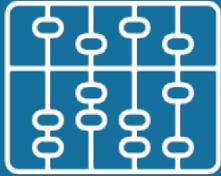


NEPC 2021 DEFINED CONTRIBUTION PLAN TRENDS AND FEE SURVEY RESULTS

FEBRUARY 2022



OUR 16TH ANNUAL DC PLAN TRENDS AND FEE SURVEY



This year we separated the delivery of the Defined Contribution Plan and Fee Survey into two parts, the Fee Review and the Plan Review (trends)

This report comprises our review of trends with DC plan investment menus and plan features

ABOUT OUR SURVEY

137 Defined Contribution Plans

68% Corporate

25% Healthcare

8% Public, Not-For-Profit, Taft Hartley

\$230 BILLION in aggregate assets

1.6 MILLION participants

AVERAGE PLAN

\$1.7 BILLION in assets

12,200 participants

MEDIAN PLAN

\$728 MILLION in assets

5,400 participants



NEPC conducted our 16th annual Defined Contribution Plan Trends and Fee Survey, also known as the NEPC Defined Contribution (DC) Progress Report in 2021 using data as of December 31, 2020 unless otherwise noted.

REPORT HIGHLIGHTS

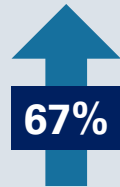
ONWARD AND UPWARDS



Retirement wealth has risen tremendously over the past 5 years

The growth of plan assets may offer fiduciaries the opportunity to consider different vehicle structures and/or solutions, i.e. collective trust, separate accounts, and custom solutions

\$728
MILLION
Median
Plan Assets



Target date funds continue to be the turnkey solution

97% plan adoption rate and 95% use as the plan default

Growth of plan assets in target date funds is reducing the importance of the Core Menu

Plan Assets Invested in Target
Date Funds (Average)



The most prominent trend has been the move toward index

38% of plans offer index target date funds. 70% of plans offer a “tier” of 3 or more index funds in the core menu. The median percentage of plan assets invested in core menu index funds is 15%.



Regulations foreshadow an increased adoption of Retirement Income and ESG (Environmental, Social & Governance) investment options

We predict guaranteed income solutions and ESG will slowly progress in 2022. Nearly all plans offer the makings of a “retirement tier” but lack an option providing guaranteed lifetime income. Many active managers are starting to consider ESG within security selection

INVESTMENT MENUS FOR THE SAVINGS PHASE

Below we report on the prevalence of selected investment menu choices using the framework of the widely adopted 'tiered' design



DEDICATED SAVINGS PHASE

Professionally
Managed

Target Date Funds

Managed Accounts

Target Risk Funds

Balanced Funds

Self-Service

Index
Core Menu Funds

Actively-Managed
Core Menu Funds

Expanded
Choice

Self-Directed Brokerage Account

NEPC SURVEY HIGHLIGHTS

97%
of plans
offer target
date funds

38% offer managed
accounts

38% offer target risk
or balanced
funds

100%
of plans offer
additional
choices

70% of plans offer 3 or
more index choices

63%
of plans offer brokerage,
rising from 60% y/o/y

OBJECTIVE

Asset Allocation
 Cash
 Bond
 Stock
 Brokerage

INVESTMENT MENUS FOR THE SPENDING PHASE

Using the same tiered framework, we look at the investment menu from the lens of an older worker and report on the availability of investments or plan features that provide low risk income, an automatic income payout, or guaranteed income



DEDICATED SPENDING PHASE

NEPC SURVEY HIGHLIGHTS

Professionally
Managed

Target Date Funds

Managed Accounts

Target Risk Funds

Balanced Funds

97%

of plans offer target date funds (these funds straddle the savings and spending phases)

Self-Service

Capital
Preservation

Deferred Annuity

Managed Payout
Funds

Immediate Annuity

99%

of plans offer a capital preservation option

1%

of plans offer an investment option with guaranteed income for life

88%

of plans offer installment payments (per plan rules)

2%

of plans offer a managed payout fund

Expanded
Choice

Annuity Purchase Window
(Out of Plan Distribution)

50%

of plans' recordkeepers have an out-of-plan annuity marketplace available

OBJECTIVE

Asset Allocation
 Capital Preservation
 Managed Payout
 Insurance (Pooled-Risk)

TARGET DATE FUNDS REMAIN DOMINANT

THE POWER OF DEFAULT INVESTMENTS

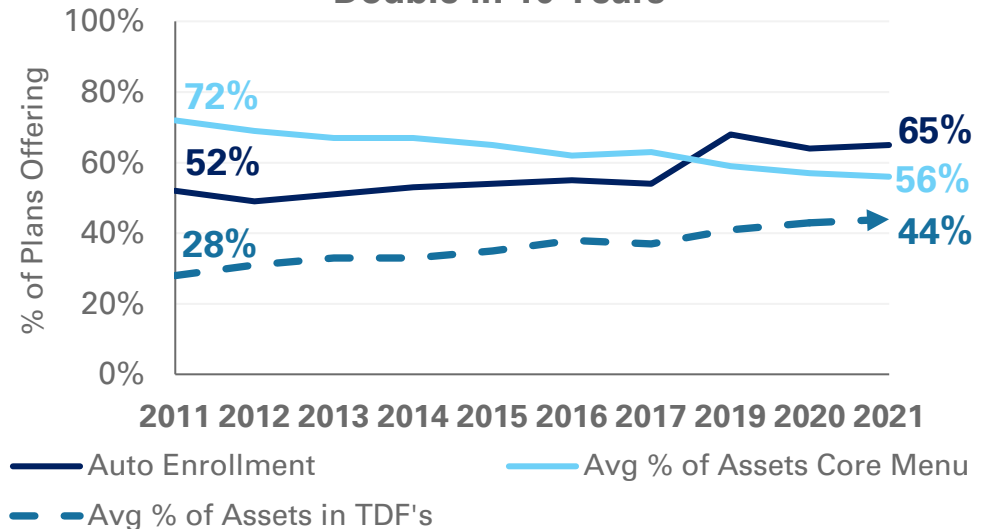
PLAN DEFAULT INVESTMENT

Target date funds are the prevalent default investment in DC plans

Growth in target date plan assets reduces the importance of the Core Menu for the Savings/Accumulation years

- 97%
of plans offer target date funds
- 95%
of plans use target date funds as the **default** investment
- 44%
average plan **assets** invested in target date funds

Plan Assets in Target Date Funds Double in 10 Years



WHAT'S TRENDING WITH TARGET DATES?

Investment Management Style: 2016 vs 2021

Active TDFs		Blend TDFs		Index TDFs	
58%	46%	8%	12%	34%	38%

INVESTMENT MENUS FOR THE SAVINGS PHASE

PREVALENCE OF CORE MENU OPTIONS

BY THE NUMBERS

NEPC survey medians

11

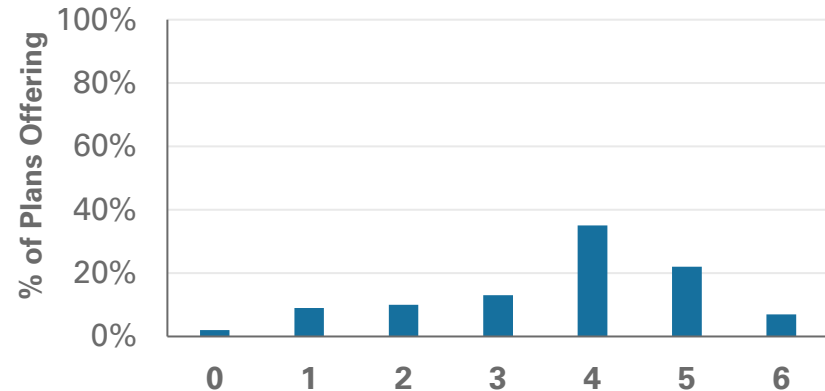
of core investments offered

- 69% of plans offer 10-14
- 16% of plans offer 4-9
- 15% of plans offer >14

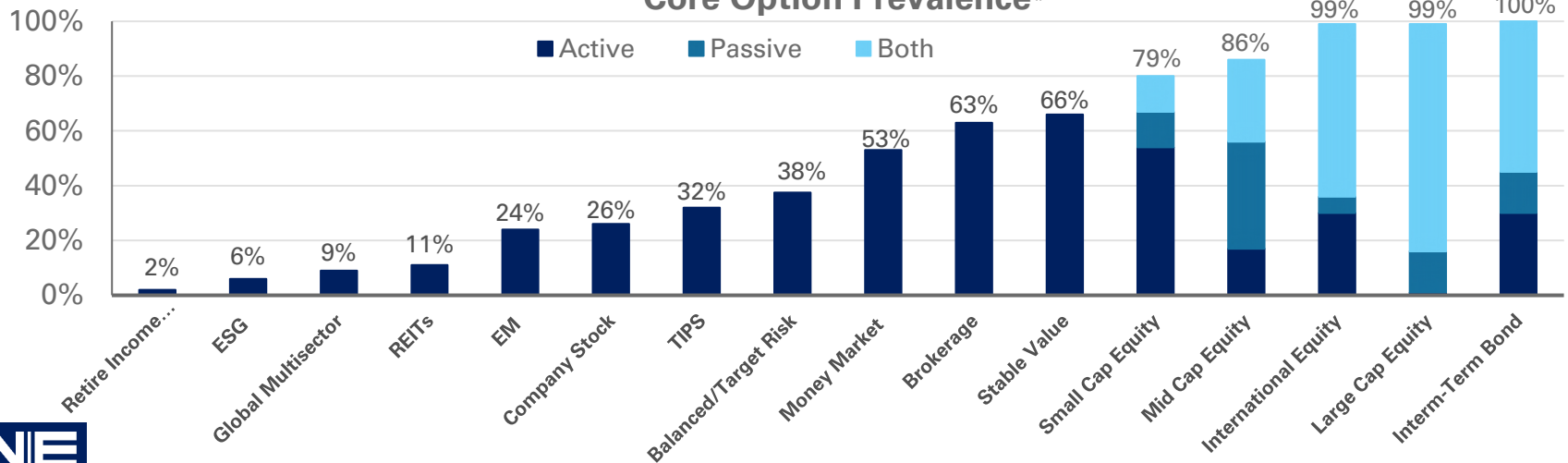
39%

of plans offer TIPS, REITs or other type of **inflation-sensitive** investment option

of Core Menu Passive Investment Options



Core Option Prevalence*



*Active vs. Passive prevalence was only tracked for U.S. Equity, Non-U.S. Equity, and U.S. Bonds.



THE POWER OF ONE?

Simplifying the choice set can enhance the likelihood of a participant's success. Plan fiduciaries may re-think whether or how these categories of investments are offered, as the growth of plan assets in the Default continues to reduce the importance of the Core Menu.

Money Market	66% of plans offer Stable Value while 53% offer Money Market. The use of stable value over money market is preferred for eligible qualified plans. Consider simplifying if you offer both.
TIPS	32% of plans offer a TIPS option and utilization is low. TIPS' role in protecting purchasing power for participants drawing an income may be misunderstood given their price volatility.
High Yield	12% of plans offer High Yield. The use of a broadly diversified fixed income option which can opportunistically invest in high yield is preferred over a dedicated exposure.
Real Estate	11% of plans offer Real Estate. A REIT option is specialty/sector specific fund and is not a proxy for home ownership.
Emerging Markets	24% of plans offer a dedicated Emerging Markets option. Broadly-diversified international equity options which include emerging markets exposure are preferred.
Specialty / Sector	NEPC does not recommend specialty/sector specific funds as they often lead to high-risk and undiversified participant portfolios.
Socially Responsive/ ESG	6% of plans offer an ESG or socially responsive labeled option. We anticipate increased adoption when the regulatory landscape softens.
Alternatives / Private Markets	< 1% of plans offer dedicated Private Markets, but alternatives like private equity, private real estate, and hedge funds make sense as part of a professionally managed multi-asset option.

OBJECTIVE ■ Capital Preservation ■ Bond ■ Stock ■ Alternatives

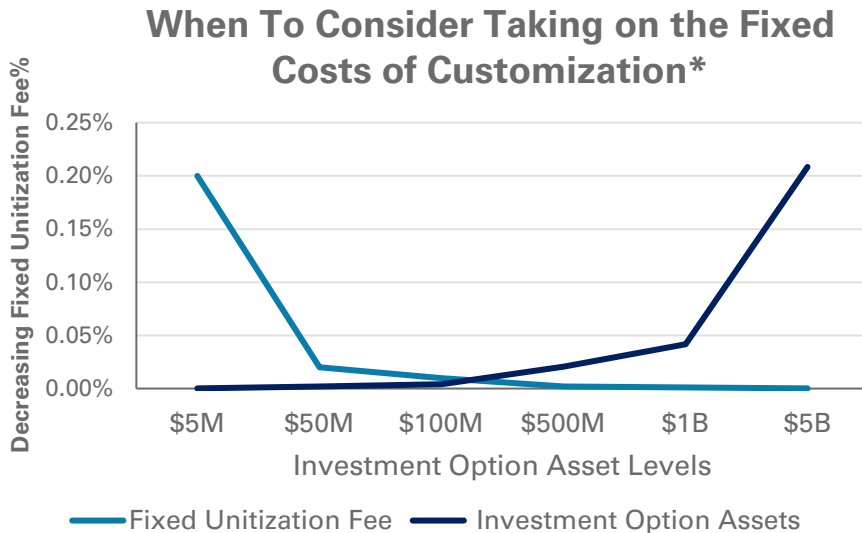


SPOTLIGHT ON CUSTOM FUNDS

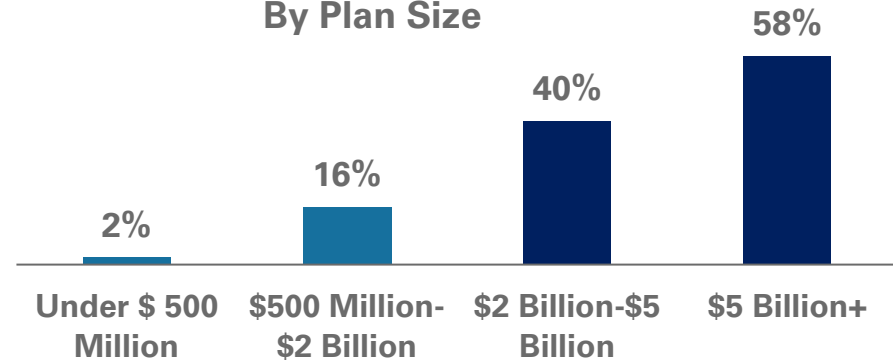
RENEWED INTEREST AS PLANS GROW

CUSTOM SOLUTIONS | WHITE LABEL FUNDS

Certain plan types (e.g., not 403(b)s) can graduate into custom solutions for better use of risk management, broadening mandates or introducing new asset classes or niche managers as fixed operational costs become less of a burden

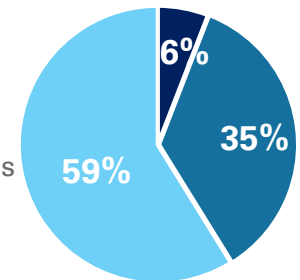


Prevalence of White Label Funds By Plan Size



How Large Plans Employ Custom Solutions

- White Label Target Date Options
- White Label Core Options
- White Label Across All Options



* Fixed costs assume a flat \$10,000 recordkeeper/administrative fee to unitize a custom DC solution.



SPOTLIGHT ON MANAGED ACCOUNTS

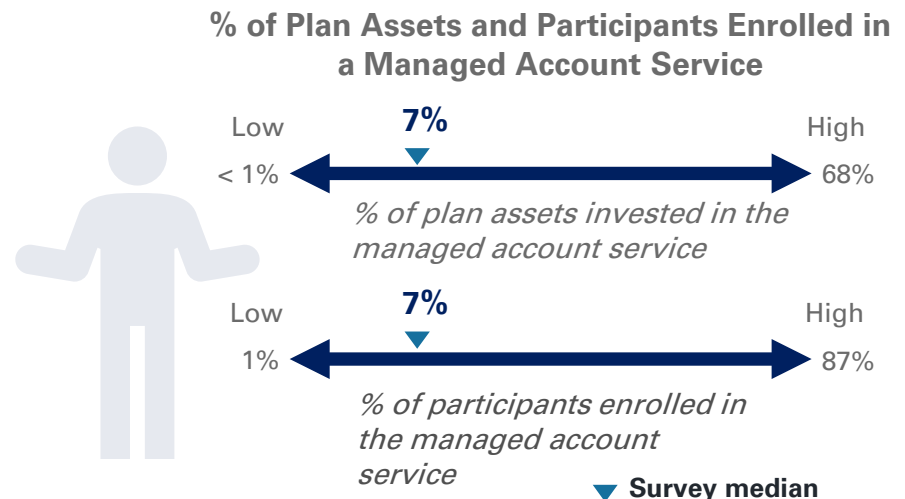
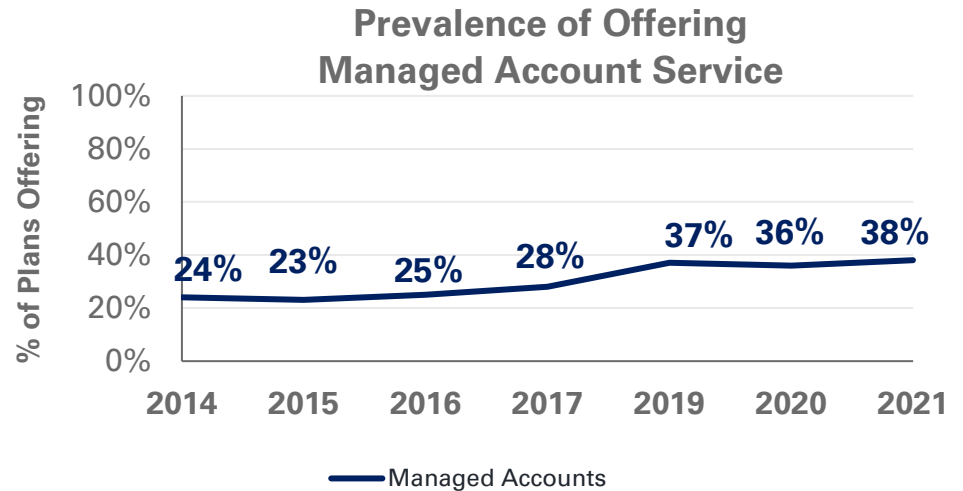
STALLED PROGRESS

MANAGED ACCOUNTS

Adoption of Managed Accounts has remained flat for the past three years, which is counter to expectations given the strong marketing promotion by recordkeepers. The increased spotlight on these services is likely responsible.

It may be too early to call a trend, but we are starting to see more clients consider removing Managed Accounts than adopting them.

Overall, we feel that at a reasonable fee level, Managed Accounts can be a useful solution to help participants meet individualized objectives.

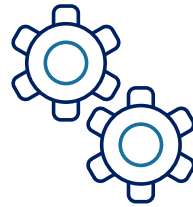


PLAN FEE REVIEW

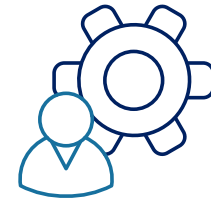
SUMMARY OBSERVATIONS



**Investment
Fee Review**



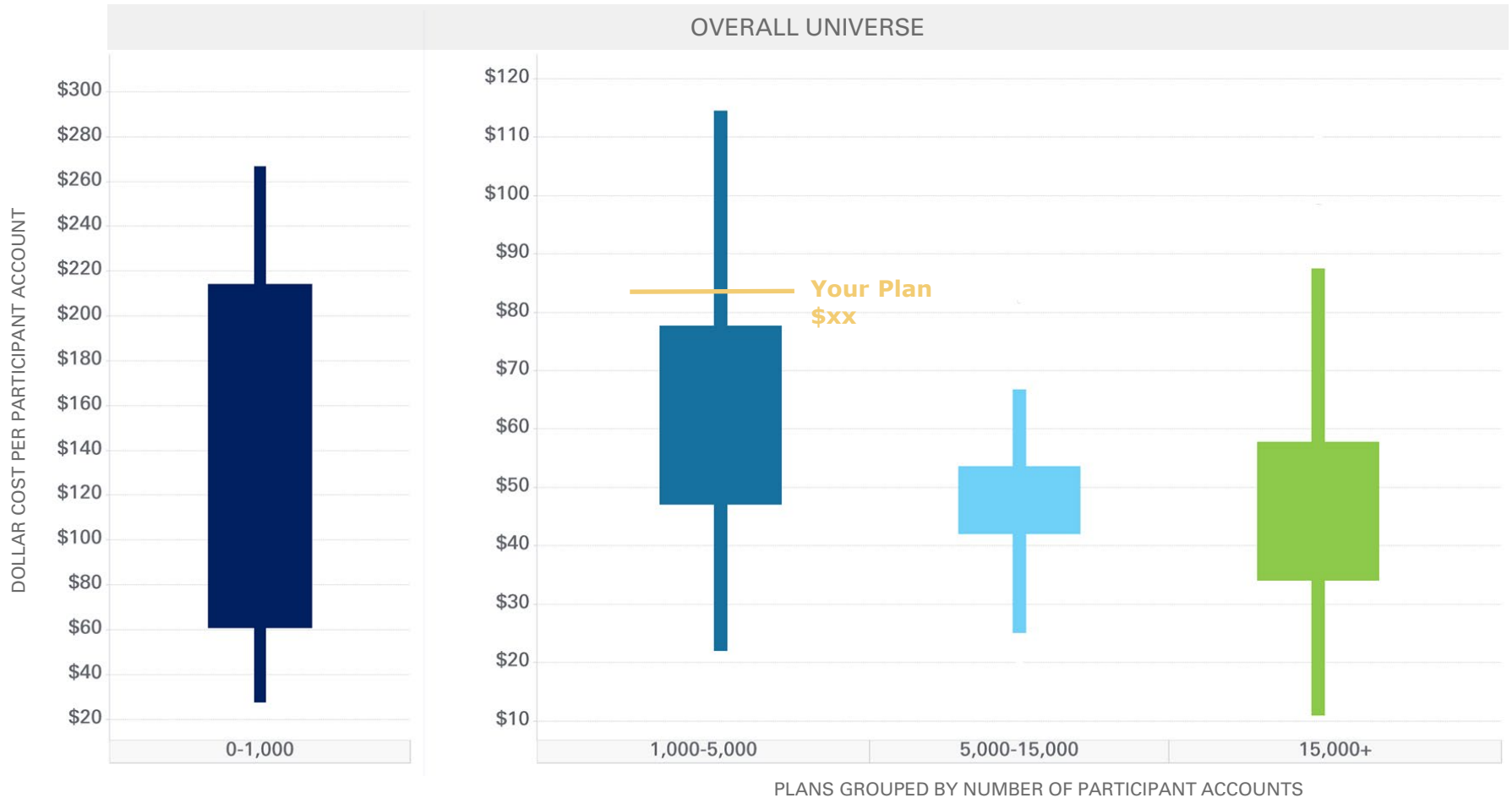
**Recordkeeping, Trust,
Custody Fee Review
(Base Fees)**



**Recordkeeping
Transaction
Fee Review**

RECORDKEEPING, TRUST, CUSTODY FEE REVIEW

BENCHMARKING BASE FEES



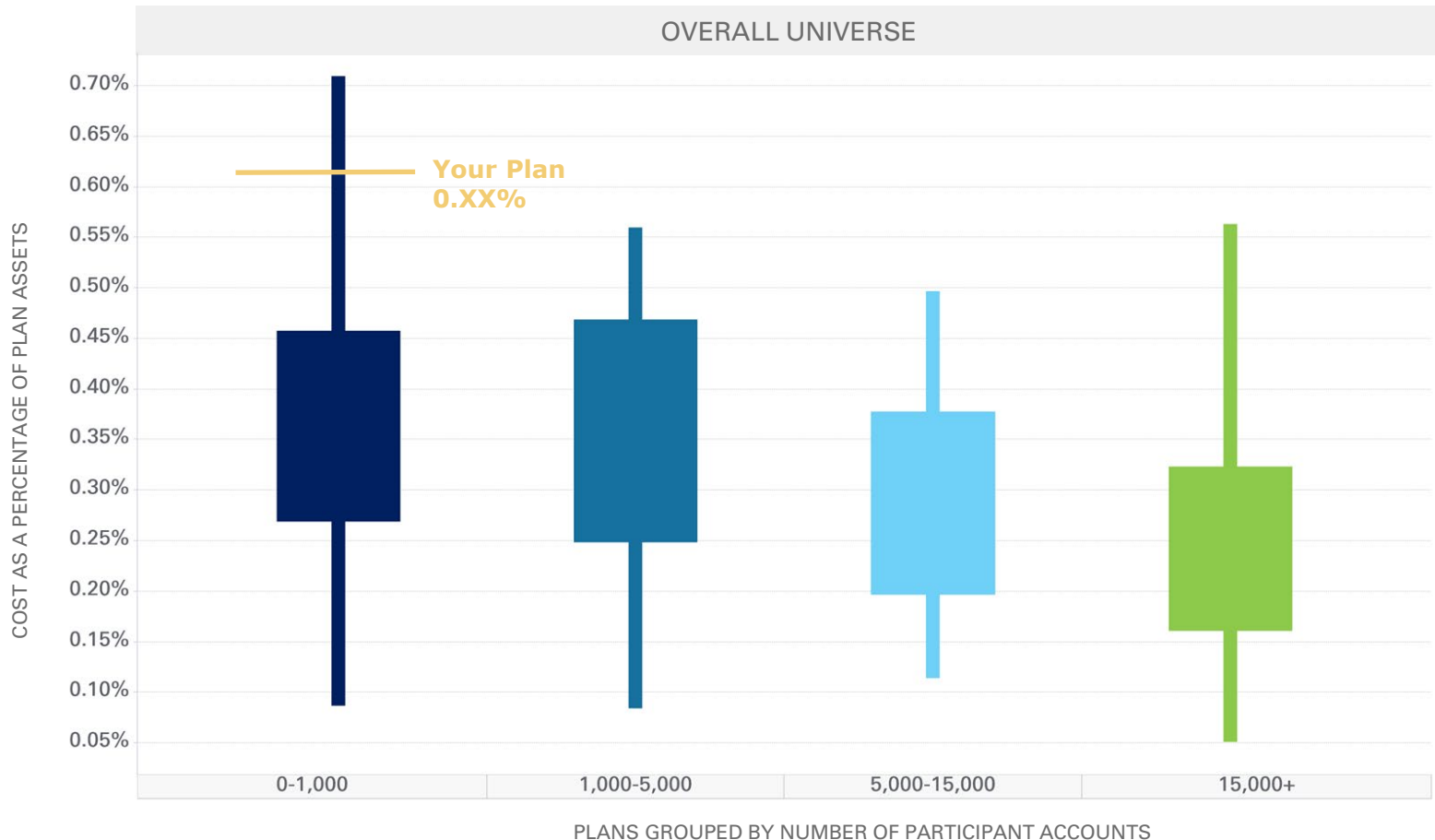
PLANS GROUPED BY NUMBER OF PARTICIPANT ACCOUNTS

Each box plot provides a visual display of record keeping, trust and custody costs by plan size, according to NEPC's 2021 Defined Contribution Plan & Fee Survey which includes 137 defined contribution and deferred compensation plans. Fees were gathered from participating plans' service providers and recast in a uniform format. The data represents broadly what plans pay and not how they pay. The box of the plot is a rectangle which encloses half of the sample, with an end at each quartile. The whiskers extend to the upper and lower observations excluding outliers.



INVESTMENT FEE REVIEW

BENCHMARKING ASSET-WEIGHTED EXPENSE RATIOS



Each box plot provides a visual display of asset-weighted expense ratios by plan size, according to NEPC's 2021 Defined Contribution Plan & Fee Survey which includes 137 defined contribution and deferred compensation plans. Investment options, asset balances and expense ratios were gathered from participating plans, with NEPC calculating the asset-weighted expense ratio. The box of the plot is a rectangle which encloses half of the sample, with an end at each quartile. The whiskers extend to the upper and lower observations excluding outliers.



PROCESS METHODOLOGY & DISCLOSURES

NEPC DEFINED CONTRIBUTION PLAN & FEE SURVEY

The data provided in this Report reflect the experience of the respondents to our survey during a given period of time. These data may or may not be indicative of the experience of the defined contribution plan market as a whole, during that period or any other period.

The survey sample changes year over year which can affect the comparability of results.

Some of the information presented herein has been obtained from external sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this content, we cannot guarantee the accuracy of all source information contained within.

The opinions presented herein represent the good faith views of NEPC as of the publication date and are subject to change at any time.

Data are as of December 31, 2020 unless otherwise noted.

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