CHARTWELL VIEWS

Chartwell Consulting

2017 PLANSPONSOR DC Survey Summary

Annually, PLANSPONSOR magazine conducts a survey of the US defined contribution plan marketplace. In 2017, surveys were sent out to plans of all sizes covering a variety of industries, as well as nonprofit organizations (3,437 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	36%	35%	12%	10%	7%

A summary of the survey findings for all respondents as prepared by Chartwell Consulting follows. These summary results on pages 4-8 also compare the changes from 2016 to 2017. 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 (23%). Amongst all survey respondents, 19% 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 79.3%, up slightly from 2016 (78.5%). The *average deferral rate* among active participants remained 6.6%.

Match Versus Profit Sharing Contribution – The number of employers offering a match remained 74% for all survey respondents. Additionally, 49% provide a *profit sharing plan contribution*. When asked the *approximate size of the match,* the most favored response was 34% offered a match between 51% and 99% of 6%. Respondents also indicated the majority of participants (> 75%) were taking advantage of the maximum match offered.

ROTH Rages On – Overall survey results indicate offering a ROTH option in plans has increased from 65% in 2016 to 69% in 2017.

Auto Features Continue to Cruise - 41% of respondents have *auto enrollment*, down slightly from 2016 (42%). *Auto deferral increases* rose to 33%. Re-enrollment to *existing employees not* *enrolled in the plan* is 19%. 79% 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 59% 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 9%. 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 offered remains 23. A target date or risk-based *series* of funds is counted as *one* option. The average *number of options held by participants* increased to 6 (from 5). 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 continued to rise, 28%. Other frequently offered categories include: *balanced funds* (70%), *money market (60%*) and *stable value* (58%). 12% of respondents offer a *socially responsible investment option.* Perhaps this is the first step toward ESG investment options.

Leave it to the Professionals - Plans continue to expand their offerings of *professionally managed options*. Managed accounts remained steady at 34%. 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* (44%), followed by *proprietary services through the recordkeeper* (38%) Those plans that do *NOT* offer any type of financial or investment advice comes in at 21%.

Fiduciary Focus **-** 66% 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. 36% 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 withdrawals* was down slightly from 2016. 13% of participants have outstanding loans and 1% have taken a hardship withdrawal. With the increased focus on leakage from retirement plans, questions on the use of loans increased in this year's survey. 60% of plans allow only one loan at a time (31% allow two at one time). 43% of respondents allow loans against ROTH balances. Only 26% 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 76% conducted them annually. 36% of the time, the *employer* pays the recordkeeping and administration fees (directly or with revenue sharing). 50% of the time *participants are charged via the plan.* 48% of respondents utilize an "ERISA budget" or "plan reimbursement" account to track and use revenue sharing credits. *Fee equalization* is receiving increased attention. 31% of respondents indicate they have a fee equalization policy in place, 29% do not have one and have no plans to change their fee structure, and 20% 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.* 36% indicated "yes", and 21% indicated they were "unsure". When asked if *other income-oriented products are offered in the plan* (in-plan annuity with guaranteed monthly income, in-plan annuity with guaranteed base benefits, etc.), 37% indicated no income-oriented product/service was currently offered. One area of retirement income options that increased substantially from 2016 to 2017 was *in-plan annuity with guaranteed base benefits* (4% to 15%). When asked if *the firm would prefer terminated employees with material balances remain in the Plan,* 23% responded "yes", a 10% drop from last year's response.

Respondents indicated education or communications for distribution rollover options at termination were the most covered, followed by rolling over past plan balances into the current plan.

Financial Wellness: Gaining Strength – There has been much discussion on offering employee education on 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. There was a significant increase in saving and budgeting programs (36% to 73%), retiree healthcare (19% to 23%) and college saving (15% to 17%). There was also a decrease in the number of respondents that offered *no general financial education* (50% down to 44%). Only 3% of respondents indicated they offer a *student loan repayment or restructuring* option.

Ready, Set, Retire? When asked *if most employees will achieve retirement goals by age 65,* only 17% of respondents concurred (down significantly from 2016 at 31%).

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Defined Contribution Plans
Market Statistics

	Overall Results 2016	Overall Results 2017
TYPES OF DC PLANS OFFERED		
401(k)	85.8%	87.8%
403(b) - ERISA and Non-ERISA	11.4%	9.4%
457	11.9%	9.9%
Money Purchase	2.4%	2.3%
Profit Sharing/ESOP	22.5%	23.1%
Non-qualified Deferred Compensation	9.9%	10.2%
DC PLAN ASSETS OF SURVEY PARTICIPANTS		
<$5MM	35.5%	36.1%
$5MM-$49MM	35.3%	35.2%
$50MM-$200MM	12.9%	12.1%
$200MM-$1B	9.7%	9.5%
>$1B	7%	7%
PARTICIPATION RATE AMONG ELIGIBLE EMPLOYEES		
Average	78.5%	79.3%
Median	86%	87%
Average Deferral Rate	6.6%	6.6%
PLAN DESIGN ELEMENTS		
Auto-enrollment	41.7%	41.3%
Auto-deferral increases (auto escalation)	17.5%	33.6%
Written Investment Policy Stmt.	65.4%	65.9%
Employer Match	74.1%	73.7%
Roth Contribution Option	65.2%	68.5%
Professional Managed Account	33.4%	34.0%
Profit Sharing Contribution	48.5%	48.4%
RE-ENROLLMENT DURING PAST THREE YEARS		
To new employees only	89.3%	41.3%
Existing employees not enrolled	8.6%	18.5%
Existing employees, contributing below auto deferral rate	4.0%	10.7%
DEFAULT INVESTMENT FOR AUTO-ENROLLMENT		
Stable Value Fund/GIC	3.4%	3.0%
Target-Date Funds (active & passive)	56.1%	58.5%
Custom Target-Date Funds	10%	11%
Risk-based Fund/Life Cycle	5.2%	3.5%
Balanced	10.9%	8.9%
Managed account	7.0%	7.9%
Money Market	3.7%	4.5%
Other	4.0%	3.2%

Source: 2017 PLANSPONSOR DC SURVEY

	Overall Results 2016	Overall Results 2017
ELIGIBLE TO PARTICIPATE		
Immediately upon hire	36.6%	36.0%
Within 3 months	26.8%	26.8%
After 4 to 11 months	12.9%	12.5%
1 Year or More	23.7%	24.7%
NUMBER OF INVESTMENT OPTIONS OFFERED		
Average	22.6	22.8
Median	20	20
No Index funds (%)	11%	11.4
NUMBER OF INVESTMENT OPTIONS HELD BY PARTICIPANTS		
Average	5.3	5.7
Median	4	4.1
TYPES OF INVESTMENT OPTIONS OFFERED		
Employer Stock	7.1%	6.5%
Self-Directed Brokerage	18.7%	19.1%
Real Estate	26.2%	27.8%
Alternative Investments	4.5%	5.1%
Target Date Funds	76.6%	77.0%
Risk-based / life cycle	40.1%	41.7%
Balanced	69.7%	70.0%
Stable Value	57.7%	57.5%
Socially Responsible Investment	11.8%	11.8%
Money Market	61.9%	59.8%
INVESTMENT VEHICLES USED IN DC PLANS		
Mutual Funds	91.1%	91.7%
Separate Account	20%	20%
Professionally Managed Account	33.4%	34.0%
Collective Investment Trust	14.2%	16.0%
ETFs (outside brokerage window)	9.0%	13.0%
APPROXIMATE MAXIMUM MATCH		
>100% of 6% of salary	5.2%	7.9%
100% match of 6%	10.7%	12.1%
51%-99% of 6%	11.9%	33.8%
50% match of 6%	18.9%	22.1%
<50% of 6%	7.3%	17.5%
Other	46.0%	6.6%
PARTICIPANTS TAKING ADVANTAGE OF THE MAXIMUM MATCH		
All or nearly all participants (90% or more)	25.2%	25.6%
Vast Majority (75% or more)	27.5%	25.6%
About half	26.0%	25.6%
Less than half	21.5%	13.8%
Match Catch-Up Contributions = Yes	NA	54.4%
Match ROTH Contributions = Yes	NA	62.7%

	Overall Results 2016	Overall Results 2017
PARTICIPANTS WITH OUTSTANDING LOANS		
Average	13.7%	13.0%
Median	11%	10%
Number of Loans Allowed at One Time = One	NA	60%
Can Loans be Taken Against Roth Balances = Yes	NA	43%
Plan Allows Separated Employees to Continue Making L	NA	26.2%
PARTICIPANTS MAKING HARDSHIP WITHDRAWALS		
Average	1.6%	1%
Median	0.5%	0.5%
IS FINANCIAL/INVESTMENT ADVICE OFFERED		
Yes; onsite mtgs with outside advisor	41.4%	44.3%
Yes; 3rd party (Financial Engines, etc.) not recordkeeper	16.5%	24.4%
Yes; proprietary services through recordkeeper	32.6%	37.6%
Yes; another source	5.5%	5.1%
No; not offered	23.7%	20.6%
PLAN USE OF FINANCIAL ADVISER/CONSULTANT SERVICES		
Yes	68.1%	65.7%
No	31.9%	27.1%
IS ADVISER A FIDUCIARY		
No	14.7%	12.7
3 (38) - Discretionary	16.0%	17.9
3(21) - Non-Discretionary	40.9%	36.1
Unsure-Don't Know	27.8%	33.3
FREQUENCY OF INVESTMENT OPTION REVIEW		
Quarterly	34.1%	38.7%
Semi-Annual	15.9%	13.4%
Annual	35.7%	36.0%
FREQUENCY OF ADMIN COST/FEE REVIEW		
Annually	71.2%	75.8%
Every 1-2 Years	11.4%	8.7%
Every 2-3 Years	8.6%	7.8%
Every 3-5 Years	2.3%	1.9%
Every 5+ Years	2%	1%
Never	5.0%	5.1%

	Overall Results 2016	Overall Results 2017
WHO PAYS ADMIN/RECORDKEEPING COSTS		
Participants - fixed cost billed direct	24.6%	49.9%
Shared - participants through investments and employer payment	21.6%	14.2%
Organization - employer pays fees	36.1%	35.8%
WHAT IS THE ADVISER/CONSULTANT FEE ARRANGEMENT		
% of Plan Assets	42.3%	44.9%
Per Participant	5.0%	6.8%
Project-based	3.8%	4.7%
Monthly/Annual Retainer	29.5%	26.6%
Performance: Investments	1%	2%
Performance: Participation	0.3%	1.2%
Other/Don't Know	24.5%	24.9%
WHICH INCOME-ORIENTED PRODUCTS ARE OFFERED IN PLAN		
Systematic Withdrawals at Retirement	49.8%	35.5%
In-Plan Annuities/income products w/ guaranteed mo. income	7.3%	7.1%
In-Plan Annuities/income products w/ guaranteed base benefit	3.6%	15.0%
In-Plan Annuities NOT offering guarantees	5.7%	4.7%
Out of Plan Annuity Purchase Bidding	2.6%	4.8%
Unsure what type of income products are offered	29.2%	20.9%
None - do not offer income-oriented products/services	57.2%	37.4%

	Overall Results 2016	Overall Results 2017
OFFER GENERAL EDUCATION ON FINANCIAL WELLNESS TOPICS		
Saving & Budgeting	36.1%	72.6%
Investing Strategies	42.0%	35.3%
Managing credit/debt	19.7%	19.4%
Home Buying	10.3%	9.7%
College Saving	14.6%	17.1%
Social Security Options	19.2%	21.2%
Tax/Estate Planning	13.4%	16.6%
Retiree Healthcare costs/savings	19.1%	23.1%
Rolling Past Balances into Plan	NA	28.0%
Rollover Options for Separted Employees	NA	25.4%
No General Financial Education Offered	49.6%	44.3%
HIGHER/CONTINUING EDUCATION PROGRAMS OFFERED		
Tuition Reimbursement	47.1%	40.8%
Student Loan Repayment/Restructuring	2.2%	3.2%
None	50.7%	58.1%
INDICATE LEVEL OF AGREEMENT		
Firm prefers terminated employees with material balances to remain in Plan	33.6%	23.2%
Most employees will achieve retirement goals by age 65	31.3%	16.8%
Firm has responsibility to improve employee "financial wellness"	NA	41.0%
Firm documents reasoning behind changes to plan investments	NA	49.5%