WELLS FARGO

Institutional Retirement and Trust

2017 DRIVING PLAN HEALTH

All data in this report is as of 12/31/2016 unless noted otherwise.

A better plan helps create a better retirement

Joe Ready

Executive Vice President,
Director of Wells Fargo
Institutional Retirement and Trust

In the retirement plan industry, it sometimes seems like it takes a long time for the results of our everyday efforts to have an impact. For a participant joining a plan in their twenties, retirement could be forty or more years away. For a sponsor making a change to a retirement plan, the needle might shift, but there is always more work to be done. Still, what I've noticed recently is that when we step back and look at where we are today, the progress we're making is quite remarkable.

In our annual analysis of plan data from our entire book of business (more than 5,000 plans), we can see changes that we believe could result in improved outcomes for the typical worker. Over the last five years, participation, contribution rate, and diversification have all improved. These are the three key behaviors that may help a participant reach an income replacement goal to help create a better retirement.

Even more importantly, our detailed Plan Health analysis identifies actions that will help plan sponsors design better plans for their participants. This *Driving Plan Health* report looks at real results based on demographics, income level, tenure, and much more.

In this report, you'll find a few recurring themes:

- **Different populations have different needs.** Solutions need to be targeted to employees based on the stages of their lives, careers, and generational challenges. The features adopted within the plan may, over time, help offset challenging demographic factors.
- **Correct implementation of plan design is essential.** It's not just about offering a new feature or automatic program. Our analysis reveals how to structure a plan feature to help achieve results.
- **Common savings pitfalls have a huge impact.** Delays in enrollment, low deferral rate defaults, and lack of diversification can have an enormous impact on how long a participant's money will last in retirement.

Our mission at Wells Fargo Institutional Retirement and Trust is to help prepare America's diverse workforce for a better retirement. That means helping the new employee just starting out and the near retiree closing in on retirement, and every employee, facing every challenge, in between.

If you are looking for inspiration to help build a better plan, this report provides the initiative to move in the right direction.

Best regards,

Joe Ready

Table of contents

06 EXECUTIVE SUMMARY

08 INTRODUCTION

10 PARTICIPATION

16 CONTRIBUTION RATE

24 DIVERSIFICATION

31 PLAN HEALTH INDEX

32 APPENDIX

Executive summary

Wells Fargo Institutional Retirement and Trust's mission is to help America's diverse workforce prepare for a better retirement. To pursue this goal, we need to know what participants are doing (or not doing), and which plan features work best to encourage individuals to do a better job of saving for retirement. By analyzing data on four million eligible employees across a variety of industries and plan sizes, Wells Fargo is able to draw on concrete evidence to show how plan sponsors can help their employees better prepare for retirement.

Our dedicated Institutional Retirement and Trust Analytics team analyzed 90 different plan features and demographic attributes to determine which factors are most critical in driving three crucial savings behaviors:

1. **Participation**
2. **Contribution rate**
3. **Diversification**

These behaviors are the primary pillars that help support savings success. No defined contribution plan can meet an employee's needs if the employee doesn't participate, and it can be a challenge to meet retirement goals if a participant doesn't contribute enough money to replace a substantial portion of their income at retirement. The third behavior — appropriate diversification — has the potential to improve performance and help manage risk to an appropriate level.

During times of market volatility, it is even more important to focus on these three key behaviors and to encourage employees to create a plan for saving and to stick to it. Consistency in contributions and diversification are a better path to pursue success than chasing returns or trying to time the market. Retirement success is a long-term proposition, and Wells Fargo can help plan sponsors keep their employees on track for success.

Proper plan design is tricky. Different plan features and services drive different savings behaviors, and without careful analysis, a particular feature may improve results in one dimension but hinder progress in another. For example, automatic enrollment may increase participation, but a low default deferral rate could actually depress overall contribution rates. Our analysis includes best practices for plan feature implementation that can help plan sponsors avoid these potential pitfalls.

With all the possible plan features available in the defined contribution world, a plan sponsor faces many choices when creating a plan design for a unique workforce. Careful analysis reveals that there are a few key factors that may help drive results.

Focusing on the top factors that drive desired behaviors is the best way for sponsors to have an impact on how prepared employees are for retirement. This report explores each savings behavior, the top factors to drive the desired behavior, best practices for implementing those features, and the potential impact on an employee's preparedness.

While all three savings behaviors are important to help achieve success throughout an employee's career, we have found that each one is a particular area of opportunity for employees at specific stages of life. By focusing on these specialized needs, we can tailor solutions that are best suited to those who need them most.

By looking at a plan's demographics and current outcomes, Wells Fargo can help a plan sponsor select the plan changes that have the potential to improve those outcomes and ensure that the defined contribution plan is an effective benefit for employees.

Retirement plans have needs as varied as the employers that sponsor them. Wells Fargo will use the quantitative information in this report as a foundation for creating a productive dialogue with clients to help tailor solutions to their needs. By identifying opportunities, examining demographics, selecting appropriate solutions, and applying best practices, a plan's health has the potential to improve and participants can be more likely to meet their retirement goals.

ADDITIONAL INSIGHTS – FIVE YEAR TRENDS

Participation has **INCREASED 18%**. Millennials have seen the biggest gains.

Percent of savers with a total contribution rate of 10% or higher has **INCREASED 9%**.

Percent of participants investing in a diversified portfolio has **INCREASED 15%**. Older employees are the least likely to be diversified.

40% INCREASE in Plan Health Index — a measure of employees that are meeting all three crucial savings behaviors.

Employees with longer tenures are more likely to be saving effectively for retirement.

PARTICIPATION

Key factors that help drive results:

- Automatic enrollment
- Total match

Population with key opportunities:

- Millennials/Early savers
- New hires

CONTRIBUTION RATE

Key factors that drive results:

- Total match
- Employer stock
- Communication campaigns

Population with key opportunities:

- Millennials/Early savers
- Generation X/Mid-career

DIVERSIFICATION

Key factors that drive results:

- No employer stock
- Plan has a Qualified Default Investment Alternative (QDIA)

Population with key opportunities:

- Baby Boomers/Near retirees

Introduction

Wells Fargo administers defined contribution plans representing four million eligible employees. We have a diverse book of business with the retail, administrative support (temporary staffing and other office support), and accommodation/food service industries representing the largest percentage of eligible employees. This cross-section of workers enables us to analyze the savings behaviors of employees at all life stages and across a wide variety of employers.

This year's analysis has been expanded to examine 90 different factors that could have an impact on savings behaviors — double the number considered in previous studies. Many of these are plan features, which will enable plan sponsors to identify ways to help improve outcomes for their employees. Others — such as demographics, plan size, and industry — are outside the control of the plan committee. They serve not only to gauge how big a challenge a given plan faces in making improvements, but also to explore the effect plan features have on different demographic groups. This depth of information is crucial to helping sponsors determine what, if any, changes need to be made to best serve their employees.

For this analysis, Wells Fargo looks at three key behaviors of participants — participation, contribution rate, and diversification. For each, we set a goal that can help participants stay on track to help create a better retirement. Meeting all three of these behavior standards early in their career can help participants optimize their outcomes.

We explore each behavior separately and also illustrate how Wells Fargo looks at them collectively to provide plan sponsors with an overall *Plan Health Index* score. With this, Wells Fargo can help sponsors identify where changes in plan design may be necessary. In addition, statistical analysis has demonstrated that participants who consistently meet all three of these behavior standards are much more likely to achieve an income replacement of 80% or greater in retirement than those who do not.

For each of the three key savings behaviors, we will illustrate the difference between a saver who meets that particular goal and sustains that behavior over time, and a saver who falls short in a commonly observed way. The impact on retirement savings is dramatic, as is shown in the "Modeling good behavior" section under each component of Plan Health.

The ideas outlined in this report are focused on helping produce the best possible outcomes for plan participants. Some plan changes may require additional funding and resources from the plan sponsor, so all should be considered in light of the plan's goals and budget.

PARTICIPANT GOAL: 80% INCOME REPLACEMENT

Why 80%? We know some people may need more than 80%, others less. But research shows that for a majority of people 80% is a good place to start. This goal is prominent in all participant interactions, and we tell participants how they are progressing toward the goal and offer a next best step for each participant. Each of the three key savings behaviors we monitor helps drive a participant's ability to reach the 80% income replacement goal.

PARTICIPANT BEHAVIOR GOALS

PARTICIPATION

An eligible employee is participating.

CONTRIBUTION RATE

The participant is contributing at least 10% of pay, including employee and employer contributions.

DIVERSIFICATION

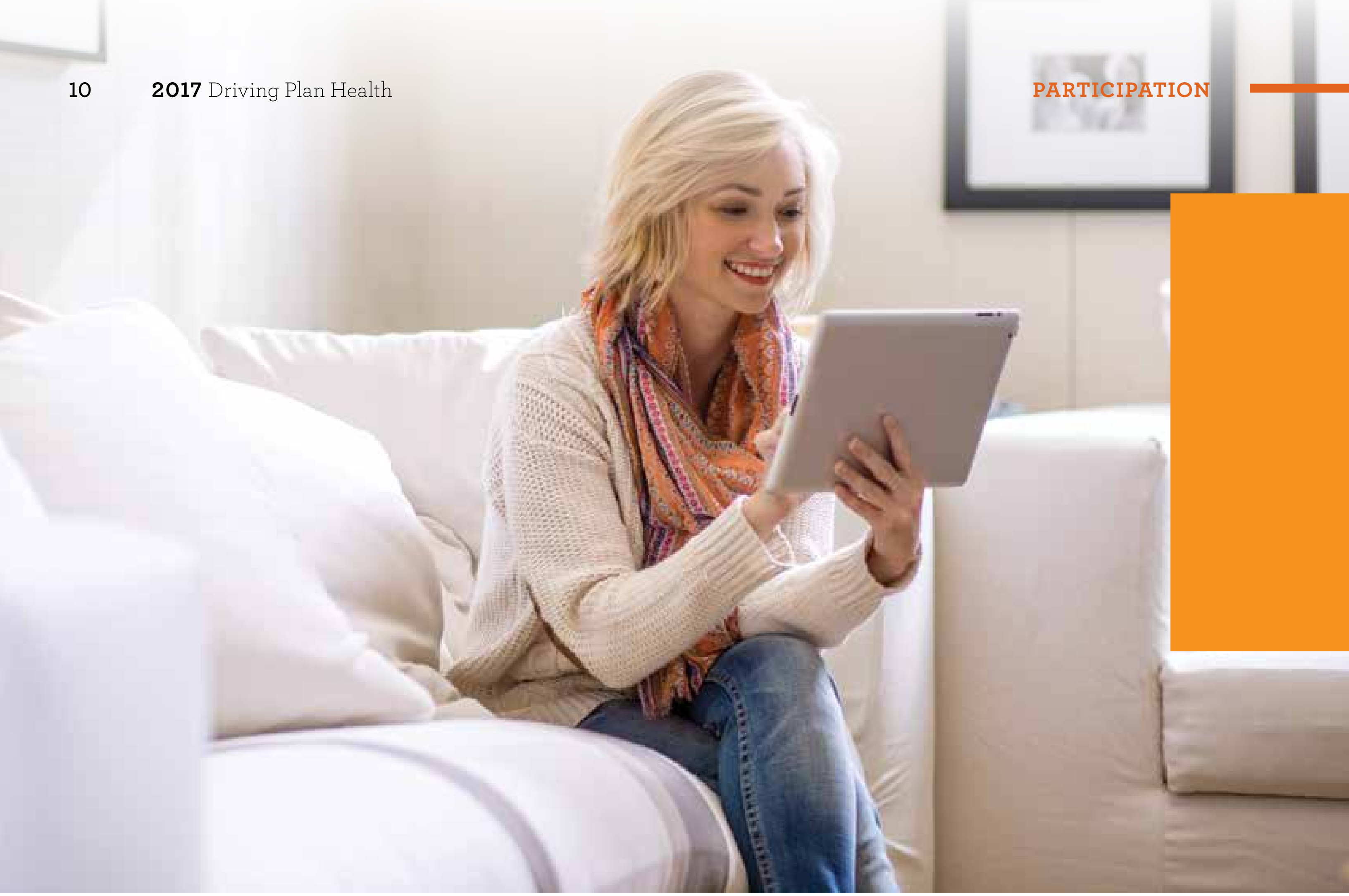
The participant is invested in:

- a diversified investment (such as a target date fund or managed account product)
- a comprehensive advice program

— OR —

If a participant instead chooses to self-direct investments, the participant is invested in at least two different classes of equity funds and one fixed income fund, and has less than 20% invested in employer stock.

The Plan Health Index is the percentage of eligible employees who meet the goals for all three savings behaviors.



Participation

Participation is the foundation on which Plan Health is built. No matter how well-designed a plan may be, if people don't participate, the plan can't help them.

This key behavior shows a positive trend: participation has been improving steadily over the past five years. 18% more eligible employees are participating now than in 2011. That growth parallels the increased adoption of automatic enrollment. 40% more plans automatically enroll people than was the case five years ago. Automatic enrollment is particularly effective in reaching younger, newly hired employees, and as a result we have seen the age and tenure gaps in participation shrinking over the past five years as automatic enrollment gains wider adoption.

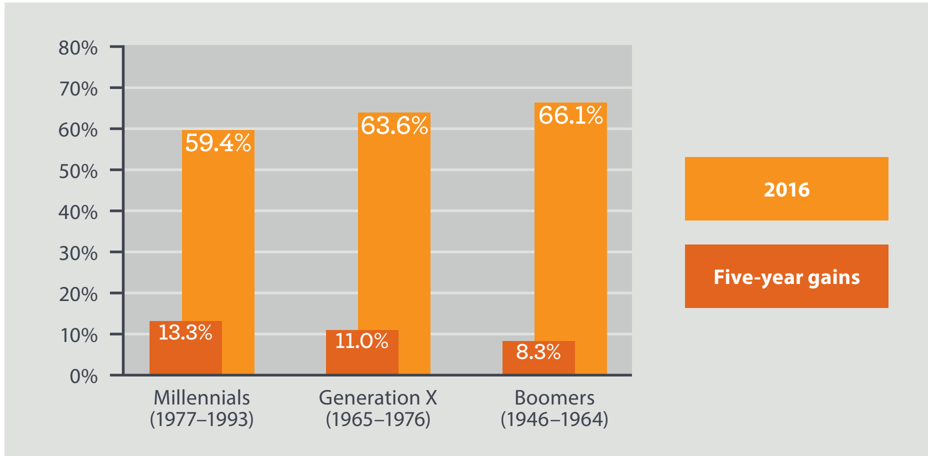
Participation remains lowest among younger, more recently hired, and lower earning employees. However, these particular segments have all seen greater gains than their counterparts, leading to a narrowing of the participation gap for all three crucial demographic dimensions.

PARTICIPATION GOAL

All eligible employees participating in the plan.

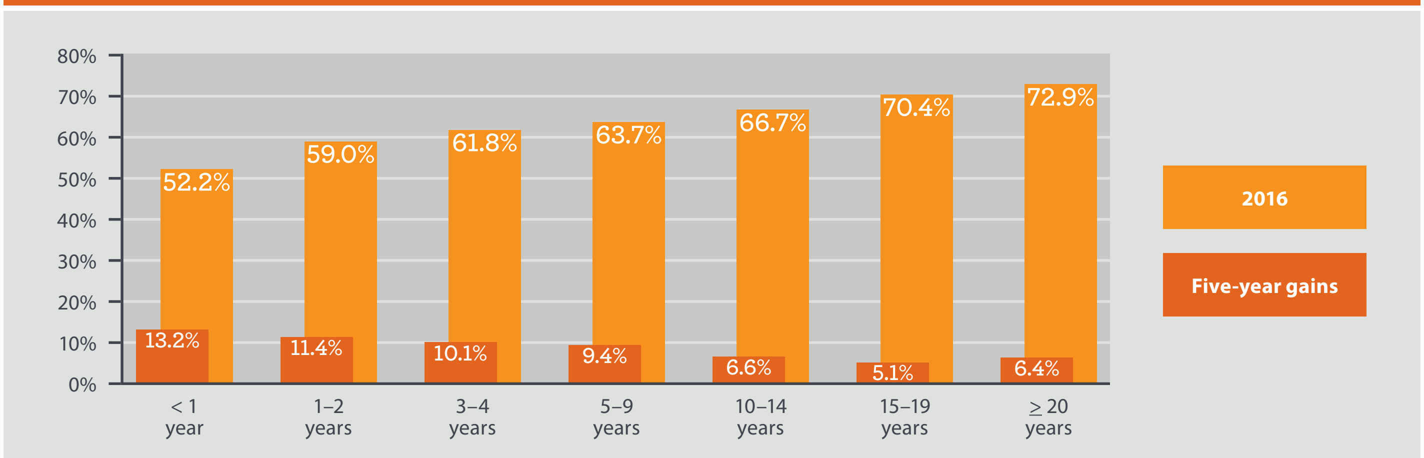
PARTICIPATION BY GENERATION

(Percentage of employees participating in the plan)



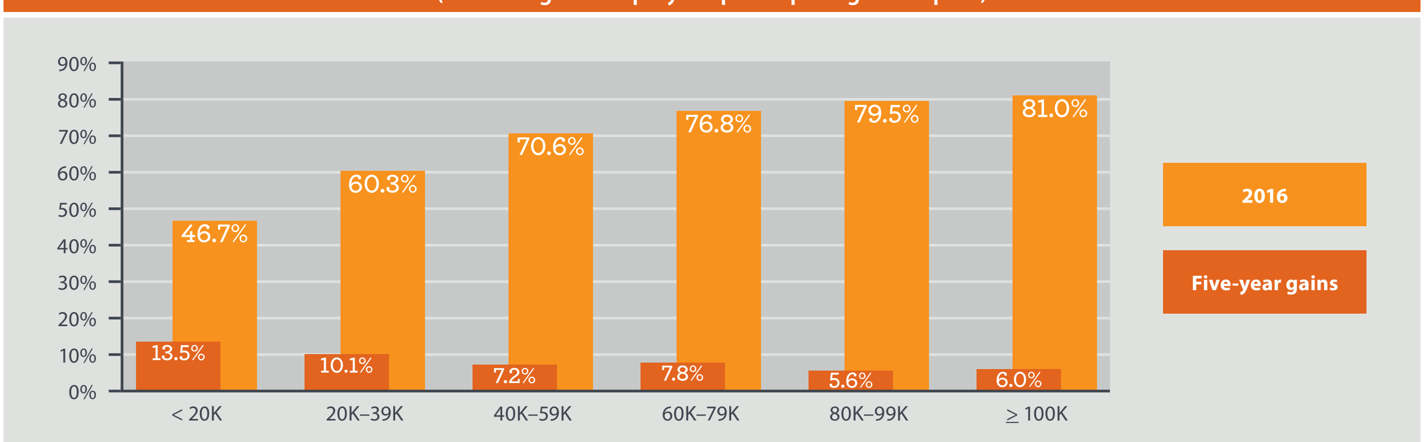
PARTICIPATION BY TENURE

(Percentage of employees participating in the plan)

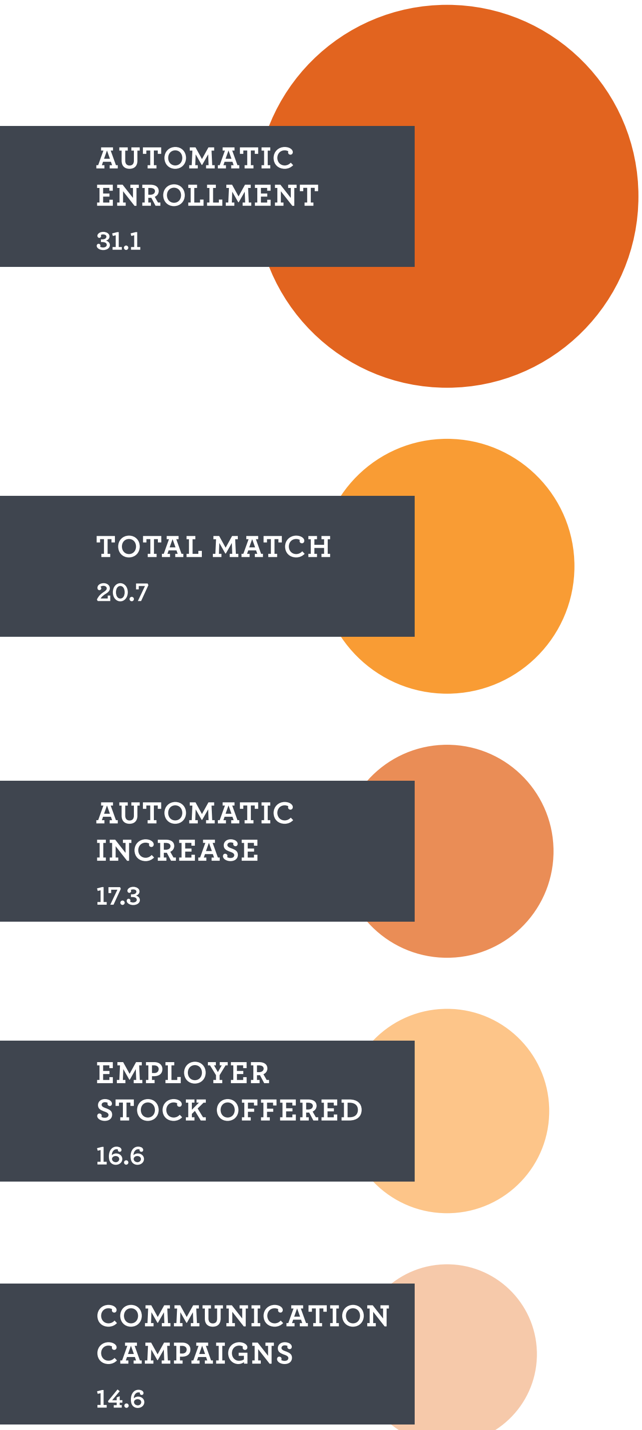


PARTICIPATION BY INCOME

(Percentage of employees participating in the plan)



Key drivers to help increase participation*



The numbers attached to the drivers represent the relative importance of each factor in influencing participation. The higher the number, the higher the impact. So automatic enrollment, at 31.1, is more than twice as influential as communication campaigns, at 14.6.

Key driver: Automatic enrollment

Average participation for plans with automatic enrollment is above 80% while plans without it have less than 50% participation. Given these results, using automatic enrollment may be a strategy to strongly consider; however, it does matter how this feature is structured for best results.

1. **Automatically enroll all eligible employees, not just new hires.** Most plans implement automatic enrollment for new employees only. However, better results may often be achieved by including all employees, even those who did not take action to enroll or who previously declined to participate in the plan. This can be done on either a one-time basis (when automatic enrollment is first implemented or at another point in time), or annually. Average participation for plans that automatically enroll new employees is 82%, compared to 88% for plans that include all employees.

2. **Set a higher default contribution rate.** The most common default deferral rate is still 3%. However, a default rate of 6% sets participants up for greater success in terms of contribution rate, and does not materially affect opt-out rates. The average opt-out rate for plans with a 3% default rate is 11.1%, compared to 11.3% for plans with a 6% default. (Refer to the **Contribution rate** section for more detail on best practices for automatic features.)

3. **Establish a service requirement if you want to avoid excessive small-balance accounts.** Some plan sponsors with high staff turnover are reluctant to implement automatic enrollment because it could lead to a high number of short-term, low-balance participant accounts, which can increase administrative costs. In these cases, sponsors may want to consider automatically enrolling only eligible employees who have completed one or two years of service.

*These key drivers are based on correlations measured by a Kolmogorov-Smirnov test (K-S test).

Key driver: Total match

Employer contributions can be a great motivator for people to participate in the plan. The greater the match, the more likely employees are to take advantage of it. Attention paid to the design of the match has an impact on the health of the plan, even given budget considerations.

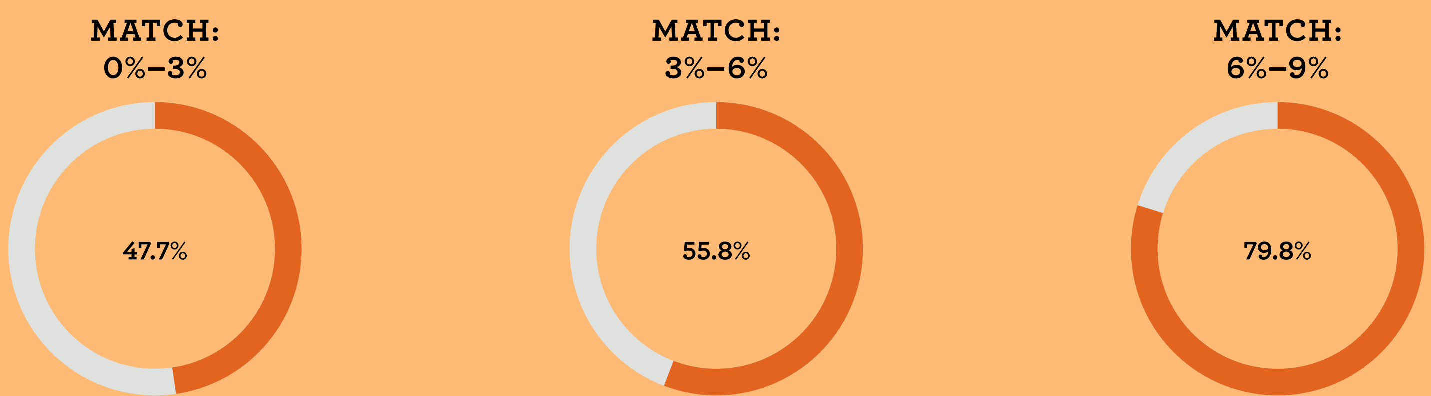
1. Do automatically enrolled employees receive the whole employer match (if available)? If not, is there an automatic increase program to help participants work toward receiving the complete employer match? (More details on automatic increase programs are included in the **Contribution rate** section.)

2. A higher total match has historically been a driver of behavior even if automatic enrollment is not used. As Chart 1 below shows, the higher the percentage of the match, the higher the plan's participation rate.

3. The match is a particularly strong driver for older, longer-tenured participants. The impact of a high total match can be greater for a sponsor with low turnover and a veteran staff than for a sponsor with a younger, more mobile staff. (See Chart 2 below).

AVERAGE PARTICIPATION BY TOTAL MATCH — CHART 1

(in plans without automatic enrollment)

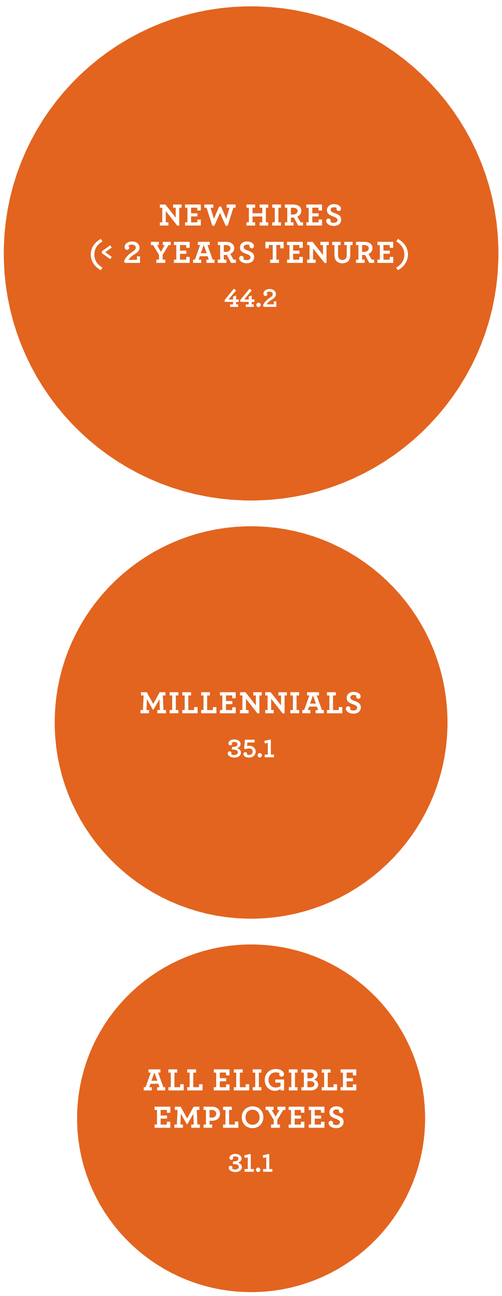


TOTAL MATCH AS A DRIVER OF PARTICIPATION* — CHART 2

*Based on correlations measured by a Kolmogorov-Smirnov test (K-S test).

Demographic opportunities

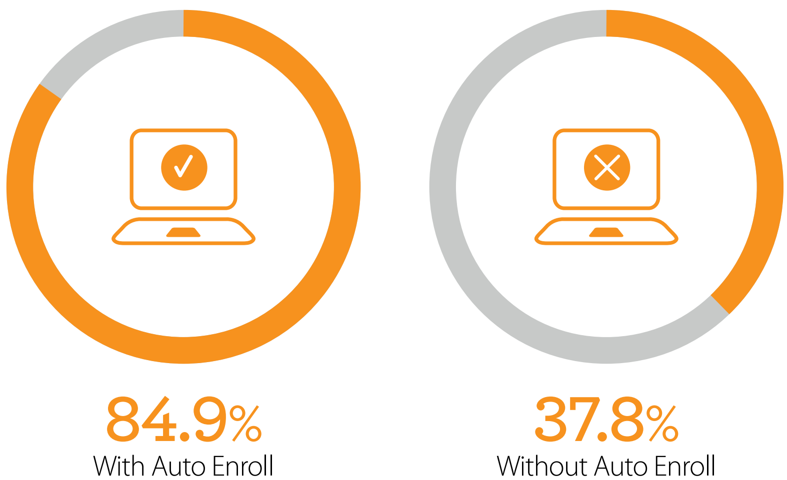
AUTOMATIC ENROLLMENT AS A DRIVER OF PARTICIPATION*



Millennials (also referred to as early savers) and new hires are the groups that need the most help and encouragement to get them to participate in their defined contribution plan. Automatic enrollment is the single most important feature an employer can adopt for these groups.

Because automatic enrollment has such a big impact, it sets the stage for how employees save throughout their careers by leveraging their biggest asset — the power of compounded savings over a very long period of time. Best practices, such as enrolling participants at a 6% or higher deferral rate, pairing it with opt-out automatic increase, and using a QDIA can set these younger, newer participants on the right track early and help avoid some of the common challenges and competing financial priorities they might otherwise encounter later in their careers.

PARTICIPATION AMONG MILLENNIALS



TAILOR YOUR FEATURES TO YOUR EMPLOYEES

- Use automatic enrollment to get younger and newly hired employees to participate.
- Examine your match formula to ensure continued participation among older and longer-term employees.

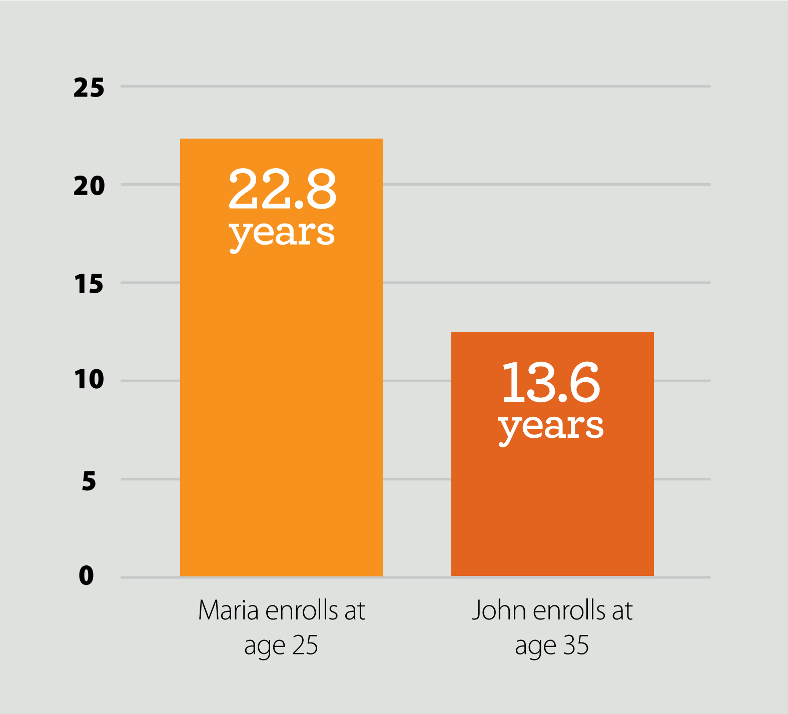
*Based on correlations measured by a Kolmogorov-Smirnov test (K-S test).

Modeling good behavior: The importance of early participation

Early participation can have an enormous impact on the success of a participant's efforts in saving for retirement. Based on Wells Fargo's book of business, 52% of eligible employees age 35 are not currently participating. Here's the difference between Maria and John, who does not begin to participate until he's 35.

Maria's money will last nearly a decade longer than John's, with all other factors being the same.

YEARS IN RETIREMENT AT 80% INCOME REPLACEMENT



TO HIT THE 80% TARGET

Throughout this report, we'll take a look at the estimated income replacement of Maria, a model participant. Maria enrolls in the plan at age 25, has a 6% deferral rate in a plan with a QACA safe harbor match, and diversifies investments appropriately so that we can estimate investment returns at 7% during the working years.

Assumptions:

- Pay of $60,000 a year, just above the U.S. household median
- Goal is to replace 80% of income during retirement
- Retirement at age 65, with Social Security beginning immediately
- Income increases of 2% a year
- 3% annual inflation in retirement
- Investment returns in retirement of 4%

In each section, we'll compare Maria to another hypothetical participant who does everything the same way, with the exception of one common savings pitfall.

Contribution rate

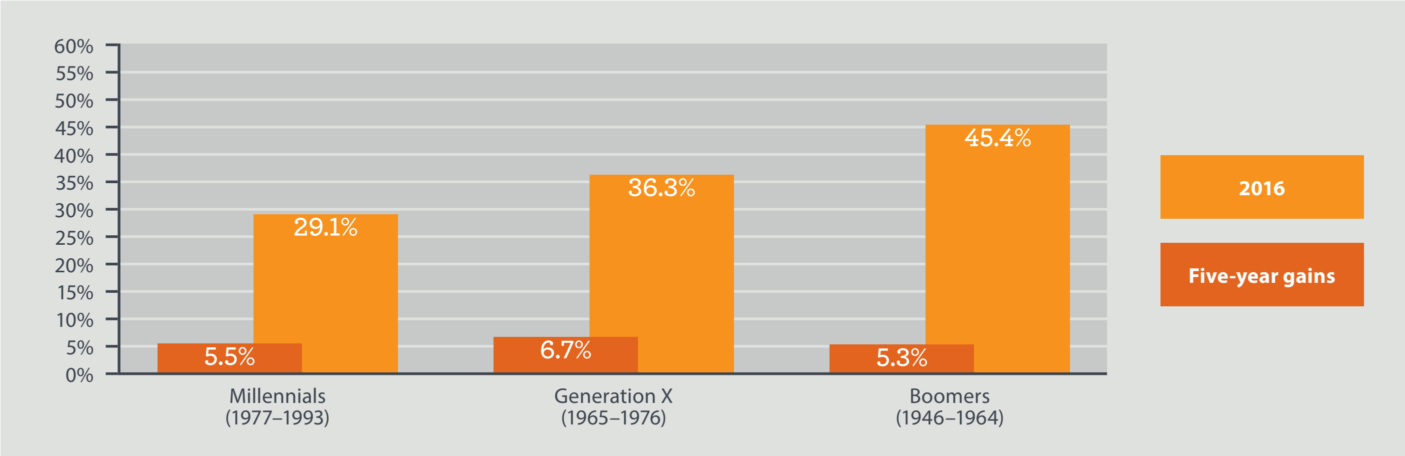
After getting employees in the plan, focus turns toward helping them save enough to meet their retirement goals. Wells Fargo recommends at least a 10% contribution rate including participant deferrals and any employer match or contribution.

Contribution rate has the greatest impact on outcomes and is the biggest challenge most plans face. Fewer than 40% of employees in a typical plan contribute 10% or more in total, and gains in this area have been the slowest of the three components of Plan Health in the past five years. Surveys conducted by Wells Fargo show that workers are struggling. 41% of middle-class respondents said they can't pay their bills and still save for retirement. Two-thirds of workers over the age of 40 say saving for retirement is harder than they expected, with many citing expenses and debt as hindrances to saving (*2014 Wells Fargo Retirement Study*).

As with participation, contribution rate is lowest among younger, more recently hired, and lower earning employees. There have been some gains in average contribution rate over the past five years, but they are not as strong as in the other two behaviors.

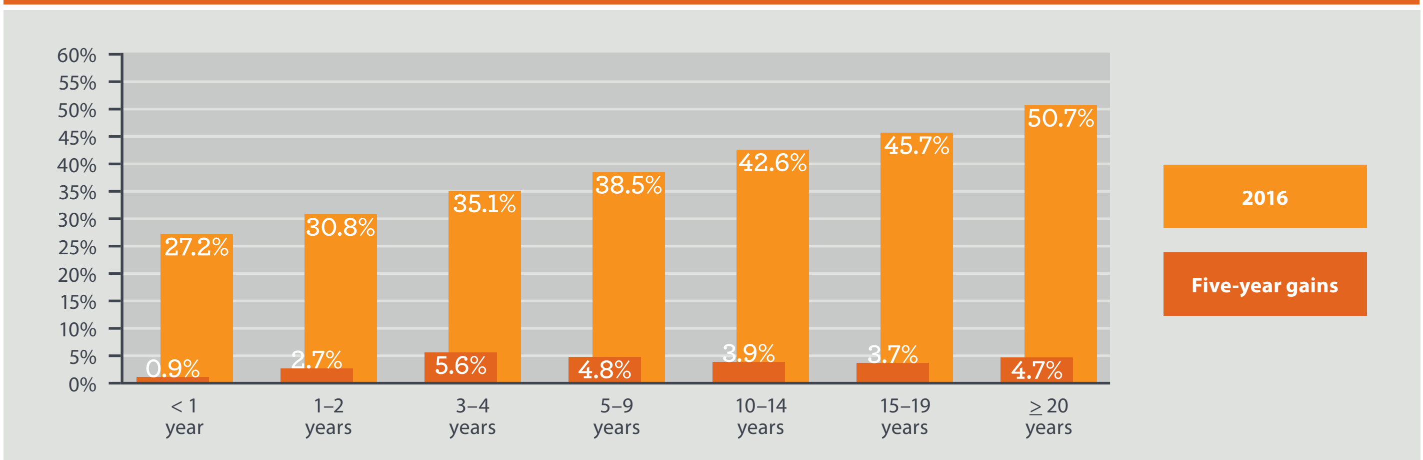
CONTRIBUTION RATE BY GENERATION

(Percentage of participants contributing 10% or more, including employer match)



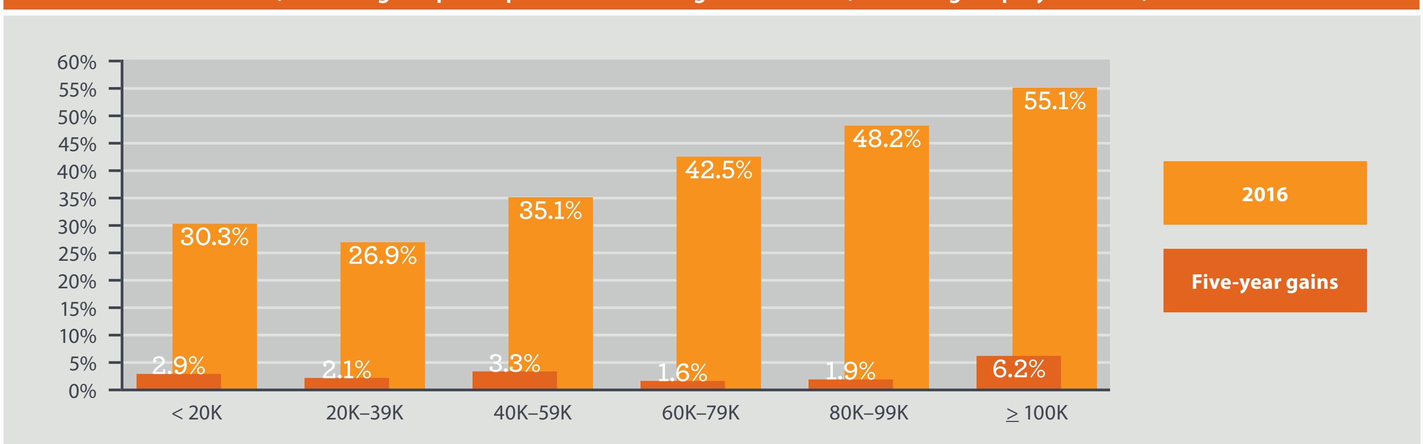
CONTRIBUTION RATE BY TENURE

(Percentage of participants contributing 10% or more, including employer match)



CONTRIBUTION RATE BY INCOME

(Percentage of participants contributing 10% or more, including employer match)



Key drivers to help increase contribution rate*

These key drivers fall into two categories: those that directly boost deferrals, and those that show the importance of best practices when implementing automatic features.

Key driver: Total match

Total match is even more important for contribution rate than it is for participation, which is not surprising. The more an employer contributes, the higher the total contribution a participant will have at any given deferral rate.

Nearly 90% of our clients offer some type of employer match (either a discretionary amount or a fixed formula) to participants in their retirement plans. **For plans that offer a fixed match, on average about 46% of their participants reach the 10% contribution rate goal; for plans that don't offer a fixed match, only 28% of participants meet the contribution rate goal.**

For plans that use automatic enrollment, the best results have been shown to come when the default deferral rate works in conjunction with the match formula. For instance, a basic safe harbor structure matches deferrals up to 6% of participant pay. If the default deferral rate is lower than 6%, participants who accept the default aren't taking full advantage of the match, and will likely not meet the contribution rate target of 10%. Even with automatic increase, a participant who enrolls at 3% will take several years to reach the 10% threshold.

Similarly, automatic increase works best when it is properly integrated with the plan match. The majority of automatic increase programs stop after a participant's deferral rate reaches either 6% or 10%. Depending on the match formula, 6% may not be a high enough deferral rate to reach the 10% contribution rate goal, and participants would benefit from the higher 10% cap.

*These key drivers are based on correlations measured by a Kolmogorov-Smirnov test (K-S test).

BEST PRACTICE

Structure your automatic enrollment default rate and match cap to put participants on track to reach the 10% contribution rate goal as quickly as possible.

Key driver: Employer stock

For publicly held companies, offering employer stock as an investment in the plan can be an attractive option for participants. It is most common among larger plans — nearly 30% of plans with more than 5,000 eligible employees offer employer stock as an investment.

Employer stock has the ability to help boost the contribution rate in two ways. The most direct is when an employer matches contributions using company stock, either in part or in whole. But the opportunity to invest in employer stock can also entice employees to defer at a higher rate. Stock must be handled carefully, though. One potential pitfall of offering employer stock is detailed in the **Diversification** section.

Key driver: Communication campaigns

Participants who are actively engaged in working with their 401(k) account are 38% more likely to reach a 10% total contribution rate. This data is supported by time-series studies we have conducted to help establish cause and effect. One of the most effective ways to promote this sort of engagement is the ongoing use of communication and education campaigns. Wells Fargo offers a variety of campaigns that help educate participants about planning for retirement, among the most effective being “trigger communications.” These are proactive communications sent to participants at key moments — milestone ages, positive actions and behaviors needing some attention — that suggest a next best step and congratulate them when they take actions toward helping achieve their retirement goals. **Sponsors who take advantage of more of these communication and education campaigns average 44% of their employees contributing at 10% or more, compared to 31% for those who do not.**

Best practices for automatic features

Employees need help planning for retirement. Saving early is crucial to long-term success, but fewer than half of Millennials (45%) have a routine for reviewing their finances and only about half (54%) say they have a budget (*2016 Wells Fargo Retirement Study*). Planning for retirement is easily overlooked, and plan sponsors can help alleviate employees' lack of planning by taking a more paternalistic approach and incorporating plan design features that help do some of the initial planning for their employees. It's not just a matter of doing the right things. Best practices in plan design can help sponsors do the right things in the right way. The biggest benefit of these best practices shows up in contribution rates.

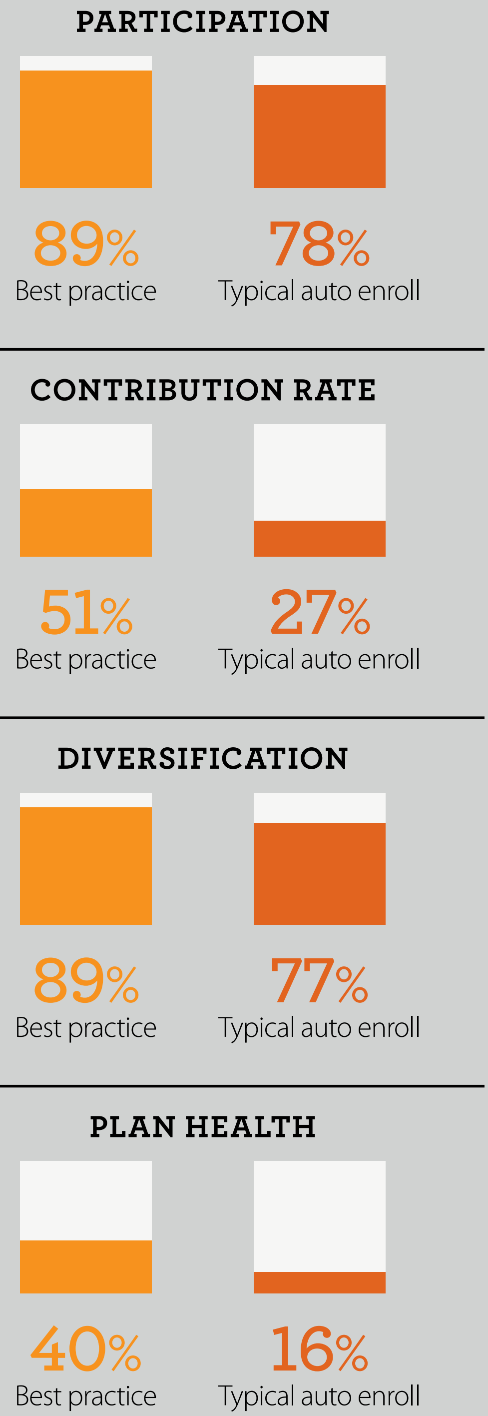
Automatic enrollment, as typically implemented, exerts a downward pressure on contribution rates. This is the main reason that our analysis has identified "No Automatic Enrollment" as a key driver of contribution rates. The most common default deferral rate is still 3%, and unless the plan were to contribute 7% or more when an employee defers only 3% (which is extremely rare) a participant who doesn't take action to move beyond the default falls short of the 10% contribution rate goal. To make matters worse, the majority of plans with automatic enrollment either do not have automatic increase or have it on an opt-in basis. As a result, participants who accept the plan defaults typically do not end up meeting the 10% contribution rate target.

Wells Fargo has best practices for automatic features that can help plan sponsors avoid this kind of contribution pitfall. **A default deferral rate of 6% or higher, coupled with opt-out automatic increase, helps more participants reach a 10% total contribution rate more quickly. When coupled with a QDIA, these features set new enrollees up to help achieve success in all three dimensions of Plan Health.**

The difference in results between best practices and the most common practice is striking.

IMPACT OF BEST PRACTICES FOR AUTOMATIC FEATURES

(Percentage of employees participating in the plan)



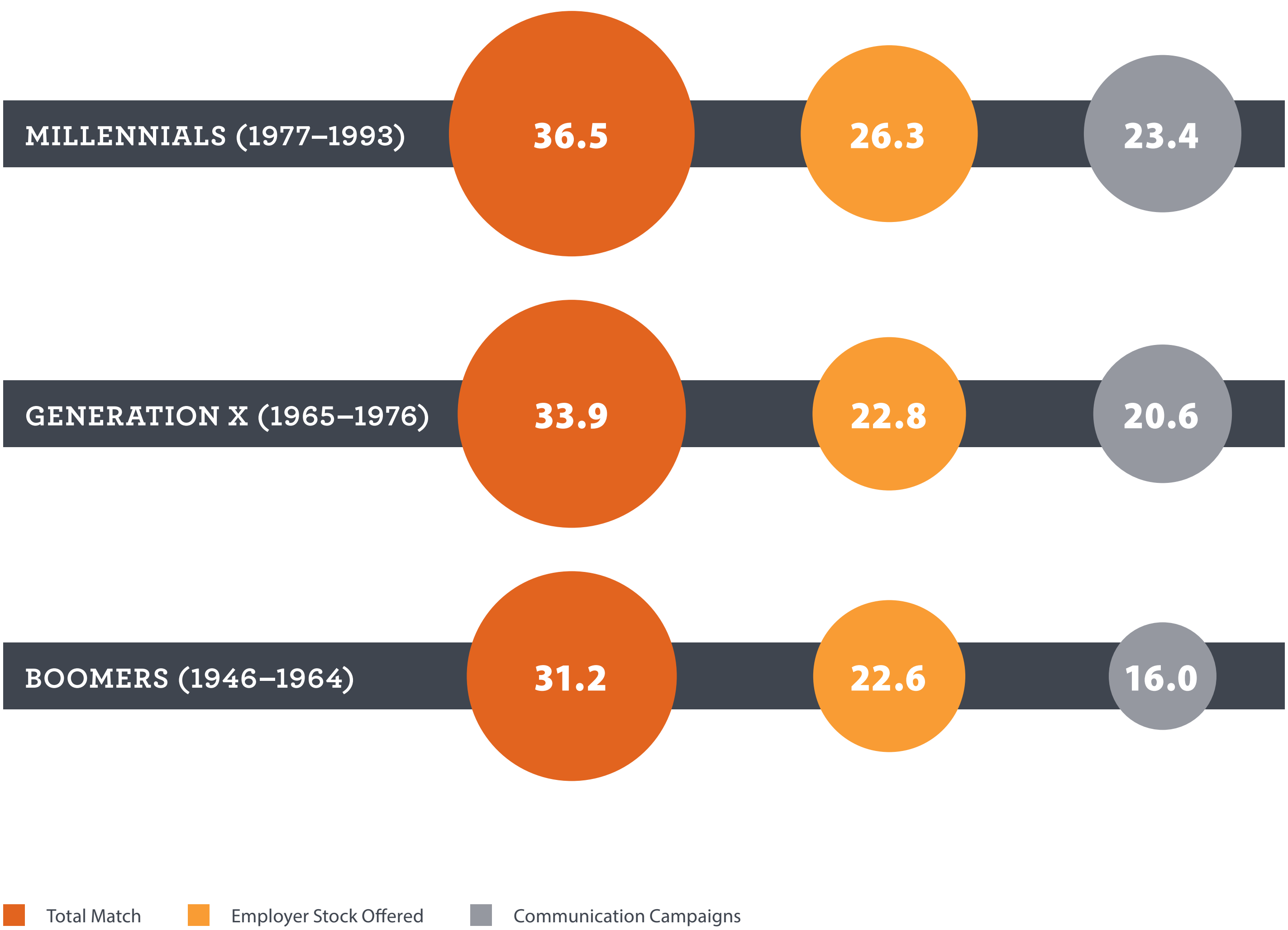
The number of participants who reach a 10% contribution rate when best practices are used is nearly double the number when plans use automatic enrollment alone with a 3% default deferral rate.

Demographic opportunities

As we saw in the chart of contribution rate by generation, we find the greatest savings rate opportunity among the youngest participants, and the least opportunity among the oldest. Fortunately, the impact of the top drivers is greatest with the Millennial audience, which needs it most.

Of the three best practices, communication campaigns offer a sponsor the opportunity to focus on a specific subset of their population. Whereas plan match and employer stock are equally available to all participants, campaigns can be targeted to the specific needs of a given audience. For instance, Boomers can benefit from information on catch-up contributions, while Millennials can learn about budgeting strategies and financial management.

TOP DRIVERS OF CONTRIBUTION RATE BY GENERATION*



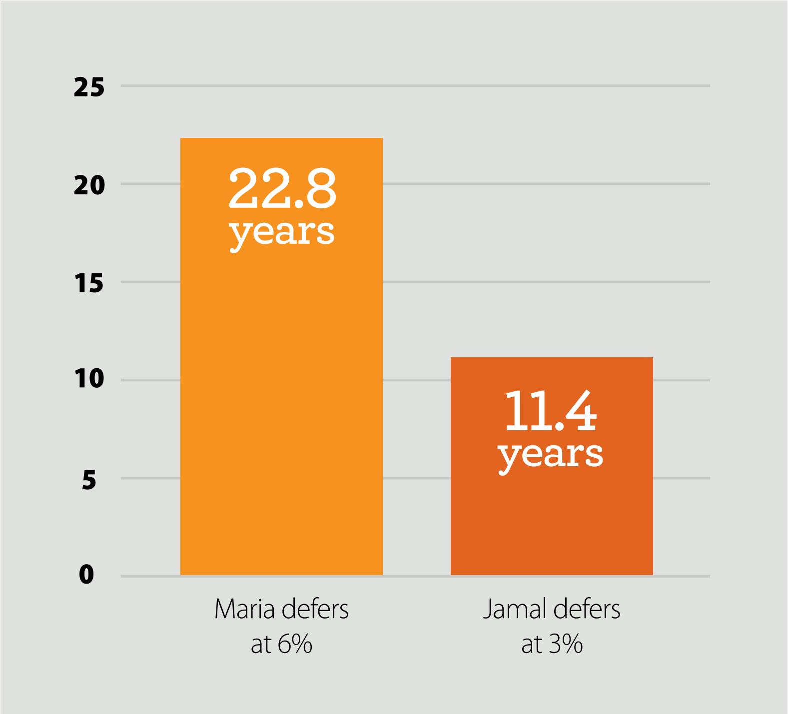
*These key drivers are based on correlations measured by a Kolmogorov-Smirnov test (K-S test).

Modeling good behavior: Rising above low default rates

We've shown the difference in contribution rates and Plan Health between plans that use best practices for their automatic features and the more typical plans that enroll participants at 3% without an automatic increase program. The impact on retirement income can be striking. Maria, as we have seen, has prepared well for retirement. Jamal, who enrolled at the same age but accepted the plan's default rate of 3%, is not as fortunate. Our analysis shows 65% of participants who were enrolled automatically accepted the plan's default deferral rate.

Not only is Jamal deferring at a lower rate, he is missing out on some of the plan's QACA match. His ability to retire comfortably is dramatically lower than for Maria.

YEARS IN RETIREMENT AT 80% INCOME REPLACEMENT



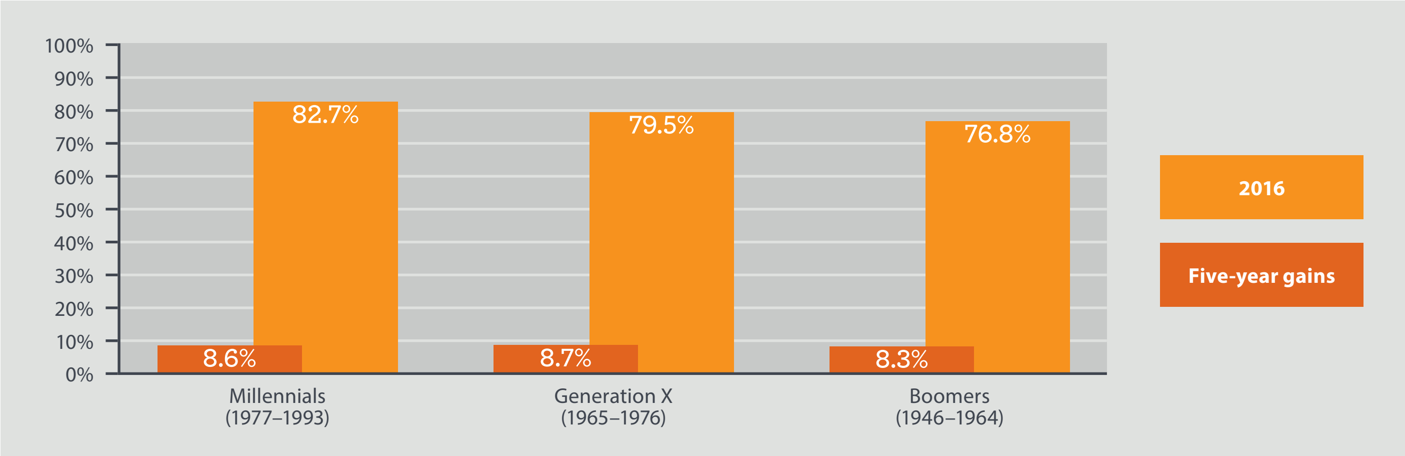
Diversification

Diversification is critical to helping with the growth of retirement account balances over time. An age-appropriate mix of stocks, bonds, and fixed income investments can help improve performance while keeping risk to an acceptable level.

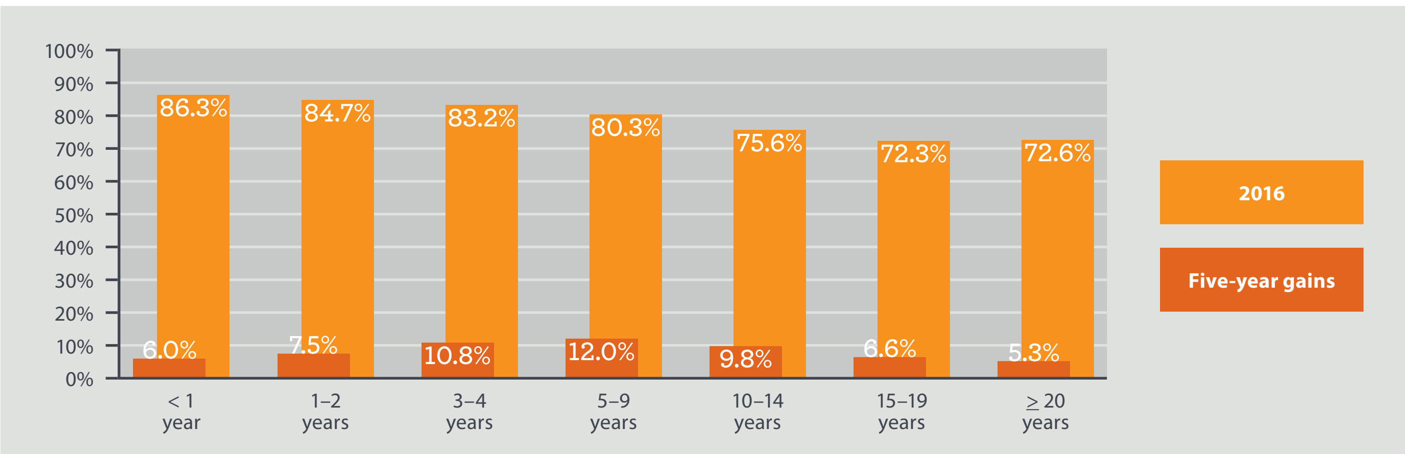
The Pension Protection Act of 2006 allows plan sponsors to use all-in-one investments — like target-date funds or more personalized managed account products such as *Target My Retirement®* from Wells Fargo — as a plan's default investment. These solutions enable participants to be appropriately diversified without the need for sophisticated investment knowledge. Diversification is now the strongest of the three pillars of Plan Health. Even more telling, the greatest gains in diversification over the past five years have been among participants with tenure of five to nine years, which coincides with the first wave of adoption of these popular products.

Unlike the other two components of Plan Health, diversification is strongest among the youngest, most recently hired, and lowest-earning participants. A greater proportion of these participants have been enrolled automatically in a plan with a QDIA resulting in better diversification. For the most part, older, long-tenured, and higher-earning participants have not benefited from this "default diversification."

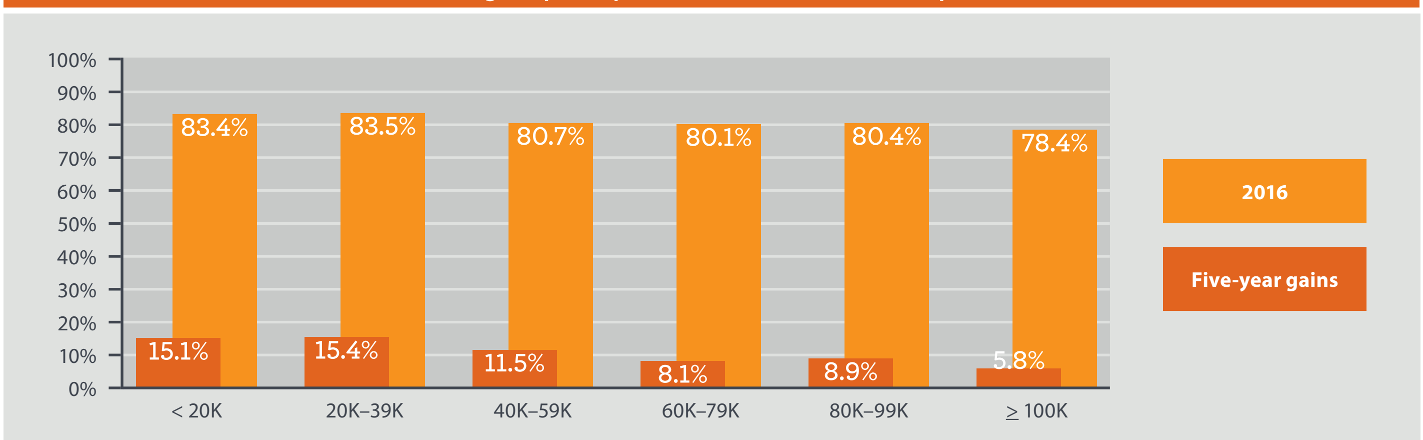
DIVERSIFICATION BY GENERATION
(Percentage of participants invested in a diversified portfolio)



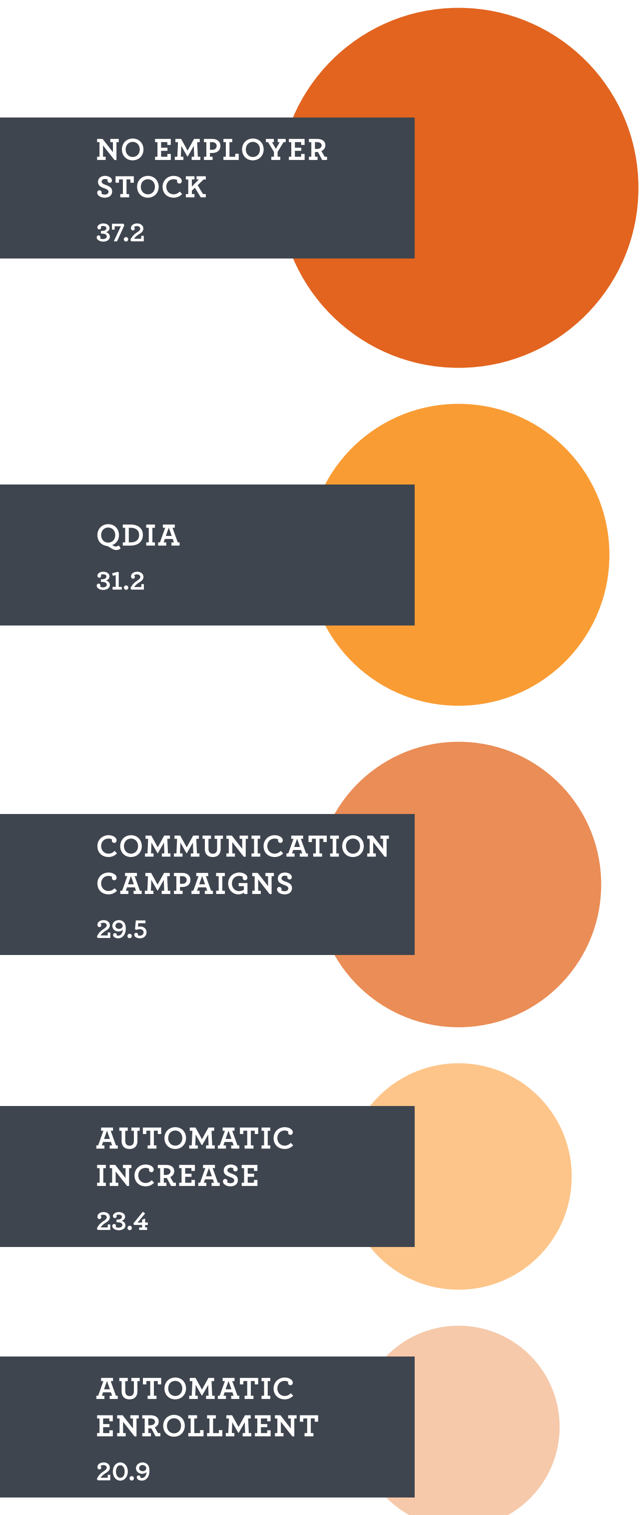
DIVERSIFICATION BY TENURE
(Percentage of participants invested in a diversified portfolio)



DIVERSIFICATION BY INCOME
(Percentage of participants invested in a diversified portfolio)



Key drivers to help improve diversification*



Key driver: No employer stock

Employer stock can easily grow to more than 20% of a participant's account balance, especially in later career stages. Long-term employees in plans that offer employer stock often have a higher risk exposure with a large portion of their balance in a single equity. Plans that offer the employer's stock as an investment option may want to consider placing a cap on the percent of a participant's balance that can be invested in employer stock.

EMPLOYER STOCK DIVERSIFICATION

73.0% With Employer Stock

79.8% Without Employer Stock

AUTOMATIC REBALANCING

Although automatic rebalancing will not make a non-diversified portfolio into a diversified one, it offers advantages for managing a retirement account:

- Helps keep the participant's investment balances in line with their plan
- Sells some of the most highly performing assets to buy some of the lowest-performing assets (i.e., it forces "Buy low, sell high")
- Can help avoid disproportionate balances in employer stock

*These key drivers are based on correlations measured by a Kolmogorov-Smirnov test (K-S test).

DIVERSIFICATION GOAL

As a general rule, Wells Fargo considers a participant to be "diversified" if the participant is invested in a diversified investment such as a target date fund, managed account product, or a comprehensive advice program. If a participant chooses to self-manage their investments, Wells Fargo considers the participant to be "diversified" if the participant invests in at least two different classes of equity funds and one fixed income fund, and has less than 20% invested in employer stock. While Wells Fargo considers participants who meet these criteria to be "diversified," this is not intended to indicate that participants are appropriately diversified based on their individual situations.

Demographic opportunities

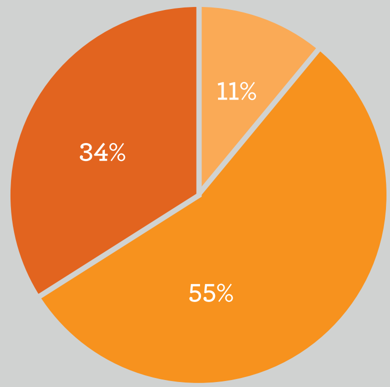
Boomers, who are nearing retirement, are least likely to be diversified. Lower returns for overly conservative participants can hurt balances in the home stretch to retirement, but overly aggressive participants face an even larger potential threat to their retirement income in the form of investment risk.

Boomers have higher employer stock balances than other generations, and an individual stock poses much greater risk of volatility than a mutual fund or collective trust fund. Fewer Boomers use all-in-one investments than do the younger generations, and when managing their own investments, older participants have the greatest departure from the equity holdings of a typical target date fund.

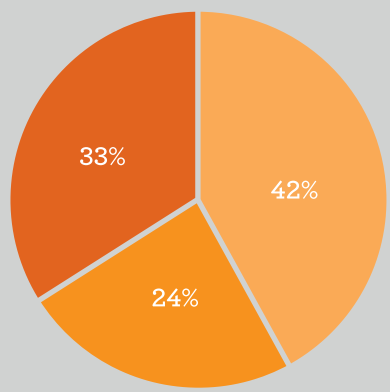
A little over a third of all participants are more conservative in their own investments than a typical target date fund appropriate to their age. But over half of Boomers have greater equity exposure than an age-appropriate target date fund, which could expose them to significant investment risk.

EQUITY HOLDINGS BY GENERATION*

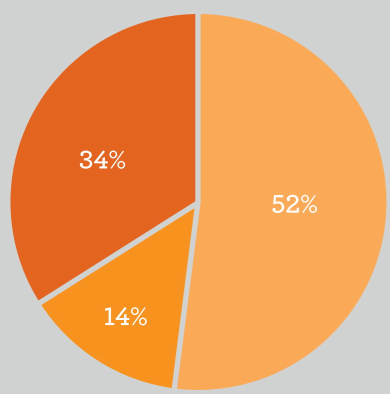
MILLENNIALS



GENERATION X



BABY BOOMERS



More aggressive | Like target date | More conservative

* Chart reflects participants with less than 25% of their balance in all-in-one investment solutions; target date equity holdings based on the average of the top 10 target date fund families.

Modeling good behavior: Proper diversification

Diversification is important for managing both investment returns and investment risk. Under-investing in equities can hurt long-term returns, resulting in dramatically lower balances at retirement. But over-investing in equities can expose a participant to too much risk, particularly as retirement approaches.

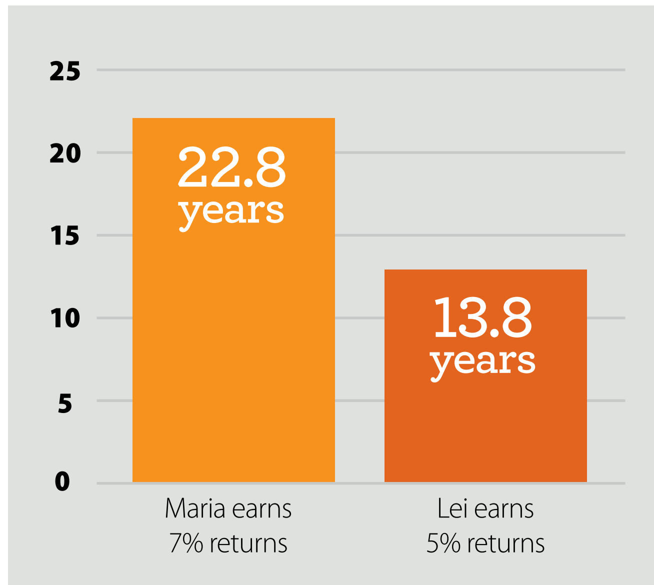
Wells Fargo projects that a well-diversified participant will earn about a 7% investment return over the course of their career. For the third of participants who direct their own investments and are overly conservative, long-term returns will likely be lower. In our example, Maria is appropriately diversified, but Lei is more conservative and earns only 5% returns over the course of her career.

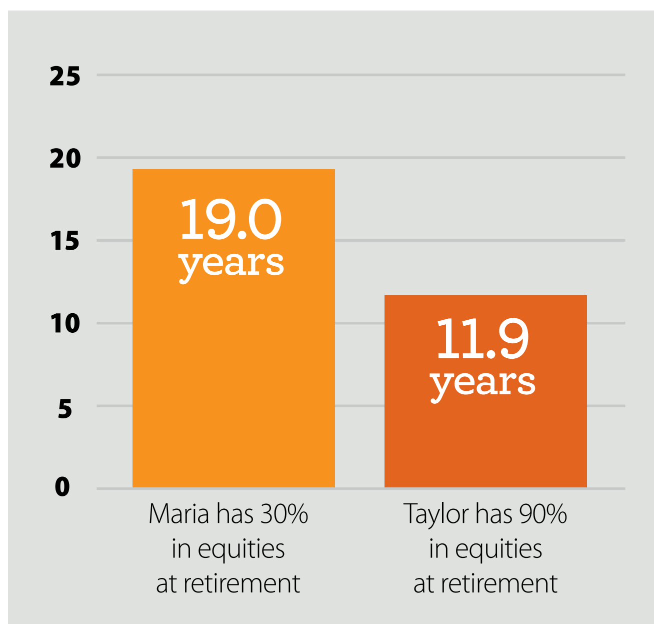
Because she missed out on much of the earning power of the equity market, Lei's account balance at retirement is much smaller than the account of Maria. Her savings won't last as long during retirement.

Taylor, on the other hand, decided to take advantage of strong equity returns right up to retirement. Like 12% of participants in their 60s, Taylor has more than 90% in equities. So what would happen if the market crashed and the S&P 500 lost half its value just as Maria and Taylor retire?

Maria had only 30% in equities, which is a typical target date allocation for a participant at retirement. While a little belt tightening might be needed, even at the full 80% of income, the money will last 19 years. Taylor, on the other hand, faces a serious shortfall, and will run out of money within 12 years of retirement.

YEARS IN RETIREMENT AT 80% INCOME REPLACEMENT





The Wells Fargo Plan Health Index: Bringing it all together

40% INCREASE IN PLAN HEALTH INDEX over the last five years

PLAN HEALTH SUPPORTS PARTICIPANT RETIREMENT READINESS

Common pitfalls in participation, contribution rate, and diversification can reduce the length of time a participant's savings will last by 40% or 50%. By closely monitoring Plan Health and taking advantage of the most important drivers of desired behaviors, plan sponsors can ensure that more employees are well prepared for retirement.

The Wells Fargo *Plan Health Index* score measures the percentage of employees in a plan who meet the standards set for all three participant behaviors — participation, contribution rate, and diversification.

For our overall book of business, all the participant behavior metrics have seen a steady increase in the last five years, albeit some growing faster than others. Contribution rates are growing the most slowly, in part because of low adoption of best practices for automatic enrollment (i.e., new participants are enrolled at low contribution rates).

The increase in each of the individual metrics has helped overall plan health. The *Plan Health Index* score for our total book of business is 40% higher in 2016 than it was five years ago.

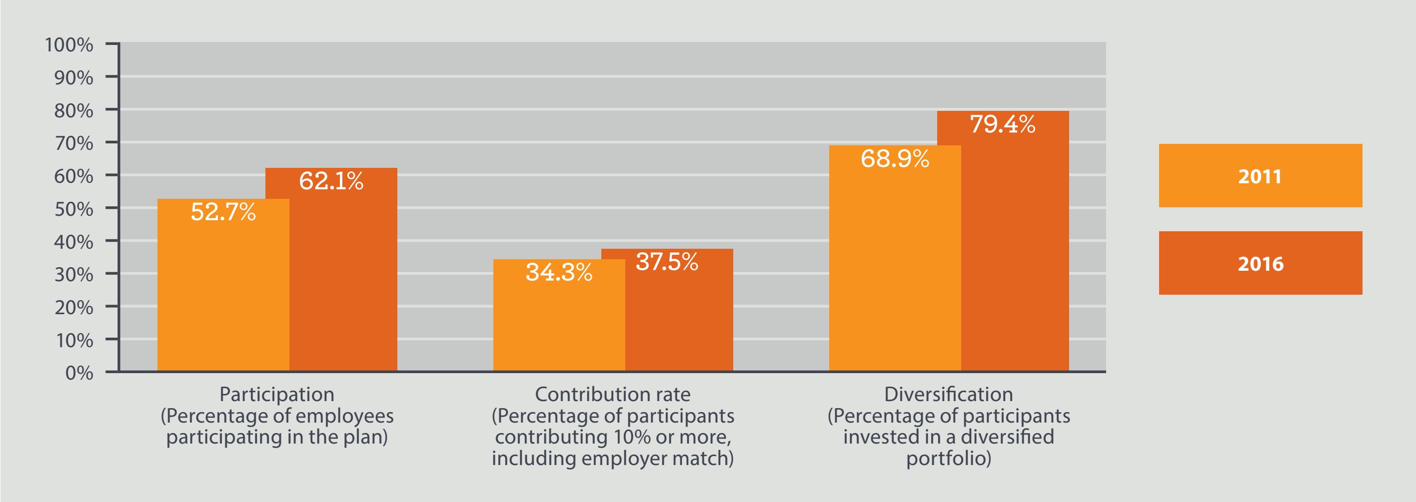
A plan sponsor can use the *Plan Health Index* score and the underlying index data to look deeper into their plan performance and ask key questions, such as:

- Of the three behaviors, is there one behavior lagging behind the others? How much progress has been made in each of the three behaviors in recent years? Understanding this could help retirement plan providers and sponsors determine where to focus future efforts — plan design and communication/education — to shore up overall plan health.
- Is there a segment of employees who need extra help in one area? Do Millennials need additional encouragement to contribute at a higher rate? Are employees with long tenures not meeting the diversification goal?
- Does the plan use best practices for its design features? Is the default deferral rate for automatic enrollment at least 6%? Does the plan have automatic increase as an opt-out feature, with a cap that gets people to at least a 10% total contribution rate? Does the plan default participants into a QDIA?
- Is there a significant number of long-term employees who never joined the plan? Should an annual or one-time automatic enrollment sweep be implemented for all employees?
- Can automatic enrollment be implemented for employees after they meet key employment tenure milestones?
- Can the match be structured to drive participants toward the 10% goal?

Appendix

EVOLUTION OF PLAN HEALTH INDEX METRICS

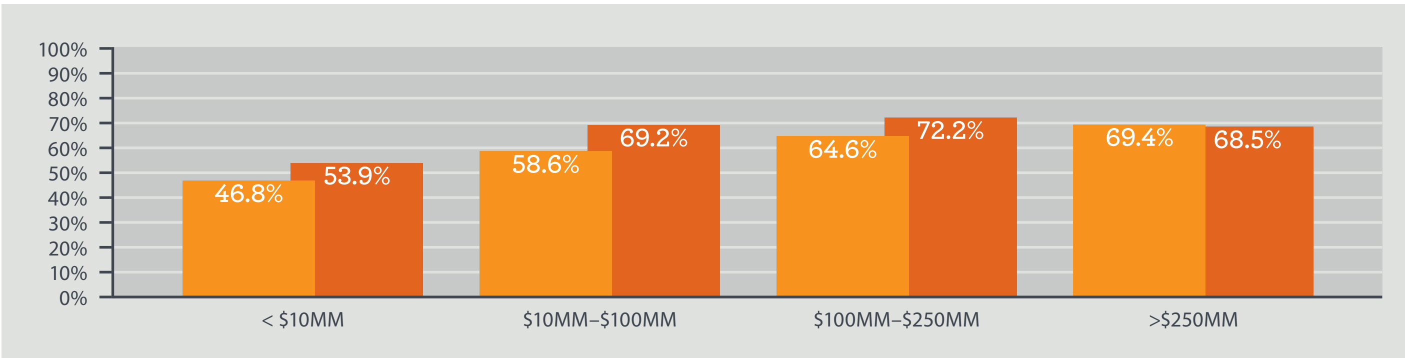
During the past five years, we have experienced steady increases in all three key participant behaviors — participation, contribution rate, and diversification. These increases can be attributed to automatic features being added to plan design, increased communication both direct to employees and in the general population, and growing concerns over retirement security.



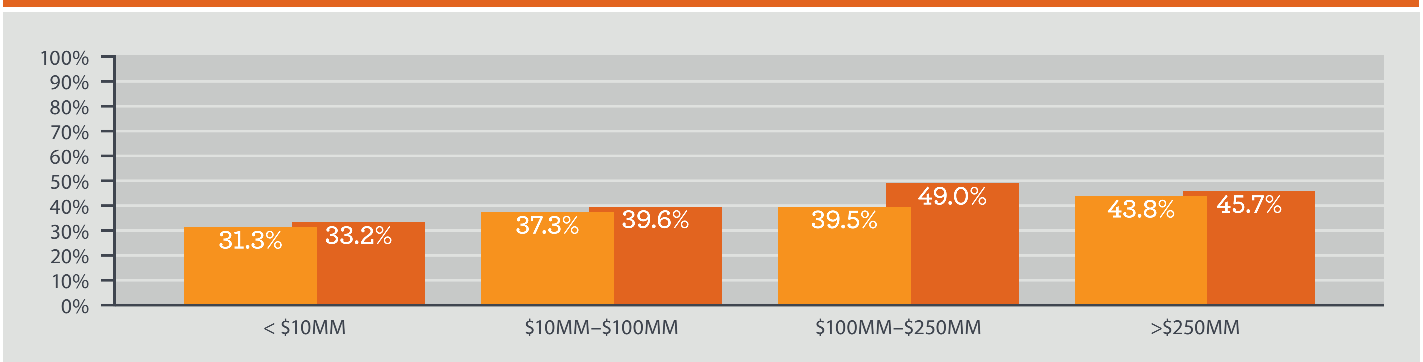
RESULTS BY PLAN SIZE

The following charts look at each *Plan Health Index* metric — participation, contribution rate, and diversification — by plan size (measured by assets).

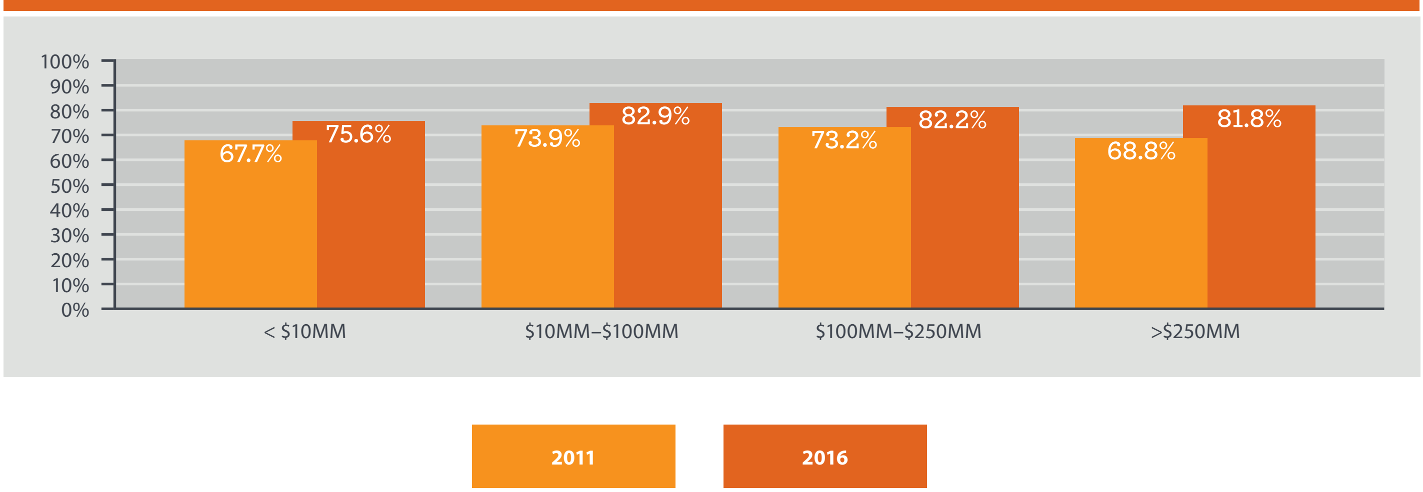
PARTICIPATION (Percentage of employees participating in the plan)



CONTRIBUTION RATE (Percentage of participants contributing 10% or more, including employer match)



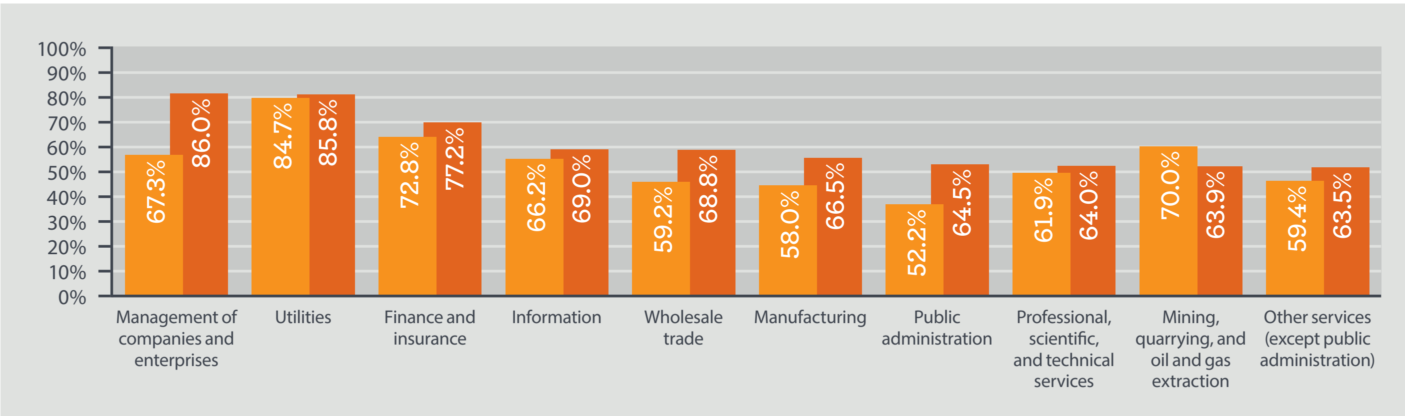
DIVERSIFICATION (Percentage of participants invested in a diversified portfolio)



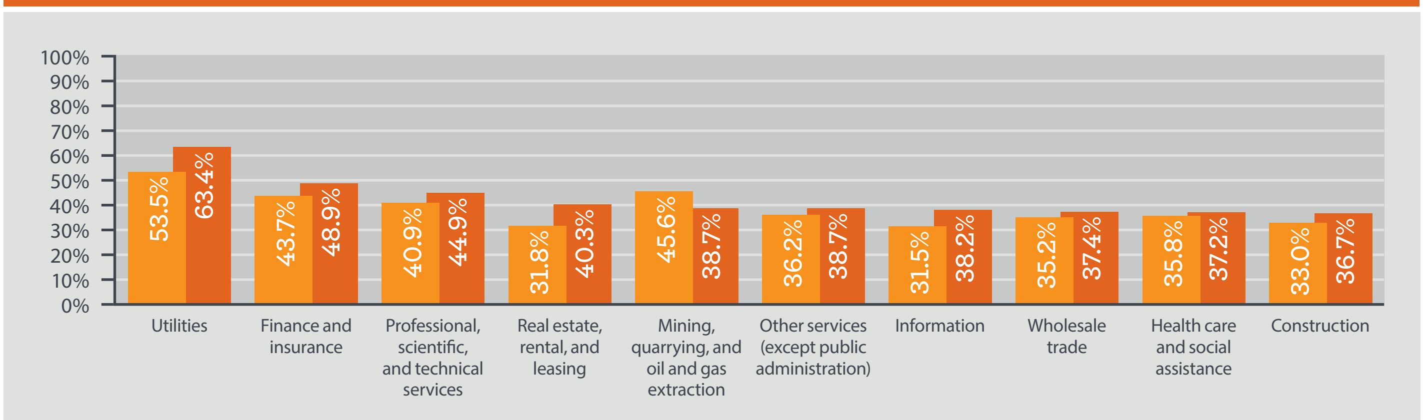
RESULTS BY INDUSTRY

These charts show the top 10 industries for each participant behavior metric. The best performing industry in 2016 is shown on the left with the rest of the top 10 in descending order.

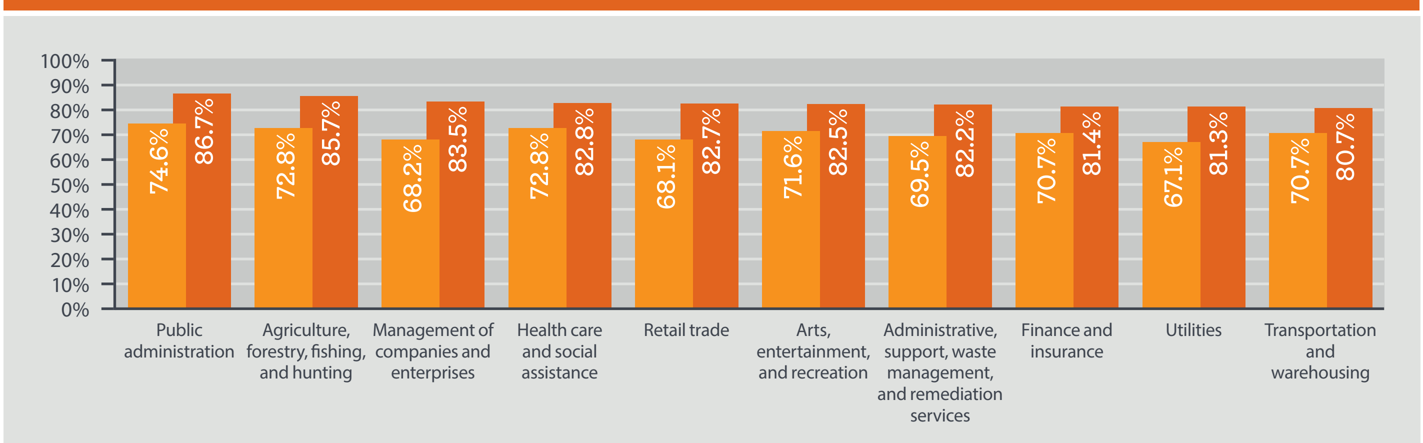
PARTICIPATION (Percentage of employees participating in the plan)



CONTRIBUTION RATE (Percentage of participants contributing 10% or more, including employer match)



DIVERSIFICATION (Percentage of participants invested in a diversified portfolio)



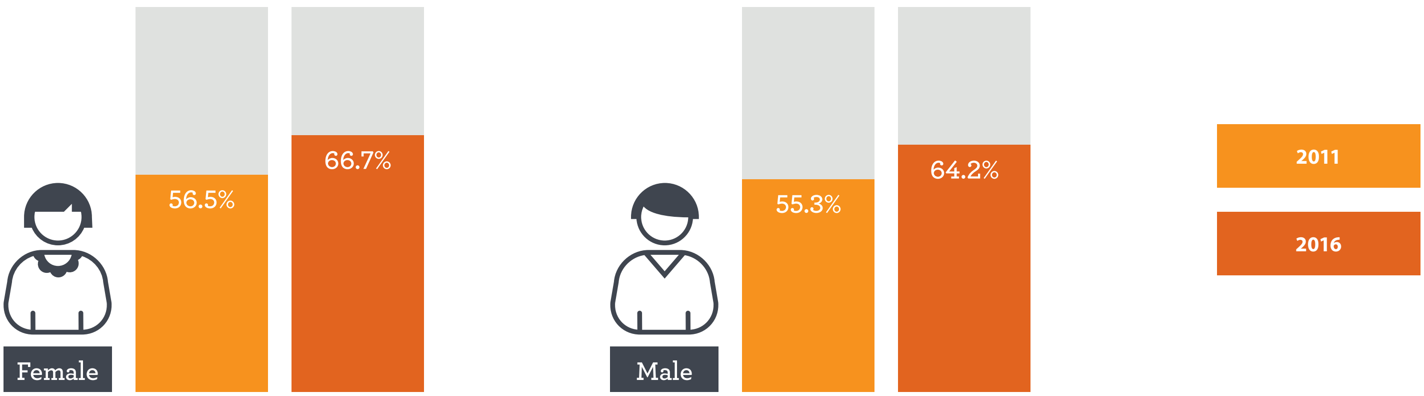
2011 2016

RESULTS BY GENDER

These charts show the breakdown by gender for the three key behaviors.

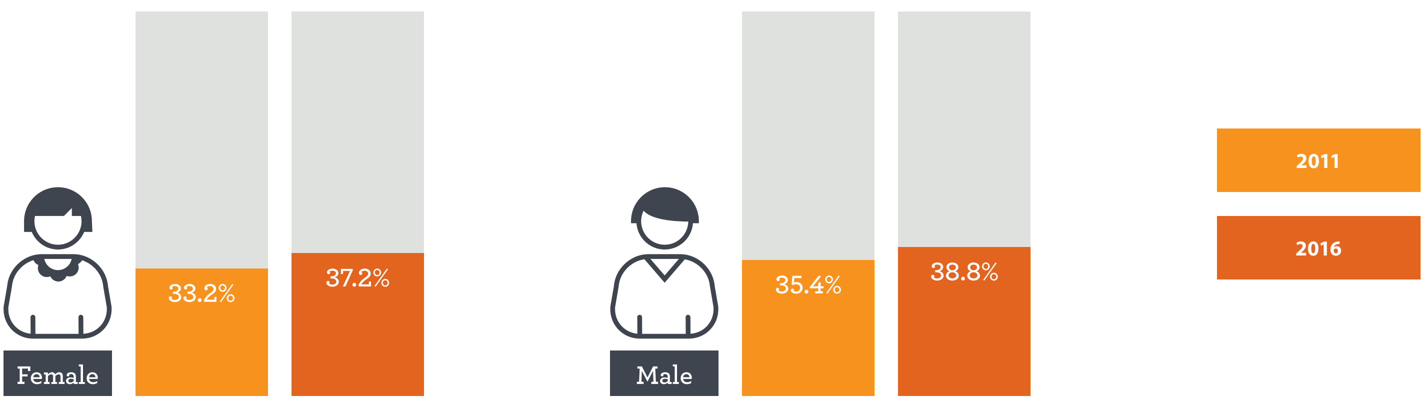
PARTICIPATION

(Percentage of employees participating in the plan)



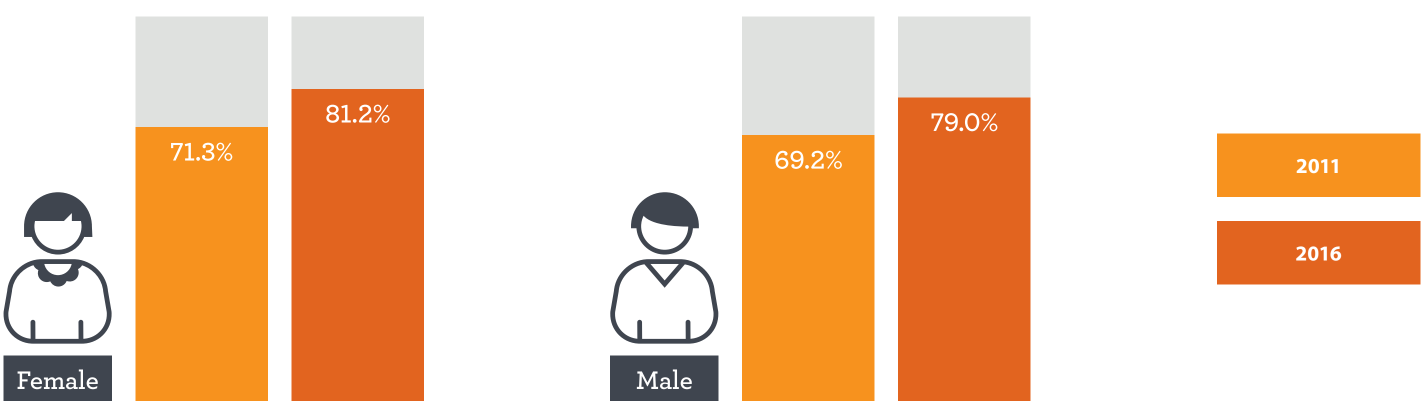
CONTRIBUTION RATE

(Percentage of participants contributing 10% or more, including employer match)



DIVERSIFICATION

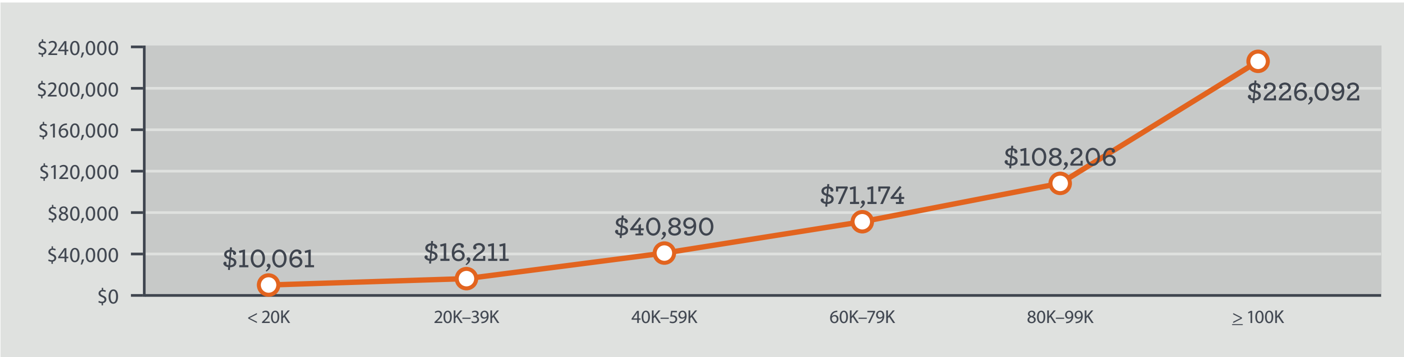
(Percentage of participants invested in a diversified portfolio)



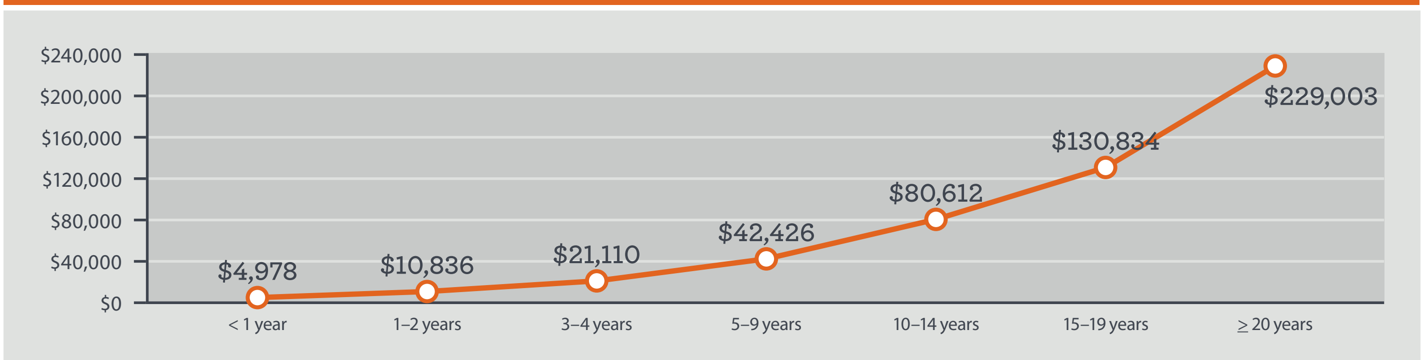
AVERAGE BALANCE

These charts show the current average participant account balance by income, tenure, and generation.

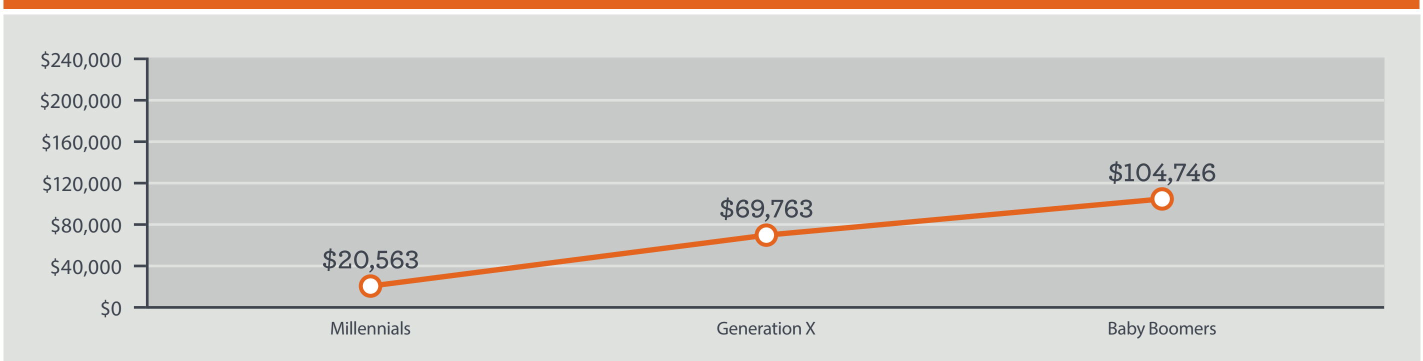
INCOME



TENURE



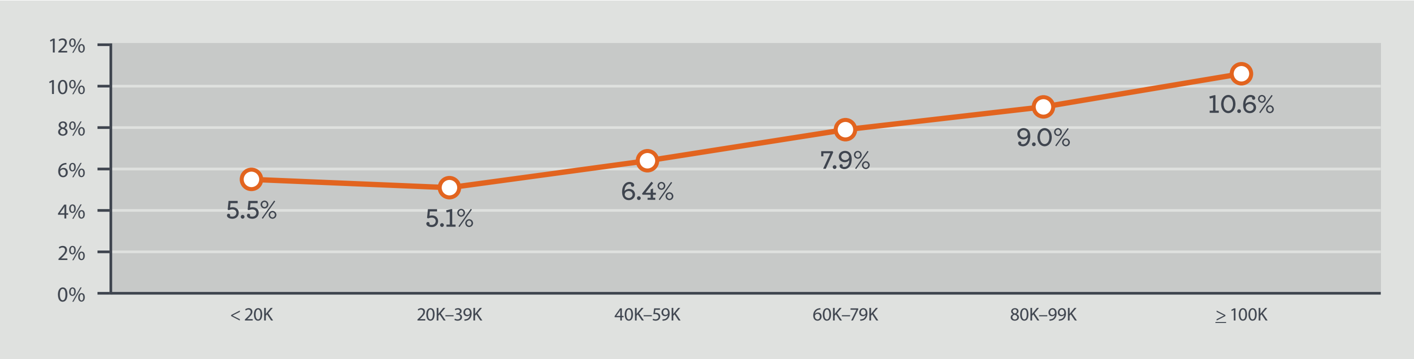
GENERATION



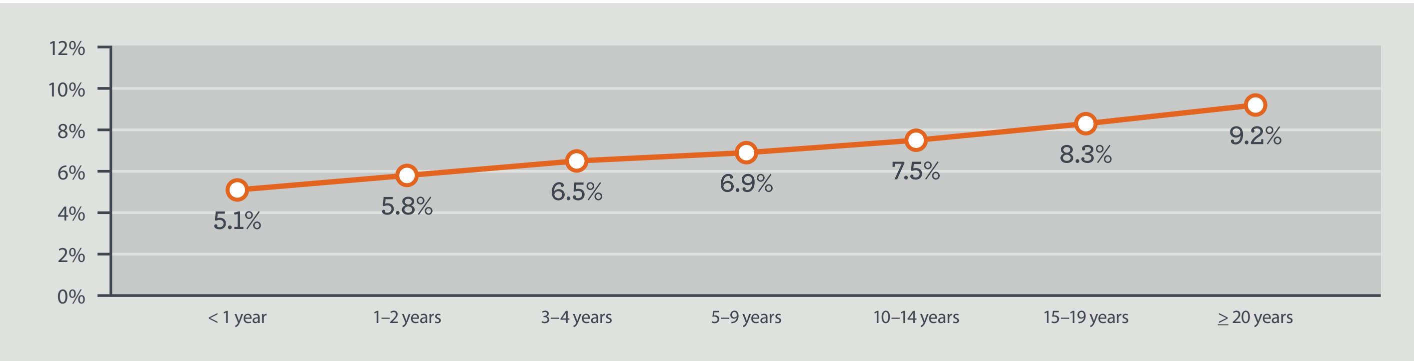
AVERAGE DEFERRAL RATE

These charts show the average deferral rate by income, tenure, and generation.

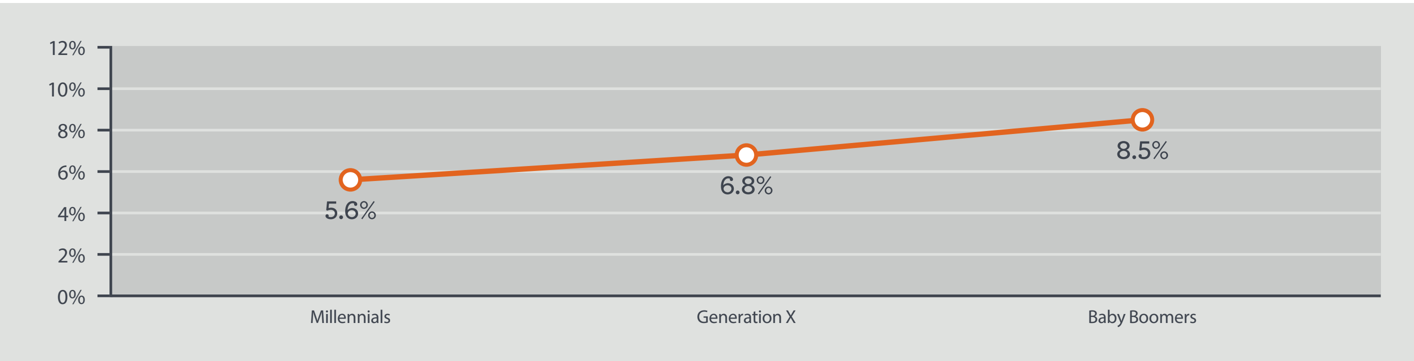
INCOME



TENURE



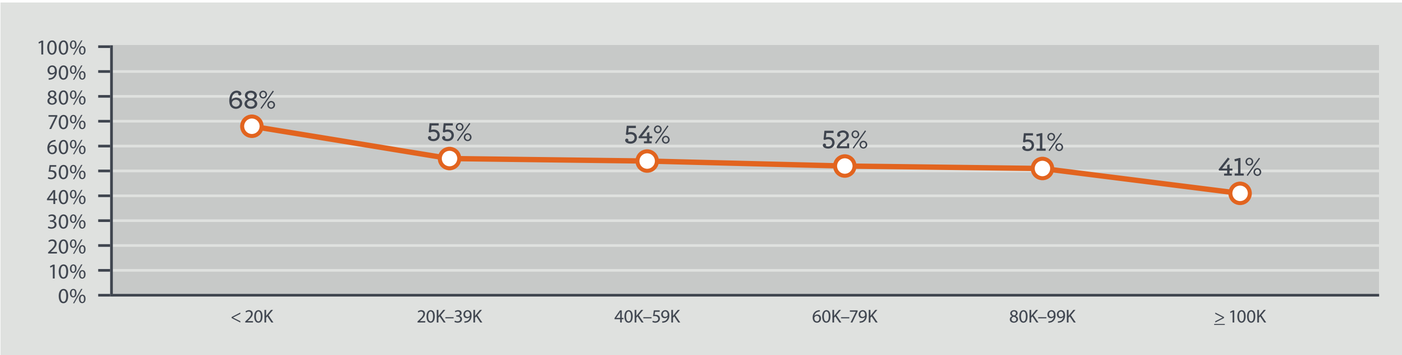
GENERATION



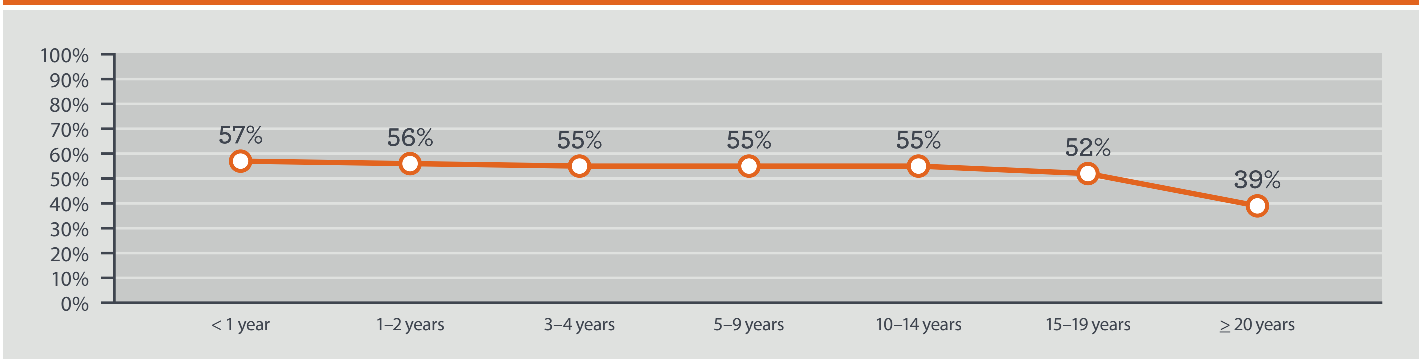
INCOME REPLACEMENT*

These charts show the current average income replacement percentage by income, tenure, and generation.

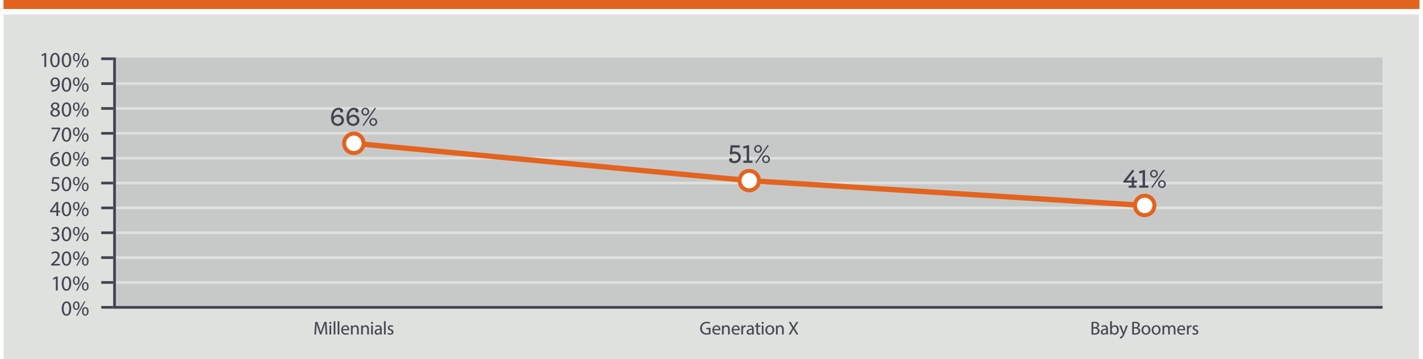
INCOME



TENURE



GENERATION

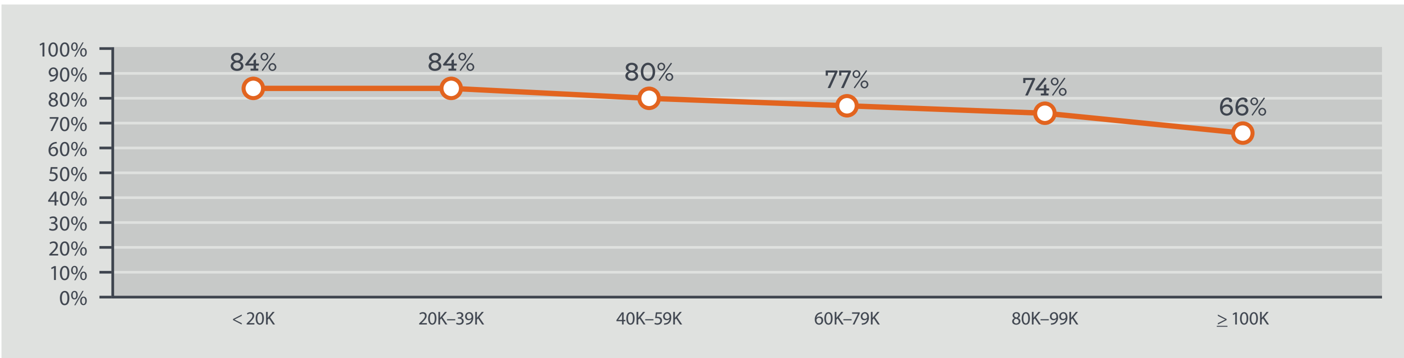


*Income replacement considers plan assets only.

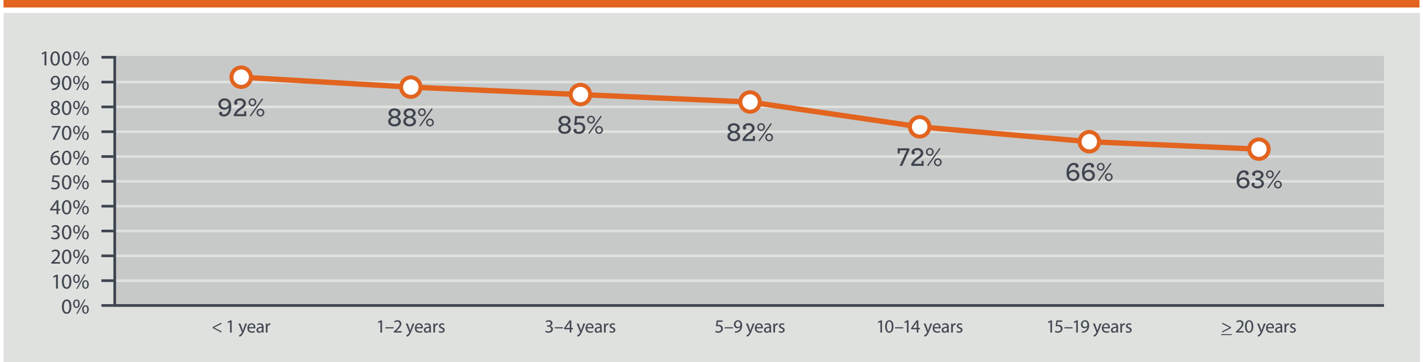
MANAGED INVESTMENTS

These charts show the percentage of participants using a managed investment solution by income, tenure, and generation.

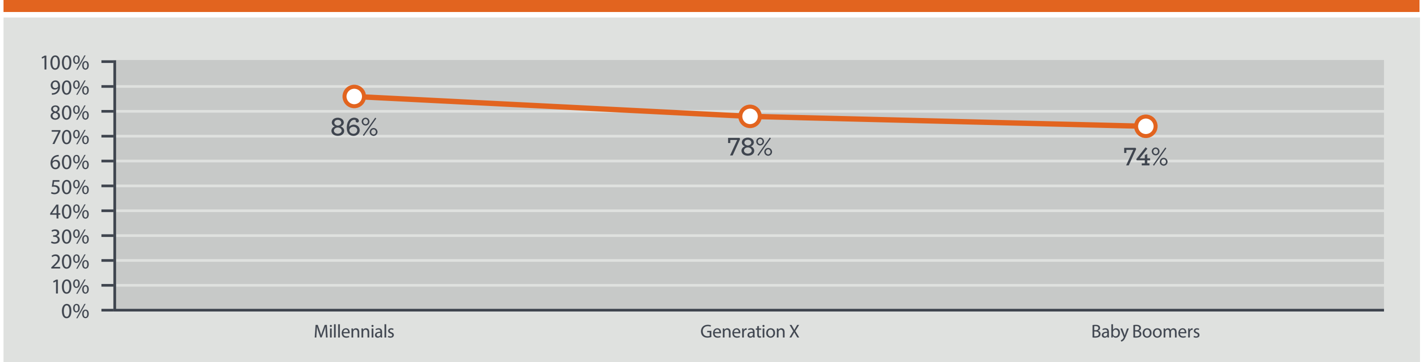
INCOME



TENURE



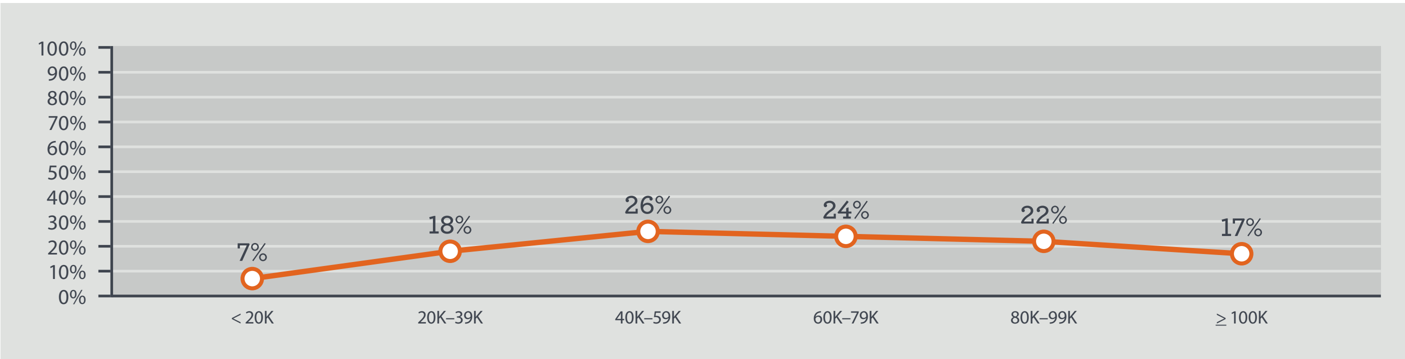
GENERATION



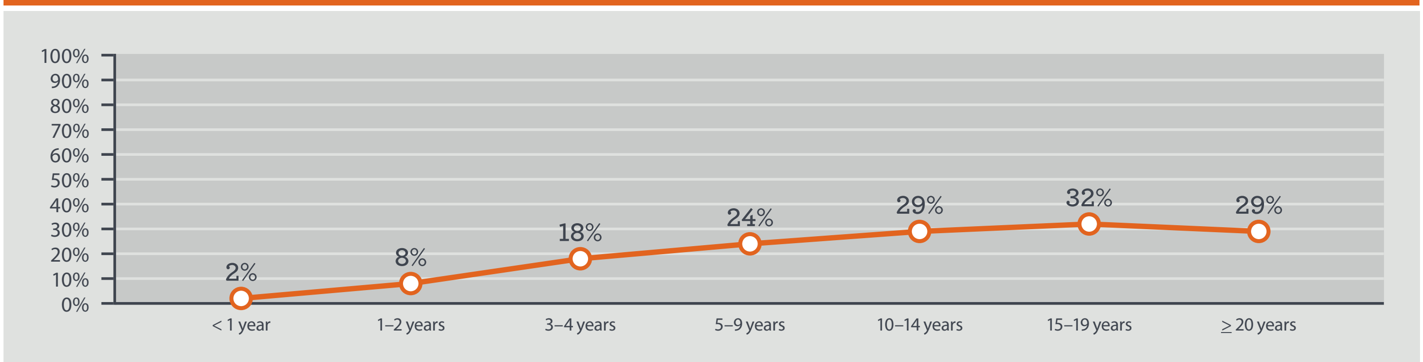
LOANS

These charts show the percentage of participants with loans by income, tenure, and generation.

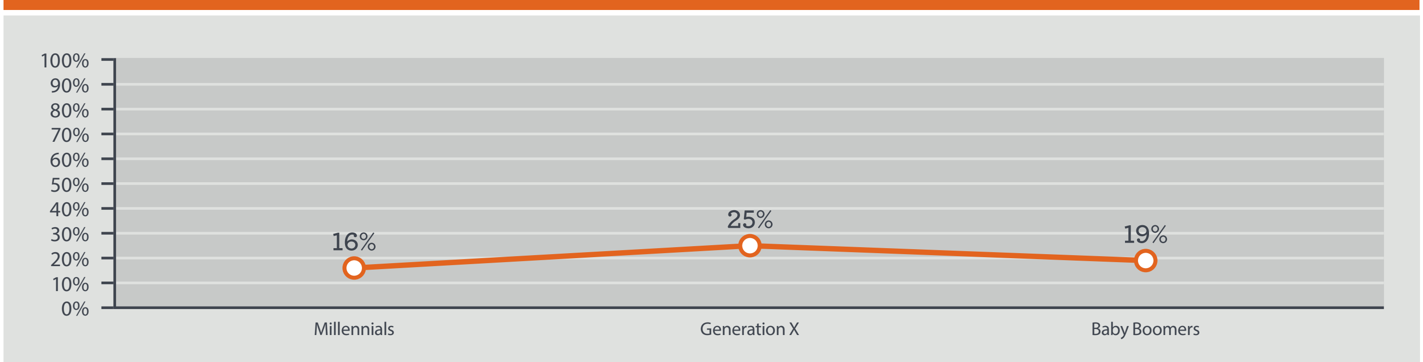
INCOME



TENURE



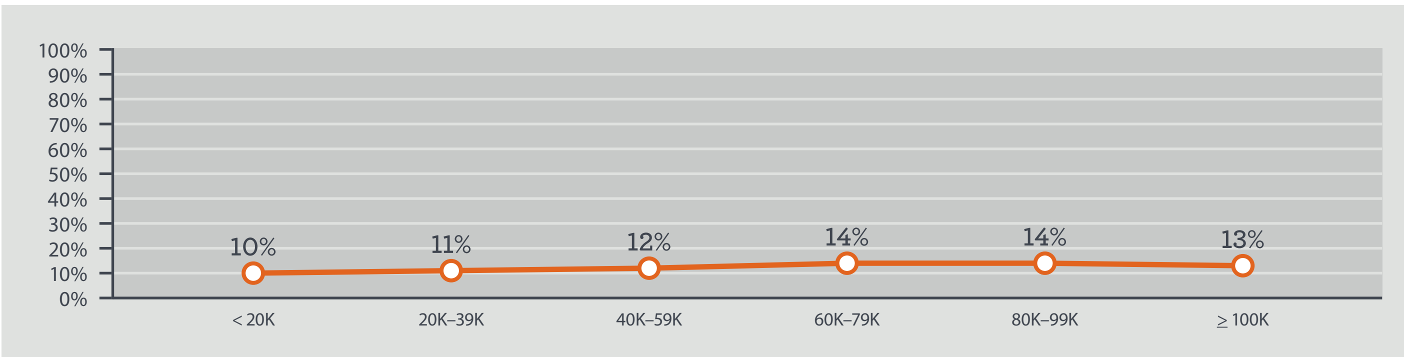
GENERATION



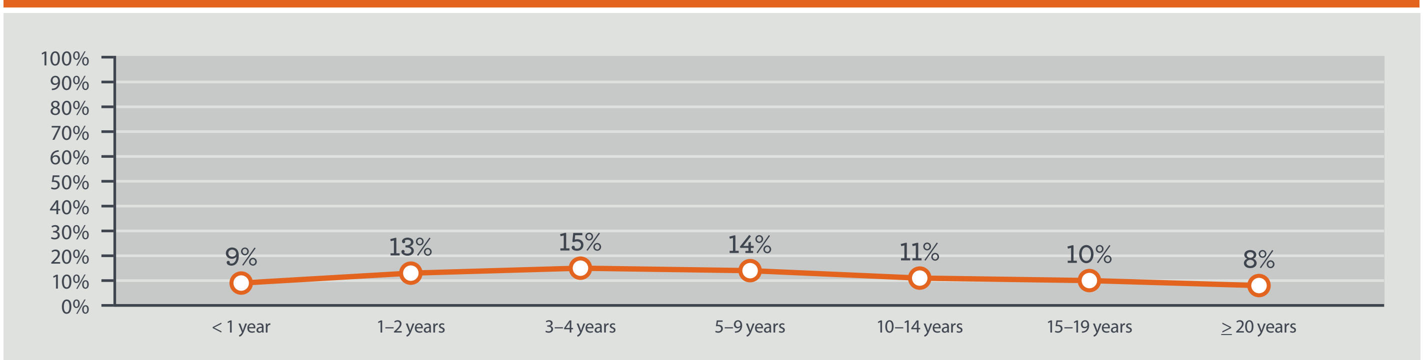
ROTH DEFERRALS

These charts show the percentage of participants making Roth deferrals (where allowed) by income, tenure, and generation.

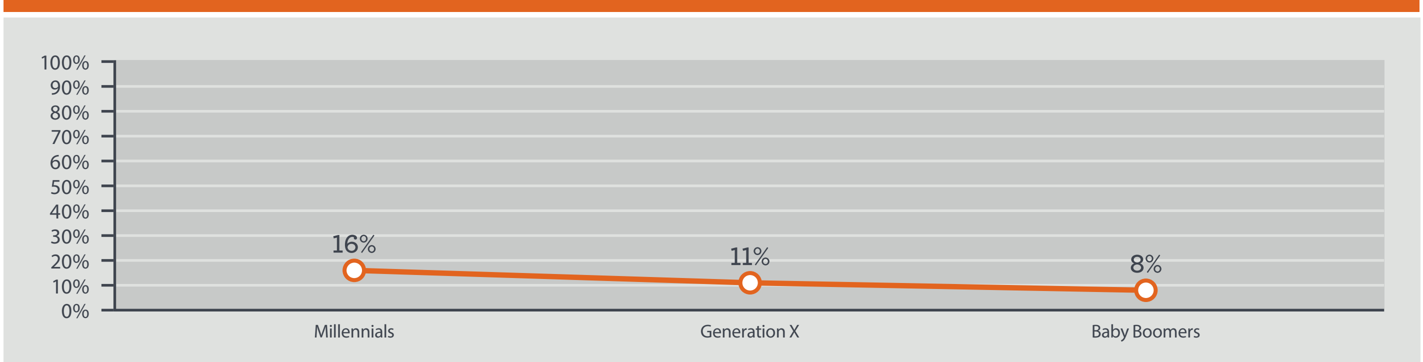
INCOME



TENURE



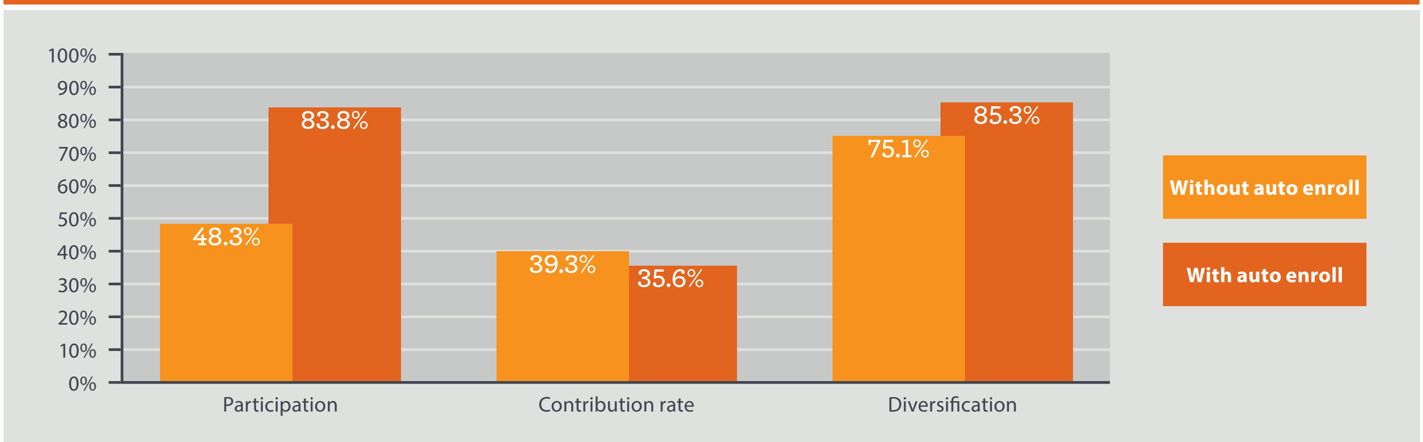
GENERATION



IMPACT OF AUTOMATIC ENROLLMENT

As this chart shows, the impact of implementing automatic enrollment for a plan can be quite dramatic. Participants meeting the participation and diversification goals increase substantially. The percentage of participants meeting the contribution rate goal is actually less. This could be attributed to plans automatically enrolling participants at low default contribution rates.

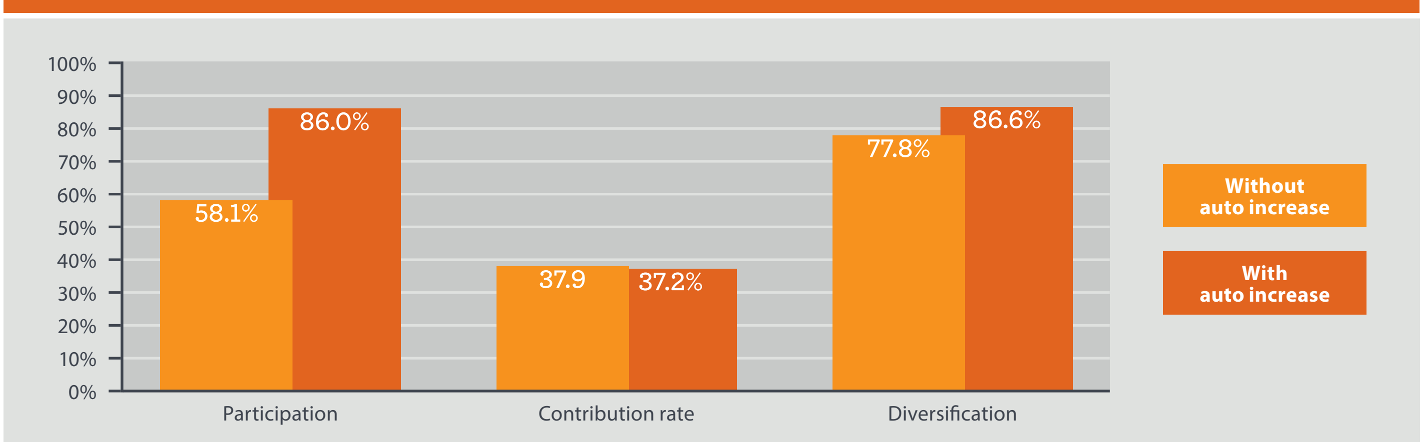
AUTOMATIC ENROLLMENT IMPACT ON PLAN HEALTH METRICS



IMPACT OF AUTOMATIC INCREASE

Similar to the automatic enrollment chart, here we see the impact of adding an automatic increase program to a plan. Again, participation is greatly enhanced (most likely due to the fact that a plan with an automatic increase program also has automatic enrollment) and diversification is also increased. However, the percentage of participants meeting the contribution rate goal is lower with the increase program in place. This could be attributed to increase programs being relatively new for most plans. Depending on its structure, a contribution increase program can require a longer time horizon to see results — especially if automatic enrollment starts at a low percentage and increases are only 1% a year.

AUTOMATIC INCREASE IMPACT ON PLAN HEALTH METRICS



INVESTMENTS IN RETIREMENT PLANS:

NOT FDIC INSURED	NO BANK GUARANTEE	MAY LOSE VALUE

CAR-0517-03724