NORTHERN TRUST
ASSET MANAGEMENT

BUILDING A DC PLAN FOR TOMORROW'S PARTICIPANTS

DC Participant Survey 2017

There is a demographic shift occurring in attitudes towards retirement savings, investing and expectations of retirees versus current workers.

Current Retirement Landscape

Retirement Age

Retirees
73%
retired before age 65

Workers
24%
realistically believe they can retire before 65

Retirement Benefits

Retirees
62%
currently receive pension income

Workers
43%
expect to receive pension income

Confidence

Retirees
92% say they were successful at investing for retirement

Workers
69% believe they are successful as they invest for retirement

What does this mean?

The current worker:

- Plans to work longer
- Relies more heavily on their 401(k) (vs. pension) for retirement income
- Seeks a lifestyle that is equal or better than what they have now
- Is not confident they are going to meet their retirement goals

The analysis:

This generation of worker is gearing up for a retirement that is becoming increasingly dependent on their own actions. As a result, plan sponsors have to start thinking differently about plan design and investment solutions.

Our DC Survey explores topics at the forefront of DC plan design in order to identify actionable solutions plan sponsors can take to help their participants achieve better outcomes.

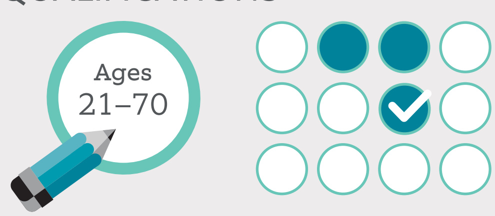
Survey Fast Facts

1,300 PARTICIPANTS

1,000 Workers

300 Recent retirees in last five years

QUALIFICATIONS



Employer 401(k) option available

THE TOP FIVE KEY TAKEAWAYS FROM 2017

1 Empower with Knowledge

Both retirees (47%) and workers (57%) say the best piece of guidance in helping them prepare financially for retirement is knowing **how much money they will need at retirement to be financially secure.**

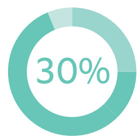
The reality

Workers need more savings to retire:

- 43% of workers say they need $1 million or more to retire.
- Only 25% of retirees reported they needed a nest egg of that size.

Measures for success are changing:

- Workers are more likely to look at account balance (30% vs 25%) and monthly income (27% vs 18%) than retirees as a measure for success.
- Retirees are more likely to look at investment performance (35% vs 24%) as a measure for success and rely on a financial advisor to tell them how they are doing (13% vs 5%).



Workers look at account balances

35%
Retirees look at investment performance

Key takeaway

- Use a retirement income framework to estimate target income and provide actionable guidance based on the unique needs of participants.

2 Avoid Choice Overload

People should be empowered to make choices, especially when those choices will have a financial impact on their retirement, but **introducing too many choices or variables can often cause more harm than good.**

The reality

Workers are starting to care less about the actual managers of the products and more about the product's objectives:

- Less than half of current workers (47%) view the manager (brand name) as very important or critical in selecting the option versus retirees (62%).

Our proprietary top 25 DC plan universe suggests that 12 options (including target date funds as one) is the sweet spot for the number of options to streamline the menu while also providing appropriate broad market exposure.

Aim for
12
options

Key takeaway

- Use a white label approach to simplify your plan and help remove style biases in order to streamline the decision-making process for participants.

3 Address Risk

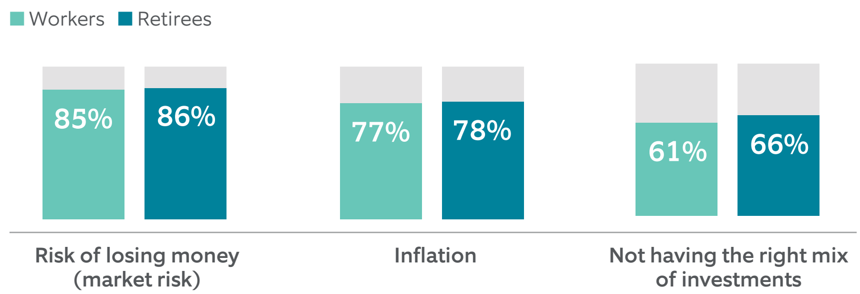
Risk is always top of mind in retirement investing, but risk has many components that must be understood. While individuals tend to focus on the risk of losing money, **it's often equally important to think about the danger of not taking enough risk to meet your objective.**

The reality

Risk is top-of-mind for participants:

- 85% of workers and 86% of retirees are concerned about losing money.
- 8 in 10 workers and retirees find investments designed to protect against market risk and inflation to be appealing.

Top concerns



Key takeaway

- Consider incorporating factor-based strategies within the investment menu to help manage risk and minimize volatility to provide a potentially smoother ride for participants.

4 Provide Access to ESG Strategies

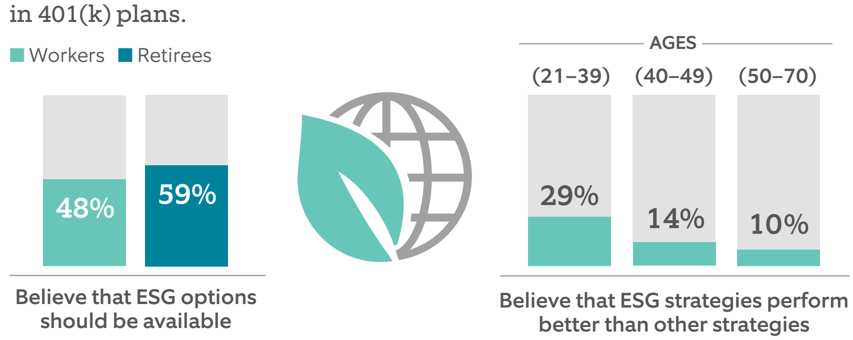
As the world evolves and new generations of investors enter the workplace, **demand is increasing for investments that align with individual and/or company values.**

The reality

ESG is not just a trend of "millennial" investors:

- 48% of workers and 59% of retirees share the belief that ESG options should be available in 401(k) plans and almost 10% already invest in these types of strategies.

Both workers and retirees believe ESG options should be available in 401(k) plans.



Key takeaway

- Consider adding ESG options to your menu. By aligning values with actionable investments, plan sponsors can meet the demands of current and future participants.

TURN OVER TO SEE MORE TAKEAWAYS

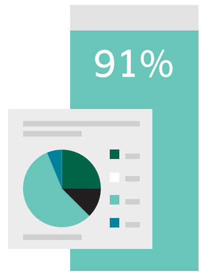
5 Re-evaluate Target Date

Target date products are not the modular asset allocation "set it and forget it" type options that asset managers launched many years ago. **They continue to evolve as greater focus is applied to understanding investors and their actual retirement needs.**

The reality

Participants are satisfied with target date funds:

- Overall satisfaction with target date funds remains consistent with 91% of workers satisfied with the funds.
- Satisfaction with respect to performance has improved by 10% to 92%.



Workers satisfied with target date funds

Workers satisfied with performance

Key takeaways

- Take a fresh look at the plan's objectives compared to that of the target date solution to confirm the two continue to align.
- Consider evaluating the solution by analyzing how well it provides coverage of the retirement liability of the plan participants. This unique lens may reveal that too much (or too little) risk is on the line for the silent majority of participants .

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* Represents total assets managed by the subsidiaries of Northern Trust as of September 30, 2017.