2010

The Financial Engines National 401(k) Evaluation

Who benefits from today's 401(k)?

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Foreword

Welcome to the 2010 edition of The Financial Engines National 401(k) Evaluation.

When we first evaluated the savings and investments of nearly one million 401(k) participants in the initial National 401(k) Evaluation in 2008, no one could have imagined what the next two years held in store. The U.S. economy weathered a serious financial crisis, with the stock market and participant 401(k) accounts taking significant hits. On a brighter note, many employers embraced the automatic 401(k) and Qualified Default Investment Alternatives (QDIAs) finalized by the U.S. Department of Labor in late 2007.

This report illustrates the impact of those very different events and highlights both the vulnerability and great potential of the 401(k), the cornerstone of the American retirement system. It demonstrates what is working with the 401(k) and what needs more work, which participants are taking advantage of their 401(k) plans, and which participants are making costly mistakes.

New Retirement Income Section and Plan Design Analysis

Understanding what participants are doing now with their 401(k)s is useful, but it's time to also start looking at what matters: how are people going to live in retirement? This year, in addition to assessing more than 2.8 million participant portfolios, the 2010 edition of the National 401(k) Evaluation includes a new Retirement Income section that attempts to determine how close (or how far) participants are to achieving their retirement income goals and an analysis of the impact of automatic 401(k) plan design on participant portfolios.

Due to the decline in defined benefit pension plans, it now takes a series of good decisions throughout a participant's career to achieve a successful retirement. Without help and without a plan, chances are good that many participants will not have enough assets to comfortably retire at age 65. Plan sponsors can play a very influential role through plan design to help participants succeed.

The 2010 National 401(k) Evaluation is the largest and only data set of its kind to combine participant saving and investing decisions with plan design, salary data, and retirement income forecasts across multiple 401(k) providers. We hope that you find this analysis informative and useful as we all work together to get 401(k) participants on the right track.

Sincerely,

Jeff N. Maggioncalda

President and CEO
Financial Engines

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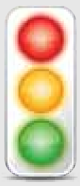
Executive Summary

In the 2010 Financial Engines National 401(k) Evaluation, Financial Engines examined over 2.8 million participant 401(k) portfolios from 272 large plan sponsors. Each evaluation looked at the projected retirement income generated from the current portfolio, investments (evaluations of risk and diversification and company stock exposure), and participant savings.



Red, Yellow, and Green Participant Stoplights

Red: The participant should consider making a change to their 401(k)

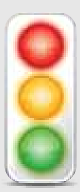
Yellow: The participant might consider making a change to their 401(k)

Green: The participant is taking good advantage of their 401(k) plan options

Using a traffic stoplight as a metaphor, we calculated the range of retirement income each 401(k) account was likely to generate to illustrate how participant saving and investing decisions could affect their nest eggs in retirement.[1] To identify the mistakes participants are making with their 401(k)s, we evaluated each participant portfolio and assigned it a value of red, yellow, or green.[2] Finally, we looked at the impact of plan design on the health of participant portfolios and plans overall.

Across the entire sample, three out of four participants are not on track to comfortably retire by age 65.[3] In addition, 34% have inefficient portfolios and/or inappropriate risk levels, 23% of participants with company stock as a plan option hold too much of it, and 39% of participants are not contributing enough to their 401(k)s to receive the full employer match.

Retirement Income



72% Red

16% Yellow

12% Green

Three Out of Four Participants Not on Track to Meet Retirement Goals

According to the report, a significant majority of Americans (72%) are not on track to reach retirement income goals by age 65. Based on Financial Engines' inflation-adjusted projections, three out of four workers are going to be unable to replace 70% of their pre-retirement income with the combination of their 401(k) plan and Social Security if the markets perform typically. If the markets perform poorly, those same participants could be unable to replace even half (50%) of their pre-retirement income. Only 12% of participants overall are expected to have a median outcome

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[1] An explanation of the Retirement Income methodology can be found in Appendix C.

[2] An explanation of the stoplight methodology can be found in Appendix C.

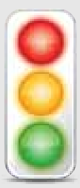
[3] Forecast based on 401(k) accounts, other company-sponsored retirement accounts, and Social Security only. Some participants may have additional outside assets.

above their ideal goal (70% of pre-retirement income) and at least 50% of their pre-retirement income if market performance is poor.

Of the 72% of participants receiving red Retirement Income stoplights (indicating a low likelihood of meeting their ideal or minimum retirement income goals), the typical participant is projected to be able to replace only 45% of their pre-retirement income, compared to a goal of 70%. Fifteen percent of participants are more than 50% away from meeting their goals.

Participants have a number of levers they can employ to narrow the retirement income gap, including saving more, reallocating their portfolios, delaying retirement, and reducing their standard of living in retirement.

Investments: Risk and Diversification



34% Red

33% Yellow

32% Green

Participants in Plans with QDIAs Better Off

Participants still struggle to create diversified portfolios with the appropriate level of risk. Only about one third of participants (32%) have efficient portfolios with the appropriate amount of risk (green stoplights). Another third (34%) have very inefficient portfolios or very inappropriate risk (red stoplights). In terms of portfolio risk and diversification, participants in plans with Qualified Default Investment Alternatives (QDIAs) are better off than those in plans without. Nearly two in five participants (39%) in plans with a QDIA have green Risk and Diversification portfolios (indicating appropriate risk and diversification), compared to only about one in four (27%) in plans without a QDIA.[4]

QDIAs Working Best for Younger, Lower Salaried, Lower Balance Participants

Although QDIAs were only first sanctioned by the U.S. Department of Labor in 2007, their impact is already being felt by younger participants with lower salaries and account balances. These employee groups have an increased likelihood of being a new employee, automatically enrolled in the plan and invested appropriately in a QDIA. In addition, they stand to benefit the most from building a strong savings foundation early in their careers and recognizing that their 401(k) will likely be their primary source of retirement income.

[4] Additional factors at play could include other plan design features, such as the plan line-up, etc.

For example, 52% of participants under age 30 in plans with a QDIA have green Risk and Diversification stoplights, compared to just 12% of participants under 30 in plans without a QDIA. Likewise, 50% of participants earning less than $25,000 per year in plans with a QDIA have green Risk and Diversification stoplights, compared to just 24% in plans without a QDIA. In addition, 52% of participants with account balances under $5,000 in plans with a QDIA have green Risk and Diversification stoplights, compared to 22% in plans without a QDIA.

Passive Enrollment Needed to Reach Existing Participants

Existing participants need help making the right investing decisions. The QDIA regulations facilitated re-enrollment and default investing of existing participants into age-appropriate investments. Based on this research, passive enrollment (automatically re-enrolling all employees – new and existing) is an effective means of dramatically improving overall plan health. Plans that have re-enrolled all participants into managed accounts have nearly twice as many participants with green Risk and Diversification stoplights as plans without passive enrollment (57% versus 31%). Consequently, they also have notably fewer red and yellow stoplights.

Participants across all age groups and salary levels are better off with passive enrollment. Participants receiving the greatest benefit from passive enrollment into a default investment include those with lower salaries and lower balances. These are the participants who typically have the least access to affordable professional help.

Investments: Company Stock

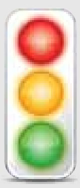
Economic Downturn Reduces Company Stock Exposure; Dangers Remain

In aggregate, the recent economic downturn brought about a reduction in company stock holdings and a significant increase in the number of participants across all age groups holding less than 10% of their 401(k) portfolios in company stock. Of course, those reductions came with significant participant account losses.

Participants in their 40s, 50s, and over age 60 saw the greatest reduction in company stock holdings. Similarly, participants with account balances over $100,000 experienced marked reductions in company stock holdings, as did participants earning less than $50,000 per year.

With the typical company stock represented in both our 2008 and 2010 reports declining 31% during the economic downturn, it is reasonable to infer that at least some of the reduction in company stock holdings was not participant-driven, but instead a result of stock market volatility. It is also likely that the much higher volatility during the period made the risks of high company stock concentration more visible to participants. If their company stock investments recover, participants could again be in the position of holding inappropriate concentrations of company stock.

Participant Savings



39% Red

56% Yellow

6% Green

Economic Downturn Hurts Participant Savings Rates

The economic downturn has lowered participant savings rates relative to those in the 2008 report (which was based on 2007 participant data). Of the 2 million contribution-eligible participant accounts evaluated in this report, 39% of participants are not saving enough to receive the full employer match (or at least 5% of salary in companies without a match), up from 33% in 2008. Only 6% are saving within $500 of their annual pre-tax IRS limits, down one percent from 2008.

Younger Workers Saving Less in 401(k)s

Participants under 40 and those with mid-level incomes pulled back their savings the most in the last two years. Fifty-three percent of participants under 30 and 44% of those in their 30s failed to save enough to receive the full employer match, compared to 48% and 35%, respectively, in 2008. In addition, participants earning between $25,000 and $75,000 per year were more likely to have lower contribution rates than they had two years ago, reflecting the seriousness of the economic crisis and its impact on middle-class working Americans. Fifty percent of those with yearly salaries between $25,000 and $50,000 and 35% of those earning between $50,000 and $75,000 did not save enough in their 401(k)s to receive the full match in 2010, compared with 39% and 24%, respectively, in 2008.

Automatic Savings Escalation Key to Participant Success

The key to participant savings comes from automatic escalation, where the participant's savings rate is increased automatically on an annual basis to a pre-determined maximum. Sixty-seven percent of participants in plans with automatic escalation save enough to receive the full employer match, compared to just 52% of participants in plans without automatic escalation.

About The Financial Engines National 401(k) Evaluation

The Financial Engines National 401(k) Evaluation is an estimate of how much retirement income participant 401(k) portfolios could generate in retirement and an assessment of how well Americans are using their 401(k)s. To create this report, Financial Engines analyzed over 2.8 million 401(k) portfolios from 272 plan sponsors (compared to the 2008 report, which included data from nearly 1 million participants from 82 plan sponsors).

For the 2010 report, we evaluated three key dimensions:

- Retirement Income;
- Investments (including Risk and Diversification and Company Stock); and
- Participant Savings.

Data included in this report were collected from Financial Engines' client base between September and December 2009. The large participant sample reflects the broad range of 401(k) participants within Financial Engines' database – participants who invest their 401(k) portfolios on their own, use investment advice, invest in target date funds, and have their 401(k) plans professionally managed through managed accounts.[5] The result is a snapshot of how these participant 401(k) portfolios were invested at the time of data collection.

This report analyzes 401(k) plans only, and is not intended to address participant investments outside of the plans offered by these plan sponsors, including IRAs, Roth IRAs, other investment vehicles, or additional 401(k) portfolios and pension plans at other employers not included in the sample set. As a result, the analysis may not represent investing of the total household portfolio.

When we refer to 401(k) plans, we include 401(k) plans and 403(b) plans, which allow participant deferrals and participant-directed investments.[6]

When referring to automatic features in a 401(k) plan, the term "automatic enrollment" refers to when a participant is first enrolled in the plan. "Passive enrollment" or "re-enrollment" refers to when participants are re-enrolled in the plan and into a default investment. When we examined plan design (such as the presence of a QDIA or an automatic savings escalation provision), we looked at a subset of 70 plans that was also included in the 2008 National 401(k) Evaluation data

[5] For a comparative analysis of participants getting help versus participants managing their own 401(k)s, please see the Hewitt/Financial Engines research, "Help in Defined Contribution Plans: Is It Working and for Whom?".

[6] Data include 97% 401(k) portfolios and 3% 403(b)/other portfolios.

sample and for which we had plan design data. This subset includes 795,105 participants and has an average plan size of 11,359. An overview of the plan sponsors and data sets can be found in Appendix A.

Due to rounding to the nearest whole number, some totals may sum to 99% or 101%.

Stoplight Methodology Overview

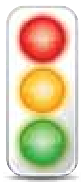
This report uses Financial Engines' methodology coupled with a stoplight metaphor created to help participants better understand how well they are utilizing their 401(k) plans. Financial Engines has evaluated each of the portfolios included in this report, taking the available plan options into consideration. Throughout this report, we apply the same methodology and stoplight metaphor of red, yellow, or green for Retirement Income, Risk and Diversification, Company Stock, and Participant Savings.

Red indicates that the participant should consider making a change to their 401(k); yellow indicates that the participant might consider making a change; and green indicates that the participant is taking good advantage of their 401(k) plan options.

Each stoplight (Retirement Income, Risk and Diversification, Company Stock, and Participant Savings) has its own methodology associated with it, reflecting the unique dimension being evaluated. We have included an abbreviated stoplight methodology overview on the following page.

A full explanation of the Financial Engines methodology behind each stoplight evaluation can be found in Appendix C.

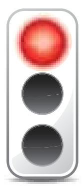
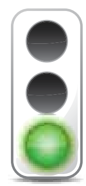
Figure 1: Abbreviated Reference Guide for Red, Yellow, and Green Stoplights[7]



Red: The participant should consider making a change to their 401(k)

Yellow: The participant might consider making a change to their 401(k)

Green: The participant is taking good advantage of their 401(k) plan options

Stoplight Methodology	Red Stoplight	Yellow Stoplight	Green Stoplight
			
Retirement Income	**Red:** Has less than a 50% chance of meeting the ideal goal and less than a 95% chance of meeting the minimum goal	**Yellow:** Has less than a 50% chance of meeting the ideal goal OR less than a 95% chance of meeting the minimum goal	**Green:** Has at least a 50% chance of meeting the ideal goal and a 95% chance of meeting the minimum goal
Risk and Diversification	**Red:** The portfolio has very inappropriate risk and/or is very inefficient	**Yellow:** The portfolio has inappropriate risk and/or is inefficient	**Green:** The portfolio has appropriate risk and is efficient
Company Stock	**Red:** The participant is holding more than 20% in unrestricted company stock	**Yellow:** The participant is holding between 10% and 20% in unrestricted company stock	**Green:** The participant is holding less than 10% in unrestricted company stock
Participant Savings	**Red:** The participant is not saving enough to receive the full employer match[8]	**Yellow:** The participant is taking full advantage of the employer match, but saving less than the pre-tax IRS or plan maximum	**Green:** The participant is saving to the pre-tax IRS or plan maximum

[7] This reference guide is an abbreviated version of the full stoplight methodology used in this report. Other rules may apply in certain situations. See Appendix C for a full methodology explanation.

[8] If a participant is not eligible for an employer match, an alternate methodology applies. A detailed Participant Savings stoplight methodology can be found in Appendix C.

Retirement Income

How will participants *live* in retirement?

It's an important question – one that goes beyond statistics around the mistakes participants are making in their 401(k) plans. This simple question gets to the heart of the matter: outcomes. In the 2010 edition of The Financial Engines National 401(k) Evaluation, we start by estimating how much retirement income participants could potentially generate from their 401(k) portfolios. We then examine the saving and investing decisions they've made in their portfolios.

Generating a Retirement Income Projection

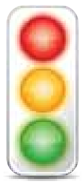
To get a sense of how much money participants could reasonably expect to have in retirement, we projected the retirement income their portfolios could potentially generate with both average and poor market performance. When calculating potential income in retirement, it is important to consider a full range of possibilities.

To estimate a benchmark goal for each participant, we first projected a participant's salary to grow at a rate of 5% each year between now and retirement, including inflation. We assume an "ideal goal" for a participant's retirement income to be 70% of their projected ending salary at retirement. This falls within the typical range of 60-80% income replacement used by many financial planners. We also set a minimum goal of 50% of ending salary. In general, Financial Engines encourages participants to develop a retirement plan that achieves a good chance of meeting the 70% replacement rate and a very high chance of meeting the minimum goal of 50%.

We then assigned stoplights based on participants' likelihood of achieving their ideal and minimum goals.

Three Out of Four Participants Not on Track to Meet Retirement Goals

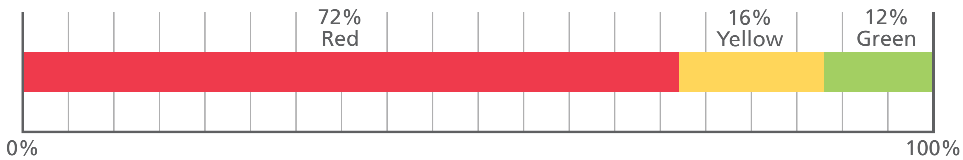
Figure 2: Retirement Income Stoplights Overall (n=1,190,688)



Red: Has less than a 50% chance of meeting the ideal goal and less than a 95% chance of meeting the minimum goal

Yellow: Has less than a 50% chance of meeting the ideal goal OR less than a 95% chance of meeting the minimum goal

Green: Has at least a 50% chance of meeting the ideal goal and a 95% chance of meeting the minimum goal



In general, participants will have a difficult time meeting their retirement income goals. Three out of four participants (72%) are not on track to meet either their ideal retirement income goal by age 65 (70% of pre-retirement income) under average market performance or their minimum goal (50% of pre-retirement income) under poor market performance.

The average participant represented in this report falls short of replacing 70% of their pre-retirement income, and is on track to replace slightly more than half (a median of 55%) of their pre-retirement salaries from their 401(k) accounts and Social Security.[9] According to the Investment Company Institute (ICI), 52% of those with an employer-sponsored retirement plan also have an IRA.[10] Participants could have other outside investments in stocks, real estate, etc. not covered in these projections.

Minding the Retirement Income Gap

Based on participant salary data represented in this report, the median ideal retirement income goal (70% of salary) is $48,400 per year (in today's dollars). The median projected retirement income for participants in this report is $33,500 per year. Of that, the median income generated from 401(k)s is expected to be $13,700 per year, with the rest coming from projected Social Security. Overall, the average participant is projected to replace 55% of their pre-retirement salary, compared to a 70% goal. Of the 72% of participants receiving a red

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[9] Forecast based on 401(k) accounts, other company-sponsored retirement accounts, and Social Security only. Some participants may have additional outside assets.

[10] ICI 2009 Investment Company Fact Book, Section 7.

Retirement Income stoplight (indicating a low likelihood of meeting their ideal or minimum retirement income goals), the average participant is projected to replace 44% of their pre-retirement income. Fifteen percent of participants are projected to replace less than 35%.

Some groups of participants are not as far from reaching their goals. Participants with lower salaries in their 40s and 50s and younger participants with higher salaries are projected to replace 63% of pre-retirement income, compared to a goal of 70%. Saving more and making better investing decisions could help close this gap. For participants with lower incomes, Social Security accounts for a larger proportion of their retirement income needs than for higher-salary participants.

Of the 16% of participants receiving a yellow Retirement Income stoplight, about 50% received it for their low likelihood of meeting their ideal goal, while the other half received a yellow stoplight for their low chances of meeting their minimum goal.

Closing the Retirement Income Gap

Depending on how far participants are from meeting their retirement income goals and how far they are from retirement, participants generally have a limited number of options to make up the difference:

- Save more.
- Improve the risk level and diversification of their portfolios.
- Delay retirement and work longer.
- Reduce their standard of living in retirement.

For example, consider a 45 year-old participant earning $50,000 per year, and with a $50,000 401(k) account balance. His portfolio is overly risky and has too much company stock, and he is currently saving 4% of his salary per year in his 401(k). His current strategy leaves him 27% below his ideal goal, with a median forecast of $33,400 versus an ideal goal of $46,000. In addition, his downside forecast (if markets perform poorly) is below the minimum goal of 50%, so his Retirement Income stoplight is red.

What can he do to close the gap?

- Reallocate at an appropriate risk level narrows the projected gap to 23%.
- Reallocate plus save 2% more per year narrows the gap to 14%.
- Delay retirement by two years (with reallocation and more saving) closes the gap, turning the participant's income stoplight to green.
- Alternatively, if he wanted to retire at 65, he'd have to save 8% more per year.

Participants with Higher Incomes Must Save Even More

Participants over age 40 and with annual salaries above $100,000 are projected to replace a median of 42% of pre-retirement salary compared to a 70% ideal goal. Participants with higher salaries need to work harder to meet their income goals due to IRS 401(k) contribution limits and the fact that Social Security will make up a smaller proportion of their retirement incomes than participants with lower salaries. It is important to point out that some workers could have significant outside assets not accounted for in this projection (such as a defined benefit plan, an IRA, or a previous employer's 401(k) that they have not rolled over). Given the contribution limitations of the 401(k), higher salaried participants will need to save to the maximum levels allowed and rely on assets outside of their 401(k) plans to maintain their standard of living in retirement.

For example, let's look at the same 45 year-old participant as before, still saving 4% per year, but with double the salary ($100,000) and double the 401(k) balance ($100,000). The Social Security component of his retirement income does not double, however, which leaves him 41% below his ideal goal, with a median retirement income of $54,000 versus a goal of $92,000 per year.

The options available to him to close the retirement income gap include:

- Reallocating narrows the projected gap to 37%.
- Saving two percent more per year narrows the gap to 28%.
- Retiring two years later still leaves a gap of 15%.
- A combination of reallocating, plus saving 8% more per year, and delaying retirement for three years closes the gap and turns the Retirement Income stoplight green.

Even if the higher income and higher balance participant maxes out contributions to his 401(k) plan, he is still 5% short of his goal under average market performance unless he considers postponing retirement. Without substantial pension balances or other sources of retirement income, participants with higher incomes may need to save outside the 401(k) if they do not want to reduce their standard of living or delay retirement.

Younger Participants Have Time on Their Side

Younger participants have a powerful advantage: time. Consider a younger participant (35-year-old) who starts out with a 25% shortfall relative to her ideal goal.

- Reallocating at an appropriate risk narrows the projected gap to 18%.
- Reallocating plus saving 2% more per year narrows the gap to 2%.

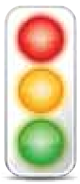
Delaying retirement by two years (with reallocation and increased saving) closes the gap. The Retirement Income stoplight is now green. This participant is actually in better shape than the 45-year-old in the previous case because her median income is well above her goal, rather than just meeting the goal.

Additional time makes it easier for the younger participant to save more for retirement. If the participant only wants to reallocate and save more (not delay retirement), the 35 year-old can get to a green Retirement Income stoplight by saving 6% more per year, whereas the 45-year-old needs to save 8% more to achieve the same result.

The complete breakdown of Retirement Income stoplights can be found in Appendix B.

Investments: Risk and Diversification

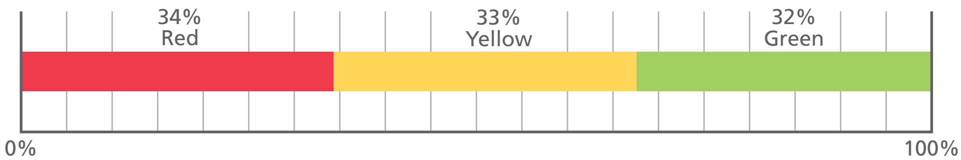
Figure 3: Risk and Diversification Stoplights Overall (n=2,688,318)



Red: The portfolio has very inappropriate risk or is very inefficient

Yellow: The portfolio has inappropriate risk or is inefficient

Green: The portfolio has appropriate risk and is efficient



2008 proved to be a challenging year for 401(k) plan participants. According to the Employee Benefit Research Institute (EBRI), the average 401(k) account balance declined 24.3% during the market downturn of 2008.[11] Participants who moved out of diversified portfolios in response to market volatility missed out on some or all of the market recovery that took place during 2009. Those who made no portfolio changes were unlikely to end up with better portfolios than they started with pior to the downturn.

Selecting the right 401(k) investments continues to be a real challenge for participants, requiring careful planning and/or access to professional management or advisory services. We evaluated portfolios for Risk and Diversification and 34% are red, 33% are yellow, and 32% are green.[12] This is similar to 2008 when 38% were red, 31% were yellow, and 32% were green.

Company stock holdings are often a significant contributing factor for red Risk and Diversification stoplights.

Risk and Diversification Stoplight	Median Salary	Median Balance	Median Contribution	Median Stock Held	Average Stock Held
Red	$58,755	$34,440	$3,306	23%	33%
Yellow	$53,644	$31,322	$2,800	0%	3%
Green	$50,149	$22,499	$2,507	0%	1%

Participants receiving red Risk and Diversification stoplights hold an average of 33% of their portfolios in company stock. In contrast, participants receiving green or yellow Risk and Diversification stoplights hold much lower amounts of company stock.

[11] "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2008," EBRI Issue Brief, October 2009.

[12] More than 90% of Financial Engines' managed account members enrolled for more than six months have green Risk and Diversification portfolios. See the Financial Engines/Hewitt Associates report entitled, "Help in Defined Contribution Plans: Is it Working and for Whom?" for a more detailed analysis of the impact of professional management.

Youngest and Oldest Participants Show Improvement

Figure 4: Red Risk and Diversification Stoplights by Age

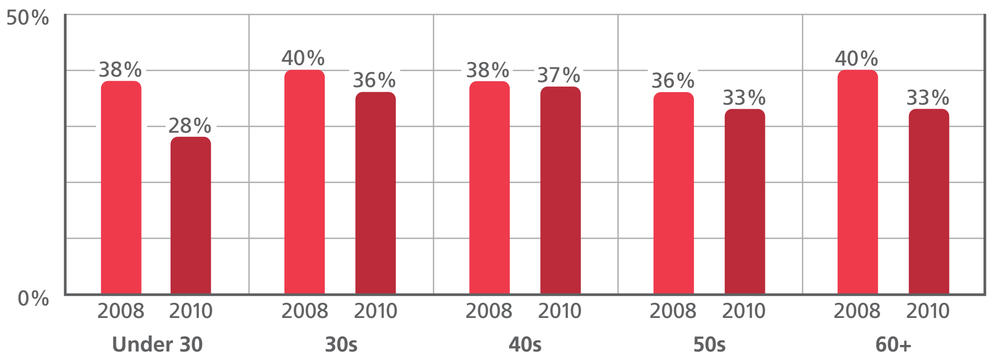
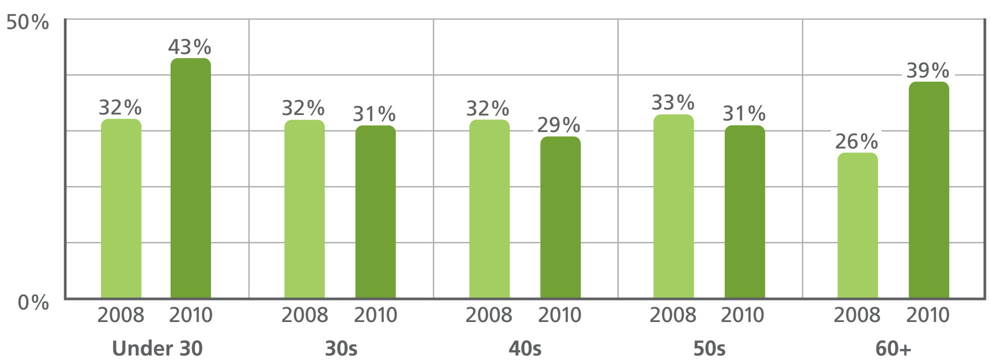


Figure 5: Green Risk and Diversification Stoplights by Age



While the 2008 National 401(k) Evaluation found that participants with the lowest salaries made the most investment mistakes, results two years later tell a different story. In general, participants under age 30 and over age 60 have more diverse and risk-appropriate portfolios than they had two years ago. In fact, 43% of participants under age 30 – more than any other age group – have efficient and risk-appropriate portfolios (compared to 32% in 2008).

Those nearing retirement have improved slightly, but are not doing as well as the youngest employees. One third (33%) of participants in their 50s and another third (33%) of those over 60 are still invested inefficiently and/or inappropriately, down slightly from 2008. Given their proximity to retirement, this group needs additional help to get on track.

Participants with Lowest Incomes and Account Balances Show Improvement

Figure 6: Green Risk and Diversification Stoplights by Salary

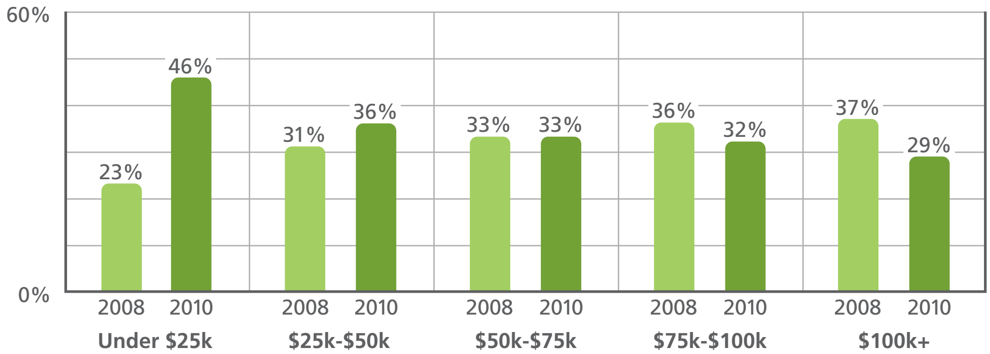
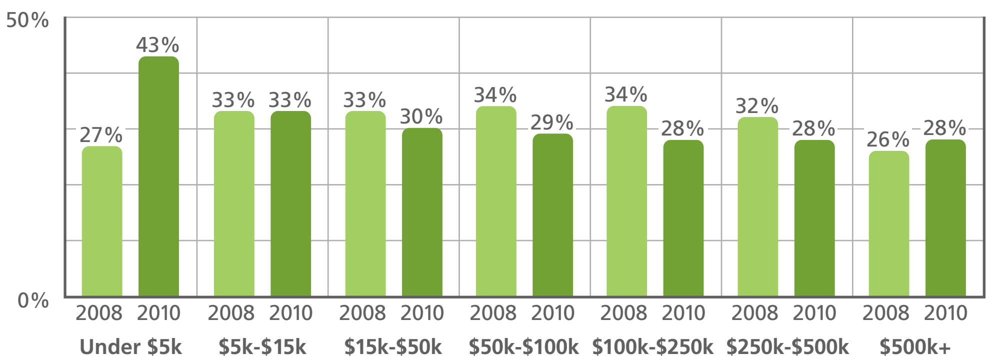


Figure 7: Green Risk and Diversification Stoplights by Account Balance

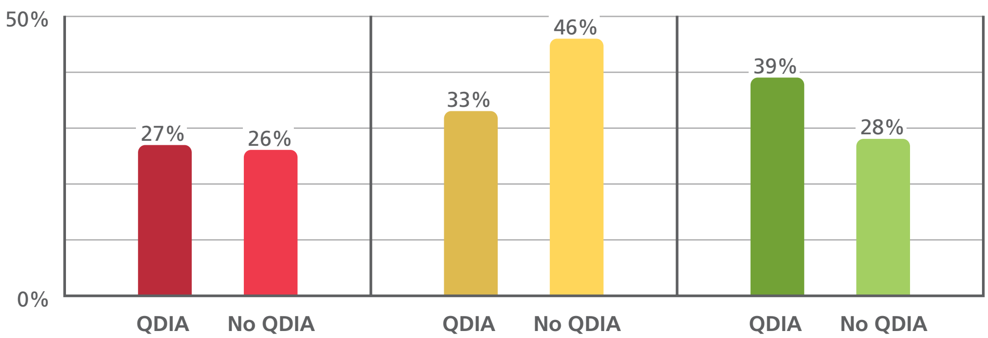


Similarly, while room for improvement remains, participants with the lowest incomes and account balances have significantly more green lights in 2010, compared to 2008.

In the following section, we'll examine the impact plan design has on these results.

Participants in Plans with QDIAs Better Off

Figure 8: Risk and Diversification Stoplights by QDIA



In 2007, the Department of Labor (DOL) finalized guidelines on Qualified Default Investment Alternatives (QDIAs). The guidance provided a safe harbor for employers who select default investment options that the DOL deemed appropriate for achieving long-term retirement goals. The three designated QDIAs include managed accounts, target date funds, and balanced funds.

To determine how plan design changes are affecting participant portfolios, we looked at plans in our sample that appeared in our 2008 report and for which we had plan design data. Of the subset of 70 plans, 63 currently invest new participants in a QDIA, while seven do not.

In terms of portfolio risk and diversification, participants in plans with QDIAs are better off than those in plans without. Nearly two in five participants (39%) in plans with a QDIA have green Risk and Diversification portfolios, compared to only about one in four (28%) in plans without a QDIA.

There may be multiple factors behind the fact that plans with QDIAs have substantially more appropriate portfolio characteristics, beyond the impact due to new plan participants being defaulted into the QDIAs. For example, some participants making active investment elections may interpret the selection of a QDIA as an implicit endorsement of that investment. Other plan design factors may be at work. To better understand whether the effect of QDIAs is due to their being used as a default investment, we examined whether their effect is more pronounced among younger participants with lower salaries and lower account balances, who are more likely to have been automatically enrolled and defaulted into their investment selection.

QDIAs Working for Younger/New Participants; Existing Participants Need Help

Figure 9: Red Risk and Diversification Stoplights by Age and QDIA

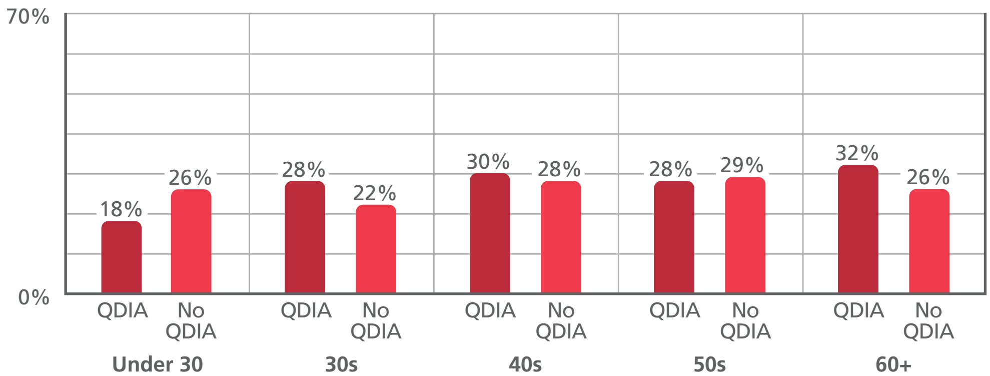
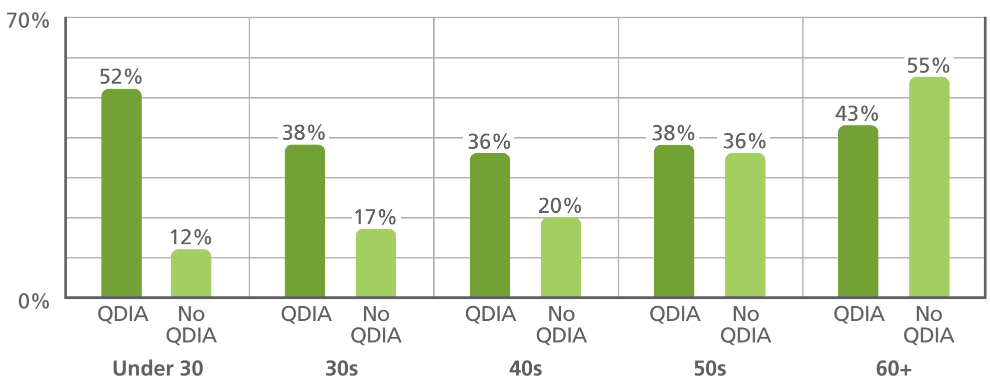


Figure 10: Green Risk and Diversification Stoplights by Age and QDIA



The difference among younger participants is even more striking. Fifty-two percent of participants under age 30 in plans with a QDIA have green Risk and Diversification stoplights, compared to just 12% of participants under 30 in plans without a QDIA. Although QDIAs were only first introduced by the DOL in 2007, their impact is already being felt most strongly by younger participants, who are more likely automatically enrolled into the plan with an age-appropriate QDIA. Existing participants, who might not be as likely to be a new employee, still need more help in making the right investing decisions.

Figure 11: Green Risk and Diversification Stoplights by Salary and QDIA

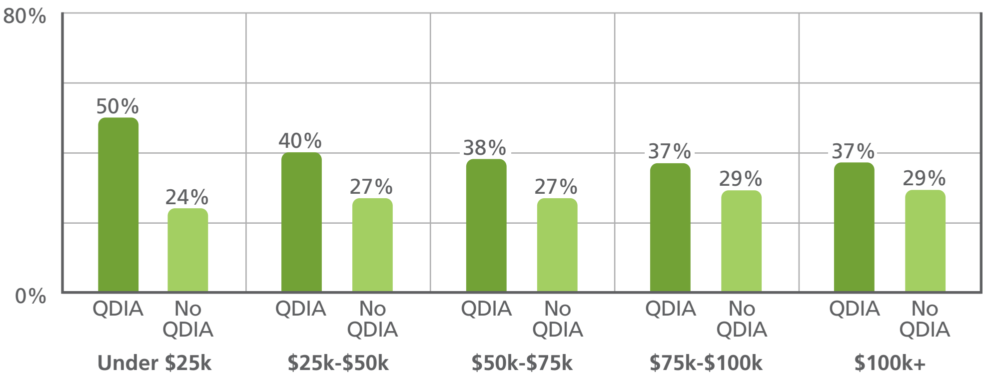
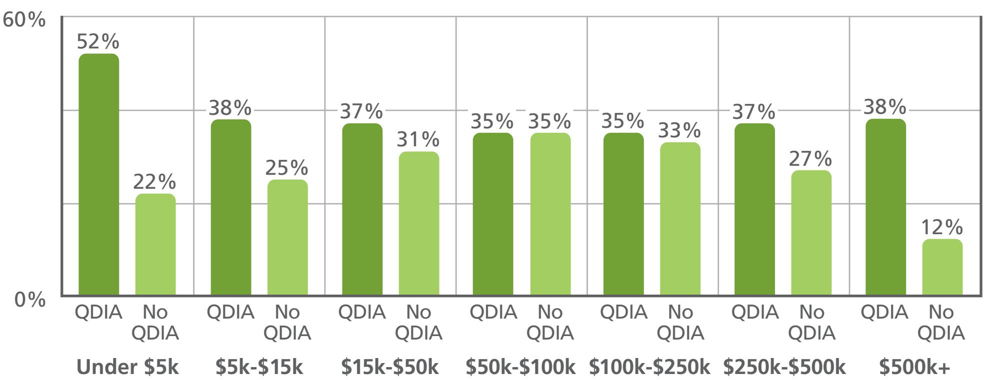


Figure 12: Green Risk and Diversification Stoplights by Account Balance and QDIA

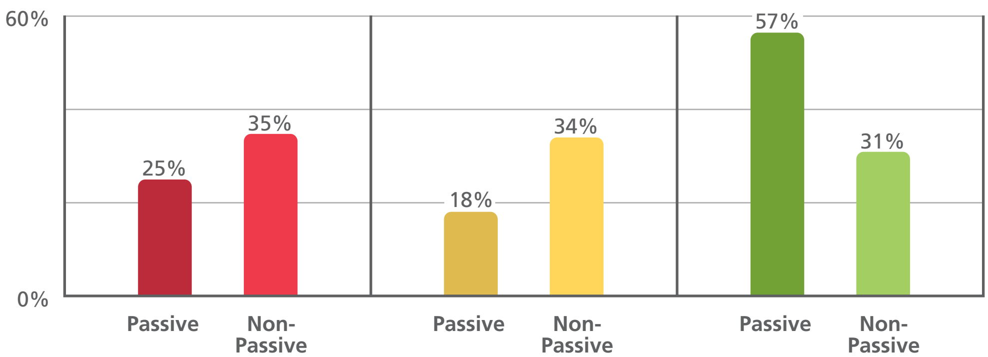


Similar trends can be seen by salary level and account balance. For example, 50% of participants in plans with a QDIA and earning less than $25,000 per year have a green Risk and Diversification stoplight, compared to just 24% in plans without a QDIA.

Likewise, 52% of participants in plans with a QDIA and account balances under $5,000 have green Risk and Diversification stoplights, compared to 22% of participants in plans without a QDIA. As with age, participants with lower salaries and lower account balances have a greater likelihood of being automatically enrolled into a plan with a QDIA.

Passive Enrollment: Putting Plan Design to Work for All Participants

Figure 13: Risk and Diversification Stoplights by Passive



A number of plan sponsors in this report have recognized the damage that participant inertia combined with bad decisions can do to participant portfolios. Rather than wait for automatic enrollment of new employees to slowly improve plan health over time, these sponsors have decided to automatically re-enroll all employees (new and existing) into managed accounts. Participants have the option of selecting other investments, but most do not.

When we compare the Risk and Diversification stoplights of plans that have automatically enrolled all participants into managed accounts with those that have not, the passive plans have nearly twice as many participants with green Risk and Diversification stoplights (57% versus 31%).[13] In addition, they also have notably fewer red and yellow Risk and Diversification stoplights.

[13] Of the 272 plan sponsors in the 2010 report, 17 (representing over 155,000 participants) currently passively enroll all participants into managed accounts.

Passive Enrollment Helps Existing Participants With Lower Salaries and Balances

Figure 14: Red Risk and Diversification Stoplights by Salary and Passive

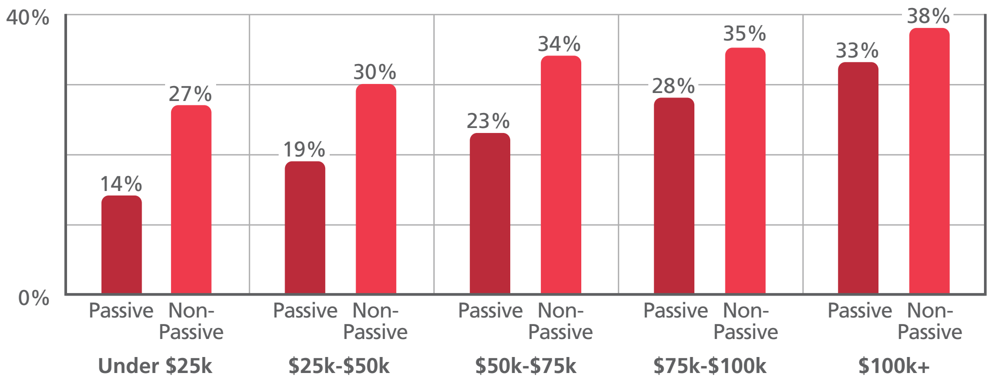
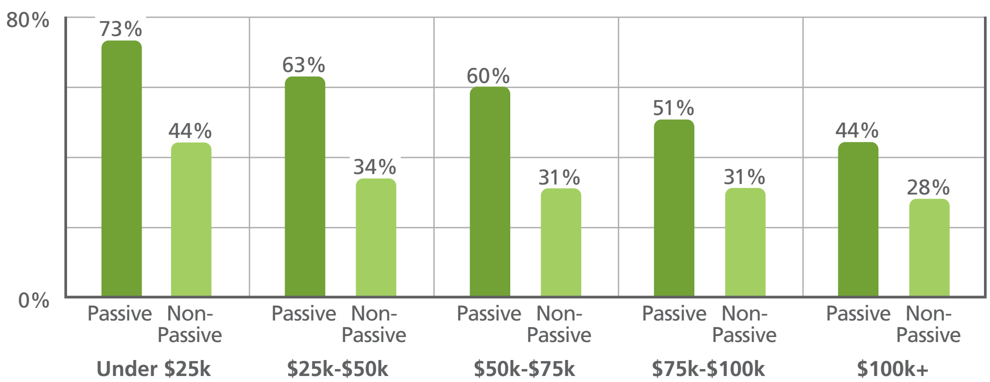


Figure 15: Green Risk and Diversification Stoplights by Salary and Passive



When we compare portfolios in passive and non-passive plans by salary, participants at all salary levels benefit from passive enrollment into a managed account. However, participants with the lowest salaries and those earning up to $75,000 per year receive the most benefit. For example, 73% of participants earning less than $25,000 per year passively enrolled into managed accounts have green Risk and Diversification stoplights, compared to 44% in plans without passive enrollment of all participants.

Figure 16: Red Risk and Diversification Stoplights by Account Balance and Passive

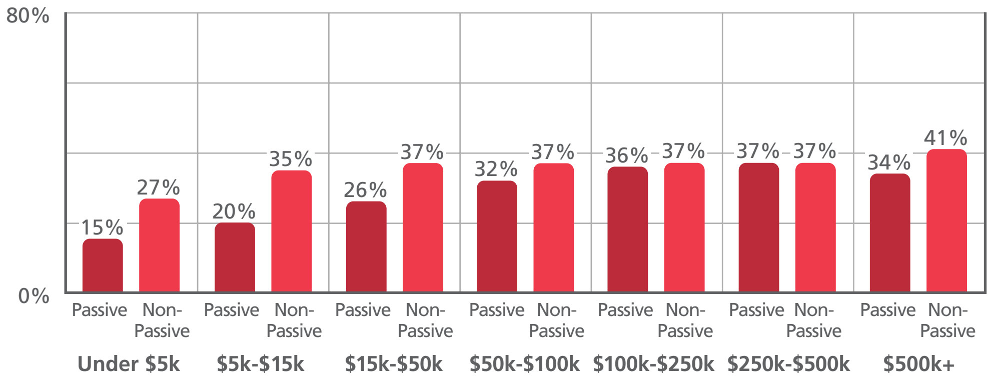
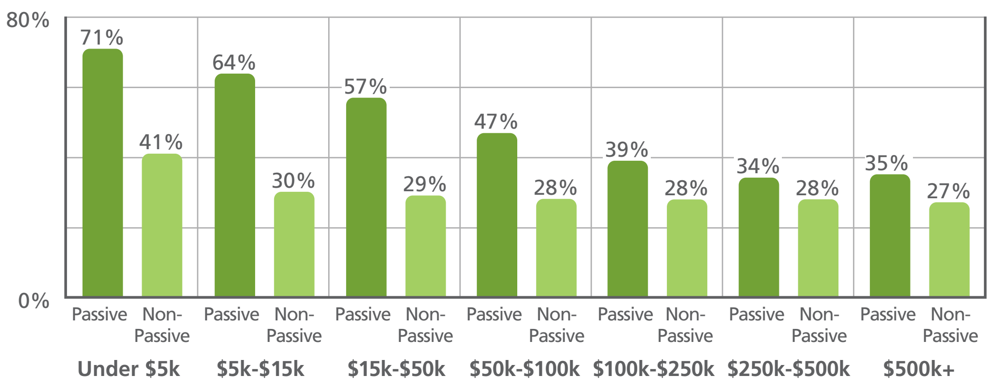


Figure 17: Green Risk and Diversification Stoplights by Account Balance and Passive



The same holds true for account balances. Participants with the lowest account balances have significantly more green Risk and Diversification stoplights with passive enrollment into managed accounts than their counterparts in plans without passive enrollment. Participants with higher balances tend to be more likely to opt out of passive enrollment into managed accounts.

Figure 18: Red Risk and Diversification Stoplights by Age and Passive

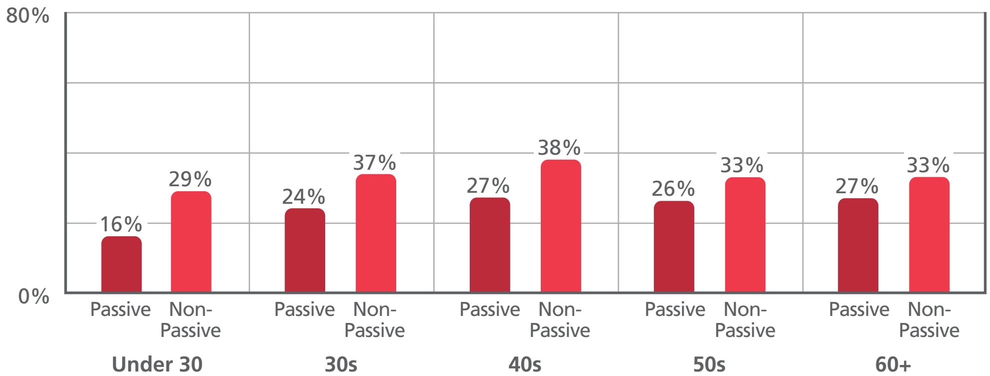
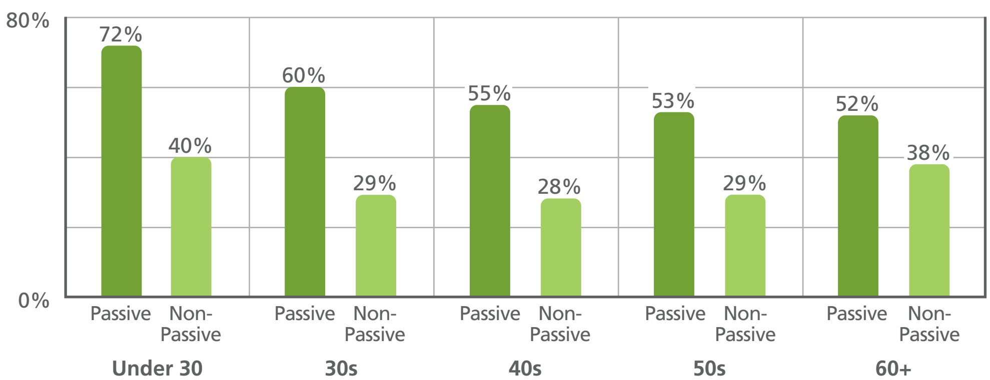


Figure 19: Green Risk and Diversification Stoplights by Age and Passive



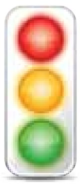
Younger participants also appear to benefit significantly from passive enrollment, with 72% of participants under age 30 passively enrolled receiving green Risk and Diversification stoplights, compared to 40% without passive enrollment.

On average and across sponsors, passively enrolled managed account members have lower salaries, lower account balances, and are younger in age. They are the participants who most likely need the most help.

The complete breakdown of Risk and Diversification stoplights by age, salary, and account balance can be found in Appendix B.

Investments: Company Stock

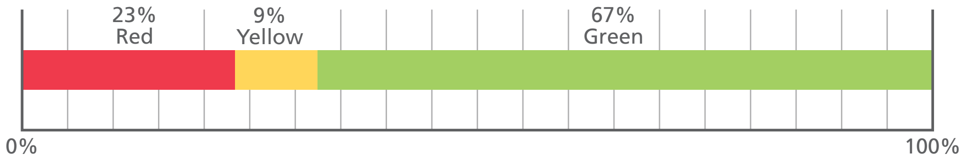
Figure 20: Company Stock Stoplights Overall (n=1,386,730)



Red: The participant is holding more than 20% in unrestricted company stock

Yellow: The participant is holding between 10% and 20% in unrestricted company stock

Green: The participant is holding less than 10% in unrestricted company stock



For participants with higher risk tolerance, it is possible to incorporate modest exposure to company stock in a diversified investment strategy. Compared to 2008, there is a significant increase in the percentage of participants across all age groups holding less than 10% of their 401(k) portfolios in company stock. Participants with red Company Stock stoplights still hold an alarmingly high proportion of company stock in their accounts, however.

That is especially true when you consider recent stock market volatility. During the time period between the 2008 and 2010 National 401(k) Evaluations, the S&P 500 Index dropped 22%. Of the 28 plan sponsors appearing in both reports and with company stock as a plan option, the median stock price dropped 31% during the period. Eleven companies in the sample had stock returns of -50% or worse.

However, rather than participants recognizing and taking action on the high-risk levels inherent in company stock, the market downturn is the more likely explanation for the observed reductions in portfolio company stock exposure. Of course, if the stock prices of these companies recover and participant inertia continues, risk and diversification problems for participants could be exacerbated.

Company Stock Stoplight	Median Salary	Median Account Balance	Median Annual Contribution	Median Co. Stock Holding	Average Co. Stock Holding
Red	$54,792	$33,998	$2,953	45%	54%
Yellow	$59,500	$49,425	$3,840	15%	15%
Green	$51,500	$29,379	$2,754	0%	1%

Older Participants Hold Less Company Stock Than in 2008

Figure 21: Red Company Stock Stoplights by Age

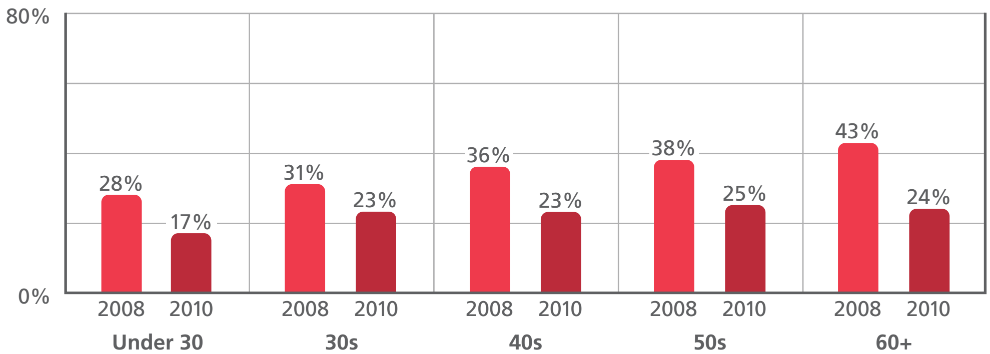
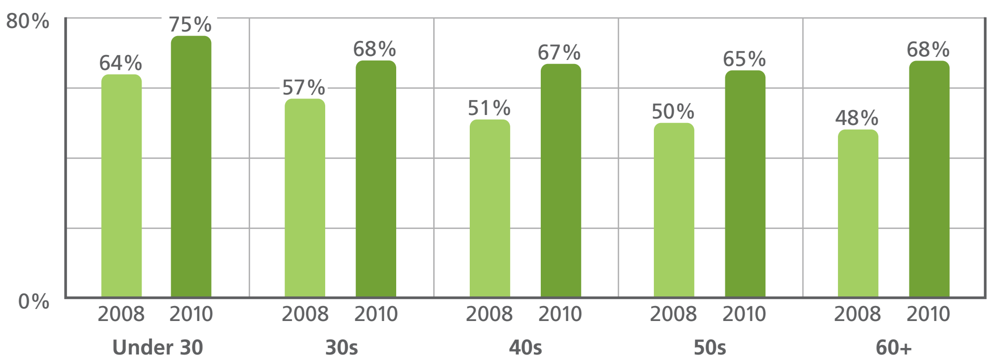


Figure 22: Green Company Stock Stoplights by Age



Participants in their 40s, 50s, and over age 60 saw the greatest losses from, and the greatest portfolio improvements in, company stock holdings, although all age groups saw their exposure to company stock decrease compared to 2008. These reductions can most likely be attributed to market performance versus participant action.

Figure 23: Red Company Stock Stoplights by Salary

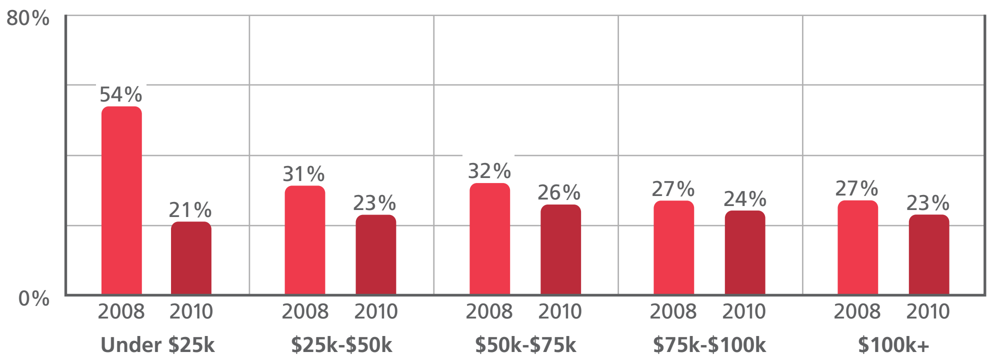
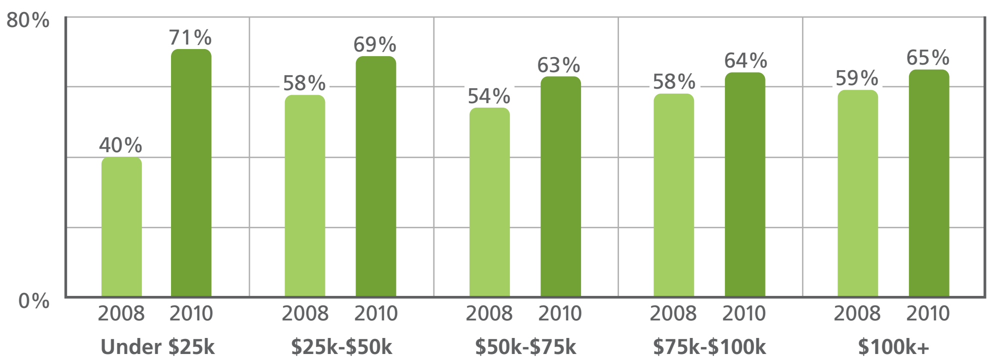


Figure 24: Green Company Stock Stoplights by Salary



In 2010, the percentage of red Company Stock stoplights is fairly consistent across all income levels. Participants earning under $50,000 per year have the most green Company Stock stoplights and have experienced the greatest improvement from 2008.

Figure 25: Red Company Stock Stoplights by Account Balance

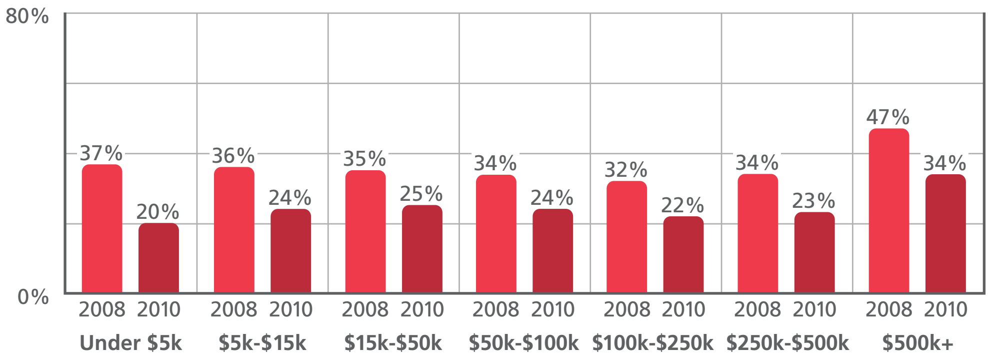
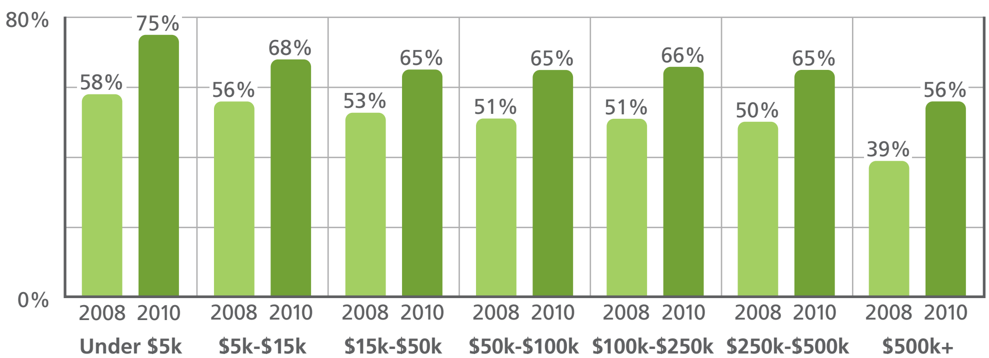


Figure 26: Green Company Stock Stoplights by Account Balance

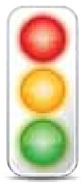


Participants with account balances over $100,000 experienced marked reductions in both company stock holdings and losses. Again, with several of the stocks represented in this report dropping more than 50%, these company stock reductions are most likely a result of the economic downturn.

The complete breakdown of Company Stock stoplights by age, salary, and account balance can be found in Appendix B.

Participant Savings

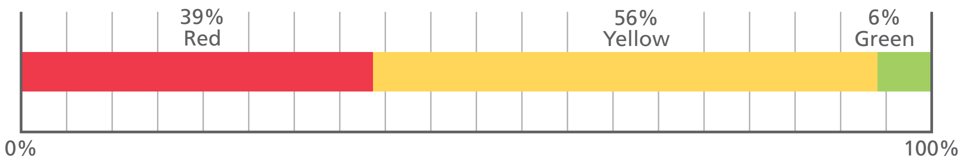
Figure 27: Participant Savings Stoplights Overall (n=2,056,613)



Red: The participant is not contributing enough to receive the full employer match (or if no match exists, at least 5% of salary)

Yellow: The participant is taking full advantage of the employer match, but contributing less than the pre-tax IRS maximum

Green: The participant is contributing to the pre-tax IRS or plan maximum



For nearly all participants, making consistent 401(k) contributions throughout a career is necessary for a secure retirement. As a general rule, participants should save at least enough in their 401(k)s to receive the full employer match each year. For most, reaching their retirement income goals will require even more aggressive saving.

Stoplight	Median Salary	Median Balance	Median Savings	Median Savings (percent)
Red	$42,950	$6,853	$688	2.0%
Yellow	$59,093	$46,769	$4,556	7.0%
Green	$123,962	$150,771	$16,500	14.2%

Matches can vary by employer, depending on plan design, with the typical employer match ranging from 50% to 100% of the employee contribution up to the first 6% of salary (defined as plan-eligible pay). While we do not collect data on which plan sponsors in this report eliminated their matches during the economic downturn, according to a Hewitt Associates study, 7% of large employers either reduced or suspended their 401(k) matching contributions since September 2008 due to the difficult economic climate.[14] This could affect participant savings rates, but additional research is needed to more fully understand the match elimination/savings rate relationship.

In addition, receiving a green Participant Savings stoplight grew more challenging for participants in 2010. In 2009, the IRS-defined pre-tax maximum that participants could contribute to their 401(k)s was $16,500 – $1,000 higher than it was in 2008. Participants over age 50 (or turning 50 in the current calendar year) are allowed to make an additional $5,500 pre-tax catch-up contribution. We also take plan limits into consideration when evaluating the Participant Savings stoplight.

Even in good economic times, saving enough to reach the pre-tax IRS plan limit can be a stretch for the most disciplined of participants. Participants that do not hit the

[14] 2010 Hewitt Hot Topics in Retirement Report.

plan limit but are saving at least enough to receive the full employer match receive a yellow stoplight. In many cases, participants receiving a yellow stoplight are saving at healthy levels. The yellow stoplight here merely indicates that it is still possible for the participant to save more within the plan.

Economic Downturn Hurts Participant Savings Rates

The economic downturn has lowered participant savings rates relative to those in the 2008 report (which was based on 2007 participant data). Of the 2 million contribution-eligible participant accounts evaluated in this report, 39% of participants are not saving enough to receive the full employer match (or at least 5% of salary in companies without a match), up from 33% in 2008. Only 6% are saving within $500 of their annual pre-tax IRS or plan limits, down one percent from 2008.

Saving rate differences by stoplight are significant. Participants with red Participant Savings stoplights save an average of 2% of annual salary in their 401(k)s, while those with yellow stoplights contribute an average of 7%. Participants with green Participant Savings stoplights save an average of 14.2% of salary. Across the sample, the median savings rate was 6%, while the median annual contribution was $2,733.

Younger, Middle-Class Workers Reduced Savings the Most During Recession

As in 2008, age and salary tend to have the greatest impact on how much 401(k) participants save.

Figure 28: Red Participant Savings Stoplights by Age

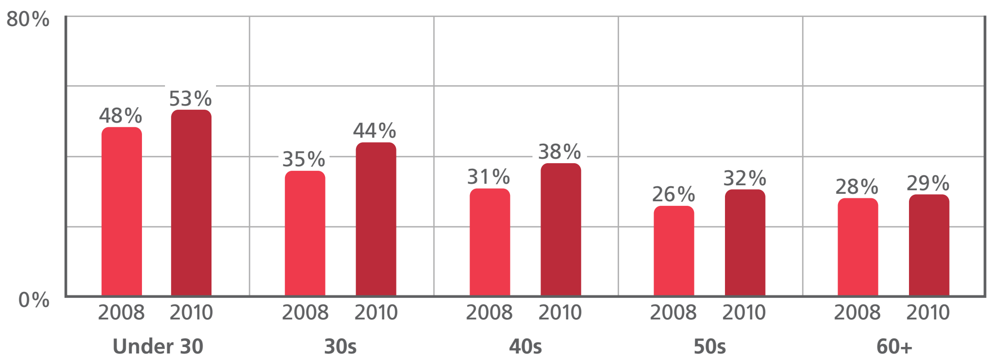
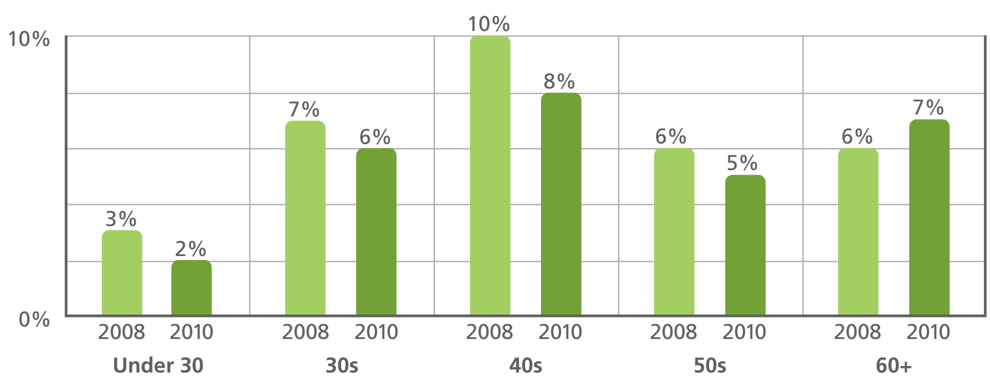


Figure 29: Green Participant Savings Stoplights by Age



Participants under age 40 pulled back their saving the most since the 2008 report, with 53% of those under 30 and 44% of participants in their 30s not saving enough to receive the full match, compared to 48% and 35%, respectively, in 2008.

Savings rates tend to increase with age as the prospect of retirement grows nearer, although very few participants save enough to reach the IRS maximum.

Figure 30: Annual Participant Savings by Age

Age	Average Savings (percent)	Median Savings (dollar)
Under 30	5.0%	$1,460
30s	5.6%	$2,362
40s	6.3%	$2,882
50s	7.8%	$3,511
60+	8.9%	$3,245

Figure 31: Red Participant Savings Stoplights by Salary

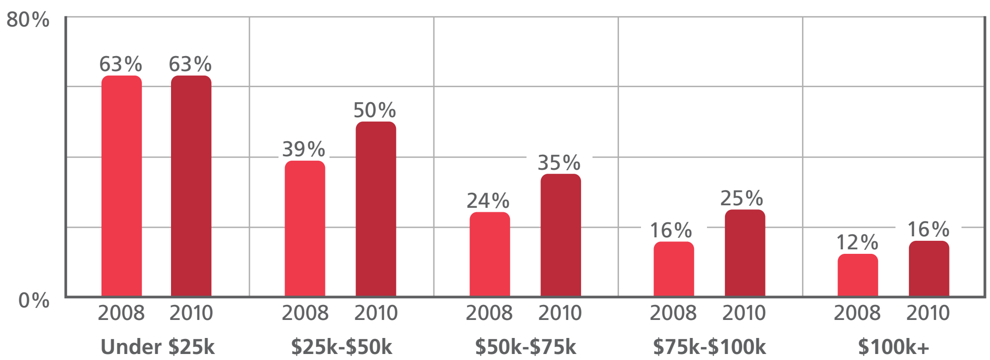


Figure 32: Green Participant Savings Stoplights by Salary

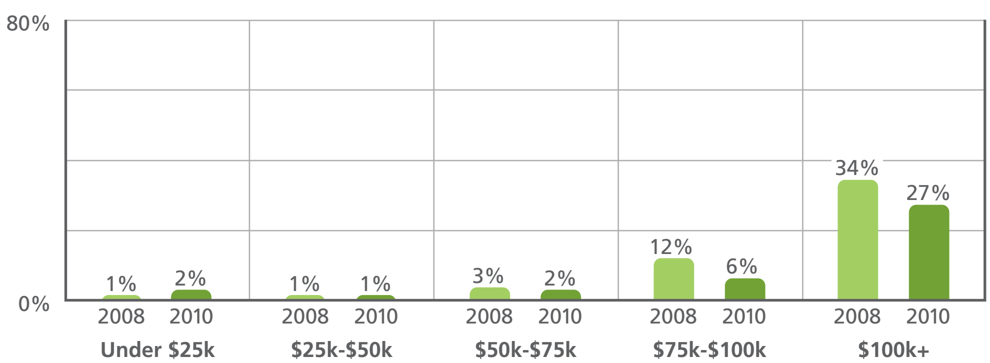


Figure 33: Annual Participant Savings by Salary

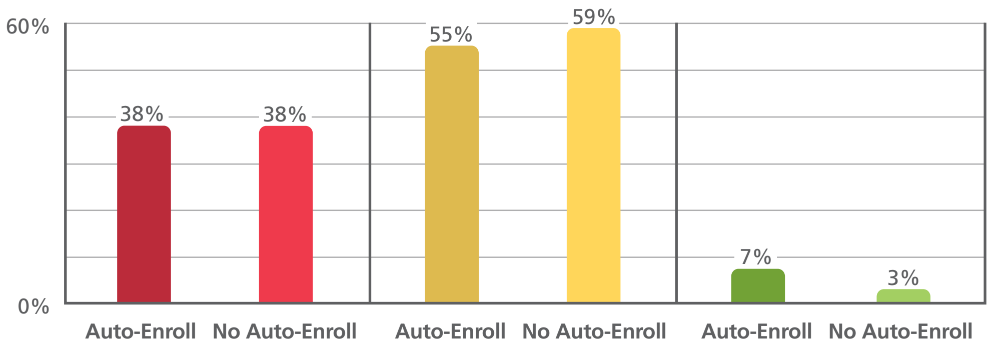
Salary	2008 Average Savings (percent)	2010 Average Savings (percent)	2008 Median Savings (dollar)	2010 Median Savings (dollar)
Under $25k	5.0%	5.0%	$650	$640
$25k to $50k	6.0%	5.3%	$1,819	$1,620
$50k to $75k	8.1%	6.9%	$3,825	$3,475
$75k to $100k	9.6%	8.3%	$7,575	$5,727
$100k+	9.2%	8.8%	$12,986	$12,291

In addition, participants earning between $25,000 and $75,000 per year had lower savings rates in 2010 than they had two years ago, reflecting the serious impact of the economic crisis on middle-class working Americans. Fifty percent of those with yearly salaries between $25,000 and $50,000 and 35% of those earning between $50,000 and $75,000 did not save enough to receive the full employer match in 2010, compared with 39% and 24%, respectively, in 2008.

While 401(k) savings tend to rise with income, fewer participants in nearly all salary ranges saved enough to hit the maximum allowed in 2010 compared to 2008.

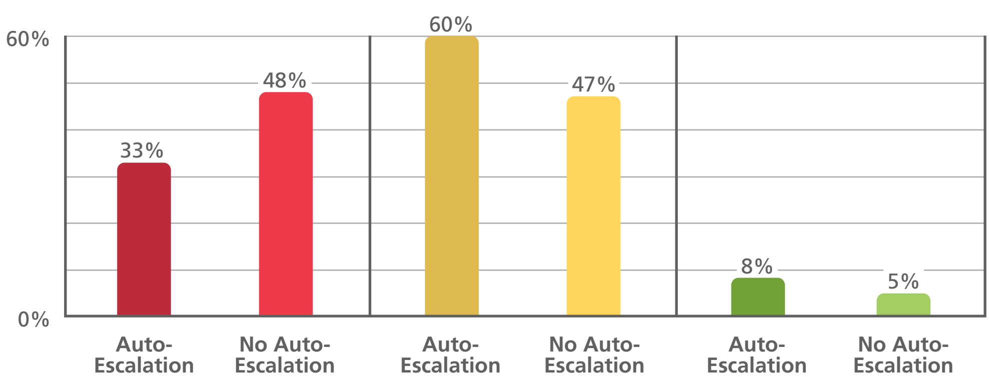
Automatic Savings Escalation Key to Participant Success

Figure 34: Participant Savings Stoplights by Auto-Enrollment



Automatic savings features have grown in prevalence in 401(k) plans over time. When we look at the 70 plans for which we have plan design information, 58 have an automatic enrollment feature in which new employees are automatically enrolled in the plan, saving at a specified rate. Of those, 50 also have an automatic escalation feature, in which participant's savings rates are automatically increased each year until they reach a specified maximum.

Figure 35: Participant Savings Stoplights by Auto-Escalation



The real savings power comes from automatic escalation. Sixty-eight percent of participants (yellow plus green) save enough to receive the full employer match in plans with automatic escalation, compared to 52% of participants (yellow plus green) in plans with automatic enrollment but not automatic escalation.

The complete breakdown of Participant Savings stoplights by age, salary, and account balance can be found in Appendix B.

Implications

While different individuals will rely on their 401(k)s to different degrees in retirement, it takes a career's worth of prudent saving and investing decisions to generate the income necessary to live comfortably once participants leave the workforce. This research reiterates the fact that the retirement outlook for many Americans is not a positive one. With three out of four participants projected to not have enough savings to retire comfortably at age 65, there is little evidence of participants taking positive action.

However, there is growing evidence of plan sponsors taking the initiative to help participants get on the right track in response to recent public policy decisions. Plan sponsors and public policy officials deserve credit for taking steps to help ensure participant success.

The following are some of the implications arising from this research:

Plan Design Matters

In just two years, the National 401(k) Evaluation is already demonstrating the impact of the automatic 401(k) and default investment in a QDIA. Public policy decisions are working as intended and getting more participants on the right track. To date, though, they are only truly helping new hires in large numbers. Some companies are "re-enrolling" all participants into the plan and into appropriate QDIAs. Public policy makers and plan sponsors clearly deserve credit for paving the way for and implementing these powerful plan design changes. More needs to be done along these lines to make the benefits of the automatic 401(k) and default investments available to all employees.

Middle-Class Workers at Risk

As the economy struggled, younger workers and those with lower and mid-level incomes found it more difficult to save, which could have a negative impact on their income in retirement. We need to make saving easier and more automatic for these at-risk groups.

Older Workers Need More Help

As participants approach the end of their careers, investing mistakes can be costly and potentially devastating to a secure retirement. Older participants need help in managing risk and in turning their 401(k)s into a reliable source of income in retirement. In addition, this age group also has the least amount of time to recover in the event of a market downturn.

How Long Will Participants Need to Work?

When it comes to affording retirement, participants can either save more, make more appropriate investing decisions, or reduce their standard of living. They can also put off retirement and work longer. Working longer has several implications for employers accustomed to the majority of people retiring in their 60s. As participant lifespans increase in the future, we can expect employees to extend their working careers well into their 60s. More plans need to inform participants of how much retirement income their 401(k) accounts are projected to generate, and what they can do to improve their retirement outlook.

Participants Can Close Their Retirement Income Gap

While some of the retirement income findings of this report can be sobering, participants have the ability to close their retirement income gap by saving more and allocating their portfolios more efficiently. Gaps as large as 30% can be bridged with the right saving and investing decisions. Getting participants more retirement help can be a first step.

Appendix A: Plan Sponsor Overview

Total Number of Plan Sponsors	272
With a 401(k) match	185
With company stock	100
With salary data (for Social Security estimates)	138

Number of Plan Participants	Number of Sponsors	Percent of Sponsors
Under 1,000	38	14%
1,000-4,999	110	40%
5,000-9,999	53	19%
10,000-19,999	32	12%
20,000+	39	14%

Total Number of Participants: 2,854,752
Average Plan Size: 10,495 participants
Median Plan Size: 4,191 participants

Total Plan Assets	Number of Sponsors	Percent of Sponsors
Under $100 million	62	23%
$100-$249.9 million	61	22%
$250-$499.9 million	56	21%
$500-$999.9 million	37	14%
$1 billion+	56	21%

Total Plan Assets: $211 billion
Average Plan Assets: $777 million
Median Plan Assets: $306 million

Appendix B: Stoplight Data

	Retirement Income: % Red	Retirement Income: % Yellow	Retirement Income: % Green	Risk and Diversification: % Red	Risk and Diversification: % Yellow	Risk and Diversification: % Green
Overall	72%	16%	12%	34%	33%	32%
Age						
Under 30	56%	21%	23%	28%	29%	43%
30s	73%	16%	11%	36%	33%	31%
40s	81%	10%	9%	37%	34%	29%
50s	74%	14%	11%	33%	37%	31%
60+	48%	33%	19%	33%	29%	39%
Salary						
Under $25k	42%	30%	28%	26%	28%	46%
$25k-$50k	74%	14%	12%	29%	35%	36%
$50k-$75k	73%	14%	13%	33%	34%	33%
$75k-$100k	75%	15%	10%	35%	34%	32%
$100k+	85%	11%	4%	38%	33%	29%
Account Balance						
Under $5k	77%	13%	10%	27%	30%	43%
$5k-$15k	79%	13%	8%	34%	33%	33%
$15k-$50k	76%	15%	9%	36%	34%	30%
$50k-$100k	70%	18%	12%	37%	34%	29%
$100k-$250k	59%	21%	20%	37%	35%	28%
$250k-$500k	50%	18%	32%	37%	35%	28%
$500k+	40%	15%	46%	40%	32%	28%

Average Age: 46 yrs
Median Age: 46 yrs

Average Salary: $65,536
Median Salary: $53,852

Average Acct. Balance: $77,464
Median Acct. Balance: $29,390

Company Stock % Red	Company Stock % Yellow	Company Stock % Green	Participant Savings % Red	Participant Savings % Yellow	Participant Savings % Green
23%	9%	67%	39%	56%	6%
17%	8%	75%	53%	45%	2%
23%	10%	68%	44%	50%	6%
23%	10%	67%	38%	54%	8%
25%	10%	65%	32%	63%	5%
24%	8%	68%	29%	64%	7%
21%	9%	71%	63%	35%	2%
23%	9%	69%	50%	49%	1%
26%	11%	63%	35%	64%	2%
24%	12%	64%	25%	69%	6%
23%	12%	65%	16%	57%	27%
20%	5%	75%	79%	20%	1%
24%	8%	68%	51%	49%	1%
25%	10%	65%	32%	65%	3%
24%	12%	65%	20%	73%	8%
22%	12%	66%	12%	74%	14%
23%	12%	65%	8%	71%	22%
34%	11%	56%	6%	66%	28%

Company Stock

% Red % Yellow % Green

Participant Savings

% Red % Yellow % Green

Appendix C: Stoplight Methodology Details

Retirement Income Goals

To estimate a benchmark goal for each participant, we first project salary to grow between now and retirement at an annual rate of 5%. This includes inflation, which averages 3.5% per year as well as real growth of 1.5% in today's dollars. The "ideal goal" for retirement income is set to be 70% of the projected salary just prior to retirement. This falls within the typical range of 60-80% income replacement that many financial planners use.

Because we calculate forecasts that illustrate the downside risk to retirement income from below-average market outcomes, we also calculate a minimum goal set to be 50% of the projected salary just prior to retirement. In general, users of Financial Engines advisory services are encouraged to develop a retirement plan that achieves a good chance of meeting the 70% replacement rate and a very high chance of meeting the minimum goal. All retirement goals are expressed in today's dollars.

Estimated Social Security Benefit

We estimate Social Security benefits for each participant by using their current salary, estimated past salary based on historical earnings growth profiles from the Social Security Administration, and an assumed nominal salary growth rate of 5%.

Monte Carlo Simulation

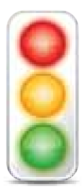
Financial Engines uses a sophisticated Monte Carlo simulation engine to help investors understand the range of possible investment outcomes that may occur for a given investment strategy. The simulation model projects different possible paths for key macroeconomic variables such as interest rates, inflation, and equity dividends, and relates those to the investment performance of asset classes. Once asset class returns are projected, we consider security-specific characteristics such as investment style, expenses, turnover, manager performance, security-specific and industry risk to estimate the future potential performance of participants' specific portfolio holdings. The result is a range of possible outcomes for how a portfolio balance may evolve over time.

To convert portfolio balances into estimates of retirement income, we convert various sources of retirement income into a single, comparable basis. Since most investors will receive some form of Social Security income, Financial Engines converts all financial balances and other sources of retirement income into an equivalent basis to Social Security – namely an inflation-adjusted income stream that lasts for life (also known as a real annuity value). The goal of this approach is to help investors understand the standard of living they could afford in today's dollars, assuming that the income lasts for life.

Stoplight Logic

Developing a successful retirement plan requires that the participant has a saving and investing strategy that achieves his goal in average markets, but also doesn't do too poorly in poor market environments. In general, users of Financial Engines advisory services are encouraged to develop a plan that (a) yields at least a 50% chance of meeting their ideal goal and (b) provides at least a 95% chance of meeting their minimum goal. Put another way, this requires that the median projected income exceeds their ideal goal and that the downside projected income exceeds their minimum goal.

Retirement Income Stoplight Explained



Red: Has less than a 50% chance of meeting the ideal goal and less than a 95% chance of meeting the minimum goal

Yellow: Has less than a 50% chance of meeting the ideal goal OR less than a 95% chance of meeting the minimum goal

Green: Has at least a 50% chance of meeting the ideal goal and a 95% chance of meeting the minimum goal

Risk and Diversification Stoplight

The Risk and Diversification stoplight diagnoses the appropriateness of each participant's portfolio. There are two ways in which a portfolio may be considered inappropriate:

- The allocation may be at a risk level that is not suitable for the investment horizon; and/or
- The allocation may be below the efficient frontier (the set of investment allocations that delivers the highest expected return at each risk level).

About Risk

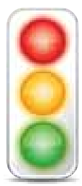
Risk is typically measured by the volatility of returns, which determines to what degree the value of investments could vary over time. For example, high-risk investments could grow substantially more than low-risk investments over a given year if the market performs well, but may also decline in value more than low-risk investments if there is a market decline.

In this report, Financial Engines compared each individual's portfolio risk level to the risk level that we would recommend for that individual. This personalized risk recommendation reduces risk for those closer to retirement and is based on academic and industry research, industry best practices, and empirical evidence on investor behavior.

About Diversification

Diversification is one of many measures of the health of a given portfolio. For this report, we use efficiency as a measurement of portfolio diversification. Efficiency measures the degree to which an investor could achieve a higher expected return for a given level of risk. Over time, even small efficiency improvements can add up to significantly improved investment returns.

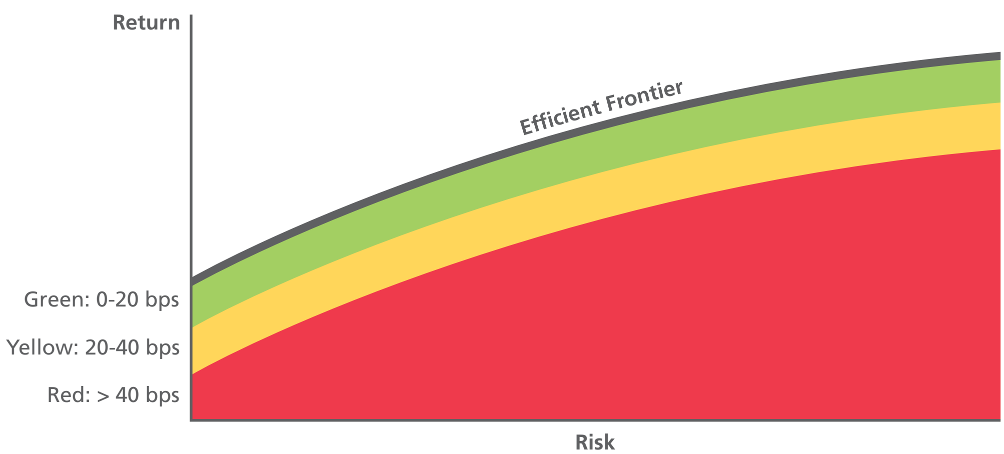
Efficiency Explained



Red: The portfolio is very inefficient

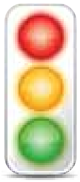
Yellow: The portfolio is inefficient

Green: The portfolio is efficient



In evaluating efficiency, Financial Engines determines if a better mix of funds exists within the plan fund line-up at that participant's existing risk level that delivers a higher expected return. If a better mix of funds can deliver more than a 0.40% higher annual expected return at the same risk level, participants receive a red stoplight. If there's moderate room for efficiency improvement (between 0.20% and 0.40%), they receive a yellow stoplight, and if they are close to the efficient frontier at their determined risk level (within 0.20%), they receive a green stoplight. Over long investment horizons such as those associated with retirement, a 0.40% deficit can add up to substantially lower wealth. For example, a small inefficiency of 0.40% compounded annually leads to 16% less wealth over 40 years, given the same starting balance.

Risk and Diversification Stoplight Explained



Red: If either risk or efficiency is red

Yellow: If either risk or efficiency is yellow and neither is red

Green: If both risk and efficiency are green

Financial Engines combines the two aspects of portfolio appropriateness – risk and diversification – in a single stoplight that summarizes whether a portfolio is desirable for each participant. The combined stoplight rating is determined by whichever rating, risk or diversification, is worse.

Examples of common red Risk and Diversification portfolios include:

- Portfolios that are overly concentrated in company stock;
- Overly conservative portfolio allocations;
- "Barbell" portfolios, in which balances are invested equally in the most conservative and aggressive fund options;
- "1/n" portfolios, in which balances are spread equally across all fund options in the plan; and
- Portfolios that are overly concentrated in a single asset class.

Company Stock Stoplight

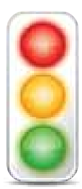
The Company Stock stoplight assesses the amount of company stock held within the participant's portfolio. As a plan option, company stock may be part of a diversified and efficient investment strategy, but generally only when held in modest amounts. Holding too much company stock exposes the participant to high levels of risk.

Unrestricted company stock is stock that a participant can sell per plan rules. Restricted company stock is stock that is not fully transferable until certain conditions have been met. We do not evaluate restricted company stock held since participants do not have the ability to reallocate these holdings.

According to Financial Engines' research and analysis, company stock usually results in a substantially inefficient portfolio mix when allocations exceed 20%. Depending on the characteristics of the stock in question and the risk tolerance of the individual, allocations between 10% and 20% may also result in noticeable decreases in portfolio efficiency.

The complete company stock methodology is as follows:

Company Stock Stoplight Explained



Red: The participant is holding more than 20% in unrestricted company stock

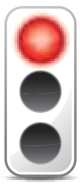
Yellow: The participant is holding between 10% and 20% in unrestricted company stock, or total company stock is greater than 10% and unrestricted company stock is between 0% and 20%

Green: The participant is holding less than 10% in unrestricted company stock

Participant Savings Stoplight

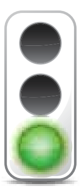
The Participant Savings stoplight assesses whether the participant is taking full advantage of the employer match, if any, and taking full advantage of pre-tax saving opportunities offered by the plan. The complete Participant Savings stoplight methodology is as follows:

Participant Savings Stoplight Explained



Red: The participant is not saving enough to receive the full employer match. If the participant is not eligible for a match or if salary is unknown, they receive a red stoplight if savings are less than 5% of salary.

Yellow: The participant is taking full advantage of the employer match, but not saving to within $500 of the maximum pre-tax IRS or plan contribution allowed. In situations with particularly low salaries and generous plan designs where participants do not hit IRS or plan limits, participants receive a yellow if they are saving less than 40% of salary. If the participant is not eligible for a match or if salary is unknown, they receive a yellow stoplight if savings are at least 5% but less than plan pre-tax maximum and less than 40% of salary.



Green: The participant is saving to within $500 of the allowable pre-tax IRS or plan contribution. In situations with particularly low salaries and generous plan designs where participants are unlikely to hit IRS or plan limits, participants will receive a green stoplight if they are saving 40% of salary, even if not saving to the pre-tax limits.

In some cases (29%), participants are able to make contributions to their accounts but are not eligible to receive an employer match. These participants receive a red stoplight if they are not saving at least 5% of salary. If they are saving at least 5%, but contributing less than the maximum pre-tax contribution allowed, they receive a yellow stoplight.

Note: In cases where participants are eligible for 50-plus catch-up contributions (which are pre-tax), this is factored into the assessment. For example, if participants are making all allowed regular pre-tax contributions, and are eligible for but not making the full 50-plus contributions allowed, they receive a yellow stoplight.

Appendix D: Index of Charts and Tables

Stoplight Methodology Overview

Retirement Income

Investments: Risk and Diversification

Investments: Company Stock

Participant Savings

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