



## **2012 PLANSPONSOR DC Survey Summary**

Annually, PLANSPONSOR magazine conducts a survey of the US defined contribution plan marketplace. In 2012, surveys were once again sent out to plans of all sizes covering a variety of industries, as well as nonprofit organizations (6,184 responses were received). Micro plans were defined as those with less than with <\$5 million in assets (35% of respondents), small plans (\$5 million in assets up to \$50 million in assets, 36% of respondents), mid-size (\$50 million - \$200 million in assets, 13% of respondents) and large (\$200 million - \$1 billion in assets, 10% of respondents). Mega plans, defined as those with over \$1 billion in plan assets represented 6% of respondents. A summary of the survey findings prepared by Chartwell Consulting is attached. These summary results also compare the changes from 2011 to 2012. The following are some interesting and notable highlights from this year's survey:

- ✦ The *types of DC Plans offered* changed slightly during the year. Most notably, the number of *401(k) plans* decreased from 87.6% to 86.4%, with commensurate increases in 401(a), 403(b) and 457 plans. This is in large part a function of the plan sponsors that chose to respond and the types of plans that are prevalent in those industries. For example, within the financial services and legal services sectors, 401(k) plans are the most commonly offered plan type (95% and 97%, respectively), followed by Profit Sharing/ESOP plans (32% and 72%, respectively).
- ✦ The average *participation rate amongst eligible employees* rose slightly (from 69.7% to 72.6%), with the median rising to 80%. This could be a sign of participant's feeling/being *less* financially stressed and not having the ability to save more. Eligibility to participate for the majority of plans (62%) falls between "immediately upon hire" to within 3 months.
- ✦ The number of employers offering a match continued to decrease, albeit slightly (66% to 64%). Of these employers, 34.6% offer a *maximum match* of 50% - 100% of 6% of salary, while 51.6% offer a match of less than 6%. The number of participants taking advantage of the *maximum match* offered is widely dispersed. 30% of respondents indicate "all or nearly all participants" are taking advantage of the maximum match, while 23% indicate "less than half" are.
- ✦ The "auto" features in DC plans (auto-enrollment, auto-deferrals, etc.) continue to gain traction. *Auto enrollment* increased from 33% to 42%, and *auto deferral increases* rose from 17% to 29%. The *implementation of auto enrollment* to new employees, fell slightly from 91% to 87%, while implementation to *existing employees not enrolled in the plan* remained steady at 29%.

## 2012 PLANSPONSOR DC Survey Summary, cont.

- ✉ The *default investment for auto-enrollment* was little changed during the year. Target date funds showed a drop from 54% to 47%, but that is due in part to the addition of a “custom target date fund” category, which indicated 10% of respondents offer a custom target date series. Combining the two categories of target date funds shows a 3% increase from 2011 to 2012. GIC’s are now the default option in only 5.7% of plans. Balanced accounts (13%) and risk-based asset allocation funds (8%) are the other primary choices. Despite the “zero interest rate environment”, the use of a money market fund for the default option for auto-enrollment remains surprisingly high at 7%.
- ✉ With the rising popularity of target date funds, **two new questions** were added to the survey on this topic. The *type of target date fund being offered* showed that *single-manager funds* (funds from a single firm) were the most used/offered (40%). Other responses were: multi-manager funds (funds from multiple firms), customized and two or more of the above. Interestingly, 27% of the respondents indicated they were *not sure* what type(s) were being offered. Survey participants were asked if they had given *consideration to building custom target date funds*, and 75% indicated “no” at this time, while 12% either answered “yes” or that they were *already in place*.
- ✉ The average *number of investment options offered* dropped from 21 to 18, with the median being 16. A target date or risk-based *series* of funds is counted as *one* option. The average *number of options held by participants* also decreased slightly (5.4 to 4.7), with the median of 4. The increased use of target date funds will keep the number of options held by participants down, as they offer diversification within one option.
- ✉ The *types of investment options* offered in DC plans showed slight changes in 2012. The offering and usage of target date funds continued to rise, from 68% to 76%). Risk based/life cycle funds also increased, from 29% to 30%. Often the least used option in a plan, 20% (up from 18%) of DC plans offer a self-directed brokerage option. Offering a real estate option rose from 19% to 22%. The survey did not include a real assets or commodities/natural resources category, but inflation hedging strategies are being included in plan menus. Only 3% offer alternative investments in their line-up. In 2011, *a new category was added to the survey, “in plan” guaranteed income options*. Offering an “in plan” guaranteed income option rose from 7% to 9.5%. This issue is gaining prominence as a greater number of participants are nearing retirement and are seeking retirement income solutions.
- ✉ The *investment vehicle* of choice in DC plans continues to be mutual funds (97%). This could be a reflection of participants continued support for name recognition and ready access to data and information. It could also reflect the fact that lower cost share classes of mutual funds have been developed and are being offered in plans. That said, the use of separate accounts continued to rise, from 21% to 24% during the past year, and is a more dominant vehicle in large and mega plans.

## 2012 PLANSPONSOR DC Survey Summary, cont.

- Managed accounts saw a slight decrease (36% to 33%), but it remains the second most used vehicle in DC plans, indicating participants are increasingly seeking “professionally managed” options versus managing their own 401(k) accounts.
- ✉ *Financial/investment adviser services* are offered to participants by the majority plans. 66% of respondents indicate offering a “financial advisor”. From a fee standpoint, 53% are based on plan assets and 26% on a monthly or annual retainer. The survey was not clear on whether the plan or participant (or a combination of the two) are paying for the services.
  - ✉ The survey showed slight decreases in participants with *outstanding loans or those making hardship withdrawals*. 14% of participants have outstanding loans (versus 16% in 2011) and 2% have taken a hardship withdrawal (compared to 4% in 2011).
  - ✉ With required fee disclosures for both plan sponsors (408(b)2) and participants (furthering 404(c)) released this summer, the survey included a number of fee/cost related questions. When asked the *frequency of administrative cost/fee reviews*, respondents indicated 72% conducted them annually and another 10% indicated “every 1-2 years”.
  - ✉ Another question asked was *who pays administrative/recordkeeping costs?* 42% indicated the *employer* paid the fees, 22% indicated “*share*” payment (participants through investments and employer payment) and 21% indicated participants (through the investment options). Another 4% indicated *participants* (through a blend from investments and direct billing).

**Defined Contribution Plans  
Market Statistics**

	<b>2011</b>	<b>2012</b>
<b>TYPES OF DC PLANS OFFERED</b>		
401(k)	87.6%	86.4%
401(a)	4.8%	5%
403(b) - ERISA and Non-ERISA	10.8%	12.6%
457	8.3%	9.2%
Money Purchase	3.2%	2.2%
Profit Sharing/ESOP	19.5%	17.2%
Non-qualified Deferred Compensation	11.8%	12.1%
<b>DC PLAN ASSETS OF SURVEY PARTICIPANTS</b>		
<\$5MM	44.0%	35.4%
\$5MM-\$49MM	31.0%	35.5%
\$50MM-\$200MM	12.0%	12.9%
\$200MM-\$1B	8.0%	10.1%
>\$1B	4.0%	6%
<b>PARTICIPATION RATE AMONG ELIGIBLE EMPLOYEES</b>		
Average	69.7%	72.6%
Median	75.0%	80%
<b>PLAN DESIGN ELEMENTS</b>		
Auto-enrollment	33.4%	41.7%
Auto-deferral increases	16.7%	28.6%
Written Investment Policy Stmt.	61.0%	65.5%
Profit-Sharing Contribution	28.6%	26.4%
Employer Match	66.4%	64%
Use a Financial Advisor	51.6%	66.4%
Roth Contribution Option	38.2%	48%
<b>IMPLEMENTATION OF AUTO-ENROLLMENT</b>		
To new employees only	90.9%	87.1%
Existing employees not enrolled	29.6%	29.1%
Existing employees, contributing below auto deferral rate	N/A	9.9%
<b>DEFAULT INVESTMENT FOR AUTO-ENROLLMENT</b>		
Stable Value Fund/GIC	5.5%	5.7%
Target-Date Funds (active & passive)	53.9%	46.9%
Custom Target-Date Funds		10%
Risk-based Fund/Life Cycle	7.1%	8%
Balanced	13.6%	12.8%
Managed account	5.0%	4.3%
Money Market	7.6%	6.9%
Other	7.3%	5.4%
<b>ELIGIBLE TO PARTICIPATE</b>		
Immediately upon hire	33.1%	35.9%
Within 3 months	25.1%	26.5%
After 4 to 6 months	9.6%	8.1%
After more than 6 months	32.2%	29.6%

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	2011	2012
<b>NUMBER OF INVESTMENT OPTIONS OFFERED</b>		
Average	20.6	17.6
Median	16	16
<b>NUMBER OF INVESTMENT OPTIONS HELD BY PARTICIPANTS</b>		
Average	5.4	4.7
Median	4	4
<b>TYPES OF INVESTMENT OPTIONS OFFERED</b>		
Employer Stock	7.7%	8.8%
Self-Directed Brokerage	17.9%	19.8%
Real Estate	18.7%	22.6%
Alternative Investments	2.7%	2.8%
Target Date Funds	67.8%	76.3%
Risk-based / life cycle	28.7%	29.8%
ETF's	1.0%	0.9%
"In plan" Guaranteed Income Option	7.4%	9.5%
<b>INVESTMENT VEHICLES USED IN DC PLANS</b>		
Mutual Funds	91.0%	96.7%
Separate Account	21.2%	24%
Managed Account	35.8%	32.9%
Commingled Account	7.9%	7.7%
Collective Trust	10.9%	13.2%
<b>WHAT TYPES OF TARGET DATE FUNDS OFFERED</b>		
Single-Manager Funds (funds from a single firm)	N/A	39.8%
Multi-Manager Funds (funds from multiple firms)	N/A	11.8%
Customized (from funds in current line-up)	N/A	9.0%
Two or more of the above	N/A	8.2%
Not sure	N/A	26.9%
<b>CONSIDERATION GIVEN TO BUILDING CUSTOM TDF's</b>		
Yes - Considering	N/A	12.4%
No - Have not considered	N/A	75.3%
Already in place	N/A	12.3%
<b>APPROXIMATE MAXIMUM MATCH</b>		
>100% of 6% of salary	4.2%	5.4%
100% match of 6%	6.2%	15.4%
51%-99% of 6%	27.3%	19.2%
50% match of 6%	30.7%	28.1%
<50% of 6%	31.7%	23.5%
Fixed Dollar	N/A	8.4%
<b>PARTICIPANTS TAKING ADVANTAGE OF THE MAXIMUM MATCH</b>		
All or nearly all participants	29.2%	29.7%
Vast Majority (75% or more)	20.6%	22%
About half	25.6%	25.6%
Less than half	24.7%	22.7%

**Defined Contribution Plans  
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	2011	2012
<b>PARTICIPANTS WITH OUTSTANDING LOANS</b>		
Average	16.2%	14.2%
Median	13.0%	11%
<b>PARTICIPANTS MAKING HARDSHIP WITHDRAWALS</b>		
Average	3.6%	2%
Median	2.0%	1%
<b>FREQUENCY OF INVESTMENT OPTION REVIEW</b>		
Quarterly	32.9%	39%
Semi-Annual	17.7%	19.1%
Annual	38.6%	29.1%
<b>FREQUENCY OF ADMIN COST/FEE REVIEW</b>		
Annually	70.4%	71.8%
Every 1-2 Years	9.7%	9.5%
Every 2-3 Years	7.5%	7.1%
Every 3-5 Years	4.3%	4.3%
Every 5+ Years	2.2%	2%
Never	6.6%	5.3%
<b>WHO PAYS ADMIN/RECORDKEEPING COSTS</b>		
Participants - through investment options	20.3%	20.5%
Participants - blend from investments and direct billing	10.4%	3.70%
Shared - participants through investments and employer payment	26.2%	21.6%
Organization - employer pays fees	34.6%	41.7%
Other	3.3%	3.1%
Don't Know	5.1%	9.4%
<b>DOES PLAN OFFER FINANCIAL ADVISER SERVICES</b>		
Yes	51.6%	66.4%
No	48.4%	33.6%
<b>WHAT IS THE ADVISER'S FEE ARRANGEMENT</b>		
% of Plan Assets	56.7%	53.6%
Per Participant	22.4%	8.3%
Project-based	3.7%	4.8%
Monthly/Annual Retainer	18.9%	25.7%
Performance:Investments	4.0%	3%
Performance:Participation	0.8%	0.6%
Other	10.8%	11.7%