

## **Comments from a corporate plan sponsor with approximately \$5 billion in DC assets as of 9/30/14**

Our defined contribution 401(k) plan contains a core investment menu of ten options. The options include four collective trusts and one mutual fund passively managed by professional investment managers, four pre-mixed “target risk” options (modeled using the aforementioned passive core investments), and Company stock. A self-directed brokerage option is available to participants as a **complement** to the core menu of investment options.

The investment options available to participants can be subcategorized into the following three groups based upon their objectives, risk, and/or type of strategy:

### **Core Options**

The collective trust/mutual fund core investment options are designed to represent the minimum desired options for participants to adequately diversify their holdings. These options are intended to be conservative to moderate risk options within their respective investment categories (money market fund, intermediate duration core bond index fund, large cap domestic equity index fund (S&P 500), small cap domestic equity index fund (Russell 2000), and international equity index fund (EAFE)). In addition, Company stock is available to participants as a core option.

### **Pre-mixed “Target Risk” Options**

There are four distinct “target risk” options and each are a pre-mixed portfolio model of varying percentages of the five core investment options (Company stock NOT utilized by the mixes). The options have been designed to help guide those participants who lack the necessary expertise in constructing their own diversified investment portfolio, do not have the necessary time or resources to devote to the construction of a diversified investment portfolio, or simply desire to simplify their investment decision-making. The options in and of themselves are intended to provide a sufficient level of investment diversification to participants.

### **Self-Directed Brokerage Window**

The self-directed brokerage option allows participants to invest in stocks, mutual funds and fixed-income investments. Certain types of investments are prohibited (see appendix below). It is designed for individuals who feel comfortable making investment decisions and would like a wider variety of investment choices than those available through the plan’s core menu.

More information on the self-directed brokerage window option inside of the DC plan is as follows:

- The plan has utilized a self-directed brokerage window since 2002. Changes to the plan and implementation of the brokerage window service at that time allowed the plan to:
  - o consolidate the core investment menu options in the plan due to the high concentration of dollars in few options (93% of assets in just four options when 20+ core options existed)
  - o offer participants a simplified investment menu

o increase the investment flexibility of the plan by offering a self-directed brokerage option

- Both the number of self-direct accounts and size of assets in the self-direct option have shown consistent, moderate growth over the period the service has been offered to participants. As of 9/30/14, approximately 6.3% of plan assets are invested through the self-directed brokerage window. Usage at the total plan level is reported to plan fiduciaries on a quarterly basis.
- The service is provided through the Plan Administrator and is the only brokerage window service available on the platform (i.e. the plan does not have the ability to utilize a competitor's product). We fully vetted the program and chose to implement one of two available program offerings. Plan participants can initiate trades directly either online or by phone through a benefit plan representative. The other program offering utilized financial advisors provided through the Plan Administrator's network to assist in servicing the account. We weren't comfortable with that structure and chose not to implement the advisor-assisted program.
- Fees associated with the brokerage window service have been negotiated and are reviewed on an ongoing basis. Fees disclosed and reported annually to both participants and the plan sponsors are reviewed for accuracy and appropriateness. Participants are charged a \$60 per year maintenance fee (assessed at the rate of \$15 quarterly) for their participation in the self-direct option. Only those participants that invest in the option are charged the fee. In addition, participants pay a commission on all stock trades and dividends that are reinvested in stocks. The commission schedule varies depending upon the method in which the order was placed. A \$9.95 flat fee is charged for online stock trades (through the Plan's website) while a higher commission schedule, based on the dollar value of the transaction, will apply for stock trades made by calling a benefit plan representative. The mutual fund alliance fund transactions are conducted at net asset value (NAV). There are no other sales charges or commissions applicable with regard to these funds. As with any mutual fund, however, management fees and expenses apply. However, certain "Supermarket" funds will be subject to fees of \$49.95 if processed online and \$74.95 if processed with a benefit plan representative. Such funds are labeled accordingly on the Plan's website. Fixed income securities are transacted at the price and yield as quoted with no sales charge.
- We do not review individual participant behavior inside of the brokerage window service.
- We do not review the investment offerings made available to participants in the brokerage window service and disclose this to participants prior to their use of the service.
- We have yet to receive any negative feedback with regard to offering the brokerage window service from a plan participant in the thirteen years since introduction.

In closing, we certainly understand the goal of the Employee Benefits Security Administration to develop standards for brokerage windows in participant-directed accounts. Further, we are aware of sponsors attempting to reduce fiduciary responsibility by offering the window in place of designated investment options. However, we believe it's quite clear from our structure that is not the case with our plan and

increased reporting and disclosure requirements would likely have a negative effect on our ability to offer a self-directed brokerage window to our participants. Increased costs of the plan administrator to produce a new set of reports will be passed through to the plan sponsor and an increased workload on pension staffs already operating at full capacity may lead to reduced services within a plan sponsor's retirement program. That would be disappointing for the approximate 10% of our participant population (and growing!) who have embraced the self-directed brokerage window inside of the 401(k) plan, providing increased options for the management of their retirement accounts and flexibility with their retirement planning beyond a core investment menu.

## **Appendix: List of Brokerage Window Eligible/Ineligible Investments**

### **Eligible Investments:**

Equities – Common and preferred stocks traded on the NYSE, NASDAQ and AMEX. Exchange Traded Funds (ETFs), Standard & Poor's Depository Receipts (SPDRs) and American Depository Receipts (ADRs) traded on a U.S. exchange and issued by a U.S. bank

Fixed Income investments – Including U.S. Treasury bills, notes and bonds; agency securities, corporate bonds and certificates of deposit (CDs).

Alliance Partner Mutual Funds – Available at NAV through the Plan Administrator's Mutual Fund Alliance

Supermarket Funds – A select list of transaction fee mutual funds outside of the Alliance Partner Mutual Fund offering

### **Ineligible Investments:**

Participant self-directed brokerage window accounts offered as an investment in the core plan account are subject to investment eligibility rules meant to avoid valuation and liquidity issues, and questions of investment suitability and undue investment risk exposure. As such, participants are prohibited from purchasing the list of investments below in a brokerage account.

- Core Account Investments offered in the Plan
- Company Stock (includes Common and Preferred Stock, Corporate Debt, etc.)
- Foreign Securities
- Options (Including Covered Calls) & Futures
- Currencies & Commodities

- Precious Metals
- Real Estate
- New Issues – IPO's
- Penny Stocks
- Exchange Traded Notes (ETN's)
- Structured Notes
- Annuities, Life Insurance Policies
- Tax-Exempt securities
- Municipal Bonds
- Warrants
- International Government Bonds
- Retirement Reserves, Ready Assets Trust
- Retirement Bank Account
- Collectibles
- Private Placements
- Paydown issues (GNMA, FNMA, etc.)
- Step-Up Notes
- Real Estate Investment Trust (REIT)
- Collateralized Mortgage Obligations (CMOs)
- Unit Investment Trusts
- Hedge Funds/Hedge Access
- Alternative Investments
- Limited Partnerships
- Master Limited Partnerships
- Publicly Traded Partnerships

- Commercial Paper
- Treasury Index Protection Securities (TIPS)

#### Ineligible Investment Strategies

- Trades Away
- Short Selling
- Margin Trading