Key Survey Findings

As part of VALIC’s ongoing commitment to improve service and meet the needs of its plan sponsors and participants, research was conducted by Market Probe in October and November of 2014 to obtain perspectives on a range of issues from plan sponsors who use VALIC to administer their DC plan. Feedback from 74 VALIC plan sponsors was included.

We thank you again for your participation and candid feedback. Below are some key findings from the study.

Plan Sponsors Are Focused on Improving Plan Participation and Retirement Readiness

As plan sponsors look ahead to the next three to five years, four of their top seven anticipated challenges are related to helping employees prepare for retirement via their DC plan [highlighted in the chart below]. A common theme across these areas is the challenge of moving employees from passive to active participants, specifically in motivating them to value their DC plan, increase participation and contributions, and take a more active role in their retirement preparation. This concern is often expressed for employees at both ends of the life stage spectrum – Millennials (who are less likely to participate) and those nearing retirement (many of whom are not ready financially). [See sample comments on the next page].

Sponsors also expect to face challenges of their own, particularly regarding costs (especially funding a company match) and compliance/regulatory changes.

Finally, the state of the economy and financial markets is a concern for one in five sponsors, both for how it affects the strength of their plan, as well as the financial health of their employees.

<table>
<thead>
<tr>
<th>Top Challenges Facing Plan Sponsors</th>
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<tbody>
<tr>
<td>Lack of employee participation / awareness</td>
<td>25%</td>
</tr>
<tr>
<td>General economy / stock market</td>
<td>21%</td>
</tr>
<tr>
<td>Cost to sponsors</td>
<td>19%</td>
</tr>
<tr>
<td>Compliance / keeping up with new regulations</td>
<td>19%</td>
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<tr>
<td>Employee retirement readiness / income stream after retirement</td>
<td>15%</td>
</tr>
<tr>
<td>Educating employees</td>
<td>15%</td>
</tr>
<tr>
<td>Getting employees to save more / make own contributions</td>
<td>9%</td>
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</tbody>
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Top Challenges Facing Plan Sponsors – Verbatim Examples

Employee Participation, Education, and Retirement Readiness

“Participation is too low, pretty much across the board, on the voluntary plans.”

“Increasing enrollment. As the younger group comes in, I think it will be a little more challenging to get them to sign up. I think they’re going to move around a little more and not think so much about retirement.”

“Working to ensure retirement readiness. Working to develop actively managed products, particularly for that under-33 crowd, who would prefer to simply ‘fire and forget.’ Greater financial literacy training.”

“Educating those employees who are closer to retirement to make sure that they are ready and able to retire. A lot of people are just postponing retirement. Have those employees be more knowledgeable if they plan on having a long career here.”

“Our biggest challenge is the enrollment and getting people to save for retirement. I think it’s going to get harder. People are busier, and they’re more worried about their job or their duties. We see it across the board; they don’t seem to put an emphasis on the overall benefits that a company offers. A lot of times, people don’t pay attention or realize the importance of them.”

Sponsor Costs

“Funding the match. We would like to be able to increase the max. We’re in the health care business; it’s so volatile right now, it’s going to be a challenge to continue to fund plans.”

“We are matching a very generous match, so that does add a significant amount of cost to us. Tighter margins for our type of business force us to have less money for benefit plans. We are tightening all the time.”

Compliance/Regulatory Changes

“To me, it really would be compliance. Rules and regulations are always changing and things are always being added, so being able to stay on top of all of the IRS rules and regulations and making sure that the plan is in compliance from a regulatory perspective and also from an operational perspective.”

“Obviously regulation and the response to that. It’s more the compliance regulations that might be passed that would restrict the ability for people to contribute or require plan sponsors to do more reporting.”

State of the Economy/Financial Markets

“The biggest challenge might be the international and national financial situation. I think that’s a challenge because the bubble is going to burst. I think most of the companies out there are overvalued from their stock standpoint. When that adjustment comes, it’ll be painful.”

“The economy has a big impact. If we don’t have enough jobs or good salaries to pay, then it will be a challenge for people to keep contributing to their retirement plan. It’s the economy and stability of the work environment here.”
Sponsors Most Often Look to Plan Providers for Enhanced Education and Retirement Readiness Strategies

A third of plan sponsors seek **additional and more comprehensive participant education** from their DC plan providers, including through online channels. This is especially true of sponsors focused on improving employee engagement with their retirement plans. [See specific examples on the next page].

Other top opportunities for providers to assist sponsors include **increased communication and engagement with plan administrators**, more fee transparency and clarity of value, and diversity of investment offerings.

One in four sponsors are unable to identify any specific opportunities for providers to address their anticipated challenges. However, the majority of these cite concerns beyond the control of plan providers (i.e., employer match funding, compliance/regulatory changes, and the general economy).

### Top Plan Provider Opportunities to Help Sponsors (most frequent multiple responses)

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide participant education / support</td>
<td>23%</td>
</tr>
<tr>
<td>More / improved administrative communication</td>
<td>14%</td>
</tr>
<tr>
<td>Lower fees / more transparency about costs</td>
<td>12%</td>
</tr>
<tr>
<td>Online communication, education, tools for participants</td>
<td>11%</td>
</tr>
<tr>
<td>Product / investment offerings</td>
<td>7%</td>
</tr>
<tr>
<td>Nothing/Don't Know</td>
<td>26%</td>
</tr>
</tbody>
</table>
Top Plan Provider Opportunities to Help Sponsors – Verbatim Examples

Educational Opportunities
“More educational tools and opportunities, as well as more directed emails. Some of my vendors have started doing gaming to get people interested in learning about retirement programs. Stuff like that, I think, is the way to go. I’ve seen a lot of participation in it, more than anything else that I’ve seen participation in.”

“I’d like to see more educational on-demand seminars available for employees of all age groups, especially for those within five years of retirement and also for those just starting off.”

“To get employees to do their whole financial plan so they get the big picture and not just, ‘Oh, this is how much I’m getting from the county,’ not including the rest of their assets. I know that VALIC offers that service, but it’s just a matter of getting the information out there for the employee because a lot of people aren’t ready for it. It’s not something they want to talk about until they’re closer to retirement, and then it’s too late.”

Improved Administrative Communication
“Quarterly or at least twice a year meetings in person to address the plan, the current progress, and issues. It would allow us to better understand opportunities available to us through VALIC. We understand the benefit, but they can help by interacting with us and informing us of what they’re doing.”

“Providing proactive advice as things are on the horizon, saying what is coming up or what is proposed, to the point where they are saying, ‘We would make these recommendations,’ or ‘VALIC is leading the charge to respond on the behalf of its clients about this particular proposed regulation.’”

More Transparent/Lower Fees
“The ability to present to participants the benchmarks of what another plan provider (other than VALIC) charges, so that participants understand. Instead of thinking they’re not paying anything or are paying very little, they would be able to see what they are paying. It’s our educational focus point because most participants really don’t know what they’re paying.”

“I think they have to be more creative in their fee structure. As we feel the crunch of investing, they need look at the cost structure; that needs to come down commensurately. We can’t be the only ones getting squeezed.”

Product/Investment Offerings
“Actively managed products to help [participants] stay on track rather than having to become experts themselves.”

“I’d also like to see more funds available for employees to invest in with lower fees.”

Nothing Plan Providers Can Do
“There is nothing that VALIC can do directly. It’s going to be the operating margin of the organizations and the money that is available from matching contributions. I think it’s going to put pressure on retirement plans across the board for healthcare employers.”

“For what we do here in our organization, it’s an internal issue with having restrictions on on-site presentations or education sessions for participants. That’s an internal thing, not an issue with our provider.”