Aon Hewitt
Retirement & Investment

2016 Universe Benchmarks

Research Highlights

Employee Savings and Investing Behavior in Defined Contribution Plans

Throughout this report you will find defined contribution plan data from more than 125 plans covering roughly 3.5 million eligible participants. Included are average participation rates, saving rates, plan balances, investment and trading activity, and account actions (e.g., loans, withdrawals, cash outs, and rollovers). We hope you find this information valuable for benchmarking your plan's data, redesigning your plan, and communicating with participants.

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Defined contribution data

for more than **125 plans**

covering **3.5 million** eligible participants

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Executive Summary

It has been said that the path to success is never a straight line. In many ways, it would be easy to look at data points from defined contribution plans as of January 1, 2016 and say that there had been regression from the year before. After all, investment returns were negative for a large swath of the population and the average plan balance was down.

However, when we take a deeper dive and look beyond the averages, a different picture emerges. The average plan balances of individuals who were in their plans for at least one year actually grew, mostly due to new contributions flowing into the account.

The headlines may say that average contributions increased very modestly—from 7.6% to 7.7%—but upon closer examination, we find that much of the growth came in the form of Roth contributions. Because withdrawals from Roth accounts are generally not taxed, every dollar contributed to them is worth more than a dollar contributed to a pre-tax account. So, a seemingly miniscule 0.1% increase in the average contribution rate can translate into thousands of dollars of retirement income.

Despite the increased contributions, few participants are rebalancing the money already in their accounts. Against a backdrop of volatility on Wall Street, only 14% of participants made a trade, making 2015 one of the lightest trading years on record. However, after removing the population who are fully invested in target-date funds (because rebalancing is not necessary for them), the percentage grows to 20%—much more in line with the historical average.

Loans are a cause for concern because they can erode retirement income. In 2015, 25% of participants had a loan outstanding, with the loan principal averaging about 20% of the account. These amounts have been relatively constant for the last several years, but are much higher than they were a decade ago (before the Great Recession). Focusing more in depth, however, shows that the percentage of participants initiating a new loan has slowly declined. In 2015, 11% of participants initiated a new loan, compared to 12% in 2014 and 14% in 2010.

Plan Balances

The average plan balance as of December 31, 2015 was $94,090—a drop of more than $6,000 from the year-end 2014 value. Median balances also slipped from $27,819 on December 31, 2014 to $25,602 on December 31, 2015.

The average plan balance, however, was skewed by a large number of new entrants to the plan. For participants who had been in the plan for at least a year, the average plan balance increased from $103,873 at year-end 2014 to $108,383 as of the end of 2015.

Viewing a longer time horizon further amplifies the point. Among participants who had at least two years of participation, the average plan balance grew on average by more than 10% each year—from $113,732 on December 31, 2013 to $139,819 on December 31, 2015. Median balances grew by approximately 20% per year, from $41,082 on December 31, 2013 to $59,511 on December 31, 2015.

Average Plan Balance

76% have a balance of at least **$5,000**.

25% have a balance of at least **$100,000**.

37% have a balance of at least **$50,000**.

11% have a balance of at least **$250,000**.

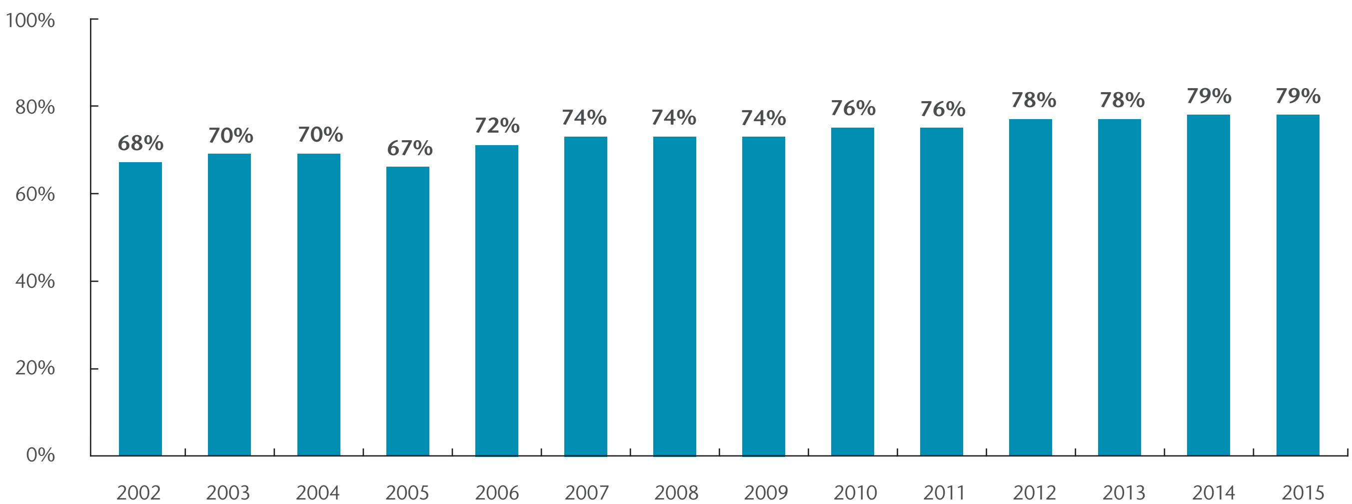
Participation Rates

The average participation rate among plans in 2015 was 79%—a level identical to the average rate we saw in 2014.

Automatic enrollment continues to drive more participants into plans. In 2015, the average participation rate among plans with automatic enrollment was 86%, while the average participation rate among plans without automatic enrollment was almost 25 percentage points lower at 63%.

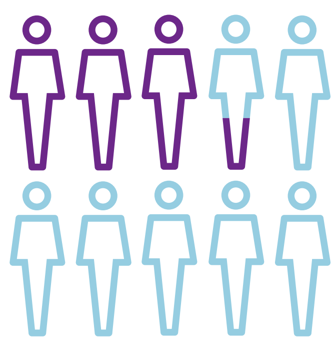
According to Aon Hewitt's *2015 Trends & Experience in Defined Contribution Plans* report, the percentage of companies with automatic enrollment has remained fairly steady at about 60% for the past several years. But because most of these companies automatically enroll new hires, the average participation rate should continue to climb slowly over the next several years.

Average Participation Rate



83%

of workers in their 20s participate in the plan when they are automatically enrolled.



33%

of workers in their 20s participate in the plan when active enrollment is required.

Savings Rates

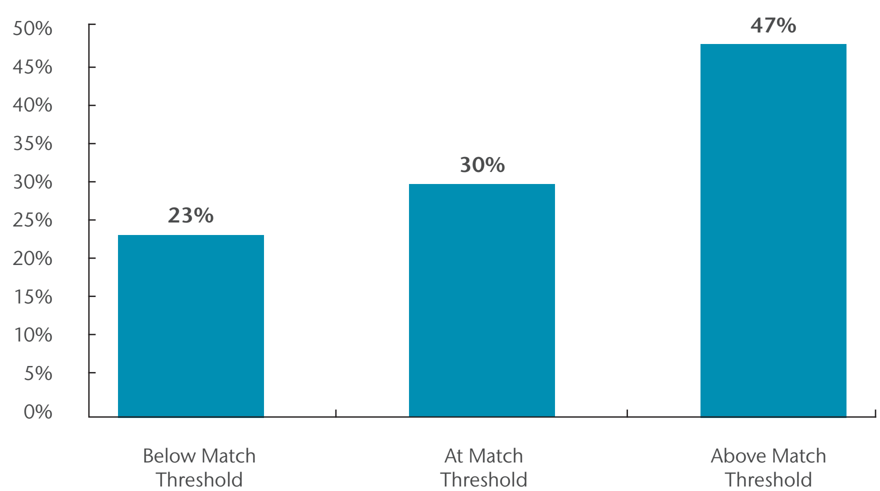
26%
of participants who were in the plan for at least one year, increased their contribution rates—**on average, by 2.7 percentage points.**

The average savings rate among plans now stands at 7.7%, an increase from 7.6% a year ago. In 2016, we find that more workers are diversifying their investments between pre-tax, after-tax, and Roth contributions.

On average, 12% save on a Roth basis when it is available. Among this group, the average savings rate (when combining before-tax, after-tax, and Roth contributions) is 10.5%, nearly 3 percentage points higher than the overall average contribution rate.

More participants than ever are contributing enough to receive the full matching employer contribution. In 2015, 77% of participants contributed at or above the plan match level—an increase from 74% in 2014. Among the group of participants who are currently saving below the match threshold, about three out of every 10 participants (29%) are enrolled in an automatic contribution feature that will increase contributions over time.

Employee Contributions in Relation to Employer Match Level



Investments

Across all income levels, females are more likely to use target-date funds than males Additionally, they are also more likely to have their entire balance allocated to a single target-date fund.

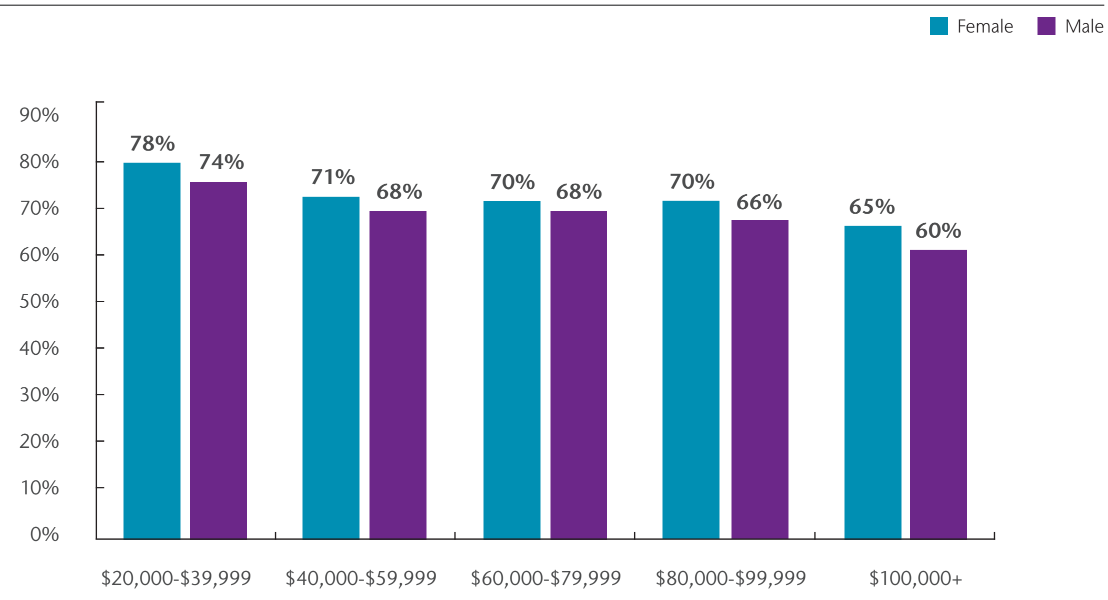
Target-date funds[1] remain a favored asset class for defined contribution plan investors. Seventy percent of active participants have some money invested in a target-date fund. However, target-date funds account for less than one-quarter (23%) of the money in defined contribution plans. There are two primary reasons for this discrepancy.

First, target-date fund users tend to have smaller balances than those who do not use target-date funds. If viewed on a participant-weighted basis[2] to neutralize the impact of balance size, target-date funds represent 47% of the balance—easily the largest asset class.

Second, many participants invest in target-date funds along with other funds. Among all the participants with money in target-date funds, only 55% have their entire balance dedicated to a single target-date fund. This partial allocation dilutes the total money allocated to target-date funds.

After reflecting market returns and new contributions, nearly three-quarters of participant balances (72%) were in equity instruments at year-end 2015. This marks the fifth consecutive year we have seen this percentage increase.

Percentage Using Target-Date Funds by Pay and Gender



1 Throughout this report we use the term "target-date fund" to represent all premixed funds, including those that are target-risk. According to Aon Hewitt's *2015 Trends & Experience in Defined Contribution Plans* report, 96% of plans have a premixed fund and 90% have target-date funds.

2 We present two ways to view participant investments in defined contribution plans: on an asset-weighted basis and on a participant-weighted basis. The former gives more weight to individuals who have large balances, while the latter captures more of the participant sentiment irrespective of balance size. On an asset-weighted basis, the investing behavior of a person with a $100,000 balance counts 100 times more than a person with a balance of $1,000. On a participant-weighted basis, the two individuals have the same weighting.

Investments (Continued)

Asset Allocation of Actively Employed Participants

Participant-Weighted	2015	2014	2013
Balanced	3.1%	3.3%	3.4%
Bond	6.4%	6.8%	5.5%
Company Stock	5.9%	7.1%	8.1%
Emerging Markets	0.6%	0.7%	0.7%
GIC/Stable Value	6.6%	7.6%	7.8%
International	5.6%	5.3%	5.4%
Large U.S. Equity	15.6%	15.7%	15.1%
Mid U.S. Equity	3.6%	3.3%	3.7%
Money Market	1.5%	1.6%	3.4%
Target-Date Funds	47.0%	43.9%	42.2%
Self-Directed Brokerage Window	0.8%	0.9%	0.9%
Small U.S. Equity	2.7%	3.3%	3.5%
Specialty Sector	0.5%	0.6%	0.5%
Asset-Weighted	**2015**	**2014**	**2013**
Balanced	3.9%	3.9%	4.2%
Bond	7.7%	7.8%	7.1%
Company Stock	8.3%	9.3%	9.4%
Emerging Markets	0.9%	1.2%	1.2%
GIC/Stable Value	9.7%	10.8%	10.9%
International	7.9%	7.3%	7.6%
Large U.S. Equity	24.5%	24.7%	24.1%
Mid U.S. Equity	4.5%	4.4%	5.0%
Money Market	1.7%	1.9%	2.4%
Target-Date Funds	23.1%	20.5%	19.5%
Self-Directed Brokerage Window	2.6%	2.5%	2.4%
Small U.S. Equity	4.3%	5.0%	5.4%
Specialty Sector	0.8%	0.8%	0.7%

Rate of Return

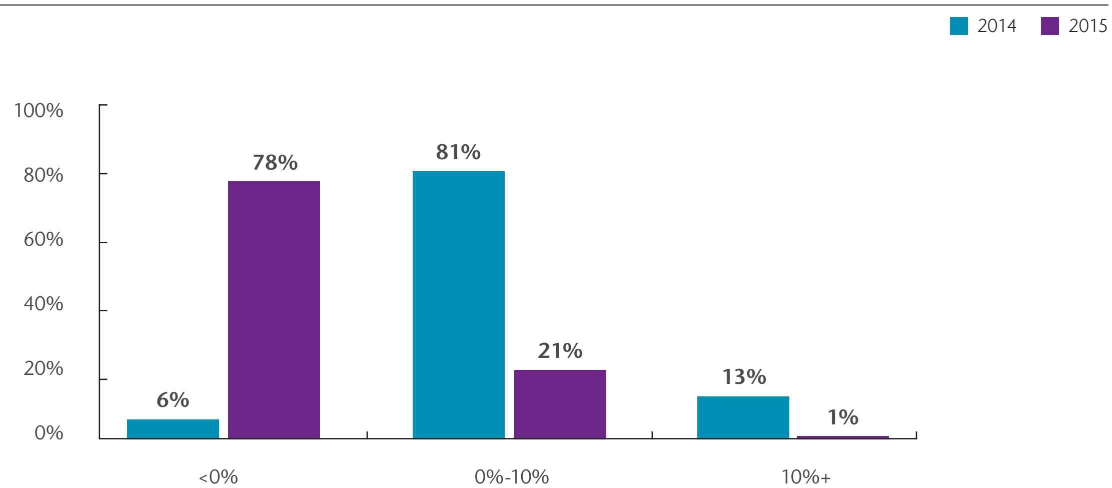
Younger participants—who tend to have more of their balance in return-seeking funds—had lower rates of return than participants who are closer to retirement.

Wall Street was weak in 2015, with only a few indices providing bright spots. The Barclays Aggregate Index gained 0.6% and the S&P 500 Index gained 1.4%, but the Russell 2000 Index returned -4.4% for the year and the MSCI All Country World ex-U.S. Index posted a -5.7% return.

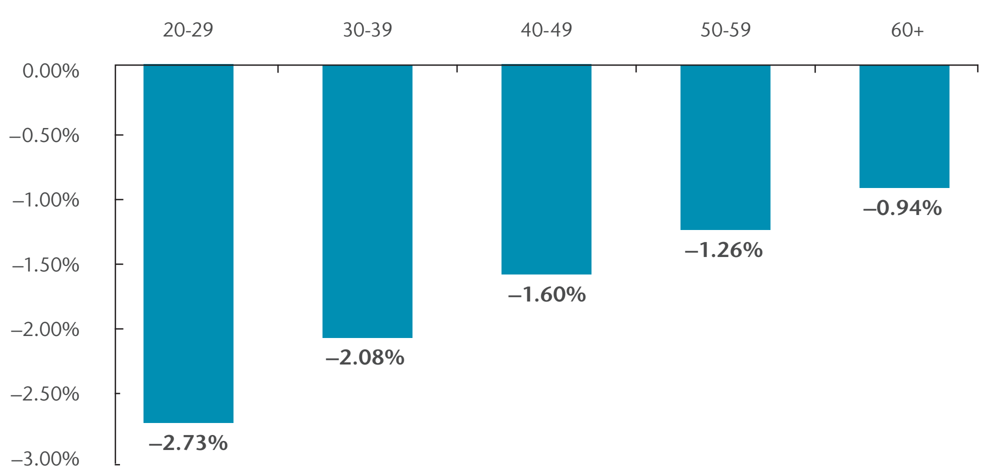
With that kind of performance, it comes as no surprise that most defined contribution plan participants had poor investment returns in 2015. The median rate of return for active participants was -1.7%. More than three-quarters of all participants (78%) had negative returns for the year.

Despite having an off year in 2015, rates of return were still positive when examined over longer time horizons. The median three-year return for active participants was 8.8% and the median five-year return was 7.1%.

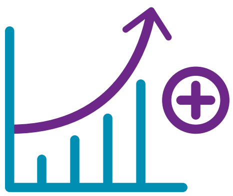
Rate of Return Distribution—2014 vs. 2015



Median 2015 Rate of Return by Age



Participant Transfer Activity

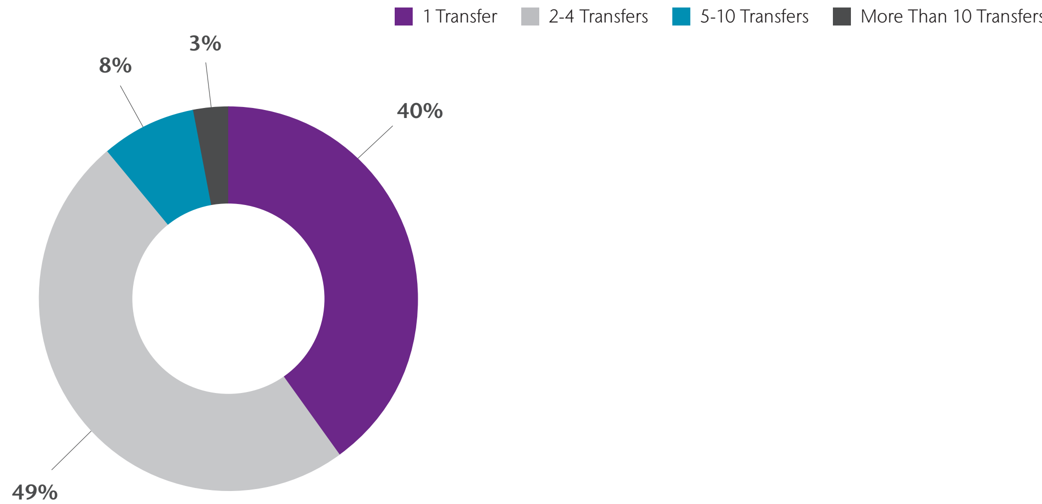


Trading activity increases slightly as balance size increases.

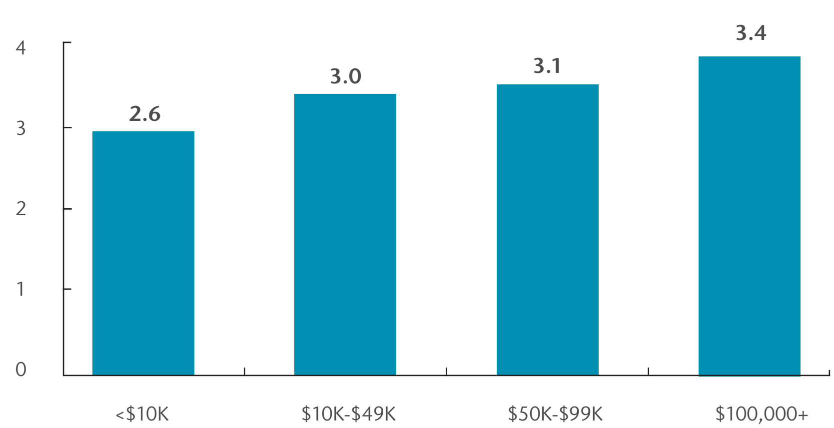
Overall, 2015 was a light trading year for participants in defined contribution plans, with only 14% of participants making a trade. Part of the reason for the low trading level can be chalked up to a large cohort of participants who were fully invested in target-date funds and therefore did not need to rebalance their accounts. After removing these individuals from the calculation, we find that 20% of participants made a trade. As a percentage of assets, 1.4% of funds were traded in 2015 —above 2014’s value of 0.9%, but below 2013’s figure of 2.5%.

When participants made trades, they generally moved money from equity funds to fixed income instruments. The asset classes with the largest outflows were target-date funds (with 40% of all outflows), large cap U.S. equity (27%), and employer stock (19%). The asset classes receiving the most money were international equity (33% of all inflows), GIC/stable value (32%), and bond funds (12%).

Number of Transfers Among Those Who Traded in 2015



Average Number of Trades in 2015 by Balance Size



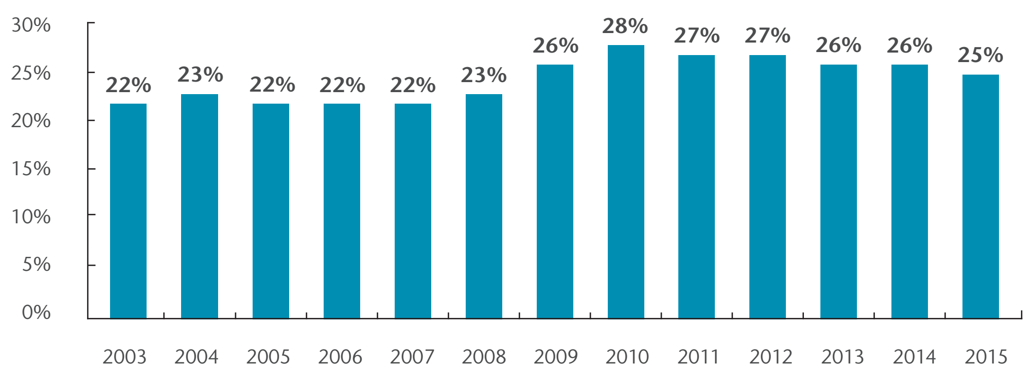
Loans, Withdrawals, and Post-Termination Behavior

Eleven percent of participants initiated a new loan in 2015, down from 12% in 2014 and 14% in 2010. As a result, the percentage of participants with a loan outstanding against their account decreased to 25%, the lowest percentage since 2008. Among individuals who have a loan outstanding, the average outstanding loan principal as a percentage of the balance is 20%.

Generally, very few active participants default on their loans—fewer than 4% in 2015. But this number balloons to 62% when participants terminate employment, primarily because most participants receive their balances as a cash distribution upon termination.

Among participants who terminated employment in 2015, 43% took a cash distribution. However, since most of these amounts were small, cash-outs represent only 6% of the terminated employees' total balances. On an asset-weighted basis, most money remains in the plan.

Percentage With Loan Outstanding



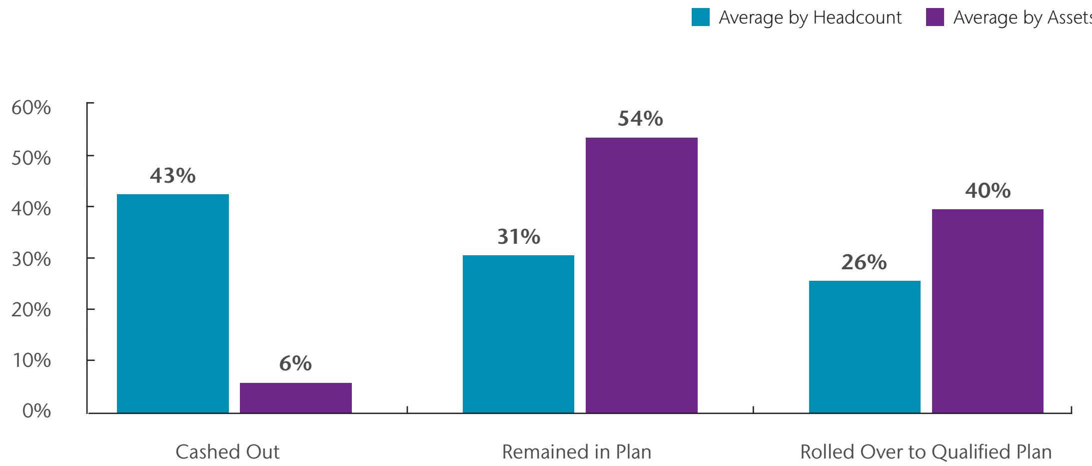
44% of participants have multiple loans outstanding when more than one loan is allowed.

14% of participants in multiple-loan plans initiated a new loan in 2015.

8% of participants initiated a new loan in 2015 when only one loan was available.

Loans, Withdrawals, and Post Termination Behavior (Continued)

Termination Behavior by Headcount and Asset Size



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