Why Don't Your Employees Participate in Your 401(k) Plan?

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Southern Employee Benefits Conference & Society for Human Resources Management

Atlanta, Georgia - August 23, 2012

Our Mission Is Simple and Enduring

We help participants focus on the steps they can take today to build confidence in their ability to generate sufficient income in retirement.

Retire with confidence®

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T. Rowe Price Overview

Organizational stability	• Debt-free balance sheet and substantial liquidity helps us weather volatile markets while continually reinvesting in our business to better position our clients for the future. • 59% of assets are retirement related.[1] • Disciplined approach to company growth. • Portfolio manager investment experience averages 20 years.
Proven performance	• Investment advisory results relative to our peers remain strong. For each 3-, 5-, and 10-year period ended June 30, 2012, over 75% of our mutual funds outperformed their Lipper average.[2] • Increased total number of investment professionals and global research analysts in 2010, and broadened fixed income capabilities.
Enduring commitment to the retirement business	• Nearly 30 years in the defined contribution industry • Ninth-largest manager of defined contribution assets[3] • 1,091 full-service plans[1] • Over 1.9 million participants[1]
Client and participant satisfaction	• Client satisfaction and loyalty consistently outpace industry benchmarks—84% Top 2 Box rating for overall satisfaction; 82% rating for "highly loyal."[4]

Results will vary for other time periods. Past performance cannot guarantee future results.

All funds are subject to market risk, including possible loss of principal.

[1] As of June 30, 2012
[2] Based on cumulative total return, 125 of 180 (69%), 124 of 171, 135 of 158, and 71 of 92 T. Rowe Price funds (including all share classes and excluding funds used in insurance products) outperformed their Lipper average for the 1-, 3-, 5-, and 10-year periods ended 6/30/12, respectively. Not all funds outperformed for all periods. (Lipper, A Thomson Reuters Company.)
[3] Source: Annual proprietary client satisfaction survey conducted by the independent organization Chatham.

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State of the Industry

1970s

- Employer-directed and funded plans (**pension plans**) were the norm

1980s and 1990s

1980s

- **401(k) introduced**
- GICs, company stock, and monthly valuations prevail.

1990s

- Innovation creates complexity:
  - Brokerage
  - Managed accounts
  - 1,000s of mutual funds

2000s

- **Recognition of inertia and drive for simplicity**
- T. Rowe Price launches **Retirement Funds** in 2003
- In 2006, PPA endorses auto-services and provides fiduciary protection through use of QDIAs

Now and into the future

- Aggressive adoption of **auto-services**
- Participant communication shifting to **financial literacy** and understanding **retirement income needs**
- Accumulation remains important, but creative solutions for **retirement income arethe priority**
- Number of retired participants to exceed active

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Retiree Risk

Audience Poll

- Which of the following primary risks facing retirees do you think is most significant?

A. Inflation

B. Market volatility

C. Longevity (living a long time, or longer than expected)

D. Implementation (poor planning, poor decision-making, etc.)

Factors That Influence Shortfall Risk

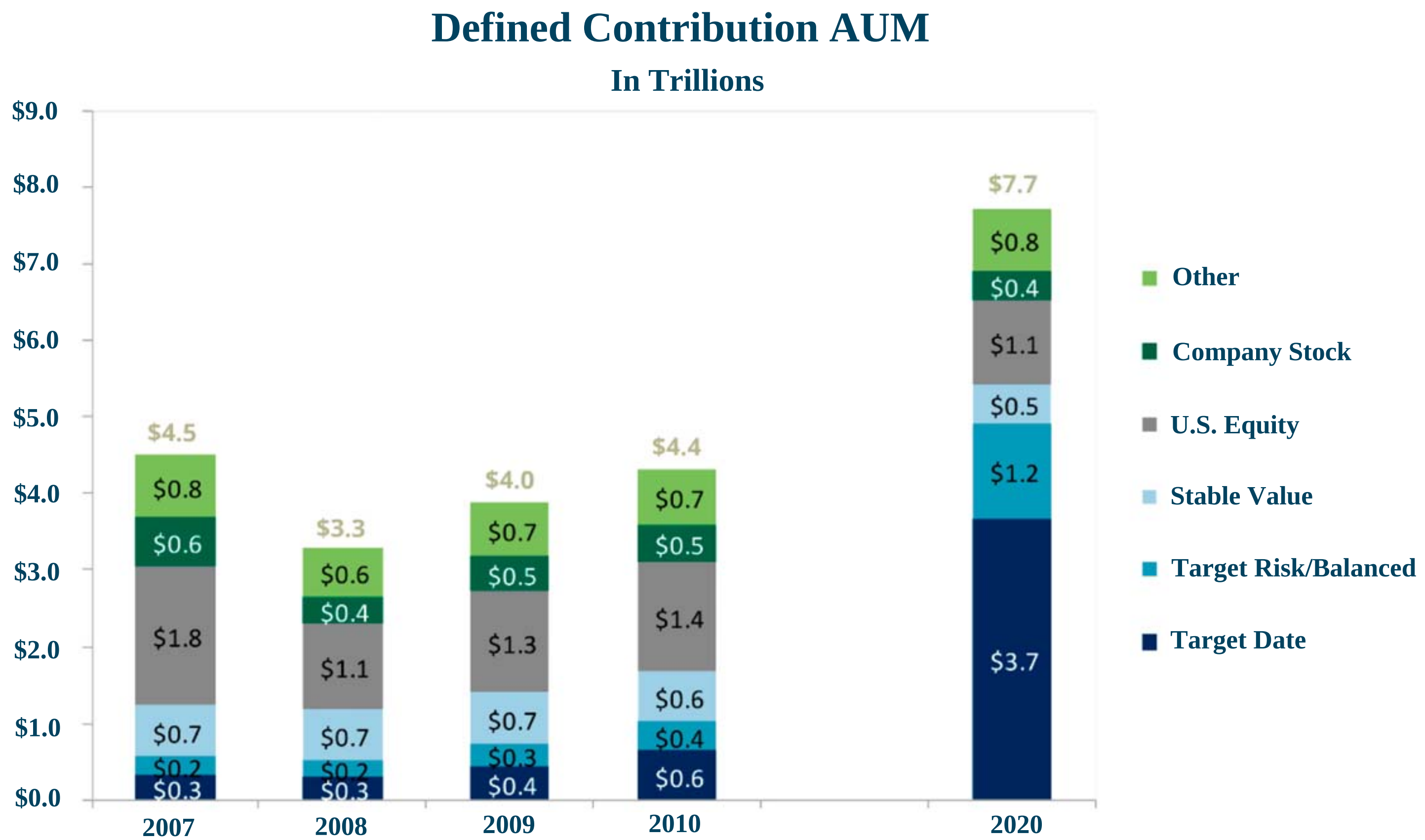
The risk that the purchasing power of assets will be eroded by rising inflation over time

The risk that an investor lives a very long time in retirement

The risk that participants make inappropriate investment, saving, or spending decisions

The risk that a portfolio will decline in value as a result of market movements

Retirement-Date Funds Projected Share of DC Market

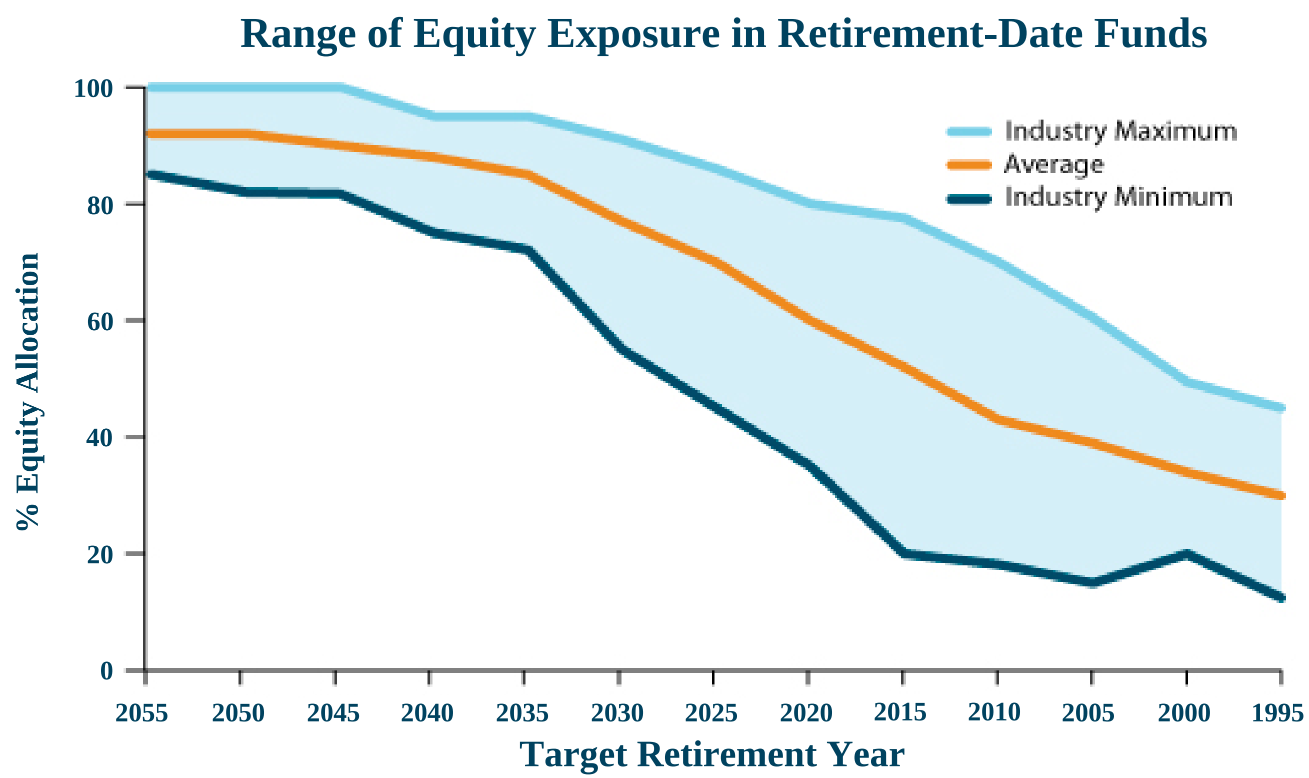


TDRF % of DC AUM	2007	2008	2009	2010	2020
	8%	9%	12%	15%	48%

By 2020, retirement-date investments are set to emerge as the largest asset class, capturing nearly 50% of assets.

Source: Casey Quirk analysis.

Glide Paths Have a Wide Range of Equity Allocations



Target Retirement Year	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	1995
Industry Maximum	100	100	100	95	95	91	86	80	78	70	61	50	45
Industry Average	92	92	90	88	85	77	70	60	52	43	39	34	30
Industry Minimum	85	82	82	75	72	55	45	35	20	18	15	20	13

Source: Morningstar, Inc., as of 12/31/11. Invesco Balanced Risk is not included due to its significant category outlier structure.

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T. Rowe Price Retirement-Date Investments: History of Innovation

2002 | 2005 | 2008 | 2011

Sept. 2002
Retirement Funds Begin Operations

Feb. 2004
Add Mid-Cap Value and Non-U.S. Developed Markets Value Stocks

Glide Path Extended 30 Years Past Retirement

Nov. 2005
Add Small-Cap Value and Small-Cap Growth Stocks

Dec. 2006
Add Non-U.S. Developed Markets Core Stock

May 2007
Add Emerging Markets Stock

Increase Non-U.S. Equities Allocation From 15% to 20% of Total Equity

May 2008
Add Emerging Market Bonds and Non-U.S. Dollar Bonds

July 2010
Add TIPS

Add Real Assets Stocks

June 2011
Increase Non-U.S. Equities Allocation From 20% to 30% of Total Equity

Retirement Fund Component Structure:
- Large-Cap Growth
- Large-Cap Core
- Large-Cap Value
- Mid-Cap Growth
- Small-Cap
- International Developed Growth
- U.S. Investment Grade
- High Yield
- Short-Term Bonds
- Cash

→

Retirement Fund Component Structure:
- Large-Cap Growth
- Large-Cap Core
- Large-Cap Value
- Mid-Cap Growth
- Mid-Cap Value
- Small-Cap Growth
- Small-Cap Core
- Small-Cap Value
- Real Assets
- International Developed Growth
- International Developed Core
- International Developed Value
- Emerging Markets
- U.S. Investment Grade
- Emerging Market Bonds
- Non-U.S. Dollar Bonds
- High Yield Bonds
- Inflation-Focused Bonds

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T. Rowe Price Retirement-Date Experience

- Introduced our retirement-date funds in September 2002
- Currently manage $78.8 billion in the T. Rowe Price retirement-date products, representing 14% of $555 billion in assets under management (as of 3/31/12)
- Within our Retirement Plan Services division (as of 12/31/11)
  - 85% of clients offer retirement-date options
  - 95% of Automatic Enrollment clients use retirement-date options as a default
  - 47% of clients used retirement-date reset for M&A plans (1/11/11-12/31/11)
  - 66% of participants invest in retirement-date options when available

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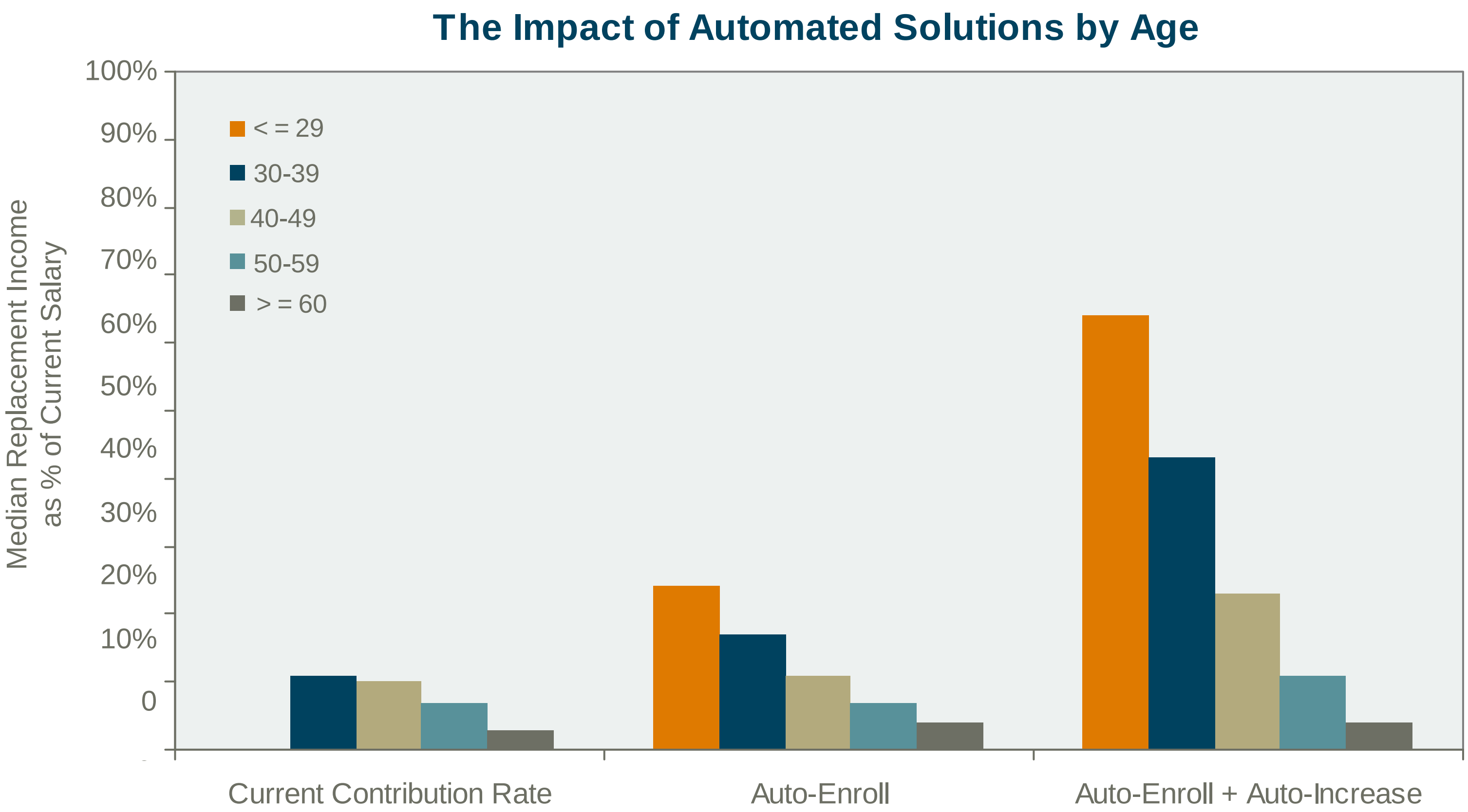
T. Rowe Price Retirement-Date Experience

Retirement-Date Reset Strategy: Allows plan sponsors to move participants' existing balances and future contributions into an age-appropriate retirement-date fund in an efficient and timely manner.

- What are the results?
  - 42% of January-December 2011 conversions and mergers have taken advantage of the strategy
  - The strategy has been successful in all client market segments
  - 344 conversions and/or mergers since 2005 (41%)
    - New client conversions = 44%
    - Mergers and acquisitions = 38%

  - After 18 months,
    - 72% of assets remained invested in retirement-date funds
    - 87% of participants were investing in the retirement-date funds
    - 74% of participants have all of their account invested in a retirement-date fund

Potential Impact for Employees



Source: plan meter[SM] A RETIREMENT INCOME ANALYSIS FOR YOUR PLAN as of 12/31/11.

Monte Carlo Disclosure

Monte Carlo simulation is an analytical tool for modeling future uncertainty. In contrast to deterministic tools (e.g., expected value calculations) that model the average case outcome, Monte Carlo simulation generates ranges of outcomes based on our underlying probability model. Thus, outcomes generated via Monte Carlo simulation incorporate future uncertainty, while deterministic methods do not. Although the engine cannot predict future investment performance, by simulating thousands of hypothetical future market scenarios, it can help plan sponsors to more realistically assess whether their employees are likely to achieve their retirement income goals.

Material Assumptions

The investment results shown in the various Plan Meter charts were developed with Monte Carlo modeling using the following material assumptions, as well as those outlined in the Plan Meter Report Appendix. The underlying long-term expected annual return assumptions for the asset classes indicated in the charts are not historical returns. Rather, these are based on our best estimates for future long-term periods. Our annual return assumptions take into consideration the impact of reinvested dividends and capital gains. We use these expected returns along with assumptions regarding the volatility for each asset class and the intra-asset class correlations to generate a set of simulated, random monthly returns for each asset class over the specified period of time. These monthly returns are then used to generate 1,000 simulated market scenarios. These scenarios represent a spectrum of possible performance for the asset classes being modeled.

The success rates are calculated based on these scenarios. We take taxes and required minimum distributions (RMDs) into consideration, as described in the Appendix, but we assume no early withdrawal penalties. Investment expenses in the form of an expense ratio are subtracted from the expected annual return of each asset class. These expenses are intended to represent the average expenses for a typical actively managed, no-load fund within the peer group for each asset class modeled. The analysis does include all of a participant's assets in the defined contribution plan(s), but categorizes them simply as individual stocks, diversified stock funds, bonds, and short-term investments. Other asset classes not considered or modeled may have characteristics similar or superior to those being analyzed.

IMPORTANT: The Plan Meter projections or other information generated by a T. Rowe Price investment analysis tool regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. The simulations are based on a number of assumptions. There can be no assurance that the projected or simulated results will be achieved or sustained. The charts present only a range of possible outcomes. Results may vary with each use and over time, and such results may be better or worse than the simulated scenarios. Clients should be aware that the potential for loss (or gain) may be greater than demonstrated in the simulations.

Monte Carlo Disclosure, continued

The replacement income (in current dollars) is the percentage of the employee's current annual salary withdrawn in the first year of retirement; in each subsequent year, the amounts withdrawn are adjusted to reflect a particular annual rate of inflation. The underlying long-term expected annual return assumptions (gross of fees) used in each of the Monte Carlo simulations are 10% for large-cap individual stocks; 11% for mid-/small-cap individual stocks; 10% for stock funds; 6.5% for intermediate-term, investment-grade bonds; and 4.75% for money market/stable value investments. The following expense ratios are then applied to arrive at net-of-fee expected returns: 0% for individual stocks; 1.211% for stock funds; 0.726% for intermediate-term, investment-grade bonds; and 0.648% for money market/stable value investments. The simulation success rate of each employee's retirement planning strategy is identified for a sponsor's plans in the Rules and Assumptions section of the Plan Meter Report. Simulation success is defined as having at least one dollar remaining in the portfolio at the end of retirement. (The retirement period in the simulations is assumed to end at age 95.) The simulation success rate of a particular retirement strategy is determined by counting the number of simulation scenarios that result in at least one dollar remaining, and dividing this figure by the total number of simulation scenarios of that strategy used.

Material limitations of the investment model include:

- Extreme market movements may occur more frequently than represented in our model.
- Some asset classes have relatively limited histories. While future results for all asset classes in the model may materially differ from those assumed in our calculations, the future results for asset classes with limited histories may diverge to a greater extent than the future results of asset classes with longer track records.
- Market crises can cause asset classes to perform similarly over time, reducing the accuracy of the projected portfolio volatility and returns. The model is based on the long-term behavior of the asset classes and therefore is less reliable for short-term periods.
- The model assumes that there is no correlation between asset class returns from month to month. This means that the model does not reflect the average periods of "bull" and "bear" markets, which can be longer than those modeled.
- Inflation is assumed to be constant; variations in inflation levels are not reflected in our calculations. These results are not predictions, but they should be viewed as reasonable estimates

Case Study—Retirement Fund Conversion Campaign

- **Objective**
  - Large membership warehouse club chain sought to get as many eligible employees as possible enrolled in the company's retirement plan and contributing to their future.
  - 120,000 eligible employees, average age is 38, most turnover in first nine months.
- **Solution**
  - Implemented Automatic Enrollment service in 2005 for current and new employees with a 3% deferral into age-appropriate retirement-date funds. Automatic salary increase of 1% up to 15% maximum.
- **Results**
  - Participation rate increased from the **mid-60s to 90%**.
  - Average salary deferral went from **4.5% to 7.3%** (as of 9/30/11).

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Understanding Participant Behavior

Leaving it up to the participant or the employee to choose is where sponsors may need to evolve their thinking.

[80% of all investors are delegators[1]]

31% of workers think they will need **under $250,000** to live comfortably in retirement

–2011 EBRI Confidence Survey

7 in 10

workers say they are behind in saving for retirement

–2011 EBRI Confidence Survey

Of those polled on the T. Rowe Price website, **only 17%** would save more for retirement if they had extra money

–T. Rowe Price proprietary survey

COMMENTS FROM T. ROWE PRICE PROPRIETARY FOCUS GROUPS

"They automatically enrolled me in the plan... Initially I was opposed to the idea, but warmed up to it... A little prodding is just what I needed."

"...I would have never gotten started with my company plan without auto-enroll."

[1] 2009 Forrester Research, North American Technographics Benchmark Study 2009 (U.S., Canada).

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Participant Activity During Periods of Extreme Volatility

Audience Poll

- During periods of extreme market volatility (i.e., October 2008 or August 2011), what % of plan participants, on average, took action on their account?
  - **78%**
  - **52%**
  - **27%**
  - **11%**
  - **2%**

Participant Activity During Periods of Extreme Volatility

Over 98% of participants (representing 99% of total assets) took no action at all and stayed the course during more recent volatile periods.

	October 2008[1]	August 2011[2]	
% participants taking action	1.75%	1.25%	
% participant assets impacted	1.00%	1.00%	
Action			
Exchange	82%	71%	
Loan	7%	14%	
Withdrawal	11%	14%	
Contacts (daily)			**Norm**
Phone	16K	14K	4K-5K
Web (visits)	74K	60K	40K-45K

[1] Represents T. Rowe Price Retirement Plan Services recordkept plans from 10/06/08 to 10/10/08.
[2] Represents T. Rowe Price Retirement Plan Services recordkept plans from 8/04/11 to 8/09/11.

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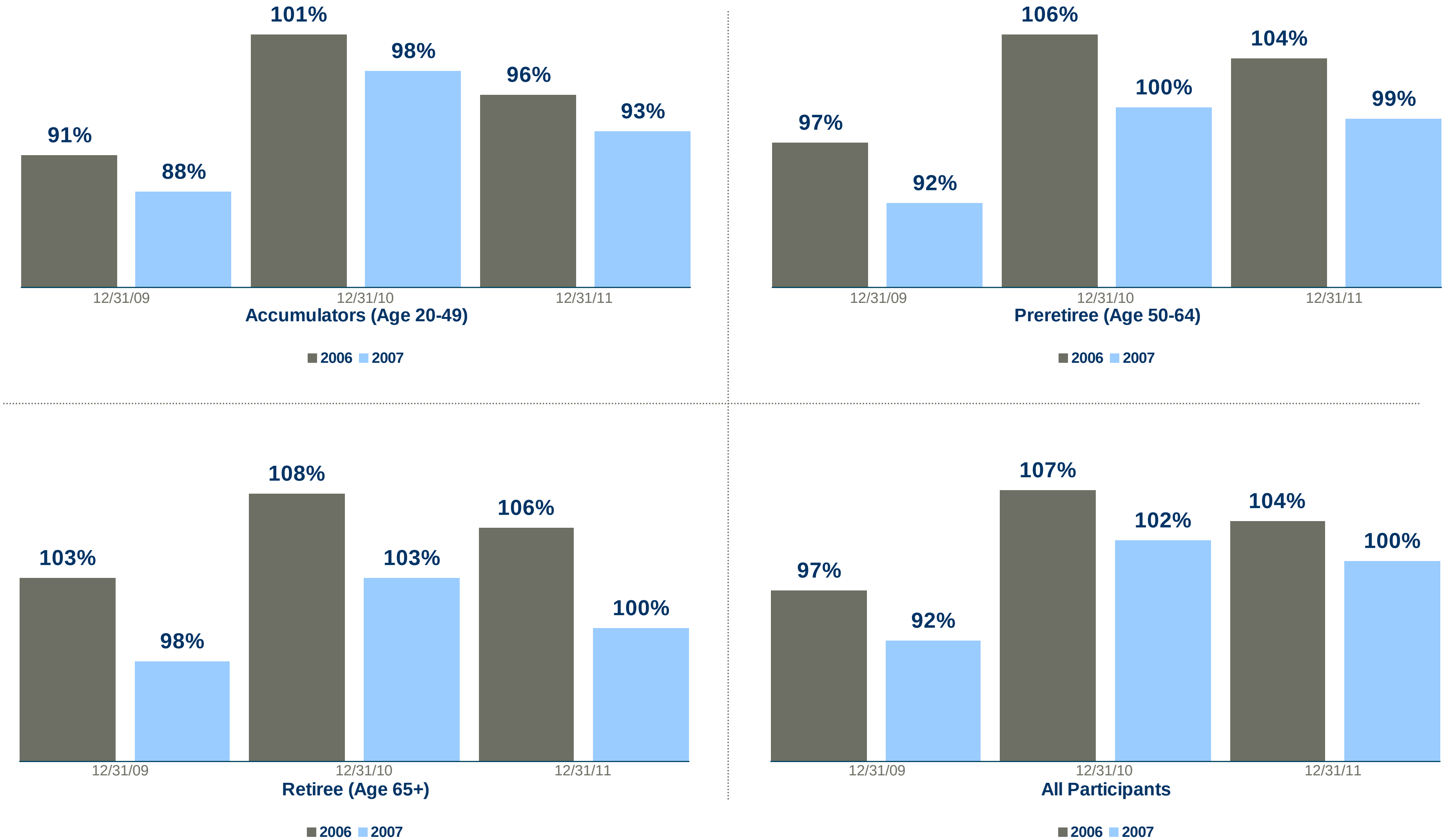
On Average, Participant Balances Exceed Pre-Recession Levels



Average Account Balances Compared to Prior Years

Our Research Reveals Genuine Insights

- Through extensive research and experience, we've **gained critical insights revealing concrete opportunities** to help your employees take steps towards achieving their goals.
  - ✓ Employee life events are stronger triggers to generate action than plan-level events
  - ✓ More than ever, employees of all ages need guidance to break through anxiety and inertia
  - ✓ Holistic financial guidance is vital to achieve retirement goals
  - ✓ Employees respond positively to messages that focus on what they can control today
  - ✓ Combining automated plan design and communications can create powerful, positive results

RECENT PROPRIETARY RESEARCH INITIATIVES

- Our **Milestone Study** of over 2,000 employees and 200 sponsors focused on **analyzing the events that trigger changes** in employee retirement saving and investing actions.
- Our **Participant Experience Positioning Research**, involving sponsors, intermediaries, and employees, **explored the messages that resonate** most with today's employees.

Three Key Criteria for Enhancing the Participant Experience

More
PERSONALIZED

Timing and content of messages based on the participant's life

More
HOLISTIC

Broader range of financial needs related to retirement

More
PRACTICAL

Focus participants on what they can control today to achieve long-term goals

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Why Don’t Your Employees Participate in Your 401(k) plan?

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Spectrum of Participant Behavior: Two Extremes

Financial experts understand that employees are not a homogeneous group. In fact, there is a spectrum of participant behavior.

At one end of the spectrum:

- Small but knowledgeable group we call <u>self-directed</u> investors.
- Motivated employees willing to take time and effort to plan for retirement.
- Employees responsive to educational materials and communications.
- Employees willing take advantage of tools and services.

At the other end of the spectrum are the <u>delegators</u>:

- Representing up to 80% of employees, delegators don't have the time, interest, or motivation to actively plan for retirement.
- In fact, 42% of workers have not tried to calculate how much they need to accumulate for retirement.
- Silent majority needs "do-it-for-me" solutions or "it" simply is not going to get done.

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Sage Participation Stats

- Sage stats prior to the implementation of passive enrollment
  - Participation Rate = 68%, Average Deferral Percentage = 8%
- Stats after implementation of passive enrollment
  - Participation Rate = 79%, Average Deferral Percentage = 7.8%
- Percent of employees that stay at 3% = 70%

Disclaimer

The principal value of the Retirement Funds is not guaranteed at any time, including at or after the target date, which is the approximate date when investors turn age 65. The funds invest in a broad range of underlying mutual funds that include stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. The funds emphasize potential capital appreciation during the early phases of retirement asset accumulation, balance the need for appreciation with the need for income as retirement approaches, and focus more on income and principal stability during retirement. The funds maintain a substantial allocation to equities both prior to and after the target date, which can result in greater volatility.

Call 1-800-922-9945 to request a prospectus, which includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

T. Rowe Price Investment Services, Inc., distributor, T. Rowe Price mutual funds.

Points on the importance of companies helping employees save for retirement

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Do What Is Best for Your Participants

- To truly move the needle for participant savings, defined contribution plans must be designed and implemented with one end goal in mind:

  1. To generate sufficient retirement income for employees.
     - Automated services are essential to achieving that goal.

How Does Education Play a Role?

Communications campaigns, advice services, and online tools are still essential and will continue to have their place.

- Insights from research and experience:
  - Employee life events are stronger triggers for generating action than plan-level events
  - More than ever, employees of all ages need guidance to break through anxiety and inertia
  - Holistic financial guidance is vital for achieving retirement goals
  - Employees want guidance that covers topics such as debt reduction and that is personalized, holistic, and practical
  - Combining automated plan design and communications can create powerful, positive results

Thank You

- Q&A