QUALIFIED DEFAULT INVESTMENT ALTERNATIVES

When employees are automatically enrolled into the plan, the plan's fiduciaries must select a default investment for participants who fail to provide direction over the investment of their individual accounts. Limited safe harbor protection is available for the plan fiduciaries if that default investment is a "qualified default investment alternative" (QDIA), as defined in a Department of Labor regulation under the Employee Retirement Income Security Act of 1974 (ERISA). The regulation describes three types of QDIAs: one group-based and two individually-based QDIAs. The chart below outlines factors, which plan fiduciaries may consider in selecting and monitoring a QDIA for their plan.

SELECT QDIA TYPE › DOCUMENT BASIS FOR DECISION › REVIEW PERIODICALLY

OPTION 1 — GROUP-BASED INVESTMENT PRODUCT

DESCRIPTION

A product with a mix of investments that takes into account the characteristics of the group of employees as a whole, rather than each individual.

EXAMPLE

A balanced fund.

ADDITIONAL CONSIDERATIONS

Option 1 may be an appropriate QDIA when:

- Employee ages and incomes are "grouped" within a narrower range;
- Defaulted participants may be capable of determining when to allocate funds to more conservative investments over time; and
- Changes to employee demographics can be readily monitored.

OPTION 2 — INDIVIDUALLY-BASED INVESTMENT SERVICE

DESCRIPTION

An investment service that allocates contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date.

EXAMPLE

A professionally-managed account.

ADDITIONAL CONSIDERATIONS

Option 2 may be an appropriate QDIA when:

- Employee ages and incomes are widely dispersed;
- Defaulted participant may not be capable of determining when to allocate funds to more conservative investments over time;
- Changes to employee demographics may be difficult to monitor;
- Investment managers are cost-effective for the plan; and
- Fiduciaries are equipped to prudently select and monitor an investment manager.

OPTION 3 — INDIVIDUALLY-BASED INVESTMENT PRODUCT

DESCRIPTION

A product with a mix of investments that takes into account the individual's age or retirement date.

EXAMPLE

A life-cycle or targeted-retirement-date fund.

ADDITIONAL CONSIDERATIONS

Option 3 may be an appropriate QDIA when:

- Employee ages and incomes are widely dispersed;
- Defaulted participant may not be capable of determining when to allocate funds to more conservative investments over time;
- Changes to employee demographics may be difficult to monitor;
- Investment managers are not cost-effective for the plan; and
- Fiduciaries are not equipped to prudently select and monitor an investment manager.

This communication is general in nature and provided for educational and informational purposes only. It should not be considered or relied upon as legal, tax or investment advice or an investment recommendation, or as a substitute for legal or tax counsel. Any investment products or services named herein are for illustrative purposes only, and should not be considered an offer to buy or sell, or an investment recommendation for, any specific security, strategy or investment product or service. As a financial professional, only you can provide your customers with personalized advice and investment recommendations tailored to their specific goals, individual situation, and risk tolerance.

Franklin Templeton does not provide legal or tax advice. Federal and state laws and regulations are complex and subject to change, which can materially impact results. FTDI cannot guarantee that such information is accurate, complete or timely; and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information.

All financial decisions and investments involve risks, including possible loss of principal.

Your clients should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, please call Franklin Templeton Retirement Sales Department at (800) 530-2432. Your clients should carefully read a prospectus before they invest or send money.

Franklin Templeton Distributors, Inc.
One Franklin Parkway
San Mateo, CA 94403-1906
(800) 530-2432
franklintempleton.com