Cerulli Thematic Report

State of Large and Mega Defined Contribution Plans: Investment Innovation and the Plan Sponsor Perspective

CERULLI ASSOCIATES
Global Analytics

Overview

This report examines the new ideas and products that have been developed for defined contribution (DC) plans in the large and mega segments (Large = $250 million to $1 billion, Mega = $1 billion +). It includes analysis of plan sponsors' perspective of their DC plans and the likelihood of implementing new plan designs.

The report provides asset managers, recordkeepers, and consultants with a window into plan sponsor thinking via a proprietary survey administered to more than 250 plan sponsors that fall in the large and mega segment. Other data contained in this report comes from surveys of DCIO asset managers. More than 30 conversations with executives at recordkeepers, investment consultants, and asset managers support the data and findings.

Key Reasons to Buy This Report:

- Robust DC plan sponsor survey data that identifies key elements in their decision-making processes, including expectations for plan design and investment changes.
- Analysis of new product ideas that asset managers are developing specifically for the DC marketplace, including an examination of retail versus institutional products (collective trust funds), stable value funds, and custom target-date funds.
- Unique market sizing of the custom target-date marketplace, including projections.
- Prospects for alternative investments in the large and mega DC space.
- Comprehensive market sizing, including data validating growth opportunities for asset managers in the 403(b) and public segments.
- Asset manager organizational analysis which allows firms to benchmark their own structures relative to industry best practices.
- The potential for CIO outsourcing in the defined contribution market and implications for asset managers and consultants.

Answer These and Other Critical Questions:

1. How large is the custom target-date fund market and what is the forecasted growth?
2. What is the state of stable value funds?
3. To what extent are collective trust funds being used?
4. Do plan sponsors in the large and mega segments anticipate making changes to their plan design or investment lineup?
5. What do plan sponsors value most regarding their DC plans and how can asset managers benefit?

119 pages and 85 exhibits

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Report Scope

State of Large and Mega Defined Contribution Plans: Investment Innovation & the Plan Sponsor Perspective, the most recent study in **The Cerulli Report™** series, examines the new ideas and products that have been developed for defined contribution plans, compares them to existing investment menus, and provides analysis of the plan sponsor's perspective of the defined contribution plan and the likelihood of implementing new plan designs. The report provides asset managers, recordkeepers, and consultants with a window into plan sponsor thinking and short- and long-term prospects for defined contribution investment ideas.

Beneficiaries of this Report

Strategies outlined in this report should help various types of firms operating within the financial services industry.

- Asset managers: Institutional managers seeking to win defined contribution mandates from the largest plans.
- Consultants: Consulting firms that want to understand the perspective of plan sponsors and the differences among plan sponsors at various plan asset levels in the large and mega market segments.
- Recordkeepers: Providers that want to understand what plan sponsors seek beyond cost when selecting a recordkeeper.

Report Roadmap

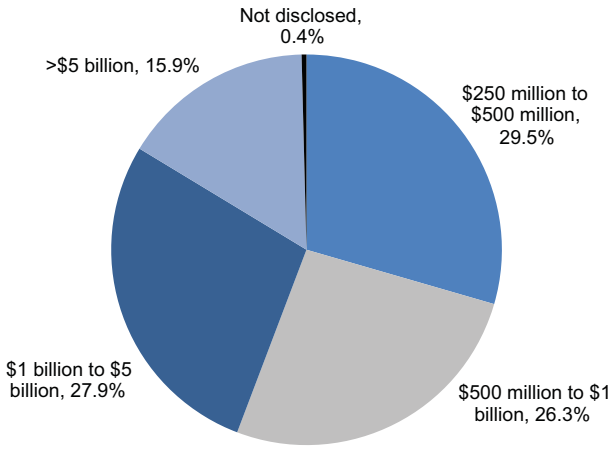
- The report begins with examination of the defined contribution investment menu and prospects for changes to that menu with specific attention to target-date funds, stable value, and core lineup of standalone funds. This section also includes a market sizing and explores opportunities in the 403(b) and public defined contribution markets.

- The second section analyzes data from a proprietary Cerulli plan sponsor survey specifically regarding defined contribution plans. The survey received 251 responses from individuals with responsibility for the defined contribution plan with at least $250 million in assets.

- The final section provides insight into the environment for recordkeepers and Cerulli's expectations for search activity. It also covers asset manager organizations and profitability in the defined contribution market.

Sample Section From:
State of Large and Mega Defined Contribution Plans: Investment Innovation and the Plan Sponsor Perspective

EXHIBIT 47: Plan Sponsor Survey Respondents' Plan Asset Demographics, 2012
The Cerulli survey included only plans greater than $250 million and we attempted to have an even distribution across subsegments.
Source: Cerulli Associates
Analyst Note: If plan sponsor offers multiple plans, the largest plan size was used or if plans are managed together then the total combined assets was used. Plan sponsors with assets over $250 million were surveyed.



Cerulli defines the large market as including plans with at least $250 million in assets up to $1 billion in assets and the mega market as including all plans with more than $1 billion in assets. But, we asked plan sponsors to identify plan assets on a more granular basis in order to make inferences about potential differences within each of these segments. There was a good amount of dispersion among respondents, as shown above, which allows us to do this.

This showed that the significant difference is more likely to be between plans with more than $5 billion and those with less than $5 billion. Interviews that Cerulli conducted with industry executives alluded to this potential result. While the common response was often $1 billion from many in the industry when we asked where the mega market started, there were some that suggested it was even greater than that. One firm said that "for us, we think there is a difference at $3 billion."

Overall, there does seem to be a lack of understanding in regard to plan costs and an associated defined benefit plan. In survey questions related to these topics, plan sponsor responses were inconsistent with industry data. This suggests that plan sponsors have a long process ahead of them before being able to act to reduce costs, which most survey respondents identified as their main concern. It also suggests that the interaction between those responsible for the defined benefit plan and those responsible for the defined contribution plan has yet to materialize. However, there does seem to be a receptive audience to new defined contribution plan innovations. The ability of plan sponsors to devote time and resources to their defined contribution will dictate whether these are implemented and the timeframe for implementation.

The buzz in the defined contribution industry for at least five years has been the "DB-ization" of defined contribution plans. But, progress toward achieving this has been slow despite the innovations mentioned in the first section, which add defined benefit elements to defined contribution plans.

Earlier evidence pointed to the unlikelihood of simplified menus in the short-term, but longer term this may occur. A full 36% of plan sponsors indicated that they are considering multimanager strategies. This seems to conflict with the earlier data showing that most plan sponsors do not plan to make changes to their core investment menu in the next two years. Clearly, plan sponsors do not want to indicate that they are making a change when one is only under consideration. But, it also provides a glimpse into the timeframe for decision-making. It suggests that any significant change to the investment menu is at least a two-year process.

Again, a difference between the greater than $5 billion segment and the rest of the defined contribution market is clear. One-quarter of plans with more than $5 billion in assets already offer multimanager strategies. Large market plans, especially at the low end, are still unaware of the ability to offer multimanager strategies. It also is likely to be a challenge for these plans to offer plan-created multimanager strategies since it will require unitizing the strategy and striking a NAV. Again, resources and knowledge present an obstacle to defined contribution plan innovation for plans with less than $1 billion, and according to data, it may even be an issue for plans with between $1 billion and $5 billion in assets.

EXHIBIT 66: Plan Sponsor Consideration of Multimanager Strategies, 2012

Plan sponsors seem to be considering a change to a multimanager strategy, but many plan sponsors are still unaware of this investment solution.

Source: Cerulli Associates

Analyst Note: Plan sponsors with greater than $250 million in their DC plan were surveyed.

Consideration	$250 million to $500 million	$500 million to $1 billion	$1 billion to $5 billion	>$5 billion	All Plan Sponsors
Yes, currently considering	31.5%	33.8%	40.6%	40.0%	36.0%
No, have not heard about this	43.8%	32.3%	27.5%	20.0%	32.4%
Yes, currently offer these	12.3%	10.8%	13.0%	25.0%	14.2%
Have considered, but decided against it	11.0%	15.4%	15.9%	10.0%	13.4%
Have not heard about this, but interested in learning more	1.4%	7.7%	2.9%	5.0%	4.0%

Target-Date Funds

The target-date market is still dominated by asset managers with recordkeeping units, as shown in chapter 1 (see Exhibit 14). Fidelity, Vanguard, and T. Rowe Price are still reaping the benefits of the recordkeeping relationship and platform control advantages that has allowed these firms to become some of the largest defined contribution investment managers. Some investment-only managers such as BlackRock, which acquired the pioneering Barclays' target-date series, and AllianceBernstein have managed to garner some of this growing pool of assets as well. But, others have not been able to penetrate this market and, recently, some of these asset managers, such as Columbia and Goldman Sachs, have announced plans to abandon their target-date offering. These firms and other investment-only managers are dependent on target-date funds opening the underlying fund lineup through customization.

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