Chartwell Consulting

CHARTWELL VIEWS

2018 PLANSPONSOR DC Survey Summary

Annually, PLANSPONSOR magazine conducts a survey of the US defined contribution plan marketplace. In 2018, surveys were sent out to plans of all sizes covering a variety of industries, as well as nonprofit organizations (4,000 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	33%	37%	14%	9%	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 2017 to 2018. 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 (22%). Amongst all survey respondents, 11% offer 403(b) plans (ERISA and non-ERISA) and 11% offer 457 plans.

Show Me Participation and Deferrals - The average overall *participation rate amongst eligible employees* was 79.2%, virtually matching 2017 (79.3%). The *average deferral rate* among active participants rose slightly, from 6.6% to 6.8%. The survey indicates the number of plans offering *auto-deferral increases (auto-escalation)* decreased (37% to 22%) 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 increased to 77% for all survey respondents.

Additionally, 48% provide a *profit sharing plan contribution*. When asked the *approximate size of the match,* the most favored response was 31% 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%. 57% of companies match catch-up contributions.

ROTH Rages On – Overall survey results indicate offering a ROTH option in plans has increased from 69% in 2017 to 72% in 2018. Additionally, 85% match ROTH contributions.

Auto Features Continue to Cruise - 46% of respondents have *auto enrollment*, up from 2017 (41%). Surprisingly, *auto deferral increases* fell from 37% to 22%. Re-enrollment to *existing employees not enrolled in the plan* is 18%. 78% 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 63% for actively or passively managed TDFs, and an additional 11% for custom target-date funds. 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 rose to 25. 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*. 11% indicated they did not offer index funds (same as 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* (69%), *money market (60*%), and *stable value* (59%). The number of plans offering a *socially responsible investment option* fell from 12% to 8% which is surprising given the increased discussion on ESG investment options.

Leave it to the Professionals - Plans continue to expand their offerings of *professionally managed options*. Managed accounts remained steady at 33%. 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* (47%), followed by *proprietary services through the recordkeeper* (38%). Those plans that do *NOT* offer any type of financial or investment advice comes in at 20%.

Fiduciary Focus - 68% 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. 37% 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* increased slightly from 2017. 14% of participants have outstanding loans and 1% have taken a hardship withdrawal. 58% of plans allow only one loan at a time (33% allow two at one time). 53% of respondents allow loans against ROTH balances. Only 28% 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 74% conducted them annually. 49% of responding sponsors utilize an "ERISA budget" or "plan reimbursement" account to track and use revenue sharing credits. 46% of respondents indicated they conduct external fee benchmarking studies.

Who is picking up the tab for the plan costs? 51% of the time, the *employee* pays the recordkeeping and administration fees (direct fixed cost billing), 15% of respondents share the cost, and 34% of the employers pay for plan expenses. The average *asset-weighted expense ratio for all options* is less than 75bps for 79% of the responding plans. *Fee equalization* is receiving increased attention. 32% of respondents indicate they have a fee equalization policy in place, 25% do not have one and have no plans to change their fee structure, and 16% 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.* 45% 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), 46% 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,* 21% responded "yes". Respondents indicated education or communications for distribution rollover options at termination (27% of plans) and rolling over past plan balances into the current plan (29%) were offered.

Financial Wellness: Gaining Strength – When asked if the "firm has responsibility to improve employee "financial wellness", 60% 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: retiree healthcare (76%, largest increase from 2017, 23%), saving and budgeting programs (73%), investing strategies (36%), and social security planning (21%). There was also a decrease in the number of respondents that offered *no general financial education* (44% down to 42%). On the rise is *student loan repayment or restructuring* options, increasing from 3% to 6%.

Health Savings Accounts (HSA's): New This Year
46 % of survey respondents indicated they offer health savings accounts.

Ready, Set, Retire? When asked *if most employees will achieve retirement goals by age 65,* only 21% of respondents concurred (up from 2017 at 17%).

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Defined Contribution Plans
Market Statistics

	Overall Results 2017	Overall Results 2018
TYPES OF DC PLANS OFFERED		
401(k)	87.8%	87.5%
403(b) - ERISA and Non-ERISA	9.4%	10.7%
457	9.9%	10.6%
Money Purchase	2.3%	2.1%
Profit Sharing/ESOP	23.1%	21.9%
Non-qualified Deferred Compensation	10.2%	7.7%
DC PLAN ASSETS OF SURVEY PARTICIPANTS		
<$5MM	36.1%	33.0%
$5MM-$49MM	35.2%	37.1%
$50MM-$200MM	12.1%	13.8%
$200MM-$1B	9.5%	9.3%
>$1B	6.7%	6.9%
PARTICIPATION RATE AMONG ELIGIBLE EMPLOYEES		
Average	79.3%	79.2%
Median	87%	87.0%
Average Deferral Rate	6.6%	6.8%
PLAN DESIGN ELEMENTS		
Auto-enrollment	41.3%	46.3%
Auto-deferral increases	33.6%	21.5%
Written Investment Policy Stmt.	65.9%	68.5%
Employer Match	73.7%	76.5%
Roth Contribution Option	68.5%	71.8%
Professional Managed Account	34.0%	33.2%
Profit Sharing Contribution	48.4%	48.4%
Health Savings Account	NA	46.2%
IMPLEMENTATION OF AUTO-ENROLLMENT/RE-ENROLLMENT		
To employees not in plan	41.3%	18.2%
Existing employees not in QDIA	18.5%	3.2%
Existing employees, contributing below auto deferral rate	10.7%	10.7%
DEFAULT INVESTMENT FOR AUTO-ENROLLMENT		
Stable Value Fund/GIC	3.0%	1.9%
Target-Date Funds (active & passive)	58.5%	63.4%
Custom Target-Date Funds	11.0%	10.5%
Risk-based Fund/Life Cycle	3.5%	3.5%
Balanced	8.9%	7.3%
Managed account	7.9%	6.8%
Money Market	4.5%	3.5%
Other	3.2%	2.8%
ELIGIBLE TO PARTICIPATE		
Immediately upon hire	36.0%	36.8%
Within 3 months	26.8%	27.8%
After 4 to 11 months	12.5%	13.1%
1 Year or More	24.7%	22.3%
NUMBER OF INVESTMENT OPTIONS OFFERED		
Average	22.8	24.9
Median	20.0	22.0
No Index funds (%)	11.4%	10.9%
NUMBER OF INVESTMENT OPTIONS HELD BY PARTICIPANTS		
Average	5.7	5.5
Median	4.1	4.0

Source: 2018 PLANSPONSOR DC SURVEY

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TYPES OF INVESTMENT OPTIONS OFFERED		
Employer Stock	6.5%	5.8%
Self-Directed Brokerage / Mutual Fund Window	19.1%	20.3/5.4%
Real Estate	27.8%	27.0%
Alternative Investments	5.1%	4.9%
Target Date Funds	77.0%	81.3%
Risk-based / life cycle	41.7%	40.4%
Balanced	70.0%	68.6%
Stable Value	57.5%	59.0%
Socially Responsible Investment	11.8%	8.4%
Money Market	59.8%	60.3%
INVESTMENT VEHICLES USED IN DC PLANS		
Mutual Funds	91.7%	93.9%
Separate Account	20%	19.1%
Professionally Managed Account	34.0%	33.2%
Collective Trust	16.0%	16.8%
ETFs (outside brokerage window)	13.0%	2.3%
APPROXIMATE MAXIMUM MATCH		
>100% of 6% of salary	7.9%	7.5%
100% match of 6%	12.1%	14.8%
51%-99% of 6%	33.8%	31.2%
50% match of 6%	18.9%	22.1%
<50% of 6%	17.5%	15.1%
Other	6.6%	9.1%
PARTICIPANTS TAKING ADVANTAGE OF THE MAXIMUM MATCH		
All or nearly all participants	25.6%	25.7%
Vast Majority (75% or more)	25.6%	27.2%
About half	25.6%	22.9%
Less than half	13.8%	11.9%
Match Catch-up Contributions = Yes	54.4%	56.6%
Match ROTH Contributions = Yes	62.7%	85.2%
PARTICIPANTS WITH OUTSTANDING LOANS		
Average	13.0%	13.5%
Median	10.0%	10.8%
Number of Loans Allowed at One Time = One	60.0%	57.7%
Loans Taken Against Roth Balances = Yes	43.0%	52.6%
Separated Emloyees Can Continue to Make Payments	26.2%	28.4%
PARTICIPANTS MAKING HARDSHIP WITHDRAWALS		
Average	1.0%	1.2%
Median	0.5%	0.5%
IS FINANCIAL/INVESTMENT ADVICE OFFERED		
Yes; onsite mtgs with outside advisor	44.3%	47.2%
Yes; 3rd party (Financial Engines, etc.) not recordkeeper	24.4%	25.1%
Yes; proprietary services through recordkeeper	37.6%	38.2%
Yes; another source	5.1%	1.1%
No; not offered	20.6%	20.0%
FREQUENCY OF INVESTMENT OPTION REVIEW		
Quarterly	38.7%	40.1%
Semi-Annual	13.4%	14.4%
Annual	36.0%	34.0%

Source: 2018 PLANSPONSOR DC SURVEY

Defined Contribution Plans
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	Overall Results **2017**	Overall Results **2018**
FREQUENCY OF ADMIN COST/FEE REVIEW		
Annually	75.8%	74.1%
Every 1-2 Years	8.7%	9.4%
Every 2-3 Years	7.8%	6.5%
Every 3-5 Years	1.9%	3.3%
Every 5+ Years	1.0%	1.1%
Unsure / Don't Know	5.1%	5.6%
External Fee Benchmarking = Yes	NA	46.0%
PLAN FEES & EXPENSES		
Average Asset-Weighted Expense Ratio of All Options ≤0.75%	NA	78.9
Mutual Funds Pay 12-b1 or Sub-TA fees to Recordkeeper = Yes	NA	31.8%
Plan or have Policy for Fee Equalization = Yes	NA	31.7%
Use an ERiSA Reimbursement Account = Yes	NA	49.1%
WHO PAYS ADMIN/RECORDKEEPING COSTS		
Participants - fixed cost billed direct	49.9%	50.9%
Shared - participants through investments and employer payment	14.2%	15.2%
Organization - employer pays fees	35.8%	33.9%
PLAN USES A FINANCIAL ADVISER / CONSULTANT SERVICES		
Yes	65.7%	67.9%
No	27.1%	25.4%
IS ADVISER A FIDUCIARY		
No	12.7%	12.5%
3 (38) - Discretionary	17.9%	16.7%
3(21) - Non-Discretionary	36.1%	36.6%
Unsure-Don't Know	33.3%	34.1%
WHAT IS THE ADVISER/CONSULTANT FEE ARRANGEMENT		
% of Plan Assets	44.9%	47.5%
Other/Don't Know	24.9%	19.2%
WHICH INCOME-ORIENTED PRODUCTS ARE OFFERED IN PLAN		
Systematic Withdrawals at Retirement = Yes	35.5	44.5
In-Plan Annuities/income products w/ guaranteed mo. income	7.1%	9.9%
In-Plan Professional Services to Convert Balance to Monthly Income	15.0%	27.1%
In-Plan Annuities NOT offering guarantees	4.7%	10.1%
Out of Plan Annuity Purchase Bidding	2.6%	4.8%
None - do not offer income-oriented products/services	37.4%	46.2%

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	Overall Results 2017	Overall Results 2018
OFFER GENERAL EDUCATION ON FINANCIAL WELLNESS TOPICS		
Rolling over Past Plan Balances into Current Plan	28.0%	29.4%
Rollover Options for Separated Employees	25.4%	26.6%
Saving & Budgeting	72.6%	73.1%
Investing Strategies	35.3%	36.0%
Home Buying	9.7%	9.6%
College Saving	17.1%	17.0%
Social Security Options	21.2%	21.4%
Tax/Estate Planning	16.6%	18.7%
Retiree Healthcare costs/savings	23.1%	76.3%
No General Financial Education Offered	44.3%	42.3%
HIGHER/CONTINUING EDUCATION PROGRAMS OFFERED		
Tuition Reimbursement	40.8%	42.7%
Student Loan Repayment/Restructuring	3.2%	6.4%
None	58.1%	49.7%
INDICATE LEVEL OF AGREEMENT (% AGREE OR SLIGHTLY AGREE)		
Firm prefers terminated employees with material balances to remain in Plan	23.2%	20.7%
Most employees will achieve retirement goals by age 65	16.8%	21.3%
Firm has responsibility to improve employee "financial wellness"	41.0%	59.5%
Firm Documents reasoning behind changes to plan investments	49.5%	76.7%

Source: 2018 PLANSPONSOR DC SURVEY