Retirement Plan Trends in Today's Healthcare Market 2015

American Hospital Association®

TRANSAMERICA®
Retirement Solutions

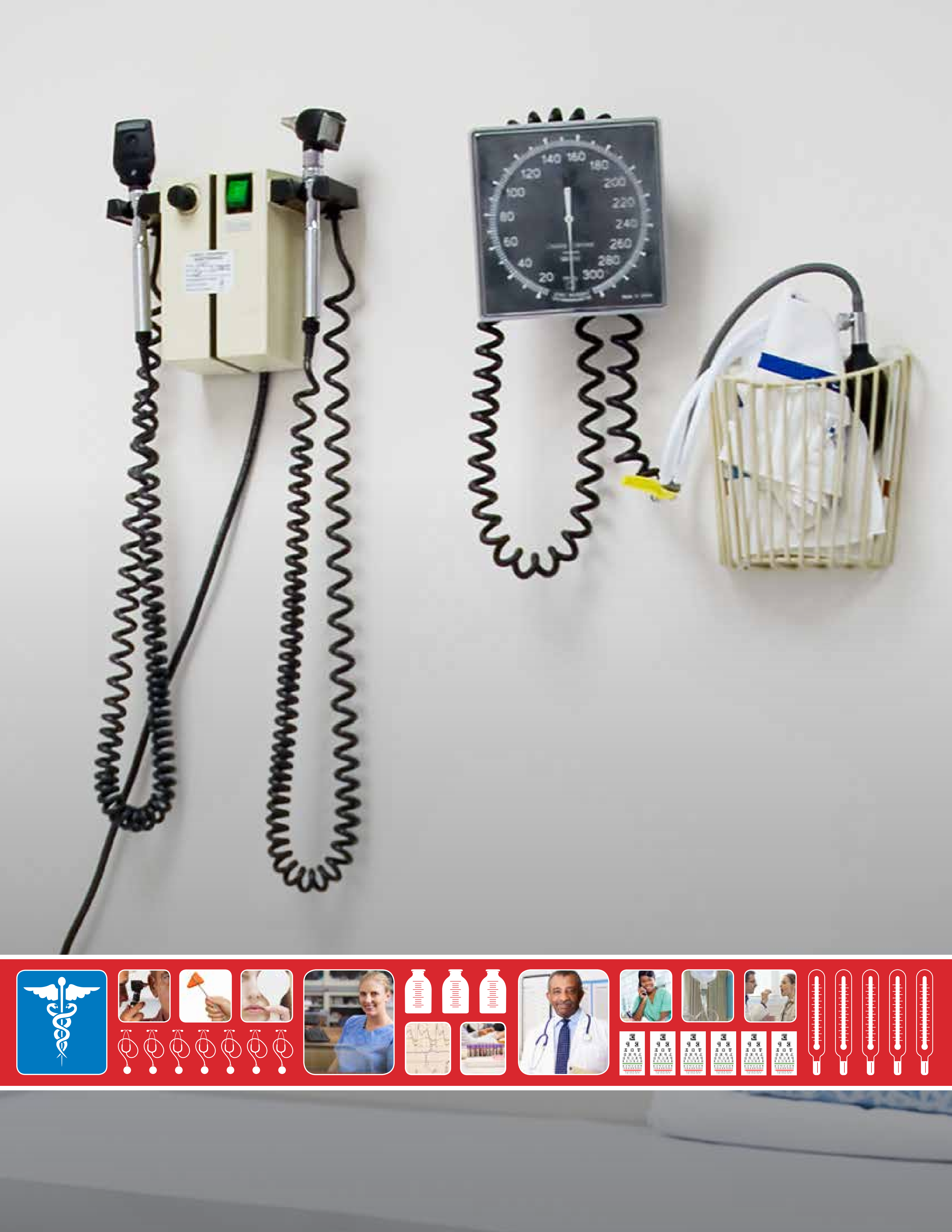
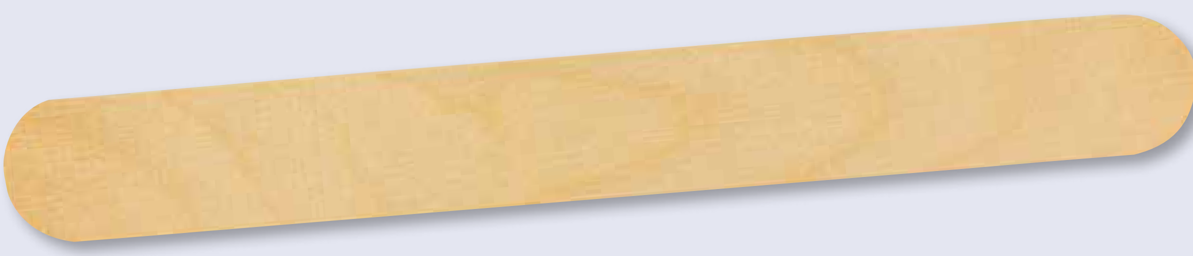


Table of Contents



Introduction

About the Study

Retirement Plan Trends in Today's Healthcare Market – 2015 is the twelfth annual study conducted by Transamerica Retirement Solutions and the American Hospital Association. The study presents insight on current issues that impact defined contribution and defined benefit plans in the healthcare market. The report provides analysis to guide healthcare plan sponsors and their advisors as they benchmark their organizations in many areas of plan design and management, in order to critically evaluate opportunities for improvement.

The survey was comprised of 100 questions and was conducted online in January 2015. A total of 112 hospital administrators and chief financial officers responded to the survey, representing healthcare organizations with at least one active defined contribution plan.

Transamerica Retirement Solutions

Transamerica Retirement Solutions (Transamerica) is a leading provider of customized retirement plan solutions.

Transamerica partners with financial advisors, third party administrators, and consultants to cover the entire spectrum of defined benefit and defined contribution plans including 401(k) and 403(b) (traditional and Roth), 457, profit sharing, money purchase, cash balance, Taft-Hartley, multiple employer and nonqualified deferred compensation plans, and rollover and Roth IRAs.

Transamerica helps more than four million retirement plan participants save and invest wisely to live the life they want. For more information, please visit **trsretire.com**.

Market Intelligence

The market intelligence group at Transamerica is dedicated to:

- Presenting a thorough analysis of the private retirement plans market.
- Providing retirement plan sponsors and their advisors with comprehensive benchmarking information.
- Analyzing trends to assist with the strategic evaluation of retirement plans.

Drawing on more than 75 years experience in retirement plans management, the market intelligence group periodically assembles experts from all facets of the retirement plans market in order to evaluate the current and future impact of trends shaping the industry.

American Hospital Association

The American Hospital Association (AHA) is a not-for-profit association of healthcare providers and individuals who are committed to health improvement in their communities. The AHA is a national advocate for its members including more than 5,000 hospitals, health systems and other healthcare organizations, and over 42,000 individual members. Founded in 1898, the AHA provides education for healthcare leaders and is a source of information on healthcare issues and trends. For more information, please visit **aha.org**.

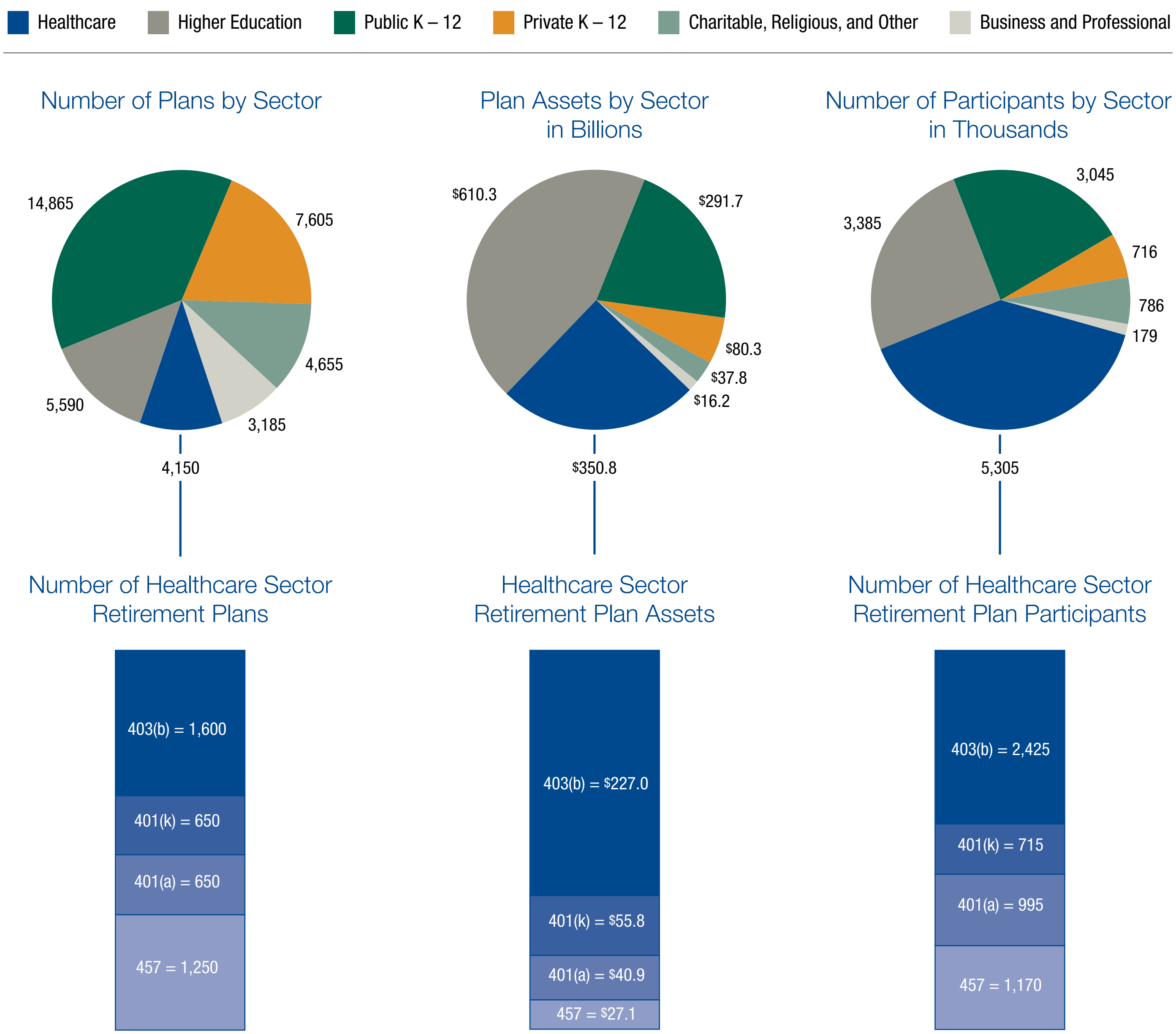
AHA Solutions, Inc.

AHA Solutions, Inc. is a resource for hospitals that are pursuing operational excellence. As an American Hospital Association (AHA) member service, AHA Solutions collaborates with hospital leaders and market consultants to conduct product due diligence and identify solutions to hospital challenges in several operational areas including finance, human resources, patient flow, and technology. AHA Solutions, Inc. provides related marketplace analytics and education to support product decision-making. As a subsidiary of the AHA, the organization convenes people with a similar interest in knowledge-sharing centered on timely information and research. AHA Solutions, Inc. is proud to reinvest its profits in the AHA mission to create healthier communities. For more information, please visit **aha-solutions.org** or call **800-242-4677**.

Healthcare Market Overview

The defined contribution not-for-profit market is comprised of nearly 40,000 plans representing more than 13.4 million participants and over $1.3 trillion in assets.

Although the healthcare segment is comprised of just over 4,000 plans and represents only about 10% of all not-for-profit plans, these plans continue to hold one-quarter of all not-for-profit plan assets and have more participants than any other segment. There are more than five million participants in retirement plans sponsored by healthcare organizations, representing 40% of the overall not-for-profit market.



Source: Spectrem Group, 2015

Executive Summary

Retirement Plan Trends in Today's Healthcare Market – 2015 reveals that healthcare plan sponsors are becoming increasingly proactive in terms of driving plan participants toward retirement readiness.

The majority of healthcare plan sponsors consider the primary goal of their plan to be helping employees accumulate income for retirement. "Retirement readiness of employees" is now the most frequently cited measure of success of healthcare plans. Participation rate—historically the most common benchmark—continues to trend downward as a measure of plan success.

Corresponding to their ever-increasing focus on the financial preparedness of their employees, healthcare plan sponsors identify "motivating employees to save adequately" and "helping participants to invest wisely" as primary plan challenges. Administrative challenges such as "managing workloads" and "keeping up with regulatory changes" are also cited.

Healthcare plan sponsors continue to take proactive steps to address plan challenges by holding one-on-one and group employee meetings, offering an attractive employer matching contribution, and implementing automatic features.

Nearly nine in ten healthcare plan sponsors offer a 403(b) plan and of these, more than three-quarters are ERISA plans. Offering a Roth option is trending up for both 403(b) and 401(k) healthcare plans. Nine in ten healthcare plan sponsors use a single-vendor arrangement, although vendor replacement activity is increasing.

Almost all plans provide an employer contribution. A fixed contribution is still the most common type of employer contribution offered and continues to trend up. Correspondingly, providing a discretionary contribution is trending down.

A matching contribution remains the most frequently offered type of fixed employer contribution; however, the level of the matching contribution is declining, which does not bode well for participants being able to achieve a fully funded retirement. The most commonly cited employer matching formula last year was $.50 up to 6% of pay. This year, a lower employer matching formula of $.50 up to only 3% of pay increased markedly.

More plan sponsors are now offering an employer matching contribution with a relatively low (2%) maximum percent of pay, and fewer are offering a matching contribution with a higher (6%) maximum percent of pay. A similar downward trend in the level of the employer contribution is apparent in plans that offer an employer contribution as a stated percent of salary.

A lower level of employer matching contribution is a concern that will be monitored, as it does not support the unilateral effort across the retirement industry to encourage participants to contribute at least enough to maximize their employer matching contribution.

The number of investment options offered by healthcare plans continues to show a "sweet spot" at 11 to 15 funds as a streamlined array with suitable variety that is not overwhelming to plan participants. Availability of more funds continues to trend markedly downward, although 401(k) healthcare plan sponsors are more likely than 403(b) healthcare plan sponsors to offer more than 20 funds. Offering of both proprietary funds and stable value funds is trending up.

Utilization of automatic enrollment and automatic escalation of deferral rates continues to trend up as healthcare plan sponsors look for ways to drive participants toward retirement readiness. Half of all healthcare plans now use an automatic enrollment arrangement and nearly half use automatic escalation as well—after two years of fairly flat activity for both features. Very few participants opt out after enrollment, which bodes well for getting—and keeping—participants in the plan.

Unfortunately, utilization of lower default deferral rates is up. The most common default deferral rate is 3%, and utilization of higher default deferral rates—such as 4% or 5% or higher—has declined. An astonishing 82% of healthcare plan sponsors remain highly concerned that their default rates are not high enough to ensure that plan participants will achieve a funded retirement. They cite "concern about employees' take-home pay" and "recommendation of consultant/advisor" as the most influential factors for the lower default deferral rates.

Participation rates are trending up in several critical categories. Over 82% percent of healthcare employees now participate in a defined contribution plan, and participation specifically among non-highly compensated employees is up as well. The average account balance in healthcare plans has increased to $43,900.

Less than one-third of plan sponsors now offer a defined benefit plan, and only 15% of defined benefit plans are fully active. Nearly half of defined benefit plan sponsors indicate that they are concerned about their organization's long-term commitment to the plan.

Defined benefit healthcare plan sponsors are shifting away from fully bundled and fully unbundled service arrangements, in favor of semi-bundled arrangements. Defined benefit funding levels are mixed, likely corresponding to variability in interest rates and equity market activity.

Total Retirement Outsourcing®—defined as the outsourcing of all administrative functions for all of the organization's retirement plans—continues to trend upward, and is now used by 44% of all healthcare plan sponsors.

More and more plan sponsors—now over 60%—employ the services of an onsite representative, who is most often responsible for meeting one-on-one with employees to help them understand the plan and improve their retirement readiness.

More than eight in ten healthcare plan sponsors partner with an intermediary, who is most likely to be an investment or benefits consultant who works either primarily or exclusively with retirement plans. Typically the advisors are responsible for reviewing investment options, helping formulate the investment policy statement, supporting investment provider and service provider due diligence, and explaining provider fees. Hard-dollar fees are more popular than asset-based fees in terms of advisor compensation, and compensation is usually paid via expense/ERISA budget accounts.

More than a third of plan sponsors have recently experienced a merger or acquisition. The majority of mergers are based on acquisition of assets versus acquisition of stock. The surviving retirement plan is typically a 401(k) or Roth 401(k) plan, and less frequently a 403(b) or Roth 403(b) plan. Almost half of the mergers/acquisitions utilized the services of an advisor.

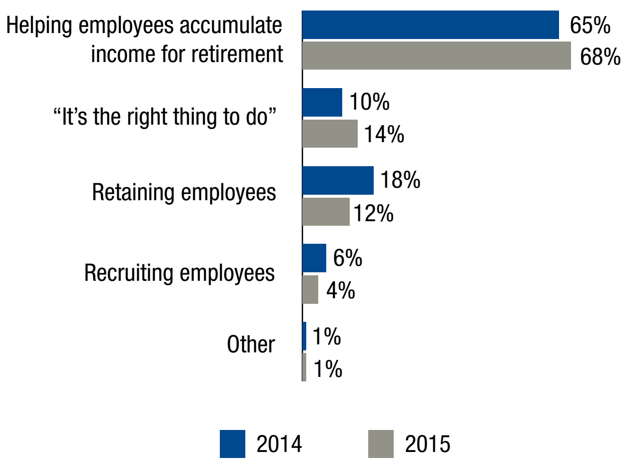
Retirement Plan Trends in Today's Healthcare Market – 2015 presents a comprehensive and insightful analysis of the complex and ever-evolving healthcare retirement market. The details that follow in this report are intended to help plan sponsors and their advisors monitor trends in the healthcare market, so that they can compare their own plans to industry benchmarks and identify opportunities for improvements that will help their employees achieve a fully funded retirement.

Goals, Challenges, and Initiatives

Plan Goals

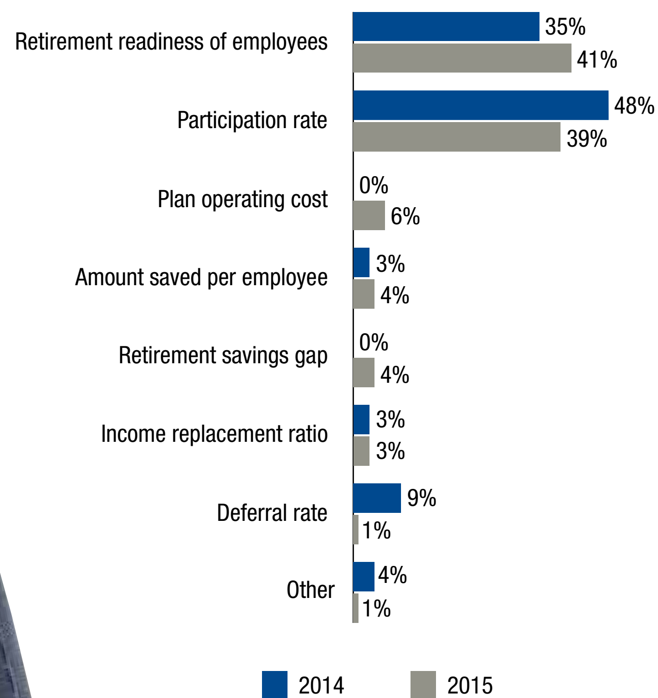
Sixty-eight percent of healthcare plan sponsors cite "helping employees accumulate income for retirement" as the primary goal of their retirement plan (up slightly from 65% in 2014). "Retaining employees"—the second most commonly cited plan goal last year (18%)—fell to 12% in 2015.

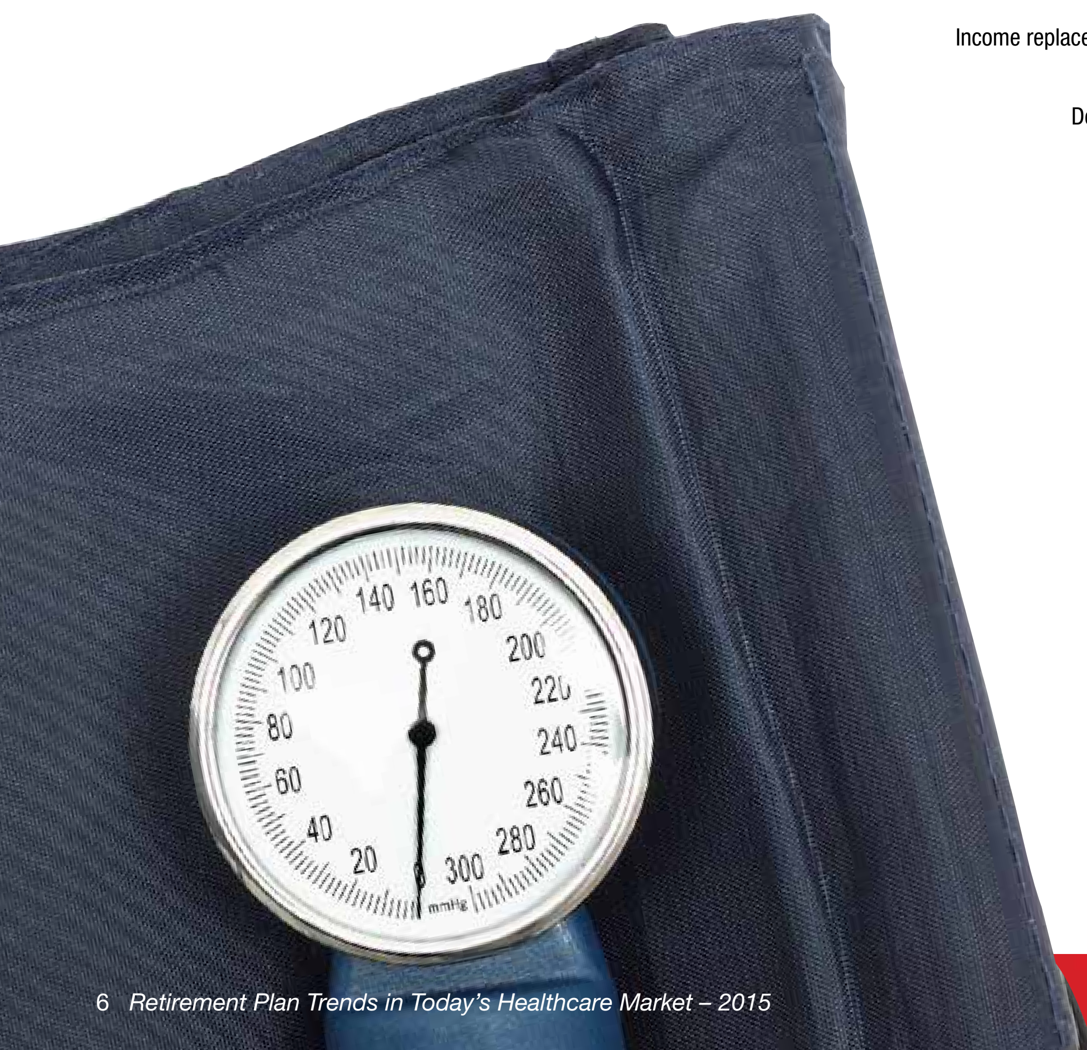
Primary Goal of Plan



The urgent need to drive participants toward retirement readiness resonates with plan sponsors. "Participation rate"—at one time the most common indicator of a retirement plan's success—continues to trend down (39% in 2015, from 48% in 2014 and 56% in 2012). The 2015 study shows that "retirement readiness of employees" is now the most frequently cited measure of success of a retirement plan (41%, trending up markedly from 35% in 2014 and 23% in 2012).

Best Indicator of Plan Success





Challenges and Concerns

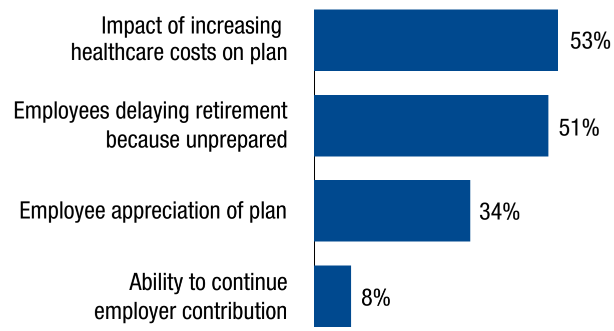
Corresponding to their ever-increasing focus on employees' retirement readiness, eight in ten healthcare plan sponsors indicate that "motivating employees to save adequately" is the primary challenge (81%, up from 75% in 2014). "Helping participants to invest wisely" is also a challenge (38%, although down considerably from 58% in 2014).

Administrative challenges are significant for healthcare plan sponsors as well, specifically "managing workloads of human resources staff" (55%, consistent with 2014), "keeping up with regulatory changes" (41%, down from 50% in 2014), and "meeting fiduciary responsibilities" (33%, consistent with last year).

When asked to identify their primary concerns related to their plans, sponsors most often indicate that they are "extremely concerned" or "very concerned" about the "impact of increasing healthcare costs on the plan" (53%), as well as the likelihood that "employees may have to delay retirement because they are unprepared financially" (51%). Healthcare sponsors also indicate their concerns, although less frequently, about "employee appreciation of the plan" (34%) and the "ability to continue the employer contribution" (8%).

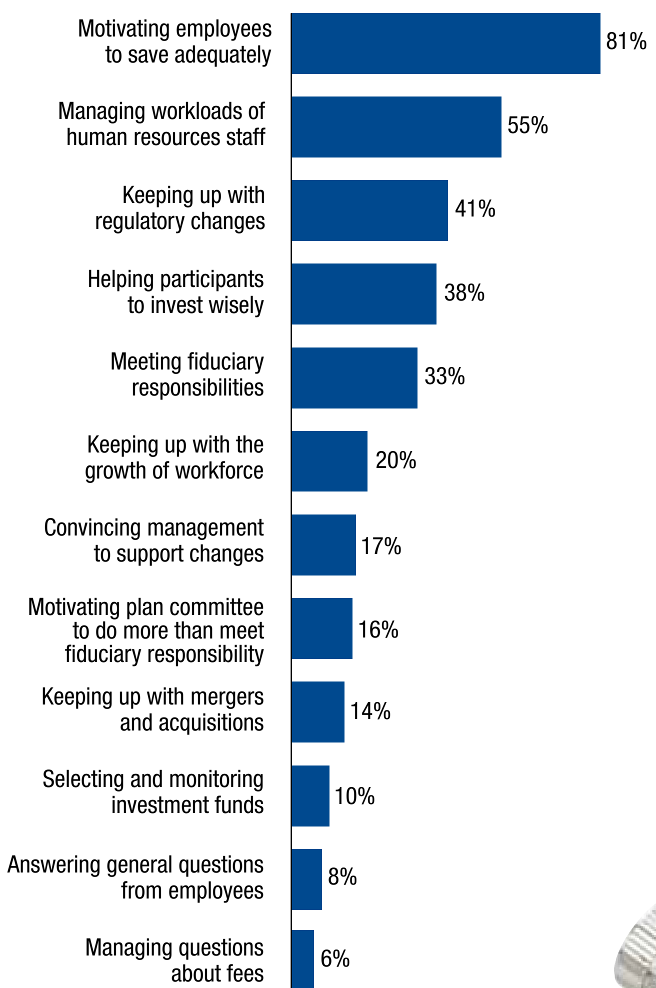
Concerns about Plan

Extremely or Very Concerned



Challenges in Managing a Plan

Extremely or Very Challenging



Initiatives

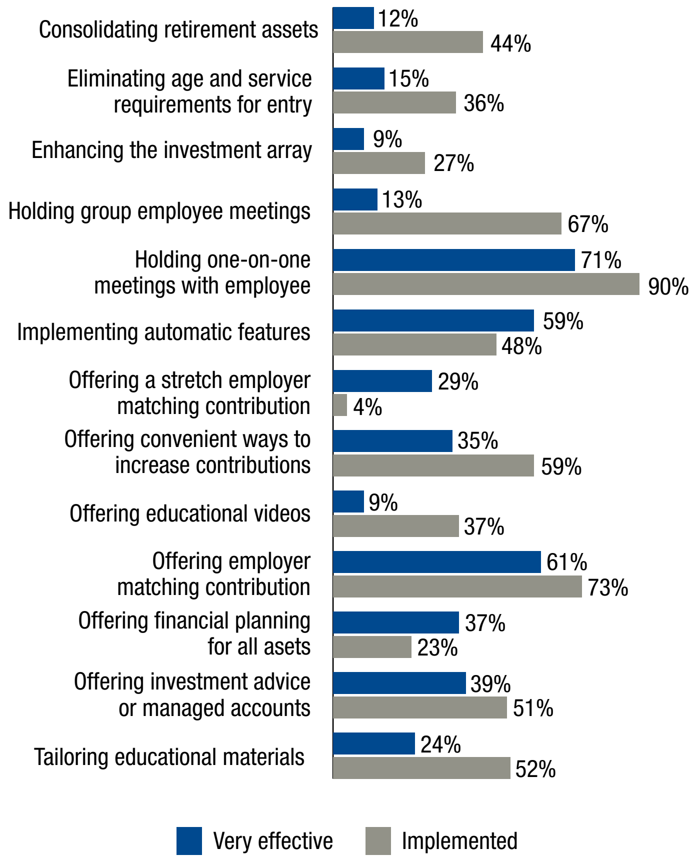
Plan sponsors were asked to identify the initiatives that are most effective for driving employees further toward retirement preparedness, corresponding to the plan challenges that the sponsors had previously cited. The top three initiatives are “holding one-on-one meetings with employees” (71%), “offering an attractive employer matching contribution” (61%), and “implementing automatic features” (59%). Sponsors were then asked to identify the top initiatives they had implemented, and two of the top three tactics are again “holding one-on-one meetings with employees” (90%) and “offering an attractive employer matching contribution” (73%). The third most cited initiative implemented is “holding group employee meetings” (67%).

Several interesting comparisons can be made between effective initiatives *identified* and effective initiatives *implemented*. “Offering investment advice or managed accounts” is an important initiative to 39% of plan sponsors, and in fact 51% have implemented. “Tailoring educational materials” is key to only 24% of sponsors, yet 52% have implemented a tailored approach to participant education. Similarly, only 9% of sponsors name “educational videos” as effective, yet 37% are using this type of communication tool.

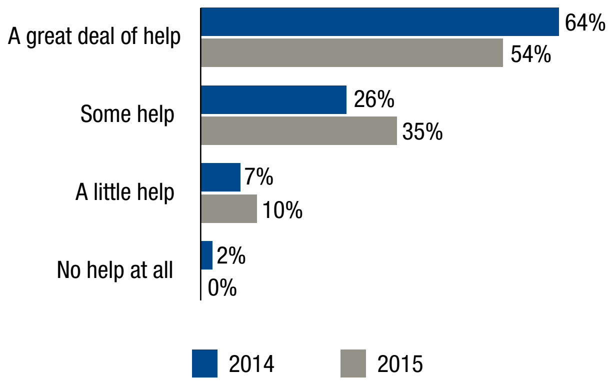
Conversely, sponsors indicate strong support for several initiatives that have not been incorporated into their retirement plans. “Offering financial planning for all assets” is cited as an important initiative by 37% of plan sponsors, yet only 23% have implemented it. Further, a “stretch employer matching contribution” is noted as key by 29% of plan sponsors, yet only 4% have implemented this type of contribution.

Healthcare plan sponsors do receive support from their plan providers in helping participants achieve a fully funded retirement, although the degree of help they receive appears to be trending down. Fifty-four percent of plan sponsors receive “a great deal of help” (down from 64% in 2014), while 35% receive “some help” (up from 26% last year), and 10% receive “a little help” (up from 7% last year).

Effective Initiatives Identified and Implemented



Support from Retirement Provider to Help Participants Reach a Funded Retirement

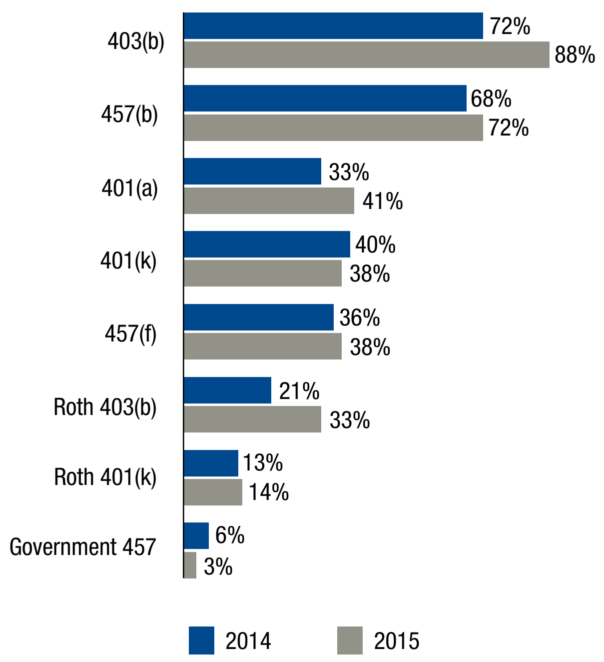


Defined Contribution Plans

Plan Types

Nearly nine in ten (88%) sponsors offer a 403(b) plan. Of these 403(b) plans, more than three-quarters (76%) are ERISA plans. Seventy-two percent of healthcare plan sponsors offer a 457(b) plan, 41% offer a 401(a) plan, 38% offer a 401(k) plan, and 38% offer a 457(f) plan. Offering a Roth option appears to be trending up, as 33% of 403(b) healthcare plan sponsors now offer a Roth contribution type (up from 21% in 2014), and 14% of 401(k) healthcare plan sponsors now offer a Roth contribution type.

Defined Contribution Plan

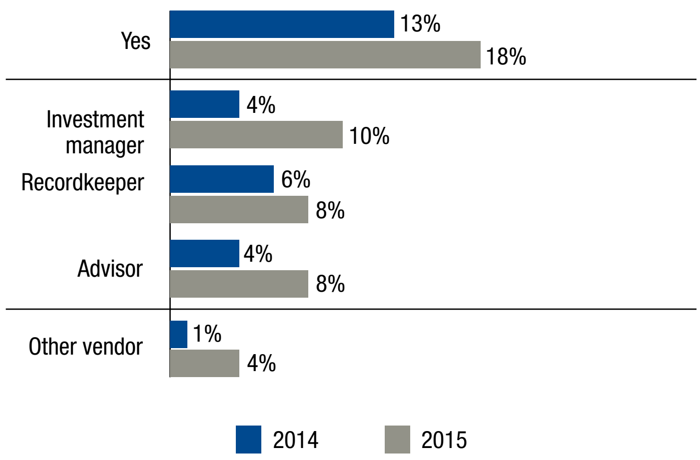


Vendor Arrangements

Nine in ten sponsors use a single-vendor arrangement. When a multiple-vendor arrangement is used, the median number of vendors is two.

Activity is once again trending up in terms of healthcare plan sponsors changing their plan vendor arrangement. Eighteen percent of plan sponsors indicate that they have added or replaced a vendor (up from 13% in 2014). When a vendor is added or replaced, the most common change is to an investment manager (10%, up from 4% in 2014), followed by the recordkeeper (8%, up from 6% last year), and advisor (8%, up from 4% last year).

Added or Replaced a Plan Vendor

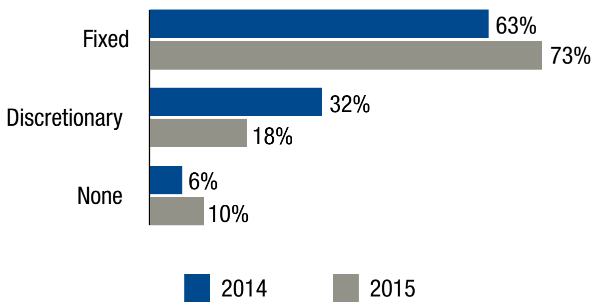


Employer Contributions

Contribution Type

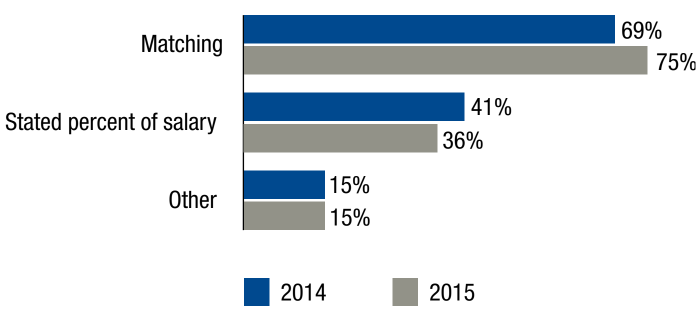
Ninety percent of all plan sponsors offer some type of employer contribution. A fixed contribution is still most common (73%, increased significantly from 63% in 2014). A discretionary contribution is less common (18%, a fairly significant decrease from 32% in 2014). Ten percent of healthcare plan sponsors do not offer an employer contribution.

Employer Contributions



A matching contribution continues to be the most common type of fixed employer contribution (75%, up from 69% in 2014). A stated percent of salary is less common than a matching contribution (36%, down a bit from 41% last year). Earlier studies show that participants are more likely to contribute to their retirement plan when there is an employer matching contribution, so an increased percentage of plan sponsors offering a matching contribution certainly bodes well for more participants taking steps to secure their financial future.

Contribution Type



Matching Contribution Level

On the other hand, the *level* of the employer matching contribution appears to be trending down in 2015, which does not bode well for participants being able to achieve a funded retirement. The most commonly cited employer match formula last year was $.50 up to 6% of pay (24%), which declined by half to 12% in 2015. Correspondingly, a lower employer match formula of $.50 up to only 3% of pay—increased to 23% this year from 15% in 2014.

Similarly, a relatively low maximum percent of pay of 2% for the employer matching contribution was cited by only 2% of healthcare plan sponsors last year, but this increased to 14% of plan sponsors in 2015 who will match up to 2% of pay. Furthermore, in 2014, 17% of healthcare sponsors had set a maximum percent of pay for their employer matching contribution of *higher* than 6%, but this declined to 0% among the survey respondents in 2015.

2014

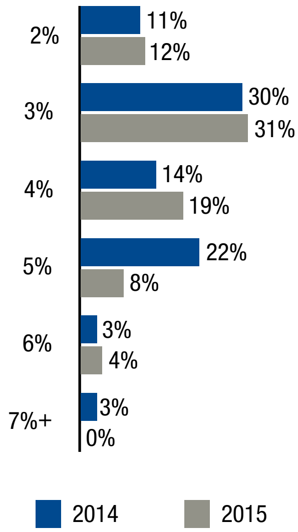
	Cents on the dollar			
Up to % of pay	$0.25	$0.50	$0.75	$1.00
2%	0%	0%	0%	2%
3%	0%	4%	0%	13%
4%	2%	15%	2%	6%
5%	0%	7%	0%	6%
6%	2%	24%	0%	2%
>6%	0%	11%	0%	6%

2015

	Cents on the dollar			
Up to % of pay	$0.25	$0.50	$0.75	$1.00
2%	0%	9%	0%	5%
3%	0%	2%	0%	16%
4%	2%	23%	7%	5%
5%	0%	5%	0%	7%
6%	5%	12%	0%	2%
>6%	0%	0%	0%	0%

A similar downward trend in the level of the employer contribution can be seen in plans that offer a stated percent of salary. Last year, 22% of healthcare plan sponsors offered a 5% employer contribution, which declined to only 8% of sponsors in 2015. Correspondingly, more healthcare sponsors now use a lower stated percentage of salary. Last year 14% of sponsors offered 4% and 30% offered 3%, both of which increased to 19% and 31% respectively in 2015.

Employer Contribution as a Percent of Salary

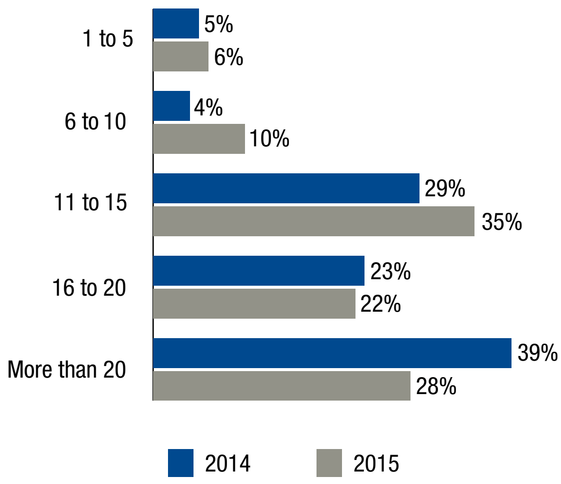


Investment Options

Number of Options Offered

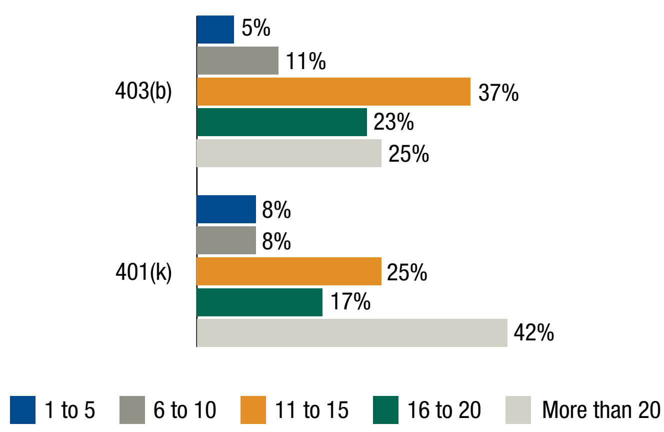
The number of investment options offered by healthcare plans continues to show a "sweet spot" at 11 to 15 funds, offered by 35% of plans in 2015 (up from 29% in 2014). Availability of more funds continues to trend markedly downward. Only 28% of plans now offer more than 20 funds (down from 39% in 2014). Healthcare plan sponsors appear to be settling on 11 to 15 funds as the optimum range for presenting a streamlined investment array with suitable variety without being overwhelming to plan participants.

Number of Investment Options



The type of plan offered appears to influence the number of funds made available. 403(b) plans are more likely to offer 11 to 15 funds (37%) than 401(k) plans. Conversely, 401(k) plans are more likely to have more than 20 investment options (42% vs. 25% in 403(b) plans).

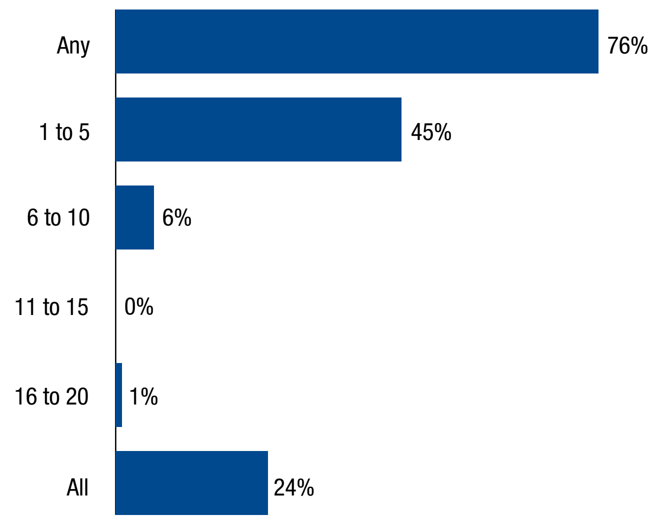
Number of Investment Options by Plan Type



Proprietary Funds

More than three-quarters of plans (76%) offer proprietary investment options in their fund lineups. The number of proprietary investment options offered is relatively stable at 1 to 5 funds (45%) and 6 to 10 funds (6%). Twenty-four percent of healthcare plans offer only proprietary funds.

Number of Proprietary Funds



Stable Value Funds

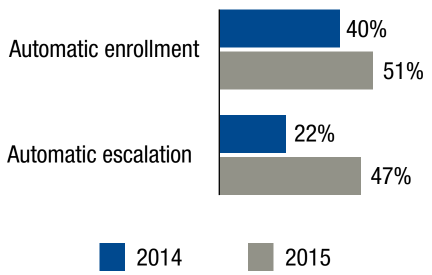
The prevalence of stable value funds had been trending downward but now appears to be on the rise again. In 2015, 63% of healthcare plans offer a stable value fund (up from 51% in 2014), perhaps reflecting a more stable economy with an expectation of higher interest rates.

Automatic Features

Automatic Enrollment and Automatic Escalation

Utilization of automatic enrollment and automatic escalation of deferral rates is trending up, as healthcare plan sponsors continue to seek ways to drive participants toward improving their retirement readiness. Fifty-one percent of plans now use an automatic enrollment arrangement (up significantly from 40% in 2014), and 47% of healthcare plans use automatic deferral escalation as well (up more than double from 22% in 2014). Consistent with prior years, only 6% of participants opt out after automatic enrollment, which bodes well for getting—and keeping—participants in the plan.

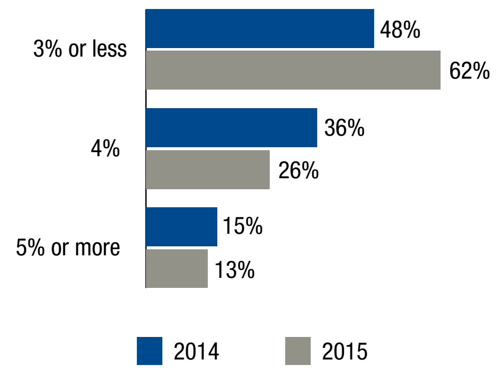
Automatic Features



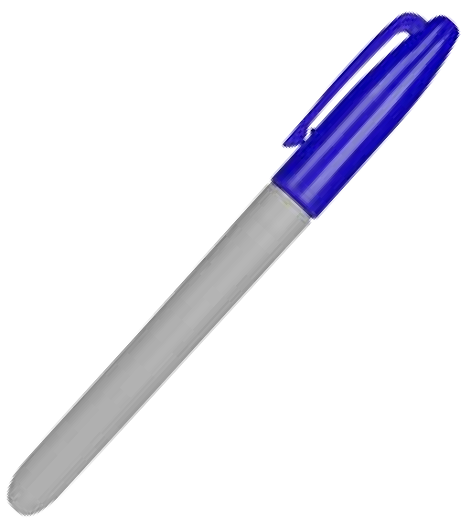
Default Deferral Rates

Unfortunately, use of lower default deferral rates is up. When participants are automatically enrolled, they are now most likely to be enrolled at a default deferral rate of 3% or less (62%, increased markedly from 48% in 2014). Correspondingly, use of higher default deferral rates is down. Twenty-six percent of healthcare plans with automatic enrollment now use a 4% default deferral rate (down from 36% last year), and 13% now use a default deferral rate of 5% or higher (down from 15% the year before).

Default Deferral Rates

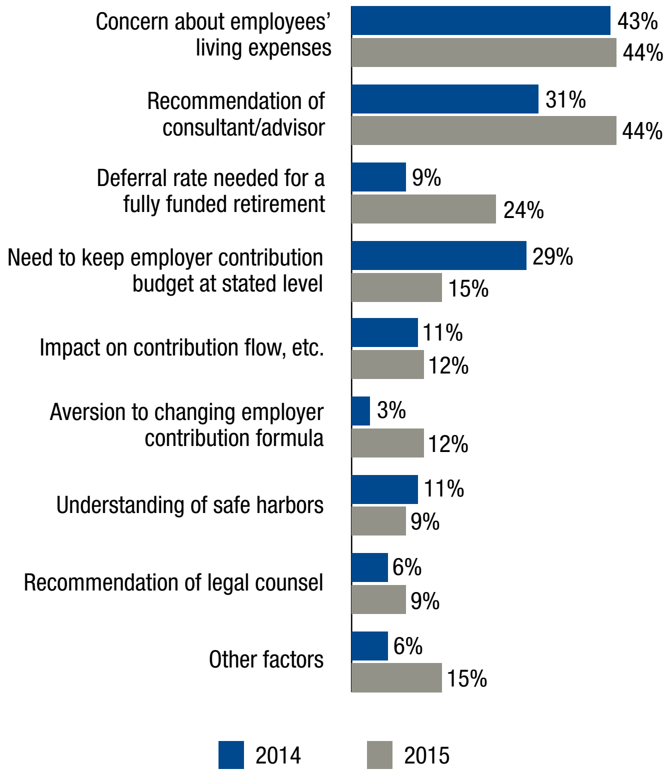


Healthcare plan sponsors do remain highly concerned that their default deferral rates are not high enough to ensure that plan participants will achieve a funded retirement. An astonishing 82% of plan sponsors indicate that they do not feel their default deferral rate is high enough, and an additional 10% indicate that they are "not sure" if their default deferral rate is high enough.



Clearly, higher default deferral rates are more likely to help participants improve their financial preparedness. When asked for more details on factors that motivate the establishment of their (lower) default deferral rates, healthcare plan sponsors indicate that "concern about employees' living expenses" (44%) and "recommendation of consultant/advisor" (44%, notably increased from 31% last year) are the most influential factors. The third most frequently cited factor (29% last year)—"need to keep employer contribution budget at stated level"—is cited by only 15% of healthcare sponsors in 2015.

Factors that Influenced Default Deferral Rates

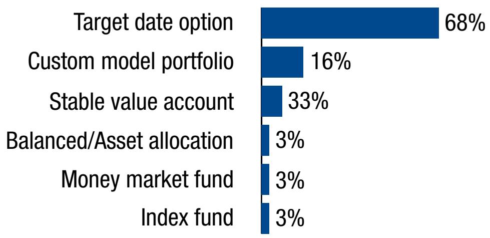


Default Investment Options

Target date funds are the most commonly used default investment options with automatic enrollment arrangements (68%). Other types of investment options used are custom model portfolios (16%) and stable value funds (8%).

The default investment options are typically either a fund series proprietary to the investment manager (53%), a custom asset allocation model (32%), or a fund series proprietary to the service provider (15%).

Auto-Enroll Default



Participation Rates

Participation rates in healthcare plans are trending up in several critical categories. Eighty-two percent of healthcare employees now participate in a defined contribution plan, up considerably from 72% in 2014 and 66% in 2011. Participation among non-highly compensated healthcare employees is steadily increasing, from 60% in 2011 to 65% in 2012, to 67% in 2014, to a significantly higher 78% in 2015. Participation among highly compensated healthcare employees is consistently high, at 95% for 2015.

Median Participation Rates

	2014	2015
All employees	72	82
Non-highly compensated employees	67	78
Highly compensated employees	98	95

Deferral Rates

Overall, deferral rates remain fairly consistent, despite the currently mixed trends of increased utilization of automatic enrollment, doubling of utilization of automatic escalation, and decreasing automatic default deferral rates. The median deferral rates are 6% for all healthcare employees, 6% for non-highly compensated healthcare employees, and 8% for highly compensated healthcare employees.

Median Salary Deferral Rates

	2014	2015
All employees	6%	6%
Non-highly compensated employees	5%	6%
Highly compensated employees	8%	8%

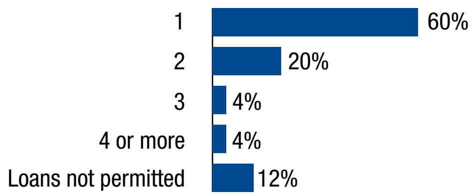
Account Balances

The average account balance in plans is now $43,900, down slightly from $45,000 in 2014.

Loans and Hardship Withdrawals

Eighty-eight percent of plans include a loan provision (up slightly from 86% in 2014). Healthcare plans most commonly limit participants to one outstanding loan (60%), although some plans do allow two (20%), three (4%), and even four or more (4%) outstanding loans.

Number of Outstanding Loans Permitted



Nearly all healthcare plans (93%) include a hardship withdrawal provision.

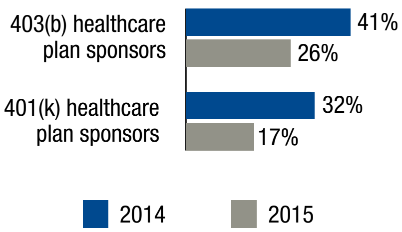

Scale changed
Pressure Control: Ventilator On
Pinsp
cmH2O
RR
/min
10
I:E
1:2
PEEP
cmH2O
Off
36
46
53
0.8
Vent Setup

Defined Benefit Plans

Plan Offering

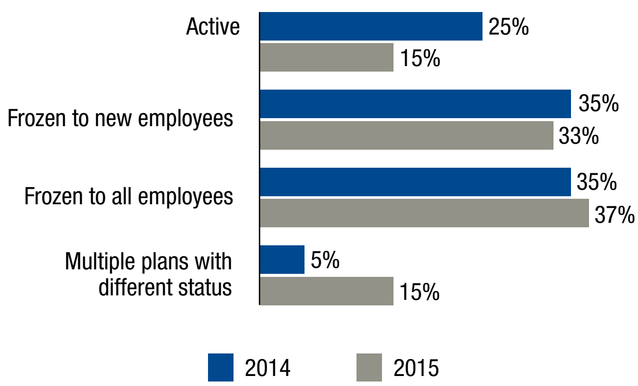
Twenty-eight percent of healthcare plan sponsors offer a defined benefit plan, down considerably from 37% in 2014. Sponsors of healthcare 403(b) plans are more likely to offer a defined benefit plan (26%, although down from 41% in 2014) than sponsors of healthcare 401(k) plans (17%, down markedly from 32% in 2014).

Defined Benefit Plan Offering



Only 15% of healthcare defined benefit plans are active (down even further from 25% in 2014). Thirty-three percent of these plans are frozen to new employees, and an additional 37% are frozen to all employees.

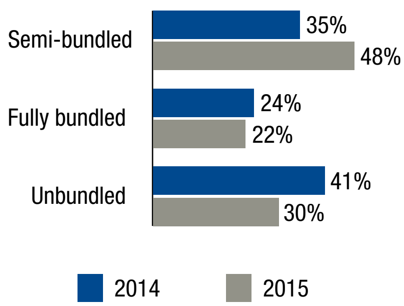
Plan Status



Plan Administration

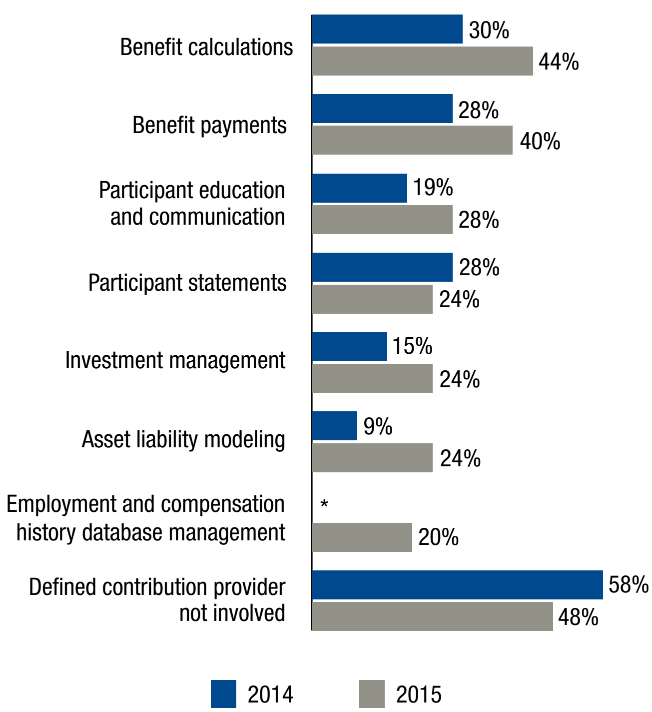
Defined benefit healthcare plan sponsors continue to shift away from unbundled service arrangements. Thirty percent (down considerably from 41% in 2014 and 44% in 2012) now use an unbundled service arrangement for their defined benefit plans—meaning they use distinct, unaffiliated providers for the services that are not performed internally. Use of a fully bundled approach—whereby all services are purchased as a package from a single provider—is down slightly, to 22% in 2015 from 24% in 2014. Correspondingly, use of semi-bundled arrangements—whereby some services are purchased as a package from a single provider but separate providers are retained for the remaining services (or the services are performed internally)—has increased considerably to 48% in 2015 from 35% in 2014.

Service Bundling



Defined contribution plan provider support for the administration of the defined benefit plans continues to trend upward, to 52% in 2015 from 35% in 2012 and 42% in 2014. Plan providers are most likely to be involved with benefit calculations (44%, up considerably from 30% in 2014), benefit payments (40%, up from 28% in 2014), and participant education and communication (28%, up from 19% in 2014). Defined benefit investment-related functions such as investment management (24%) and asset liability modeling (24%), while cited less frequently, still received more defined contribution plan sponsor support this year than in 2014 (15% and 9% respectively). The only defined benefit administrative service receiving less defined contribution sponsor involvement this year is participant statements (24%, down from 28% in 2014). A defined benefit administrative service new for the 2015 survey—employment and compensation history database management—is cited by 20% of defined benefit plan sponsors as receiving defined contribution provider support.

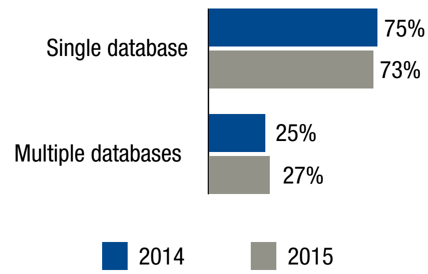
Defined Contribution Provider Support for Defined Benefit Plan Administration



New question for 2015 survey

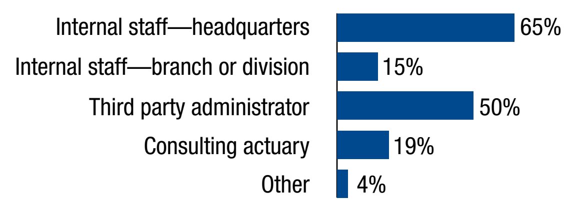
Nearly three-quarters (73%) of healthcare defined benefit plan sponsors maintain the participants' working and salary history data needed to administer their plan in a single database.

Working and Salary History Data



Database management is typically handled internally with 65% at the headquarter level and 15% at the branch level. Fifty percent state this function is handled by a third party administrator.

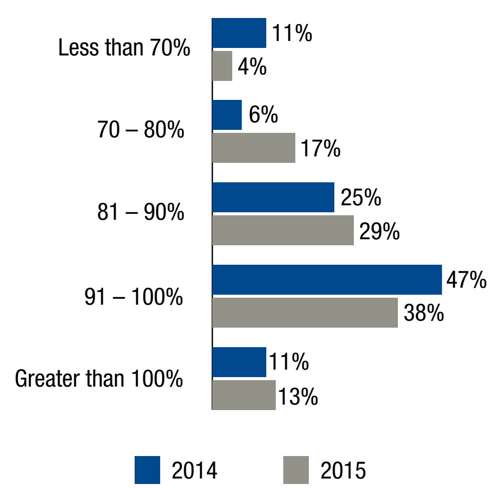
Maintains Database(s)



Funding Level

Defined benefit plan funding level trends are mixed, likely corresponding to variability in interest rates and equity market activity. Seventeen percent of sponsors now maintain a 70 – 80% funding level for their defined benefit plan (up markedly from 6% in 2014), and 29% of sponsors report an 81 – 90% funding level (up slightly from 25% last year). Significantly fewer sponsors now maintain a 91 – 100% funding level (38%, down from 47% in 2014), while more sponsors report a funding level more than 100% (13%, up slightly from 11%).

Funding Level

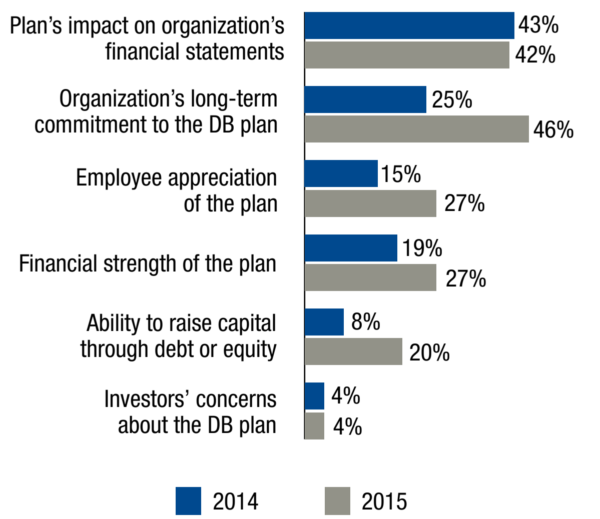


Future Concerns

Healthcare plan sponsors were asked to identify their specific concerns as they relate to their defined benefit plans. Nearly half of defined benefit plan sponsors indicate that they are “extremely concerned” or “very concerned” about their “organization’s long-term commitment to the plan” (46%, up significantly from only 25% in 2014). Sponsors are also concerned about the “plan’s impact on the organization’s financial statements” (42%, consistent with prior years), “employee appreciation of the plan” (27%, notably higher than 15% in 2014), and “the ability to raise capital through debt or equity” (20%, up from 8% last year).

Future Concerns

Extremely or Very Concerned

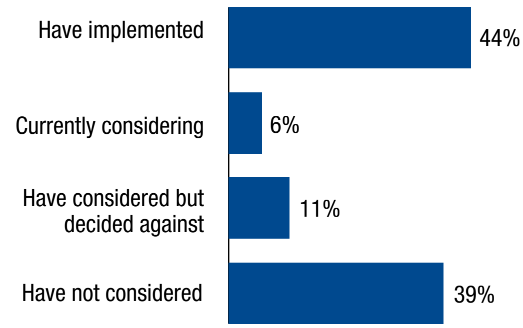


Twenty-three percent of healthcare plan sponsors now anticipate making a change to their defined benefit plan (down somewhat from 29% in 2014). Changes mentioned include freezing the plan, negotiating costs, and reducing benefits.

Total Retirement Outsourcing®

Total Retirement Outsourcing—defined as the outsourcing of all administrative functions associated with all of the organization’s defined contribution and defined benefit plans—has now been implemented by 44% of healthcare plan sponsors (up significantly from only 23% in 2014). An additional 6% of healthcare plan sponsors are considering implementing this type of arrangement. Only 11% percent of healthcare plan sponsors have considered but decided against *Total Retirement Outsourcing*. Typical outsourced functions include recordkeeping, reporting and compliance, employee communications and education, and customer service (web-based and/or via call centers).

Total Retirement Outsourcing Status

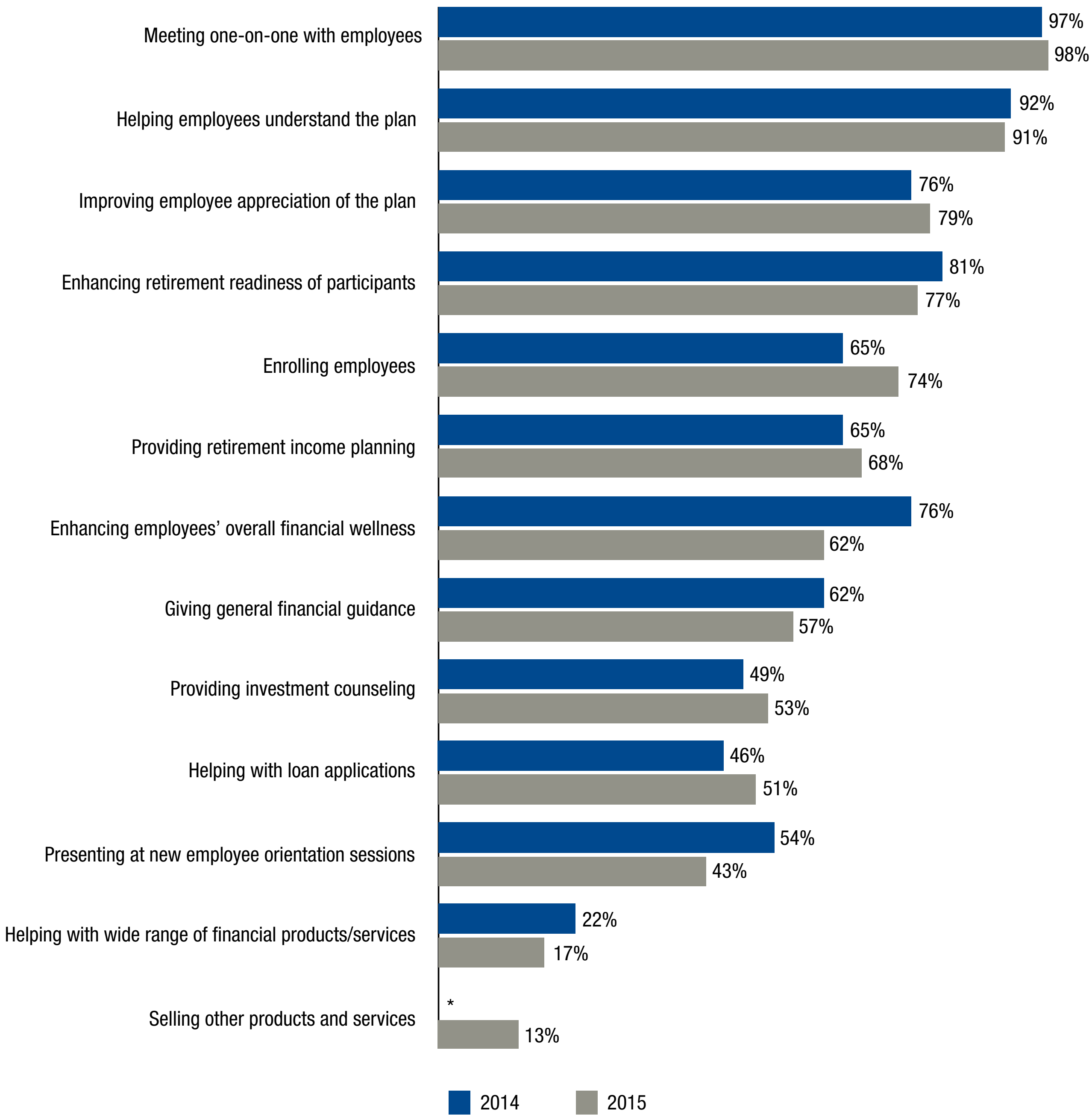


Onsite Representatives

Two in three (64%) healthcare plan sponsors now use the services of an onsite representative (up significantly from 47% in 2014). Consistent with prior years, the onsite representatives are most likely to be part-time (59%), although many are full-time (41%).

Helping participants improve their retirement readiness is the primary role of the healthcare onsite representatives. As previously reported, plan sponsors identify one-on-one meetings as the most effective initiative for improving employees' retirement readiness, and nearly all onsite representatives (98%) "meet one-on-one with employees." Ninety-one percent "help employees and participants understand the plan," 79% are focused on "improving employee appreciation of the plan," and 77% work specifically on "enhancing the retirement readiness of participants."

Role of Onsite Representative

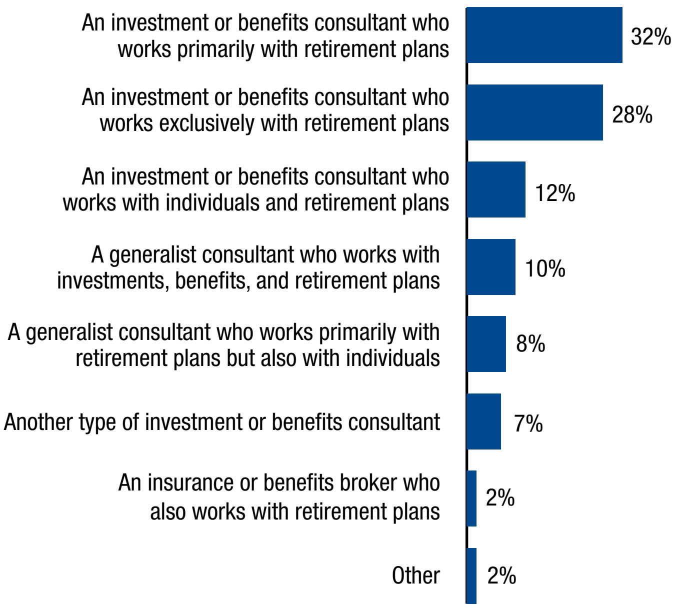


**New question for 2015 survey*

Advisors, Consultants, and Other Intermediaries

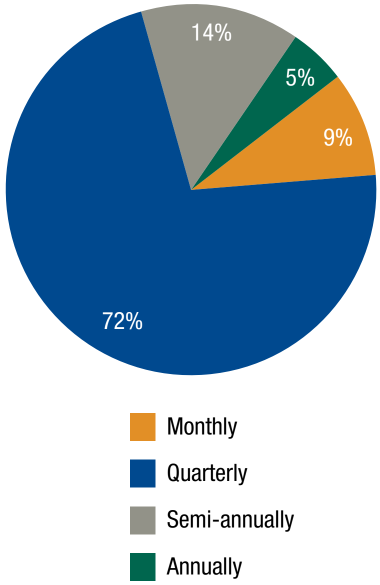
Eighty-four percent of healthcare plan sponsors now use the services of an intermediary (up considerably from 71% in 2014). Healthcare plan sponsors most often partner with an investment or benefits consultant who works either primarily (32%) or exclusively (28%) with retirement plans, or with an investment or benefits broker who works with individuals and retirement plans (12%).

Types of Advisors



Seventy-two percent of healthcare plan sponsors meet with their advisors quarterly. An additional 14% meet semi-annually, and 9% meet monthly. Five percent of healthcare plan sponsors meet with their advisors on an annual basis.

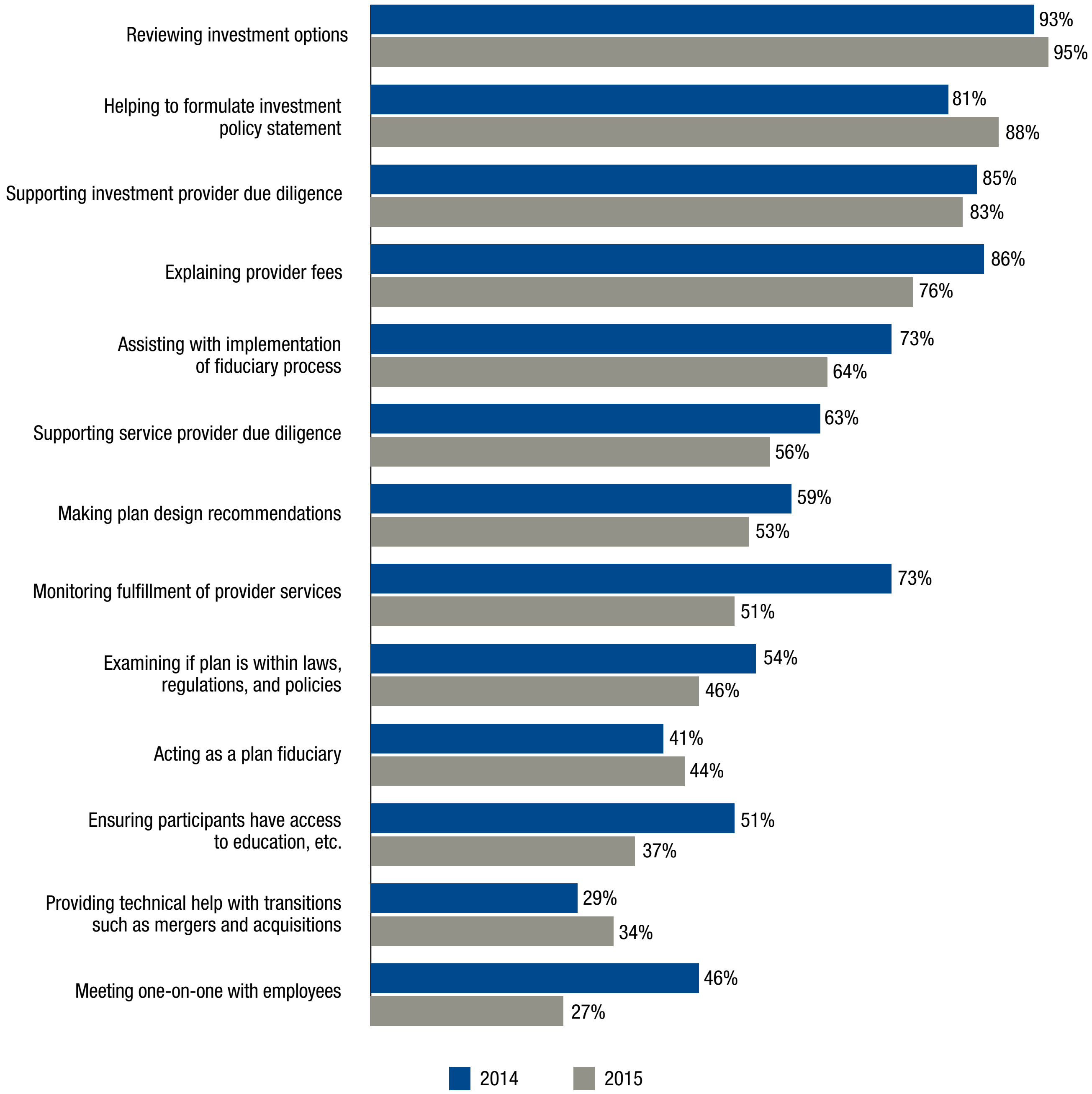
Meeting Frequency



Healthcare plan sponsors cite many responsibilities handled by their advisors, most notably "reviewing investment options" (95%, also the most frequently cited responsibility last year), "helping formulate the investment policy statement" (88%, up from 81% in 2014), "supporting investment provider due diligence" (83%), and "explaining provider fees" (76%, down considerably from 86% last year). More than half of healthcare sponsors also receive advisor support for "implementing the fiduciary process" (64%), "supporting service provider due diligence" (56%), "making plan design recommendations" (53%), and "monitoring fulfillment of service provider duties" (51%).

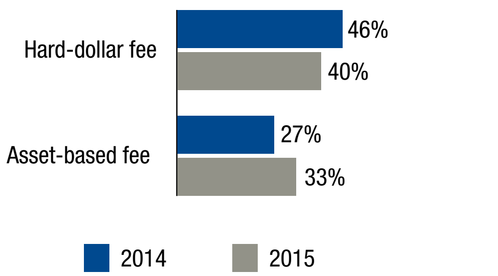
Two advisor responsibilities, though cited less frequently, are notably trending down, including "ensuring participants have access to education, communication, asset allocation, counseling, etc." (37%, down significantly from 51% in 2014), and "meeting with employees one-on-one" (27%, down markedly from 46% last year).

Advisor Responsibilities



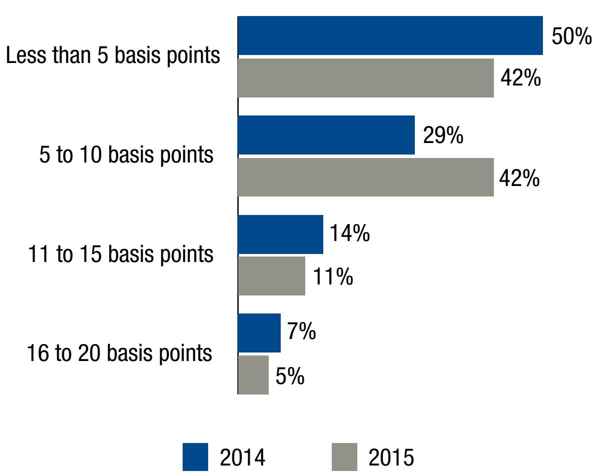
Hard-dollar fees, while still the most popular form of advisor compensation, appear to be trending down (40%, decreased from 46% last year). Correspondingly, asset-based fees as a method of advisor compensation are trending up (33% in 2015, increased from 27% in 2014 and 19% in 2012).

Advisor Compensation



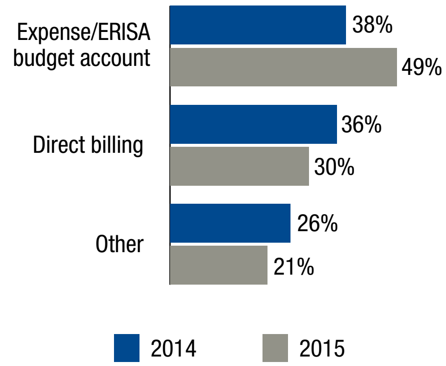
Asset-based advisor compensation, when used, appears to be shifting to a higher range, specifically from less than 5 basis points (42% in 2015, down from 50% in 2014 and 57% in 2012) to the 5 to 10 basis points range (42% in 2015, up markedly from 29% in 2014 and 21% in 2012). Compensation in the higher ranges is trending down slightly, specifically 11 to 15 basis points (11% in 2015, down from 14% in 2014), and 16 to 20 basis points (5% in 2015, down from 7% in 2014).

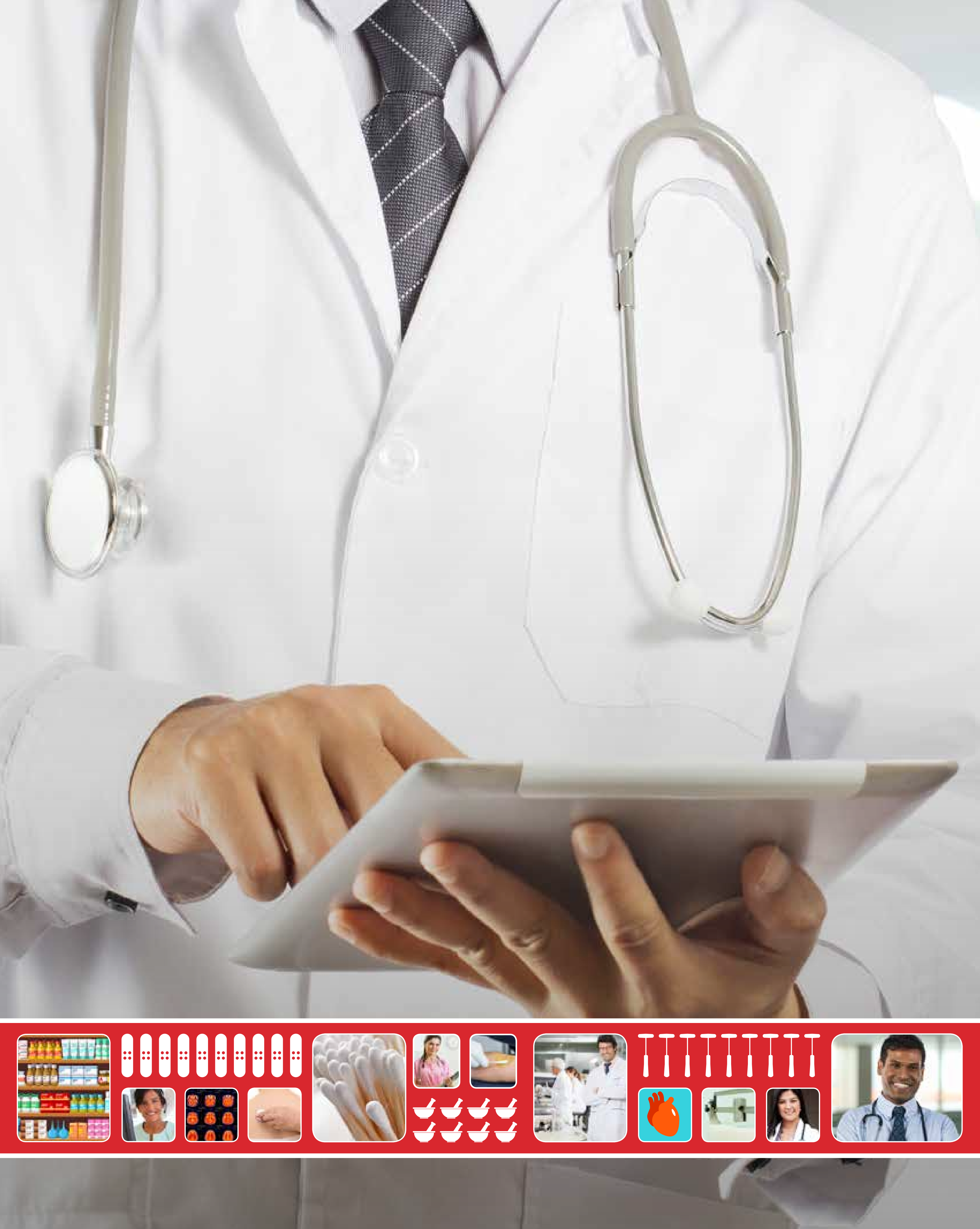
Fee Amount



Advisor compensation is most commonly paid via expense/ERISA budget accounts (49%, up significantly from 38% in 2014) or via direct billing (30%, trending down from 36% in 2014 and 52% in 2012).

Payment of Advisor Fees





Mergers and Acquisitions

Merger and acquisition activity continues to present challenges to healthcare plan sponsors. Thirty-two percent of healthcare plan sponsors have recently experienced a merger or acquisition. Of these, over eight in ten were acquisitions of smaller organizations (81%) and 19% were mergers of relatively similarly sized organizations. The majority of mergers (68%) are based on acquisition of assets. In nearly all cases (91%), the merger or acquisition resulted in a larger workforce.

Regarding the future of the retirement plan of the merged/acquired organization, 33% of the plans are already merged or will be merged shortly, and 24% of the plans will continue to operate separately.

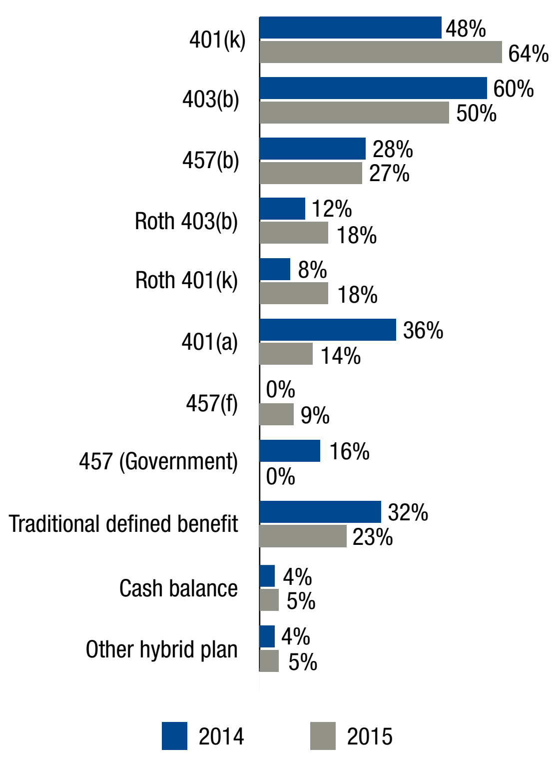
Following the merger or acquisition, the “surviving” retirement plan offered by the merged/acquired organization is most often a 401(k) plan or Roth 401(k) plan (82%). The next most frequently offered type of retirement plan post-merger is a 403(b) plan or Roth 403(b) plan (68%). Twenty-seven percent of the merged/acquired organizations offer a 457(b) plan and 23% offer a traditional defined benefit plan.

Forty-eight percent of the merged/acquired organizations used an advisor at the time of the merger (increased from 42% in 2014).

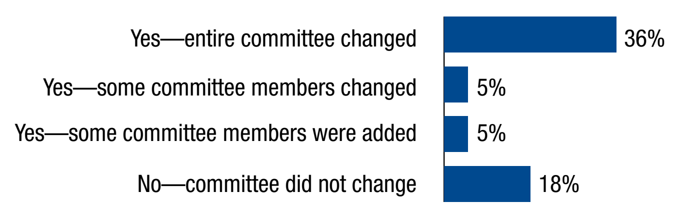
When asked about the composition of the retirement plan committee of the acquired entity following the merger/acquisition, 36% of plan sponsors indicate that the entire committee changed (nearly double 19% from 2014), and an additional 10% indicated that either some committee members changed or new members were added. Eighteen percent of plan sponsors indicated that the retirement plan committee did not change at all.

Healthcare sponsors were also asked about responsibility for drafting the written comparison of the two plans. Twenty-seven percent of sponsors indicate that the plan comparison was drafted by an outside ERISA attorney. Another 18% indicate that this function was handled by the staff of the acquiring organization, 9% by an advisor or consultant of the acquiring organization, and 9% by the staff of the combined organization.

Retirement Plan Offered by Merged or Acquired Organization

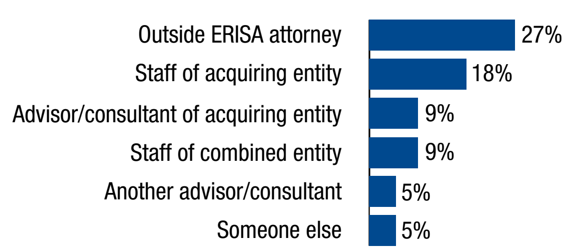


Did the Composition of the Retirement Plan Committee of the Acquired Entity Change with the Merger or Acquisition?



Nearly all (90%) of healthcare plan sponsors were made aware of the merger or acquisition beforehand, but only 67% of sponsors felt that they had sufficient time to prepare.

Written Comparison of the Two Plans Drafted by . . .



Respondent Profiles

Number of Eligible Employees

Less than 500	10%
500 – 999	12%
1,000 – 4,999	45%
5,000 – 9,999	13%
10,000 – 19,999	12%
Over 20,000	7%

Defined Contribution Plan Assets

Less than $10 million	6%
$10 million – $24.99 million	14%
$25 million – $99.99 million	27%
$100 million – $249.99 million	21%
$250 million – $499.99 million	9%
More than $500 million	23%

Organization Category

Church-affiliated	7%
For profit	3%
Not-for-profit	84%
Government/Military	1%
Public	4%

Organization Type

Acute care hospital	70%
Physician group practice	29%
Ambulatory care center	23%
Long-term care facility	21%
Teaching hospital	18%
Specialty/niche hospital	11%
Nursing care/assisted living facility	9%
Other	14%

Census Region

East North Central (IL, IN, MI, OH, WI)	15%
East South Central (AL, KY, MS, TN)	1%
Middle Atlantic (NJ, NY, PA)	19%
Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	9%
New England (CT, MA, ME, NH, RI, VT)	12%
Pacific (AK, CA, HI, OR, WA)	15%
South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV)	21%
West North Central (IA, KS, MN, MO, NB, ND, SD)	13%
West South Central (AR, LA, OK, TX)	10%

Contact Us

Grace Basile

Assistant Director, Market Research
Transamerica Retirement Solutions
800-770-6797
grace.basile@transamerica.com

Wendy Daniels

Senior Vice President, Marketing
Transamerica Retirement Solutions
800-770-6797
wendy.daniels@transamerica.com

Felicia Bloom

Account Manager
AHA Solutions, Inc.
800-242-4677
fbloom@aha.org

We would like to thank the American Society for Healthcare Human Resources Administration (ASHHRA) for their invaluable support in fielding this survey.

Transamerica Retirement Solutions' defined contribution and deferred compensation retirement services are endorsed by the American Hospital Association. AHA Solutions, Inc., a subsidiary of the American Hospital Association, is compensated for use of the AHA marks and for its support in marketing endorsed products and services. By agreement, pricing of endorsed products and services may not be increased by Transamerica Retirement Solutions to reflect fees paid to any AHA affiliate. AHA does not endorse securities or investment products offered by or through Transamerica Retirement Solutions. None of the AHA or its affiliates, including AHA Solutions, Inc. is a registered investment advisor, and none provides investment advice.

TRANSAMERICA®
Retirement Solutions

440 Mamaroneck Avenue, Harrison, NY 10528
914-627-3000 | 800-770-6797 | trsretire.com

18674-PS_B (07/15)