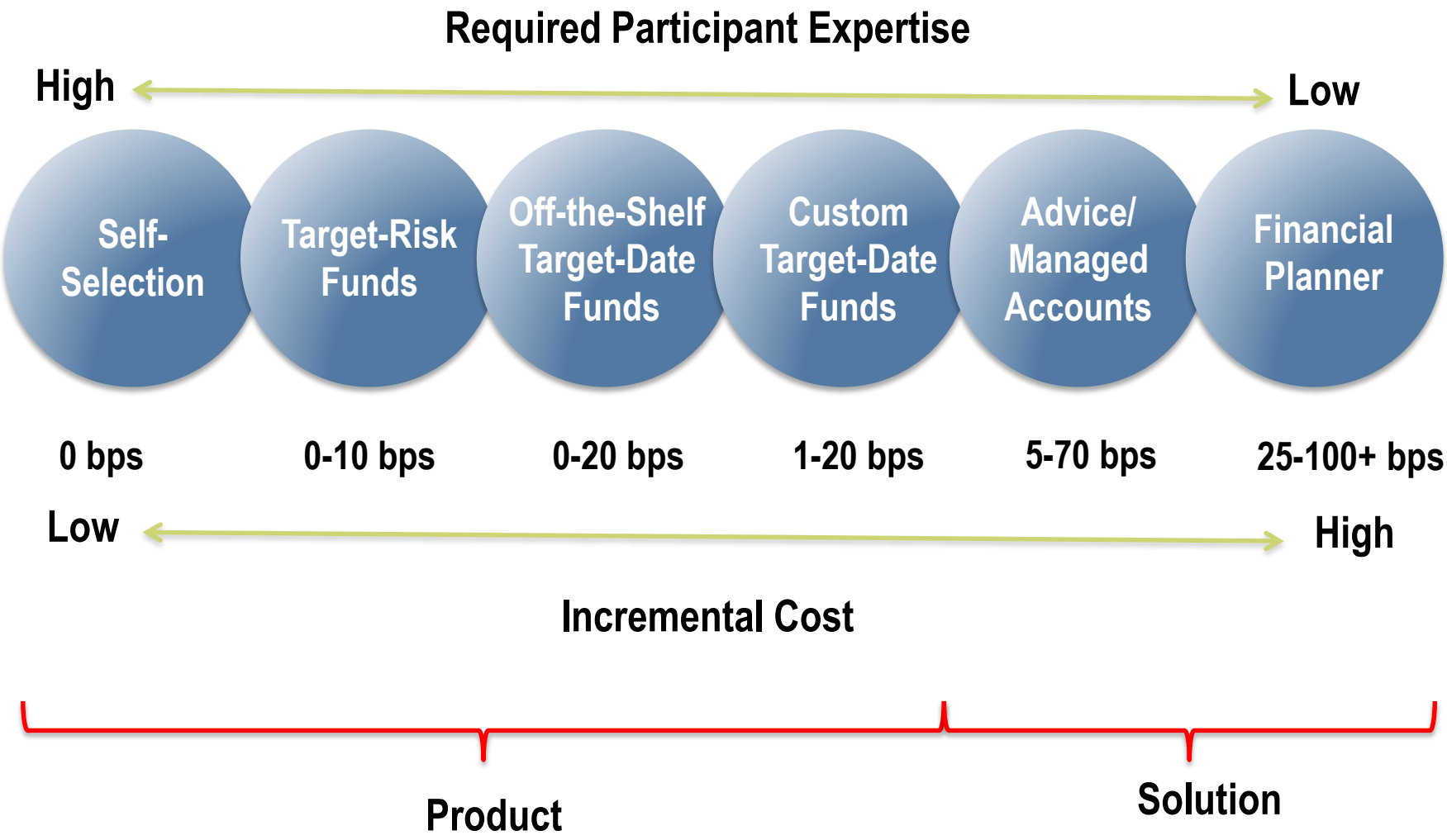
# The Advice Continuum




Source: Morningstar



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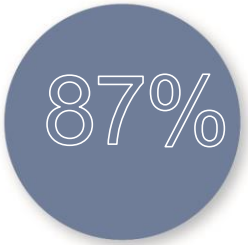
# The (Potential) Benefits of Advice and Managed Accounts ("Expert Guidance" or "Help")

## Higher Savings Rates


Deferrals increased by 2.1% (from 8% to 10.1%) and employer contributions increased by .3% (from 2.7% to 3.0%), on average

## More People Saving

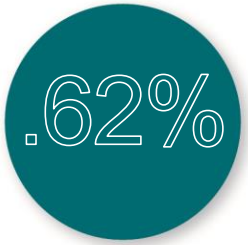



87% of participants increased their savings rates after receiving Expert Guidance

## More Retirement Income


The potential benefit of guidance varied by the assumed fee level and age; however, the average 40-year-old participant paying a .4% fee would have a 23% higher balance at retirement

## Higher Risk-Adjusted Performance




The implemented portfolios had future annual performance that was 2.22% higher than the pre-guidance portfolios ignoring risk and .62% higher on a risk-adjusted basis

Source: "The Impact of Expert Guidance on Participant Savings and Investment Behaviors." Morningstar White Paper by David Blanchett



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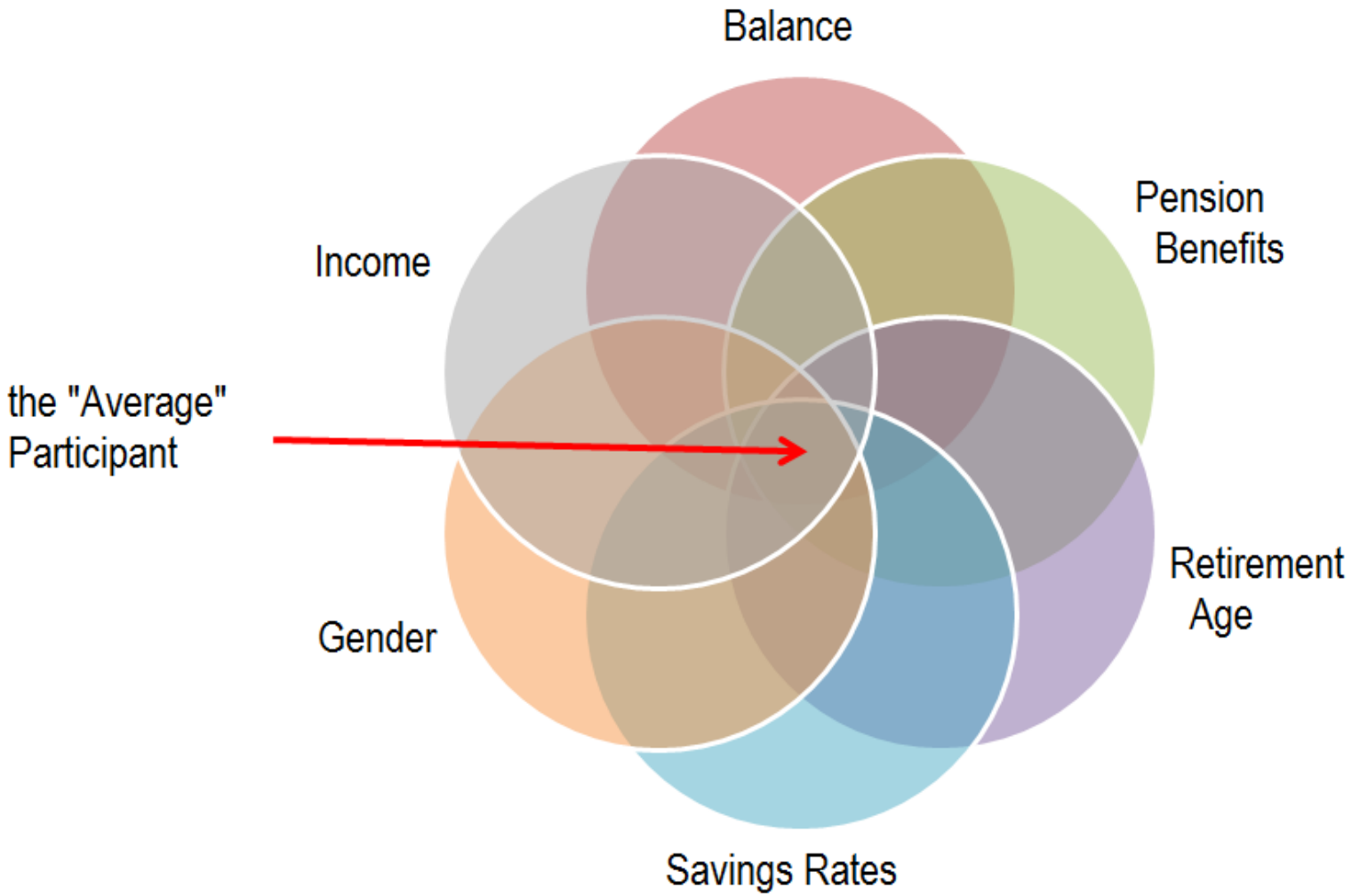
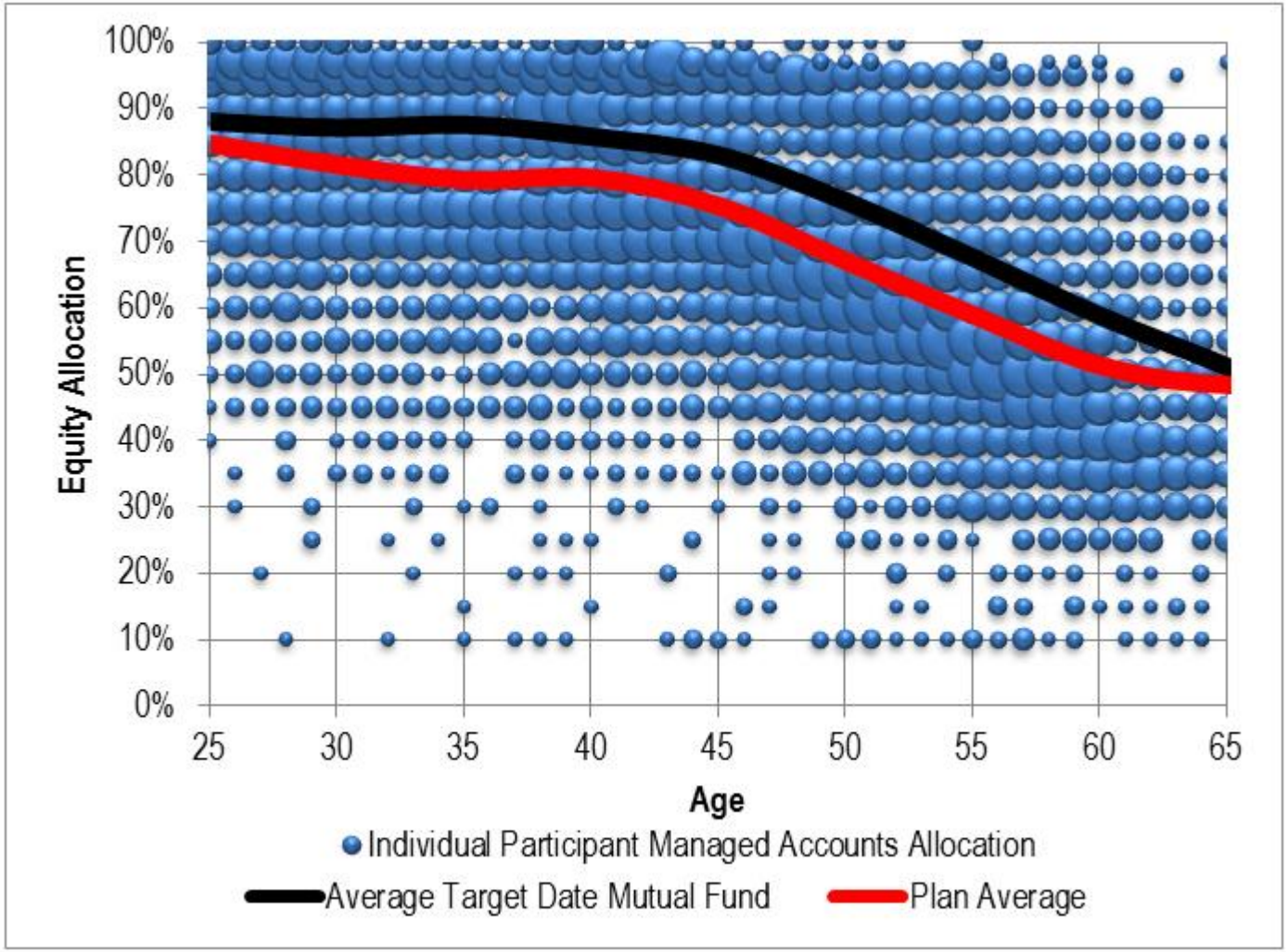
# Who is the Average Participant?




Source: “The Optimal Default for Defined Contribution Plans.” Morningstar White Paper by David Blanchett, Jeremy Stempien, and Nathan Voris

# Distribution of Allocations: 20,000 Morningstar Managed Accounts Participants




Source: Morningstar



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# How Should DC Plan Sponsors Spend Their "Alpha Budget"?


Source: Morningstar

# Deferral Rates and Participation Rates by Default and Managed Account (MA) Availability

| Average Deferral Rate | | | | |
|---|---|---|---|---|
| **Plan Size** | **MA Default** | **TDF Default** | **Offers MA** | **No MA** |
| <$5mm | 7.8% | 5.9% | 6.5% | 6.0% |
| $5mm – $50mm | 6.6% | 6.1% | 6.0% | 6.3% |
| >$50mm – $200mm | 6.8% | 6.3% | 6.7% | 6.5% |
| >$200mm – $1b | 8.6% | 7.1% | 7.4% | 7.0% |
| >$1b | 9.2% | 7.7% | 8.1% | 7.5% |
| **Overall** | **7.5%** | **6.5%** | **6.6%** | **6.3%** |

| Average Participation Rate | | | | |
|---|---|---|---|---|
| **Plan Size** | **MA Default** | **TDF Default** | **Offers MA** | **No MA** |
| <$5mm | 78.5% | 75.9% | 73.8% | 74.4% |
| $5mm – $50mm | 82.3% | 84.5% | 79.0% | 77.7% |
| >$50mm – $200mm | 82.5% | 85.3% | 79.3% | 76.9% |
| >$200mm – $1b | 87.0% | 87.4% | 82.0% | 79.0% |
| >$1b | 87.6% | 87.0% | 82.3% | 79.7% |
| **Overall** | **83.4%** | **84.0%** | **78.0%** | **76.9%** |

Source: PLANSPONSOR 2104 Defined Contribution (DC) Survey

The following pertains to the results shown on slide 12: Data as of March 31, 2012, was examined for 20,758 participants across eight plans for one provider. The plans were selected to provide the largest possible number of enrollees and thus the most data. Participants were categorized by age and income, excluding those in the top and bottom 2.5% of income for each age. For the savings rate analysis, all participants were included; for all other analyses, participants with 20% or more allocated to a target-date fund or similar balanced options were excluded from the study and not represented in these figures. The 20,758 participants reviewed represent 2,635 participants enrolled in a managed accounts platform powered by Morningstar Associates/Ibbotson Associates and 18,123 do-it-yourself participants (a 12.7% usage rate). This specific service provider does not impose any investment advisory fees on participant managed accounts; therefore, such fees were not considered in this analysis. Other service providers may impose investment advisory fees on participant managed accounts, and as a result, participant returns would be reduced accordingly. Administrative and recordkeeping fees were not considered in projections for either set of participants; had such fees been considered participant returns would be reduced accordingly. All previously described fees are over and above the fees and expenses imposed by the investment options. Investors should consider their own facts and circumstances before investing. Individual experiences may be substantially different from these results. The investment options available under this provider may not be available to all investors.

Expected retirement income balances were compared at retirement between managed accounts and do-it-yourself participants. This analysis assumes a 25-year-old worker with the median annual income within each of five income groups, savings rates based on the average deferral rate for each age across the income groups, a 3% employer match, a 3.5% real return for do-it-yourself participants, and an increase of 0.41% to reflect future expected compound return. This potentially better outcome can be attributed to a combination of the study's other outcomes: higher savings rates, higher returns, better allocated and more diversified portfolios, and probability of success.

To determine the difference in savings rates between managed accounts participants and do-it-yourself participants while controlling for income, we calculated the median and average deferral rate for each age across the income groups and used average deferral rate as the comparison between managed accounts users and do-it-yourself users.

The To measure appropriate levels of allocation, we looked at the median equity allocation of the top 40 target-date fund providers and developed an allocation band that we would expect to contain 50% of all participants between 20 and 65. The results showed 43% of do-it-yourself participants actually fell outside the band of appropriate asset allocation. To determine diversification, we calculated the average number of funds held by managed accounts participants and do-it-yourself participants. Diversification is defined as number of funds within a portfolio and in this case, an appropriately diversified portfolio was considered to have three or more funds. The results showed 46.4% of do-it-yourself participants held three or fewer funds.

The probability of reaching the retirement goal for managed accounts users was estimated by calculating projected retirement income of managed accounts participants. Retirement income projections assume savings rates based on the average deferral rate for each age across the income groups, a 3% employer match, a 3.5% real return for do-it-yourself participants, and an increase of 0.41% to reflect future expected compound return. Probability of success for do-it-yourself participants was not calculated due to lack of information. A participant's default goal is represented as 90% of their post-tax, post-contribution income, expressed in today's dollars; participants studied may have altered this measure. purpose in presenting the hypothetical situations shown in this presentation is to provide an example of the human capital methodology and are for illustrative purposes only. In no way should the strategies or recommendations made in those hypothetical situations be considered indicative of recommendations for an actual client. Actual results for an individual client may differ substantially from that shown. There can be no assurance that any financial strategy will be successful. Before making any investment decision, customers should read and consider all relevant investment products offering documents and information. Customers should also seriously consider if the investment is suitable for them by referencing their own financial position, investment objectives, and risk profile before making any investment decision.

The information, data, analyses, and opinions presented herein do not constitute investment advice; are provided as of the date written and solely for informational purposes. Therefore, this content is not an offer to buy or sell a security and is not warranted to be correct, complete or accurate.

The data presented on slide 34 compares the equity allocation of a hypothetical target date fund based on the Morningstar Lifetime Allocation Moderate Index with and without the inclusion of a deferred income annuity. Indexes are unmanaged and not available for direct investment.

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