Chartwell Consulting

# CHARTWELL VIEWS

## 2019 PLANSPONSOR DC Survey Summary

Annually, PLANSPONSOR magazine conducts a survey of the US defined contribution plan marketplace. In 2019, surveys were sent out to plans of all sizes covering a variety of industries, as well as nonprofit organizations (3,472 responses were received). Plans are defined as follows:

| **Plan** | Micro | Small | Mid | Large | Mega |
|---|---|---|---|---|---|
| **Assets** | < $5 million | $5-50 million | $50-200 million | $200 mil- $1 bil | > $1 billion |
| **% of Respondants** | 30% | 39% | 14% | 10% | 7% |

A summary of the survey findings for all respondents as prepared by Chartwell Consulting follows. These summary results on pages 4-7 also compare the changes from 2018 to 2019. Notable highlights from this year's survey include:

***401(k) Plans Dominate Other DC Plan Types*** – 401(k) plans are the most commonly offered plan type (88%), followed by Profit Sharing/ESOP plans (21%). Amongst all survey respondents, 11% offer 403(b) plans (ERISA and non-ERISA) and 10% offer 457 plans.

***Show Me Participation and Deferrals*** - The average overall *participation rate amongst eligible employees* was 78.9%, virtually matching 2018 (79.2%). The *average deferral rate* among active participants rose slightly, from 6.8% to 7.1%. The survey indicates the number of plans offering *auto-deferral increases (auto-escalation)* increased slightly (21.5% to 22.3%) in the past year. Many plans have successfully implemented auto escalation for a number of years; surprising the deferral rate has not increased more as a result.

***Match Versus Profit Sharing Contribution*** – The number of employers offering a match decreased to 75% (from 77%) for all survey respondents. When asked the *approximate size of the match,* the most favored response was 35% offered a match between 51% and 99% of 6%. Respondents also indicated the majority of participants were taking advantage of the maximum match offered; 26% answered more than 90%. 62% of companies match catch-up contributions. Additionally, 48% provide a *profit sharing plan contribution* (same as 2018).

***ROTH Rages On*** – Overall survey results indicate offering a ROTH option in plans continues to increase from 72% in 2018 to 77% in 2019. Additionally, 92% match ROTH contributions.

***Auto Features Continue to Cruise*** - 48% of respondents have *auto enrollment*, up from 2018 (46%). A*uto deferral increases* increased slightly from 21.5% to 22.3%. Re-enrollment to *existing employees not enrolled in the plan* is 19%. 75% of respondents indicated they have not attempted to re-enroll any employees.

***Target Date Funds Remain Top Auto Default*** - Target date funds remain the clear winner as the *default investment for auto-enrollment* at 75% for active, passive and custom managed TDFs. Risk-*based*/life cycle funds garnered 4% usage and traditional balanced funds another 7%. Participants continue to show a preference for these "do it for me" options which are professionally managed and allocated.

***More is Still the Merrier with Option Offerings***- The average number of options remains stubbornly high, despite discussions of streamlining investment menus. The average number of options offered fell from 25 to 23. A target date or risk-based *series* of funds is counted as *one* option. The average *number of options held by participants* remained at 6. The increased use of target date funds *should* keep the number of options held by participants down, as they offer diversification within one option.

The survey asked *how many respondents offered NO index fund options.* 10% indicated they did not offer index funds (versus 11% last year). Actively managed funds still dominate, but index fund offerings are available in most plans. Offering a real estate option remained constant, 27%. Other frequently offered categories include: *balanced funds* (66%), *money market (60%*), and *stable value* (57%).

The number of plans offering a *ESG/SRI option* rose from 8% to 11%. This category is gaining traction as (E)nvironmental and (S)ocial issues are increasingly more important to firms and participants.

***Leave it to the Professionals*** - Plans continue to expand their offerings of *professionally managed options*. Managed accounts are offered by 31% of all plans. Together with increased usage of TDF's, it indicates participants are increasingly seeking "professionally managed" accounts or options *instead* of managing their own defined contribution accounts.

***Offering Advice*** - Financial/investment advice is offered in many formats. The most used approach appears to be *on-site meetings with an outside advisor* (45%), followed by *proprietary services through the recordkeeper* (41%). Those plans that do *NOT* offer any type of financial or investment advice comes in at 19%.

***Fiduciary Focus*** - 70% of sponsors/trustees indicate they use the services of a consultant or financial adviser. Most plan sponsors favor working with consultants or financial advisers that accept fiduciary responsibility; being either *discretionary* (3(38)) or *non-discretionary* (3(21)) fiduciaries. 40% of respondents work with 3(21) non-discretionary consultants.

***Leakage: Loans and Hardship Withdrawals*** - The survey showed participants with *outstanding loans or those making hardship* remained consistent with 2018. 14% of participants have outstanding loans and 1% have taken a hardship withdrawal. 57% of plans allow only one loan at a time (34% allow two at one time). 63% of respondents allow loans against ROTH balances. Only 33% of respondents allow separated employees to continue to make loan payments after termination.

***Cost Considerations – Fees Reviewed Annually***
With required fee disclosures for both plan sponsors (408(b)2) and participants (furthering 404(c) annual fee disclosures), the survey included a number of fee/cost related questions. When asked the *frequency of administrative cost/fee reviews,* respondents indicated 73% conducted them annually. 56% of responding sponsors utilize an "ERISA budget" or "plan reimbursement" account to track and use revenue sharing credits (up from 49% in 2018). 42% of respondents indicated they conduct external fee benchmarking studies.

Who is picking up the tab for the plan costs? 52% of the time, the *employee* pays the recordkeeping and administration fees (direct fixed cost billing), 15% of respondents share the cost, and 33% of the employers pay for plan expenses. The average *asset-weighted expense ratio for all options* is less than 75bps for 84% of the responding plans. *Fee equalization* is receiving increased attention. 42% of respondents indicate they have a fee equalization policy in place (up from 32%), 22% do not have one and have no plans to change their fee structure, and 18% indicate they may develop or change to a fee equalization structure in the next few years.

***Retirement Income Options Not Yet Widely Offered***- *Retirement income readiness and solutions* were introduced in 2013's survey. Sponsors were asked the *if the plan allowed for systematic withdrawals at retirement.* 44% indicated "yes". When asked if *other income-oriented products are offered in the plan* (in-plan annuity with guaranteed monthly income, in-plan annuity NOT offering guarantees, out of plan annuity purchase bidding), 48% indicated no income-oriented product/service was currently offered. When asked if *the firm would prefer terminated employees with material balances remain in the Plan,* 32% responded "yes", up from 21% in 2018.

Respondents indicated education or communications for distribution rollover options at termination (32% of plans) and rolling over past plan balances into the current plan (36%) were offered.

***Financial Wellness: Gaining Strength*** – When asked if the "firm has responsibility to improve employee "financial wellness", 66% of respondents answered "yes". These programs included topics beyond retirement planning to more holistically support employees with a broad range of financial topics including: saving and budgeting, managing credit/debt, home buying, tax/estate planning, retiree health care, long-term care. The detailed responses to which wellness topics are offered appear on the last page of the survey summary. The most prevalent topics covered are: saving & budgeting (88%) investing strategies (42%), rollover options (68%), and retiree healthcare costs/savings (29%). There was also a decrease in the number of respondents that offered *no general financial education* (42% down to 38%).

***Ready, Set, Retire?*** When asked *if most employees will achieve retirement goals by age 65,* 38% of respondents concurred (up from 2018's 21%).

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## *Defined Contribution Plans*
## *Market Statistics*

| | Overall Results 2018 | Overall Results 2019 |
|---|---|---|
| **TYPES OF DC PLANS OFFERED** | | |
| 401(k) | 87.5% | 87.9% |
| 403(b) - ERISA and Non-ERISA | 10.7% | 10.6% |
| 457 | 10.6% | 10.0% |
| Money Purchase | 2.1% | 1.9% |
| Profit Sharing/ESOP | 21.9% | 20.6% |
| Non-qualified Deferred Compensation | 7.7% | 9.7% |
| **DC PLAN ASSETS OF SURVEY PARTICIPANTS** | | |
| <$5MM | 33.0% | 30.1% |
| $5MM-$49MM | 37.1% | 38.8% |
| $50MM-$200MM | 13.8% | 14.3% |
| $200MM-$1B | 9.3% | 9.9% |
| >$1B | 6.9% | 6.9% |
| **PLAN DESIGN ELEMENTS** | | |
| Auto-enrollment | 46.3% | 48.2% |
| Auto-deferral increases | 21.5% | 22.3% |
| Auto Escalation Cap (1% increase up to 10%) | na | 58.2% |
| Written Investment Policy Stmt. | 68.5% | 70.2% |
| Employer Match | 76.5% | 75.0% |
| Roth Contribution Option | 71.8% | 76.9% |
| Professional Managed Account | 33.2% | 31.1% |
| Profit Sharing Contribution | 48.4% | 48.4% |
| **IMPLEMENTATION OF AUTO-ENROLLMENT/RE-ENROLLMENT** | | |
| To employees not in plan | 18.2% | 19.0% |
| Existing employees not in QDIA | 3.2% | 4.8% |
| Existing employees, contributing below auto deferral rate | 10.7% | 11.0% |
| None - have not re-enroll any employees | 78.0% | 75.4% |
| **DEFAULT INVESTMENT FOR AUTO-ENROLLMENT** | | |
| Stable Value Fund/GIC | 1.9% | 1.5% |
| Target-Date Funds (all types) | 63.4% | 75.0% |
| Risk-based Fund/Life Cycle | 3.5% | 3.5% |
| Balanced | 7.3% | 7.3% |
| Managed account | 6.8% | 7.9% |
| Money Market | 3.5% | 2.6% |
| Other | 2.8% | 2.2% |

 Source: 2019 PLANSPONSOR DC SURVEY

| | Overall Results 2018 | Overall Results 2019 |
|---|---|---|
| **PARTICIPATION RATE AMONG ELIGIBLE EMPLOYEES** | | |
| Average | 79.2% | 78.9% |
| Median | 87.0% | 87.0% |
| Average Deferral Rate | 6.8% | 7.1% |
| **ELIGIBLE TO PARTICIPATE** | | |
| Immediately upon hire | 36.8% | 36.9% |
| Within 3 months | 27.8% | 30.5% |
| After 4 to 11 months | 13.1% | 12.3% |
| 1 Year or More | 22.3% | 18.6% |
| **NUMBER OF INVESTMENT OPTIONS OFFERED** | | |
| Average | 24.9 | 22.9 |
| Median | 22.0 | 21.0 |
| No Index funds (%) | 10.9% | 9.6% |
| **NUMBER OF INVESTMENT OPTIONS HELD BY PARTICIPANTS** | | |
| Average | 5.5 | 6.3 |
| Median | 4.0 | 4.0 |
| **TYPES OF INVESTMENT OPTIONS OFFERED** | | |
| Employer Stock | 5.8% | 5.7% |
| Self-Directed Brokerage / Mutual Fund Window | 20.3/5.4% | 23.2 % / 4.6% |
| Real Estate | 27.0% | 26.9% |
| Alternative Investments | 4.9% | 4.8% |
| Target Date Funds | 81.3% | 80.7% |
| Risk-based / life cycle | 40.4% | 40.5% |
| Balanced | 68.6% | 65.7% |
| Stable Value | 59.0% | 57.2% |
| ESG/SRI | 8.4% | 10.7% |
| Money Market | 60.3% | 59.9% |
| **INVESTMENT VEHICLES USED IN DC PLANS** | | |
| Mutual Funds | 93.9% | 93.1% |
| Separate Account | 19.1% | 20.0% |
| Professionally Managed Account | 33.2% | 31.1% |
| Collective Trust | 16.8% | 18.5% |
| ETFs (outside brokerage window) | 2.3% | 9.9% |
| **PLAN USES A FINANCIAL ADVISER / CONSULTANT SERVICES** | | |
| Yes | 67.9% | 70.1% |
| No | 25.4% | 22.2% |
| **IS ADVISER A FIDUCIARY** | | |
| No | 12.5% | 10.0% |
| 3 (38) - Discretionary | 16.7% | 19.2% |
| 3(21) - Non-Discretionary | 36.6% | 40.4% |
| Unsure-Don't Know | 34.1% | 28.7% |
| **WHAT IS THE ADVISER/CONSULTANT FEE ARRANGEMENT** | | |
| % of Plan Assets | 47.5% | 55.3% |
| Per Participant | 6.7% | 8.0% |
| Project-based | 3.8% | 4.5% |
| Performance:Investments | 1.4% | 1.8% |
| Performance:Participation | 0.7% | 0.9% |
| Other Arrangement | 19.2% | 6.6% |

| | Overall Results 2018 | Overall Results 2019 |
|---|---|---|
| **APPROXIMATE MAXIMUM MATCH** | | |
| >100% of 6% of salary | 7.5% | 4.9% |
| 100% match of 6% | 14.8% | 14.5% |
| 51%-99% of 6% | 31.2% | 34.5% |
| 50% match of 6% | 22.1% | 22.4% |
| <50% of 6% | 15.1% | 17.5% |
| Other | 9.1% | 6.2% |
| **PARTICIPANTS TAKING ADVANTAGE OF THE MAXIMUM MATCH** | | |
| All or nearly all participants | 25.7% | 25.6% |
| Vast Majority (75% or more) | 27.2% | 26.7% |
| About half | 22.9% | 21.1% |
| Less than half | 11.9% | 12.2% |
| Match Catch-up Contributions = Yes | 56.6% | 62.2% |
| Match ROTH Contributions = Yes | 85.2% | 92.2% |
| **PARTICIPANTS WITH OUTSTANDING LOANS** | | |
| Average | 13.5% | 14.2% |
| Median | 10.8% | 10.9% |
| Number of Loans Allowed at One Time = One | 57.7% | 56.8% |
| Number of Loans Allowed at One Time = Two | na | 33.8% |
| Loans Taken Against Roth Balances = Yes | 52.6% | 62.7% |
| Separated Emloyees Can Continue to Make Payments | 28.4% | 32.5% |
| **PARTICIPANTS MAKING HARDSHIP WITHDRAWALS** | | |
| Average | 1.2% | 1.4% |
| Median | 0.5% | 0.0% |
| **IS FINANCIAL/INVESTMENT ADVICE OFFERED** | | |
| Yes; onsite mtgs with outside advisor | 47.2% | 45.0% |
| Yes; 3rd party (Financial Engines, etc.) not recordkeeper | 25.1% | 24.8% |
| Yes; proprietary services through recordkeeper | 38.2% | 41.0% |
| Yes; another source | 1.1% | 3.1% |
| No; not offered | 20.0% | 18.8% |
| **HIGHER/CONTINUING EDUCATION PROGRAMS OFFERED** | | |
| Tuition Reimbursement | 42.7% | 47.8% |
| Student Loan Repayment/Restructuring | 6.4% | 3.2% |
| None | 49.7% | 49.3% |

| | Overall Results 2018 | Overall Results 2019 |
|---|---|---|
| **FREQUENCY OF INVESTMENT OPTION REVIEW** | | |
| Quarterly | 40.1% | 40.8% |
| Semi-Annual | 14.4% | 16.3% |
| Annual | 34.0% | 30.0% |
| **FREQUENCY OF ADMIN COST/FEE REVIEW** | | |
| Annually | 74.1% | 73.5% |
| Every 1-2 Years | 9.4% | 10.1% |
| Every 2-3 Years | 6.5% | 6.1% |
| Every 3-5 Years | 3.3% | 2.1% |
| Every 5+ Years | 1.1% | 0.8% |
| Unsure / Don't Know | 5.6% | 7.4% |
| External Fee Benchmarking = Yes | 46.0% | 42.1% |
| **PLAN FEES & EXPENSES** | | |
| Average Asset-Weighted Expense Ratio of All Options ≤0.75% | 78.9 | 84.1 |
| Mutual Funds Pay 12-b1 or Sub-TA fees to Recordkeeper = Yes | 31.8% | 29.6% |
| Plan or have Policy for Fee Equalization = Yes | 31.7% | 42.2% |
| Use an ERiSA Reimbursement Account = Yes | 49.1% | 56.4% |
| **WHO PAYS ADMIN/RECORDKEEPING COSTS** | | |
| Participants - fixed cost billed direct | 50.9% | 52.0% |
| Shared - participants through investments and employer payment | 15.2% | 14.6% |
| Organization - employer pays fees | 33.9% | 33.4% |
| **WHICH INCOME-ORIENTED PRODUCTS ARE OFFERED IN PLAN** | | |
| Systematic Withdrawals at Retirement = Yes | 44.5 | 44.3 |
| In-Plan Annuities/income products w/ guaranteed mo. income | 9.9% | 9.2% |
| In-Plan Professional Services to Convert Balance to Monthly Income | 27.1% | 24.4% |
| In-Plan Annuities NOT offering guarantees | 10.1% | 10.0% |
| Out of Plan Annuity Purchase Bidding | 4.8% | 5.2% |
| None - do not offer income-oriented products/services | 46.2% | 47.7% |
| **OFFER GENERAL EDUCATION ON FINANCIAL WELLNESS TOPICS** | | |
| Rolling over Past Balances into Current Plan | 29.4% | 36.3% |
| Rollover Options for Separated Employees | 26.6% | 31.5% |
| Saving & Budgeting | 73.1% | 88.2% |
| Investing Strategies | 36.0% | 42.1% |
| Home Buying | 9.6% | 14.0% |
| College Saving | 17.0% | 22.8% |
| Social Security Options | 21.4% | 25.6% |
| Tax/Estate Planning | 18.7% | 22.6% |
| Retiree Healthcare costs/savings | 76.3% | 29.1% |
| No General Financial Education Offered | 42.3% | 37.6% |
| **INDICATE LEVEL OF AGREEMENT (% AGREE OR SLIGHTLY AGREE)** | | |
| Firm prefers terminated employees with material balances to remain in Plan | 20.7% | 32.1% |
| Most employees will achieve retirement goals by age 65 | 21.3% | 37.5% |
| Firm has responsibility to improve employee "financial wellness" | 59.5% | 66.3% |