Defined Contribution Plan Trends

North Carolina Supplemental Retirement Plans

June 2013

2013 Universe Benchmark: Four Key Themes

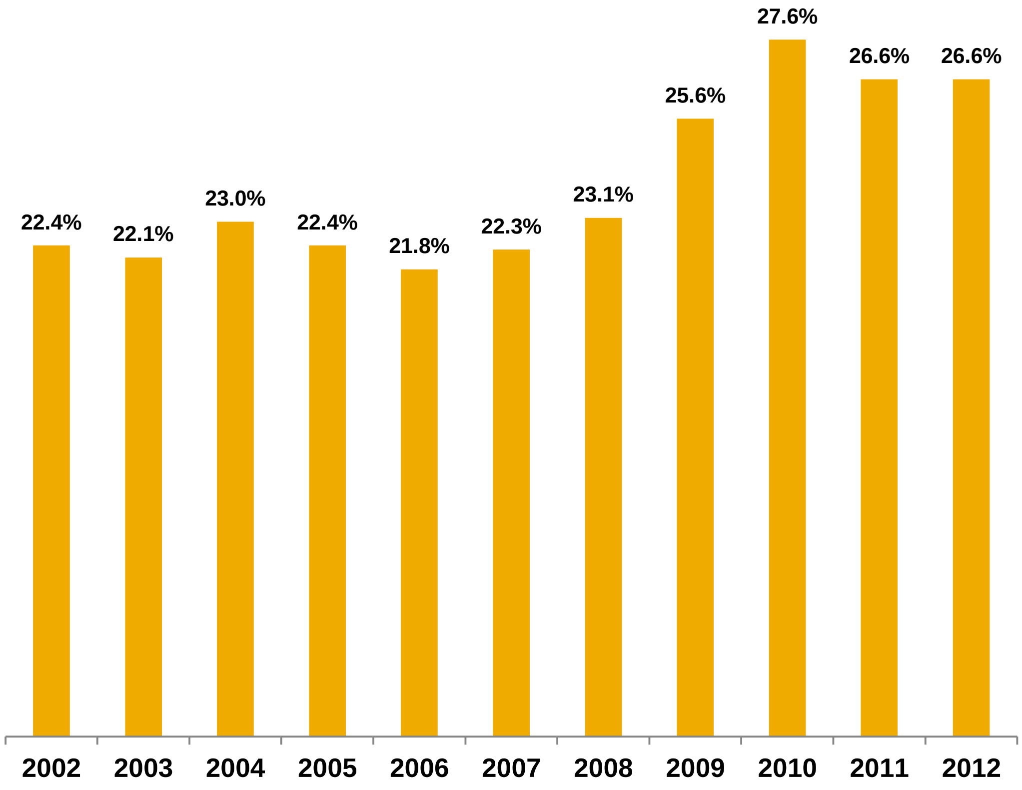
Aon Hewitt examined the savings and investment behavior of 3.5 million eligible employees across 141 defined contribution plans. As the data was analyzed, the following trends emerged.

- Participation hits a record high
- Automation continues to play a strong role
- Leakage erodes financial security
- Diversification improves and balances recover

A Decade in Review: Loans

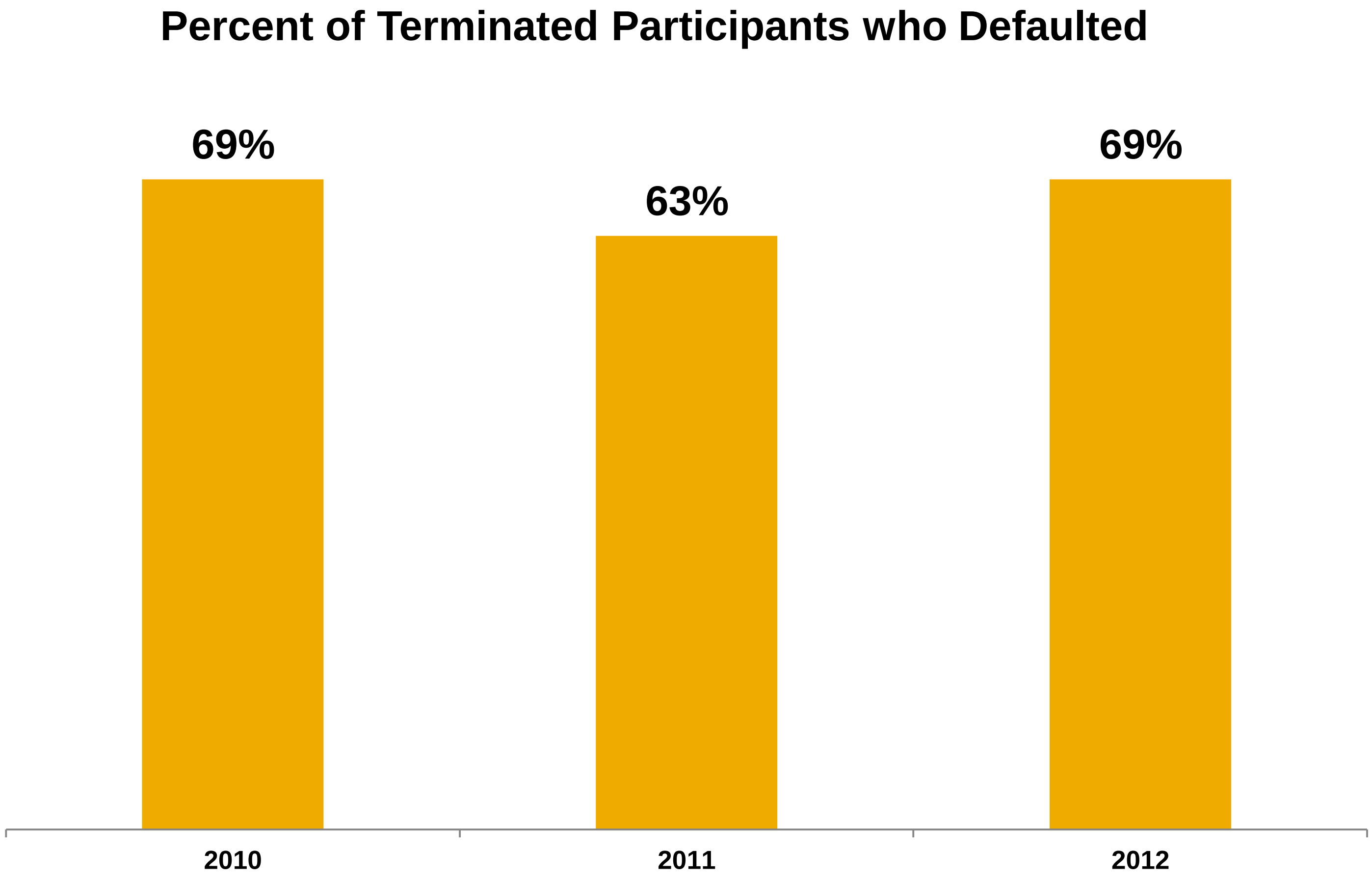
- 27% of participants have an outstanding loan
- The average loan amount outstanding was $8,074
- Of participants with outstanding loans, 81% continued to make contributions while repaying the loan

Percent of Participants with Loans



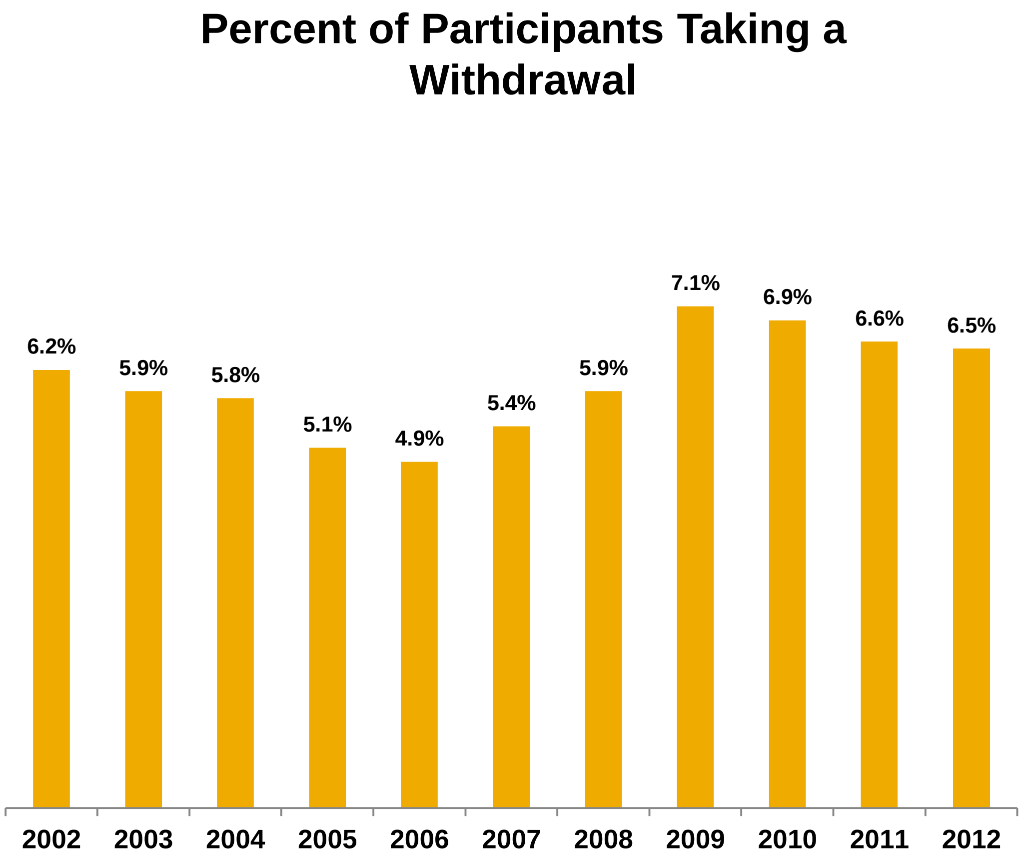
Source: Aon Hewitt *Universe Benchmarks*

Loan Defaults



Source: Aon Hewitt *Universe Benchmarks*

A Decade in Review: Withdrawals

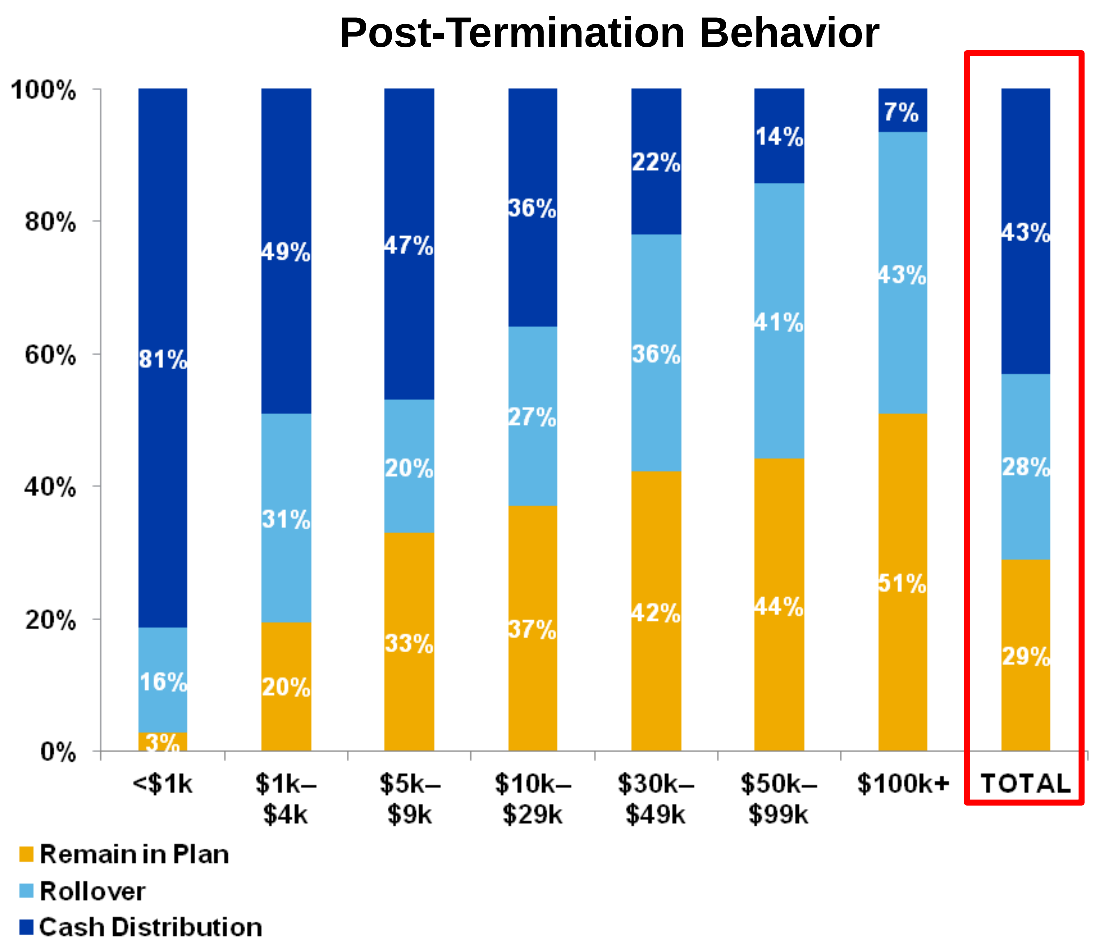


- 6.5% of participants took a withdrawal in 2012
- 21.7% of all withdrawals were hardships.
- More than half (53.7%) of all participants that took a hardship withdrawal reported the main reason for this withdrawal was to avoid a home eviction or foreclosure

Source: Aon Hewitt *Universe Benchmarks*

Cashouts Are a Primary Concern

- 43% of participants cash-out after termination
- Post-termination decision-making greatly influenced by plan balance, age, and gender
- 60% of employers report being concerned about cash-out behavior
- When surveyed about preferences on terminated employee assets, plan sponsors noted:
  - — 20% prefer to retain assets
  - — 17% prefer to leave the plan
  - — 63% had no preference



Source: Aon Hewitt *2013 Universe Benchmarks and* Aon Hewitt *2013 Hot Topics in Retirement*

Washington Updates

U.S. Senate HELP Committee hearing

Senate HELP held a series of conferences related to key issues in retirement. We were invited to provide testimony pertaining to the problem of leakage

- Primary reasons for Leakage:
  - Withdrawals taken during active employment
  - Loans taken and not repaid in full
  - Retirement savings cashed out upon job termination

- Leakage is particularly damaging to minorities, women, job hoppers, and lower income workers

- Recommendations to decrease abusive leakage
  - Promote and work within the employer system
  - Modify availability of loans/withdrawals, limit dollar amounts
  - Simplify post-termination loan repayment process
  - Increase the penalties for early withdrawals
  - Encourage lifetime income solutions and options
  - Provide increased education and resources

Washington Updates

U.S. Government Accountability Office (GAO)

“401(k) Plans: Labor and IRS Could Improve the Rollover Process for Participants”

Report Findings

The current rollover process favors distributions to IRAs over remaining in employer-provided retirement plans

- Complicated verification procedures
- Waiting periods and paper processes
- IRA-provider guidance and marketing

Employees who roll retirement money into an IRA risk losing employer-provided plan advantages such as:

- Enhanced purchasing power
- Access to unbiased tools and resources
- Employer expertise and fiduciary oversight

The loss of such key advantages can significantly impact workers long-term savings and retirement readiness – putting them at a disadvantage when they are ready to retire.

Aon Hewitt Observations

“Keeping retirement dollars in the employer-provided system is paramount to helping workers ensure that they are adequately prepared for retirement.”

Alison Borland, Aon Hewitt

Plan sponsors can encourage retirement savings in employer-provided system by

- Better educating, communicating with participants
- Simplifying plan-to-plan rollovers between qualified retirement plans
- Maintaining a broad and competitive investment line-up
- Offer attractive retirement income options and features

Can We Do More to Keep Savings in the Retirement System?

Review Plan Provisions

- Limit number of loans allowable
- Consider loan fees
- Allow loans to be paid via direct debit over time after termination
- Automatically restart employee contributions after a suspension
- Restrict balances eligible for loan and withdrawal
- Provide greater distribution options to make leaving money in the plan more flexible

Communicate and Educate

- Use internet modeling tools
- Consider targeted communications
- Educate about the long-term impact of savings destroyers
- Educate employees on the merits of the qualified plan, if applicable (lower fees, fiduciary oversight, etc.)
- Consider using debt and/or distribution specialists for participants considering loans and withdrawals

Consider New Plan Features

- Streamline the rollover process
- Consider in-plan retirement income solutions

Questions and Discussion