New AllianceBernstein research finds target-date fund (TDF) availability increases in DC plans, but majority of plan sponsors are not making it the default

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Plan sponsors fail to take advantage of fiduciary benefits and customization options of TDFs
Plan participant use of TDFs at an all-time high

NEW YORK, Oct. 16, 2012 /PRNewswire/ -- AllianceBernstein L.P.) today announced new research showing that although more than 50% of plan sponsors surveyed offer target-date funds (TDFs) in defined contribution (DC) plans, only half of them are using TDFs as their default and are therefore missing out on critical fiduciary safe harbor protection available under the Pension Protection Act of 2006 (PPA). The research also shows that plan participant use of and satisfaction with TDFs continues to grow, even in the face of several years of stock market underperformance.

AllianceBernstein recently conducted its eighth annual survey of plan participants and third biannual survey of plan sponsors. The findings offer a comprehensive look at the behaviors, concerns and trends related to DC plans. The full report on the findings of these surveys is available at www.abdc.com.

"Even in the wake of a continuing decline of Social Security and defined benefit plans as primary sources for retirement income, our recent research shows that many plan sponsors are still struggling to find the best way to structure their DC plans," says Joe Healy, Head of AllianceBernstein's Defined Contribution Client Experience. "While more and more sponsors recognize the benefits of offering an age-based, asset-allocation investment solution to their participants, they fail to realize valuable fiduciary protections by not designating these funds as their plan's default."

KEY PLAN SPONSOR FINDINGS

QDIAs: The Overlooked Advantage: Qualified default investment alternatives (QDIAs) provide safe harbor protection for plan sponsors and often offer better asset allocation for participants than they might have if they constructed their allocation on their own. However, this year's survey shows that many sponsors offering TDFs are underutilizing these default benefits.

- **Low TDF default:** Of the sponsors offering TDFs, only 50% use a TDF as the default.
- **Lacking safe harbor default:** Of the 50% of sponsors offering a TDF, but not using it as the default, an alarming 83% have no default at all or are still using a stable value fund, an equity fund or a bond fund - none of which are QDIAs - as the default.

Sponsors Unaware of Customization Benefits: The majority of midsize and large plan sponsors are failing to leverage their assets to provide more specialized or customized TDFs.

- **Low adoption:** Only 22% of large plan (those with $250 million or more in assets) sponsors and 21% of midsize plan (those with $1 million to $249 million in assets) sponsors reported that they have adopted customized TDFs.
- **Getting it on the radar:** 36% of large plan sponsors said they have not adopted customized TDFs because they weren't aware of the benefits of the improved structure.

Healy comments, "We were very surprised to hear plan sponsors say they simply were unaware that changing from an off-the-shelf to a customized structure provides advantages such as better diversification and long-term asset allocation based on participant demographics, as well as long-term cost savings and fiduciary protections for their plan."

Size Matters: The research found that the size of a plan's assets directly impacts sponsors' goals for TDFs.

- **Lasting savings:** 54% of sponsors of large plans and 43% of sponsors of midsize plans said the goal of their TDF is to ensure that savings last through participants' retirement years - versus only 32% of sponsors of small plans (those with less than $1 million in assets).
- **Minimum level of savings:** 41% of small plan sponsors said the goal of their TDF is to ensure a minimum acceptable level of savings at retirement.
- **Increased participation:** 37% of midsize plan sponsors were concerned with improving participation, while only 28% of sponsors of small- or $500 million+ large-size plans were concerned. Small plans have the lowest participation rates (30% or less), while large plans have the highest participation rates (86% or higher).

KEY PLAN PARTICIPANT FINDINGS

TDFs Win High Praise from Sophisticated and Unsophisticated Investors: In the eight years AllianceBernstein has surveyed plan participants, they have consistently fallen into one of two main categories as investors: Active or Accidental.

- 38% of participants surveyed called themselves Active investors - noting that they started saving early, have confidence about their current financial situation and actively manage their investments or the managers that invest for them.
- 62% of participants consider themselves Accidental investors, unenthusiastic about saving and investing, insecure about their current financial situation and lacking confidence in any investment ability.
- **TDF usage is at an all-time high**: 39% of Actives said they use TDFs (up from 29% in 2009) and 27% of Accidentals said they use them (up from 21% in 2009).
- **TDF satisfaction for different reasons**: 87% of Actives and 72% of Accidentals said they are equally or more satisfied with their TDFs than with other investments in their plans.
  - Active investors feel comfortable with their investment choices and their retirement in general with TDFs' asset-allocation options.
  - Accidental investors like the simplicity and ease of TDFs.

Healy adds, "It's striking that despite the almost polar opposite behavioral differences between Active and Accidental investors, both groups give TDFs high marks. It certainly suggests that sponsors can stave off behavioral biases and encourage savings by defaulting people into easy-to-understand investment solutions like TDFs that also provide sophisticated asset-allocation features to satisfy savvy investors."

Education Is Not Always the Answer: The research also shows that despite increases in the utilization and appeal of TDFs, participants continue to have striking misconceptions about them.

- **Myth 1 - Account balance is guaranteed:** While 67% of TDF users understand the asset-allocation strategy (or glide path) associated with this type of investment, 34% said they believe their TDF account balance is guaranteed never to go down.
- **Myth 2 - Sufficient income is guaranteed:** 37% of participants surveyed said they believe a TDF guarantees that their income needs will be met in retirement.

Healy explains, "While participants continue to have misconceptions about certain TDF features, our research suggests that it's unclear whether more education is the solution. The reality is that Accidental investors often don't want to understand how investments work - they just want to know they do work."

Income Is the New Outcome: Many participants also show a strong desire for lifetime income solutions in their TDFs.

- **What employees want most:** 67% of participants said the single most important feature they want from their DC plan is a steady income stream in retirement.
- **Strong appeal for secure income TDFs:** Nearly 80% of current TDF users found a TDF with secure income stream features appealing - as did 53% of non-TDF users and 47% of

non-plan participants.

Healy concludes, "It's clear from our research that making their savings last a lifetime is top of mind for many employees. The focus is evolving from just wealth accumulation to wealth accumulation *and* retirement income."

About the Survey

AllianceBernstein's DC team has conducted annual surveys of employees since 2005 and biannual surveys of plan sponsors since 2006. These surveys help us enhance our DC plan solutions, ultimately helping plan sponsors understand how to lead participants to better savings outcomes and more comfortable retirements. This year's plan participant survey was conducted online in February 2012 with 1,002 respondents who were full-time employees at least 18 years of age and working for companies that offered DC plans. Our latest plan sponsor survey was conducted online in November 2011, and included 1,018 respondents nationwide, representing small plans (with assets of less than $1 million), midsize plans (with assets between $1 million and $249 million) and large plans (with assets of $250 million or more).

About AllianceBernstein

AllianceBernstein is a leading global investment management firm that offers high-quality research and diversified investment services to institutional investors, individuals and private clients in major world markets. As of September 30, 2012, AllianceBernstein Holding L.P. (NYSE: AB) owned approximately 37.9% of the issued and outstanding AllianceBernstein Units and AXA, one of the largest global financial-services organizations, owned an approximate 64.2% economic interest in AllianceBernstein. Additional information about AllianceBernstein may be found on our website, www.alliancebernstein.com.

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