



GLOBAL MEGATRENDS

Today, and over the foreseeable future, a series of events — call them global megatrends — will have a profound impact on the world economy. Each issue of *Point of View* will share insight into these trends and how the institutional investment community is preparing to address them.

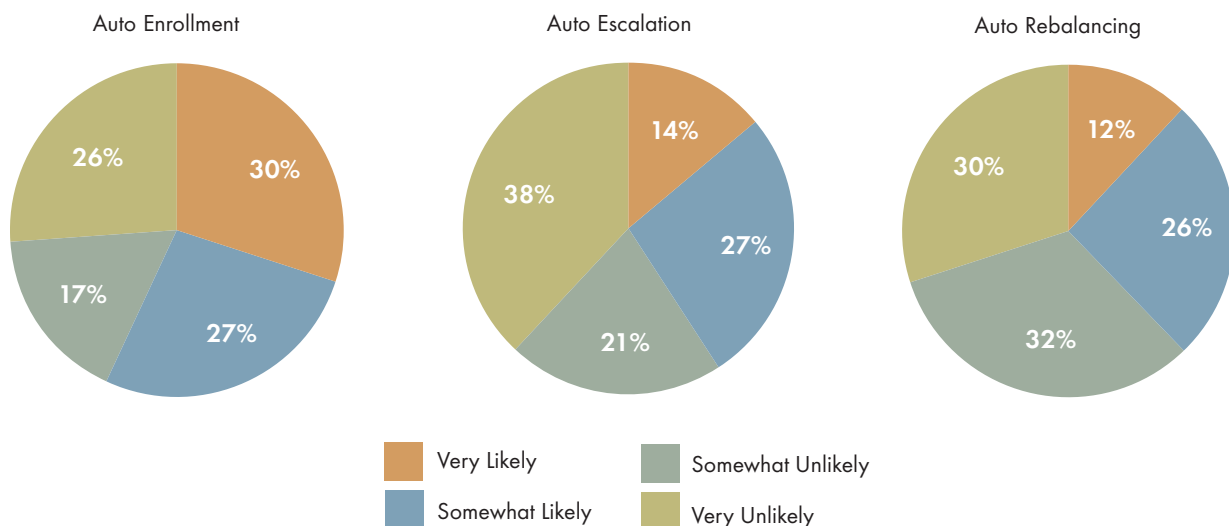
The DB-ization of Defined Contribution Plans

The rapid growth of defined contribution (DC) plan assets in recent years reflects the increasing role these plans are playing in providing retirement income for the global workforce. According to an early 2008 Watson Wyatt survey, DC plan assets now represent almost half (43%) of all retirement assets worldwide. In the United States, DC assets total about \$3 trillion, an increase of \$1 trillion during the past six years. This rapid growth has captured the attention of both plan sponsors and government officials. This increased scrutiny has resulted in an evolution in the management of DC plans, with strategies and solutions originally developed for defined benefit (DB) plans migrating into the DC universe.

Mandating Participation

According to a Hewitt Associates survey, employers are taking the initiative in getting employees to participate in their DC plans: 44% offered automatic enrollment; 44% use automatic contribution escalation, increasing the employee contribution rate 1% annually up to a maximum 10% unless the employee opts out; and 51% provide automatic rebalancing at set intervals. Among employers that didn't already offer these features, a significant number expected to do so in 2008.

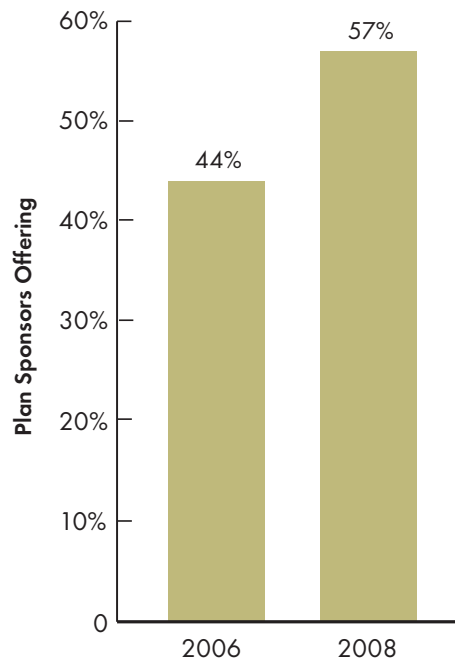
Employers Expecting to Add Features to DC Plans in 2008



Source: Hewitt Associates' "Hot Topics in Retirement 2008"

The Growing Use of Target Date Solutions

A Deloitte survey found a jump in the prevalence of target date investment solutions in DC plans. Many consultants believe these offerings could comprise from 65% to 75% of DC plan assets by 2015.

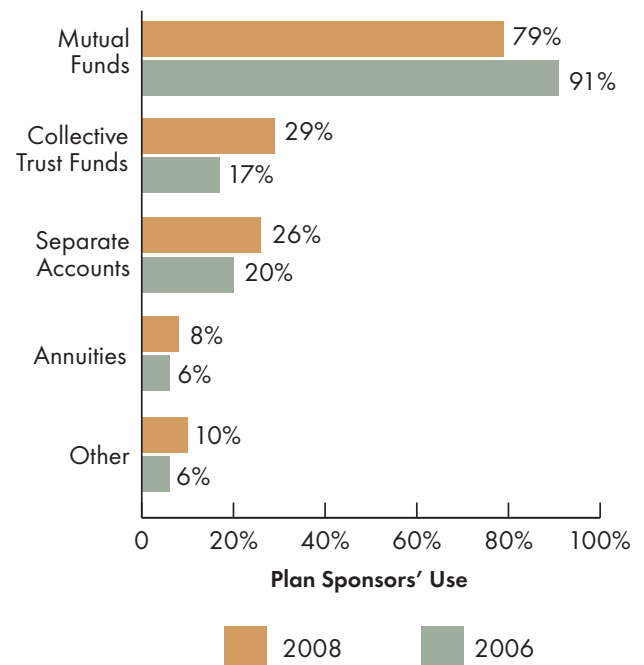


Note: Based on 830 responses to the 2006 survey and 436 to the 2008 survey.

Source: Deloitte Consulting LLP's 2008 "401(k) Benchmarking Survey"

Shifting Mix of Investment Vehicles

Although mutual funds are currently the most popular investment vehicle, DC plan sponsors increasingly are using collective trusts for greater transparency, lower costs and solutions geared toward ERISA investors.



Source: Deloitte Consulting LLP's 2008 "401(k) Benchmarking Survey"

Evaluating Glidepaths and Probability of Outcomes

"Plan sponsors and their investment consultants increasingly use a two-prong approach to measure the quality of target date fund performance and design. On a micro level, sponsors should be comfortable with the underlying investments that make up the target date funds. Particularly in the case of actively managed funds, plan sponsors should essentially be comfortable recommending each underlying fund on its own merits. On a macro level, plan sponsors should have confidence that the target date manager has a robust and tested glidepath that incorporates multiple savings and spend-down scenarios. Target date managers use a wide range of assumptions, from life expectancy to average income, so sponsors should have the confidence that those assumptions are comprehensive enough to cover an array of participant demographics, both pre- and post-retirement."

—Jim Danaher, senior product manager, defined contribution solutions at Northern Trust