?



Additional categories:
Construction/Mining 2.4%
Education 1.8%
Transportation 1.2%
Entertainment/Media 1.2%
Aerospace/Defense 1.2%
Automotive 1.2%

In addition to the DC plan, does your firm/agency offer a defined benefit plan?

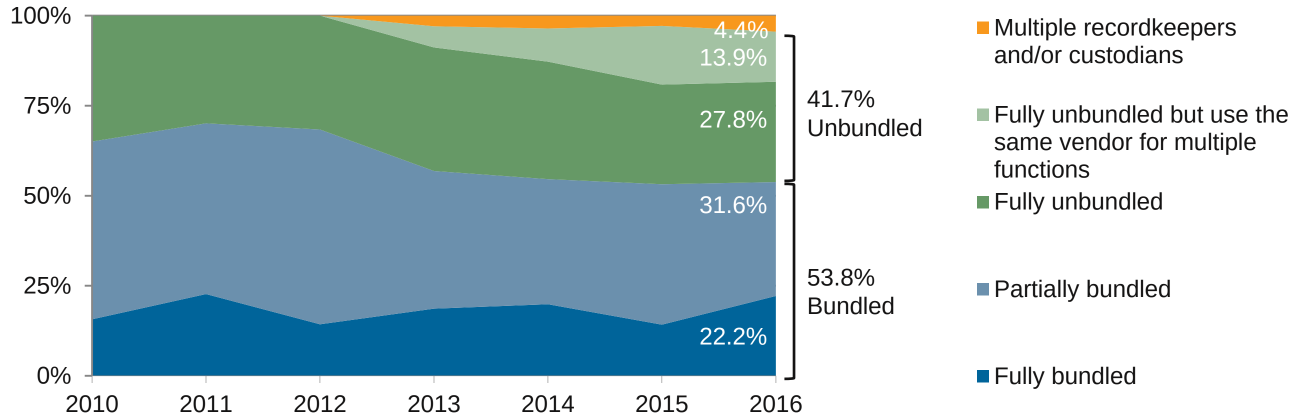


Plan Structure: Bundled vs. Unbundled Arrangements

The proportion of plans that are at least partially bundled came in at 53.8% this year—in line with 2015 (53.2%). Over time, the trend away from bundling is becoming clear. In 2010, 65.1% of plans reported that their plan was at least partially bundled.

Similar to last year, few mega plans (assets greater than $1 billion) have a fully bundled structure (4.1%) while almost half (48.6%) are fully unbundled. Approximately 10.8% of mega plans are fully unbundled but use the same vendor for multiple functions. For mid-sized plans ($50-$200 million in assets), 38.5% use a fully bundled structure while the same amount use a partially bundled structure.

Describe your plan structure



Fully bundled: The recordkeeper and trustee are the same, and all of the investment funds are managed by the recordkeeper.

Partially bundled: The recordkeeper and trustee are the same, but not all of the investment funds are managed by the recordkeeper.

Fully unbundled: The recordkeeper and trustee are independent, and none of the investment funds are managed by the recordkeeper.

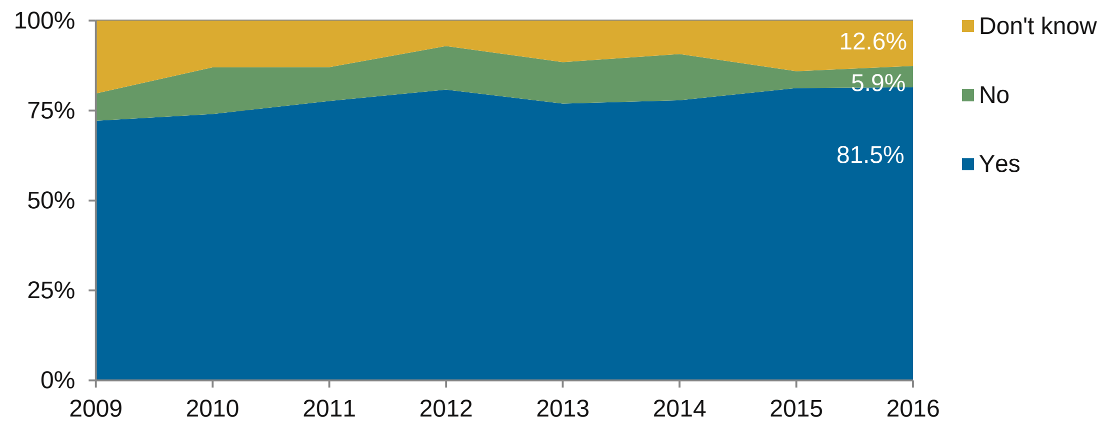
ERISA Section 404(c) Compliance

Most ERISA-governed plans and those plans voluntarily seeking to follow ERISA are designed to be in compliance with ERISA section 404(c) (81.5%), consistent with 2015. More than one in ten plan sponsors, however, don't know if their plan is compliant (12.6%, down from 14.1% in 2015).

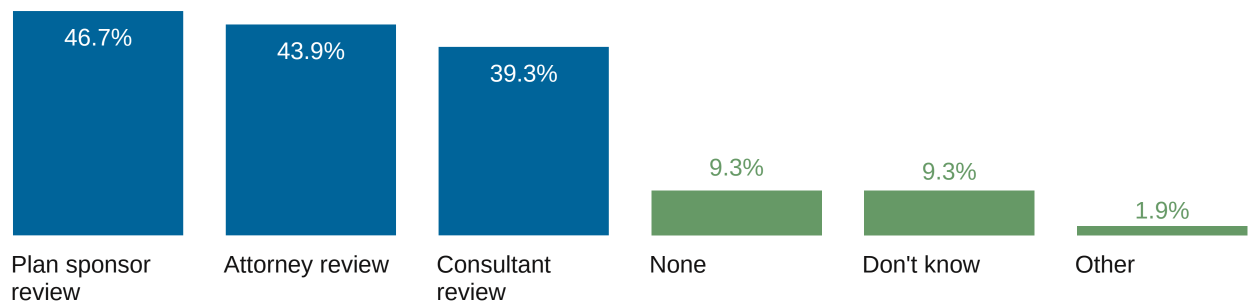
Most DC plan sponsors (81.4%) took steps within the past 12 months to ensure compliance. Almost half (46.7%) personally reviewed compliance. Many engaged third parties to review 404(c) compliance, such as their attorney (43.9%) and their consultant (39.3%). Approximately 9% of respondents did not know what steps had been taken to ensure compliance, up from 6.9% in 2015.

81.4% took steps to ensure compliance

Is your DC plan designed to be ERISA section 404(c) compliant?



Steps taken in the past 12 months to ensure that your plan is ERISA section 404(c) compliant*



*Multiple responses were allowed.

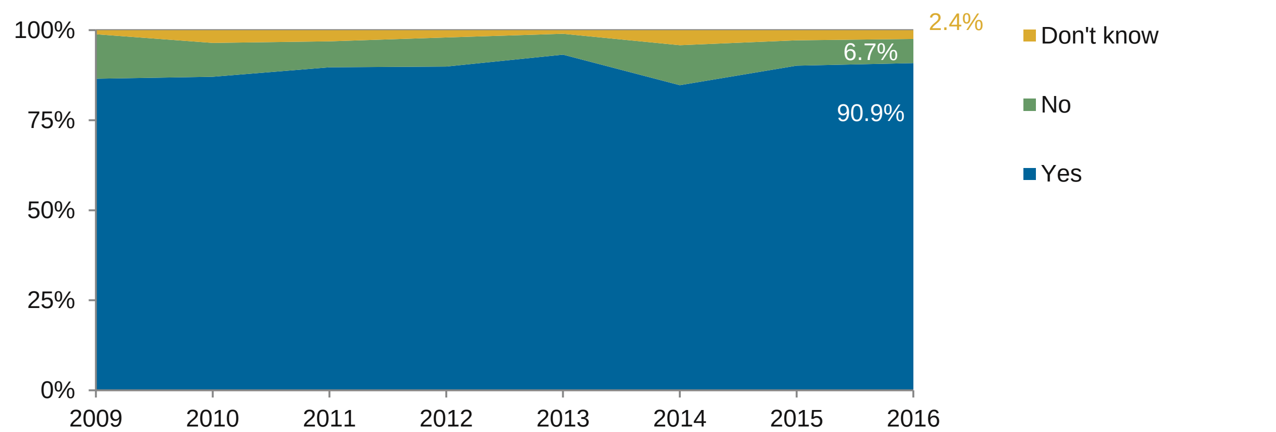
Investment Policy Statement

Most DC plans maintained an investment policy statement (IPS) in 2016 (90.9%), on par with 2015 (90.1%). The percentage of respondents that do not know if they maintain an IPS fell slightly to 2.4%, from 2.8% in 2015. More than four-fifths of 403(b) and 457 plans maintain an IPS.

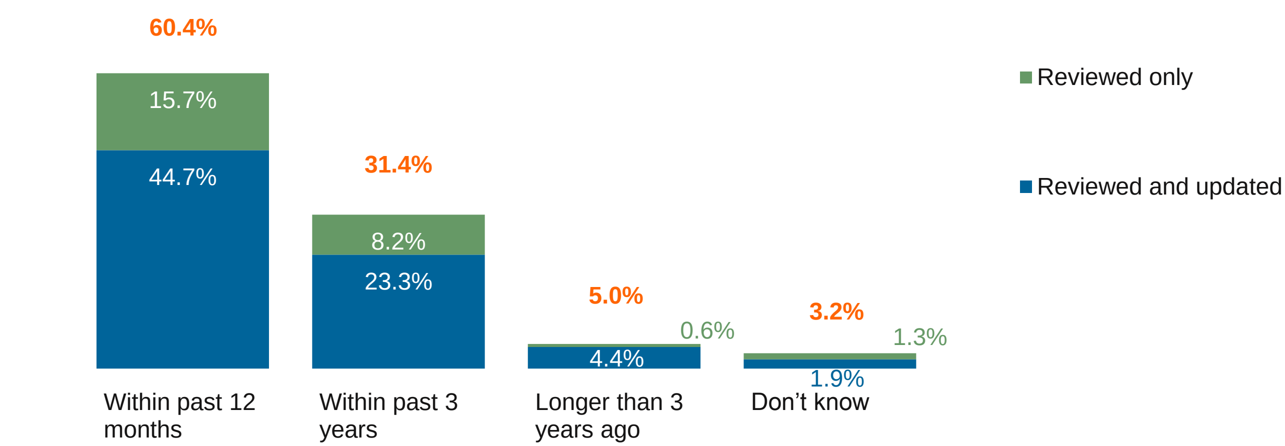
Fewer than two-thirds (60.4%) of plan sponsors have reviewed their IPS in the past 12 months, and less than half (44.7%) have reviewed and updated it over that same period of time. This compares to 2015, when 84.3% of plan sponsors reported that they had reviewed their IPS in the past 12 months and 63% had updated it.

Best practice dictates a review of the IPS on a regular basis (i.e., once per year), particularly if changes are made to the DC plan.

Do you maintain an investment policy statement for the DC plan?



When was the last time the investment policy statement was reviewed or reviewed and updated?



Fee Policy and Use of Investment Consultants

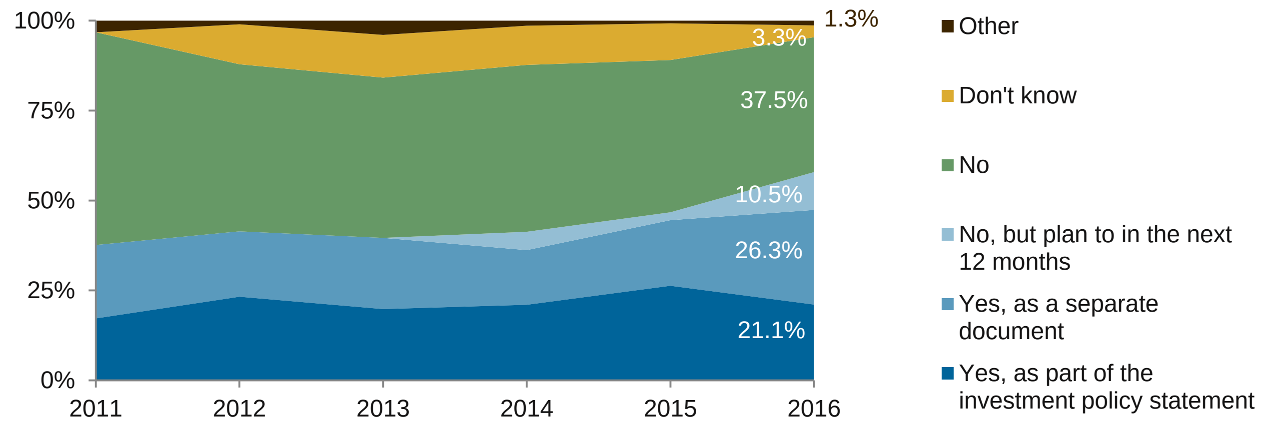
Over 47% of plan sponsors have a written fee payment policy in place, either as part of their investment policy statement (21.1%) or as a separate document (26.3%). This is the highest rate recorded in our survey.

More than eight in ten plan sponsors say they engage an investment consultant. A large proportion, however, were not sure whether their consultant had discretion over the plan (a 3(38) advisor) or not (a 3(21) advisor). Of those that did know, the majority reported using a 3(21) non-discretionary advisor.

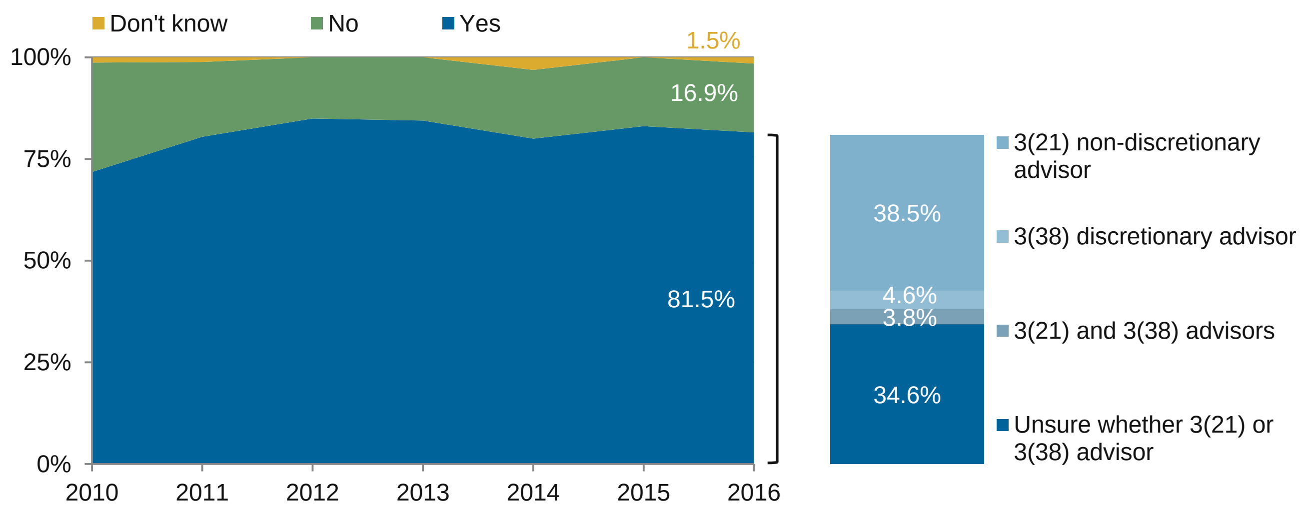
3(38) discretionary consultant: Selects and monitors funds and acts as a co-fiduciary.

3(21) non-discretionary consultant: Monitors and recommends changes as a co-fiduciary, while the plan sponsor selects investments.

Do you have a written fee payment policy for your plan that documents the approach to payment of plan fees?



Do you use an investment consultant?

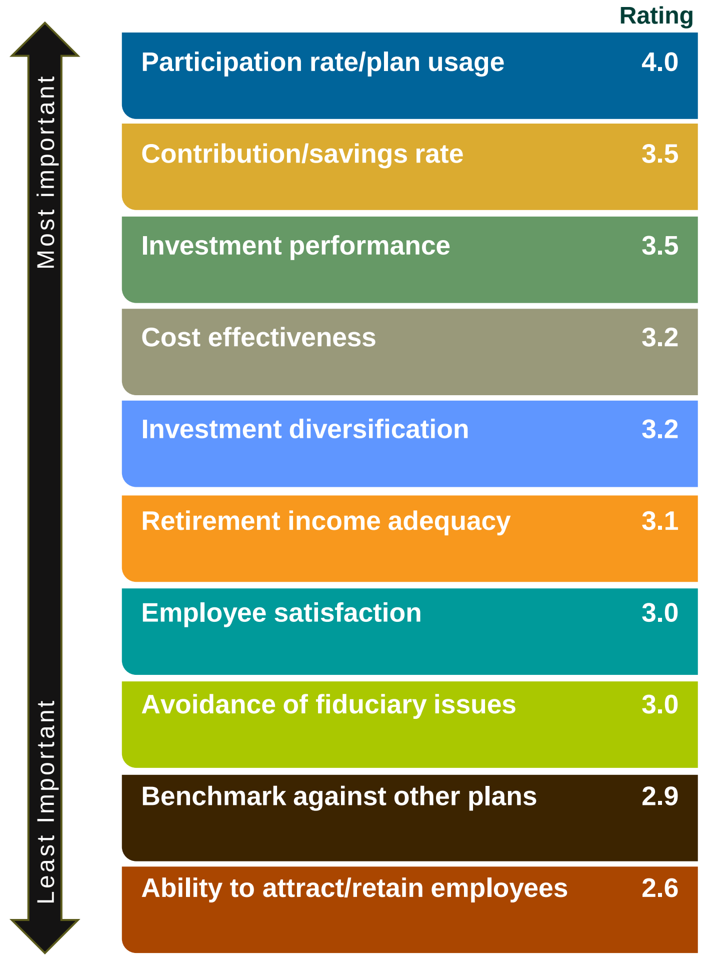


DC Plan Measurement

In measuring the success of the plan, participation rate/plan usage rated the highest, followed by contributions/savings rate and investment performance, which tied for second place.

Cost effectiveness and investment diversification tied for third place. Retirement income adequacy rose from near the bottom of the ratings in 2015 to about the middle of the pack this year.

How do you measure the success of your plan?



(5=Most important)
Additional categories:
Don’t measure (0.4)
Don’t know (0.2)
Other (0.1)

Fiduciary Positioning

The most important step plan sponsors took within the past 12 months to improve the fiduciary position of their DC plan was to review plan fees. This ranked significantly higher than any other activity undertaken.

Updating or reviewing the investment policy statement came in second. Reviewing compliance, conducting formal fiduciary training, and changing the investment menu round out the top five most important activities.

Rank the actions that your plan has taken within the past 12 months to improve its fiduciary positioning

Most important

	Ranking
Reviewed plan fees	4.1
Updated or reviewed investment policy statement	2.5
Reviewed compliance	2.0
Conducted formal fiduciary training	1.6
Changed investment menu	1.6
Replaced fund manager(s)	1.4
Other (e.g., plan audit, operational processes)	1.4
Reviewed/changed qualified default investment alternative	0.7
Audited security protocols	0.6
Changed communication approach	0.5

Least Important

(5=Most important)
Additional categories:
Changed/hired investment consultant **0.4**
Changed recordkeeper **0.4**
Implemented a written plan fee policy statement **0.3**
Changed trustee/custodian **0.2**
Changed plan to safe harbor arrangement **0.1**

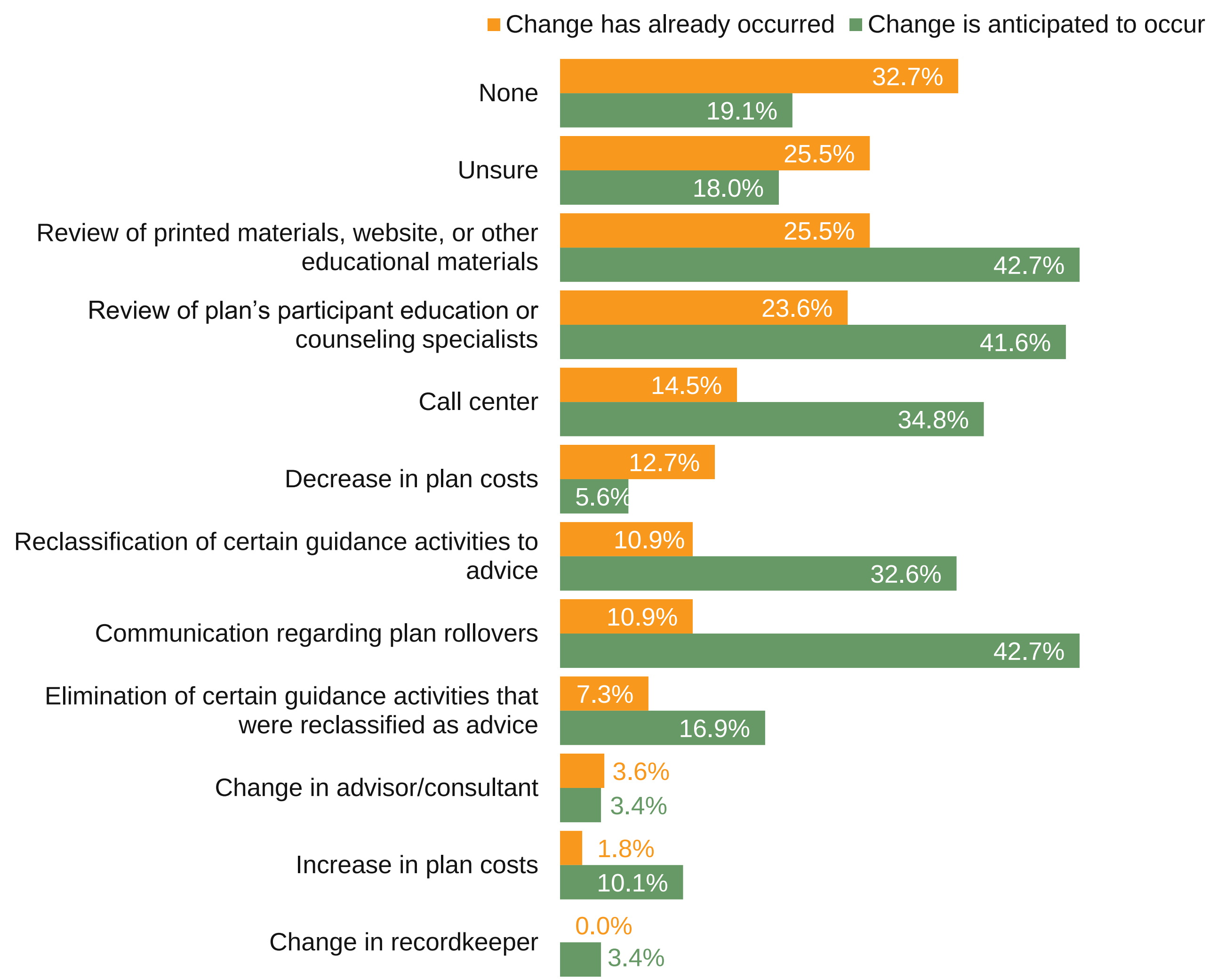
Impact of Department of Labor’s Definition of a Fiduciary Rule

The areas that plan sponsors believe will be most impacted in 2017 by the Department of Labor’s (DOL’s) 2016 Definition of a Fiduciary Rule are: the plan’s printed materials, website, and other educational materials (42.7%) and communication regarding plan rollovers (42.7%). A close third is reviewing the education or counseling specialists (41.6%).

However, over a third of plan sponsors are either unsure about what areas of their plan will be affected by the DOL’s 2016 Definition of a Fiduciary Rule, or believe there will be no impact.

We note that this survey was conducted prior to the 2016 Presidential Election in November.

Which of the following areas in your plan have been or likely will be impacted by the Department of Labor’s 2016 Definition of a Fiduciary Rule?*



*Multiple responses were allowed.

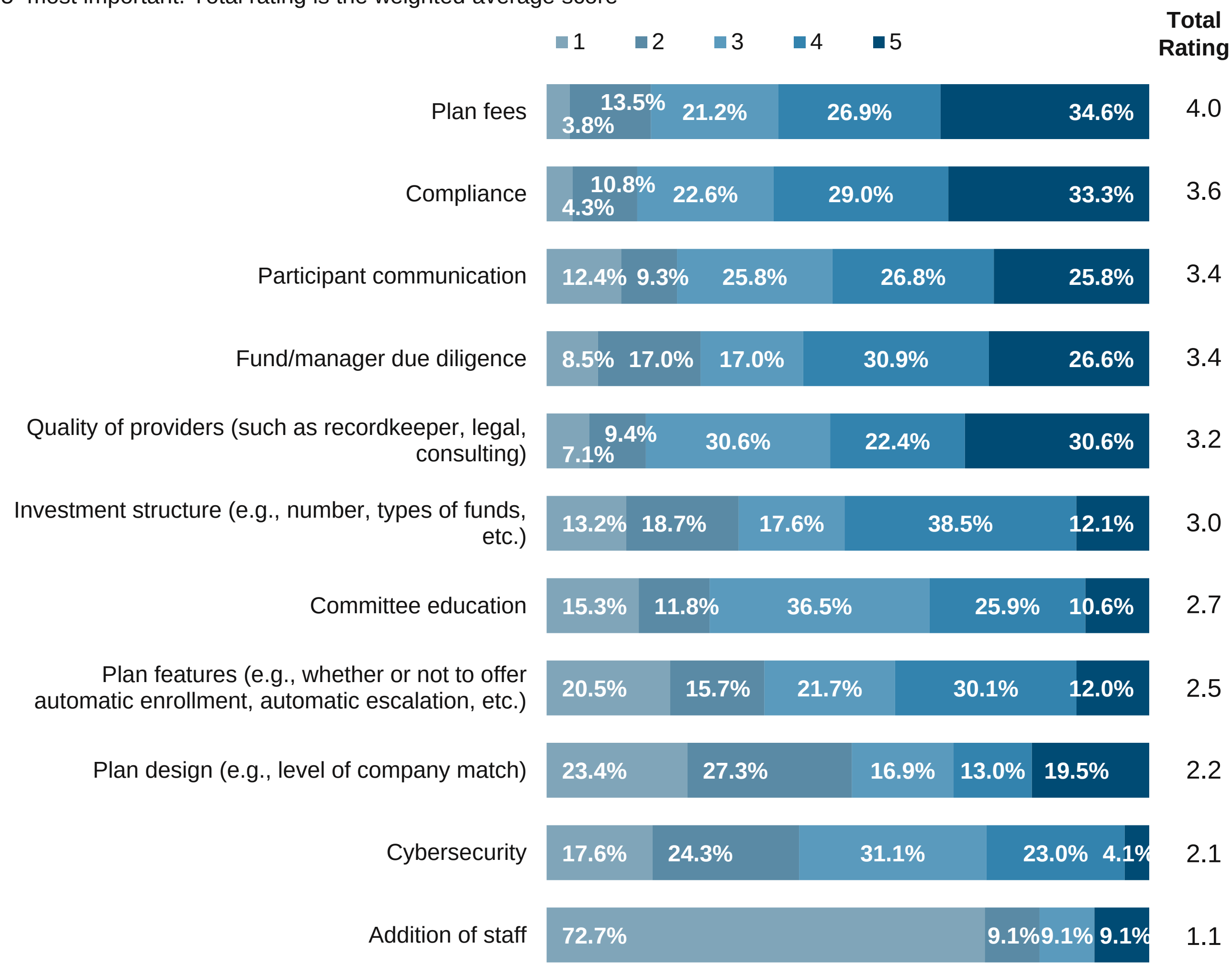
Areas of Focus

Plan fees topped the list of most important steps plan sponsors took within the past 12 months to improve their plan's fiduciary position. Fees also top the list for plan sponsors' primary area of focus over the next 12 months. As one plan sponsor put it: "Plan continuously reviews fees and makes adjustments where possible to limit them. This includes the plan's investment structure and features."

Compliance, participant communication, and fund/manager due diligence will also weigh heavily on the minds of plan sponsors in 2017.

Rate what are likely to be your primary areas of focus over the next 12 months

5=most important. Total rating is the weighted average score



Decision Makers

A mix of human resources, executives, and treasury/finance professionals most commonly make plan administrative and investment-related decisions.

Consistent with 2015, human resources professionals most commonly make administrative decisions for the DC plan. Executives and treasury/finance professionals are most likely to make investment-related decisions (50.3% and 49.7%, respectively). Legal is involved in administrative decision-making for 29.8% of plans and investment-related decisions for 23.8%.

Who are the voting committee members when it comes to administration-related and investment-related decisions for the DC plan?*

Administration-related decisions

Human Resources	**64.9%**
Executives (e.g., CEO, CIO, CFO, etc.)	**50.3%**
Treasury/Finance	**39.7%**
Legal	**29.8%**
DB Plan Fiduciaries	**23.2%**
Other	**16.6%**
Investment Staff	**10.6%**

Additional category: Unsure **1.3%**

Investment-related decisions

Executives (e.g., CEO, CIO, CFO, etc.)	**50.3%**
Treasury/Finance	**49.7%**
Human Resources	**42.4%**
Investment Staff	**37.1%**
DB Plan Fiduciaries	**33.8%**
Legal	**23.8%**
Other	**17.2%**

Additional category: Unsure **0.7%**

*Multiple responses were allowed.

Company Match

Most plan sponsors did not change the company match in 2016. Still, there was some notable activity among those that did.

The top activity reported by those making a change in 2016 was to restructure the company match. Plan sponsors reported that the restructuring took the form of: reducing the vesting requirement, changing the match level in response to closing the defined benefit plan, making the match consistent across locations, adding a profit-based match, and replacing the match with a non-matching contribution.

While 20.8% of plan sponsors said they increased the company match in 2016, 12.5% reduced it and 4.2% eliminated it. In contrast, no plan sponsors reported eliminating the match in 2015, and more reported increasing it.

Nearly a third of plan sponsors are unsure about the fate of the company match in 2017. The top reported prospective activity is changing to a stretch match (i.e., restructuring match to encourage higher savings levels).

What steps have you taken, or will you take, with respect to the company match?*

Past 12 months

Restructure	25.0%
Increase	20.8%
Add a match true-up feature	16.7%
Reduce	12.5%
Change to stretch match	8.3%
Change timing	8.3%
Eliminate	4.2%
Move to safe harbor design	4.2%

Additional categories with 0.0%: Reinstate, Don't know

Next 12 months

Don't know	31.8%
Change to stretch match	22.7%
Increase	18.2%
Restructure	13.6%
Reduce	9.1%
Add a match true-up feature	4.5%

23.3% made changes in 2016

25.6% expect to make a change in 2017

Additional categories with 0.0%: Eliminate, Reinstate, Change timing, Move to safe harbor design

*Percentages out of those plans taking steps with respect to the company match. Multiple responses were allowed.

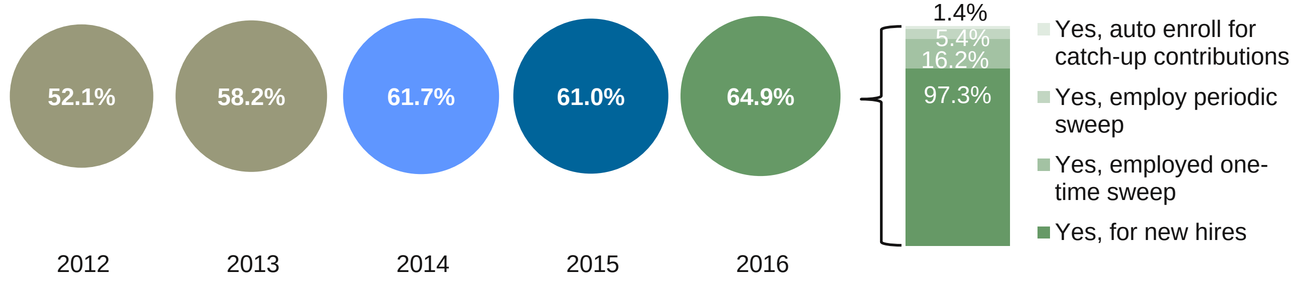
Automatic Enrollment

Use of automatic enrollment increased from prior years (64.9% in 2016 vs. 61.0% in 2015). Plan sponsors continue to offer automatic enrollment primarily to new hires; however, one in five employers (21.6%) have auto-enrolled existing employees (one-time sweep or periodic sweep). That is up from 17.7% in 2015.

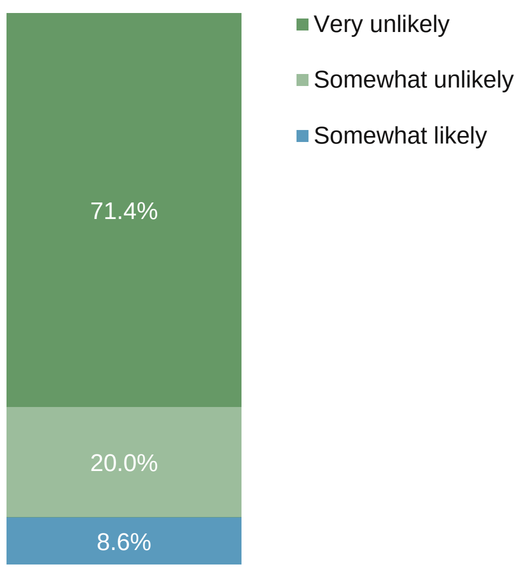
Of the plans that do offer automatic enrollment, 1.4% indicated that employees age 50 and older are automatically enrolled in catch-up contributions.

No plan sponsors say they are very likely to add auto enrollment in 2017. The most common reason cited was that it was unnecessary, followed by cost concerns and the lack of support by upper management.

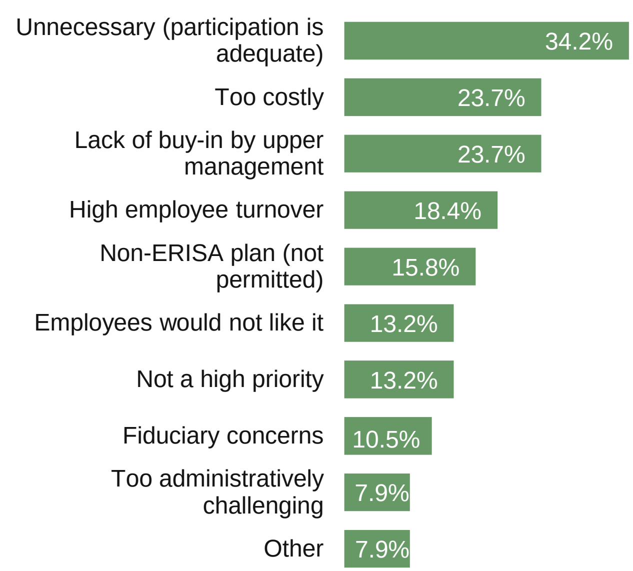
Does your DC plan offer automatic enrollment?*



If you do not currently offer automatic enrollment, will you offer it in 2017?



Reasons you do not currently offer automatic enrollment*



*Multiple responses were allowed.

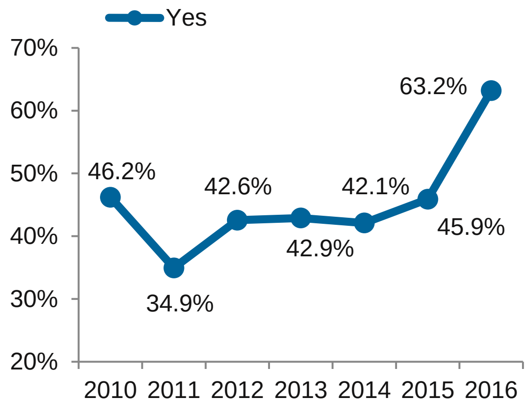
Automatic Contribution Escalation

Nearly four-fifths of plans that have automatic enrollment also offer automatic contribution escalation (77.0%).

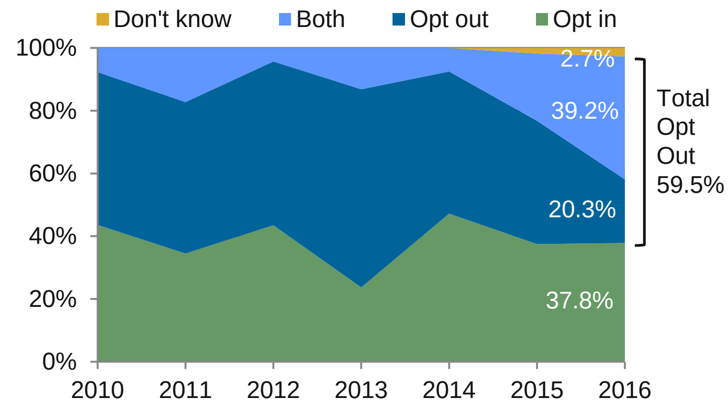
The prevalence of automatic contribution escalation (63.2%) increased significantly compared to previous years: 2015 (45.9%), 2014 (42.1%), and 2013 (42.9%). While that is the case, it continues to slightly lag automatic enrollment rates. Consistent with last year, about three-fifths of plans with automatic contribution escalation use an opt-out approach (59.5%), compared to 60.7% in 2015.

The prevalence of automatic contribution escalation is likely to continue to grow: among plans not offering automatic contribution escalation, 56.6% said they are somewhat or very likely to adopt this feature in 2017. As in 2014 and 2015, the top reason for not offering automatic contribution escalation is that it is not a high priority.

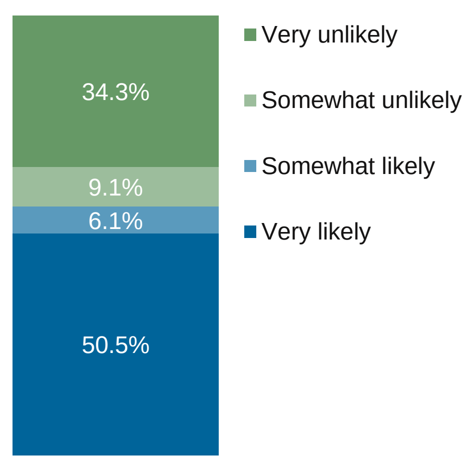
Plans offering automatic contribution escalation



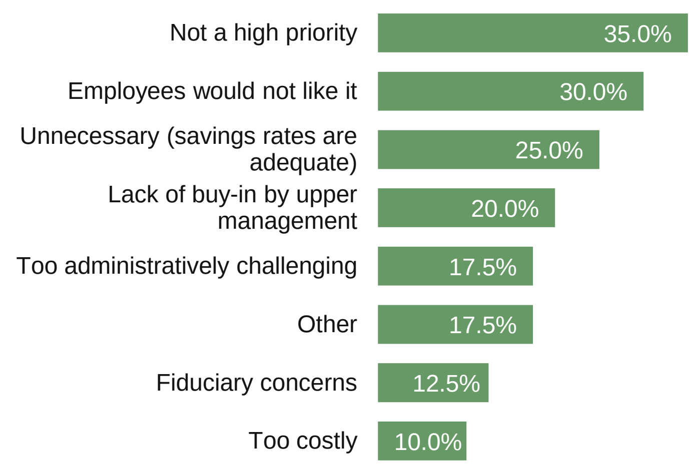
Does automatic escalation require participants to opt in or are they defaulted into it (opt out)?



If automatic contribution escalation is not currently used, will you offer it in the next year (2017)?



Reasons you do not offer automatic contribution escalation*



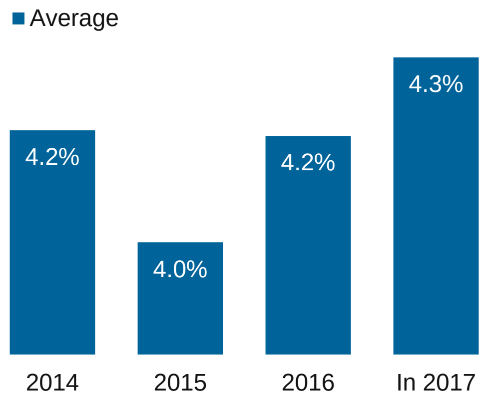
*Multiple responses were allowed.

Automatic Features: Rates and Caps

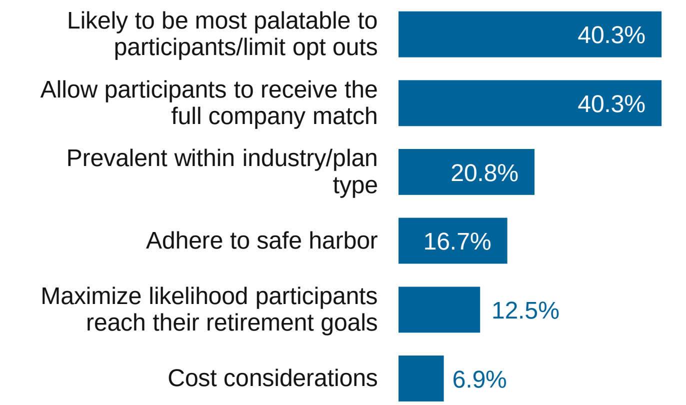
In 2016, default contribution rates for automatic enrollment ranged from 1% to 8% with the average at 4.2% and the median at 4.0%. The two most common reasons behind the selection of the default rate are participant palatability and allowing participants to maximize the company match.

Similar to prior years, plans with opt-out automatic contribution escalation most frequently have an annual increase rate of 1%. The average cap on automatic contribution escalation is just under 27%; the median is 15%, up from 10% in 2015. The most common reason behind the selection of the cap was palatability to participants.

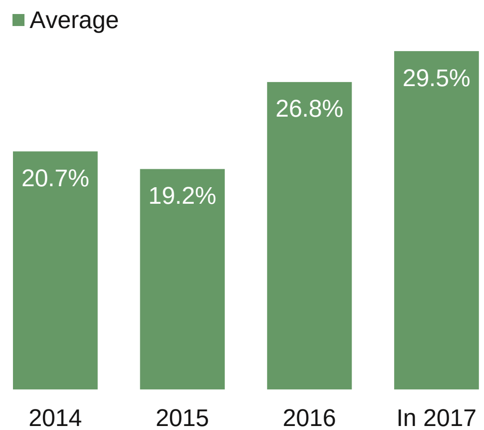
What is/will be the automatic enrollment default rate for your plan?



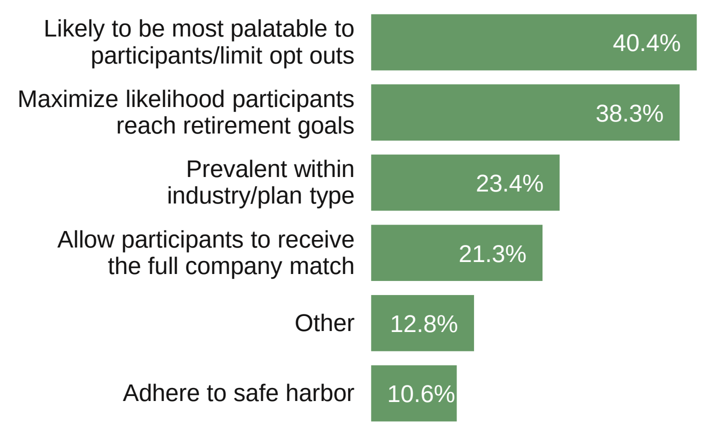
For the automatic enrollment default contribution rate, why did you select the rate that you did?*



What is/will be the cap on contributions under automatic escalation?



For automatic escalation, why did you select the cap that you did?*



*Multiple responses were allowed.

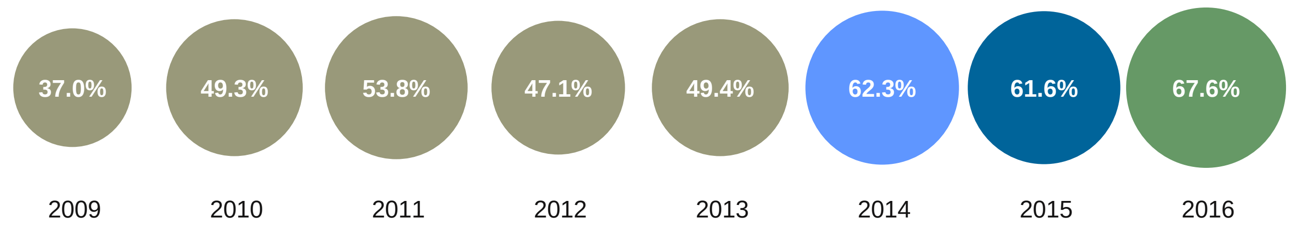
Roth Features

The prevalence of Roth contributions in DC plans increased, from 61.6% in 2015 to 67.6% in 2016. This is largely driven by 401(k) plans, 77.6% of which offer a Roth contribution feature (compared to 66.7% in 2015).

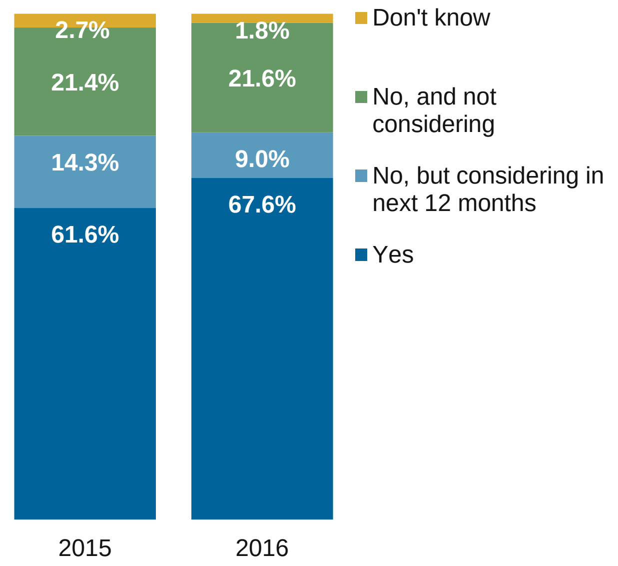
While 21.6% do not allow (and are not considering) Roth-designated accounts, 9.0% of plan sponsors are considering them over the coming year.

The percent of plans allowing for in-plan Roth conversions now stands at 58.9%. A small portion (6.8%) of plan sponsors intend to offer this option in the next year.

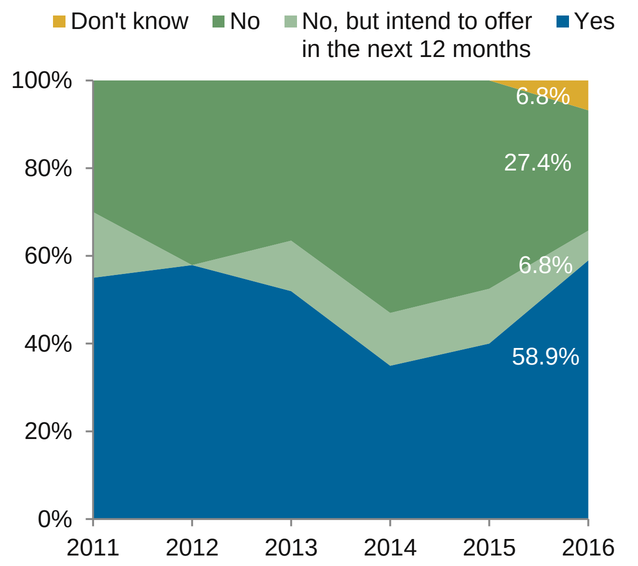
DC plans allowing Roth-designated accounts



Does your DC plan allow for Roth-designated accounts?



Does your DC plan allow for in-plan Roth conversions?

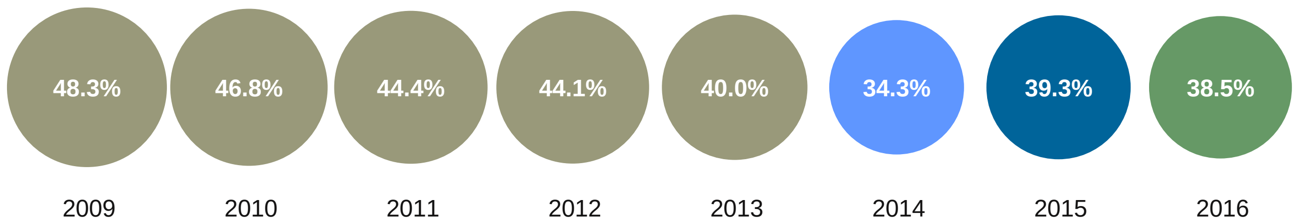


Company Stock: Prevalence

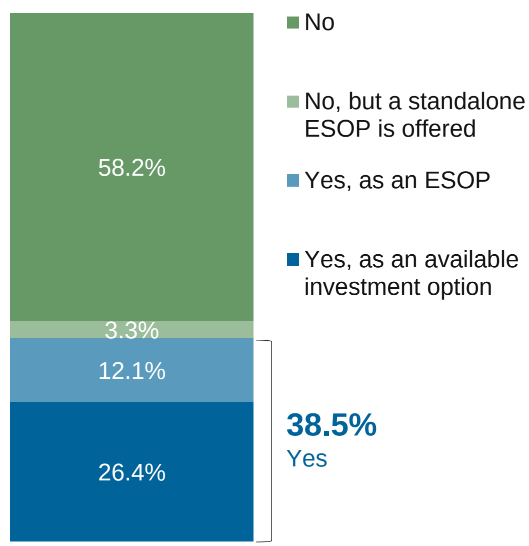
Just under 40% of plans offer company stock either as an available investment option or as an ESOP. This is down from nearly half of plans offering company stock in 2009, and down marginally from last year.

Most plans that do not offer company stock indicate that the plan has never done so (81.6%). However, 16.3% respond that the plan once offered company stock but has since eliminated or frozen it.

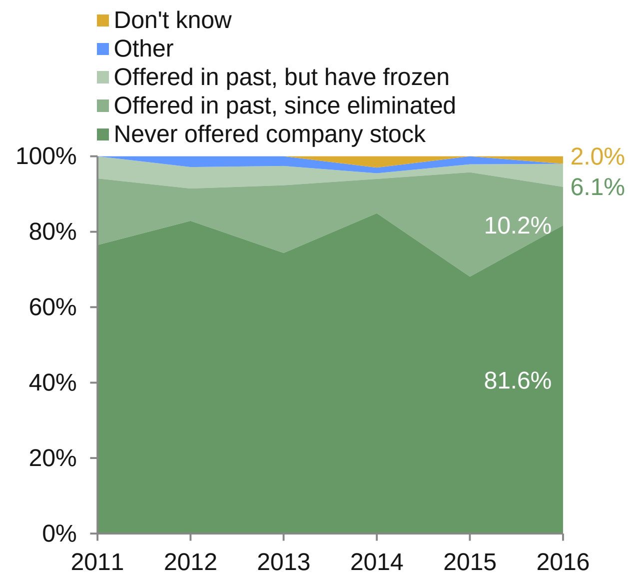
Do you offer company stock in the plan?



Is company stock offered in the plan?



If company stock is not currently offered, please describe the plan's past experience with company stock



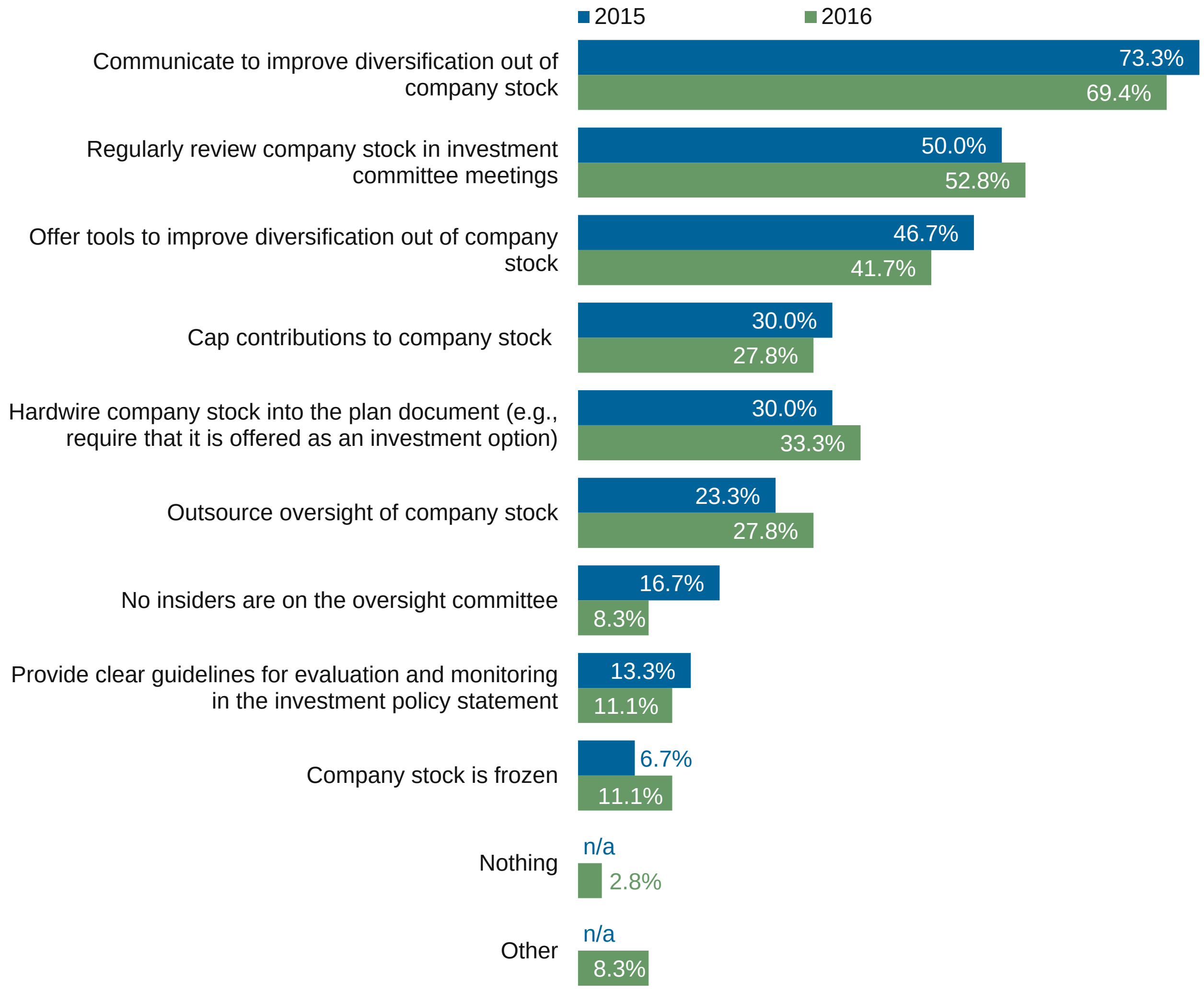
Limiting Company Stock Liability

Nearly all plan sponsors that offer company stock have taken some action to limit their liability, with an average of three actions being taken. The most common is to communicate diversification principles (69.4%), somewhat down from last year (73.3%). Over half of plan sponsors regularly review company stock in investment committee meetings, similar to 2015.

The proportion of plan sponsors monitoring (versus hardwiring) company stock remained similar to 2015. This had reversed between 2014 to 2015, which was likely a direct result of the U.S. Supreme Court's 2014 decision in *Fifth Third Bancorp et al v. Dudenhoeffer*.

97% have taken some action to limit potential liability

How do you limit potential liability with respect to company stock?*



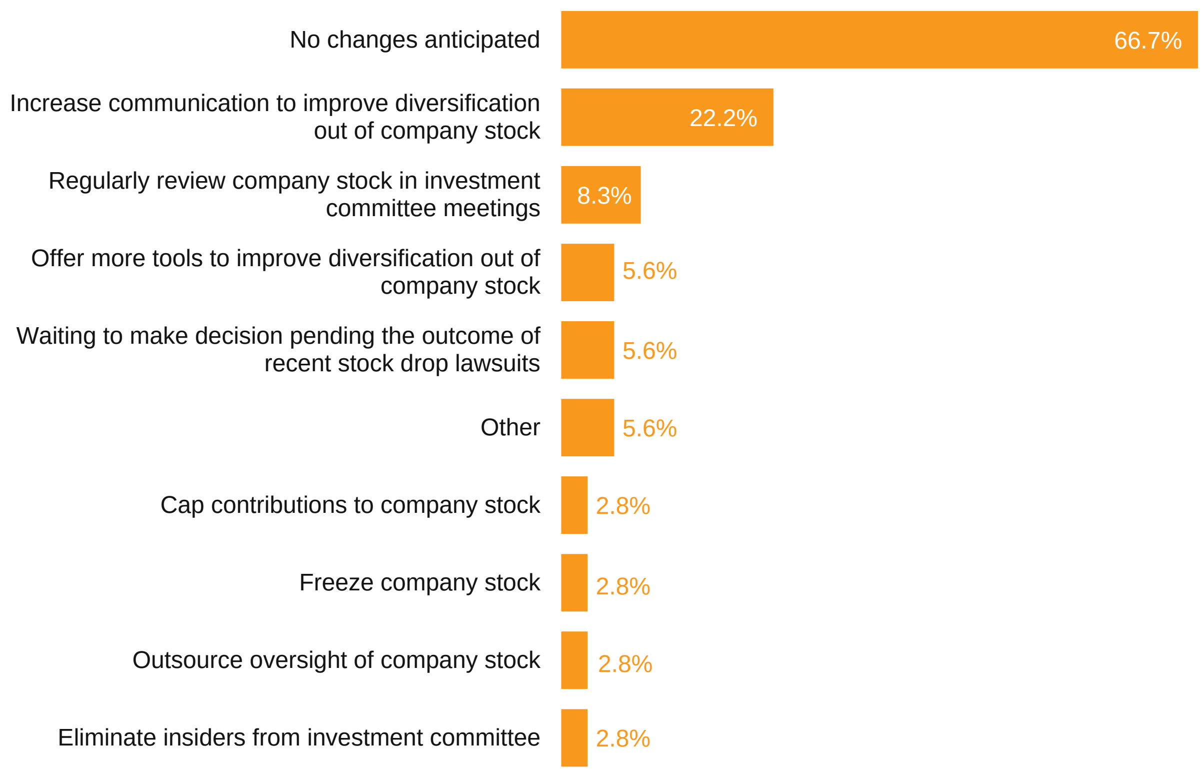
*Multiple responses were allowed.

Anticipated Changes to Company Stock

Approximately two thirds of respondents (66.7%) anticipate no changes to their company stock in the coming year, which represents an increase from last year (58.6%) and is moving back in the direction of what we saw in prior years (72.7% in 2014 and 76.0% in 2013).

In 2017, expect more plan sponsors (22.2%) to increase communication around participant diversification away from company stock, up notably from 13.8% last year. On the other hand, not many anticipate adding "regular review of company stock in investment committee meetings" to their to-do lists. Only 8.3% responded this way, compared to 17.2% in 2015.

What changes do you anticipate with respect to company stock in the next year?*



Additional categories with 0.0%: Eliminate company stock as a plan option, Hardwire company stock into the plan document, Change language in the investment policy statement

*Multiple responses were allowed.

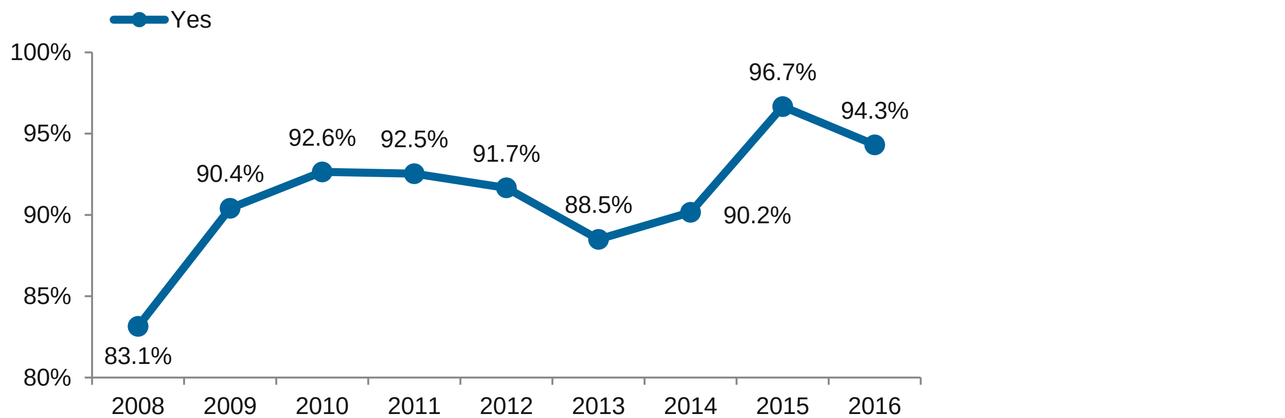
Default Investments

Most DC plans have a qualified default investment alternative (QDIA) as the default investment fund (94.3%), down slightly from last year (96.7%).

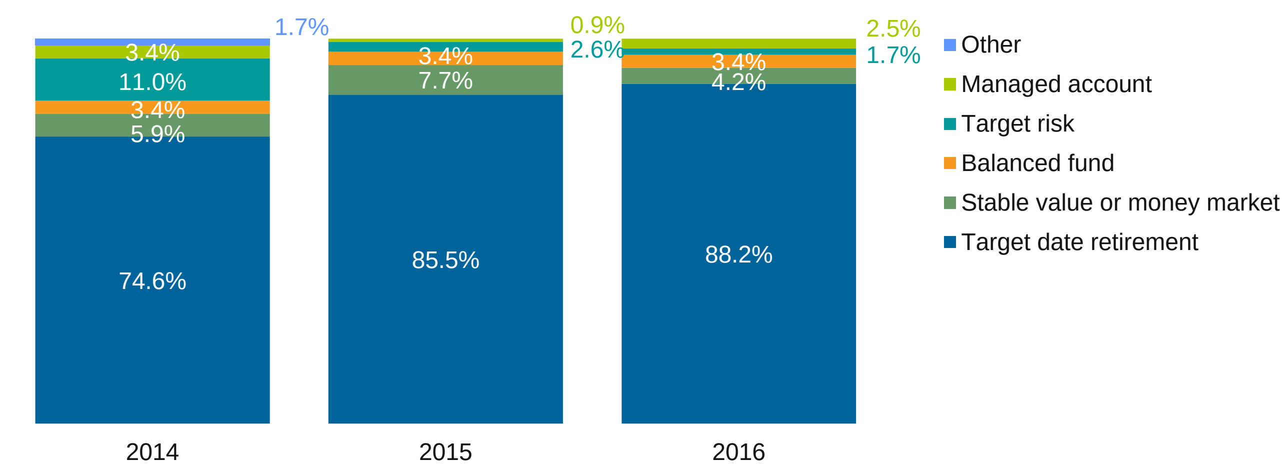
A key provision of the Pension Protection Act provides relief to DC fiduciaries that default participant assets into QDIAs under regulation 404(c)(5). Plan sponsors complying with this provision are responsible for the prudent selection and monitoring of plan QDIAs, but are not liable for any loss by participants invested in the QDIA.

In 2016, 88.2% of plans use a target date fund as their default for non-participant directed monies, up from 85.5% in 2015.

Is your DC plan's default investment fund a qualified default investment alternative?



What is your current default investment alternative for non-participant directed monies?



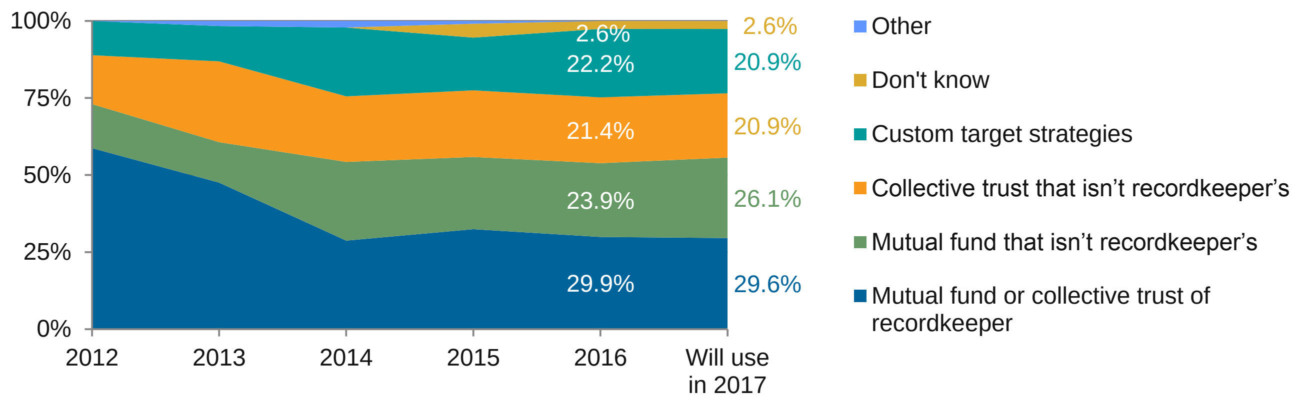
Target Date Fund Landscape

Most DC plans offer target date funds (92.9%), and most of the time it is not the proprietary target date fund of the plan's recordkeeper (67.5%). Since 2014, the approaches used in target date/risk funds have leveled off. In the upcoming year, slightly more plans anticipate using mutual funds that are not proprietary to their recordkeeper.

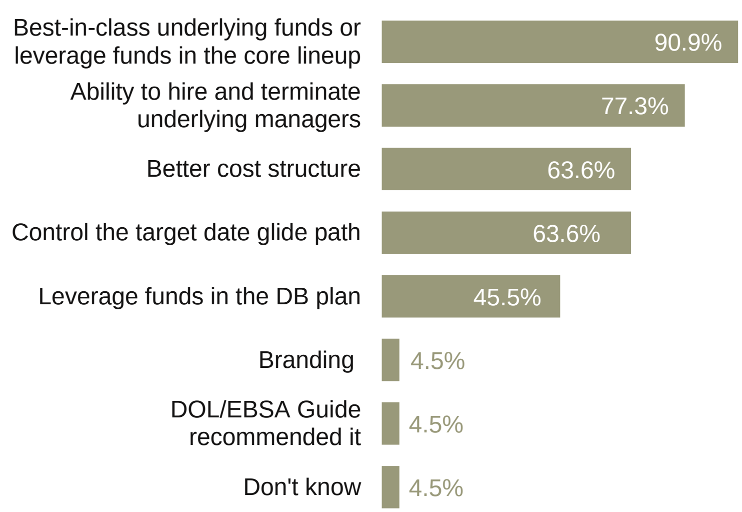
Custom target date funds were most commonly offered by plans in the energy/utilities sector, followed by government. Four in five plans with custom target date funds had multiple reasons for offering them. However, best-in-class underlying funds represented the most common reason for selecting a custom solution. Control over the underlying managers (77.3%) also ranked highly. One plan sponsor noted that its rationale for offering custom target date funds is to be able to screen for socially responsible investing issues. When using custom solutions, the plan sponsor most commonly serves as the fiduciary.

92.9% of plans have a target date fund in their lineup

If you offer target date funds, which approach do you use?

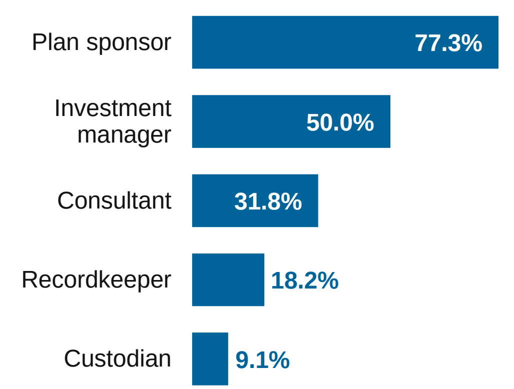


Why have you elected (are you electing) to use custom target date funds?*



*Multiple responses were allowed.

Who is the fiduciary with respect to the custom target date fund?*



Target Date Fund Landscape (continued)

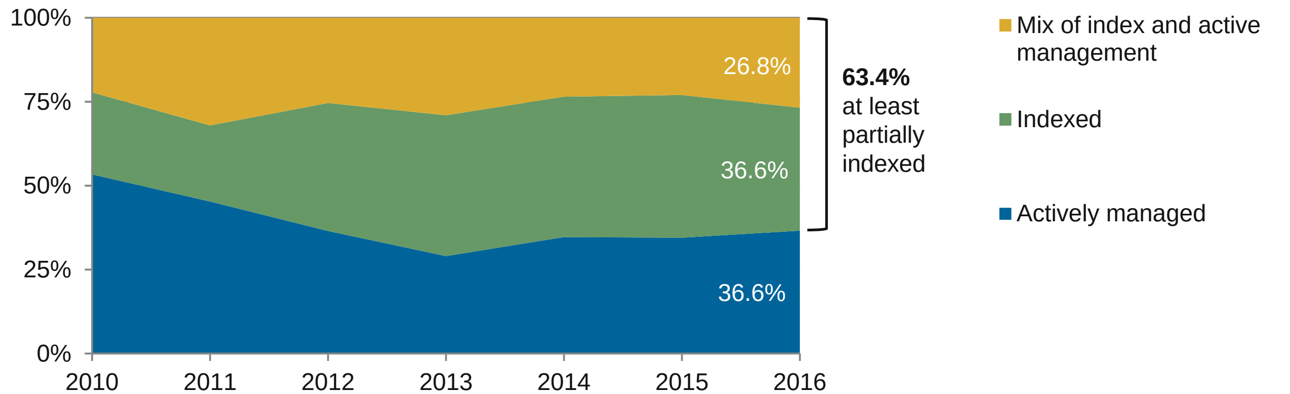
Nearly two-thirds of plans offer a target date fund that is at least partially indexed. More than a third offer a fully indexed target date fund.

The majority of plan sponsors (51%) took no action with regard to their target date funds. Of those taking action, evaluating target date suitability maintained its place as the most prevalent course of action. Moving to a target date collective trust is down from 2015 (5.6% in 2016 versus 16.1% in 2015.) Changing the share class of the target date fund is also down from 2015: 13.0% in 2016 versus 22.6% in 2015.

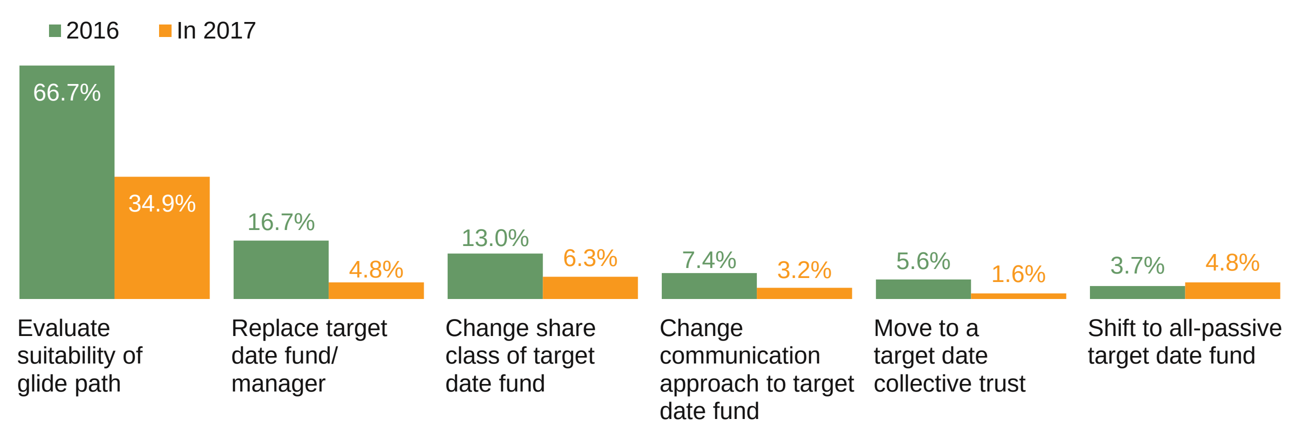
48.6% took action

51.4% took no action
with respect to their target date fund

What investment approach does your target date fund use?



What action was/is expected to be taken with your target date fund?*



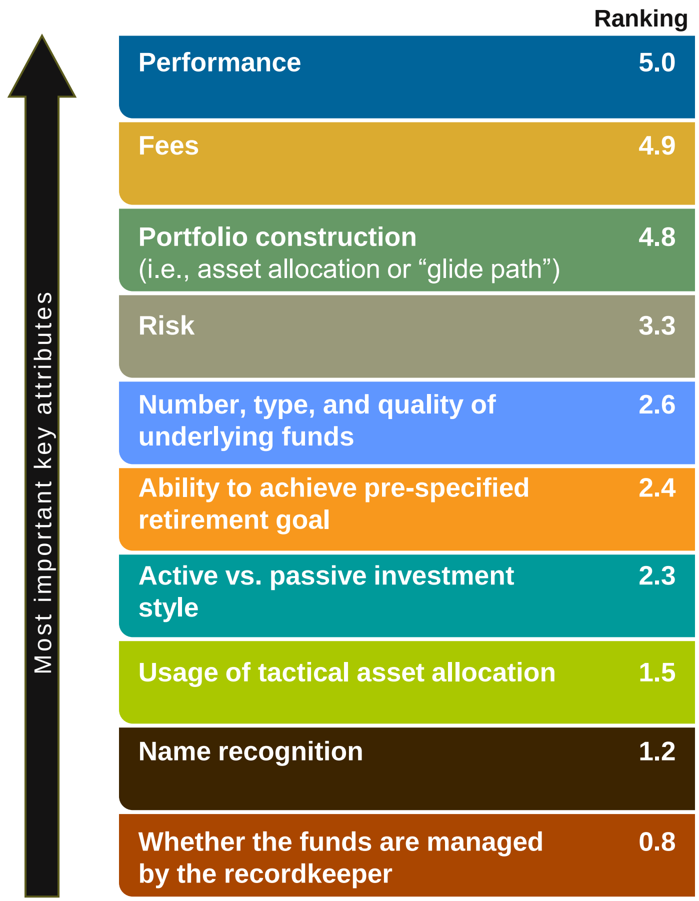
Additional categories (2016/expected 2017 data): Other (3.0%/4.9%), Shift to all-active target date fund (1.5%/2.4%), Move to custom target date funds (1.5%/0.0%), Eliminate target date fund (1.5%/0.0%), Shift to a mix of active and passive target date fund (0.0%/7.3%), Change from target date fund to a different default fund (0.0%/0.0%).

*Multiple responses were allowed.

Target Date Fund Selection

In 2016, the top three reasons for selecting or retaining target date funds were: performance, fees, and portfolio construction. This is consistent with prior years. And as we found in Callan's previous surveys, both name recognition and being proprietary to the recordkeeper score low for respondents.

What are the most important criteria for selecting or retaining target date funds?



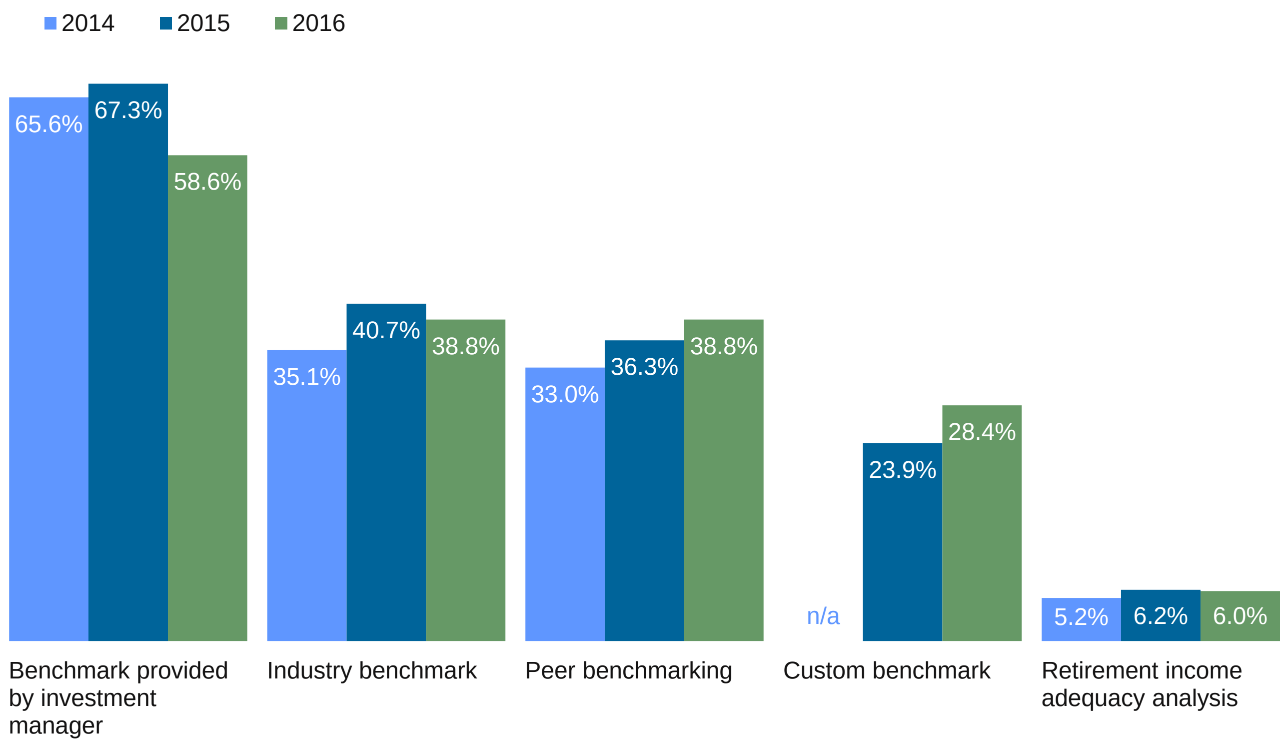
(7=Most important)

Target Date Fund Monitoring and Benchmarking

Half of plan sponsors report using multiple benchmarks to monitor their target date funds, and only one plan sponsor reported that it did not benchmark its target date fund at all. Among those using multiple benchmarks, the median number of benchmarks is two, although one plan sponsor reports using five benchmarks.

Manager benchmarks remain the most common way to monitor target date funds; however, the number of plan sponsors utilizing a manager's benchmark dropped (from 67.3% in 2015 to 58.6% in 2016). Coincident with this decrease, more plans reported using peer benchmarking (36.3% to 38.8%) and custom benchmarking (23.9% to 28.4%). Retirement income adequacy analysis remains an infrequently used benchmark for target date fund monitoring.

How do you monitor your target date funds?*



Additional categories (2016 data): Do not benchmark (0.9%), Other (0.9%), Don't know (0.0%)

*Multiple responses were allowed.

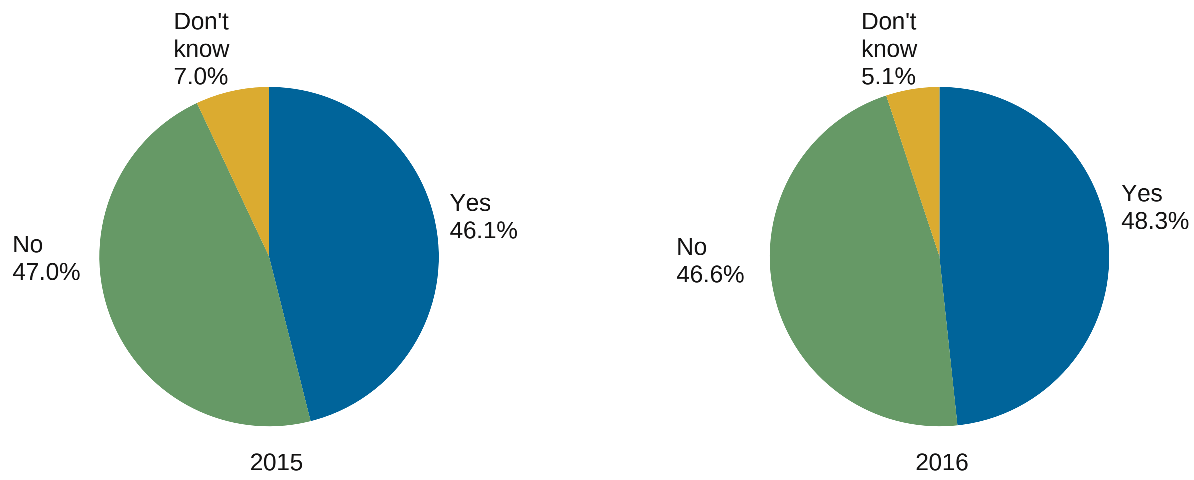
Investment Menu

More plan sponsors reported using a tiered investment structure within their fund lineup than in prior years—prevalence has increased from 42.5% doing so in 2014 to 48.3% in 2016. The most common tiered structure cited involved a target date or asset allocation fund in tier 1; core options in tier 2; and specialty funds or a brokerage window in tier 3. Fewer plans are not sure if they use a tiered structure (5.1% in 2016 compared to 7.0% in 2015).

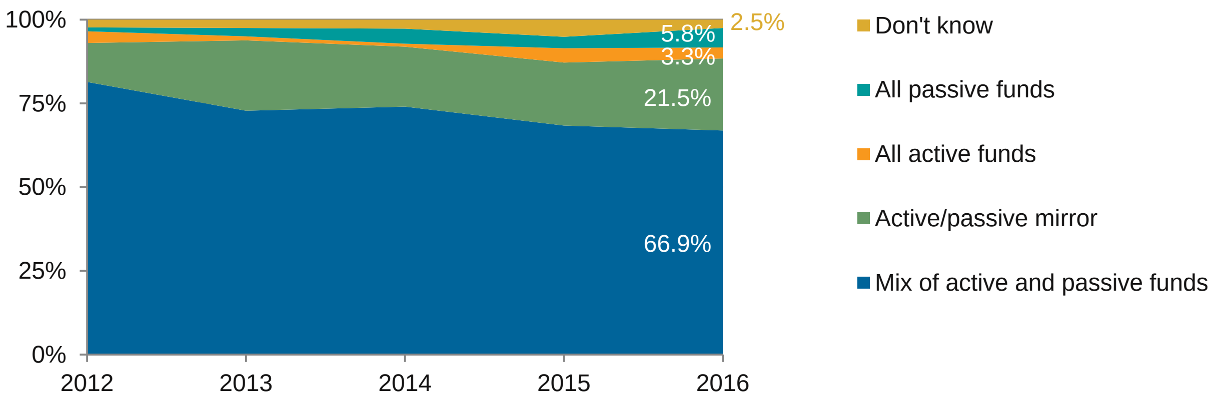
Roughly two-thirds of DC plans surveyed have a mix of active and passive investment funds (66.9%). Active/passive mirror strategies, where both active and passive options represent major asset classes, are again a distant second in popularity at 21.5%. This is a slight increase from a year earlier (18.8%).

Tiered investment structure: *Allows plan sponsors to build fund lineups for a heterogeneous participant base that includes "do-it-for-me" (tier 1), "do-it-myself" (tier 2), and "investment savvy" participants (tier 3).*

Does your plan use a tiered investment structure?



What best describes your plan's investment menu approach?



Investment Vehicles

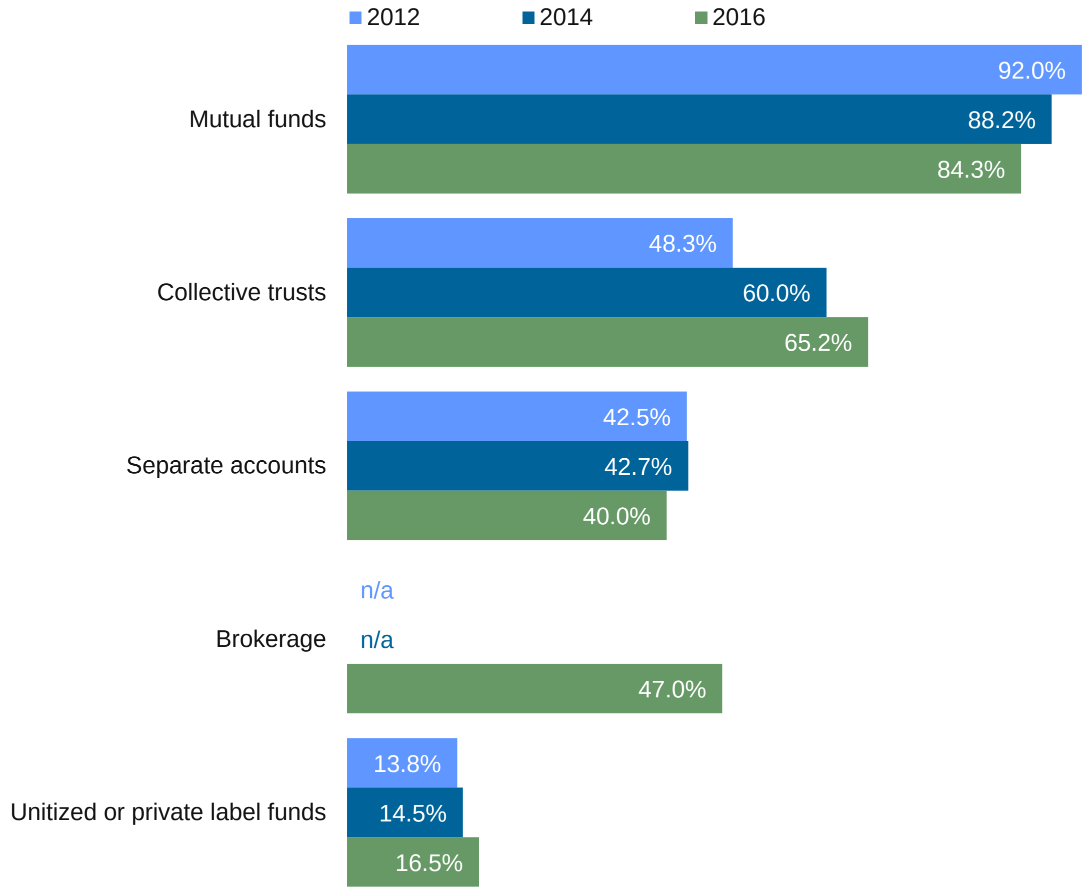
Mutual funds continue to lose ground to collective trusts in DC plans. Nearly two-thirds of DC plans offered collective trusts in 2016, up from 48.3% in 2012. Meanwhile, mutual funds have decreased in prevalence from 92% to 84.3% over that same period.

Over a third of plan sponsors reported that they offered a stable value collective trust (34.8%) while nearly half (47.8%) reported that they offered a collective trust that was not a stable value fund.* This comes as more managers launch products via collective trusts.

Among plan sponsors offering separate accounts in 2016, it was somewhat more common that the separate account was a stable value fund (27.8%) versus another asset class (22.6%).*

Of those offering a brokerage window, 59.3% offer a full window, while the remaining 40.7% offer a more limited mutual fund window. Brokerage window prevalence was 38.9% in 2015, but not tracked prior to that.

Does your plan offer the following investment types within the fund lineup?*



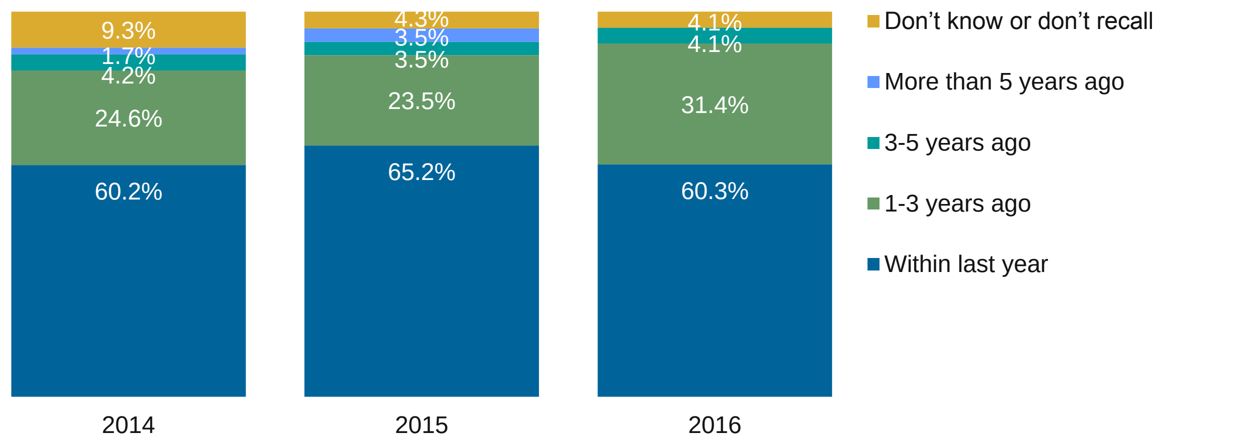
Additional categories (2016 data): Other (1.9%), ETFs (4.8%), fixed annuities (5.7%), pooled insurance accounts (3.8%), registered variable annuities (2.9%)
*Multiple responses were allowed. Some respondents offer multiple asset classes in each vehicle type, e.g., both stable value and another asset class are offered as a collective trust and/or separate account.

Investment Structure Evaluation

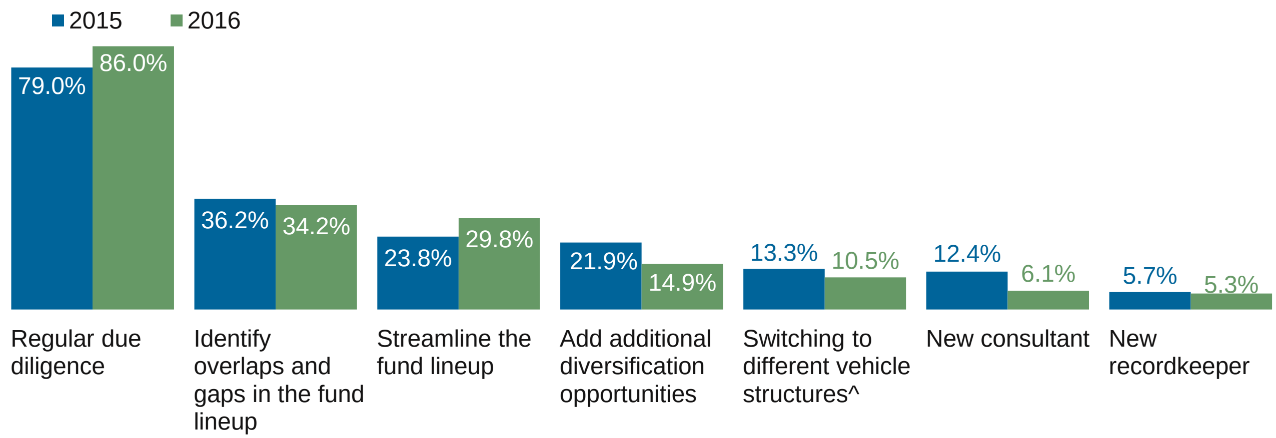
As in recent years, over 60% of plan sponsors conducted an investment structure evaluation within the past year. The survey also found that 8.2% of plans conducted a structure review three to five years ago or don't recall their last review.

As in previous years, regular due diligence (86.0%) is the most common reason for conducting an investment structure evaluation. Beyond regular due diligence, the two most common reasons given for the recent investment structure evaluation were identifying overlaps and gaps in the fund lineup (34.2%), or a desire to streamline the fund lineup (29.8%).

When was the last time your organization conducted an investment structure evaluation to determine gaps/overlaps in the investment offerings?



What motivated the most recent investment structure evaluation?*



Additional categories (2016 data): Other (1.8%), Participant demand for additional funds (1.8%)
^e.g., unitization, separate accounts, collective trusts

*Multiple responses were allowed.

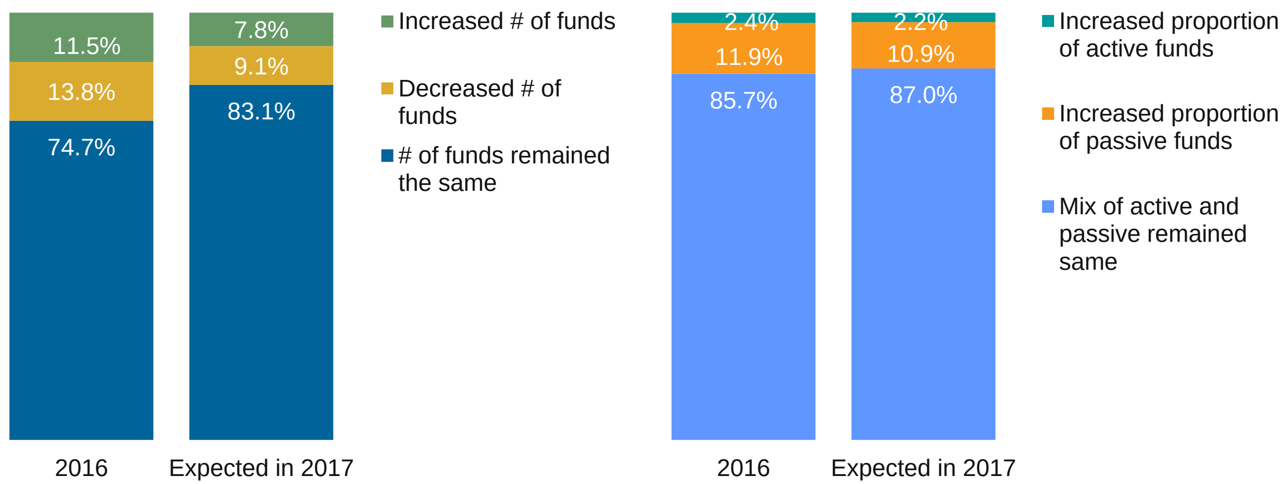
Investment Structure Changes

Consistent with 2015, the majority of plan sponsors did not change the number of funds in their DC plan. Plan sponsors more often reported decreasing the number of funds in their plan than increasing the number. This is a reversal from 2015, and consistent with what was anticipated in last year's survey.

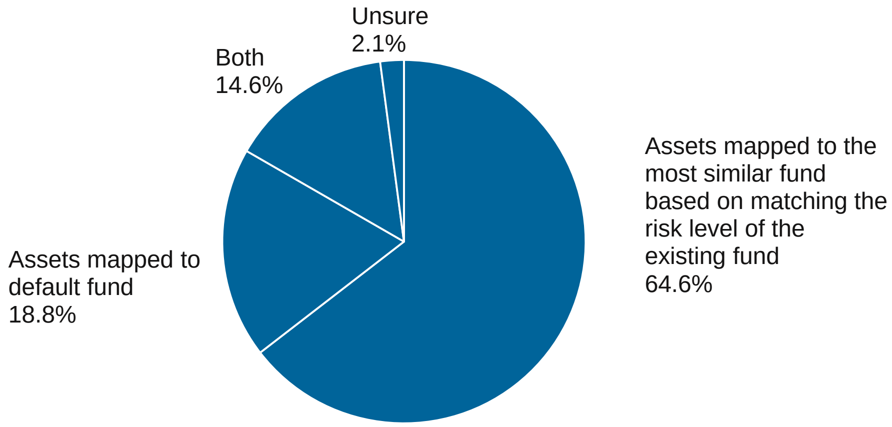
Likewise, most (85.7%) did not change the proportion of active and passive funds in 2016. However, far more increased the proportion of passive funds in their plan (11.9%) than increased the proportion of active funds (2.4%). This trend is likely to continue in 2017.

When funds were eliminated, the most common mapping approach was mapping to the most similar fund (64.6%). However, this is down from 75.6% in 2015. Mapping to the default fund increased from 12.2% in 2015 to 18.8%, and mapping to both similar funds and the default fund increased from 9.8% in 2015 to 14.6%.

How did/will the plan's investment menu change?



If funds were eliminated, how were assets mapped from the eliminated fund(s)?



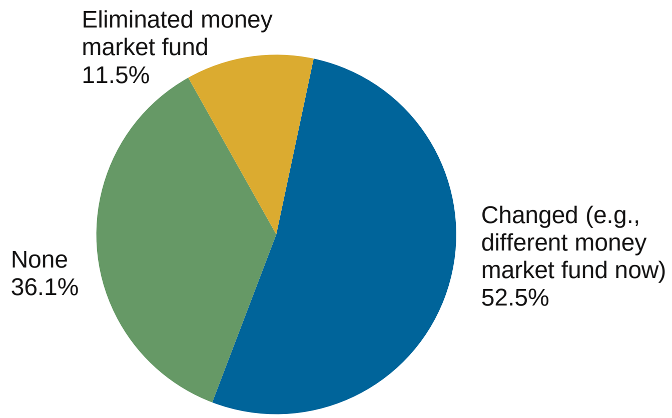
Impact of Money Market Reform

Largely in response to the 2016 money market reforms going into effect, 64% of respondents have changed to a different money market fund or eliminated their money market fund altogether. Most of these (60.5%) switched from prime or retail funds to government money market funds. Only 13.2% changed to a stable value fund. The regulations require certain money market funds to be subject to floating net asset values (NAVs) and/or liquidity gates.

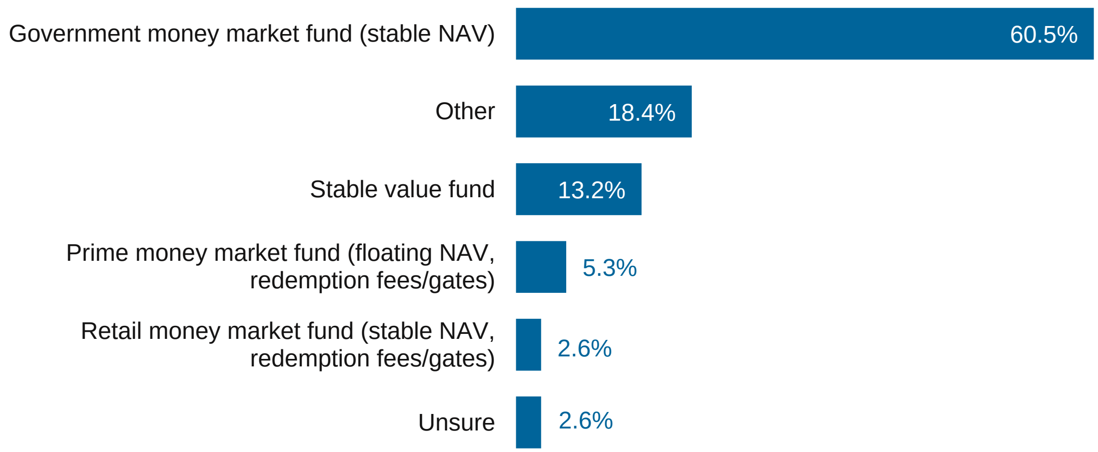
Of those that responded "other," the majority switched to non-40 Act funds that are governed in a similar fashion as money market funds (Rule 2a-7). One plan sponsor reported moving to a short-term investment fund.

51.7% of plans said they had offered a money market fund in the past two years

In the past two years, what actions have you taken with respect to your money market fund?



If you changed or replaced your money market fund, what is your current principal preservation-type fund?*



*Multiple responses were allowed.

Investment Evaluation and Selection Criteria

Investment performance ranks as the most dominant factor in fund selection by far, with cost and fees coming in a somewhat distant second, according to plan sponsors.

Brand name and participant request continue to be low-ranking attributes in the evaluation and selection of investment funds.

What are the most important attributes in the evaluation and selection of investment funds?

Most important ↑ / ↓ Least Important

	Ranking
Investment performance	4.0
Cost and fees	3.3
Fills style or strategy gap	2.8
Investment management team stability	2.3
Style consistency	1.5
Quality of service to plan sponsors	0.4
Participant communication and educational support	0.4
Ease of integration with recordkeeping system	0.4
Brand name/market image	0.3
Leverages existing pension fund managers	0.3
Participant request	0.2

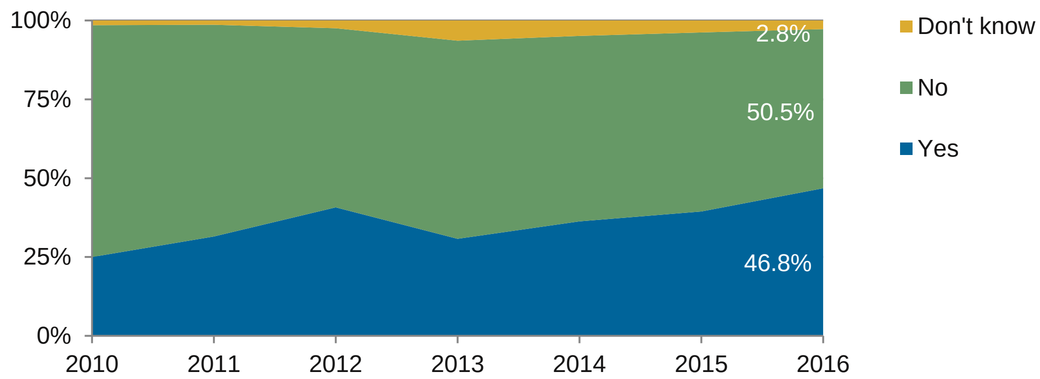
(5=Most important)

Manager/Fund Replacement

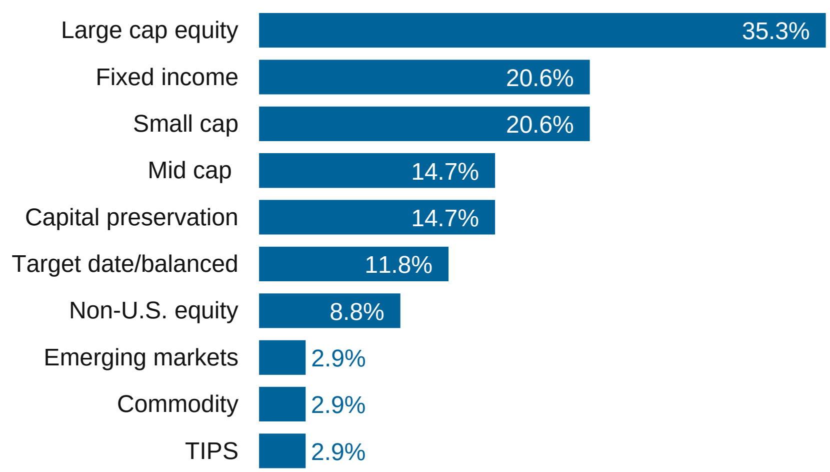
The survey found that 2016 was marked by a significant increase in manager/fund replacement activity. Nearly half (46.8%) of plan sponsors reported making a fund change. This is the highest in the survey's history.

Large cap equity was the most commonly replaced fund, followed by last year's front-runners fixed income and small cap. Capital preservation cracked the top five in 2016 after not placing on the list in 2015. This illustrates the impact of the new regulations governing money market funds.

Did you replace managers/funds in the past year due to performance-related reasons?



Which funds did you replace?*



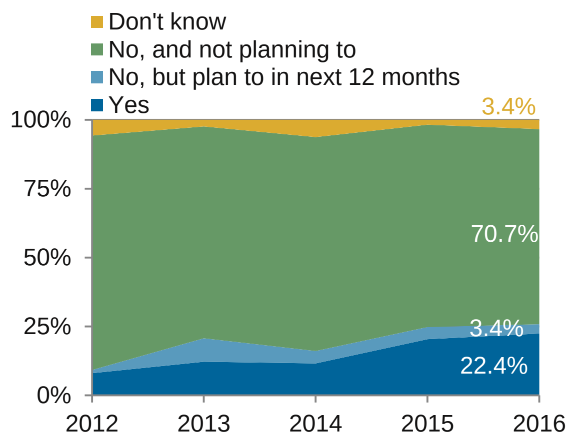
*Multiple responses were allowed. Percentages are out of just those funds that made changes.

Re-enrollment

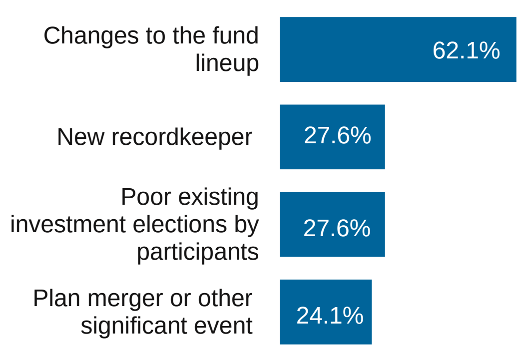
In 2016, just over one in five plan sponsors indicated they had ever engaged in an asset re-enrollment—defined here as requiring all participants in the plan to make a new fund selection or else be defaulted into the default investment option. This is roughly in line with 2015 (20.4%). Of the plans that have engaged in a re-enrollment, the vast majority (85%) did a one-time re-enrollment versus 15% engaging in multiple re-enrollments. Few plans (3.4%) report that they are planning a re-enrollment in the next 12 months—primarily because plan sponsors believe participants would object. However, "not necessary" and "not a priority" also ranked high as reasons not re-enroll plan participants.

As in prior years, "changes to the fund lineup" is the most common motivation for the re-enrollment (62.1%). This level falls roughly between 2015 and 2014 levels (70.4% and 52.6%, respectively).

Have you ever engaged in an asset "re-enrollment" of the plan?



What is the motivation for the re-enrollment?*



*Multiple responses were allowed.

Why has there been/will there be no re-enrollment?

(7=Most important)

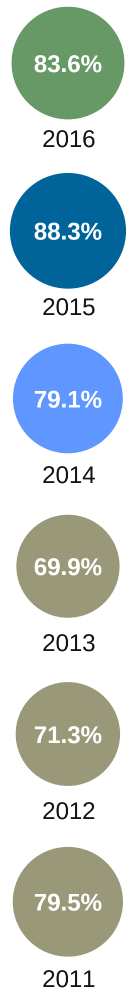
Investment Advice: Prevalence

The vast majority of DC plan sponsors (83.6%) offer some form of investment guidance or advisory service to participants. In many cases, sponsors provide a combination of different advisory/guidance services.

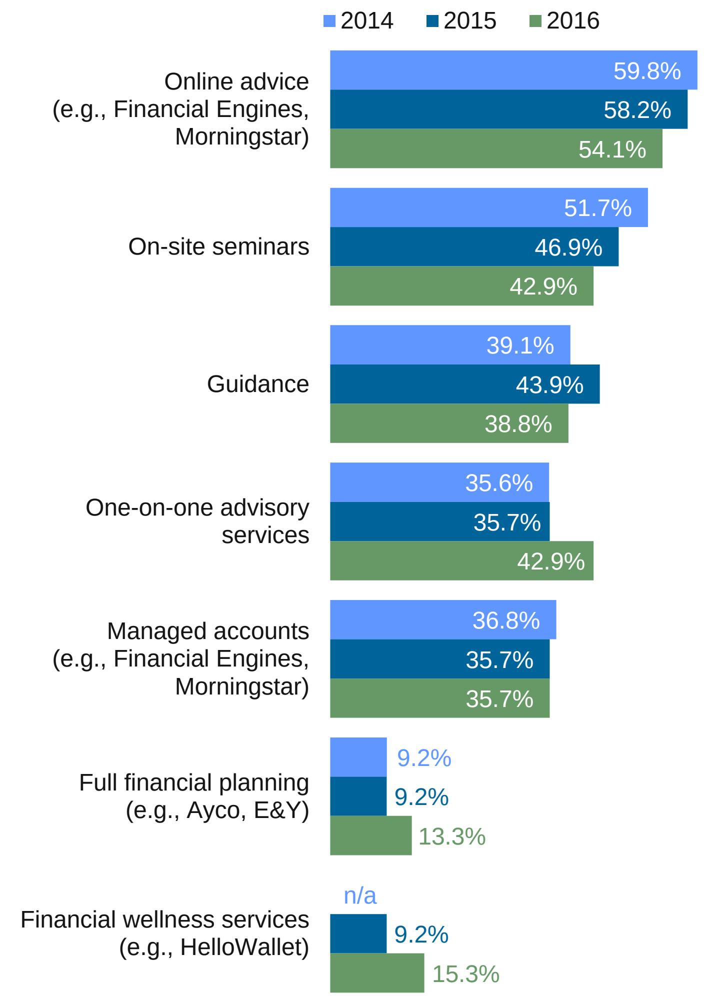
Online advice remains most prevalent (54.1%), well ahead of on-site seminars (42.9%) and one-on-one advisory services (42.9%). While not as ubiquitous, both managed accounts and guidance are still common. Financial Engines is the most commonly named advisory service provider, followed by Fidelity.

The prevalence of financial wellness services (such as HelloWallet) increased from the prior year. Companies with plans offering financial wellness services range widely across industries. However, the most common is energy/utilities.

Do you offer investment guidance/advisory services?



What type of guidance or advice do you offer?*



Additional categories (2016 data): Other (5.1%), Don't know (1.0%)

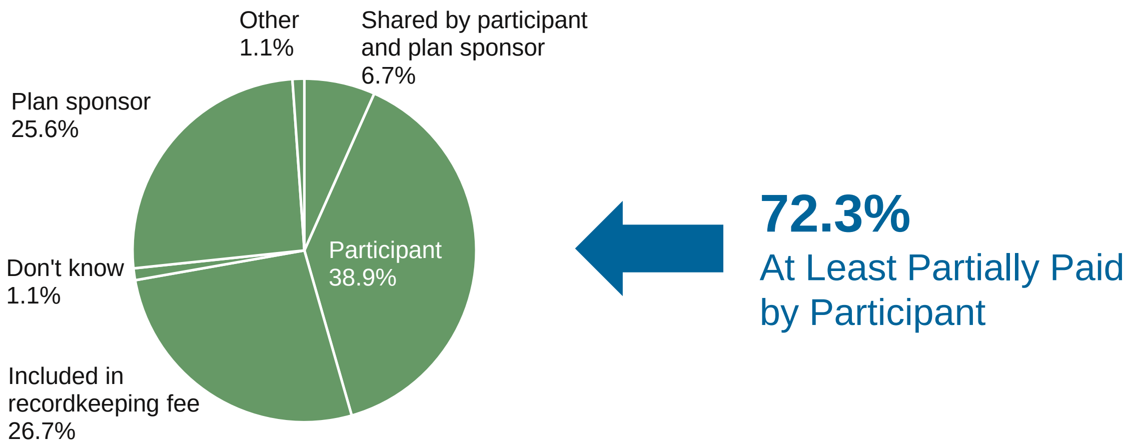
*Multiple responses were allowed.

Investment Advice: Enrollment and Payment

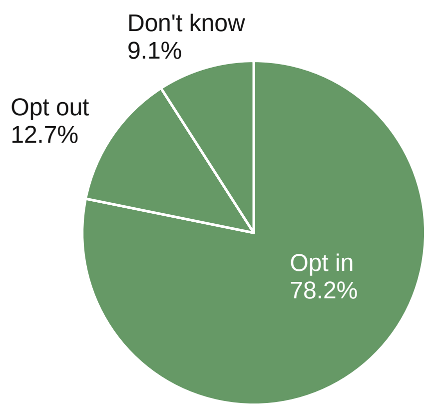
About a quarter (25.6%) of plan sponsors pay the full expense of investment advisory services. Most commonly, participants pay either explicitly or as part of the overall recordkeeping costs. This is similar to prior years. Plan sponsors most commonly report that while online guidance or advice is paid for by the company, managed account services are paid for by participants.

For plan sponsors that offer managed accounts, the majority (78.2%) offer it as an opt-in feature whereby participants must proactively elect to use the managed account feature. By comparison, few plans enroll participants on an opt-out basis (12.7%)—although this is an increase from 2015 (7.7%). Plan sponsors who eschew opt-out enrollment for managed accounts most commonly report that they are "uncomfortable with opt out given the fees involved."

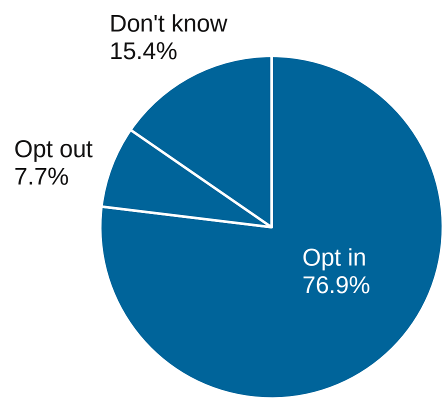
Who pays for investment advisory services?



How are participants enrolled in managed accounts?



2016



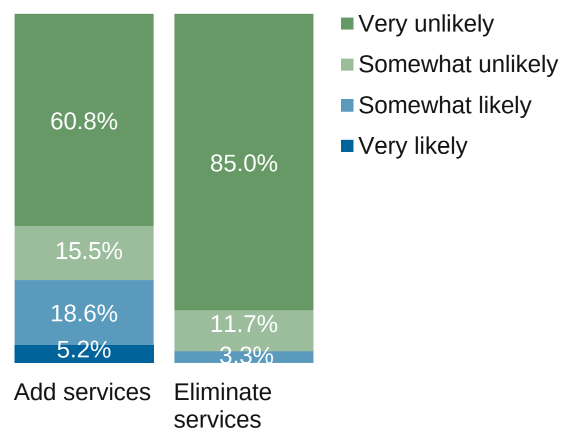
2015

Investment Advice: Satisfaction

In the coming year, most plan sponsors are very unlikely to add new/additional investment advisory services (60.8%), and only 5.2% of plan sponsors are very likely to do so. Sponsors most commonly listed managed accounts or financial wellness services as the service they might add in 2017. However, even fewer plan sponsors are very (0%) or somewhat (3.3%) likely to eliminate investment advisory services.

Satisfaction is generally high among those offering advisory services in their plans—especially for those with one-on-one advisory services (which boasted the highest proportion that were very satisfied). However, several plan sponsors noted that they don't monitor participant usage.

Are you likely to add or eliminate investment advisory services in 2017?

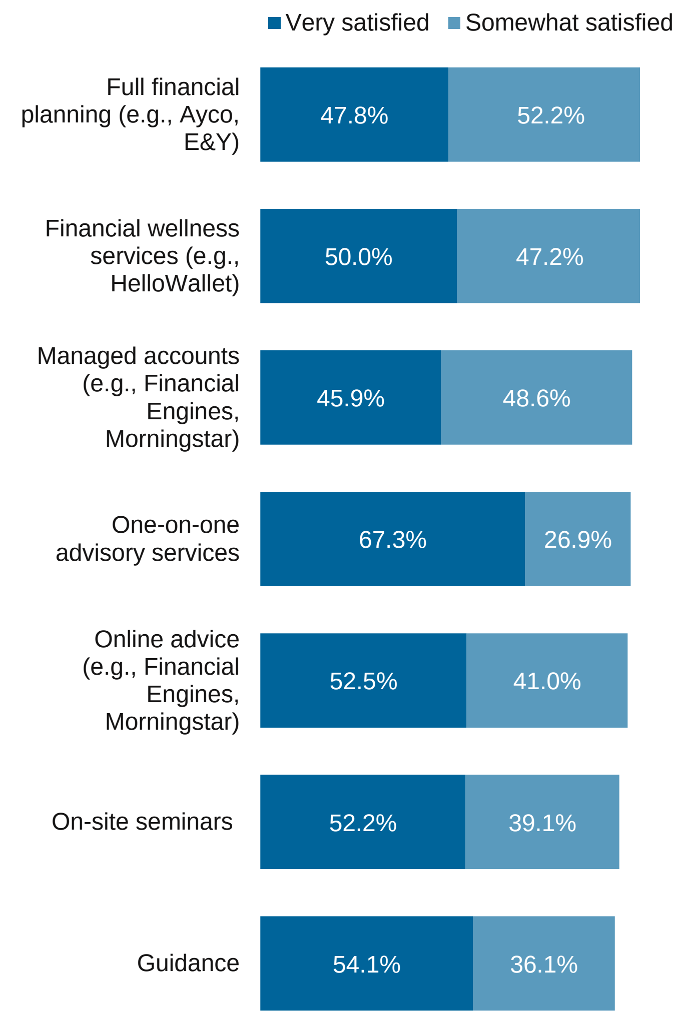


If you plan to eliminate or do not offer advice, what motivates your decision?

	Ranking
Too costly to participants	5.3
Low participant demand/potential utilization	4.6
Not a high priority	3.4
Unsure how to do so in current regulatory environment	3.4
Too costly to plan sponsor	2.8
Dissatisfied with available products	2.6

(7=Most important) Additional category: Other (0.8)

How satisfied are you with the guidance or advisory service?



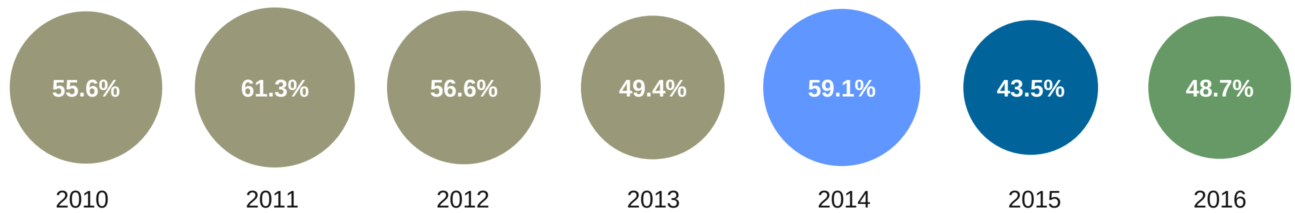
Post-Employment Assets

The percentage of plan sponsors that have a policy for retaining retiree/terminated participant assets ticked up in 2016 to 48.7%. Among plan sponsors that have a policy, more seek to retain assets than to not retain them.

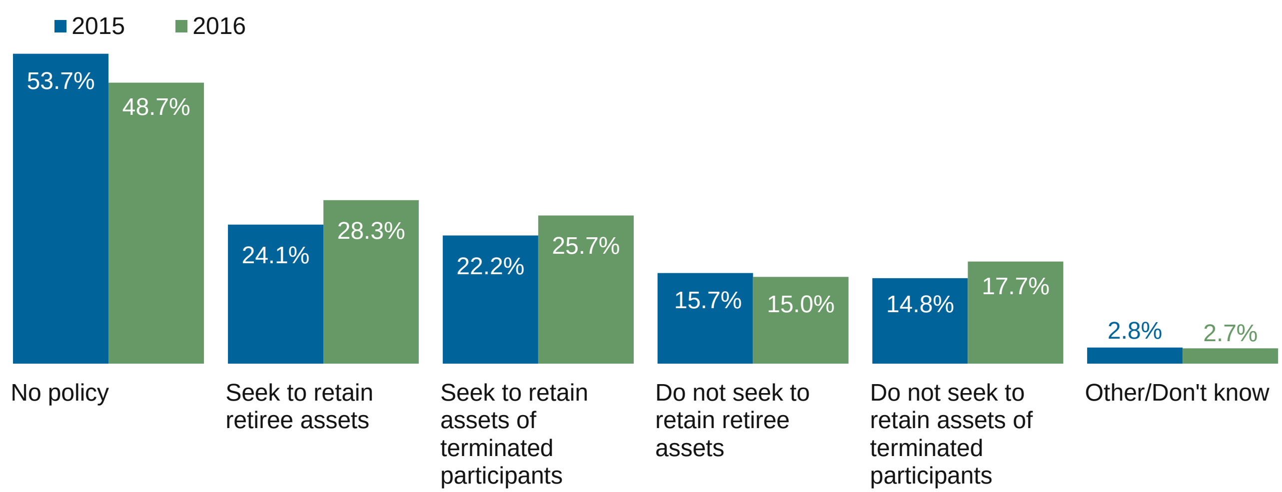
Many of the plans seeking to retain assets offer an institutional structure that is more cost effective than what is available in the retail market.

A number that seek to retain assets specifically cite the economies of scale that can be gained in doing so.

Does your plan have a policy for retaining retiree/terminated assets?



If you have a policy with respect to retaining retiree/terminated assets within the plan, what is that policy?*



*Multiple responses were allowed.

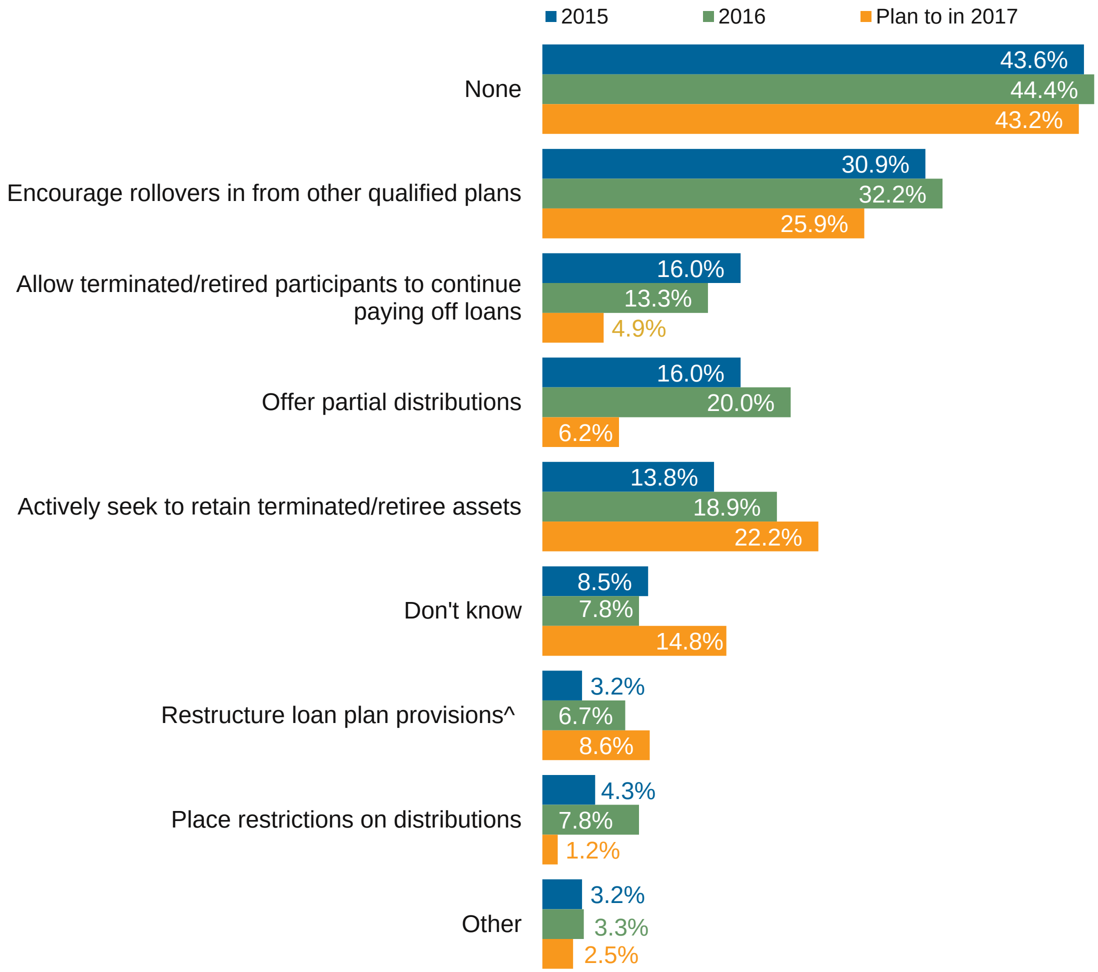
Plan Leakage

In a continued trend, many plan sponsors do not take any measures to prevent leakage from DC plans (44.4%).

Among those taking measures, encouraging rollovers in from other qualified plans continues to be the most common (32.2%). Only one in five offer partial distributions, and fewer than one in five actively seek to retain terminated/retiree assets.

In light of uncertainty around the implementation of the Department of Labor's 2016 Definition of a Fiduciary Rule, it is not surprising that 14.8% of plan sponsors don't know what steps they will take in 2017 to prevent plan leakage. This uncertainty might also explain some of the forecasted changes to plan leakage approaches anticipated in 2017.

What steps have you taken, and will you take, to prevent plan leakage?*



^e.g., reduce number of loans allowed, change loan frequency

*Multiple responses were allowed.

Retirement Income Solutions

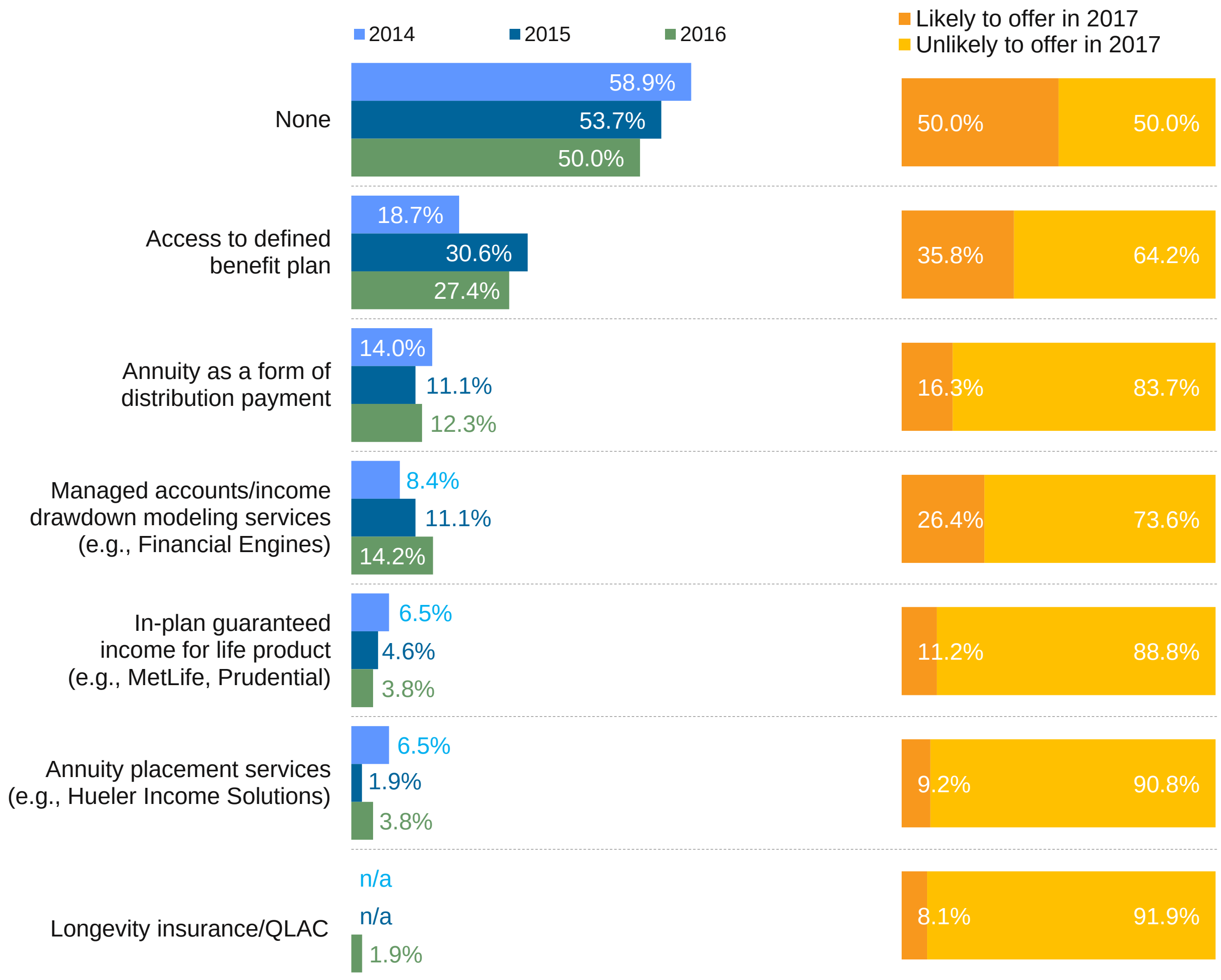
Half of plan sponsors offer retirement income solutions, up from 46.3% in 2015. The increase comes as more plan sponsors offer managed accounts/income drawdown modeling services: 14.2% in 2016 versus 11.1% in 2015. Such solutions are now the second most popular after providing access to a DB plan.

Still, plan sponsors indicate that providing access to their defined benefit plan is the most common retirement income solution offered (27.4%). Very few plans offer in-plan guaranteed income for life products such as in-plan annuities (3.8%) or longevity insurance (1.9%)—and are not likely to offer these in 2017.

Those who are very likely to offer in-plan guaranteed income solutions are mainly 403(b) plans, while 401(k) plan sponsors are the main types that are very likely to add longevity insurance in 2017.

Several noted that they offer partial distributions or installment options.

What retirement income solutions do you/will you offer to employees?*



*Multiple responses were allowed.

Reasons for Not Offering Annuities

Plan sponsors cite a number of reasons for being unlikely to offer an annuity-type product in the near term. The top reason is because they believe it is unnecessary or not a priority. Also high on the list is being uncomfortable or unclear about the fiduciary implications.

Plan sponsors cite that they are almost equally concerned about the following factors: annuities being too costly and a lack of participant need or demand.

If your DC plan is unlikely to offer an annuity-type product in 2017, please indicate why by rating the following choices

Most important ↑ / Least Important ↓

	Rating
Unnecessary or not a priority	3.7
Uncomfortable/unclear about fiduciary implications	2.8
Too costly to plan sponsors/participants	2.5
No participant need or demand	2.5
Concerned about insurer risk	2.3
Uncomfortable with available products	2.2
Too administratively complex	2.2
Availability of DB plan	2.1
Difficult to communicate to participants	1.9
Products are not portable	1.9
Lack of product knowledge	1.8
Recordkeeper will not support this product	1.2

(5=Most important)

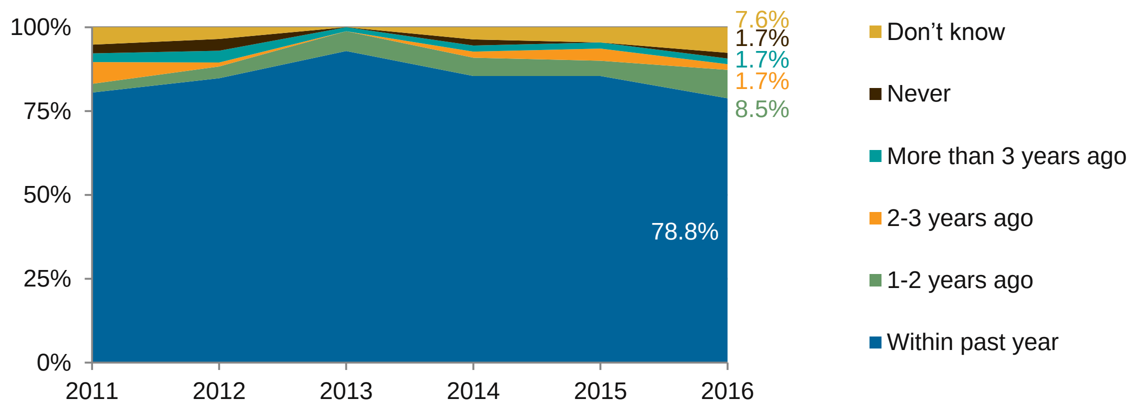
Fee Calculation

The number of plan sponsors that calculated their DC plan fees within the past 12 months dropped to 78.8% from 85.5% in 2015. Furthermore, this is down from a high of 92.9% in 2013. Surprisingly, many of these are 401(k) plans. Within the past three years, 89% plans. calculated plan fees. Only 1.7% of plan sponsors said that they have never done so, and the percent of plan sponsors who did not know increased this year (7.6%).

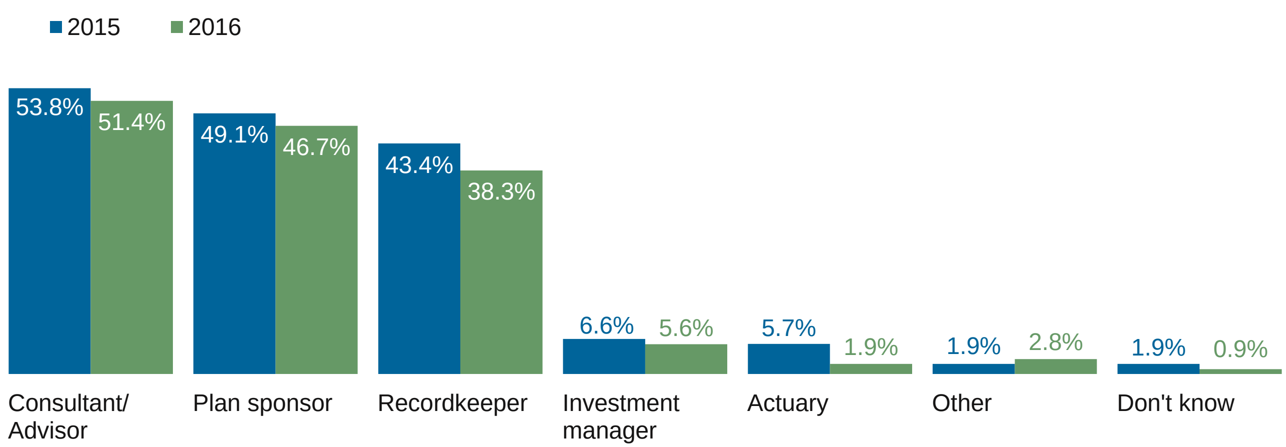
In just over a third of cases, a combination of entities are responsible for calculating plan fees. Fees are most frequently calculated by the consultant, plan sponsor, and/or recordkeeper.

Fewer than two thirds (63%) of 401(k) plan sponsors had both calculated and benchmarked plan fees within the past 12 months.

When was the last time you calculated all-in fees for your DC plan? (All-in fees include all applicable administration, recordkeeping, trust & custody, and investment management fees.)



Who was responsible for your fee calculation?*



*Multiple responses were allowed.

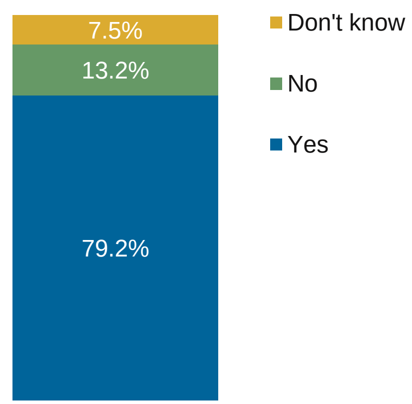
Fee Benchmarking

Nearly four out of five plan sponsors (79.2%) benchmarked the level of plan fees as part of their fee calculation process, up from 76.0% in 2015 and 64.9% in 2014. The percent of plan sponsors who do not know whether plan fee levels are benchmarked (7.5%) is up somewhat from 6.7% in 2015.

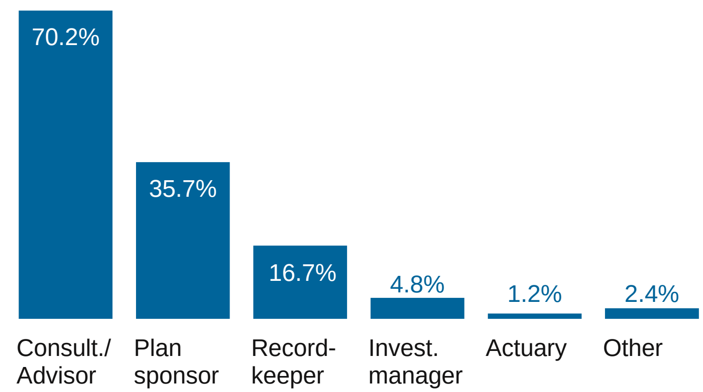
In most cases, the consultant/advisor conducts the benchmarking (70.2%). This is similar to prior years.

In just over a quarter of cases, plan sponsors used multiple data sources in benchmarking, though the consultant database is the most frequently used (51.2%).

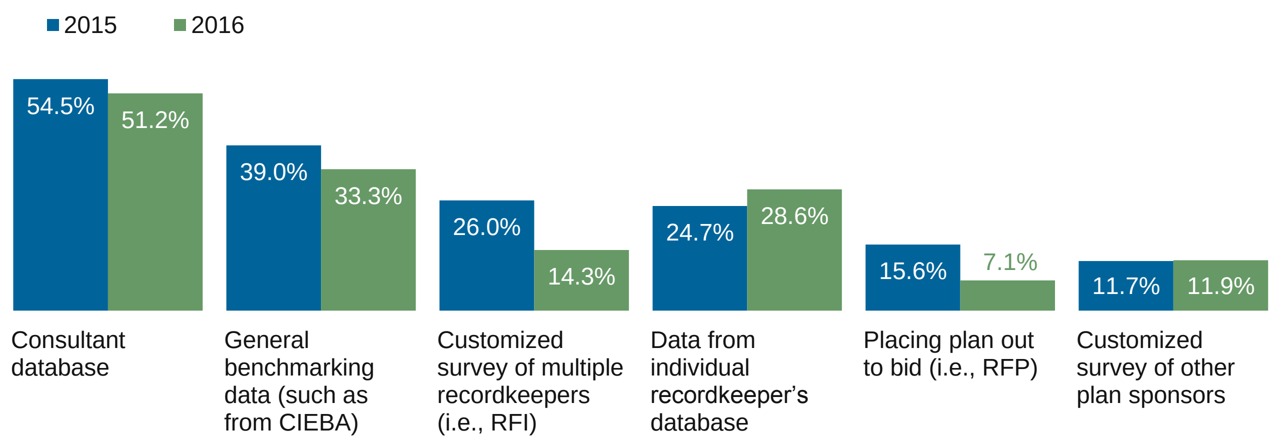
In calculating fees, did you benchmark the level of fees?



Who was responsible for the fee benchmarking?*



How was benchmarking accomplished?*



Additional categories (2016/2015 data): Don't know (8.3%/7.8%), Other (4.8%/1.3%)

*Multiple responses were allowed.

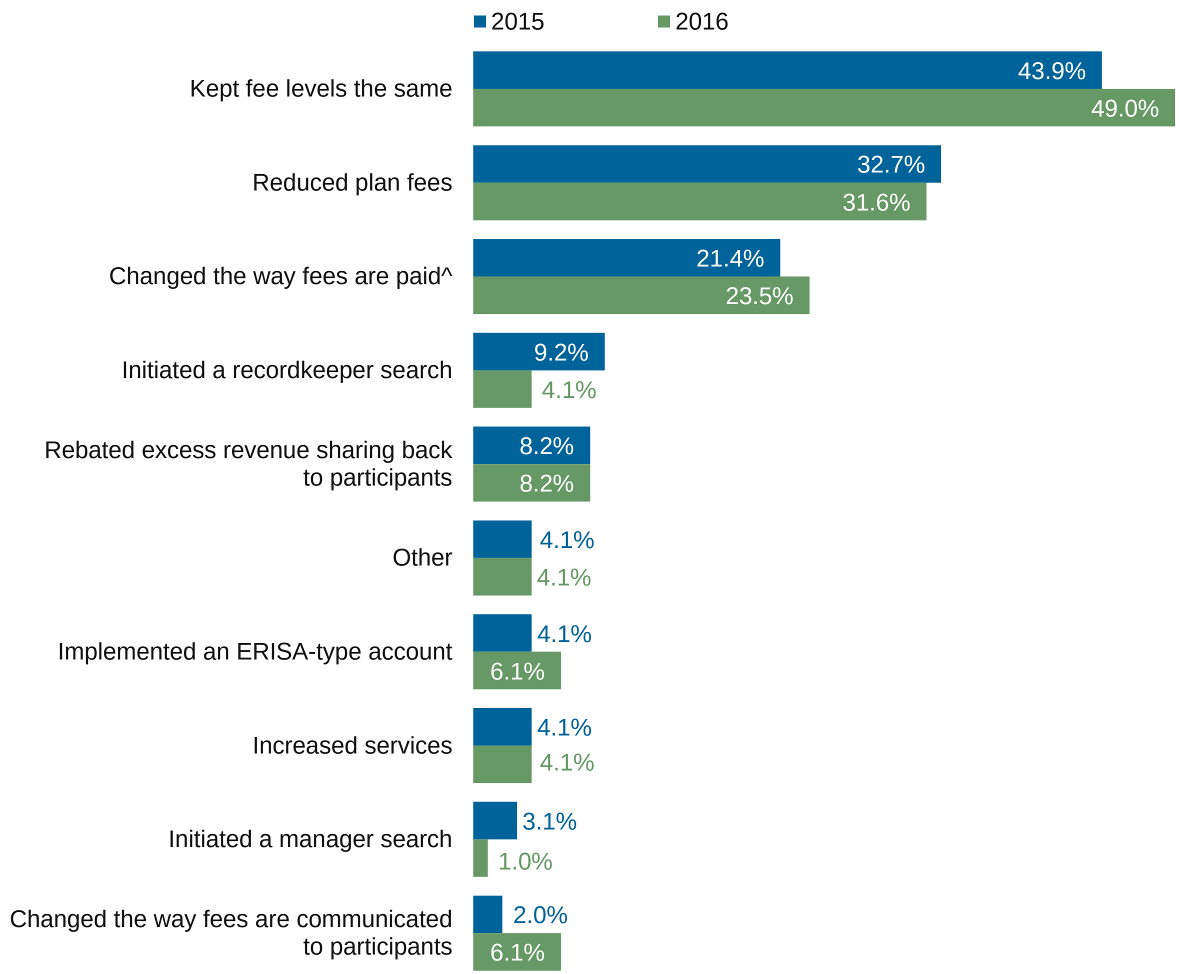
Fee Calculation and Benchmarking Outcomes

Just under half of plan sponsors kept fees the same following their most recent fee review (49.0%), while about one-third of plans (31.6%) reduced fees (similar to 2015).

After reducing fees, the second most common activity resulting from a fee assessment in 2016 was changing the way fees were paid: nearly one quarter of plan sponsors changed the way plan fees were paid in 2016, up from 2015. There has been an increase in plan sponsors changing the way fees are communicated to participants (6.1% in 2016 vs. 2.0% in 2015), which may be a result of more plan sponsors changing the way fees are paid.

A material change in 2016 was the proportion of plan sponsors that reported initiating a recordkeeper search as a result of their fee assessment. In 2015, nearly one in ten reported doing so; last year, that figure dropped to 4.1%.

What was the outcome of your fee calculation and/or benchmarking?*



^e.g., change from use of revenue sharing to an explicit participant fee.

*Multiple responses were allowed.

Fee Payment

Investment management fees are most often entirely paid by participants (78.1%), or at least partially paid by participants (90.4%). In contrast, 50.9% of plan sponsors indicate all administrative fees are paid by participants; 78.5% note that at least some administrative fees are participant-paid.

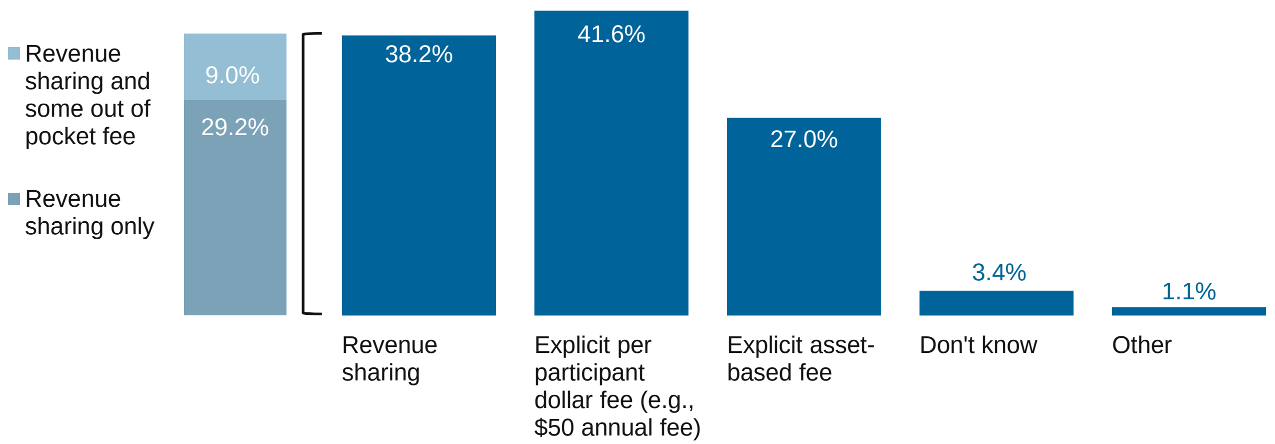
In nearly four out of ten cases (38.2%), participants pay administrative fees either solely through revenue sharing or through a combination of revenue sharing and some type of out-of-pocket fees. Of the 9% who combine revenue sharing with out-of-pocket fees, 50.6% combine it with a per participant fee, 24.7% combine it with an asset-based fee, and the remaining 24.7% combine it with both a per participant and asset-based fee.

Of those solely paying through an explicit fee, using a per participant fee is more popular than an asset-based fee.

How are the plan's investment management fees paid?

How are the plan's administrative fees paid?

How do participants pay for the administration of the plan?*



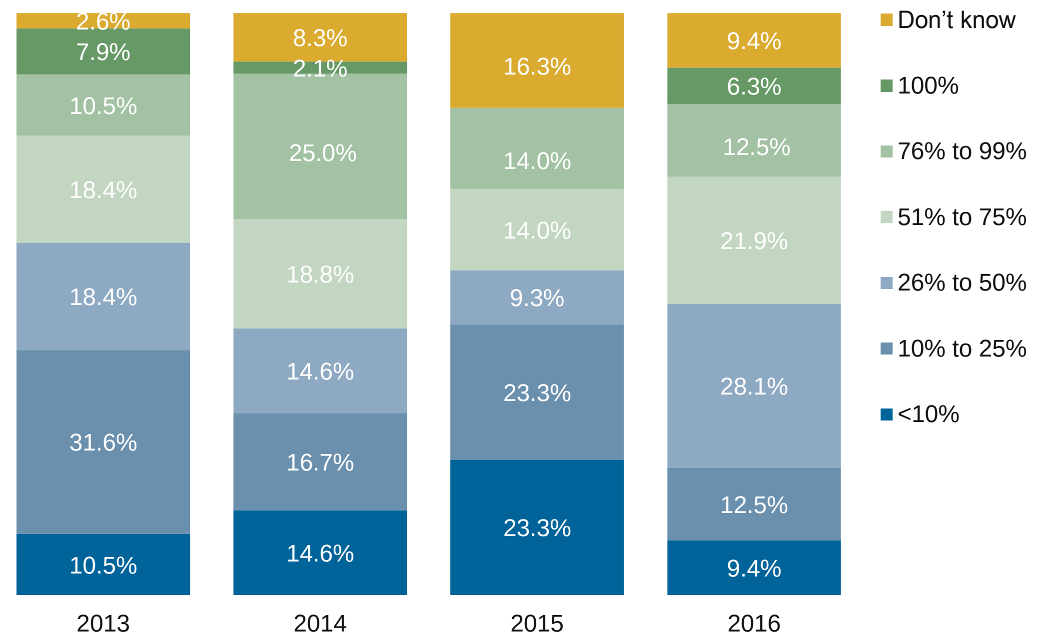
*Multiple responses were allowed.

Revenue Sharing

Only 6.3% of plans with revenue sharing report that all of the funds in the plan provide revenue sharing. Instead, it is most common to have between 26% and 50% of funds paying revenue sharing.

When only some funds pay revenue sharing, it means administrative payments may not be equitably shared among plan participants. Indeed, it is possible for some participants to pay substantial administrative costs and others to pay none, simply based on fund selection.

What percentage of the funds in the plan offer revenue sharing or some kind of administrative allocation back from the investment fund?



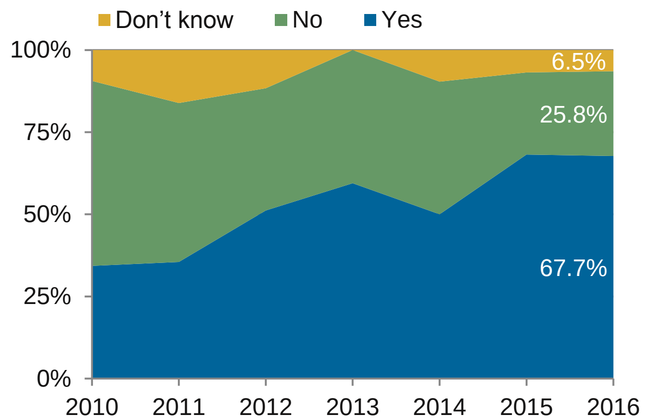
ERISA Accounts for Plans with Revenue Sharing

Over two-thirds of the plans with revenue sharing have an ERISA account, up notably from 2010. The percent of plan sponsors that do not know if they have an ERISA account modestly decreased to 6.5% in 2016; however, this is still up from 2013 when no respondents said they did not know.

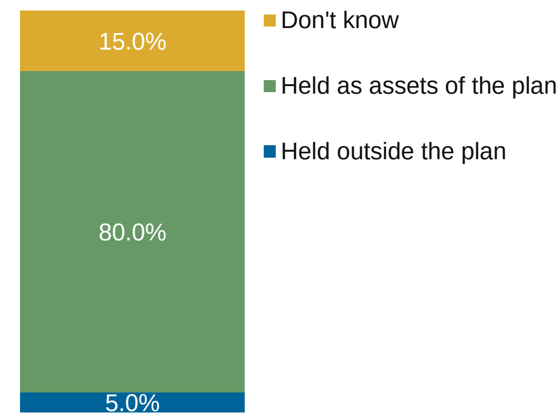
In most cases (80.0%), reimbursed administrative fees are held as a plan asset. This is up from 66.7% in 2015.

Significantly more plan sponsors are reporting rebating excess revenue sharing from the ERISA account to participants (66.7% in 2016 vs. 44.4% in 2015).

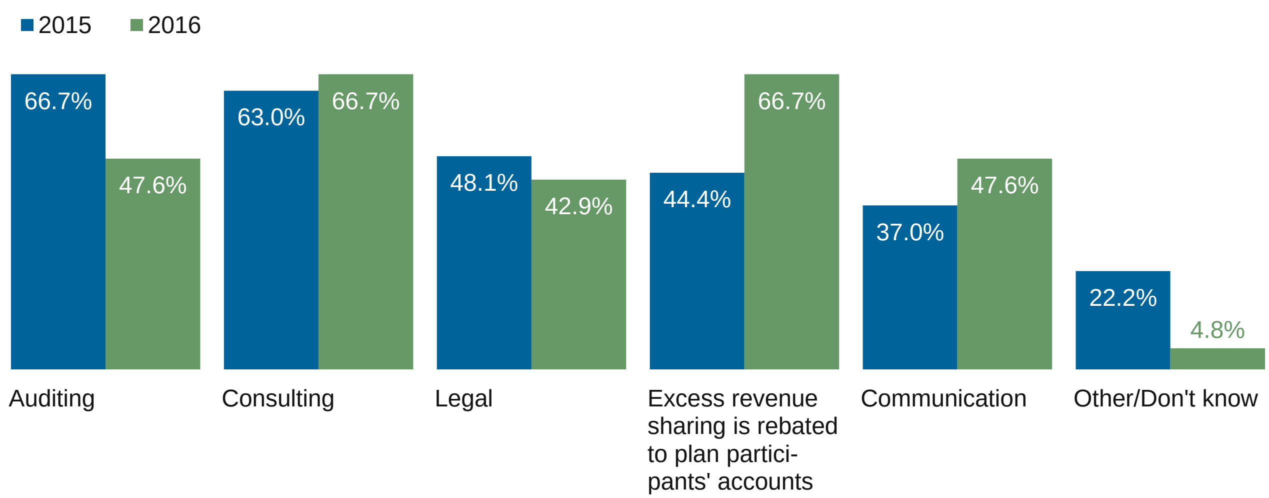
Do you currently have an ERISA expense reimbursement account?



Are ERISA account assets held outside the plan or as assets of the plan?



What expenses are paid through the ERISA account?*



*Multiple responses were allowed.

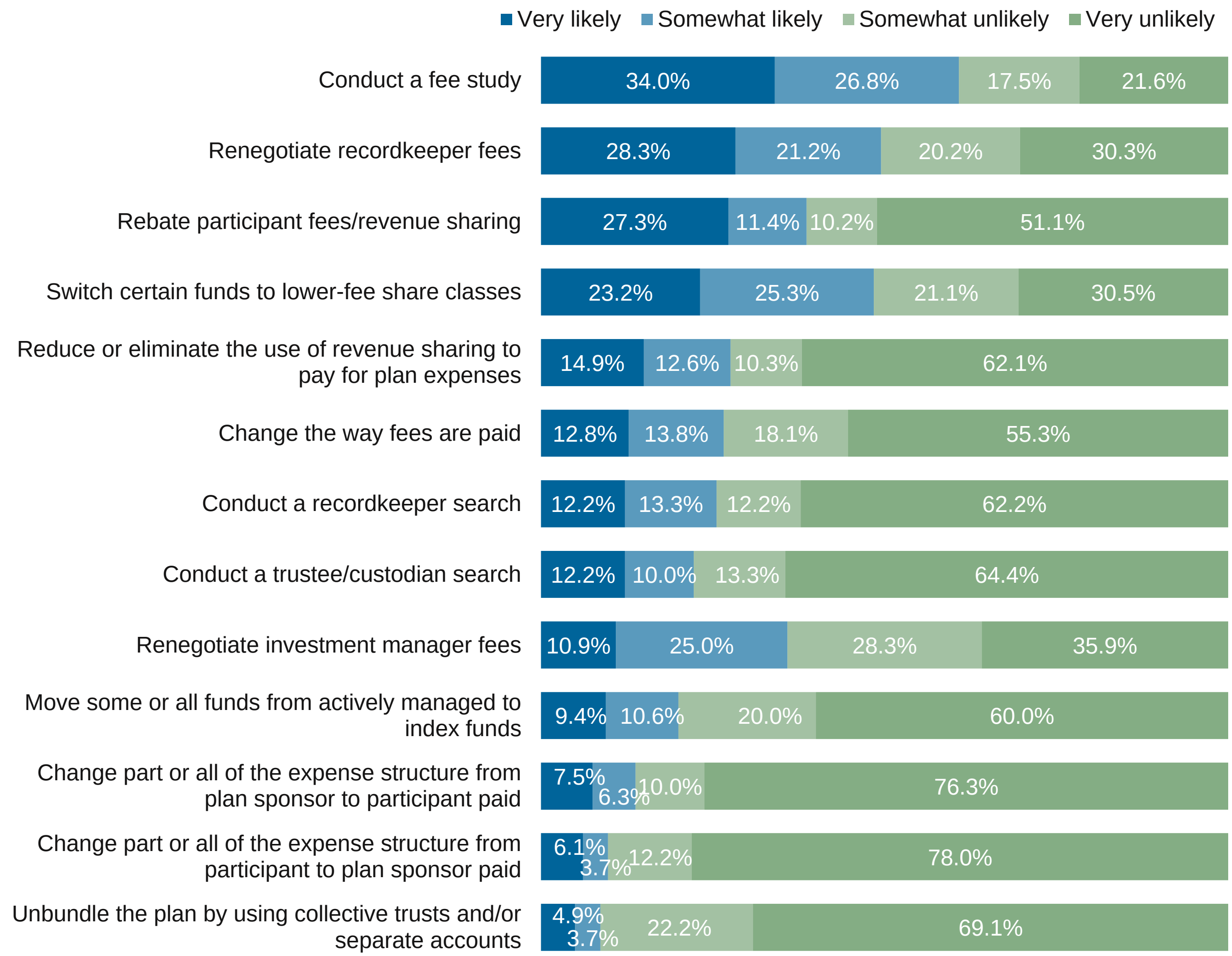
Fee Initiatives in 2017

More than six of ten plan sponsors are either somewhat or very likely to conduct a fee study in 2017 (60.8%). This is up from last year (52.0%). Other somewhat or very likely actions include renegotiating recordkeeper fees (49.5%) and switching to lower-fee share classes (48.5%).

Recordkeeper search activity is likely to pick up in 2017, with 25.5% saying they are very or somewhat likely to conduct one in 2017 vs. 20.0% in 2016. Likewise, 22.2% report that they will likely conduct a trustee/custodian search in 2017 vs. 7.6% in 2016.

As in prior years, few plan sponsors intend to shift who pays for plan expenses.

What steps around fees are you most likely to engage in next year (2017)?



Participant Communication

Contribution levels and retirement income adequacy rank as the highest likely areas of focus for DC participant communication for 2017. For the upcoming year, plan sponsors will be slightly more focused on plan participation, ranking third, than investing, ranking fourth. Plan sponsors do not rank communication around plan leakage very highly as an area of focus, with communication around loans and withdrawals ranking near the bottom of the list.

In terms of media channels, email utilization grew from 86.9% in 2015 to 92.8% in 2016. Overall website utilization, including internal sources and the recordkeeper website, reached a combined 93.7% for 2016.

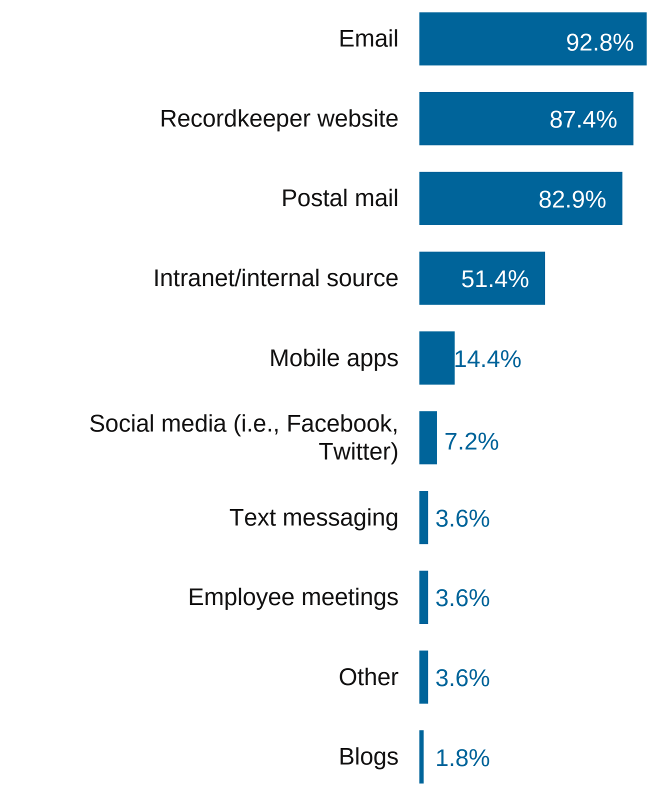
Postal mail continues to see a drop in prevalence, decreasing steadily since 2013 (when it was 92.7%). Still, 82.9% of plan sponsors communicate plan information using postal mail.

Which areas of communication will you focus on in 2017?

	Ranking
Contribution levels	4.8
Retirement income adequacy	4.8
Plan participation	4.6
Investing (e.g., market activity, diversification, etc.)	4.5
Financial wellness	4.2
Managing income in retirement	2.5
Fees	2.3

7=Most focus
Additional categories:
Loans (1.6)
Withdrawals (1.0)
Company Stock (0.8)

What media channels do you use to communicate plan changes, information, benefits, etc. to participants?*



*Multiple responses were allowed.

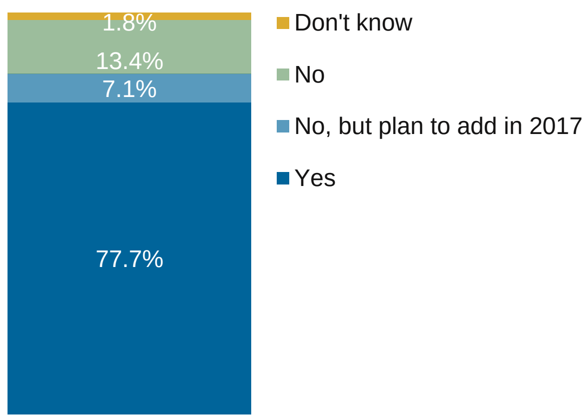
Retirement Income Projections

Plan sponsors providing a retirement income projection, showing plan participants how their current balance may translate into income in retirement, increased dramatically from last year (77.7% in 2016 vs. 56.1% in 2015). The figure was 70.1% in 2014.

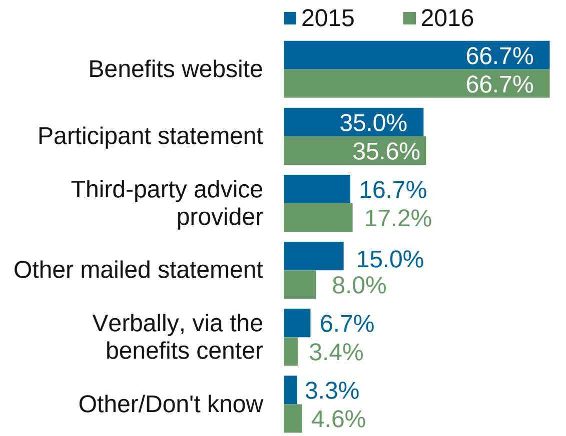
As in past years, the benefits website is the most common way to provide the retirement income projection. Participant statements also show the projection (35.6% in 2016 vs. 35.0% in 2015). This information is also disseminated via other mailed statements (8.0%) or through a third party (17.2%).

The recordkeeper typically provides the projection calculation (83.0%). It is usually shown as a projection of income in retirement, either as a monthly (62.8%) or an annual figure (27.9%). However, 20.9% of respondents also show the projected balance either on a standalone basis or coupled with the income projection.

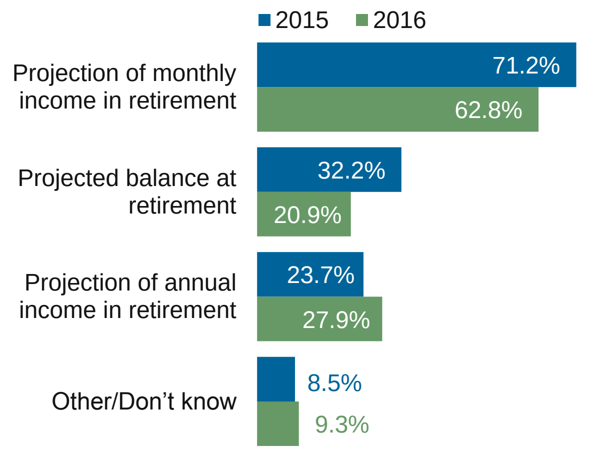
Do you provide a retirement income projection for participants?



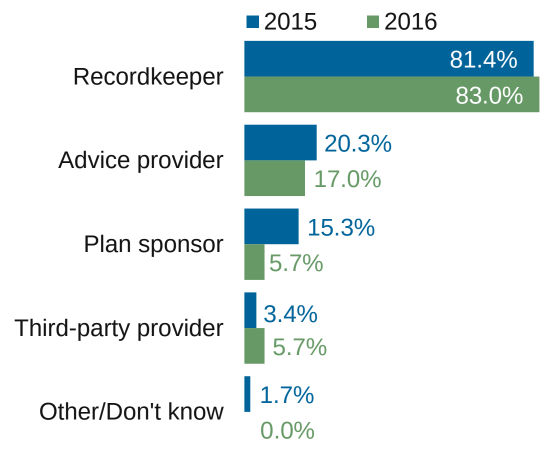
How is the retirement income projection provided?*



How is the projected retirement income calculation displayed?*



Who provides the projection calculation?*



*Multiple responses were allowed.

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Lori Lucas, CFA, is an Executive Vice President and Defined Contribution Practice Leader at Callan Associates. Lori is responsible for setting the direction of Callan's DC business, providing DC support both internally to Callan's consultants and externally to Callan's clients, and developing research and insights into DC trends for the benefit of clients and the industry. Lori is a member of Callan's Management Committee and is a shareholder of the firm. Lori is a former columnist for Workforce Management online magazine and her views have been featured in numerous publications. She is a former Chair of the Employee Benefit Research Institute's Research Committee, and she is Chair of the Defined Contribution Institutional Investment Association. Lori is also a frequent speaker at pension industry conferences.

Jamie McAllister is a Vice President and defined contribution consultant in Callan's Fund Sponsor Consulting group based in the Chicago office. Jamie is responsible for providing support to Callan's DC clients and consultants, including DC provider searches, structure reviews, fee analyses, maintaining the recordkeeping database, and developing DC research. Jamie regularly participates in judging the Innovator Awards sponsored by Pensions & Investments (P&I) and the Defined Contribution Institutional Investment Association (DCIIA) as well as the Plan Sponsor Council of America (PSCA) Signature Awards. She is a shareholder of the firm. Jamie has over 10 years of defined contribution experience. Jamie earned a BBA in Finance with a concentration in international business from the University of Notre Dame.

Thomas Szkwarla is an Assistant Vice President and defined contribution consultant in Callan's Fund Sponsor Consulting group based in the Chicago office. Thomas joined Callan in 2015 and is responsible for providing support to Callan's DC clients and consultants, including DC provider searches, fee analyses, maintaining the recordkeeping database, and developing DC research. Thomas graduated from Loyola University Chicago with a BBA in Finance and Economics. He earned an MBA, with concentrations in Financial Analysis and Investment Management, from DePaul University's Kellstadt Graduate School of Business. Thomas is a Level II Candidate in the CFA program.

Disclosure

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Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are uniquely backed by proprietary research, exclusive data, ongoing education and decision support. Today, Callan advises on more than $2 trillion in total assets, which makes us among the largest independently owned investment consulting firms in the U.S. We use a client-focused consulting model to serve public and private pension plan sponsors, endowments, foundations, operating funds, smaller investment consulting firms, investment managers, and financial intermediaries. For more information, please visit www.callan.com.

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