PIMCO

Your Global Investment Authority

2013 Defined Contribution Consulting Support and Trends Survey

For more information about this survey, please contact:

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Survey overview

- PIMCO's DC Practice has prepared the *2013 Defined Contribution Consulting Support and Trends Survey* to help plan sponsors understand the breadth of views and specific consulting services available within the DC marketplace. Our 2013 survey captures data, trends and opinions from 51 consulting firms across the U.S. which serve over 6,500 clients with aggregate DC assets in excess of $2.4 trillion.
- In the survey, we share information about the consulting firms' DC business, plan structure, and investment default, as well as core investments and retirement income.
- Given the ever-increasing dependence on DC plans as the primary source of retirement income, this survey aims to identify how the leaders in DC consulting are helping their clients design and deliver successful plans.

Note: Some of the survey results may not sum to 100%, given rounding or multiple responses.

2012 survey highlights

Defined contribution business

- Fifty-one consulting firms participated in this year's survey. This is an increase of 12 from last year (39).
- Consulting firms report an increase in their DC client base from an average of 110 clients in 2012 to 130 this year.
- The firms serve clients with DC plan assets totaling almost $48 billion on average and $17 billion at the median. This compares to $49 billion and $16 billion in 2012.
- On average, consultants are providing custom target-date services (up from 7 to 8) and managed accounts (up from 6 to 11) to more clients relative to 2012.
- Sixty-eight percent of DC clients fall into the corporate plan category, with not-for-profit plans following with 17%.
- Firms with dedicated DC teams report over a quarter of their firm's staffing as dedicated to DC, with a median staff size of seven and an average of 21 members, including:
  - Eleven consultants
  - Six analysts
  - Four support staff
- On average, 51% of firm revenue comes from DC business, the median being 50%.
- Fastest-growing DC areas reported by consultants include:
  - Total plan cost/fee studies
  - DC recordkeeping searches
  - DC investment design
  - Investment default asset-allocation creation (e.g., target-dates, balanced fund)
  - Manager selection and monitoring

2012 survey highlights

Defined contribution plan structure

- Almost all firms (96%) are willing to serve as 3(21) non-discretionary advisor, two-thirds of firms (67%) are willing to accept 3(38) discretion over manager selection, and 61% are willing to accept 3(38) discretion over the glide path.
- On average, nearly all firms (96%) recommend that clients offer one capital preservation option and two fixed income options, and 94% suggest six equity options. One inflation-hedging option (83%), a global balanced strategy (47%), and an alternative strategy (36%) were also selected frequently.
- Firms believe that emerging market debt (61%), followed by commodities (49%) and then risk mitigation strategies (e.g., tail risk hedging) (45%) would bring the most value **as added asset classes within an asset-allocation strategy** (e.g., target-date).
- Firms believe that global or non-U.S. equity (59%), TIPS (47%), global or non-U.S. fixed income (43%), and diversified real assets (41%) would bring the most value **as added asset classes within the core lineup**.
- The vast majority of consultants (78%) believe that plan sponsors are likely to highly likely to add global equity strategies **to enhance a plan's DC equity offerings**. At the same time, over half of consultants (57%) believe that plan sponsors are likely to highly likely to add global fixed income strategies **to enhance a plan's fixed income offerings**.
- Over three-quarters of firms either actively promote (22%) or support (55%) client interest in re-enrollment.
  - On average, consultants report that, over the last two years, only 7% of their clients have re-enrolled participants. Going forward, they anticipate more plans to re-enroll, with 5% expected over the next 12 months and 17% within the next 2–5 years.
- In order of importance, the three ways that consultants believe plan sponsors can minimize litigation risk include (1) document investment policies and processes, (2) evaluate and confirm reasonable plan investment fees, and (3) establish an engaged DC investment oversight committee. These results match the 2012 survey selections.

2012 survey highlights

Investment default

- Consultants rank evaluation of the glide path structure as most important in selecting or designing target-date strategies.
- Ninety-eight percent of firms recommend that clients offer a target-date or target-risk investment tier.
  - The largest plan sponsors ($200mm+) will select custom or hybrid active/passive target-date strategies.
  - Seventy percent actively promote custom target-date strategies or support client interest in this area.
  - Eighty-nine percent believe the largest plan sponsors ($1bn+) will decouple to a significant extent their target-date selection from recordkeeping services.
- Over half of consultants (51%) believe a custom target-date approach is an improvement over current packaged funds.
- Eighty-one percent suggest the addition of Treasury Inflation-Protected Securities (TIPS) to reduce risk in asset-allocation strategies.
  - Sixty percent suggest reducing exposure to risk assets (e.g., equities) as a risk-reduction approach.
  - A growing number of consultants support explicit "tail risk" hedging strategies (50%), an increase from last year's survey (39%).
  - At the median, consultants cite a loss capacity of 8% at retirement age, 15% with 10 years to retirement, 20% with 20 years, 30% with 30 years, and 35% with 40 years.
- If plan sponsors decide to use managed accounts, a majority (55%) believe they should be offered as an opt-in asset-allocation choice only. Nearly one-third of firms (32%) do not suggest managed accounts, while only six (12%) suggest them as the opt-out investment default.
  - A large majority of consultants have concerns around both the embedded cost of service (86%) and value added relative to the current investment default (72%).
- The majority of consultants (65%) anticipate a low-return, high-volatility environment for the next 2–5 years. By contrast, 17% foresee 5–10 years of this environment, and 11% expect it to end in the short term (0–2 years).
- At the median, consultants expect emerging market equities to outperform (10%) all other asset classes, albeit with significantly higher volatility (26%). U.S. small cap, U.S. large cap, and non-U.S. developed market equities are expected to be the next three best performers, all returning around 8% with 18%–21% volatility.

2012 survey highlights

Core investments

- The ongoing near-zero nominal and negative real interest rates of money market funds proved most concerning (83%) to consultants in the DC capital preservation space.
- In order of importance, the top five characteristics to consider when evaluating a commingled stable value solution are (1) stable value manager capabilities and expertise, (2) level of transparency, (3) wrap/insurance provider creditworthiness, (4) structure stability/long-term viability, and (5) plan withdrawal restrictions.
- If the SEC moves toward a variable NAV for money market funds, most consultants with a client in a money market fund would be inclined to consider a short-term bond option tailored for the needs of DC participants (74%), a change to stable value (70%), or would make no change (70%).
- Nearly three-quarters of consultants (74%) view active management as very important in global asset-allocation strategies. Moreover, the majority of firms agreed that it's somewhat to very important to actively manage all asset classes, with the weakest support given to active management of TIPS and large cap U.S. equities.
  - Consulting firms believe that the ability of active managers to add alpha in a low-return environment (94%), expected rising rate environment/changing economic environment (79%), and enhanced risk management opportunity (90%) will be important to very important in increasing the attractiveness of active management.
  - Many are concerned to some extent about a number of issues in passive investment management: (1) dominant use of market-cap weighted approach (79%), (2) view that low tracking error means "risk-free" (75%), (3) replication of poorly constructed indexes can lead to poor outcomes (83%), (4) reliance on index volatility as sole risk management tool (85%), and (5) perception of low cost as a litigation safeguard (81%).

2012 survey highlights

Retirement income

- While consultants believe that some or the majority of plan sponsors prefer to retain retiree assets (81%), they report that their clients do not actively encourage retired asset retention. Only four firms (8%) reported that the majority of their clients prefer that retirees move out of their plan.
- Consultants noted the investment or insurance retirement income strategies or features that are most attractive in DC plans are: at-retirement target-date, conservative fixed income, diversified fixed income, managed account/systematic withdrawal, and stable value.
- The vast majority of consulting firms indicated little growth to some growth for many retirement solutions, with few being selected for significant growth.
  - Consultants' primary concerns with offering in-plan annuity products include portability, insufficient government support, operational complexity, cost, and lack of liquidity and control.

Participant list

- Fifty-one investment consulting firms participated in this survey, as listed below:

PARTICIPANTS		
401(k) Advisors	FiduciaryVest, LLC	NEPC
ABD Retirement	Francis Investment Counsel	Plan Sponsor Advisors, LLC
Arnerich Massena & Associates, Inc.	Gallagher Fiduciary Advisors, LLC	Portfolio Evaluations, Inc.
Bellwether Consulting	Hewitt EnnisKnupp	Rocaton Investment Advisors, LLC
Bidart & Ross, Inc.	HR Advocates, Inc.	Russell Investment Group
Blue Prairie Group	Innovest Portfolio Solutions LLC	R.V. Kuhns & Associates, Inc.
Callan Associates	JP Morgan Performance Analytics & Consulting	SageView Advisory Group
Cammack LaRhette, Inc.	Lockton Financial Advisors, LLC	Segal Rogerscasey
CAPTRUST Financial Advisors	Marco Consulting Group	Slocum
Channel Financial	MBM Advisors, Inc.	Snook Housey Advisors
Concord Advisory Group, Ltd.	Meketa Investment Group	Strategic Retirement Group
Cook Street Consulting, Inc.	Mercer Investment Consulting, Inc.	Summit Strategies Group
Curcio Webb, LLC	Mesirow Financial	Newport Group
Defined Contribution Advisors, Inc.	MJM401k.com	Towers Watson
DiMeo Schneider & Associates, LLC	Morgan Stanley Smith Barney	UBS Institutional Consulting
Ellwood Associates	Ibbotson Associates	Wilshire Associates, Inc.
Fiduciary Investment Advisors, LLC	Multnomah Group, Inc.	Wurts & Associates, Inc.

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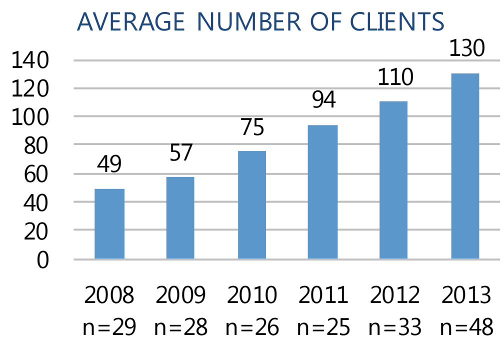
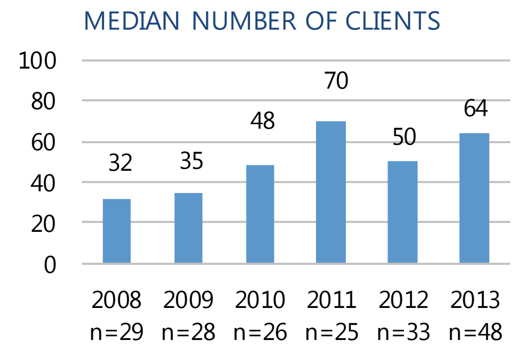
I. Defined contribution business

1. How many defined contribution (DC) clients does your firm currently serve?

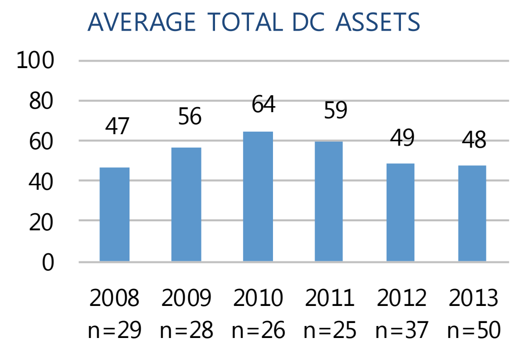
The firms continue to experience DC business growth. On average, the firms support 130 clients; the median is 64. This compares to 110 and 50 in 2012, 94 and 70 in 2011, 75 and 48 in 2010, 57 and 35 in 2009, and 49 and 32 in 2008.

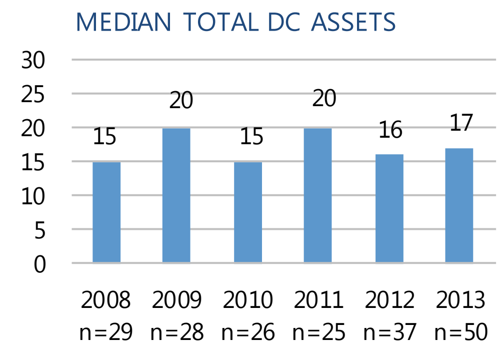




2. What are the total assets (in billions) in the DC plans represented by your DC client base?

The firms serve clients with DC plan assets totaling almost $48 billion on average and $17 billion at the median. This compares to $49 billion and $16 billion in 2012, $59 billion and $20 billion in 2011, $64 billion and $15 billion in 2010, $56 billion and $20 billion in 2009, and $47 billion and $15 billion in 2008.





I. Defined contribution business

3. Please estimate the median plan size (in millions) represented by your DC client base.

The firms serve clients with DC plan assets totaling $236 million on average and $75 million at the median. These numbers are lower than 2012 with the average plan served at $259 million and $122 million at the median.

	ASSET SIZE
Average	$236 million
Median	$75 million
n = 49	

4. To how many clients do you provide the following custom asset-allocation services (e.g., consulting or asset-allocation management)? Please select a value for number of clients and an estimate of total plan assets:

On average, consultants are providing custom target-date services (up from 7 to 8) and managed accounts (up from 6 to 11) to more clients relative to 2012.

CUSTOM ASSET-ALLOCATION SERVICES	AVERAGE	MEDIAN	AVERAGE PLAN ASSETS	MEDIAN PLAN ASSETS
Target-date (e.g., 2010, 2020) (n = 30)	8	5	2,396	750
Target-risk (e.g., conservative) (n = 27)	8	4	1,698	750
Multi-manager balanced (n = 11)	5	3	4,367	2,750
Managed account (# sponsors) (n = 6)	11	9	4,670	3,250
Other asset allocation (n = 8)	9	7	2,693	750
n = 35				

I. Defined contribution business

5. What percent of your DC clients fall into the following categories? Please allocate to total 100%, and enter 0 if no client in that category:

On average, 68% of DC clients fall into the corporate plan category, with not-for-profit plans following with 17%. The remainder includes public and multi-employer plans.

CATEGORY	CLIENTS (AVG %)
% Corporate	68%
% Not-for-profit	17%
% Public	6%
% Multi-employer	5%
% Other	4%
n = 47	

6. What is the staffing of your entire firm and DC-dedicated team? Please enter 0 if no staff in that category:

On average, firms are staffed with 77 people: 32 consultants, 24 analysts, and 21 support staff. Firms that have a dedicated DC team are staffed, on average, with 21 people: 11 consultants, 6 analysts, and 4 support staff. Note: DC-dedicated team size is down by 1 person from 2012 (1 less consultant and the same number of analysts and support staff).

STAFFING	AVERAGE	MEDIAN
Entire firm		
Consultants	32	13
Research analysts	15	7
Non-research analysts	9	4
Support/other	21	10
Total	**77**	**34**
DC–dedicated		
Consultants	11	4
Research analysts	4	2
Non-research analysts	2	0
Support/other	4	1
Total	**21**	**7**
n = 48		

I. Defined contribution business

7. Approximately what percent of overall firm revenue does your DC practice represent?

On average, 51% of firm revenue comes from DC business, the median being 50%. These figures compare favorably to 2012 with DC representing 45% of revenue on average and 41% at the median.

	PERCENTAGE OF REVENUE
Average	51%
Median	50%
n = 40	

I. Defined contribution business

8a. Which of the following DC services do you currently provide to clients?

All of the firms surveyed (100%) provide investment policy development/documentation and manager selection and monitoring services. In addition, most provide investment design (98%), recordkeeping searches (94%), total plan cost/fee studies (94%), guaranteed/annuity product evaluations (88%), investment default asset-allocation creation (82%), and communication consulting (76%). Over two-thirds provide plan/benefits design services (71%), ongoing investment default risk and glide path management (71%), and retirement income studies (69%). Notably, nearly two-thirds offer discretionary oversight of investment selection and monitoring (61%).

TYPES OF DC SERVICES – CURRENTLY PROVIDE	# OF FIRMS	% OF FIRMS
Investment policy development/documentation	51	100%
Manager selection and monitoring	51	100%
DC investment design	50	98%
DC recordkeeping searches	48	94%
Total plan cost/fee studies	48	94%
Guaranteed/annuity product evaluations	45	88%
Investment default asset-allocation creation (e.g., target-dates, balanced fund)	42	82%
Communication consulting	39	76%
DC plan/benefits design (e.g., match level, plan type)	36	71%
Ongoing investment default risk and glide path management	36	71%
Retirement income studies	35	69%
Discretionary oversight of investment selection and monitoring (e.g., 3(38) advisory services)	31	61%
Operations consulting	20	39%
Non-U.S. DC plan consulting services	19	37%
Discretionary oversight of both plan administration and investments	14	27%
n = 51		

I. Defined contribution business

8b. Which of the following DC services have grown the most over the past year?

When selecting the areas of greatest growth over the past year, two-thirds of firms (67%) said total plan cost/fee studies was the most common. This is followed by around half of firms (51%) stating recordkeeping searches, then investment design (43%), and investment default asset-allocation creation (37%). Consultants selected manager selection and monitoring (35%) and ongoing investment default glide path management (33%) as among the remaining top growth areas. Nearly one-third noted discretionary oversight of investment selection and monitoring (29%) and guaranteed/annuity product evaluations (29%).

TYPES OF DC SERVICES – GROWN OVER PAST YEAR	# OF FIRMS	% OF FIRMS
Total plan cost/fee studies	34	67%
DC recordkeeping searches	26	51%
DC investment design	22	43%
Investment default asset-allocation creation (e.g., target-dates, balanced fund)	19	37%
Manager selection and monitoring	18	35%
Ongoing investment default risk and glide path management	17	33%
Discretionary oversight of investment selection and monitoring (e.g., 3(38) advisory services)	15	29%
Guaranteed/annuity product evaluations	15	29%
Investment policy development/documentation	12	24%
Other DC-related consulting (plan consolidation, plan success measurement, participant education)	12	24%
DC plan/benefits design (e.g., match level, plan type)	11	22%
Retirement income studies	9	18%
Communication consulting	7	14%
Discretionary oversight of both plan administration and investments	4	8%
Operations consulting	4	8%
Non-U.S. DC plan consulting services	3	6%
n = 51		

II. Defined contribution plan structure

9. In what fiduciary capacity are you willing to serve your clients? Please check all that apply:

Almost all firms (96%) are willing to serve as 3(21) non-discretionary advisor, followed by two-thirds of firms (67%) willing to accept 3(38) discretion over manager selection, and 61% willing to accept 3(38) discretion over glide path. Notably, a quarter of firms (25%) will act as named fiduciary over the entire plan.

FIDUCIARY CAPACITY	# OF FIRMS	% OF FIRMS
3(21) non-discretionary advisor	49	96%
3(38) discretionary manager selection (e.g., responsibility for selecting managers or funds)	34	67%
3(38) discretion over glide path	31	61%
3(38) discretionary investment manager (e.g., direct investment management responsibilities)	20	39%
Named fiduciary over a portion of the plan	18	35%
Named fiduciary over entire plan (e.g., overall investment and administrative fiduciary outsourcing)	13	25%
Other (special purpose fiduciary, co-fiduciary)	3	6%
3(16) plan administrator	2	4%
None	0	0%
n = 51		

10. What investment tiers do you recommend that clients offer? Please check no more than five:

Nearly all firms (98%) recommend that clients offer a target-date or target-risk investment tier, and 94% suggest that a core fund tier (with both active and passive investment choices) be provided. Forty-three percent suggest a full brokerage window, with a smaller group recommending a mutual fund-only brokerage window (31%). The vast majority do not recommend a separate investment tier for passive only or active only.

INVESTMENT TIERS	# OF FIRMS	% OF FIRMS
Target-date or target-risk	48	98%
Core lineup with both active and passive funds	46	94%
Full brokerage window	21	43%
Retirement income/distribution	19	39%
Mutual fund-only brokerage window	15	31%
Core lineup with passive only	11	22%
Core lineup with active only	7	14%
Other (managed accounts, annuities)	4	8%
n = 49		

II. Defined contribution plan structure

11. What is the optimal number of core menu options for each of these asset categories?

On average, nearly all firms (96%) recommend that clients offer one capital preservation option and two fixed income options, and 94% suggest six equity options. A large majority also recommend one inflation-hedging option (83%). About half suggest offering a global balanced strategy (47%), while over one-third suggest alternatives (36%) be offered in the core lineup.

NUMBER OF CORE MENU OPTIONS	# OF FIRMS	% OF FIRMS	MEAN # OF OPTIONS	MEDIAN # OF OPTIONS
Capital preservation	45	96%	1	1
Fixed income	45	96%	2	2
Equities	44	94%	6	6
Inflation-hedging	39	83%	1	1
Global balanced	22	47%	1	1
Alternatives	17	36%	2	1
Other (absolute return, global macro, global real estate)	11	23%	1	1
n = 47				

II. Defined contribution plan structure

12. Given the typical DC asset-allocation structure today, which of the below asset classes or strategies would **add value to a plan as an addition to an asset-allocation strategy**? Please check the top five strategies for each:

Firms believe that emerging market debt (61%), followed by commodities (49%) and risk mitigation strategies (e.g., tail risk hedging) (45%) would bring the most value as added asset classes within an asset-allocation strategy (e.g., target-date). A third or more also suggest the addition of high yield fixed income (39%), REITs (35%), global or non-U.S. fixed income (33%), diversified real assets (33%), and emerging market equity (33%).

NEW ASSET CLASSES IN PLAN – ASSET-ALLOCATION STRATEGY	# OF FIRMS	% OF FIRMS
Emerging market debt	30	61%
Commodities	24	49%
Risk mitigation strategies (e.g., tail risk hedging)	22	45%
High yield fixed income	19	39%
REITs	17	35%
Global or non-U.S. fixed income	16	33%
Diversified real assets	16	33%
Emerging market equity	16	33%
TIPS	14	29%
Private equity	14	29%
Infrastructure	13	27%
Guarantee or annuity products	12	24%
Absolute return (including unconstrained equity and fixed income)	12	24%
Hedge funds	12	24%
Private real estate	12	24%
Currencies	11	22%
Long-duration fixed income	10	20%
Global tactical asset allocation	9	18%
Short-duration fixed income	6	12%
Global or non-U.S. equity	5	10%
Other (annuities)	1	2%
n = 49		

II. Defined contribution plan structure

13. Given the typical DC investment core fund lineup today, which of the below asset classes or strategies would **add value to a plan as a core fund**? Please check the top five strategies for each:

- Firms believe that global or non-U.S. equity (59%), TIPS (47%), global or non-U.S. fixed income (43%), and diversified real assets (41%) would bring the most value as added asset classes within the core lineup. Over one-third of firms suggest also adding short-duration fixed income (39%), emerging market equity (37%), and guarantee or annuity products (35%) to the core lineup.
- In 2012 and 2011, firms rated TIPS, emerging market equity, and commodities as the top three needed asset classes in the core menu or within an asset-allocation strategy.

NEW ASSET CLASSES IN PLAN – CORE MENU	# OF FIRMS	% OF FIRMS
Global or non-U.S. equity	29	59%
TIPS	23	47%
Global or non-U.S. fixed income	21	43%
Diversified real assets	20	41%
Short-duration fixed income	19	39%
Emerging market equity	18	37%
Guarantee or annuity products	17	35%
Global tactical asset allocation	13	27%
High yield fixed income	10	20%
REITs	10	20%
Absolute return (including unconstrained equity and fixed income)	8	16%
Long-duration fixed income	3	6%
Commodities	3	6%
Private equity	1	2%
Risk mitigation strategies (e.g., tail risk hedging)	1	2%
Other (core plus fixed income)	1	2%
Emerging market debt	0	0%
Infrastructure	0	0%
Currencies	0	0%
Hedge funds	0	0%
Private real estate	0	0%
n = 49		

II. Defined contribution plan structure

14. What actions are plan sponsors likely to take to enhance their DC equity offerings? Please indicate the likelihood of each:

The vast majority of (78%) consultants believe that plan sponsors are likely to highly likely to add global equity strategies to enhance plan sponsors' DC equity offerings. Almost half (47%) believe that plan sponsors may combine all non-U.S. equity offerings. However, the majority (61%) believe plan sponsors are unlikely to combine all equity offerings into a single global equity strategy.

ENHANCE DC EQUITY OFFERINGS	HIGHLY LIKELY	LIKELY	SOMEWHAT LIKELY	NOT LIKELY	TOTAL
Add global equity strategies (e.g., non-U.S., emerging market)	15	23	8	3	49
Combine all non-U.S. (e.g., developed and emerging)	8	15	18	8	49
Combine equity styles (value and growth)	5	13	20	11	49
No action likely	3	10	11	12	36
Add unconstrained equity strategies	2	5	17	24	48
Combine all U.S.	2	11	15	21	49
Combine cap weight strategies (all cap)	2	5	20	22	49
Other (add diversified real assets, private label active/passive options)	1	2	0	1	4
Combine all equity offerings with a single global equity strategy	0	5	14	30	49
n = 49					

15. What actions are plan sponsors likely to take to enhance their DC fixed income offerings? Please indicate the likelihood of each:

Over half of consultants (57%) believe that plan sponsors are likely to highly likely to add global fixed income strategies to enhance a plan's fixed income offerings. Firms also indicated plans were likely to highly likely to add diversifying income strategies (48%).

ENHANCE DC FIXED INCOME OFFERINGS	HIGHLY LIKELY	LIKELY	SOMEWHAT LIKELY	NOT LIKELY	TOTAL
Add global fixed income strategies (e.g., non-U.S., emerging market)	9	19	18	3	49
Combine all non-U.S. (e.g., developed and emerging)	6	9	16	16	47
No action likely	6	9	10	10	35
Add diversifying income strategies (e.g., investment-grade credit, high yield)	4	19	18	7	48
Combine all U.S.	4	7	14	22	47
Add unconstrained fixed income strategies	3	4	22	18	47
Combine all fixed income offerings with a single global fixed income strategy	2	11	16	19	48
Other (combine all fixed income except for short-term and TIPS)	0	1	0	0	1
n = 49					

II. Defined contribution plan structure

16. In light of new DOL regulation 408(b)(2), how may the use of share classes change in the future? Please select a value for each option:

The vast majority of consultants believe that the use of mutual funds with zero revenue (85%) and CITs with zero revenue (81%) will both increase. By contrast, consultants anticipate decreased usage of mutual funds with 25+ bps revenue sharing (90%) and mutual funds with 10–25 bps revenue sharing (61%).

USE OF SHARE CLASSES	SIGNIFICANT INCREASE	INCREASE	NO CHANGE	DECREASE	SIGNIFICANT DECREASE	TOTAL
Mutual fund (zero revenue)	24	17	6	1	0	48
CIT (zero revenue)	11	27	9	0	0	47
Separate account	2	23	21	1	0	47
Mutual fund (10–25 bps revenue)	1	3	11	22	10	47
Mutual fund (up to 10 bps revenue)	1	8	18	14	5	46
CIT (some revenue)	1	18	14	9	5	47
Other unitized investment structures	1	21	21	0	0	43
Mutual fund (25+ bps revenue)	0	0	5	20	23	48
n = 48						

II. Defined contribution plan structure

17. Do you encourage participant re-enrollment? Please select the statement that best describes your firm's position:

Over three-quarters of firms either actively promote (22%) or support (55%) client interest in re-enrollment. These results compare similarly to 2012 with overall support of re-enrollment up slightly.

PARTICIPANT RE-ENROLLMENT	# OF FIRMS	% OF FIRMS
We actively promote re-enrollment	11	22%
We support client interest in re-enrollment	27	55%
We are neutral to the use of re-enrollment	7	14%
We discourage clients from re-enrollment	2	4%
Other (no opinion, not involved in re-enrollment decision)	2	4%
n = 49		

II. Defined contribution plan structure

18. What percent of your DC clients have/may re-enroll over the following time frames?

On average, consultants report that, over the last two years, only 7% of their clients have re-enrolled participants. Going forward, they anticipate more plans to re-enroll, with 5% expected over the next 12 months and 17% within the next 2–5 years.

RE-ENROLLMENT OVER TIME FRAMES	AVERAGE	MEDIAN	HIGH
Within last 2 years	7%	5%	30%
Within next 12 months	5%	2%	25%
Within next 2 years	10%	5%	50%
Within next 2–5 years	17%	15%	85%
n = 36			

19. What is the best way to minimize litigation risk to the plan sponsor? Please check the importance of each item:

In order of importance, the three most important ways that consultants believe plan sponsors can minimize litigation risk include (1) document investment policies and processes, (2) evaluate and confirm reasonable plan investment fees, and (3) establish an engaged DC investment oversight committee. These results match the 2012 survey selections.

USE OF SHARE CLASSES	VERY IMPORTANT	IMPORTANT	SOMEWHAT IMPORTANT	NOT IMPORTANT	TOTAL
Document investment policies and processes	46	3	0	0	49
Evaluate and confirm reasonable plan investment fees	45	4	0	0	49
Establish an engaged DC investment oversight committee	35	11	3	0	49
Write a fee policy	11	13	18	6	48
Eliminate revenue-sharing investment solutions	4	14	22	9	49
Manage DC investments toward retirement income goal	4	16	21	8	49
Other (outsource fiduciary oversight)	1	1	0	0	2
Move to low-cost passive strategies	0	6	24	19	49
Move to risk-managed active strategies	0	8	21	20	49
n = 49					

III. Investment default

20. Which factors do you believe are most important for plan sponsors to consider as they select and evaluate investment default strategies? Please rate the importance of each:

In order of importance, consultants report that plan sponsors consider these factors as they evaluate target-date or target-risk strategies: (1) glide path structure, (2) quality of underlying investments, (3) diversification of underlying investments, (4) fees, and (5) risk of loss or maximum drawdown. Notably, the majority of consultants also noted as important to very important: return volatility, open architecture, probability of meeting income goal, and active risk management and performance. This compares to the 2012 ranking of (1) glide path structure, (2) fees, (3) active vs. passive, (4) breadth of underlying investments, and (5) performance.

FACTORS IN SELECTING DEFAULT STRATEGIES	VERY IMPORTANT	IMPORTANT	SOMEWHAT IMPORTANT	NOT IMPORTANT	TOTAL
Glide path structure	38	10	1	0	49
Quality of underlying investments	36	12	1	0	49
Diversification of underlying investments	34	13	2	0	49
Fees	30	17	1	0	48
Risk of loss/maximum drawdown	18	26	5	0	49
Return volatility	18	25	6	0	49
Open architecture	16	19	9	5	49
Probability of meeting income goal	12	25	9	3	49
Active risk management	11	21	14	2	48
Performance	7	28	12	2	49
Market risk mitigation (tail risk hedging)	5	11	21	12	49
Use of passive management	4	14	22	9	49
Tailor to individual tactical asset allocation	3	5	20	21	49
Tracking error to benchmark	3	15	22	8	48
Guaranteed income option	2	8	19	19	48
Other (custom benchmarking, use of alternatives)	2	0	0	1	3
Brand name	1	1	21	26	49
Proprietary product of DC platform provider	0	2	10	35	47
n = 49					

III. Investment default

21. Over the next several years, what types of target-date offerings will be selected most often by plan sponsors? Please select one target-date type for each plan size:

The largest plan sponsors ($200mm+) will select custom or hybrid active/passive target-date strategies. The vast majority of consultants (71%) believe that the largest plans ($1bn+) will select custom target-date strategies. In the $500mm–$1bn plan segment, the firms expect custom (38%) and hybrid active/passive (36%) as the most likely target-date strategy types. By contrast, smaller plans with under $200mm in assets may be more likely to select single manager active followed by passive strategies.

MOST OFTEN SELECTED TARGET-DATE TYPES	SINGLE MANAGER ACTIVE	SINGLE MANAGER PASSIVE	PACKAGED MULTI-MANAGER	HYBRID ACTIVE/ PASSIVE	CUSTOM	TOTAL
Above $1bn	1	5	1	6	32	45
$500mm–$1bn	1	9	2	16	17	45
$200mm–500mm	7	12	4	14	9	46
$50mm–$200mm	12	14	6	12	1	45
Up to $50mm	21	11	4	9	0	45
n = 46						

22. To what extent will investment default options (e.g., target-dates) decouple from administrative (recordkeeping) services? Please select based upon these plan size ranges:

The majority of consultants (89%) believe the largest plan sponsors ($1bn+) will decouple to a significant extent their target-date selection from recordkeeping services. This expectation is also noted with plans in the $500mm–$1bn and $200mm–$500mm segments with 79% and 53%, respectively.

TARGET-DATE TYPES DECOUPLE FROM RECORDKEEPING	SIGNIFICANT EXTENT	SOME EXTENT	LITTLE EXTENT	NO EXTENT	TOTAL
Above $1bn	42	3	0	2	47
$500mm–$1bn	37	7	1	2	47
$200mm–$500mm	25	18	2	2	47
$50mm–$200mm	15	19	10	3	47
Up to $50mm	6	10	23	8	47
n = 47					

III. Investment default

23. Do you believe there is sufficient differentiation/choice among packaged target-date funds to meet unique plan demographic needs? Please select one:

Nearly half of consultants (45%) believe there is plenty of choice among packaged target-date funds to meet unique plan demographic needs, while a similar share of the group (43%) see a custom approach improving upon current packaged offerings. The percentage of consultants believing there is plenty of choice in the market has doubled from 2012, perhaps reflecting more advisor participants within this year's survey.

DIFFERENTIATION IN PACKAGED TARGET-DATE FUNDS	# OF FIRMS	% OF FIRMS
Yes, there is plenty of choice in the market	22	45%
Not really, a custom approach would improve upon current packaged funds	21	43%
No, demographics are too unique for packaged solutions to address	4	8%
Other (sufficient for plans of certain size)	2	4%
n = 49		

24. How do you describe your firm's position regarding the creation of custom target-date strategies? Please select one:

Nearly three-quarters (70%) either support client interest or actively promote creating custom target-date strategies. Only two firms discourage use of custom strategies.

CREATION OF CUSTOM TARGET-DATE STRATEGIES	# OF FIRMS	% OF FIRMS
We actively promote the value of these strategies	13	27%
We support client interest in this area	21	43%
We are neutral to the use of custom strategies	9	18%
We discourage clients from a custom strategy approach	2	4%
Other (working on internal customization capabilities, not applicable for average client size)	4	8%
n = 49		

III. Investment default

25. Does it make sense for plan sponsors to offer target-date strategies from more than one manager? Please select all that apply:

Nearly all of consultants (90%) believe that it would not make sense to offer more than one set of target-date strategies. While the remainder of consultants said it may make sense if the target-date sets differ (e.g., guarantee, active vs. passive, conservative vs. aggressive).

TARGET-DATE STRATEGIES FROM MULTIPLE MANAGERS	# OF FIRMS	% OF FIRMS
No, that would be too confusing	44	90%
Other (one with and one without income guarantee, depends upon participant communication)	4	8%
Yes, offering one active set and one passive set	3	6%
Yes, offering an additional choice for select vintages (e.g., at-retirement)	2	4%
Yes, offering one conservative ("to") set and one more aggressive ("through") set	1	2%
n = 49		

26. What market risk mitigation approach would you recommend plan sponsors consider to help protect participant assets, especially within asset-allocation strategies? Please check all that you would recommend:

The majority of consultants (81%) recommend that plan sponsors consider adding inflation-protection securities (e.g., TIPS) to help protect assets. Nearly two-thirds of consultants (60%) recommend reducing exposure to assets with highly uncertain outcomes. A growing number of consultants support explicit "tail risk" hedging strategies (50%), an increase from last year's survey (39%). Nearly half suggest implementing tactical asset allocation to move defensively (48%) or add insurance guarantee (46%).

MARKET RISK MITIGATION STRATEGIES	# OF FIRMS	% OF FIRMS
Add inflation-protection securities (e.g., TIPS)	39	81%
Reduce exposure to assets with highly uncertain outcomes (e.g., equities or commodities)	29	60%
Use explicit "tail risk" hedging strategies (e.g., buying out-of-the-money puts)	24	50%
Implement tactical asset allocation to move defensively	23	48%
Add insurance guarantee (e.g., living benefit)	22	46%
Other (low volatility equity strategies, educate participants)	3	6%
n = 48		

III. Investment default

27. How important is tactical asset allocation as a component or overall approach to glide path management? Please select one:

An increasing percentage of consultants (71%) believe that tactical asset allocation is important to somewhat important as a component of glide path management. Less than a third of firms (29%) said that tactical asset allocation is not important. In 2012, the results were 65% and 35%, respectively.

IMPORTANCE OF TACTICAL ASSET ALLOCATION	# OF FIRMS	% OF FIRMS
Very important	0	0%
Important	10	20%
Somewhat important	25	51%
Not important	14	29%
n = 49		

III. Investment default

28. Given each retirement investment time horizon, what is the **maximum 12-month account value loss** a participant can withstand in the investment default and still meet his/her income goal?

There is general consensus among consultants when it comes to loss capacity for participants at different ages. At the median, consultants cite a loss capacity of 8% at retirement age, 15% with 10 years to retirement, 20% with 20 years, 30% with 30 years, and 35% with 40 years. In 2012, consultants made nearly the exact same selections, but chose from a range of values rather than inputting values directly in 2013.

MAXIMUM 12-MONTH LOSS	AVERAGE	MEDIAN	HIGH	LOW
At retirement	9%	8%	25%	5%
10 years to retirement	17%	15%	35%	8%
20 years to retirement	25%	20%	50%	10%
30 years to retirement	34%	30%	80%	15%
40 years to retirement	40%	35%	100%	15%
n = 31				

29. Given each retirement investment time horizon, what is the **maximum level of volatility** to which a participant should be exposed? Please enter standard deviation (%) estimate for each:

The firms have general consensus on maximum levels of volatility as well. At the median, consultants select 5% as the maximum volatility at retirement age, 10% with 10 years to retirement, 15% with 20 years, and 20% with 30–40 years.

MAXIMUM LEVEL OF VOLATILITY	AVERAGE	MEDIAN	HIGH	LOW
At retirement	6%	5%	10%	3%
10 years to retirement	11%	10%	23%	5%
20 years to retirement	16%	15%	30%	8%
30 years to retirement	20%	20%	40%	10%
40 years to retirement	22%	20%	40%	12%
n = 25				

III. Investment default

30. What role should managed accounts play in a DC plan? Please select one:

If plan sponsors decide to use managed accounts, a majority (55%) believe they should be offered as an opt-in asset-allocation choice only. Nearly one-third of firms (32%) do not suggest managed accounts, while only six (12%) suggest them as the opt-out investment default. The number of firms suggesting managed accounts as an opt-in choice decreased from 64%, and firms that do not suggest managed accounts increased from 13% in 2012.

ROLE OF MANAGED ACCOUNTS	# OF FIRMS	% OF FIRMS
Opt-in asset-allocation choice only	27	55%
No role; we do not suggest managed accounts	16	32%
Opt-out investment default (plus opt-in choice)	6	12%
n = 49		

III. Investment default

31. What are the primary concerns that your clients may have in offering managed accounts? Please select all that apply:

A large majority of consultants have concerns around both the embedded cost of service (86%) and value added relative to current investment default (72%) in a managed account service. Nearly half of firms (48%) are concerned about the higher participant engagement required, while over a third (38%) are concerned with the ability to measure participant success.

CONCERNS AROUND MANAGED ACCOUNTS	# OF FIRMS	% OF FIRMS
Embedded cost of service	43	86%
Value added relative to investment default (e.g., target-dates)	36	72%
Higher participant engagement required (e.g., adding outside account information)	24	48%
Ability to measure participant success	19	38%
Ability to allocate to alternatives or other important asset classes (e.g., stable value)	16	32%
Value added relative to participants using core menu	15	30%
Availability of participant-level performance data	12	24%
Diversification in managed account glide paths	10	20%
Other (managed accounts performance monitoring, model biases)	5	10%
Use of predominantly passive investments	4	8%
No concerns about managed accounts within DC plans	1	2%
n = 50		

32. How long do you anticipate the current low-return, high-volatility environment to continue?

The majority of consultants (65%) anticipate a low-return, high-volatility environment for the next 2–5 years. By contrast, 17% foresee 5–10 years of this environment, and 11% expect it to end in the short term (0–2 years).

EXPECTATION THAT LOW-RETURN, HIGH-VOLATILITY ENVIRONMENT WILL CONTINUE	# OF FIRMS	% OF FIRMS
0–2 years	5	11%
2–5 years	30	65%
5–10 years	8	17%
10+ years	2	4%
Other (recent equity market performance suggests high return today)	1	2%
n = 46		

III. Investment default

33. What are your return and volatility assumptions for the following asset classes over the secular time horizon?

At the median, consultants expect emerging market equities to outperform (10%) all other asset classes, albeit with significantly higher volatility (26%). U.S. small and large cap equities and non-U.S. developed market equities are expected to be the next best performers, all returning around 8% with 18%–21% volatility. Global tactical asset-allocation strategies are expected to return 6% with 12% volatility.

ASSET CLASS RETURN ASSUMPTIONS*	RETURN				VOLATILITY			
	Average	Median	High	Low	Average	Median	High	Low
U.S. equities (small cap) (n = 23)	8%	8%	12%	5%	22%	21%	35%	5%
U.S. equities (large cap) (n = 25)	7%	8%	10%	3%	18%	18%	25%	6%
U.S. bonds (n = 25)	3%	3%	5%	1%	6%	6%	10%	2%
TIPS (n = 23)	3%	2%	9%	1%	7%	7%	11%	2%
REITs (n = 23)	7%	7%	11%	5%	19%	20%	32%	4%
Non-U.S. equities (developed markets) (n = 25)	8%	8%	10%	5%	20%	20%	29%	4%
Non-U.S. bonds (n = 22)	4%	4%	6%	1%	9%	10%	14%	2%
High yield bonds (n = 25)	6%	6%	9%	4%	12%	13%	17%	4%
Global tactical asset allocation (n = 12)	7%	6%	10%	4%	11%	12%	17%	6%
Emerging market equities (n = 25)	10%	10%	16%	7%	26%	26%	44%	7%
Emerging market bonds (n = 21)	6%	6%	10%	2%	12%	12%	18%	4%
Commodities (n = 24)	6%	6%	11%	3%	18%	18%	35%	5%
Absolute return (n = 15)	5%	5%	10%	3%	8%	8%	13%	2%
n = 32								

*Return assumptions are based on consultant survey responses only and are not a prediction or a projection of return by PIMCO. Return assumption is an estimate of what investments may earn on average over the long term. Actual returns may be higher or lower than those shown and may vary substantially over different time periods.

IV. Core investments

34. What level of concern do you have regarding a DC plan's core conservative/capital preservation option over the next several years?

Over three-quarters of consultants (84%) state concerns related to the ongoing near-zero nominal/negative real interest rates of money market funds. The majority are also concerned to very concerned about two issues within the stable value market – ongoing capacity constraints and higher wrap fees (80%) – as well as the trend of funds closing to new plans or liquidating completely (76%).

CONCERN OVER CAPITAL PRESERVATION OPTIONS	VERY CONCERNED	CONCERNED	SOMEWHAT CONCERNED	NOT CONCERNED	TOTAL
Money funds – ongoing near-zero nominal/negative real interest rates	22	19	8	0	49
Stable value – ongoing capacity constraints and higher wrap fees	16	23	10	0	49
Stable value (collective trusts) – trend of funds closing to new plans or liquidating completely	16	21	9	3	49
Money funds – potential new regulations (e.g., potential variable NAV)	14	16	17	2	49
Stable value – wrap constraints on plan design/communication	12	20	12	5	49
There are few DC-specific alternatives to a $1 NAV stable value and money funds	9	15	16	9	49
Stable value – rising interest rates (lower M/B%)	8	26	13	1	48
Short fixed income (e.g., low duration) – too volatile as a capital preservation solution	7	18	16	7	48
Stable value (collective trusts) – tighter guidelines and shorter durations	5	23	15	6	49
Other (money market clawbacks)	0	0	1	0	1
n = 49					

35. What factors do you consider when suggesting a commingled stable value solution for your DC clients? Please rate the importance of each:

Consultants consider many characteristics important to very important when considering a commingled stable value solution. In order of importance, the top five are (1) stable value manager capabilities and expertise, (2) level of transparency, (3) wrap/insurance provider creditworthiness, (4) structure stability/long-term viability, and (5) plan withdrawal restrictions.

CONSIDERATIONS OF COMMINGLED STABLE VALUE	VERY IMPORTANT	IMPORTANT	SOMEWHAT IMPORTANT	NOT IMPORTANT	TOTAL
Stable value manager capabilities and expertise	38	11	0	0	49
Level of transparency (fee, asset, etc.)	33	15	1	0	49
Wrap/insurance provider(s) creditworthiness	33	13	2	0	48
Structure stability/long-term viability	32	15	1	0	48
Plan withdrawal restrictions (e.g., flexibility of payout terms, length of put)	31	15	3	0	49
Committed/available wrap capacity	30	17	2	0	49
Fixed income manager(s) of the underlying assets	30	18	1	0	49
Expense ratio (total trust and wrap fees)	25	23	1	0	49
Platform portability	16	21	11	1	49
Current crediting rate	13	21	15	0	49
Historical crediting rate (i.e., performance)	9	20	17	2	48
Expected future returns of money market funds	4	12	25	8	49
Other	1	0	0	0	1
n = 49					

IV. Core investments

36. If regulatory change requires money market strategies to have a floating NAV, how likely are you to recommend the following? Please rate each approach:

If money market strategies require a floating NAV, consultants are likely to highly likely to make no change – keep money market (48%), replace money market with stable value (41%), or keep money markets but try to add stable value (22%). Notably, the majority are somewhat to highly likely to replace money market with either short-term fixed income tailored for DC plans (tighter guidelines, lower expected volatility) (74%) or short-term fixed income (46%).

REGULATORY CHANGE IN MONEY MARKET STRATEGIES	HIGHLY LIKELY	LIKELY	SOMEWHAT LIKELY	NOT LIKELY	TOTAL
No change – keep money market option	9	13	10	14	46
Replace money market with stable value	8	11	13	14	46
Keep money markets but try to add stable value	2	8	10	25	45
Replace money market with short-term fixed income option tailored for DC (tighter guidelines, lower expected volatility)	2	9	23	12	46
Replace money market with short-term fixed income	1	6	14	25	46
Other (do not see value in money markets for DC plans)	1	1	0	0	2
n = 48					

IV. Core investments

37. What may drive increased interest in passive investing in a DC plan? Please select up to five:

Nearly all consultants (98%) believe that lower cost is the most common factor driving interest in passive investing, followed by legal concerns (76%) and perceived fiduciary risk reduction (54%). These results compare similarly to 2012 with 90% of consultants choosing cost and 57% of them citing legal concerns.

DRIVERS OF INCREASED INTEREST IN PASSIVE	# OF FIRMS	% OF FIRMS
Lower cost	49	98%
Legal concerns (e.g., fee litigation)	38	76%
Perceived fiduciary risk reduction	27	54%
Simple for participant to understand	22	44%
Lower tracking error risk	19	38%
Less emphasis on skills of investment manager	17	34%
Less plan sponsor oversight	11	22%
Better long-term investment return expectations	8	16%
Broad diversification	8	16%
Index composition	8	16%
We do not anticipate increased interest in passive	2	4%
Other (plan sponsor preference for passive, underperformance of active management)	2	4%
n = 50		

IV. Core investments

38. How important is active management for each asset class? Please indicate importance by asset class:

Nearly all of consultants (94%) view active management as important or very important in global asset-allocation strategies (e.g., target-dates). Moreover, the majority of firms agree that it's somewhat to very important to actively manage all asset classes, with the weakest support given to active management of large cap U.S. equities and TIPS.

IMPORTANCE OF ACTIVE MANAGEMENT BY ASSET CLASS	VERY IMPORTANT	IMPORTANT	SOMEWHAT IMPORTANT	NOT IMPORTANT	TOTAL
Global asset-allocation strategies	37	10	3	0	50
Non-U.S. bonds	32	14	4	0	50
Emerging market equities	27	18	4	1	50
U.S. bonds	22	16	10	2	50
Commodities	15	17	12	4	48
U.S. equities (small cap)	11	29	8	2	50
Non-U.S. equities (developed markets)	11	27	10	2	50
REITs	11	25	11	3	50
TIPS	3	10	17	20	50
U.S. equities (large cap)	1	9	25	15	50
n = 50					

39. How concerned are you about each of these issues related to passive management?

The majority of firms are somewhat to very concerned about a number of issues in passive investment management: (1) dominant use of market-cap weighted approach (79%), (2) view that low tracking error means “risk-free” (75%), (3) replication of poorly constructed indexes can lead to poor outcomes (83%), (4) reliance on index volatility as sole risk management tool (85%), and (5) perception of low cost as a litigation safeguard (81%).

CONCERNS ABOUT PASSIVE MANAGEMENT	VERY CONCERNED	CONCERNED	SOMEWHAT CONCERNED	NOT CONCERNED	TOTAL
Dominant use of market-cap weighted approach	10	12	16	10	48
View that low tracking error means “risk-free”	8	16	12	12	48
Replication of poorly constructed indexes can lead to poor outcomes	8	15	16	8	47
Reliance on index volatility as sole risk management tool	7	17	15	7	46
Perception of low cost as a litigation safeguard	6	14	19	9	48
Inability to adjust to market conditions and risk pricing	6	14	17	11	48
View that passive participants need passive management	6	7	15	19	47
Index may not meet outcome objective	5	13	15	14	47
Concentration risk	5	13	13	17	48
Reduced perceived consultant value	5	13	8	21	47
Belief that passive investing requires less oversight	4	16	21	7	48
Inability to fully replicate certain markets	4	15	16	13	48
Other (inappropriate/inadequate for fixed income)	2	0	0	0	2
n = 49					

IV. Core investments

40. Looking forward, what factors may be most important to increasing the attractiveness of active management (relative to passive)?

Nearly all consultants (94%) believe that the ability of active managers to add alpha in a low-return environment will be important to very important in increasing the attractiveness of active management. Expected rising rate environment/changing economic environment (79%) and enhanced risk management opportunity (90%) are also important to very important in increasing the attractiveness of active management.

ATTRACTIVENESS OF ACTIVE MANAGEMENT	VERY IMPORTANT	IMPORTANT	SOMEWHAT IMPORTANT	NOT IMPORTANT	TOTAL
Ability to add alpha in a low-return environment	25	21	2	1	49
Expected rising rate environment/changing economic environment	17	20	6	4	47
Enhanced risk management opportunity	14	30	4	1	49
Inferiority/shifting composition of passive indexes	3	15	19	11	48
None	0	0	0	2	2
Other	0	0	0	0	0
n = 49					

IV. Core investments

41. To what extent will each index construction approach grow in prevalence in the DC market? Please rate each approach:

Half of firms (50%) agree that market-weighted indices will enjoy growth to high growth in the DC market. Equal-weighted indices were chosen as the index construction with the second most expected growth, as nearly a third of consultants (31%) selected this method. Over half of the consultants expect at least some growth to high growth in fundamental-weighted (78%) and GDP-weighted (60%) index construction.

GROWTH OF INDEX CONSTRUCTION APPROACHES	HIGH GROWTH	GROWTH	SOME GROWTH	NO GROWTH	TOTAL
Market-weighted	5	17	15	7	44
Equal-weighted	2	12	18	13	45
Fundamental-weighted	2	8	25	10	45
Other (alternatives to market-weighted are interesting, but unlikely to grow)	1	0	0	1	2
GDP-weighted	0	5	21	17	43
n = 45					

42. How important do you consider these factors or ratios in evaluating active managers? Please identify your top three factors in evaluating active equity managers:

In order of importance, firms indicated (1) manager alpha (60%), (2) manager tenure (58%), (3) upside/downside market capture (58%), and (4) information ratio (50%) as the most important criteria in evaluating active management. Active share and sharpe ratio were rated among the top three most important criteria by over a quarter of the firms.

IMPORTANT CRITERIA IN ACTIVE MANAGEMENT EVALUATION	# OF FIRMS	% OF FIRMS
Manager alpha	30	60%
Manager tenure	29	58%
Upside/downside market capture	29	58%
Information ratio	25	50%
Active share	13	26%
Sharpe ratio	13	26%
Other (process and philosophy, corporate governance and interest alignment, consistency of alpha)	9	18%
Ability to identify appropriate benchmark for multi-asset class strategies	7	14%
Standard deviation	7	14%
n = 50		

V. Retirement income

43. How do your plan sponsor clients view retaining retired participants' assets in their plans? Please select one:

While consultants believe that some or the majority of plan sponsors prefer to retain retiree assets (81%), they report that their clients do not actively encourage retired asset retention. Only four firms (8%) reported that the majority of their clients prefer that retirees move out of their plan.

RETAINING RETIREE ASSETS IN PLAN	# OF FIRMS	% OF FIRMS
Majority of clients actively seek to retain these assets	4	8%
Some clients actively seek to retain these assets	10	20%
Most clients prefer retaining these assets, but do not actively encourage	11	22%
Some clients prefer retaining these assets, but do not actively encourage	15	31%
Majority don't care	4	8%
Majority prefer retirees move assets out of the plan	4	8%
Other (varies widely across clients)	1	2%
n = 49		

44. To build a distribution tier within the DC plan, how important is each of these investment or insurance retirement income strategies or features? Please rate each:

- Consultants rated the following investment strategies as most important for inclusion in the distribution tier: at-retirement target-date, conservative fixed income, diversified fixed income, and stable value. Notably, guaranteed solutions such as deferred annuities and living benefits are ranked behind capital market solutions.
- Results in 2012 showed stable value, diversified income, and a systematic withdrawal program as most important.

STRATEGIES FOR DISTRIBUTION TIER	VERY IMPORTANT	IMPORTANT	SOMEWHAT IMPORTANT	NOT IMPORTANT	TOTAL
At-retirement target date	21	10	6	1	38
Conservative fixed income	13	15	8	2	38
Diversified fixed income (e.g., high yield, emerging markets, credit)	9	18	12	1	40
Managed account/systematic withdrawal	7	12	13	6	38
Stable value	6	21	11	2	40
Deferred annuity (longevity)	6	9	20	5	40
Asset allocation with living benefit	5	10	19	5	39
Equity income	3	15	14	8	40
Money market	3	8	17	11	39
Managed payout (asset allocation)	3	14	14	8	39
Installment payments	3	11	19	6	39
Immediate annuity	2	9	22	7	40
Other (custom laddering, very customized approach based on client)	2	0	0	0	2
Income-focused (e.g., mortgages)	1	7	15	16	39
Living benefit	1	9	18	9	37
Managed payout (TIPS only)	0	6	18	15	39
n = 41					

V. Retirement income

45. Over the next two years, to what extent will each of these solutions gain traction? Please rate the expected growth of each:

The vast majority of consultant firms indicated little growth to some growth for many retirement solutions, with few being selected for significant or no growth. Deferred income annuities (out-of-plan), managed account/systematic withdrawal, and managed payout solutions ranked the highest in terms of expected growth.

TRACTION OF RETIREMENT INCOME SOLUTIONS	SIGNIFICANT GROWTH	SOME GROWTH	LITTLE GROWTH	NO GROWTH	TOTAL
Deferred income annuities (out-of-plan)	3	26	17	1	47
Managed account/systematic withdrawal	4	25	13	4	46
Managed payout	2	20	17	7	46
Immediate annuities (out-of-plan)	2	19	20	6	47
Deferred income annuities (in-plan)	3	17	26	1	47
Living benefits (in-plan)	1	14	24	7	46
Immediate annuities (in-plan)	2	7	31	7	47
Other (significant growth in discussion, little growth in action)	1	0	0	0	1
n = 47					

V. Retirement income

46. What are the primary concerns that may stop your clients from offering in-plan insurance products (e.g., annuities)? Please select a level of concern for each selection:

Consultants' primary concerns with offering in-plan annuity products include portability, insufficient government support, operational complexity, cost, and lack of liquidity and control. These results are virtually the same as those reported in 2009–2012.

OBSTACLES TO IN-PLAN INSURANCE PRODUCTS	SIGNIFICANT CONCERN	CONCERN	MODERATE CONCERN	NOT A CONCERN	TOTAL
Portability	35	12	2	0	49
Insufficient government support (e.g., safe harbor, regulatory clarity)	27	15	5	3	50
Operational complexity	26	18	5	1	50
Cost	24	22	3	0	49
Lack of liquidity and control	23	18	8	1	50
Transparency	19	24	6	0	49
Lack of participant demand	17	17	11	5	50
Selection criteria unclear	16	22	6	4	48
Monitoring/benchmarking	14	22	11	2	49
Insurance company default risk	12	20	15	3	50
Low interest rate environment	11	13	22	3	49
Insurance provider market commitment	6	19	17	7	49
Other	2	0	0	0	2
n = 50					

About the PIMCO DC Practice

The PIMCO DC Practice is based in Newport Beach and is dedicated to promoting effective DC plan design and innovative retirement solutions. Our team is pleased to support our clients and broader community by sharing ideas and developments in DC plans in the hopes of fostering a more secure financial future for employees of corporations, not-for-profits, governments and other organizations.

If you have a topic you'd like to discuss, please contact your PIMCO representative or email us at pimcodcpractice@pimco.com. We're interested in your ideas and feedback!

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