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Consulting

Annual 401(k) Benchmarking Survey

2005/2006 Edition

Conducted by the Human Capital practice of Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists

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Table of Contents

Survey Director

Leslie V. Smith, Director
Human Capital
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Leslie is a Director in the Human Capital practice of Deloitte Consulting LLP. She has more than 15 years of experience in the retirement consulting field working with plan sponsors across all industries. Leslie was recently featured in a *BusinessWeek TV* segment on retirement and is regularly quoted in publications such as *The Wall Street Journal*, *Los Angeles Times*, and Dow Jones publications in connection with her role as the Director of Deloitte Consulting's Annual 401(k) Survey.

Acknowledgements

Our sincere appreciation goes to the many companies and their executives who contributed their time and information to this survey.

Executive Summary

U.S. 401(k) plans continue their historic growth in size and sophistication, consistent with dynamic labor and financial market conditions, as well as the ever-evolving goals of employers and their employees.

Representing the full spectrum of industries, geographic regions, and company sizes, 830 401(k) plan sponsors participated in this year's comprehensive 401(k) Annual Benchmarking Survey. Respondents diligently answered scores of probing questions about their plans as well as, for the first time, a series of inquiries about other rewards programs. The result is a highly "granular" snapshot of plan characteristics, policies, and trends.

The survey, jointly sponsored by Deloitte Consulting LLP (Deloitte Consulting) and the International Foundation of Employee Benefit Plans and its affiliated Certified Employee Benefit Specialist (CEBS) program, also reveals employers' assessment of the effectiveness of their 401(k)s, the basis on which they judge plan "success," and the barriers they perceive to achieving greater success.

> Twenty-four percent of plans have participation rates exceeding 90 percent.

"The data suggests that plan executives are paying careful attention to what's happening both within their organizations and the broader business and economic environment they occupy," observes Leslie V. Smith, a Director in Deloitte Consulting's Human Capital practice and the 401(k) Survey Director. "The data also speaks to the versatility of the 401(k) plan as a tool to address organizational human resources objectives and meet long-term employee financial needs."

Following are some highlights of this year's survey, reflecting the plan data at the close of 2005.

- **Rising participation levels:** The proportion of surveyed plans with more than 70 percent of eligible employees participating in their 401(k)s rose to 67 percent of the survey base, versus 63 percent in the prior year. Similarly, the fraction of plans with participation rates exceeding 90 percent rose to an impressive 24 percent, up from 19 percent last year.
- **Faster, less restricted eligibility:** Nearly half (49 percent) of surveyed sponsors now allow employees to participate in 401(k) plans immediately upon being hired, versus 45 percent in the prior survey. Along similar lines, a higher percentage

  of surveyed employers (8 percent, versus 6 percent in 2004) reported they had, in the past year, made participation eligibility "less restrictive."
- **Auto-enrollment rising:** Twenty-three percent of respondents reported automatically enrolling new employees, versus 14 percent a year earlier. Similarly, 29 percent reported they are considering auto-enrollment, whereas only 14 percent were considering that policy change in 2004.
- **Stepping right up:** Efforts to boost employee deferrals via "step-up" programs are gaining popularity; 16 percent of survey respondents reported now offering step-up programs (as a stand-alone feature), versus only 5 percent in the last survey.

In the area of investment features, survey data reflects a continuing fallout of the 2003 collapse of Enron Corporation, whose employees invested a substantial part of their 401(k) assets in employer stock and suffered financially as a consequence. In particular, the proportion of respondents matching employee deferrals in company stock dropped to 12 percent, from 15 percent the prior year. "That the proportions are relatively low simply reflects the fact that many of the companies surveyed are privately held," notes Smith. "What's notable is the proportional size of the drop — 20 percent. That's significant."

Other survey responses also point to publicly held employers backing away from policies encouraging rank-and-file employees to hold employer stock in their 401(k)s. For example, in the recent survey, 68 percent of respondents that match employee contributions with employer stock now allow employees to immediately reallocate those matches to other funds. In the prior survey, only 55 percent gave participants that flexibility.

Flexibility is also increasingly the name of the game in other facets of 401(k) plan design. For example, the number of investment choices available to the average participant rose to 17 in the latest survey, up from 15 in 2004. "This suggests that most employers are continuing to move away from any desire to steer plan participants to any particular investment choices," observes Smith. "This does not mean, however, that they can simply walk away from helping to equip employees to make wise investment choices," she adds.

In fact, one of the most rapidly growing new 401(k) investment options is the "time-based lifestyle fund" that targets plan participants according to their expected retirement dates and gradually shifts the fund's asset allocation from stocks to bonds as the target retirement date approaches. In this survey, 44 percent of plan sponsors reported offering that investment vehicle, up sharply from 28 percent the prior year.

Along with giving plan participants more flexibility, respondents are granting themselves more discretion too — at least with respect to profit sharing contributions to employee 401(k) accounts. In particular, only 19 percent of respondents reported being committed to a fixed profit sharing contribution last year, down from 36 percent in 2004.

Additional survey results offer the following insights:

- **Multiple communications tactics:** Respondents recognize the necessity of hitting participants from all sides to get across essential messages. More than 60 percent of respondents use Web sites, generic and customized printed materials, personalized printed materials, "targeted" mailings, e-mail, and retirement modeling software.

- **Seeing the big picture:** The proportion of plans whose recordkeeping systems allow participants to fold in data on financial assets held outside the 401(k) rose to 42 percent, from 32 percent in the prior survey.

- **Getting personal:** Asked which communications strategies they considered "highly effective," the largest proportions of survey respondents highlighted individual meetings, personalized printed materials, and group meetings. "Traditional videos" were generally deemed to be "not very effective."

- **Scrutiny of vendors:** Most respondents are assessing 401(k) vendor service levels by looking at accuracy of data, turnaround time on reports, call center performance, and processing times on plan loans and withdrawals. Respondents are less inclined to hold vendors directly responsible for participation rates or participants' diversification of their investments.

- **Satisfied customers:** Overall quality of service ratings (based on 11 subcategories of service) for 401(k) vendors was 4.03 (on a five-point scale; 5=excellent), essentially even with last year's survey, when "overall satisfaction" averaged 4.08.

One way to try to come to a "bottom line" on the state of 401(k) plans is to ask plan sponsors to assess the "effectiveness" of their plans. "Fundamentally, 401(k) plans, like any employee benefit, are intended to help employers recruit and retain employees," observes Smith. "With today's diverse, four-generation workforce, that's no small task. The good news is that by those measurements, 401(k) plans are performing quite well — and getting slightly better too," she adds.

For example, 80 percent of those surveyed believe their 401(k)s are effective as recruiting tools (up from 78 percent in the prior survey). And 71 percent consider their plans to be helpful in retaining employees, inching up slightly from last year's survey, which indicated a 70 percent "yes" response.

In addition, 28 percent of survey respondents consider their 401(k) plan provisions "more" competitive than those of their peers, versus 13 percent who consider them "less competitive." That leaves the largest block of survey respondents (59 percent) considering their plans merely "as competitive" as those of their peers.

Only 13 percent of survey respondents believe that "most employees are/will be financially prepared for retirement."

Despite that generally upbeat assessment, however, survey respondents are less optimistic about whether employees are taking advantage of their 401(k) plans "adequately" to finance their retirement income. Specifically, only 13 percent of survey respondents agree with the statement that "most employees are/will be financially prepared for retirement." A high majority of respondents (66 percent) accepted the general assessment that "some" employees would be prepared, and a pessimistic 21 percent minority believe "very few" workers are or will be financially prepared for retirement.

"That result suggests that there's still plenty of room for improvement in 401(k) plan design and communication, to the extent that employers have made employee retirement security a priority goal," observes Smith.

Demographics

A total of 830 401(k) plan sponsors participated in this year's benchmarking survey. Respondents weighed in from all geographic sections of the United States, roughly in proportion to the numbers of employers within those areas. Responses from the five most heavily represented states — New York, Illinois, New Jersey, Texas, and California — collectively represent 39 percent of the survey base.

Survey responses came in from a broad spectrum of industries, with a heavy representation of manufacturers; financial services firms; and technology, media, and telecommunications companies.

Finally, companies of all sizes contributed to the survey. The most well-represented-size employers, collectively representing 31 percent of the survey base, are the 1,000–5,000 employee bracket. Nearly one-fifth (19 percent) of survey respondents have more than 10,000 employees, and 38 percent have fewer than 1,000. The median employee size for the survey base was 1,893, and the average, 10,697.

While the survey base is relatively large, it is not being suggested that the results can be projected to the entire population of U.S. employers. The survey does, however, offer a useful — and highly detailed — snapshot of the policies, features, objectives, and expectations of the 830 plans surveyed and the people who manage those plans.

Exhibit 1

Survey Respondents by Region

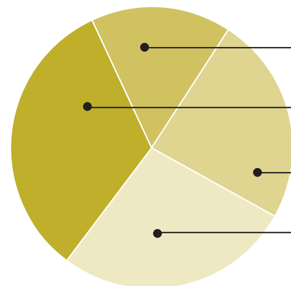


Exhibit 2

Survey Respondents by Industry

	Number	Percent
Manufacturing	165	20%
Financial Services	163	19%
TMT (Technology/Media/Telecommunications)	157	19%
Other Professional Services	123	15%
Health Care	65	8%
Wholesale/Retail	57	7%
Other	100	12%
Total	**830**	**100%**

Exhibit 3

Survey Respondents by Number of Employees

	Number	Percent
1–100	71	8%
101–500	149	18%
501–1,000	97	12%
1,001–5,000	257	31%
5,001–10,000	97	12%
10,001+	159	19%
Total	**830**	**100%**

Note: Average number of employees equals 10,697; median equals 1,893.

Eligibility and Enrollment

Eligibility Requirements

Continuing a trend noted in our 2004 survey, plan sponsors are moving toward allowing employees to participate in plans immediately upon hiring. The percentage is now close to half (49 percent) — up from 45 percent last year. The popularity of immediate eligibility is greatest in the health care and technology/media/telecommunications industries and least popular among wholesalers and retailers, probably due to traditionally high turnover rates in those sectors. In addition, immediate eligibility was more commonly reported among large employers than small.

"Increasingly, plan sponsors are coming to a consensus that the payoff in higher participation rates that comes from allowing — and encouraging — new employees to join the plan upon hiring is more than worth the added costs associated with enrolling a few employees who wind up leaving the company relatively soon after they were hired," says Leslie V. Smith, a Director in Deloitte Consulting LLP's (Deloitte Consulting) Human Capital practice and the 401(k) Survey Director.

Along similar lines, the largest block of respondents (50 percent) impose no age requirements for eligibility. However, as with immediate eligibility, differences are evident by industry sector: manufacturers are less likely to impose minimum age requirements than wholesalers and retailers.

Exhibit 4

How many employees are eligible to participate in your plan?

	Number	Percent
1-100	80	10%
101-500	162	20%
501-1,000	106	13%
1,001-5,000	255	31%
5,001-10,000	93	11%
10,001+	123	15%
Total	**819**	**100%**

Note: Average number of eligibles equals 6,669; median equals 1,511.

Exhibit 5

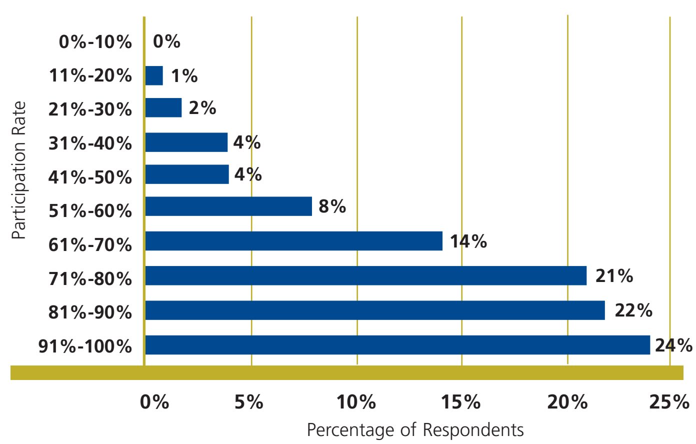
How many of your eligible employees actually participate in your plan?

	Number	Percent
1-100	96	12%
101-500	183	23%
501-1,000	122	15%
1,001-5,000	247	30%
5,001-10,000	74	9%
10,001+	88	11%
Total	**810**	**100%**

Note: Average number of participants equals 4,351; median equals 1,050.

Exhibit 6

What is your plan's participation rate?



Note: Average participation rate equals 75 percent.

Exhibit 7

What is the total number of participant accounts in your plan (including active and terminated employees)?

	Number	Percent
1-100	79	10%
101-500	133	17%
501-1,000	112	14%
1,001-5,000	240	31%
5,001-10,000	90	12%
10,001+	122	16%
Total	**776**	**100%**

Note: Average number of participant accounts equals 6,667; median equals 1,489.

Eligibility and Enrollment *(continued)*

Exhibit 8

What are the total plan assets in your plan?

	Number	Percent
0-$5 million	38	5%
$5,000,001–$10 million	59	8%
$10,000,001–$25 million	48	6%
$25,000,001–$50 million	201	26%
$50,000,001–$100 million	102	13%
$100,000,001–$500 million	215	27%
$500,000,001–$1 billion	47	6%
More than $1 billion	75	9%
Total	**785**	**100%**

Exhibit 9

What is the total number of investment options in your plan?

	Number	Percent
< 10	138	17%
11	47	6%
12	84	10%
13	76	9%
14	74	9%
15	80	10%
16	56	7%
17	40	5%
18	44	5%
19	26	3%
20+	160	19%
Total	**825**	**100%**

Note: Average number of funds was 17.

Exhibit 10

Please indicate your primary provider for administration services.

Fidelity	23%
Vanguard	8%
T. Rowe Price	6%
Prudential	5%
Hewitt	4%
Principal	3%
Wells Fargo	3%
JPMorgan	3%
Mass Mutual	3%
CitiStreet	2%
Mercer HR Services	2%
Merrill Lynch	2%

Note: We only listed the 12 most frequently cited providers.

Exhibit 11

What is the average account balance?

	Number	Percent
$0–$10K	46	6%
$10,001–$25K	110	15%
$25,001–$50K	222	30%
$50,001–$75K	168	23%
$75,001K+	196	26%
Total	**742**	**100%**

Exhibit 12

What are the service requirements for plan entry?

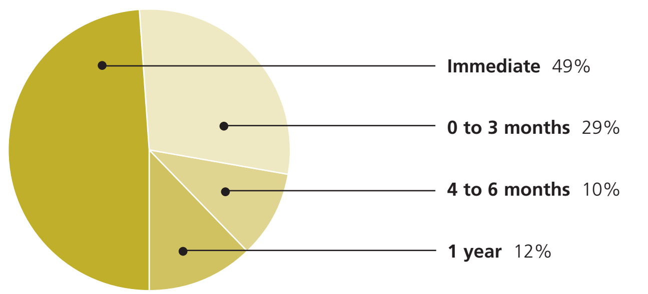


Exhibit 13

What is the minimum age requirement for plan entry?

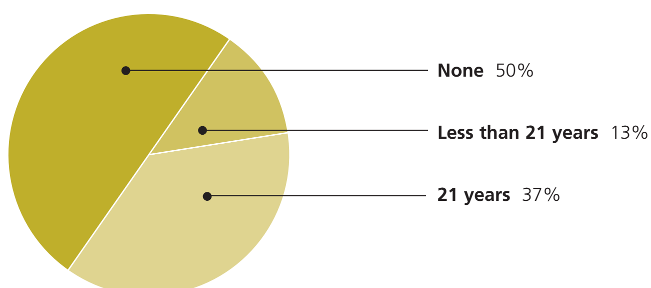
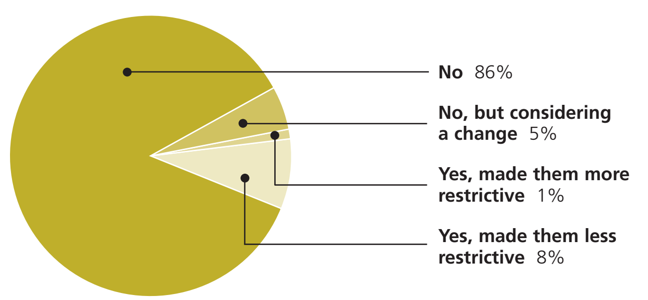


Exhibit 14

Have you changed your eligibility requirements in the past year?



Automatic Enrollment

The popularity of automatic enrollment programs is on the rise. Since 2004, its prevalence has risen by more than 50 percent, with 23 percent of respondents now having such programs. In addition, 29 percent of the current survey's respondents are considering adding this feature — double the percentage from the prior survey. However, a handful of survey respondents — 1 percent — dropped automatic enrollment programs, primarily citing the administrative burden involved.

> Since 2004, automatic enrollment has risen by more than 50 percent, with 23 percent of respondents having such programs.

Among plan sponsors offering automatic enrollment, the most typical default deferral rate is 3 percent, and the most common default investment option (employed by 53 percent of those surveyed) is some form of balanced fund, such as a lifestyle/life cycle fund (38 percent) or a traditional balanced fund (15 percent). This represents an increase of more than 50 percent from last year, when balanced funds were used by 34 percent of respondents with automatic enrollment This is the first year that balanced funds have become more popular than principal preservation funds (stable value or money market, used by 41 percent of respondents) as the default for automatic enrollment. "Such funds are, quite reasonably, seen as the most prudent default vehicles from the plan sponsor's point of view," comments Martha Priddy Patterson, Director of Employee Benefits Policy at Deloitte Consulting LLP. "Plan sponsors believe that by using that kind of a fund, it is unlikely they would be accused of forcing participants into an unsuitable investment."

Automatic enrollment programs clearly aren't a silver bullet for nondiscrimination testing challenges. Although survey respondents overwhelmingly (79 percent) report increases in participation rates as a result of instituting auto-enrollment programs, only one-third (33 percent) report improvements in nondiscrimination test results. However, improving nondiscrimination test results came after "encouraging retirement savings" and "increase overall participation" as sponsors' primary motivation for switching to automatic enrollment. "That seems to explain why 96 percent of respondents report they are satisfied with automatic enrollment," notes Smith.

Exhibit 15

Does your plan contain an automatic enrollment/negative election feature?

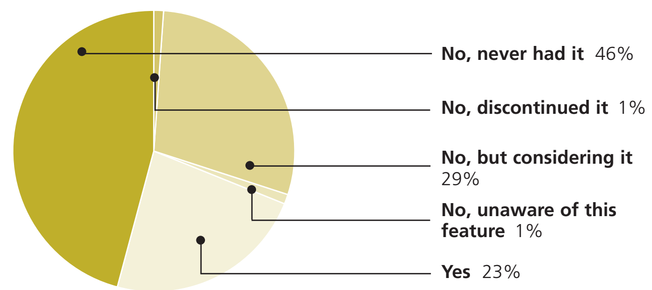
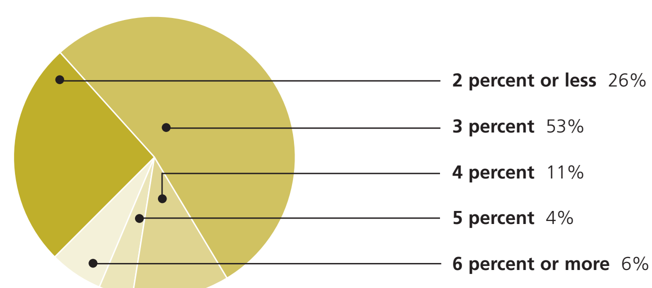


Exhibit 16

What is the default deferral percentage for automatic enrollment?



Eligibility and Enrollment *(continued)*

Automatic Enrollment *(continued)*

Exhibit 17

What is the default investment election for automatic enrollment?	
Principal Preservation (stable value, money market, etc.)	41%
Balanced Fund	15%
Lifestyle/Target Retirement Date Fund	38%
Other	6%
Total	**100%**

Exhibit 18

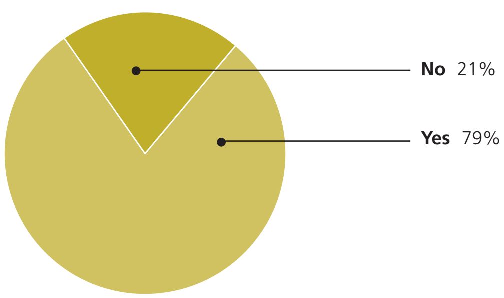
When you implemented automatic enrollment, which population was targeted?	
New hires only	72%
Entire population	24%
Other	4%
Total	**100%**

Exhibit 19

During re-enrollment, approximately what percentage of participants:	
Remain at the same deferral percentage	76%
Increase their deferral percentage	14%
Decrease their deferral percentage	5%
Opt out of the plan	5%
Total	**100%**

Exhibit 20

Have you seen an increase in participation due to the automatic enrollment feature?



Note: Average participation rate increase was 18 percent.

Exhibit 21

How has automatic enrollment impacted your nondiscrimination test results?	
Too soon to tell	35%
Improved test results	33%
No change to test results	31%
Worsened test results	1%
Total	**100%**

Exhibit 22

What was your primary motivation for adding automatic enrollment?	
Encourage retirement savings	45%
Increase overall participation	34%
Improve nondiscrimination test results	21%
Total	**100%**

Exhibit 23

Are you satisfied with automatic enrollment?

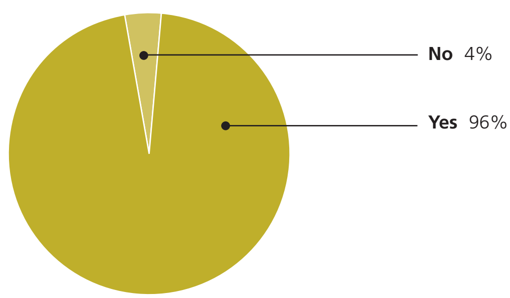


Exhibit 24

What reaction have you received from participants regarding automatic enrollment?	
No issues/favorable reaction	73%
A few issues, but overall a positive experience	26%
Significant obstacles to overcome	1%
Total	**100%**

Easy Enrollment

The prevalence of another strategy to boost enrollment — "easy enrollment" — appears to be leveling off; 11 percent of the survey base employ this approach. (Easy enrollment typically involves providing a postcard to new employees or nonparticipants that, when signed and returned, triggers a default deferral percentage and investment option.) A year ago, 10 percent of survey respondents reported employing easy enrollment. However, the prevalence of easy enrollment may grow: 16 percent of survey respondents report they are considering adding the feature. That may stem from reports that easy enrollment works. In this survey, 56 percent of easy enrollment plans report growth (averaging 12 percent) in participation rates attributable to that program.

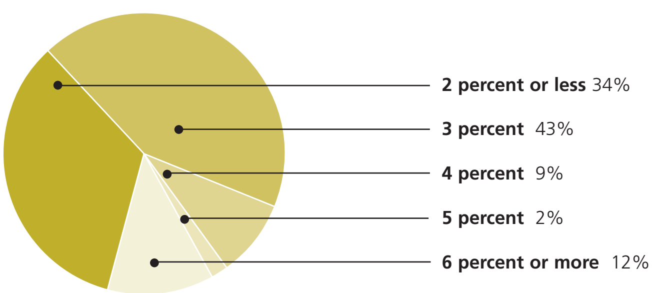
Exhibit 25

Does your plan contain an easy enrollment feature?	
Yes*	11%
No, never had it	66%
No, but considering it	16%
No, unaware of this feature	6%
No, discontinued it	1%
Total	**100%**

** The average percentage of employees that used the easy enrollment feature was 37 percent.*

Exhibit 26

What is the default deferral percentage for easy enrollment?



Note: Average default deferral percentage was 3.16 percent.

Exhibit 27

What is the default investment election for easy enrollment?	
Principal Preservation (stable value, money market, etc.)	39%
Balanced Fund	27%
Lifestyle/Target Retirement Date Fund	27%
Other	7%
Total	**100%**

Exhibit 28

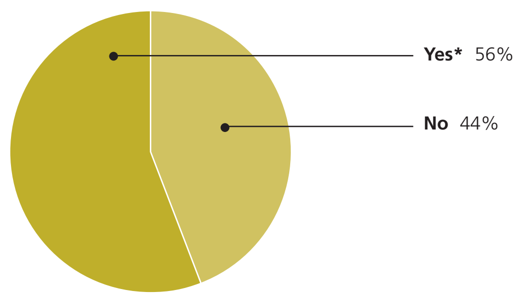
Which population was targeted when you implemented easy enrollment?	
New hires only	30%
Entire population	56%
Other	14%
Total	**100%**

Exhibit 29

How has easy enrollment impacted your nondiscrimination test results?	
Too soon to tell	35%
Improved test results	20%
No change to test results	40%
Other	5%
Total	**100%**

Exhibit 30

Have you seen an increase in participation due to the easy enrollment feature?



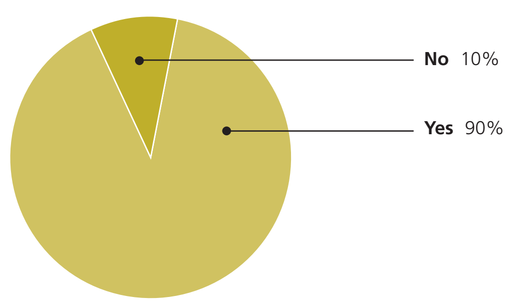
** An average increase in participation of 12 percent was reported.*

Exhibit 31

What was your primary motivation for adding easy enrollment?	
Encourage retirement savings	40%
Increase overall participation	36%
Improve nondiscrimination test results	24%
Total	**100%**

Exhibit 32

Are you satisfied with the easy enrollment feature?



Step-Up Contributions

Plan sponsors are also increasing their reliance on contribution "step-up" programs (automatically increasing participants' deferrals each year) to induce participants to increase the size of their deferrals. Specifically, 16 percent offer step-up features on a stand-alone basis, and another 2 percent as part of an auto-enrollment feature. In the prior survey, only 6 percent offered step-up features. This year, 20 percent of survey respondents say they are "considering it" for the future. Satisfaction levels with step-up programs appear very high — 91 percent. An average of 8 percent of participants have enrolled in the step-up contribution program, a slight increase from 2004.

Exhibit 33

Does your plan contain a contribution step-up feature?	
Yes, as a separate, stand-alone feature*	16%
Yes, tied to the automatic enrollment feature*	2%
No, but considering it	20%
No, unaware of this feature	2%
No	58%
Other	2%
Total	**100%**

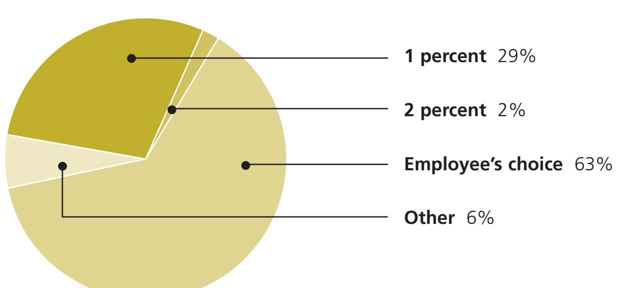
** Eight percent of employees had elected step-up contributions.*

Exhibit 34

Is your step-up feature:	
Elective	90%
Automatic for new hires only	5%
Automatic for all participants	5%
Total	**100%**

Exhibit 35

What is the incremental step-up percentage applied each year?



Note: Average step-up was 1.06 percent.

Exhibit 36

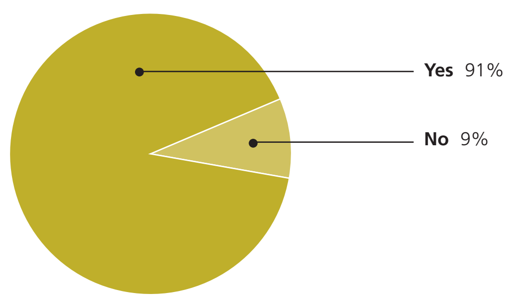
How long do you continue to step up the deferral percentage?	
Until the plan's maximum deferral rate is reached	54%
Until the maximum matching percentage is reached	13%
For a fixed number of years	5%
Other	28%
Total	**100%**

Exhibit 37

When do you step up the deferral percentage each year?	
The participant selects the date	59%
The beginning of the year	16%
Tied to the company's salary increase date	13%
The anniversary date of the participant's enrollment	5%
Other	7%
Total	**100%**

Exhibit 38

Are you satisfied with the step-up contribution program?



Employee Contributions

The average deferral percentage (ADP) for highly compensated employees (HCEs) was 6.62 percent and was greater than 6 percent for approximately 69 percent of respondents. This is consistent with the results of the prior survey.

Deferral rates for HCEs vary, however, by industry, employer size, and plan size as measured by assets. The lowest ADPs are found in the wholesale/retail and services industries (typically less than 4 percent), in contrast to the health care, financial services, and technology/media/telecommunications industries, which were the highest. The deferral rates for highly compensated employees of smaller plan sponsors tended to be higher than those of larger plan sponsors. "This is a curious result, which may suggest that in smaller companies the more highly paid employees are less likely to be covered by additional kinds of capital accumulation plans, and therefore they recognize the importance of taking full advantage of the 401(k)," says Smith.

Roth 401(k)s can provide significant tax advantages in many situations; we encourage clients to consider the pros and cons carefully.

The ADP for non-highly compensated employees (NHCEs) was 5.38 percent, and for approximately 69 percent of the respondents, the NHCE ADP was between 4 and 8 percent. NHCE ADPs vary by region and industry. The lowest ADPs (less than 4 percent) are more likely in the South and West, followed by the Midwest (4 to 5.99 percent) and the Northeast (6 to 7.99 percent). The ADPs for the wholesale/retail and services industries are more likely to be less than 4 percent, versus the financial services and technology/media/telecommunications industries, which were the highest.

"Deferral rates tend to correlate with total cash compensation levels, and the regional and industry variances for deferral found in the survey are consistent with that phenomenon," says Smith. "But that doesn't mean higher deferral rates can't be achieved across the board, with appropriate plan design and a strong communication strategy," she adds.

A majority of survey respondents (52 percent) do not have different maximum contribution levels for highly and non-highly compensated employees. But 22 percent do have different maximum levels, and 26 percent do not limit employee contributions at all. Since 2004, the proportion of respondents who do not limit employee contributions has increased 11 percent, while the proportion of plans without different maximums has decreased approximately 8 percent.

Roth 401(k)s are not yet a "hot" concept, according to the survey. Only 12 percent of surveyed plans offer them, although another 18 percent indicated they plan to include them in the future. Of those who do not offer a Roth option, 32 percent cited the sunset schedule or anticipated future legislative or regulatory changes as the reason. Another 31 percent are not pursuing Roth 401(k)s for other, unspecified reasons, possibly including administrative burdens and communications challenges.

"Roth 401(k)s can be useful and provide significant tax advantages to participants in many situations; we encourage clients to consider the pros and cons carefully before ruling them out," says Priddy Patterson.

Exhibit 39

Based on the most recent nondiscrimination testing, what was the Average Deferral Percentage (ADP) of the HCEs and NHCEs?

	HCE	NHCE
Less than 4.00%	8%	22%
4.00% to 5.99%	23%	45%
6% to 7.99%	48%	24%
8% or more	21%	9%
Total	**100%**	**100%**

Note: Average for HCEs was 6.62 percent; the average for NCHEs was 5.38 percent.

Employee Contributions *(continued)*

Exhibit 40

Do you have different maximum contribution percentages for highly and non-highly compensated employees?

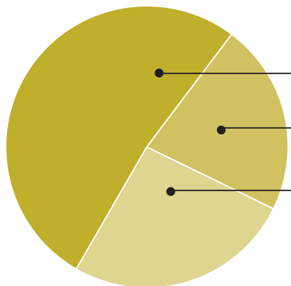


Exhibit 41

What are your maximum contribution percentages for highly and non-highly compensated employees?

	Before Tax	After Tax
Highly compensated employees	12%	6%
Non-highly compensated employees	46%	21%
All employees	48%	20%

Exhibit 42

Have you changed your maximum contribution percentages in the past year?

Yes, increased	15%
Yes, decreased	1%
No	80%
No, but considering a change	4%
Total	**100%**

Exhibit 43

How is the IRC compensation limit and the annual addition limit applied with payroll?

Limits are applied based on year-to-date compensation and contributions	87%
Limits are applied pro rata on each payroll	11%
Other	2%
Total	**100%**

Exhibit 44

Do you plan to offer a Roth 401(k) feature during 2006?

Yes	12%
No, because our provider isn't offering it yet	7%
No, but we plan to offer it in the future	18%
No, because we are concerned about the law's sunset schedule for 1/1/2011 and/or because we are concerned about the future changes to the tax status of Roth 401(k) distributions	32%
No, we are not interested in offering it in 2006 for other reasons	31%
Total	**100%**

Employer Contributions

Employer Match

One notable trend identified in this year's survey was significant growth in the number of plan sponsors that do not impose service requirements before participants are eligible to receive an employer match. More than 45 percent of respondents will now match deferrals of newly hired employees. In the prior survey, only 36 percent had that policy. Also, in the current survey, 30 percent impose a one-year service requirement, 17 percent require less than one year's service, and the remaining 8 percent have other service requirements.

The average matching formula is 68 percent of the first 6 percent of employee wages.

This year's survey shows little change from the prior year with regard to matching formulas. Almost three-fourths (73 percent) have one match formula for all employees, followed by a multi-tiered formula at 13 percent. For the 73 percent who use one formula for all employees, the average matching formula is 68 percent of the first 6 percent of deferred wages. This is a slight increase from last year's survey.

Slightly more than 90 percent of respondents allow participants to direct the investment of their matching contributions. Among those respondents, 12 percent make the matching contributions in employer stock, and most of these allow participants to reallocate to other funds immediately (68 percent). Compared to our 2004 survey, 4 percent more respondents are giving participants the option to direct the investment of contributions, while 3 percent fewer are even making contributions in employer stock. (Most survey respondents are not publicly held companies, so it would not be expected that a high proportion would match deferrals with employer stock.)

The trend toward easing the restrictions on employer stock diversification rules continues to increase. More than 27 percent of respondents report that they made their diversification rules less restrictive, and 11 percent are considering changes.

"This is part of the continuing fallout from the 2003 Enron Corporation bankruptcy, where many employees suffered significant financial losses due to heavy Enron stock holdings in their 401(k) portfolios," notes Tim Phoenix, Principal at Deloitte Consulting LLP and National Service Line Leader for Total Rewards. "Publicly held employers need to strike a proper balance between motivating employees to focus on corporate financial performance using employer stock and recognizing employees' need for diversification in their 401(k) portfolios, particularly if they don't offer any other kind of retirement plan or capital accumulation vehicle," he adds.

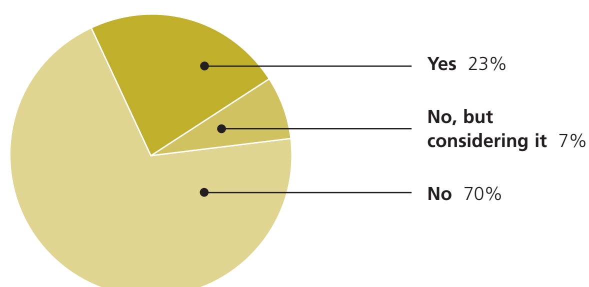
Vesting schedules for employer matching contributions, meanwhile, are also growing less restrictive. Since the last survey, the use of a four-to-six-year graded schedule has decreased by 5 percent, making the 100 percent immediate vesting schedule the most popular at 36 percent.

Exhibit 45

What are the service requirements for employer contributions?	
Immediate	45%
Less than 1 year	17%
1 year	30%
Other	8%
Total	**100%**

Exhibit 46

Do you offer a safe harbor matching contribution?



Employer Contributions *(continued)*

Exhibit 47

Do you offer:	
Matching contributions	59%
Profit sharing contributions	6%
Both matching and profit sharing contributions	29%
Neither matching nor profit sharing contributions	6%
Total	**100%**

Exhibit 48

What is your 401(k) plan's matching formula?	
All employees same formula	73%
Two employee groups, different formulas	7%
Multitiered contribution formula	13%
Varies from year to year	2%
Other	5%
Total	**100%**

Note: The average company matching formula reported was 68 percent of the first 6 percent of employee contributions.

Exhibit 49

Have you changed your company's matching formula in the past year?		
Yes, we have:		12%
Increased match	61%	
Instituted safe harbor	20%	
Suspended/discontinued	4%	
Decreased match	5%	
Instituted other formula/design changes	24%	
No, and we are not considering any changes		75%
No, but we are considering:		13%
A change to increase match	53%	
A change to institute safe harbor	35%	
A change to decrease match	3%	
A change to institute discretionary	6%	
Other formula/design changes	18%	
Total		**100%**

Exhibit 50

How is your match structured?	
Fixed	80%
Discretionary, this contribution was made this year	13%
Discretionary, this contribution was not made this year	1%
Combination	6%
Total	**100%**

Exhibit 51

Do participants have the option to direct the investment of these matching contributions?

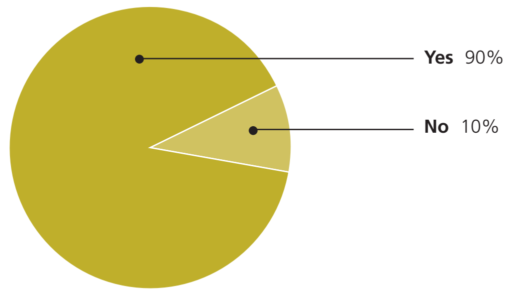


Exhibit 52

Do you make the matching contributions in employer stock?

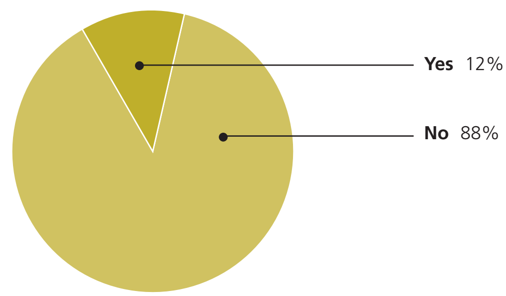


Exhibit 53

When do you allow participants to reallocate these matching contributions to other funds?	
Immediately	68%
Age requirement*	11%
Service requirement*	13%
Never	4%
Other	12%

** The average age requirement was 52 years and the average service requirement was 5 years.*

Exhibit 54

Have you made any changes to your company stock diversification rules in the past year?	
Yes, made them less restrictive	27%
Yes, made them more restrictive	1%
No	61%
No, but considering a change	11%
Total	**100%**

Employer Contributions *(continued)*

Exhibit 55

Have you made any changes to your contribution funding in recent years?	
Yes, switched from stock to cash	3%
Yes, switched from cash to stock	1%
No	95%
No, but considering a change	1%
Total	**100%**

Exhibit 56

What is the plan's vesting schedule for these matching contributions?	
Immediate full vesting	36%
1–3 year cliff	17%
1–3 year graduated	7%
4–6 year graduated	32%
Other	8%
Total	**100%**

Exhibit 57

Have you made any changes to your vesting provisions for the matching contribution in the past year?

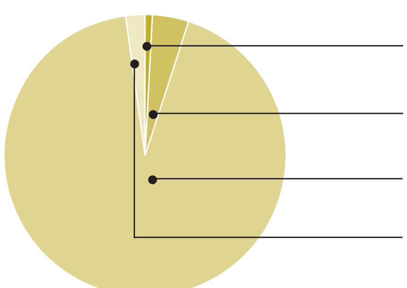


Exhibit 58

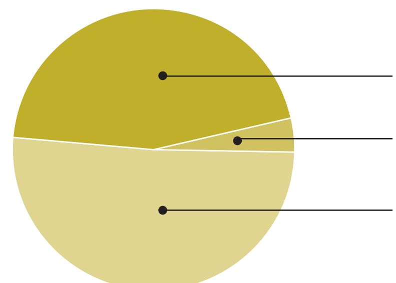
How are matching contribution forfeitures treated?	
Used to reduce employer contributions	70%
Used to offset fees	27%
Reallocated to participants	9%
Other	9%

Exhibit 59

How often is the match calculated and deposited?	
Every pay period	75%
Monthly or quarterly (less frequently than each pay period)	11%
Annually (once a year), with a required number of hours or employment on the last day of the year	12%
Annually (once a year), regardless of hours	2%
Total	**100%**

Exhibit 60

If the match is calculated and deposited every pay period, do you trueup your employer match at the end of the year for employees that reach the maximum compensation limit or that hit the 401(k) limit before receiving the maximum possible match?



Employer Contributions *(continued)*

Profit Sharing Contributions

More than three out of four profit sharing plans have a discretionary versus fixed contribution; 54 percent of respondents who have discretion made a contribution for the 2005 plan year.

Profit sharing plans that allocate contributions pro rata based on compensation outnumber other plan allocation methods on a three-to-one basis.

The average profit sharing cost, measured as a percentage of total compensation, was 4 percent, the median was 3 percent, and the mode (i.e., the most-often-identified number) was 1 percent.

Exhibit 61

How is your profit sharing contribution structured?

Fixed	19%
Discretionary, this contribution was made this year	54%
Discretionary, this contribution was not made this year	22%
Combination	5%
Total	**100%**

Exhibit 62

How is your profit sharing contribution allocated?

Contribution allocated pro rata based on compensation*	74%
Contribution allocated in another manner	26%
Total	**100%**

**Average profit sharing contribution was 4 percent of compensation.*

Exhibit 63

Do participants have the option to direct the investment of these profit sharing contributions?

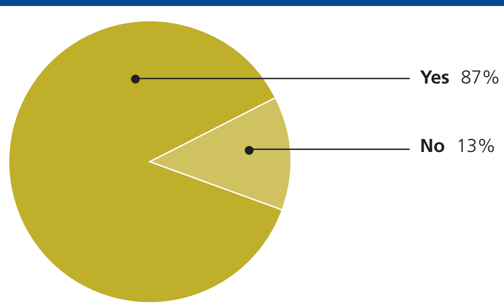


Exhibit 64

Do you make the profit sharing contribution in employer stock?

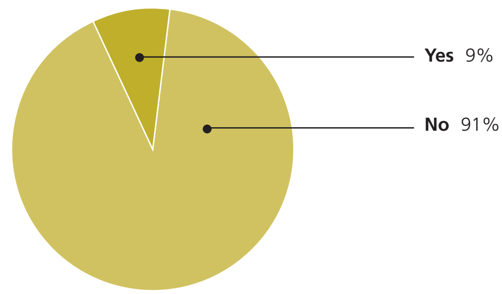


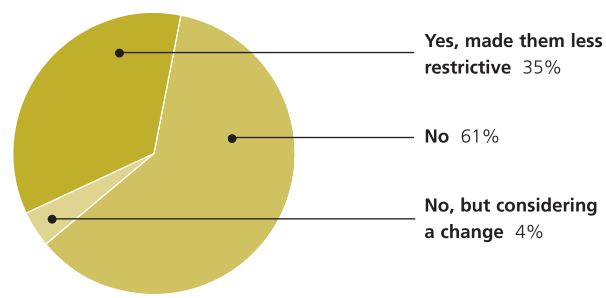
Exhibit 65

When do you allow participants to reallocate these profit sharing contributions to other funds?

Immediately	52%
Age requirement	20%
Service requirement	12%
Never	4%
Other	16%

Exhibit 66

Have you made any changes to your company stock diversification rules in the past year?



Employer Contributions *(continued)*

Exhibit 67

What is the plan's vesting schedule for these profit sharing contributions?	
Immediate full vesting	22%
1–4 year cliff	12%
5 year cliff	14%
1–4 year graduated	5%
5 year graduated	25%
6–7 year graduated	19%
Other	3%
Total	**100%**

Exhibit 68

Have you made any changes to your vesting provisions for the profit sharing contribution in the past year?

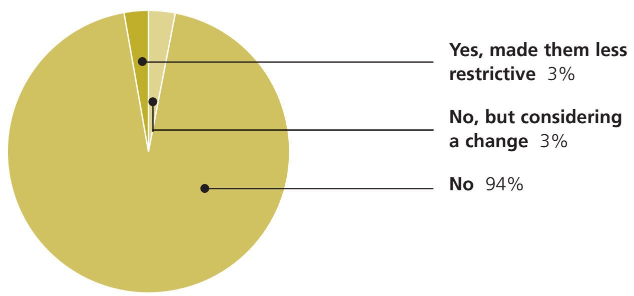


Exhibit 69

How are profit sharing contribution forfeitures treated?	
Used to reduce employer contributions	60%
Reallocated to participants	24%
Used to offset fees	20%
Other	10%

Investments

It will come as no surprise that the overwhelming majority (88 percent) of plans have some form of actively managed domestic equity fund in their portfolio. However, the investment fund environment is far from static, as many survey respondents made changes to their investment lineups this year. Significant changes occurred in these areas:

- Forty-four percent of respondents offer time-based lifestyle funds, up from 28 percent last year. (These funds are more commonly used among sponsors with more than 500 employees.)
- Eighteen percent offer managed accounts, up from 7 percent last year.
- Seventeen percent offer self-directed brokerage accounts, up from 13 percent last year.
- Four percent no longer offer money market accounts.

One type of investment product, Treasury Inflation Protected Securities (TIPS), while available only to participants of 9 percent of the survey base, rose dramatically (from 3 percent in the prior survey). Real estate investment trusts (REITs) are also moving up. "Their growing popularity may be due to the fact that they offer a level of investment diversification unavailable from the more traditional choices," notes Smith.

Although respondents are tinkering with their fund offerings, they generally (87 percent) believe they offer the right number of funds. But for those considering adding new funds, time-based lifestyle funds are the most popular choice.

Plans are taking care to document investment policies and procedures. Specifically, 83 percent of respondents have formal written investment policies (the figure is essentially unchanged from last year), and 78 percent have formal procedures in place for fund selection. The majority of respondents (58 percent) evaluate and benchmark their plan investments on a quarterly basis. Investment monitoring and fund selection is most frequently performed by an internal committee (by 67 percent of respondents) and/or an outside investment consultant (55 percent).

"Having formal, written policies and procedures around investments, reviewed on a regular basis, is essential for the proper management of a 401(k) plan; it's encouraging to see that most sponsors are taking care of this basic requirement," notes Priddy Patterson. "It is interesting to note," she adds, "that 19 percent of the survey respondents report that they have never had to replace an underperforming fund. I hope this is because they've never had an underperforming fund, and not because they simply have tolerated underperformance."

Forty-four percent of respondents offer time-based lifestyle funds, up from 28 percent last year.

Many respondents appear to be taking seriously the concerns about potentially inappropriate trading practices by plan participants: 42 percent of survey respondents assess short-term trading fees, if investments are held, on average, less than 51 days. Another 9 percent assess short-term trading fees that are based on other criteria. However, nearly half of respondents (49 percent) lack a policy restricting the frequency of interfund transfers. In addition, 62 percent of respondents do not have a defined policy for "excessive" trading.

But for those that have such a policy, 27 percent of respondents notify participants of the plan's policy and advise them to stop "when trading is deemed 'excessive.'" Also, 16 percent restrict/suspend/freeze participants from further trading when they are found to engage in excessive trading. The policing of excessive trading generally (79 percent survey response) falls on the recordkeeper.

Exhibit 70

Do you offer the following types of core investment options in your plan?	
Active Managed Domestic Equity	88%
Actively Managed Global/International Equity	84%
Stable Value	83%
General/Core Bond	79%
Traditional Balanced	69%
Passively Managed Domestic Equity	62%
Money Market	58%
Lifestyle Funds (time-based)	44%
Passively Managed Global/International Equity	32%
Lifestyle Funds (risk-based)	31%
Employer Stock	30%
Emerging Markets	26%
Lifestyle Funds (utilizing the core investments in the plan)	19%
Real Estate	18%
Self-Directed Brokerage	17%
Sector Funds	15%
Mutual Fund Window (mutual funds only)	12%
TIPS (Treasury Inflation Protected Securities)	9%
Socially Responsible	8%
Hedge Funds	1%
Exchange-Traded Funds (ETFs)	1%

Exhibit 71

Which types of investment vehicles are utilized in your plan?	
Mutual funds	91%
Separate accounts	20%
Collective trust funds	17%
Annuities	6%
Other	6%

Exhibit 72

Do you think your plan offers the appropriate number of investment options?

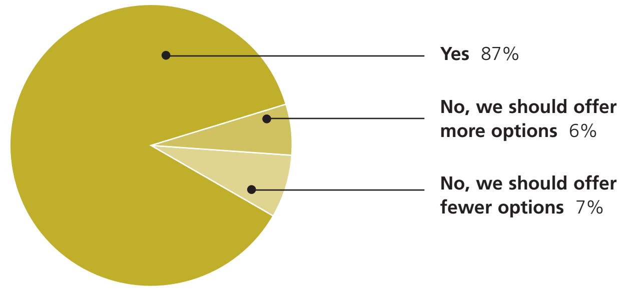


Exhibit 73

Do you offer managed accounts?

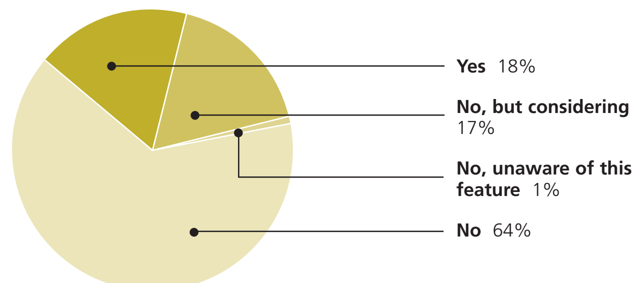


Exhibit 74

Are all the mutual funds you offer from the same fund family?

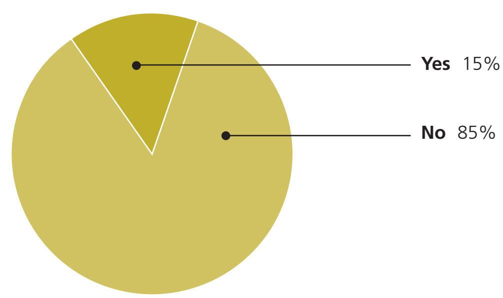


Exhibit 77

How frequently do you evaluate and benchmark the performance of the plan's investments?	
Quarterly	58%
Semiannually	14%
Annually	22%
Other	1%
No formal schedule	5%
Total	**100%**

Exhibit 75

Are formal written procedures in place for fund selection?

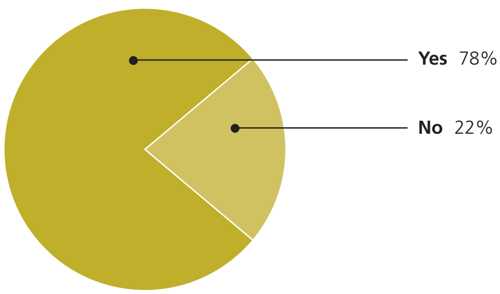


Exhibit 76

Do you have a formal written investment policy?

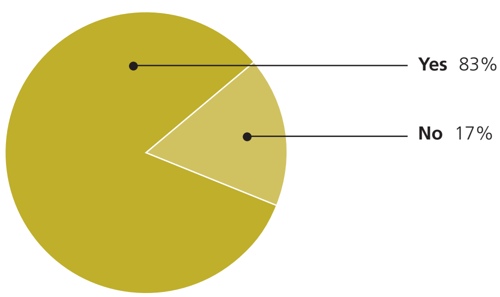


Exhibit 78

Who performs the investment monitoring for your plan?	
Internal committee	67%
An outside investment consultant	55%
Our plan provider/recordkeeper	38%
Other	4%

Exhibit 79

How do you handle an underperforming fund?	
Replace fund	66%
Continue to monitor	51%
Add an additional fund with the same investment style	17%
Freeze fund (no incoming money)	16%
Phase out fund over period of time	15%
Hasn't happened	13%
Other	3%

Exhibit 80

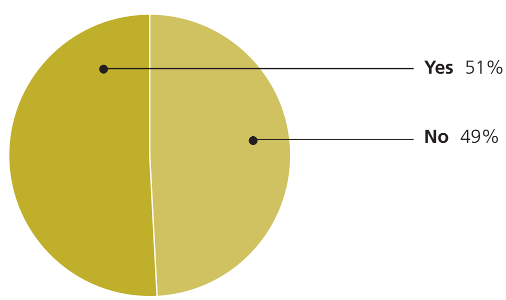
When was the last time you replaced a fund due to poor performance?	
Never	19%
Within last year	37%
1 to less than 2 years	20%
2 to less than 5 years	19%
5 years or longer	5%
Total	**100%**

Exhibit 81

If you changed funds recently, what was the main reason?	
The provider wasn't offering it anymore	5%
We, as the sponsor, made a decision to change the fund	91%
N/A, we haven't changed any funds recently	4%
Total	**100%**

Exhibit 82

Do any of the investment options assess short-term trading fees to participants?



Note: The average threshold number of days to trigger a trading fee was 51 days.

Investments *(continued)*

Exhibit 83

Does your plan have a policy restricting the frequency of interfund transfers among your investment options?		
Yes, based on:		51%
The fund's policy only	36%	
The plan's policy only	7%	
Both the fund's and the plan's policies	8%	
No		49%
Total		**100%**

Exhibit 84

How is excess trading defined for your plan?	
No definition/no policy	62%
Number of trades per year within a specific number of days	12%
Shares per day	0%
Dollars per day	1%
Dollars per fund	1%
Number of round-trip trades within a specific number of months	17%
Other	14%

Exhibit 85

What happens if a participant is found to be engaging in excessive trading?	
Policy does not exist and/or trading is not monitored	28%
Participant is notified of the plan's policy and advised to stop	27%
Participant is restricted/suspended/frozen from further trading	16%
Handled by fund	9%
Fee is assessed	7%
Each situation is handled independently	8%
Don't know	16%
Hasn't happened	24%
Other	2%

Exhibit 86

Who monitors the enforcement of these restrictions?	
Recordkeeper	79%
Fund company	26%
Plan sponsor	17%

Exhibit 87

Have you recently changed investment managers due to publicity around mutual funds?

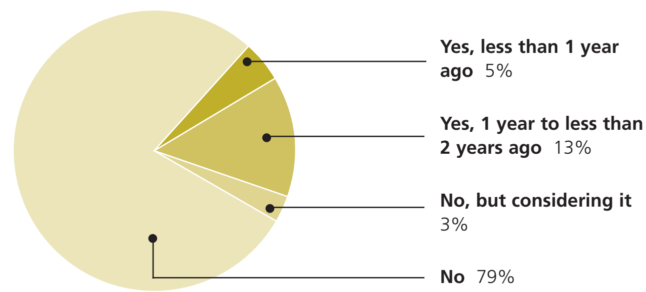


Exhibit 88

Does your plan adhere to the following guidelines to comply with ERISA Section 404(c) protection?	Yes	No
Do you make a statement that the plan intends to comply with ERISA Section 404(c) requirements?	80%	6%
Are prospectuses delivered before or immediately after a participant's initial investment in any plan fund?	88%	12%
Is a description of transaction fees, if any, and expenses to be charged to individual accounts communicated regularly?	87%	13%

Fees

More than one-third of respondents (38 percent) reported that all the recordkeeping and administration fees are paid through investment revenue; this response is up sharply from 29 percent in last year's survey. Conversely, 58 percent indicated that some or all of the recordkeeping and administration fees are not covered by investment revenue; of these, 53 percent are charged a direct fee by the recordkeeper and 5 percent are assessed wrap fees or an additional basis point charge on investments.

> The majority of respondents (70 percent) indicate the company pays the recordkeeping fee.

In the cases where the recordkeeper charges a direct fee, the majority of respondents (70 percent) indicated the company pays this fee, while 23 percent allocate the charge to participants. Of those who allocate to participants, 63 percent allocate pro rata based on account balances and 37 percent allocate an equal dollar amount to all participants. Fees are paid by both the company and the participants for 7 percent of respondents. By comparison, in the 2004 survey, 52 percent of respondents indicated the company paid the fees, while 35 percent allocated the charge to participants.

The average expense ratio for fund expenses totaled 75 basis points in this year's survey, and that figure is negatively correlated with plan size. That is, larger plans tend to have smaller fees. "This result is hardly shocking, but it does suggest that sponsors of relatively small plans need to be mindful that they operate at a bit of a disadvantage as far as fees are concerned and should be sure they don't simply accept higher fees as inevitable," says Smith.

The survey indicates that 76 percent of respondents have a clear understanding of their total plan/participant administrative fees, as well as asset management fees. Yet a smaller percentage (56 percent) report having a clear understanding of all the revenue-sharing arrangements that the recordkeeper has with the mutual funds included in the plan. But survey respondents from large plans (with 5,001+ employees and $100+ million in assets) were more likely to understand all recordkeeper/mutual fund revenue-sharing arrangements.

Only 59 percent of respondents reported that providers fully disclose revenue-sharing agreements and investment offsets (and of these, 11 percent do not disclose for proprietary funds). However, most recordkeepers report they fully disclose all fees, including revenue-sharing arrangements. "Sponsors should be sure to ask about all fees. The days of widespread hidden and potentially abusive fees are gone, but as a basic matter of due diligence, sponsors need to have the full picture here," says Priddy Patterson.

For the vast majority of respondents (87 percent), revenue-sharing and investment proceeds do not exceed the provider's costs for administering the plan, resulting in no fee credit. Of the 13 percent who do receive a fee credit, most use it to purchase additional services from the provider and to pay for other plan expenses (each at 49 percent), while 23 percent allocate the credit back to participants pro rata based on account balances.

Exhibit 89

How are your 401(k) plan's recordkeeping/administration fees paid?

All fees are paid through investment revenue			38%
Some or all of the fees are not covered by investment revenue, so there is a direct fee that is charged			53%
The company pays this fee directly		70%	
This fee is allocated to participants		23%	
Pro rata based on account balances	63%		
Equal dollar amount to all participants	37%		
Both the company and the participants pay this fee		7%	
Some or all of the fees are not covered by investment revenue, so there are additional fees in the form of wrap fees or added basis point charges on the investments			5%
Other			4%
Total			**100%**

Exhibit 90

Have your plan's total annual recordkeeping/administrative fees changed notably from last year?

No	89%
Yes, they've decreased	10%
Yes, they've increased	1%
Total	**100%**

Note: The average increase was 55 percent; the average decrease was 43 percent.

Fees *(continued)*

Exhibit 91

What is your plan's average fund expense ratio?	
Up to 0.5%	13%
0.51% to 0.85%	37%
0.86% to 1.25%	21%
More than 1.25%	1%
Data unavailable for survey	28%
Total	**100%**

Note: The average fund expense ratio was 75 percent.

Exhibit 92

If financial counseling/investment advice is available to participants, what are the fees for this service?		
There is no charge for this service		80%
A per-participant fee		10%
Based on number of participants who use this service	26%	
Based on number of eligible participants	74%	
An annual (base) fee		6%
Other		4%

Note: The average annual base fee was $120,599; the average per participant fee was $34.

Exhibit 93

If financial counseling/investment advice is available, who pays for it?	
There is no charge for this service	67%
Participants	19%
Plan sponsor	18%

Exhibit 94

Does your provider fully disclose its total cost for administering your plan without any revenue-sharing or investment revenue offsets?

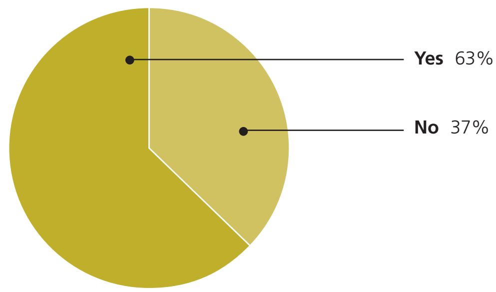


Exhibit 95

Does your provider fully disclose its revenue-sharing agreements and investment offsets?	
Yes, for both alliance and its own proprietary funds	48%
Yes, but for the alliance (nonproprietary) funds only	11%
No	33%
Other	8%

Exhibit 96

Do the revenue-sharing/investment offset proceeds exceed the provider's cost for administering your plan, resulting in a fee credit? If so, how do you use that fee credit?			
No, there is no fee credit			87%
Yes, there is a fee credit and we use it:			13%
To purchase additional services from our provider		49%	
To pay for other plan expenses		49%	
To allocate the credit back to participants		23%	
Pro rata based on account balances	100%		
Equal dollar amount to all participants	0%		
Total			**100%**

Exhibit 97

Do you agree with the following statements?	Agree	Disagree	No Opinion
We have no difficulty obtaining a clear understanding of the total plan/participant administrative fees being charged	76%	11%	13%
We have no difficulty obtaining a clear explanation of the normal fund operating expenses of the funds in our plan	76%	9%	15%
We believe our fees are competitive	81%	3%	16%
We have no difficulty obtaining a clear description of all the revenue-sharing arrangements that our recordkeeper has with the mutual funds included in our plan	56%	15%	29%
We have no difficulty obtaining what it costs our provider to administer our plan	49%	20%	31%

Participant Communications

Plan sponsors employ a wide variety of communication strategies to educate employees about the 401(k), but by far the most popular (90 percent utilization) is the Internet, more popular even than "generic printed materials" (75 percent). "Only a year ago, printed materials were more commonly employed than the Internet; it appears that the long-predicted tipping point has arrived," notes Smith. "But don't expect printed materials to disappear." Customized printed materials were only slightly less popular (at 70 percent) than generic materials.

Asked to rate the effectiveness of various communications media, plan sponsors ranked the following five at the top of the list (based on combined ratings of either "effective" or "highly effective"): personalized printed materials (92 percent), customized printed materials (90 percent), individual meetings (89 percent), e-mails (88 percent), and group meetings (87 percent).

"The common denominator is customization and individualization," says Smith. "Customization is more costly, of course, but a carefully crafted communications plan is worth the effort and expense — if one is serious about getting employees to get the full benefit of the 401(k) plan."

Communications approaches vary somewhat by industry and sponsor size. For example, targeted printed materials and Web-based videos were cited as the most effective by many plan sponsors in the health care and technology/media/telecommunications industries. Sponsors in the financial services sector often favor use of e-mail to get their 401(k) messages through to employees.

Over the last year, the number of respondents offering financial counseling/advice remains unchanged at 40 percent. However, 7 percent of this year's respondents reported they are planning to add such a program. For the remaining 53 percent who do not (or are not planning to) offer counseling/advice programs, fear of fiduciary liability is the most commonly cited (by 63 percent) impediment. Interestingly, only 35 percent cited cost concerns. Also, 34 percent noted the fact that employees haven't requested retirement counseling.

"Concerns about fiduciary liability have always seemed to haunt some employers when it comes to financial counseling in this area," notes Priddy Patterson. "Those concerns tend to diminish when plan sponsors look more carefully at how these programs operate. But cost can be a real constraint for many sponsors," she adds.

One communications growth area identified by the survey is account aggregation, which enables participants to incorporate account balances from other capital accumulation plans and, in some cases, outside investment portfolios. Specifically, 42 percent of survey respondents now offer this capability, up from 32 percent in last year's survey.

Exhibit 98

Do you offer your participants the ability to view their account balances in other employer-sponsored plans, outside investment funds, bank accounts, etc., through your 401(k) provider Web site (account aggregation)?

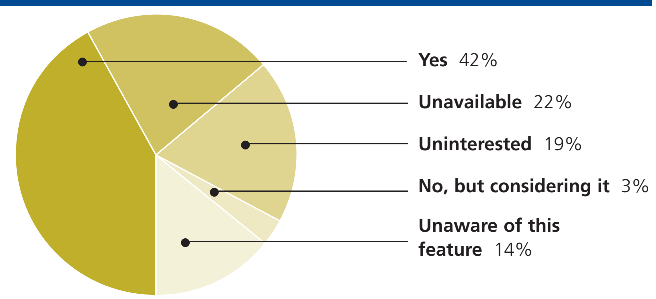
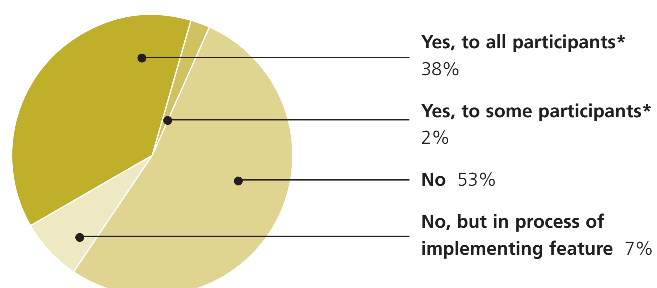


Exhibit 99

Is individual financial counseling/investment advice available to participants?



** Plan sponsors had offered financial counseling/investment advice for an average of 4.6 years and estimated that an average of 17 percent of participants utilized it.*

Participant Communications *(continued)*

Exhibit 100

If you do not offer counseling/investment advice, why not?	
Potential fiduciary liability	63%
Cost	35%
Employees are not requesting this service	34%
We are actively researching this feature and may implement in the future	22%
Unaware of feature	3%
Other	3%

Exhibit 101

What percentage of participants who utilize the financial advice services act upon the recommendations received?	
Fewer than 10%	8%
10% to fewer than 25%	8%
25% to 50%	10%
More than 50%	21%
Information not available	53%
Total	**100%**

Note: The average was 39 percent.

Exhibit 102

Do you use any of the following mediums for plan communication/education, and if so, how effective do you believe them to be?

	Medium Used	Highly Effective	Effective	Not Very Effective	No Opinion
Materials posted to plan's Internet/intranet site	90%	14%	68%	13%	5%
Generic printed materials	75%	7%	68%	20%	5%
Customized printed materials	70%	29%	61%	5%	5%
Personalized printed materials	60%	48%	44%	3%	5%
Targeted printed materials	63%	28%	55%	12%	5%
E-mail communications	66%	25%	63%	6%	6%
Retirement modeling software	69%	13%	67%	15%	5%
Traditional videos	20%	13%	48%	31%	8%
Web-based seminars/videos online	39%	14%	54%	24%	9%
Group meetings	86%	39%	48%	9%	4%
Individual meetings	37%	53%	36%	3%	8%
Other	11%				

Exhibit 103

If individual financial counseling/investment advice is available to participants, how is it provided and how effective are the methods used?

	Advice Provided	Highly Effective	Effective	Not Very Effective	No Opinion
Web-based	61%	16%	61%	18%	6%
Access to financial counselors via telephone	78%	25%	55%	12%	8%
Access to financial counselors in person	72%	52%	35%	5%	7%
Other	9%				

Administration Capabilities

Respondents who lack Web-based access to participant demographic and financial data are a very small (6 percent) minority. Although this year's survey shows no change in the number of respondents who believe the data they get is sufficient for their analytical needs (81 percent), a growing proportion of survey respondents are gaining the capability to make ad hoc data inquiries. That percentage is 79 percent — up from 72 percent last year.

> Automatic fund rebalancing has risen significantly to 46 percent, up from 35 percent last year.

It comes as no surprise that the overwhelming majority of respondents (94 percent) have plans whose data is updated daily. "Apparently a few sponsors are still working with plan providers using legacy-type systems," notes Smith. "This is not necessarily a problem if they are satisfied with what they're getting and know that alternatives exist."

Meanwhile, participant use of Web-based systems for transactions is sharply on the rise. The proportion of participants whose use of such systems for transactions is described as "high" (meaning they use them for at least 60 percent of all transactions) — is up to 49 percent. Last year that figure was only 31 percent. Responses varied, however, by industry and plan size. Consistent with last year's survey results, participant Internet usage is "low" to "medium" in the wholesale/retail, health care, and manufacturing sectors, while financial and technology companies report higher usage.

Meanwhile, the proportion of respondents reporting the use of online, on-demand, and e-mailed statements is rising. So, too, is the number of employers allowing participants to download transaction/historical data. Specifically, transaction download capability increased 8 percent from 2004. Also, the applications most widely used for this purpose continue to be Quicken, Microsoft Excel, and Microsoft Money.

The number of survey respondents offering automatic fund rebalancing has risen significantly, increasing more than 11 percent from 35 percent, largely due to increased market availability. In addition, the average percentage of participants actually using this service is up 4 percent from last year's 10 percent.

Exhibit 104

Does your provider give you access to plan data, participant demographics, and financial information through a plan sponsor Web site?

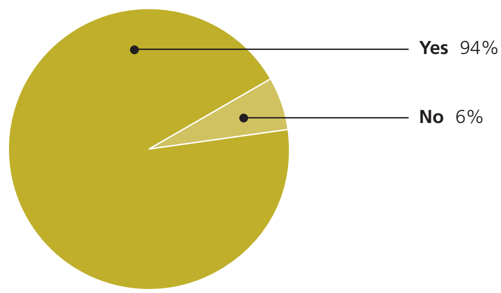


Exhibit 105

How often is the data refreshed?

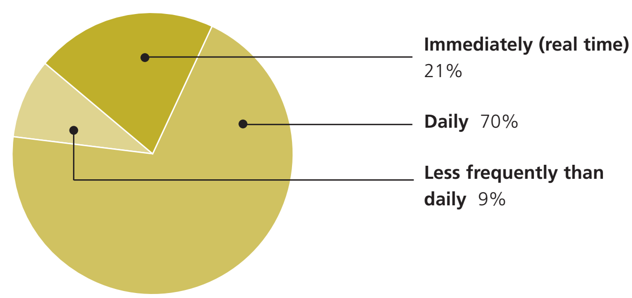
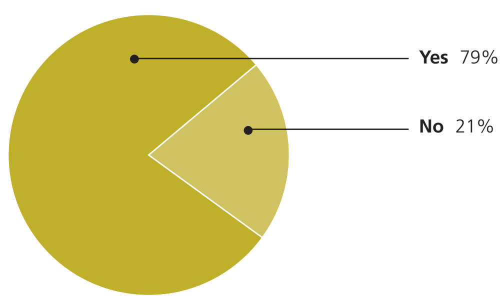


Exhibit 106

Can you create your own ad-hoc queries?



Administration Capabilities *(continued)*

Exhibit 107

Does this data suffice for your analysis needs?

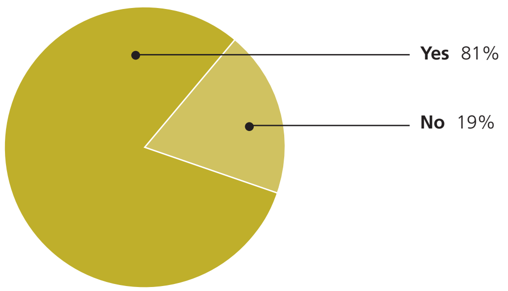


Exhibit 108

How is your plan administered?

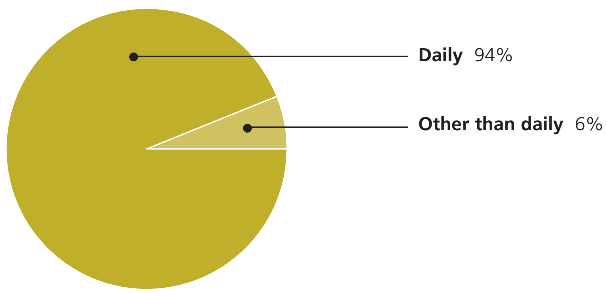


Exhibit 109

Which of these features can your participants use for inquiries and transactions?

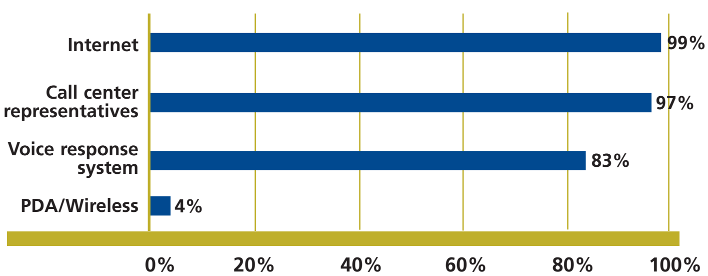
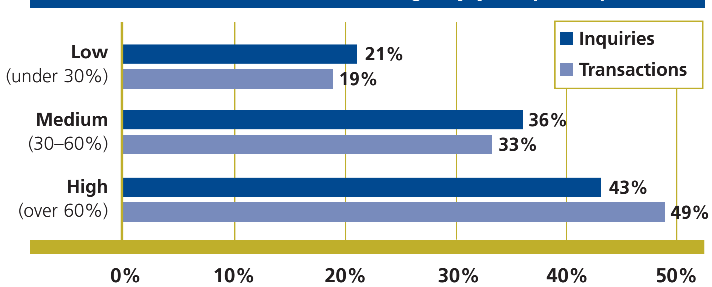


Exhibit 110

What is the level of Internet usage by your participants?



Note: The average for inquiries was 48 percent; the average for transactions was 49 percent.

Exhibit 111

Are the following transactions 100% paperless?	
Loan initiation	62%
Enrollment	63%
Interfund transfers	95%
In-service withdrawals (nonhardship)	39%
Hardship withdrawals	12%
Full distributions	34%
Direct rollovers out of the plan	29%
Deferral percentage changes	74%
Future investment election changes	88%
Beneficiary changes	25%

Exhibit 112

How are participants' statements provided?	
Hard copy mailed quarterly	89%
Quarterly statement available online	61%
E-mailed quarterly	19%
"Statements on Demand" (as of any date) available anytime	55%

Exhibit 113

How many business days after the end of each quarter are participants' statements available?	
1–5 business days	17%
6–10 business days	29%
11–14 business days	26%
15–24 business days	23%
25 or more business days	5%
Total	**100%**

Note: The average was 11.47 days.

Exhibit 114

Can participants download transaction history/statement data?		
Yes, to:		52%
Microsoft Money	39%	
Microsoft Excel	48%	
Quicken	59%	
Other	7%	
No, unaware of this feature		18%
No, download unavailable at this time		30%
Total		**100%**

Exhibit 115

How many outstanding loans can a participant have at any time?

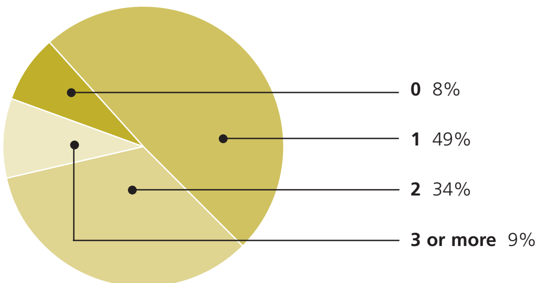


Exhibit 116

Does your plan offer participants the option to elect automatic fund rebalancing?

Yes	46%
No, but considering it	18%
No, unaware of this feature	5%
No, uninterested	6%
No, unavailable	25%
Total	**100%**

Note: Plan sponsors estimated that on average 14 percent of participants used this service.

Exhibit 117

Which stock accounting method do you use?

Unit accounting	58%
Share accounting	38%
Both	4%
Total	**100%**

Note: The average target cash reserve was 3 percent and 96 percent were satisfied with their accounting method.

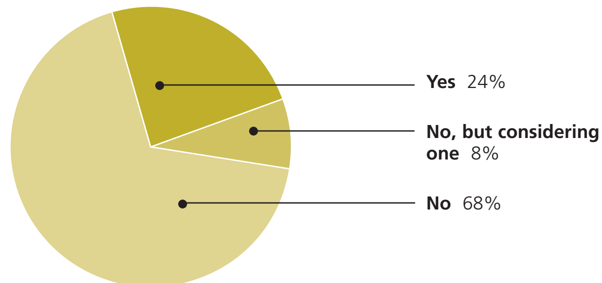
Exhibit 118

Which of the following options does your company use with regard to employer stock?

Individual participant receives proxies and votes	85%
The company votes all shares as the trustee directs	9%
The company does not vote the stock at all	3%
Other	3%
Total	**100%**

Exhibit 119

Is there a limit on the election percentage of your employer stock?



Note: The average maximum contribution election was 26 percent; the average maximum total investment was 29 percent.

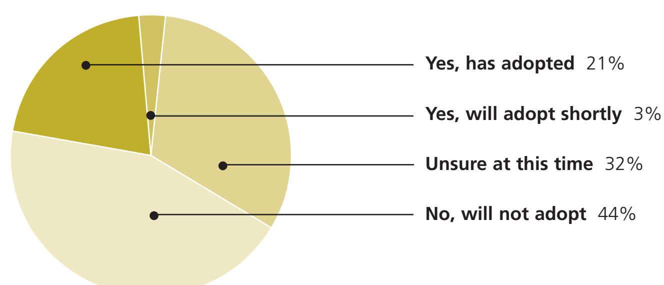
Exhibit 120

Are you considering any changes to your restrictions on company stock?

Cap investment in company stock	20%
Eliminate or reduce restrictions on diversification of company stock	19%
Eliminate future investments in company stock	10%
Eliminate or reduce restrictions of investment of company match	9%
Other	49%

Exhibit 121

Does your plan intend to adopt the recently enacted Katrina liberalization rules on permitting plan distributions and loans?



Provider Relationship

The proportion of respondents using bundled service packages remains large (75 percent) and has risen about two points from last year. And the good news is that survey respondents are well satisfied with their providers, rating them an average of "4" on a 1–5 scale, with 5 being "excellent." Fully 79 percent of respondents rated their providers a 4 or higher. These results are essentially unchanged from last year.

Asked to identify the biggest improvement they'd like to see plan providers make in plan performance, the survey respondents zeroed in on "improving the participant experience." Additional priorities are noted in Exhibit 129.

As in past years, the survey revealed that nearly all respondents (96 percent) have written service agreements with their providers. However, 39 percent of survey respondents reported that their agreements do not make fees contingent upon the satisfaction of performance standards. Some 37 percent do have such agreements, but 24 percent are unsure. Service- and/or performance-level agreements are more common among large plans than small.

"It's not surprising that smaller plans are less apt to have performance guarantees, but that shouldn't prevent them from trying to negotiate them," says Smith. "And certainly if you are one of those unsure whether you have service guarantees in place, it's time to find out."

When performance standards are built into a plan agreement, they are most likely to cover accuracy of reports, followed by statement and report turnaround time, call center measurements, and loan/distribution/check-processing time.

Service guarantees or not, survey data suggests that plan sponsors aren't firing providers very often, as 61 percent of survey respondents have been using the same recordkeeper for at least five years.

Exhibit 122

What is your plan provider structure?

Bundled	75%
Alliance	11%
Unbundled	14%
Total	**100%**

Exhibit 123

Do you have a formal written service agreement with your provider?

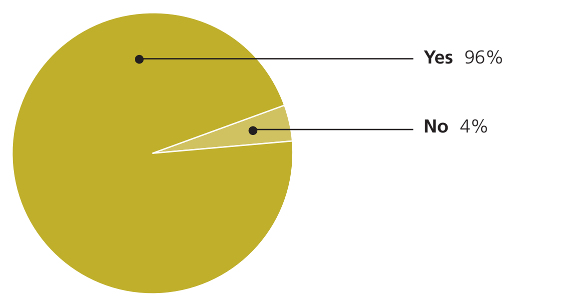


Exhibit 124

Does your provider agree to maintain specific levels of service or performance with the risk of sacrificing fees should these levels not be met?

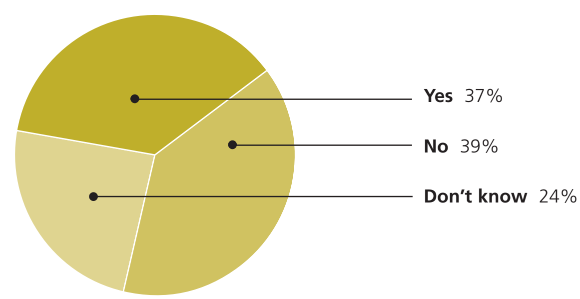


Exhibit 125

What service levels are being measured with your provider?

Accuracy	83%
Statement and report turnaround time	78%
Call center measurements	68%
Loan, distribution, and withdrawal check processing time	62%
Participation rate	30%
Fund diversification at the participant level	26%
Other	2%

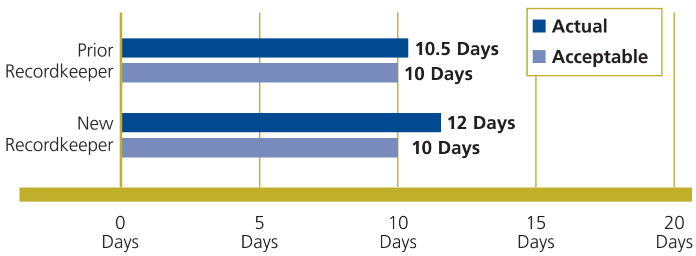
Exhibit 126

How long have you been with your recordkeeper/administrator?	
Less than 2 years	12%
2 to less than 5 years	27%
5 to less than 10 years	36%
10 or more years	25%
Total	**100%**

Note: Average was 5.93 years

Exhibit 127

If you have switched recordkeepers since 1/1/2005, how long was your blackout period?



Note: 91 percent felt their blackout period was acceptable.

Exhibit 128

When was the last time you evaluated other providers for your plan for recordkeeping/administration?	
Less than 2 years	30%
2 to less than 5 years	37%
5 to less than 10 years	24%
10 or more years	9%
Total	**100%**

Note: Average was 3.95 years

Exhibit 129

Rank the following changes/improvements that your provider could make in the order of importance, with 1 being the most important and 9 the least important.

	Average Rank	Actual Rank
Improve participant experience	3.53	1
Add/enhance plan sponsor Web site and tools	4.19	2
Offer investment options with lower fees and/or better performance	4.20	3
Reduce direct fees to plan sponsor	4.91	4
Improve relationship management and responsiveness to plan sponsor inquiries/issues	4.98	5
Improve turnaround times for reports and statements	5.27	6
Fee transparency	5.27	6
Improve accuracy of information	5.67	8
Products and services for other benefit programs	6.76	9

Exhibit 130

How would you rate the services you are receiving from your vendors today?

	Average	1 (poor)	2	3	4	5 (excellent)
Plan Web site for participants	4.19	1%	3%	15%	38%	43%
Compliance	4.17	<1%	2%	18%	40%	40%
Plan sponsor support and relationship management	4.10	1%	4%	18%	37%	40%
Administration/recordkeeping	4.09	1%	4%	18%	38%	39%
Plan Web site for sponsors	4.05	2%	6%	17%	38%	38%
Fees compared to marketplace	4.00	1%	3%	22%	42%	31%
Call center services	3.94	1%	4%	21%	49%	26%
Investment fund performance	3.93	1%	2%	22%	55%	21%
Employee communication/educ.	3.81	2%	5%	27%	39%	26%
Investment advice tools	3.74	2%	7%	30%	41%	21%
Consulting	3.66	2%	9%	30%	41%	19%
Overall	**4.03**	**<1%**	**3%**	**19%**	**51%**	**28%**

Plan Effectiveness

Like all employee benefits, 401(k) plans are offered to help recruit and retain employees. The good news is, employers are confident these goals are being met. Specifically, 80 percent believe that the 401(k) plan is an effective recruiting tool and 71 percent believe the plan aids in retaining workers.

That somewhat lower response on the retention issue may relate to another survey finding: When asked how their plans stack up vis-á-vis their peers, 59 percent placed themselves in the middle of the road. But, a healthy 28 percent considered their plans to be "more competitive."

Respondents report "lack of employee understanding" as the top barrier to a successful 401(k) plan.

"Plan sponsors need to be very clear about what they are trying to accomplish with their plans," says Phoenix. "If you need a Cadillac plan to address human resources strategy requirements or to be consistent with the organization's HR philosophy, your plan should be designed accordingly. But simply trying to be 'competitive' without exploring strategic requirements or carefully assessing the needs of your employee population could be a costly mistake."

As in prior surveys, respondents identified achieving high participation rates as the top indicator of plan "success." Top barriers to achieving that goal, survey respondents reported, are "lack of employee understanding" (33 percent), "ineffective employee communications" (25 percent), and "employee demographics" (15 percent).

Respondents believe that employees' biggest difficulties with their 401(k) revolve around investment selection, putting enough into the plan, and shifting funds among investment choices.

Despite respondents' satisfaction with their plans, only 13 percent believe that most employees will be financially prepared for retirement. A much larger block (66 percent) believe that "some" employees are or will be financially prepared for retirement, followed by 21 percent who believe "very few" employees will be prepared. Sponsors of smaller plans tended to be more optimistic on this question than large plan sponsors.

"This is a somewhat troubling — although perhaps not unexpected — finding. While the very nature of a 401(k) plan involves shifting primary responsibility for funding future retirement income to the employee, few employers will be prepared to be fatalistic on this issue," says Phoenix. "This result suggests that there's a lot more work to be done to make 401(k)s really 'work' — unless they are simply regarded as a mere supplement to some other retirement plan, such as a defined benefit plan."

Exhibit 131

Do you feel that your 401(k) plan is an effective recruiting tool?

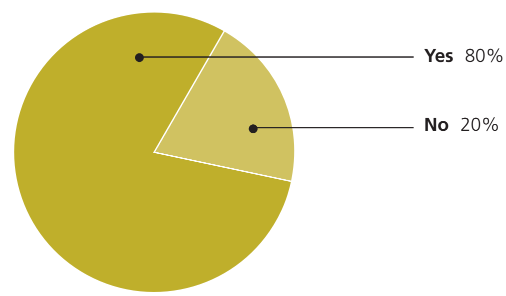
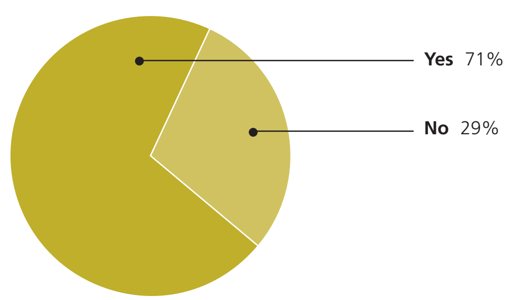


Exhibit 132

Do you feel that your 401(k) plan assists in retaining your existing employees?



Plan Effectiveness *(continued)*

Exhibit 133

Do you believe that the provisions of your 401(k) plan are:	
More competitive than those of your peers	28%
As competitive as those of your peers	59%
Less competitive than those of your peers	13%
Total	**100%**

Exhibit 134

Rank the following primary indicators of a successful 401(k) plan, with 1 being the most important and 5 being the least important.	
High level of participation	1
Investment performance	2
Employee appreciation	3
Easy accessibility/technology (Internet, telephone, etc.)	4
Cost-effectiveness	5

Exhibit 135

What aspects of the plan have your employees found confusing?	
Where to invest/which funds to use	82%
How much to save for retirement	55%
Fund transfers/reallocations	33%
Impacts of contribution limitations/nondiscrimination testing	30%
Withdrawals	23%
Rollovers	22%
Loans	22%
Financial planning tools	21%
Company contributions	20%
Enrollment	19%
Web site	17%
Participant statements/confirmation statements	15%
Fees	13%
Conversion/blackout periods	12%
Voice response system	12%
Employee contributions	7%

Exhibit 136

What is the primary barrier to making your plan more successful?	
Lack of employee understanding	33%
Ineffective employee communications	25%
Employee demographics (age, salary, education level, etc.)	15%
Low company matching formula/waiting period for matching contribution	4%
Administrative costs	2%
Current market/economic trends	2%
Investment performance	2%
Employee turnover	1%
Lack of provider support/internal resources	1%
None	14%
Other	1%

Exhibit 137

In your opinion, are your employees saving adequately for retirement?	
Most employees are/will be financially prepared for retirement	13%
Some employees are/will be financially prepared for retirement	66%
Very few employees are/will be financially prepared for retirement	21%
Total	**100%**

Other Rewards Programs

In response to requests from last year's participants, this year's Benchmarking Survey features data about some additional benefit plans. "The idea is to place the 401(k) in the context of the organization's broader total rewards structure; 401(k)s do not exist within a vacuum," says Phoenix.

A relatively large proportion (in light of the ongoing decline of defined benefit (DB) plans) of survey respondents (43 percent) maintains traditional pensions. And in the past year, only 14 percent of survey respondents have made design changes in any of their retirement plans. Typical of the design changes were freezing participation in DB plans for new employees or freezing accruals for all employees.

> Add it all up, and the average cost for survey respondents' benefit plans comes to 28 percent of payroll.

In the health plan arena, many survey respondents have been grappling with higher plan costs (average per capita cost increase for 2006: 8.43 percent) by increasing the percentage of costs that employees contribute toward their health care plans, as well as raising co-pay amounts.

Health savings accounts (HSAs) made a strong showing among survey respondents — 20 percent currently offer them, and another 43 percent reported they're considering HSAs.

Nearly half (45 percent) of respondents outsource their health and welfare plan administration to a vendor other than their 401(k) vendor, while a nearly equal percentage handle it internally.

Add it all up, and the average cost for survey respondents' benefits plans, as a percentage of payroll, came to 28 percent. Many survey respondents (62 percent) believe they're spending "the appropriate amount" on their benefit plans. That positive assessment may be based on looking at market data, as 87 percent of survey respondents reported having compared their company's "compensation levels" to market averages in the past two years.

Exhibit 138

Do you sponsor a defined benefit retirement plan for your U.S employees?		
Yes		43%
Final average pay plan	55%	
Career average pay	14%	
Cash balance	28%	
Target	1%	
Other	13%	
No		56%
No, but considering it		1%
Total		**100%**

Exhibit 139

Have you changed the design of your overall retirement plan offerings (DC, DB, and Non-Qualified) in the past year?		
Yes		14%
Froze DB plan to future accruals for existing participants and new entrants	20%	
Froze DB plan to new entrants only	24%	
Converted traditional DB plan to cash balance plan	3%	
Added profit sharing to the 401(k) plan	5%	
Other	58%	
No, we have not made any changes and do not plan to in the near future		72%
No, but considering it		14%
Total		**100%**

Exhibit 140

Which of the following changes have you made in your health care plan for 2005 and/or 2006?	
Increased percentage of cost paid by employee contributions	41%
Increased health co-pays	33%
Extended FSA claim incurral period by 2.5 months	32%
Increased prescription drug co-pays	29%
Increased annual deductible	28%
Introduced high-deductible plan option	21%
Introduced Health Savings Account	16%
Increased the number of health care options offered to employees	11%
Added a third tier to prescription drug plan	10%
Reduced the number of health care options offered to employees	10%
Reduced/consolidated the number of health care vendors that our company uses	10%
Added annual deductible	7%
Limited prescription drug formulary to exclude some drugs	7%
Carved out prescription drugs	5%
Eliminated health care coverage for retirees	2%
Implemented full-flexible benefit plan	1%
Implemented longer waiting period before new employees are eligible for coverage	1%
Made other changes	28%
Made no plan design changes	16%

Exhibit 141

How much are your per capita health care costs increasing for 2006?	
No increase	7%
1% to 4%	10%
5% to 7%	20%
8% to 10%	30%
11% to 13%	14%
14% to 16%	3%
More than 16%	2%
Data unavailable	14%
Total	**100%**

Note: Average was 8.43 percent

Exhibit 142

Which of the following statements do you agree with?	
Health care is an important part of our total rewards strategy	72%
Health care is something that helps us to attract, retain, and motivate employees	54%
Health care is an important part of employee compensation but is not integrated with our total rewards strategy	19%
Health care is something that we offer for competitive reasons, but it has only a small role in our overall compensation strategy	12%

Exhibit 143

Our current health care system is based on a combination of government- and employer-based coverage. Which of the following statements do you agree with?	
The current health care system is the right balance between government- and employer-based health care coverage	43%
Health care in the United States should move toward a government-sponsored national health care system	40%
The government should move to privatize health care and encourage employers to take on a greater role in offering health care to both employees and retirees	17%
Total	**100%**

(K 7) Exhibit 144

Do you offer a Health Savings Account (HSA)?	
Yes, currently offer it	20%
Yes, currently building it	1%
No, do not offer it, but considering it in the future	43%
No, do not offer it, and do not have plans to offer it in the future	36%
Total	**100%**

Other Rewards Programs *(continued)*

Exhibit 145

What was your total cost for specific benefit programs last year as a percentage of employee pay?	
Active medical/dental/llfe/disability	18%
Qualified defined benefit	6%
401(k)	6%
Profit sharing	3%
Postretirement medical	2%
Nonqualified defined contribution	1%
Nonqualified defined benefit	1%
Other	8%

Note: The total cost for all benefit programs averaged 28 percent of employee pay.

Exhibit 146

Are you satisfied with the cost of your benefit programs?	
Yes, we think we are spending the appropriate amount	62%
No, we should be spending less	32%
No, we should be investing more	6%
Total	**100%**

Exhibit 147

Have you compared your company's compensation levels to the marketplace within the past two years?	
Yes	87%
No, but we plan to review them in the next year	7%
No, and we have no specific plans to review them in the near future	5%
No, but we plan to review them at another time	1%
Total	**100%**

Exhibit 148

How often do you increase your merit budget?	
Annually	74%
Every other year	1%
As needed	24%
Other	1%

Exhibit 149

If your company has an annual incentive (bonus) plan, did you pay out awards during your last fiscal year?

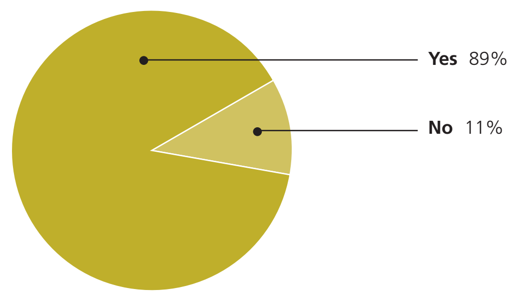


Exhibit 150

Do you offer long-term incentive awards to employees?

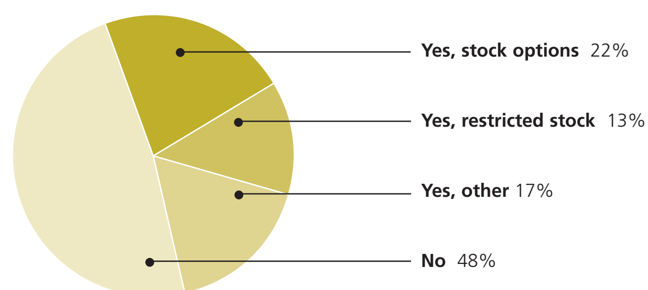


Exhibit 151

Do you outsource the administration of any benefit functions?

	Yes, to our 401(k) vendor	Yes, to another vendor	No, not outsourced	Not outsourced, but considering it
Health and welfare	4%	45%	46%	2%
Pension administration	19%	21%	31%	2%
Stock option administration	2%	23%	35%	3%
Payroll	1%	34%	58%	2%
HR	<1%	3%	82%	1%
Other	<1%	2%	16%	<1%

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