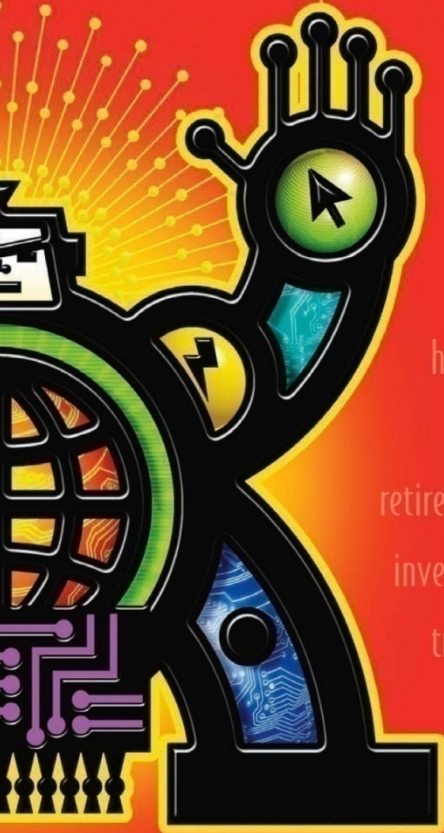


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WESTERN PENSION &
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SEATTLE CHAPTER

SPRING SEMINAR - Wednesday April 25, 2007



Western Pension & Benefits Conference

April 25, 2007
Seattle, WA

Default Investment Options

9:30 am – 10:30 am

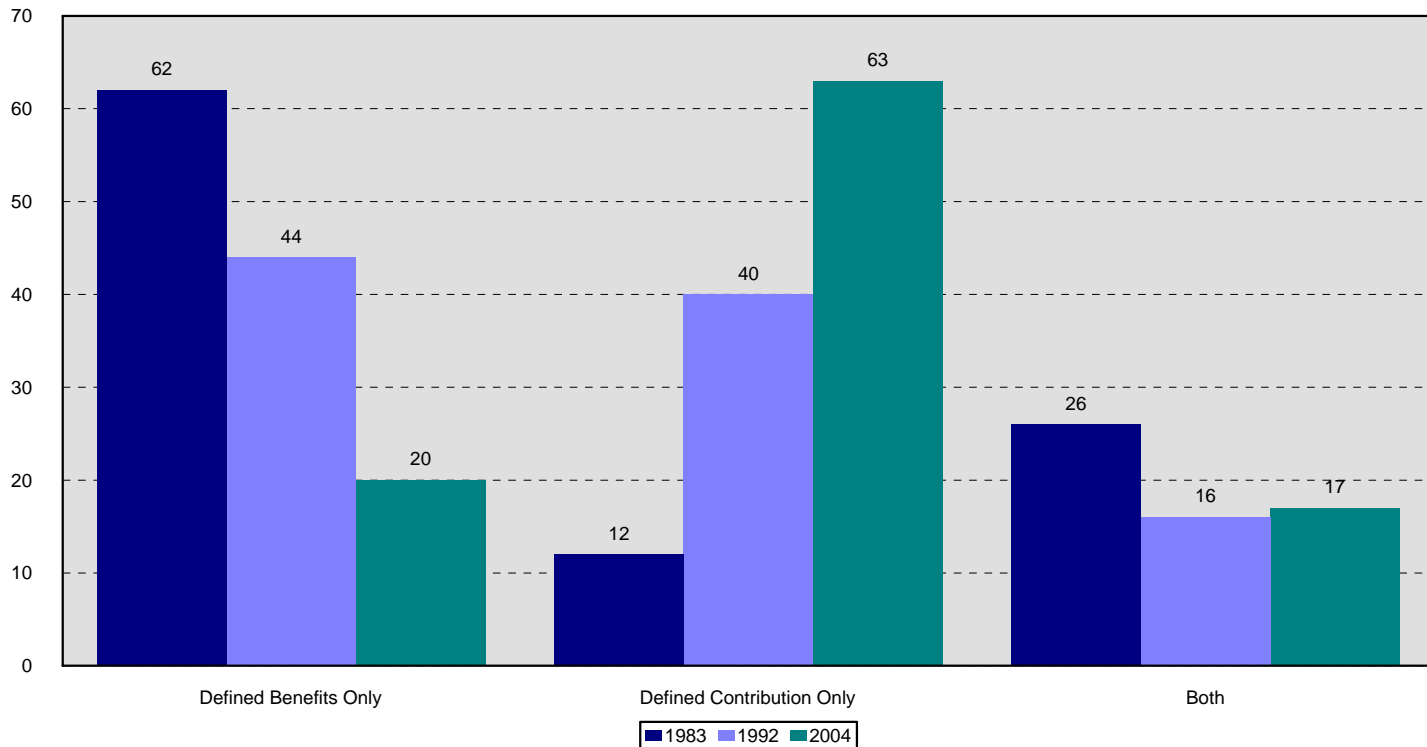
Marlow Kee
Director of Finance
PATH

Sue Wuthrich
Director, Global Benefits
Google Inc.

Mary Ellen Mullen, CFA
Principal
Bridgebay Consulting, LLC

1. Qualified Default Investment Alternative (QDIA)
2. PATH's Process
 - ▶ Plan Sponsor Background
 - ▶ Target Date Funds
3. Google's Process
 - ▶ Plan Sponsor Background
 - ▶ Balanced Funds
4. Speaker Biographies

Workers with Retirement Plans by Type of Plan 1983, 1992, 2004



Source: Munnell, Alicia H. and Perun, Pamela. 2006, "An Update on Private Pensions." Issue in Brief 50. Chestnut Hill, MA: Center for Retirement Research at Boston College.

Pension Protection Act of 2006 (PPA)

August 17, 2006 - President Bush signed Pension Protection Act of 2006 (PPA) into law

Safe Harbor Amendment of the Employee Retirement Income Security Act (ERISA) for plan fiduciaries investing participant assets in certain types of default investment alternatives in the absence of participant investment direction is included.

February 13, 2007 – Congress’s statutory deadline for DoL’s final ruling on QDIA

The Labor Department’s Employee Benefits Security Administration (EBSA) proposed a regulation on September 27, 2006 implementing the default investment amendments made to ERISA by the Pension Protection Act.

Pension Protection Act of 2006 (PPA)

March – April, 2007 – DoL’s expected timeline for release of final ruling on QDIA.

The insurance industry lobbied against the omission of traditional default investment vehicles: stable value/principal preservation option.

Revocation of Enrollment

For plan years beginning after December 31, 2007, plans that implement automatic enrollment will be able to return automatic deferrals to participants. The law refers to these deferrals as “erroneous automatic contributions.” An employee must request the return of the deferrals within 90 days after the date the first automatic deferral is withheld from his paycheck. The deferrals must be adjusted for earnings or losses, that is, the account balance (as opposed to the deferrals) must be paid to the participant. This aspect is governed by Treasury, not DoL.

Fiduciary Liability Relief

Background

ERISA provides relief from liability for investment outcomes to fiduciaries of individual account plans that allow participants to exercise control over the investment of assets in their plan accounts. The proposed regulation deems a participant to have exercised control over assets in his or her account if, in the absence of investment direction from the participant, the plan fiduciary invests the assets in a qualified default investment alternative (QDIA).

Conditions for Fiduciary Relief:

1. Assets must be invested in a “Qualified Default Investment Alternative”
2. Participants and beneficiaries must have been provided an opportunity to provide investment direction, but failed to do so.
3. Notice must be furnished to participants and beneficiaries 30 days in advance of the first investment, and at least 30 days in advance of each subsequent plan year, and must include: a description of the circumstances under which assets will be invested in a QDIA; a description of the investment objectives of the QDIA; and an explanation of the right of participants and beneficiaries to direct investment of the assets out of the QDIA.

Fiduciary Liability Relief

Conditions for Fiduciary Relief: (Continued)

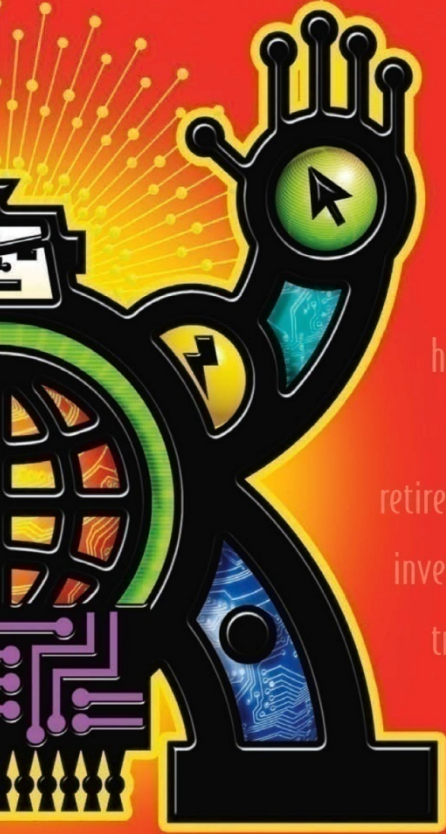
4. Any material, such as investment prospectuses and other notices, provided to the plan by the QDIA must be furnished to participants and beneficiaries.
5. Participants and beneficiaries must have the opportunity to direct investments out of a QDIA with the same frequency available for other plan investments but no less frequently than quarterly, without financial penalty.
6. The plan must offer a “broad range of investment alternatives” as defined in the Department’s regulation under section 404(c) of ERISA.
7. Plan fiduciaries are not relieved of liability for the prudent selection and monitoring of a QDIA.

Requirements

Qualified Default Investment Alternatives - 5 requirements:

1. No financial penalties or restrictions on the ability of a participant or beneficiary to transfer the investment from the QDIA to any other investment alternative available under the plan may be imposed.
2. Funds must be either managed by an investment manager, or an investment company registered under the Investment Company Act of 1940.
3. Funds must be diversified so as to minimize the risk of large losses.
4. Participant contributions may not be directly invested in employer securities.
5. Eligible investment options include:
 - A. Life-cycle or targeted-retirement-date fund (Participant's Age, Target Retirement Date or Life Expectancy);
 - B. Balanced Fund (Risk Based, Plan Demographics); or
 - C. Professionally Managed Account (Participant's unique circumstances).

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PATH's Default Investment Option Selection

Marlow Kee
Director of Finance

April 25, 2007



PATH is an international nonprofit organization that improves the health of people around the world.

PATH started in **1977** with a **Ford Foundation grant**. In 2005, total revenue was \$105,403,169.

PATH's Diverse Funding Sources – include the US Government; other governments, other nonprofit organizations, and multilateral agencies such as the World Health Organization; individuals; and interest from investments.

PATH maintains the highest standards for efficiency and transparency

- ▶ **Forbes' Top 200 Charities** - high marks for keeping operating costs low and channeling supporters' investments into the real work of improving global health.
- ▶ **Charity Navigator** (America's largest independent evaluator of nonprofit organizations) - four stars for financial stewardship, fourth consecutive year!

Charity Navigator



Rank	Charity	Overall Score
1	The National Christian Foundation	69.46
2	American Jewish Joint Distribution Committee	69.21
3	PATH	68.74
4	CARE	68.62
5	Conservation International	67.86
6	Wildlife Conservation Society	67.74
7	The Nature Conservancy	66.04
8	City of Hope and Affiliates	65.69
9	Mayo Foundation	65.62
10	American Red Cross	65.37



To improve the health of people around the world by advancing technologies, strengthening systems, and encouraging healthy behaviors.



- ▶ Improves accuracy
- ▶ Reduces over-treatment and drug resistance
- ▶ Shortens illness



- ▶ Insecticide-treated nets
- ▶ Indoor residual spraying
- ▶ Malaria in pregnancy
- ▶ Better malaria drugs



**A world where
innovation ensures that
health is within reach
for everyone.**



- ▶ **Equity:** We recognize every person's right to effective health solutions.
- ▶ **Integrity:** We do the right thing even when it is difficult.
- ▶ **Innovation:** We seek new ideas and embrace discovery.
- ▶ **Collaboration:** We succeed through partnerships marked by a respect for people, culture and ideas.
- ▶ **Impact:** We are determined to create solutions that ensure sustained improvement in people's health.



- ▶ **Retirement Plan History**
 - ▶ Inception 1981
 - ▶ Single Defined Contribution Plan
 - ▶ Money Purchase Pension Plan Transferred into 401(k)
 - ▶ Default Fund - Primarily Employer % of Salary Contribution
 - ▶ Adopted Target Date Fund Default Option in 2004



- ▶ **Key Plan Metrics**
 - ▶ \$40 million at 12/31/06
 - ▶ 17 Core Funds + Target Date Series
 - ▶ 404 (c) Intent
 - ▶ Mutual Funds - liquidity, diversification and cost efficiency
 - ▶ at least \$100 million in assets under management
 - ▶ well-diversified (Don't like to see concentrations in a single name, Specialty Funds)
 - ▶ Minimum of 5 years of verifiable investment performance, unless specifically exempted by the Administrative Committee.
 - ▶ Over 400 participants with balances
 - ▶ Central Payroll
 - ▶ World Headquarters in Seattle, WA. Domestic locations include Washington, DC and Bethesda, MD.

Investment Policy Defines Parties and Responsibilities

- ▶ Administrative Committee
 - ▶ Fiduciary
 - ▶ CEO, CFO, Director of Finance
- ▶ Investment Advisory Committee
 - ▶ Chair
 - ▶ 10 Employee Volunteers
 - ▶ Ex-Officio
- ▶ Investment Consultant
 - ▶ Quarterly Meetings with Investment Advisory Committee and Ongoing Resource
 - ▶ Independent, “Prudent Expert” per ERISA
- ▶ Investment Fund Managers
 - ▶ Actively Managed and Passively Managed
 - ▶ Bundled Provider’s Family and Outside
- ▶ Bundled Provider (Trustee, Recordkeeper)
- ▶ Auditor
- ▶ Attorney

9 FACTOR MODEL SUPPORTS REVIEW AND ACTION PROCESS STEPS

9 FACTOR MODEL

1. Performance vs. Investment Objectives as measured versus a Market Index Benchmark for period(s) of 1 year or more
2. Performance vs. Investment Objectives as measured versus a Peer Universe Benchmark for period(s) of 1 year or more
3. Style Drift vs. Investment Objectives – inconsistency of the fund’s investment management process and/or style.
4. Manager Changes – New Portfolio Manager(s) whether individuals, team and/or firm
5. Fund Family Manager Changes - Material change in Management, including Ownership and Firm Fundamentals. Organizational stability.
6. Regulatory Changes – Any anticipated or actual SEC/Other Penalties, Sanctions, Investigations
7. Plan Characteristics – Unique to PATH
8. Fund Operations and Economics – Facts that impact the potential long term success of the fund, e.g. asset size, fees
9. Other – Reasons not detailed above

PROCESS STEPS

- ▶ **Monitoring Procedures**
- ▶ **Watch List Parameters**
- ▶ **Recommended Action List**
- ▶ **Replacement Parameters**
- ▶ **Investment Option Selection Process**
 - ▶ Investment Consultant continually repeats a three step process for presentation to the Investment Advisory Committee to assist in investment option monitoring and selection:
 - 1) Screening
 - 2) Scoring
 - 3) Selection
 - ▶ Open Architecture Preferred vs. Recommended/Short List – Short List typically reflects highest revenue share, shelf space compensation to vendor

National Metrics

Default Investment Fund Prevalence			
Year	Money Market/ Stable Value	Balanced/ Premixed	Unspecified
1999	69%	28%	3%
2001	68%	31%	1%
2003	67%	30%	3%
2005	56%	39%	5%
2006 estimate	42%	53%	5%
<i>Source: Hewitt Associates 2005 Trends and Experiences in 401(k) Plans</i>			

PATH Metrics

- ▶ Switched from Money Fund to Target Date Funds in Q3 2004
- ▶ 12.5% of Total Assets Invested in Target Date Funds at 12/31/06 vs. 8.9% at 9/30/06
- ▶ 27.6% of Contributions for Quarter Ending 12/31/06 Allocated to Target Date Funds vs. 20.4% at 9/30/06

Life Expectancy At Birth, Both Sexes United States = 78.0

Country	Age	Country	Age	Country	Age	Country	Age	Country	Age
1. Albania	77.6	11. Cyprus	78.0	21. Hungary	72.9	31. Mozambique	40.9	41. Slovakia	75.0
2. Angola	37.6	12. Czech Republic	76.4	22. India	68.6	32. New Zealand	79.0	42. S. Africa	42.5
3. Australia	80.6	13. Denmark	78.0	23. Iran	70.6	33. Nigeria	47.4	43. Spain	79.8
4. Austria	79.2	14. Ecuador	76.6	24. Ireland	77.9	34. Norway	79.7	44. Sri Lanka	74.8
5. Bangladesh	62.8	15. Egypt	71.6	25. Israel	79.6	35. Pakistan	63.8	45. Sweden	80.6
6. Brazil	72.2	16. Finland	78.7	26. Italy	79.9	36. Panama	75.2	46. Switzerland	80.6
7. Canada	80.3	17. France	79.9	27. Japan	81.4	37. Peru	70.1	47. Syria	70.6
8. Chile	77.0	18. Germany	79.0	28. Kenya	55.3	38. Poland	75.2	48. UK	78.7
9. China	72.9	19. Greece	79.4	29. S. Korea	77.2	39. Portugal	77.9	49. Venezuela	74.8
10. Costa Rica	77.2	20. Guatemala	69.7	30. Mexico	75.6	40. Russia	65.9	50. Zimbabwe	39.5

Life Expectancy at Birth, at 65 years of age, and at 75 years of age, By Sex:

United States, selected years 1900-2004

Data are Based on Death Certificates

Remaining Life Expectancy (Years)			
Year at Birth	Both Sexes	Male	Female
1900	47.3	46.3	48.3
1950	68.2	65.6	71.1
1960	69.7	66.6	73.1
1970	70.8	67.1	74.7
1975	72.6	68.8	76.6
1980	73.7	70	77.4
1985	74.7	71.1	78.2
1990	75.4	71.8	78.8
1995	75.8	72.5	78.9
2000	77.0	74.3	79.7
2004	77.8	75.2	80.4

Remaining Life Expectancy (Years)			
At 65 Years	Both Sexes	Male	Female
1950	13.9	12.8	15.0
1960	14.3	12.8	15.8
1970	15.2	13.1	17.0
1975	16.1	13.8	18.1
1980	16.4	14.1	18.3
1985	16.7	14.5	18.5
1990	17.2	15.1	18.9
1995	17.4	15.6	18.9
2000	18.0	16.2	19.3
2004	18.7	17.1	20.0

Remaining Life Expectancy (Years)			
At 75 Years	Both Sexes	Male	Female
1980	10.4	8.8	11.5
1985	10.6	9.0	11.7
1990	10.9	9.4	12.0
1995	11.0	9.7	11.9
2000	11.4	10.1	12.3
2004	11.9	10.7	12.8

Life Expectancy

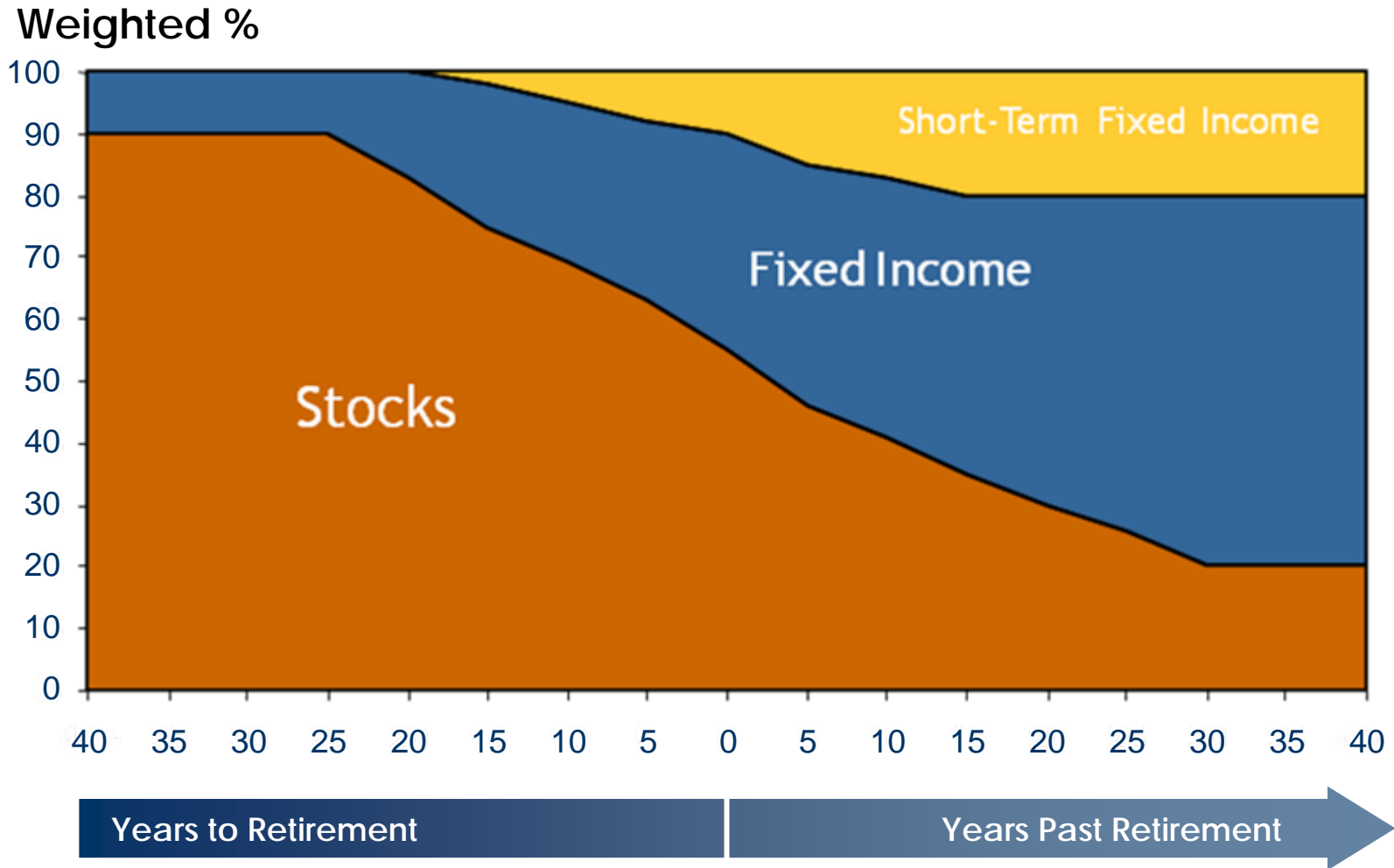
Considerations:

1. Globalization, Centralization – Life Expectancy varies from country to country, from state to state, by race, by gender, by income
2. Longevity Calculators: www.LivingTo100.com (under 50),
www.eons.com (over 50)
3. Outliving Your Investments
4. Market Volatility Tolerance in Later Life



Automatic Calculation
Assumes Age 65 Retirement Date

Birth Year	Target Date Fund Selected
1988 or later	Retirement 2055
1983 - 1987	Retirement 2050
1978 - 1982	Retirement 2045
1973 - 1977	Retirement 2040
1968 – 1972	Retirement 2035
1963 – 1967	Retirement 2030
1958 – 1962	Retirement 2025
1953 – 1957	Retirement 2020
1948 – 1952	Retirement 2015
1943 – 1947	Retirement 2010
1938 – 1942	Retirement 2005
1937 or earlier	Retirement Income/Today



Source: T. Rowe Price

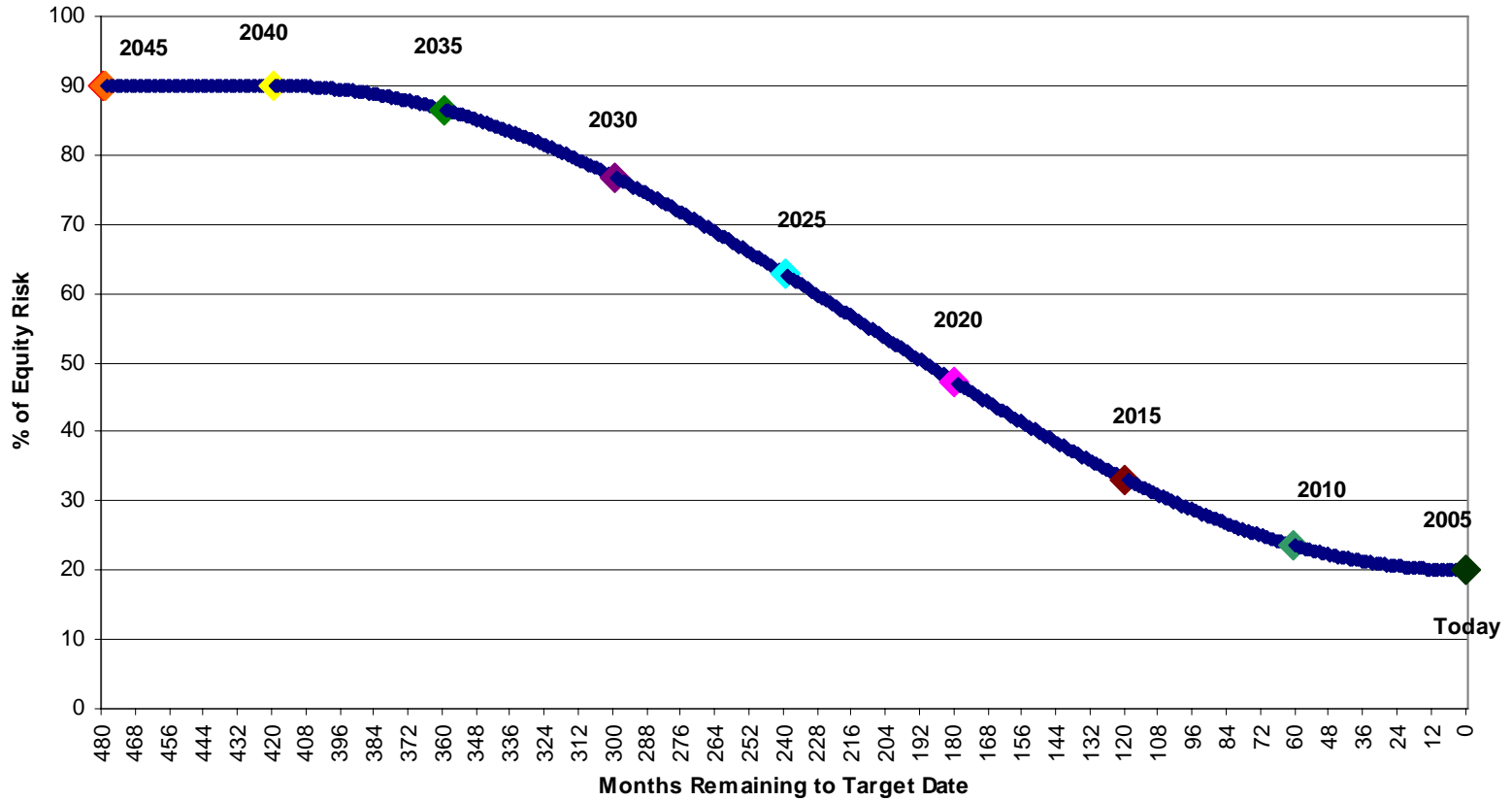
Asset Allocation Approaches Vary

1. Predetermined reduction of equities and increase of cash/bonds over time
2. Quantitative Portfolio Optimization (e.g. Monte Carlo simulation)
3. Active, Subjective Management

Asset Allocation Building Blocks/Types of Funds Vary

1. In – house Funds
2. Best In Class
3. Actively Managed
4. Passively Managed
5. ETFs

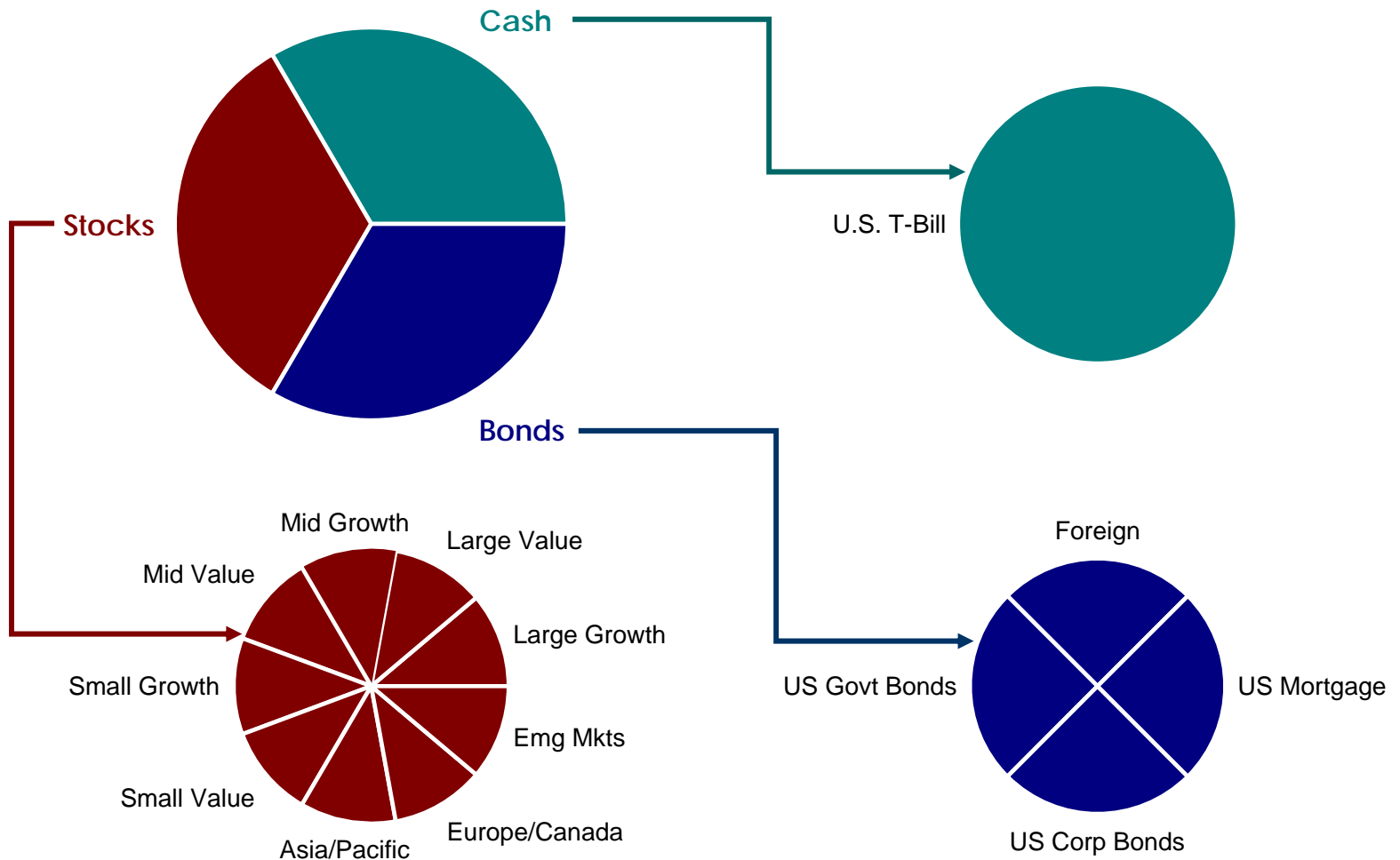
Relative Risk of Dow Jones Target Indexes



Source: Dow Jones Indexes

Dow Jones Global Target Index Composition

Sub-Indexes from 3 Distinct Major Asset Classes Comprise Each Dow Jones Target Index



Source: Dow Jones Indexes

% as of 12/31/06



	Cash	Equity ¹	Bonds
<i>Morningstar Category 2000 – 2014²</i>	14.0	38.4	45.2
<i>Range</i>	0.0 – 55.6	0.0 – 53.1	17.8 - 78.1
Dow Jones Target Today Index	55.6	11.7	55.6
Dow Jones Target 2005 Index	40.3	15.8	40.3
Dow Jones Target 2010 Index	20.3	21.1	20.3

<i>Morningstar Category 2015 – 2029²</i>	9.2	65.4	23.0
<i>Range</i>	0.5 – 52.9	33.7 – 98.6	0.8 - 42.9
Dow Jones Target 2015 Index	4.0	33.2	62.8
Dow Jones Target 2020 Index	4.0	51.3	44.7
Dow Jones Target 2025 Index	4.0	66.2	29.8

<i>Morningstar Category 2030 +²</i>	4.6	84.2	9.3
<i>Range</i>	0.6 – 17.9	66.5 – 97.7	0.0 – 24.9
Dow Jones Target 2030 Index	4.0	78.0	18.1
Dow Jones Target 2035 Index	4.0	85.8	10.2
Dow Jones Target 2040 Index	4.0	89.2	6.9
Dow Jones Target 2045 Index	4.0	89.3	6.8

- 1) Includes Domestic and International Equities
 - 2) "Other" Morningstar Asset Category Intentionally Omitted, < 2.5%
- Source: Dow Jones Indexes, Morningstar

Positive Investment Performance in Recent Years Expense Ratios Trending Down With Competition



Target Date Funds
Benchmark Performance
Market Index vs. Peer Universe
As of December 31, 2006

Category/ Fund	3-Month	1 Year	3 Years	5 Years	10 Years	3Yr. Std. Dev.	3Yr. Sharpe Ratio	M★ Net Exp Ratio
Pre-Mixed Asset Allocation Options								
<i>Dow Jones Target Today Index</i>	2.24	6.64	5.11	7.31	6.6	2.75	0.66	0
<i>Dow Jones Target 2010 Index</i>	3.04	8.12	7.42	8.14	7.68	4.17	0.97	0
Morningstar Category: Target Date 2000-2014	3.94	8.6	6.11	5.39	6.08	3.77	0.74	1.22
<i>Dow Jones Target 2015 Index</i>	4.06	9.65	8.98	8.9	8.15	5.03	1.1	0
<i>Dow Jones Target 2020 Index</i>	5.45	12.22	10.92	9.88	8.67	6.07	1.22	0
<i>Dow Jones Target 2025 Index</i>	6.62	14.28	12.53	10.68	9.05	7.04	1.27	0
Morningstar Category: Target Date 2015-2029	6.11	12.45	8.77	6.88	7.38	5.52	0.99	1.28
<i>Dow Jones Target 2030 Index</i>	7.56	15.89	13.79	11.33	9.32	7.83	1.29	0
<i>Dow Jones Target 2035 Index</i>	8.19	16.96	14.59	11.78	9.5	8.33	1.3	0
<i>Dow Jones Target 2040 Index</i>	8.46	17.37	14.86	11.96	9.58	8.49	1.31	0
<i>Dow Jones Target 2045 Index</i>	8.47	17.38	14.86	11.96	9.58	8.49	1.31	0
Morningstar Category: Target Date 2030+	7.31	14.4	10.69	7.6	7.73	6.95	1.06	1.32

As of December 31

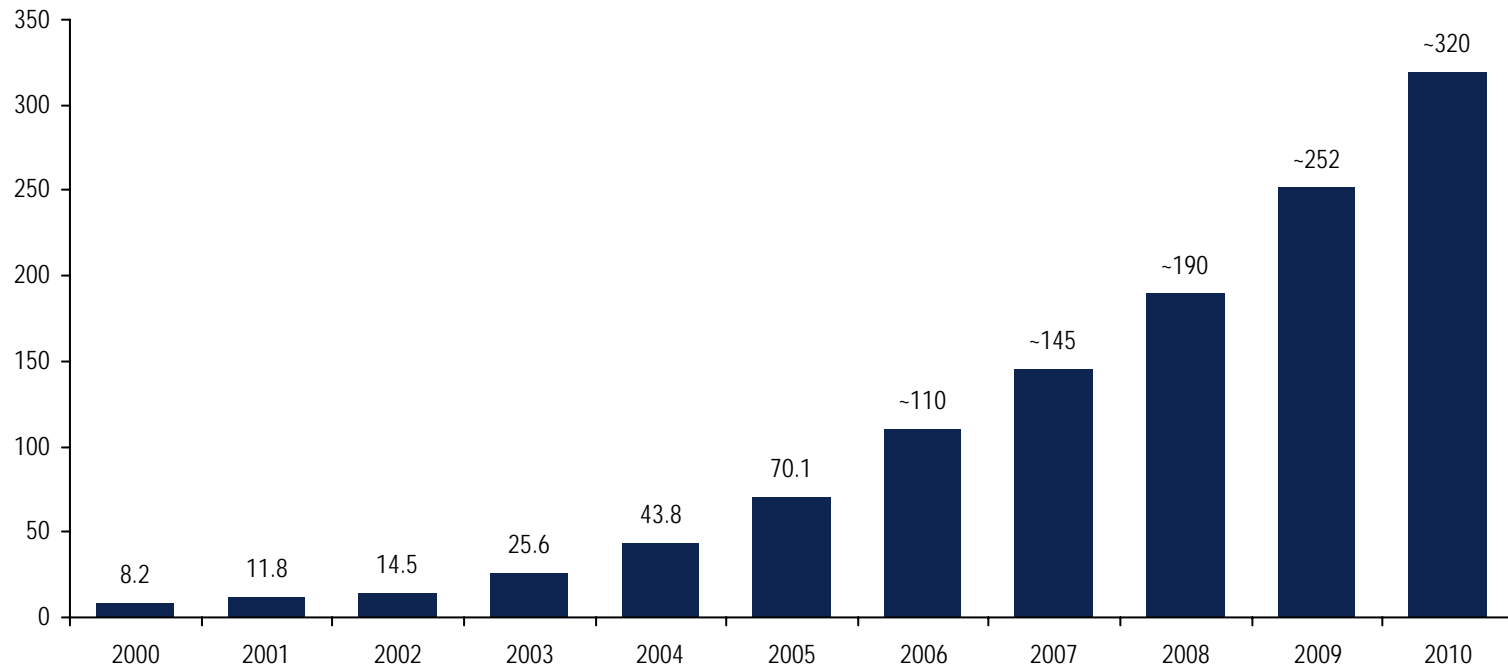


	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
<i>Dow Jones Target Today Index</i>	6.6	2.6	6.1	12.4	9.0	3.6	5.4	2.0	11.6	7.1	6.7
<i>Dow Jones Target 2005 Index</i>	7.3	2.4	8.9	17.9	2.1	0.9	2.0	10.3	12.4		
<i>Dow Jones Target 2010 Index</i>	8.1	3.6	10.6	21.6	-1.8	-0.9	0.1	14.5	12.4	11.1	10.2
<i>Morningstar Cat: Target Date 2000-2014</i>	8.6	3.7	6.8	13.7	-4.1	-0.5	2.7	9.1	13.5	14.4	9.7
<i>Dow Jones Target 2015 Index</i>	9.7	5.3	12.1	25.6	-5.8	-2.8	-1.9	18.7	12.3	12.5	12.2
<i>Dow Jones Target 2020 Index</i>	12.2	7.2	13.5	29.7	-9.5	-4.7	-3.7	22.6	12.2	13.5	13.8
<i>Dow Jones Target 2025 Index</i>	14.3	8.7	14.7	33.3	-12.6	-6.2	-5.1	25.6	12.1	14.2	14.8
<i>Morningstar Cat: Target Date 2015-2029</i>	12.5	5.8	9.2	20.7	-11.1	-7.0	-4.0	15.5	20.0	21.0	13.3
<i>Dow Jones Target 2030 Index</i>	15.9	9.9	15.7	36.0	-14.7	-7.2	-6.1	27.4	12.0	14.5	15.1
<i>Dow Jones Target 2035 Index</i>	17.0	10.7	16.2	37.5	-15.7	-7.6	-6.4	27.9	12.0	14.5	15.1
<i>Dow Jones Target 2040 Index</i>	17.4	11.0	16.4	37.7	-15.7	-7.6	-6.4	27.9	12.0	14.5	15.1
<i>Dow Jones Target 2045 Index</i>	17.4	11.0	16.4	37.7	-15.7	-7.6	-6.4	27.9	12.0	14.5	15.1
<i>Morningstar Cat: Target Date 2030+</i>	14.4	7.3	11.3	25.3	-15.7	-12.1	-7.9	19.5	23.5	24.9	17.0

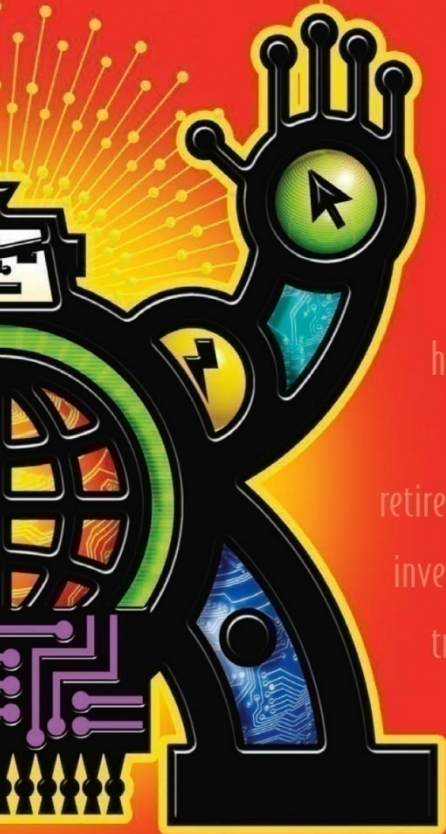
Target Date Funds Experience Negative Return Years When Stock/Bond Markets Decline

Actual and Projected

Billions of Dollars



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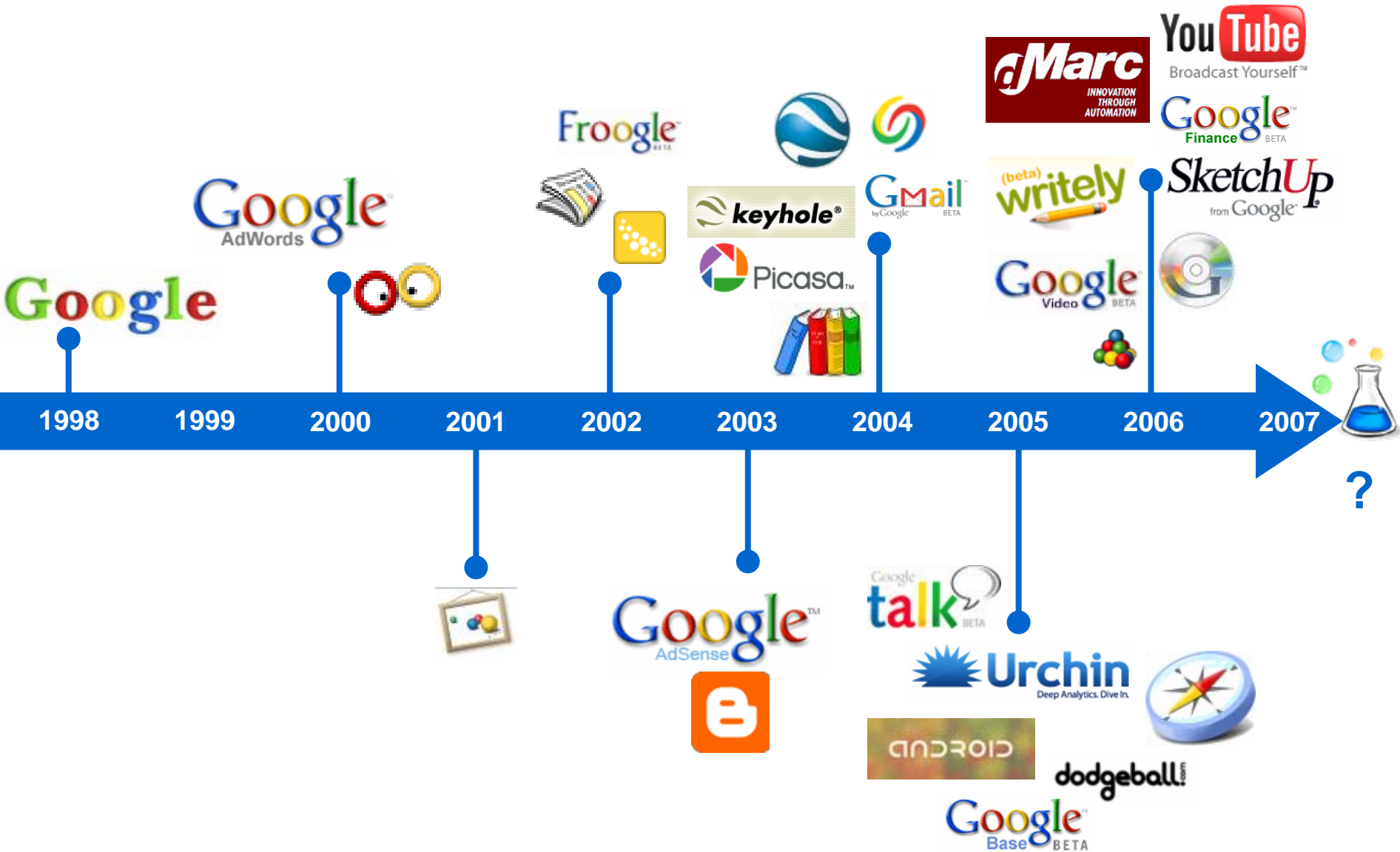


Evolution of Google's 401(k) Plan

Sue Wuthrich
Director, Global Benefits

April 25, 2007

Google evolution: more than just search



- 
- A satellite-style map of the Americas, including North America, Central America, and South America. The map is overlaid with a blue circular border. Numerous office locations are marked with yellow stars across North America and Central America, a red star in the Pacific Northwest, and blue triangles along the western coast of South America. A yellow star is also located on the eastern coast of South America. A white text box with a black border is positioned in the lower-left quadrant of the map, containing three bullet points.
- **10,000+ Googlers**
 - **40+ offices**
 - **20+ countries**





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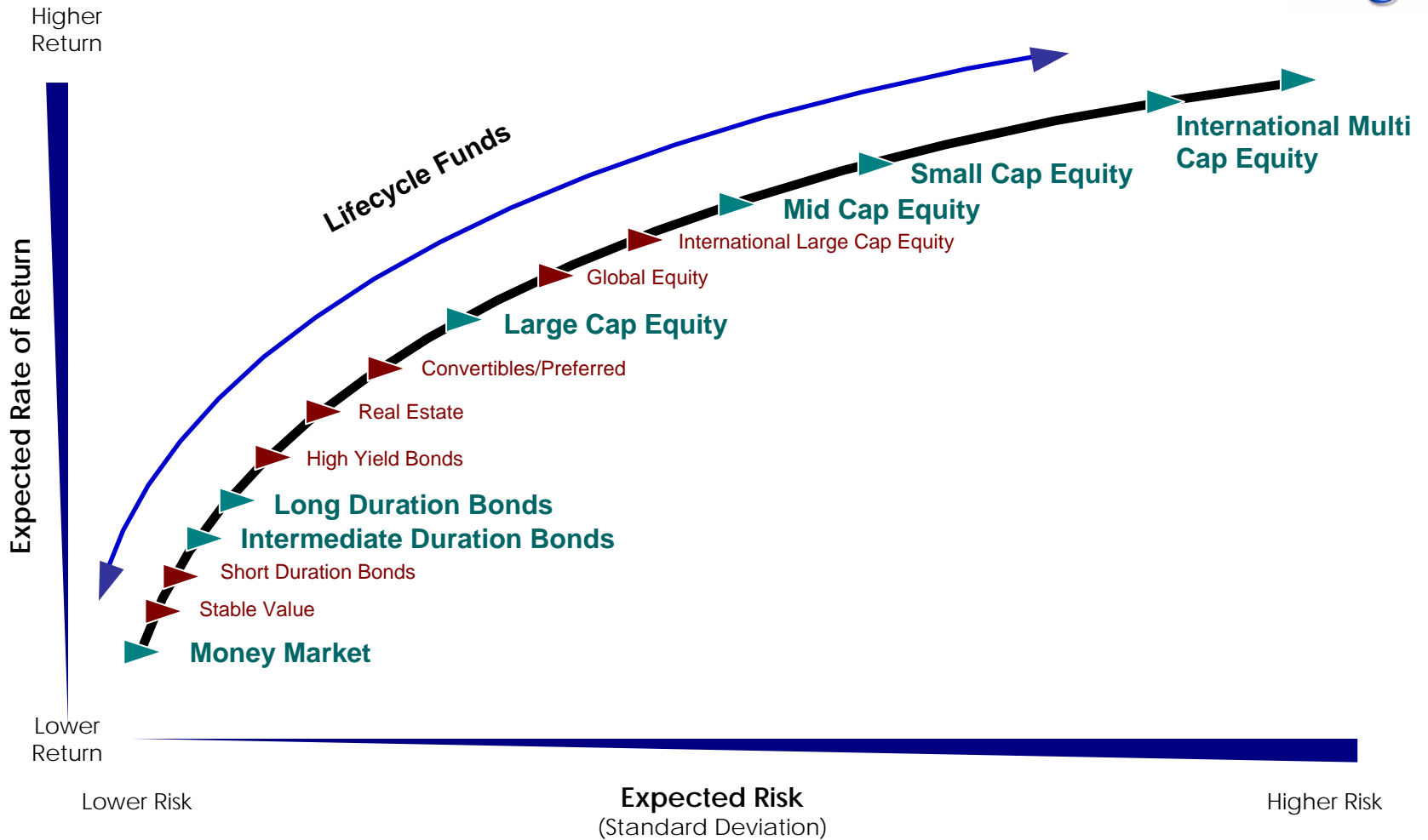
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- ▶ Since company inception we had a plan with a match
(100% up to \$2,200)
- ▶ Participants immediately eligible
- ▶ Began with Fidelity's fully bundled plan
- ▶ Participation = 50 to 60%
- ▶ 17 investment options, never had company stock in the plan





- ▶ New bundled provider search, enhanced features of the plan
- ▶ Automatic enrollment
- ▶ Introduced balanced fund as default fund
- ▶ Introduced Financial Engines
 - ▶ Provides individual advice, financial planning, asset allocation
 - ▶ Eliminated Lifecycle Funds
 - ▶ Added “mix your own” funds using Financial Engines
- ▶ Enhanced fund options
 - ▶ Introduced index funds
 - ▶ Lower expenses
 - ▶ Efficient asset allocation
 - ▶ Selected top-rated actively managed funds for each asset class
- ▶ 404(c) intent



▶ **Rationale for automatic enrollment**

- ▶ Explosive growth in new hires
- ▶ Employee must opt out
- ▶ Many of our new hires are unfamiliar with 401(k) plans
- ▶ Wanted to ensure higher enrollment and participation levels

▶ **Default Fund**

- ▶ Money market was previous default
- ▶ Replaced with top-rated balanced fund as default
 - ▶ Conservative and moderate options that still provide growth

▶ **Financial Engines – OnLine Advice**

- ▶ Employees are highly educated and engaged
- ▶ Engineers that are technologically savvy
- ▶ Online quantitative system ideal for our population
- ▶ Enables personal asset allocation



▶ **Automatic enrollment**

- ▶ Successful – few opt out
- ▶ Employee satisfaction is high
- ▶ Participation level soared to ~88%

▶ **Default Balanced Fund**

- ▶ Once selected limited transfers out of fund

▶ **Financial Engines – OnLine Advice**

- ▶ Not as widely used as anticipated
- ▶ Experienced investors use online services



- ▶ Introduced Roth 401(k)
 - ▶ Continue to match through the Traditional 401(k) Plan
 - ▶ Participation continues to grow

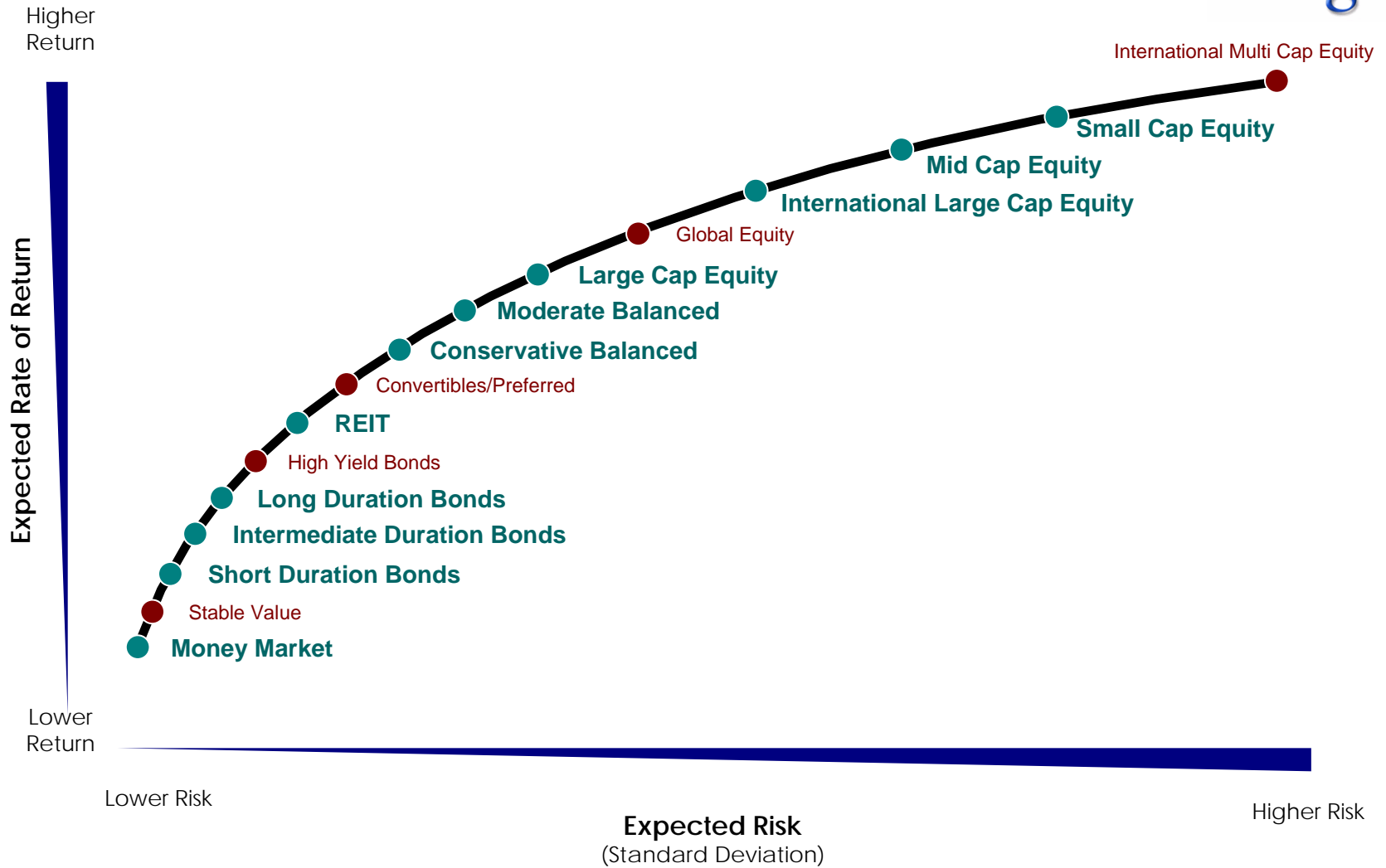
- ▶ Implemented After Tax 401(k) contributions



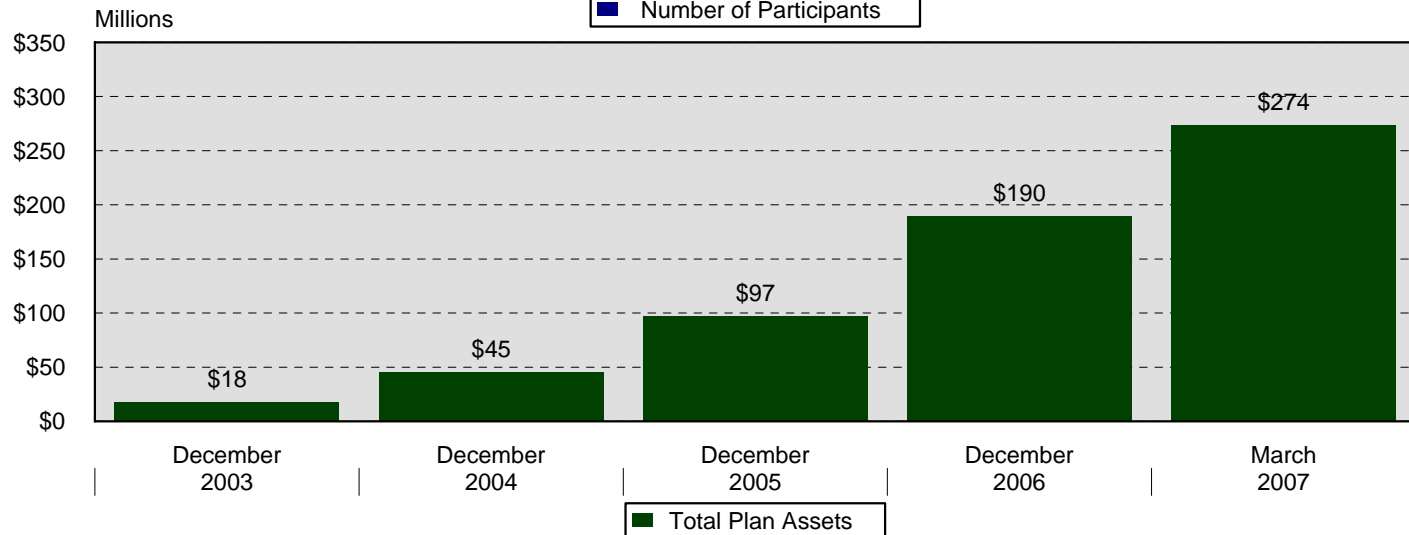
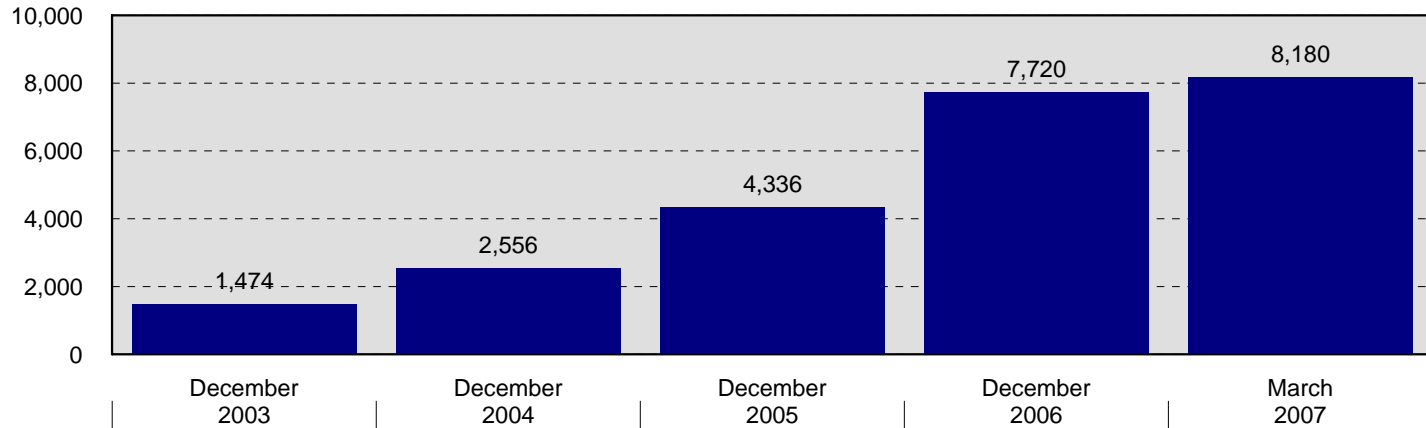
- ▶ Over 8,000 participants with more than \$275 million plan assets
- ▶ In January 2007, we increased our matching contribution, greater of: 100% up to \$2,500 or 50% up to IRS maximum

- ▶ Participation level is ~92%

- ▶ 16 investment options
 - ▶ Default fund – balanced fund
 - ▶ Money market fund
 - ▶ 6 index funds
 - ▶ 7 actively managed funds
 - ▶ 1 socially responsible fund



Our plan has seen significant growth over the years





- ▶ **Investment Policy Statement**
 - ▶ Reviewed and updated annually
 - ▶ Watch list criteria for all funds
 - ▶ Specific process to watch, retain, and replace funds

- ▶ **Investment Committee**
 - ▶ Quarterly meetings
 - ▶ Highly involved individuals
 - ▶ Meetings have specific agenda set in advance
 - ▶ Fund and plan due diligence
 - ▶ Review feedback from participants



- ▶ Continue plan communication
 - ▶ Targeted communication to educate participants on default fund and default contributions
 - ▶ Retirement planning

- ▶ Implementation of automatic increase in contributions

- ▶ Investigating “live” investment advice



Thank You!

Q&A

Marlow Kee

Director of Finance



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