

CALLAN ASSOCIATES CLIENT SURVEY SPOTS AUTHENTIC TRENDS AMONG THE BUZZ

2008 Defined Contribution Plan Sponsor Survey provides fresh insight into how plan sponsors are adopting new features for their DC plans



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SAN FRANCISCO, Mar. 12, 2008 – After surveying nearly ninety large plan sponsors who oversee more than \$120 billion in assets and over two million participants, Callan’s Defined Contribution Consulting group identified authentic trends about the use of target date funds, the popularity of automatic enrollment, the appeal of guaranteed income for life solutions, plan fees and more.

Callan’s “*Impact of the Pension Protection Act: Defined Contribution Plan Sponsor Survey*,” examines what new features plan sponsors are adopting for their DC plans, including investment, design, delivery, due diligence and communication approaches. While many features stem from provisions in the Pension Protection Act (PPA), several arise from the current legal, regulatory and market environment.

According to the Survey, 79% of plan sponsors overwhelmingly prefer using a Qualified Default Investment Alternative (QDIA) for their plan and target date funds are the QDIA of choice, particularly mutual funds. Nearly half, 49%, that offer or anticipate offering a target date or target risk fund as the QDIA will use a mutual fund structure.

However, momentum is building for the use of collective trusts and a customized mix of asset allocation funds. Eighteen percent of plan sponsors in the Survey currently use or intend to use a custom mix of funds for their QDIA. This is up from 11% in Callan’s 2007 QDIA Survey.

“The movement towards customization within target date funds is likely attributable to new QDIA regulations that allow plan sponsors to manage a custom mix without being a registered investment advisor,” said Lori Lucas, DC practice leader at Callan Associates. “It rewards large plan sponsors that have inexpensive DC cost structures and offer best-in-class DC funds for the benefit of plan participants.”

Fee analysis and fee disclosure are also priorities for plan sponsors in 2008. Forty-eight percent of respondent firms anticipate or will consider engaging in a fee analysis of their DC plan, compared to 23% who have no interest. Thirty-two percent of plan sponsors intend to voluntarily enhance fee disclosure. Taking these proactive steps could help sponsors negotiate competitive fee terms with providers and by boosting disclosure beyond regulatory requirements, stay ahead in keeping plan participants better informed.

Another feature proved popular last year — automatic enrollment. By the close of 2007, 44% of those surveyed offered this default with another 6% stating they were likely to add it in 2008 — an increase from 35% at the end of 2006.

Contrary to reports of a spike in activity in plans offering guaranteed income for life investment options, Callan found that a significant number of plans, 87%, do not offer one and that most, 99%, were unlikely to offer this option in 2008.

“While these types of investment vehicles have received a lot of attention over the past year or so, our research tells us that plan sponsors just aren’t ready or motivated to adopt them,” said Lucas. “This could be due to a combination of factors including an insufficient track record or the complexity of the investment vehicles themselves.”

About the 2008 DC Plan Sponsor Survey participants:

- The majority of participants, 77%, represent 401(k) plans; 11% are 401(a) and 6% are profit sharing plans.
- Forty-three percent qualify as “mega” plans worth more than \$1 billion in assets and fewer than 17% have assets of less than \$100 million.
- Core plans – with \$100 million to \$500 million in assets – represent 29% of the respondents while the remaining 11% have assets of \$501 million to \$1 billion.

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About Callan Associates Inc.

Founded in 1973, Callan Associates is one of the largest independently-owned investment consulting firms in the country. Headquartered in San Francisco, Calif., the firm provides research, education, decision support and advice to a broad array of institutional investors through five distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group, Callan Investments Institute and the Trust Advisory Group. Callan employs more than 170 people and maintains four regional offices located in Denver, Chicago, Atlanta, and Florham Park, N.J. For more information, visit www.callan.com.