CASE STUDY: Taking the Next Step in Customization

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New York
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Russell Investments
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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

There is no guarantee that the Russell Adaptive Retirement Account, a custom Target Date strategy, will outperform a standard Target Date fund.

Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

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Participants need to focus on their retirement income

401(k) balances hit record highs
– USA Today

401(k) income calculations gain popularity
– Chicago Tribune

Are 401(k) savers pursuing the wrong goal?
– Morningstar

Fidelity finds:
millions of ‘unengaged’ 401(k) account holders
Why Target Date Funds can be a good QDIA*

- Truly no input required by participant
- Provides well diversified portfolios
- Based on single biggest risk factor – age
- Reasonable cost
- Is in line with QDIA* requirements

*QDIA = Qualified default investment alternative
But they don’t consider an individual’s unique factors

<table>
<thead>
<tr>
<th>Participant Factor</th>
<th>Standard Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution rate</td>
<td>9%, going to 14.5%</td>
</tr>
<tr>
<td>Retirement age</td>
<td>65</td>
</tr>
<tr>
<td>Gender</td>
<td>Male</td>
</tr>
<tr>
<td>Career length</td>
<td>40</td>
</tr>
<tr>
<td>Ending salary</td>
<td>$90,000</td>
</tr>
<tr>
<td>Initial wealth</td>
<td>$0</td>
</tr>
</tbody>
</table>

Example provided for illustrative purposes only.
Does your DC plan have managed accounts as its QDIA?

1. Yes and I would recommend it to other sponsors.
2. Yes, but we’re having issues with it.
3. No, but we’re considering it.
4. No, because it’s too expensive.
5. No, because it’s too complicated and people don’t customize.
Are participants on track to meet their income goals?
Participants can use an online tool to estimate if they’re projected to meet their target retirement income goals.

Hypothetical example provided for illustrative purposes only.
This hypothetical analysis was conducted using Russell Adaptive Retirement Planner and hypothetical estimates of future market conditions based upon Russell Investments strategic planning assumptions and with certain numerical investment models applied to that information. These assumptions may change with each use and over time.
Tie each participant’s investment strategy to their retirement income goal.

\[
\frac{\text{Projected retirement income}}{\text{Retirement income target}} = \text{“Funded” ratio for each participant}
\]

Provide the asset allocation that increases the likelihood of achieving their retirement income target while minimizing their shortfall risk.

80% of pre-retirement after-tax take home pay
Asset allocation based on individual characteristics

Sample allocations are provided for illustrative purposes only and are based on assumptions provided.

Source: Russell Investment, See Appendix A for more details on the above analysis.
Customized asset allocation also needs to be adaptive

This is a hypothetical example shown for illustrative purposes only and is based on the following assumptions: 6% contribution rate, 40% target replacement income, $49k starting salary, 1.5% annual salary growth and retirement age of 65.

*Russell Glide path is based on the current Russell Target Date Funds glide path (last changed October 31, 2011) within the Russell DC plan. These are investment funds of the Russell Trust Company Commingled Employee Benefit Funds Trust; they are not mutual funds.

** Maximum allocation to growth assets shown is based on a constraint that the allocation to growth assets can not exceed 20% above the growth allocation for the participant’s age appropriate Russell target date fund. The allocation to growth assets constraint can be customized.

Source: Russell Investment, See Appendix A for more details on the above analysis.
Automation can help improve participants’ outcomes

<table>
<thead>
<tr>
<th>Participant reasons for poor outcomes</th>
<th>To help improve their retirement outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don’t have the time or experience to select the appropriate investments</td>
<td>Auto-enrollment into a Qualified Default Investment Alternative (QDIA)</td>
</tr>
<tr>
<td>Don’t have a retirement income target</td>
<td>Automatically Set a retirement income goal</td>
</tr>
<tr>
<td>Are not saving enough</td>
<td>Auto-escalation - to get them on the right savings path</td>
</tr>
<tr>
<td>Don’t want to monitor their investments to make adjustments</td>
<td>Periodically adjust their portfolio based on market performance and changes to their investment characteristics</td>
</tr>
</tbody>
</table>
To help reduce their income gap - recommend an auto-escalation schedule

Adjust Your Contributions

Use this tool to see how an increase in your contributions could impact your projected annual retirement income. By contributing more, you can potentially increase the amount of income available for your retirement. Contributing more could also help you lessen the odds of outliving your savings. Keep in mind that the amount of your contributions (in dollars per year) may shift over time based on changes to your pay and/or contribution rate (% of pay you save in the plan).

You are currently contributing $73 per paycheck to your retirement plan. By implementing the Advice Plan, you will change your contribution to $122 per paycheck.

Source: These images are sample material for illustration purposes only.
Are my participants’ retirement outcomes improving?

Source: These images are sample material for illustration purposes only.
Appendix
Appendix A

The charts on slides 8, 9 and 11 show results from a Russell Investments proprietary asset allocation model. The model generates optimal asset allocations between equity and fixed income over a 40-year period for an investor who is saving for retirement. With the exception of the assumed behavior of asset returns, the assumptions used in this model are identical to those used in Russell’s Approach to Target Date Funds: Building a Simple and Powerful Solution to Retirement Saving. The assumed behavior of asset classes has been updated as follows:

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Dev</th>
<th>Correlations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>US Equity</td>
</tr>
<tr>
<td>US Equity</td>
<td>7.4%</td>
<td>18.0%</td>
<td>1</td>
</tr>
<tr>
<td>Non-US Equity</td>
<td>7.8%</td>
<td>20.6%</td>
<td>0.9</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>3.7%</td>
<td>3.8%</td>
<td>0.16</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.9%</td>
<td>3.5%</td>
<td>0.10</td>
</tr>
</tbody>
</table>

Rather than a single allocation for each of the 40 years, the model produces a schedule of asset allocations that are appropriate for various levels of the ratio of that year’s wealth to that year’s income. We have imposed the restriction that the allocation to equity cannot exceed 90%. The optimal allocations for periods 1 through 22 are 90% equity for all values of the projected retirement income/retirement income target ratio. Other investments or asset classes may have characteristics similar or superior to those being analyzed.

Please note all information shown is based on assumptions. Expected returns employ proprietary projections of the returns of each asset class. We estimate the performance of an asset class or strategy by analyzing current economic and market conditions and historical market trends. It is likely that actual returns will vary considerably from these assumptions, even for a number of years. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve. The assumptions do not take fees into consideration and all returns are assumed gross of fees. Asset classes are broad general categories which may or may not correspond well to specific products. Additional information regarding Russell’s basis for these assumptions is available upon request.

Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The views and strategies described may not be suitable for all investors.

Results will vary with each use and over time.

IMPORTANT: The projections generated by the analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.