

DEFINED CONTRIBUTION TRACKER

The Great Divide: Target Date or Not?



Northern Trust's DC Tracker serves as a barometer for participant flows within a universe of approximately 100 DC plans, representing \$265 billion in assets, a subset of the total DC assets serviced by Northern Trust, as of December 31, 2014.

The Northern Trust Defined Contribution (DC) Tracker gives insight into how participants are investing for retirement and how plan sponsor actions, such as offering pre-mixed options like target date funds (TDFs), can help participants construct more-diversified retirement portfolios.

WHAT DO CASH FLOWS REVEAL?

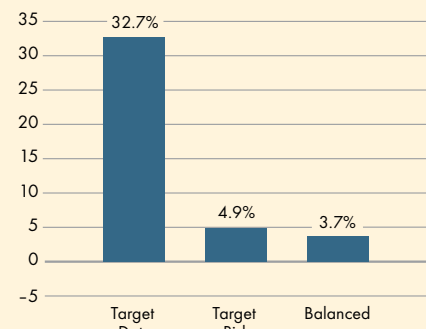
2014 results show that participants remain divided into two groups. First are those who invest in TDFs, seeking help selecting their investment mix or by accepting the default option. The second group elects their own asset mix and exhibits biases toward certain asset classes. Flows out of company stock suggest participants are beginning to factor in the risks associated with single stock concentration.

- More than 40% of flows in the DC Tracker universe went to pre-mixed options. Comprising nearly one-third of DC asset inflows, TDFs continued to dominate other options in 2014. We saw this trend over the past several years as more plans made TDFs the default option for automatic enrollment and increased re-enrollment into TDFs.
- Consistent with prior years, U.S. equities received the highest flows among core options. In aggregate, participants still exhibit home country biases in their 401(k) portfolios.
- Participant flows indicate less reliance on undiversified options such as company stock. However, this option in combination with stable value/money market funds still represents more than 20% of participants' asset allocations, which might impede their ability to achieve successful retirement outcomes.

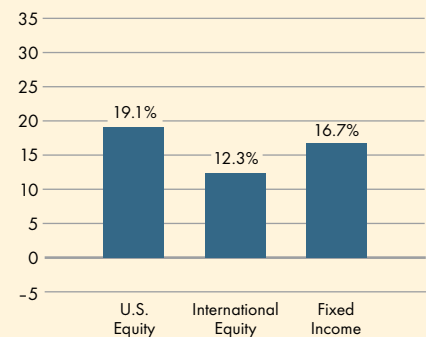
Source: Northern Trust DC Tracker, as of 12/31/14.

¹ Net flows of Northern Trust DC Tracker Universe based on participant investment elections from 1/1/14 – 12/31/14.

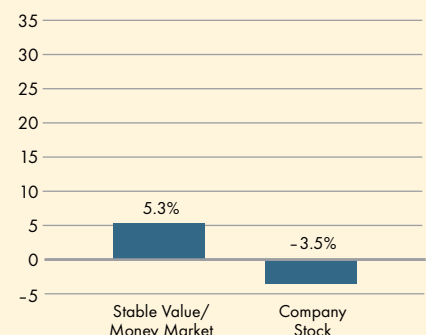
TARGET DATE FLOWS DOMINATE % OF 2014 NET FLOWS¹



U.S. EQUITY BIAS CONTINUES % OF 2014 NET FLOWS¹



REDUCING CONCENTRATION RISK % OF 2014 NET FLOWS¹

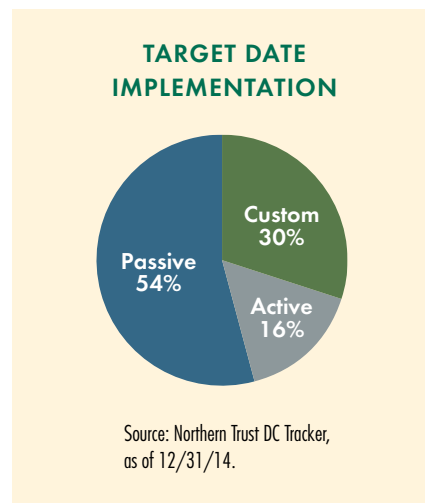


The largest plan sponsors in the DC Tracker study streamline menus by offering fewer options, implementing multi-asset class funds and using white labeling – particularly with custom TDFs.

WHAT ARE PLAN SPONSORS DOING?

A key theme among plan sponsors during 2014 was the uptake in adopting custom target date solutions. While 54% of plans in the DC Tracker universe continued to offer passively managed, off-the-shelf TDFs, 30% of plans in 2014 offered custom target date strategies.

The Department of Labor’s publication, “Target Date Retirement Funds – Tips for ERISA Plan Fiduciaries,” likely propelled this trend by providing guidance in early 2013 for plan sponsors to inquire whether custom TDFs are appropriate for plan participants. To date, custom TDFs have been more prevalent among the larger plan sponsors with large investment staffs and the tolerance to take on the potential fiduciary responsibility inherent in a custom solution.



DC TRACKER UNIVERSE DATA

	12/31/2013 Market Value	12/31/2014 Market Value
Target Date	15.7%	22.0%
Target Risk	4.2%	4.4%
Balanced	3.9%	3.2%
U.S. Equity	35.5%	33.6%
International Equity	7.8%	6.9%
Fixed Income	8.1%	8.2%
Real Estate	0.3%	0.5%
Stable Value/Money Market	14.6%	11.6%
Company Stock	8.5%	8.9%
Self-directed Brokerage	1.5%	0.8%

DC TRACKER LARGE PLAN DATA

DC Plan Features	Top 25 Plans ²
Average number of options	12
Offer multi-manager funds	44%
Offer target date funds	88%
Offer custom target date funds	40%
Offer company stock	64%

Source: Northern Trust DC Tracker, as of 12/31/14

² Represents the 25 largest DC plans serviced at Northern Trust with plan assets totaling greater than \$4 billion per plan as of 12/31/14.

FOR MORE INFORMATION

To learn how Northern Trust can help you design and manage an efficient 401(k) plan lineup for your participants, please call 312-444-7272 or visit our DC resource center at northerntrust.com/dcsolutions.

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