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Investments

A look at retirement plan innovation and compliance in the US: Spotlight on Microsoft



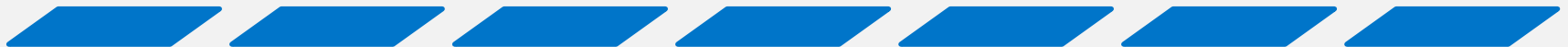
US Retirement Landscape



US Defined Contribution Realities



Driving Better Outcomes Through Innovation



US Retirement Landscape



Government Pension

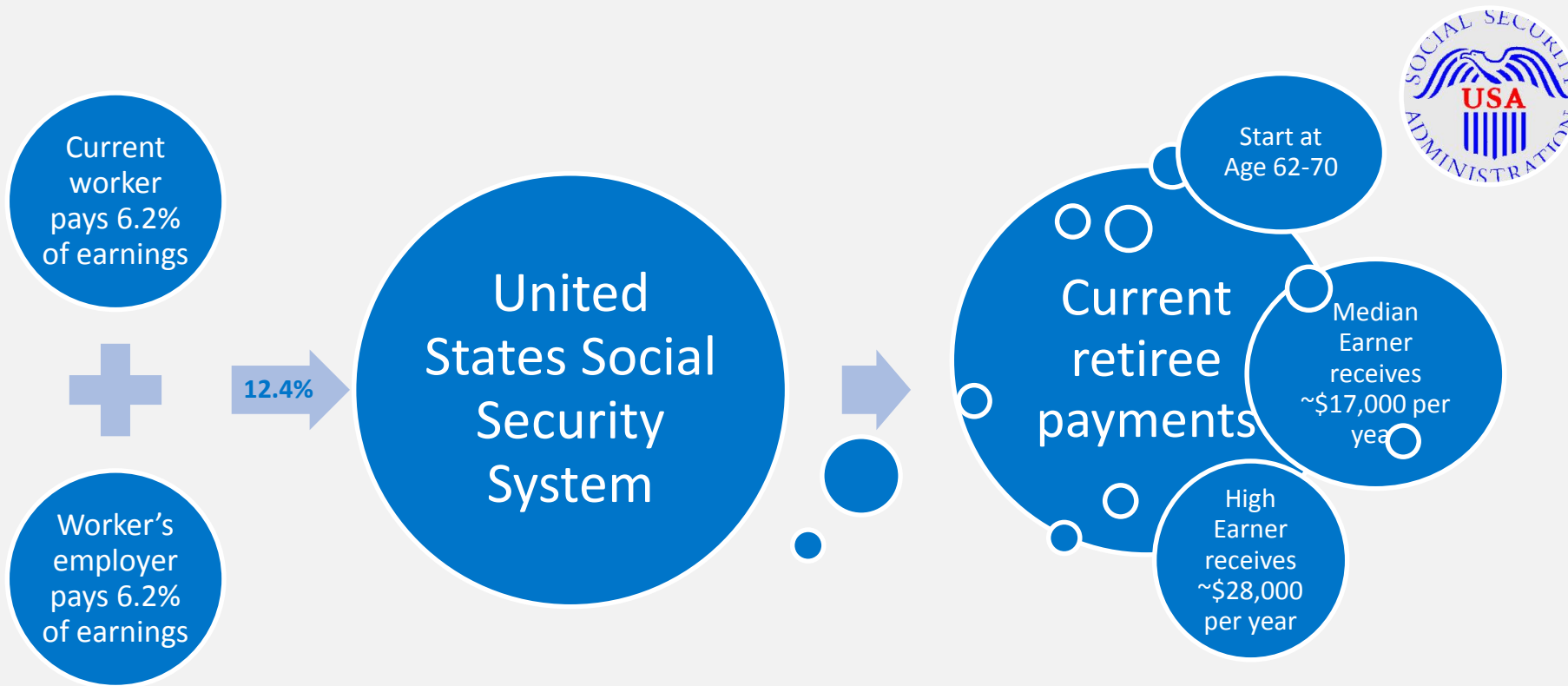


Personal Savings

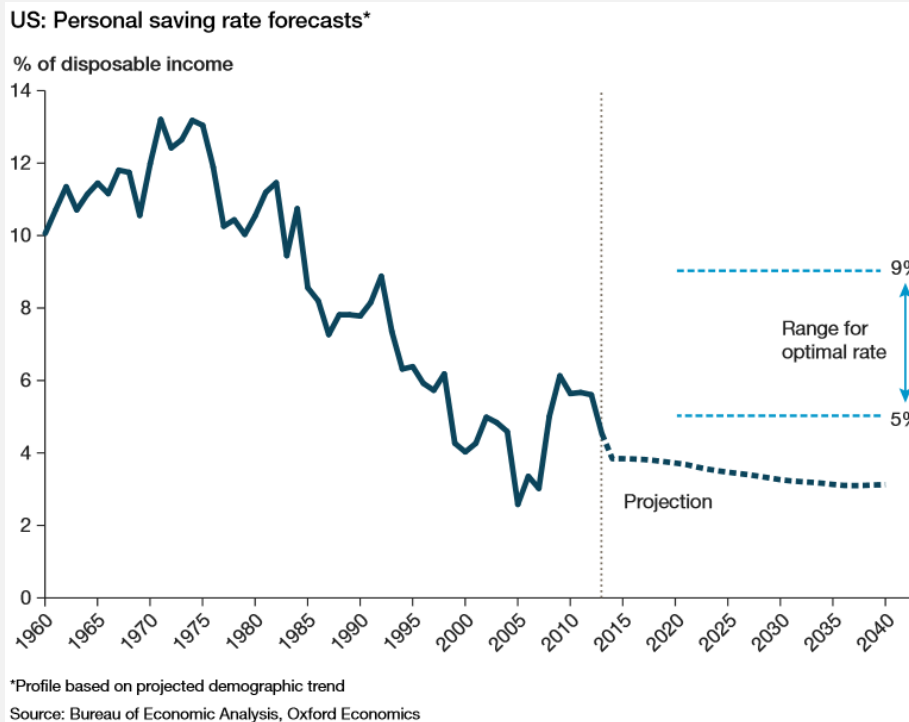


Employer Pension

US Government Pension



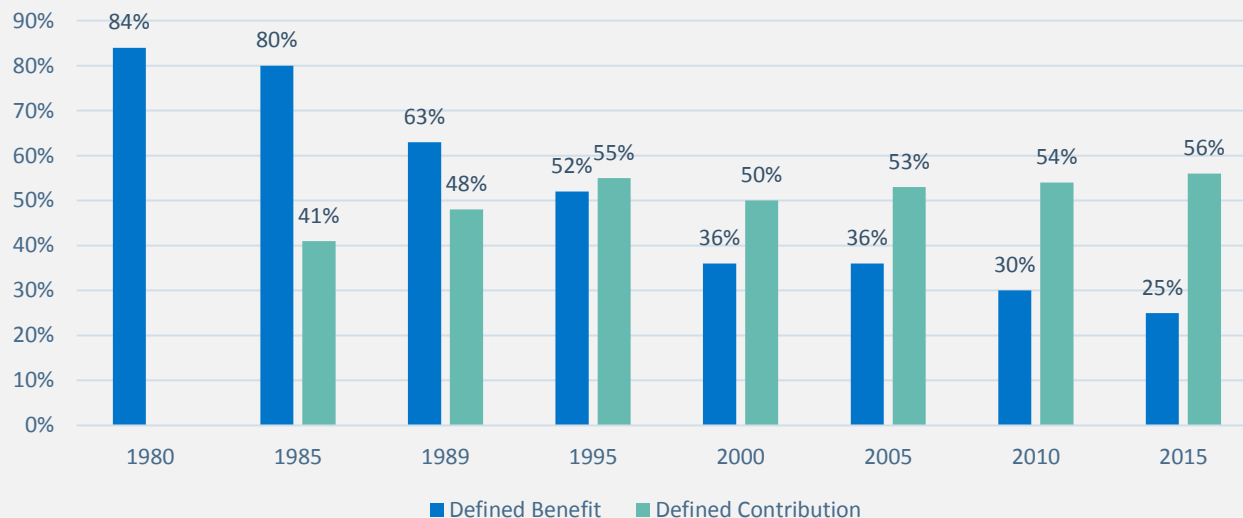
Personal Savings



US Employer Pension



Percentage of Employees Participating in Retirement Plans
(Medium and Large Private Establishments), 1980-2015



Source: EBRI Databook on Employee Benefits, Chapter 5 Private and Public Sector Retirement Plan Trends (Updated October 2015)

Defined Contribution Plan Realities



Pushes
Responsibility
to Participants

- Enroll Quickly
- Save Enough
- Invest Wisely

Employers are
Fiduciaries

- Work in the best interest of participants
- Use Prudence in carrying out duties
- Follow written plan documents
- Diversify plan investments
- Pay only reasonable plan expenses



Mega DC Plans are the target

Top Issues

- Investment Choice (Company stock)
- Investment Fees (Revenue sharing)
- Investment Performance (Using hedge funds)



“plan sponsors *should* be afraid, very afraid.”

“The only protection for participants is the law. Without that being a concern, it’s the Wild West. The incentives to avoid doing the wrong thing should be there.”



“We have always had a strong conviction that a fully compliant plan is non-negotiable”

– Sonja Kellen

Microsoft 401(k) Investment Philosophy



Guiding Principle: provide a selection of investment offerings that will reasonably allow each participant to diversify Plan investments and pursue individual retirement objectives based on own risk tolerance.

Quarterly
Reviews
with
Fiduciary
Committee

- Three-tiered structure
- Active vs passive philosophy
- Appropriately sized investment menu
- Fees

Microsoft 401(k) Investment Menu



Tier 1: Target Retirement Date Investments

Targets participants who are inexperienced at investing and/or do not want to take the time to build and maintain their own portfolios.

BTC LifePath O¹

BTC LifePath 2020 O¹

BTC LifePath 2030 O¹

BTC LifePath 2040 O¹

BTC LifePath 2050 O¹

BTC LifePath 2060 O¹

Tier 2: Core Investments

Targets participants who are motivated and comfortable in making their own asset allocation decisions. The Plan's investment categories are designed to allow participants to make investment choices ranging from conservative (money market) to aggressive (international and small/mid cap equities). This tier includes both actively and passively managed investments, mutual funds, separately managed accounts and common collective trusts.

Money Market	Fixed Income	Multi-Asset	Equity			
BlackRock Short-Term Investment Account ⁷	Vanguard Short-Term Bond Index Fund	PIMCO All Asset All Authority		Value	Core	Growth
	PIMCO Total Return Account ²	PIMCO Inflation Response Multi Asset Fund	US Large Cap	Vanguard Russell 1000 Value Index Trust ¹	Vanguard S&P 500 Index Trust ¹	Vanguard Russell 1000 Growth Index Trust ¹
						Fidelity Growth Company Commingled Pool ⁵
			International	Russell International Value Account ²		Fidelity Contrafund Commingled Pool ^{5,6}
			US Small / Mid Cap	DFA Small/Mid Cap Value Account ²		Russell International Growth Account ²
						Artisan Mid Cap Account ²
						Vanguard Russell 2000 Growth Index Trust ¹

¹ Passively Managed Common Collective Trust (not a mutual fund)

² Separately Managed Account (not a mutual fund)

³ Brokerage Account

⁴ Effective January 2016 no new purchases permitted. Dividends on existing balances can continue to be reinvested

⁵ Actively Managed Common Collective Trust (not a mutual fund)

⁶ Although the Fidelity Contrafund is typically noted as a large cap growth US equity fund, it has had consistent exposure to international equities

⁷ Unitized Account investing in a Common Collective Trust (not a mutual fund)

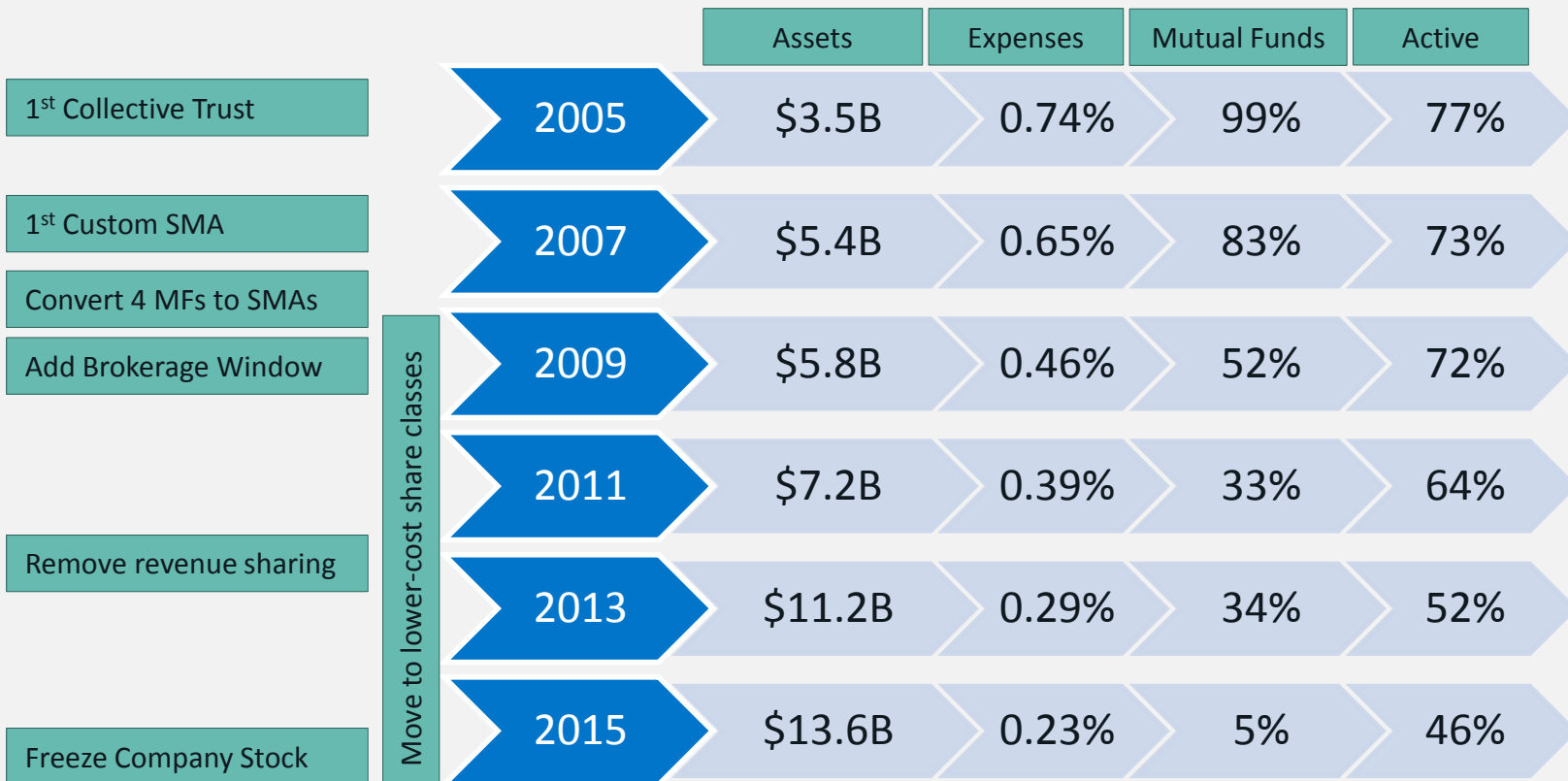
Tier 3: Specialty Investments & Brokerage Accounts

Targets highly-motivated and/or very experienced investors who want further diversification opportunities.

BrokerageLink³

Microsoft Common Stock⁴

Microsoft 401(k) Investment Evolution



Pillars of Success



Enroll Quickly

Save Enough

Invest Wisely

Driving Better Outcomes



Sept 2013
Launched retirement & investment advice tools

Feb 2014
Targeted email campaign

May 2014
Rolled out Easy Enroll & Additional Savings Opportunities

Aug 2014
Launched internal portals with smart messaging

Aug 2015
Announced new match & launched match modeler

Jan 2016
New match & targeted email campaign

Outcomes through Technology

- Single Sign On technology
- Daily data feeds from and to multiple sources
- Responsive design – looks good and works across any device
- Modeling capability

Outcomes through Messaging

- Personalized
- Actionable
- Focused (only ONE action)
- Behavioral economics (loss aversion)

Defaults matter



Easy
Enroll

Fast enrollment (just 3 clicks)

Strong savings rate, with annual increase

Age-appropriate target date investment

Prior to Launch

8% average savings rate
78% of new hires enrolled

Post-Launch

10.4% average savings rate
83% of new hires enrolled

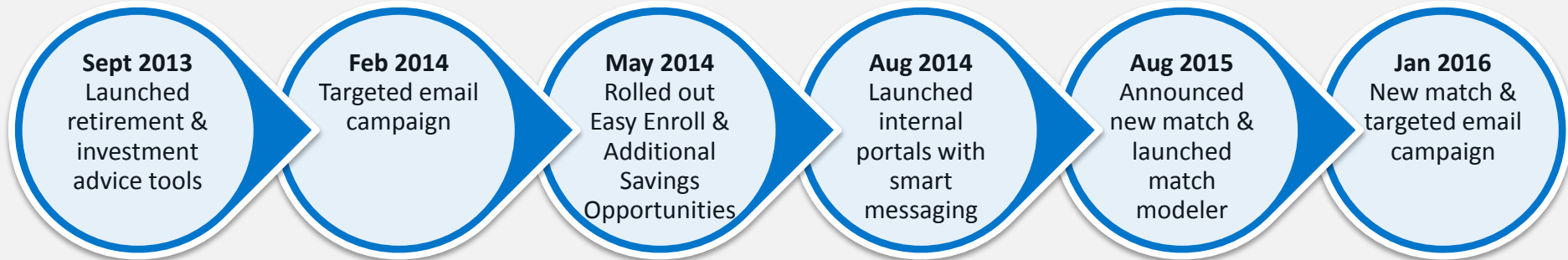
Easy Enrollment

- 54% of Enrollees
- 9.4% average savings rate

Standard Enrollment

- 46% of Enrollees
- 11.5% average savings rate

Summary of Impacts



	Sept 2013	July 2016
Participation	86%	91%
Average employee savings rate	9%	12%
Average employer contribution	3%	6%
Enrolled in annual increases	6%	23%
Appropriately invested	30%	54%

questions 

thank you 



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