The retirement landscape has changed—are plan sponsors ready?

2019 Defined Contribution Benchmarking Survey Report

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Executive summary

In the era of 100-year lives and with the workforce participation rate among those age 65 or older surpassing 20 percent for the first time in more than 50 years,[1] it is clear that Americans' notion of "normal retirement" is changing. The 2019 edition of the Deloitte *Defined Contribution Benchmarking Survey* supports this trend by showing that many employees continue to work even though they are eligible to retire. Interestingly, the rise of workers in the age-65+ population continuing to work is playing out in three distinct ways: employee preference to work longer, the need to keep health care coverage, and unmet financial needs that prevent retirement.

First, our survey found that employee preference was the most commonly cited reason that employees continue working while they are eligible to retire. This represents a shift in the mindset of individuals, but also the changing nature of work that is less physically demanding, improved health of those age 65 or older, and the rise of alternative workforce opportunities.

In addition, more employers in 2019 than in 2017 cited that employees are not retiring due to the need to keep health care coverage. This is not surprising, as only 18 percent of companies with 200 or more employees offer retiree health coverage, compared to 66 percent in 1988.[2] As health care costs rise, keeping coverage and planning for health care expenses becomes an increasingly important part of financial planning for retirement.

Finally, on the topic of financial preparedness, a continuing struggle to prepare employees for retirement remains a challenge in 2019. Plan sponsors have increasingly started to focus on a broader picture of financial wellness to better understand short-term and intermediate barriers participants face in saving for retirement. Paying down existing debt, lack of emergency savings, and inability to meet monthly expenses were more commonly cited as the primary financial wellness concern among employees than in the 2017 survey. Plan sponsors are responding by shifting plan features to improve effectiveness, enhancing digital capabilities, and forging ahead toward a more focused approach on participant financial well-being. However, our 2019 report contemplates whether it has been enough.

New mountains to climb up ahead

Even though plan sponsors are committed to improving many retirement plan aspects for participants, they face several new emerging challenges—some of which are simply beyond their control. These challenges are driven by shifts in demographics, health care, and alternative employment opportunities. However, other challenges could be viewed as opportunities. Time will tell if plan sponsors can pivot with the changing tides.

Employees are working more years of their lives than ever before. Also, 23 percent of plan sponsors believe that employee preference is the primary reason for delaying retirement, increasing from 19 percent in 2017. This shift of employees that would have retired to continuing employment means that the traditional view on retirement plans has also shifted. Old modeling and old thinking which project and assume a classic retirement at age 65 need to be revisited.

Despite being a top concern of employees entering the workforce and total student debt outstanding eclipsing $1.5 trillion, only 1 percent of plan sponsors offer student debt repayment and refinance programs integrated with their defined contribution plans. However, 38 percent of plan sponsors report considering this integration. Even when offered, use of these programs is low, with plan sponsors reporting average participation rates in student debt repayment and refinance programs of 6.3 percent and 2.0 percent, respectively.

Plan sponsors have an opportunity to encourage retirement and health care savings through shifting employee mind set on health savings accounts (HSAs). Seventy percent of plan sponsors offer HSAs, but HSAs are commonly seen as annual spending accounts with 0 percent of plan sponsors seeing HSAs exclusively or primarily as retirement savings vehicles. With an average account balance of $3,006, HSAs are unlikely to make a considerable impact on retirement readiness unless more emphasis is put on increasing balances and saving for retirement.

1. U.S. DOL Bureau of Labor Statistics, *Labor Force Statistics from the Current Population Survey: Household Data Annual Averages,* 2018, https://www.bls.gov/cps/cpsaat03.htm.
2. Kaiser Family Foundation, *2018 Employer Health Benefits Survey,* Section 11: "Retiree health benefits", October 3, 2018, https://www.kff.org/report-section/2018-employer-health-benefits-survey-section-11-retiree-health-benefits.

New trends and keeping pace

There's been a surge in the offering of mobile phones as a means for participants to enroll in, view, and make transactions in their defined contribution plans. In our 2019 findings, 75 percent of plan sponsors now offer mobile phone transactional features, up from 71 percent in 2017; and 79 percent of large plan service providers offer mobile access. There's also been an increase in plan sponsors offering online statements. In 2019 the figures show that 77 percent of all plan sponsors provide online statements—up from 66 percent in 2017 and 54 percent in 2015.

For as long as we can all remember, increasing retirement plan participation has been on the minds and in the hearts of all—but especially those of plan sponsors. In 2019, there are several new challenges on this front—things along the lines of increasing financial demands for the participant—and in response, a struggle to fully participate and benefit from their defined contribution plan. Plan sponsors have tried to pivot in response to these changes by increasing broader financial wellness.

Participants continue to struggle with student debt repayment, financial savings in general, increasing debt, and more. Plan sponsors have instituted stronger and broader digital financial well-being solutions in response to this—and more financial wellness software integration with their retirement plan technology—and there has been an increase in deferral rates as a result. Also, our survey indicated an increase in plan sponsors that are not paying an additional fee for financial wellness software, from 38 percent in 2017 to 50 percent in 2019. In addition, a technology service or "robo-adviser" to provide investment management or other financial advice is being used or considered by 50 percent of plan sponsors.

The employee experience is improved through targeted communications, as indicated by 64 percent of plan sponsors. Our survey results show that plan sponsors who target communications are reaching people most often by either a demographic-based approach (54 percent)—signaling the priorities fairly evenly based among Baby Boomers, Gen X, and Millennials. Of course, the absolute top group targeted are those participants not taking advantage of company match, and a close second, those that are not participating at all. What does this all mean? It means that communications continue to be at the forefront of making a difference in the way of employee experience, and if plan sponsors want to make a difference, they need to put communications at the center and look for innovative ways of reaching a wide demographic.

A prominent trend from 2019 shows a significant increase of Roth features giving participants greater flexibility in tax planning and improved options. Eighty percent of respondents currently offer a Roth feature, up from 70 percent in 2017 and 60 percent in 2015. Certain industries (e.g., public sector and energy and resources) tend to lag behind other industries in offering Roth plans. Adoption of Roth plans spiked in 2019, with 45 percent now reporting a utilization rate of more than 10 percent, up from just 23 percent in 2017. Those with less than 5 percent adoption account for just 29 percent of respondents, down from 50 percent in 2017.

The fiduciary balancing act

Plan sponsors continue to act in the best interest of plan participants as required of plan fiduciaries. However, there are often trade-offs the plan fiduciary needs to balance.

Plan sponsors are continuing to react to the shifts in retirement participation by defaulting participants at higher default auto-enrollment rates. Plan sponsors have increased to default rates of 5 percent or above for 48 percent of plans, up from 38 percent in 2017. Counterbalancing this increase, we also saw a rise in the auto-enrollment opt-out rate with plan sponsors indicating 10 percent or more opt out 9 percent of the time, up from just 4 percent in 2017. Although plan sponsors are reacting to the changes in retirement, participants are also reacting by opting out.

In addition, we saw a significant shift in the overall average weighted expense ratio paid—0.5 percent or less for 75 percent of plans, which was 40 percent in 2017. This is also seen in the reduction of plans paying all fees through investment revenue from 39 percent to 33 percent. It comes as no surprise that per-participant direct fees have increased from $50 to $54 in 2019. Plan sponsors are controlling fees paid through investment revenue, which increases as participant balances grow, with direct per-participant fees. This requires an increase in direct fee payments to offset the fees that used to be paid through investment expenses.

Plan fiduciary focus on cost has become front and center as 25 percent of plan sponsors changed providers due to the cost to the plan, up from 7 percent in 2017, unseating the quality of recordkeeping services as the primary reason for changing for the first time in survey history.

Plan sponsors are also shifting their investment monitoring process. While using external entities for investment monitoring remained relatively the same, using internal staff declined 10 percentage points from 2017, from 49 percent to 39 percent. Fifty-nine percent of plan sponsors utilize an ERISA 3(21) advisor, a fiduciary consultant/advisor who makes investment recommendations to the plan sponsor.

Background and demographics

This is the 16th year of the *Defined Contribution Benchmarking Survey*, which takes us on an in-depth journey of 401(k) and 403(b) plans. Capturing the responses of about 240 plan sponsors, the report provides a top-to-bottom and inside-out analysis of key elements of the plans, as well as our perspective on trends and challenges facing plan sponsors today. While the findings of this survey can't be expanded to reflect the entire population of defined contribution plan sponsors in the United States, they are representative of a broad variety of defined contribution plans. As in prior years, responses to every question were not required for survey submission.

Our 2019 findings reflect a varied population of defined contribution plan sponsors in the United States, with financial services/insurance, manufacturing, public sector, and health care and life sciences as the most prevalent industries represented at approximately 17 percent each (exhibit 1.1). Sixty-one percent of the employers surveyed have a privately held ownership structure compared with 39 percent publicly held (exhibit 1.2). Note that submission and acceptance of the survey was not contingent upon full completion.

Exhibit 1.1. Please indicate the primary nature of your business.

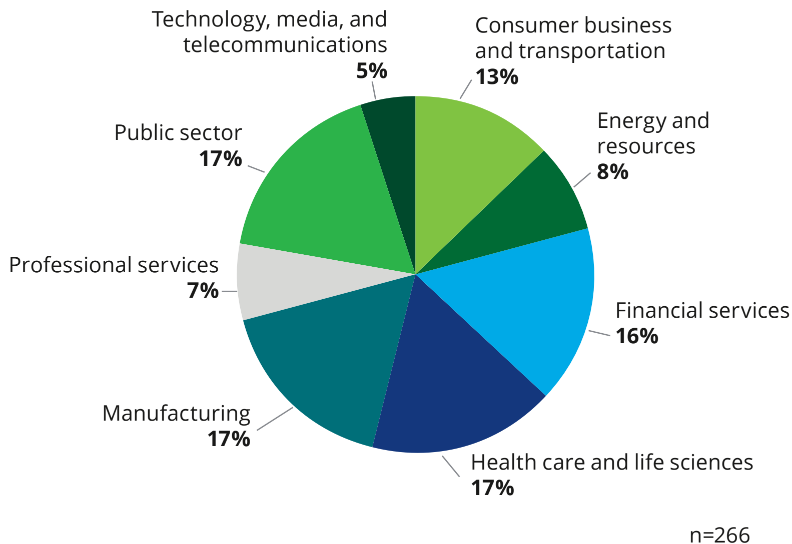
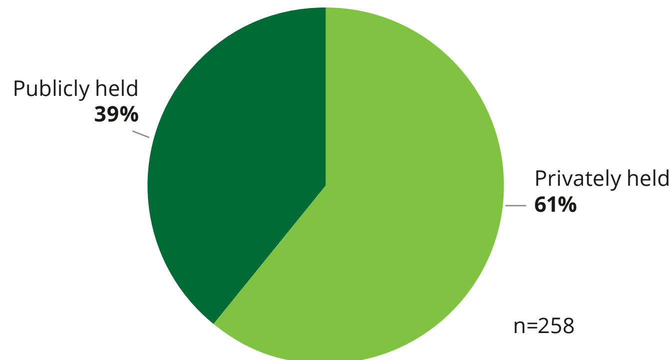


Exhibit 1.2. Please indicate the ownership structure of your company.



As compared with prior editions of the *Defined Contribution Benchmarking Survey*, the average size of respondents tended to be more normally distributed, with fewer in the smallest and largest categories (exhibit 1.3), but remained consistent for useful year-to-year comparisons. After shifting from exclusively focusing on 401(k) plans prior to the 2013–2014 survey, we continue to see stronger participation from 403(b) plans, with 14 percent of plans representing 403(b) plans, up from 8 percent in 2017. Even still, 401(k) plans continue to be the primary offering among respondents at 81 percent (exhibit 1.4).

Participant demographics

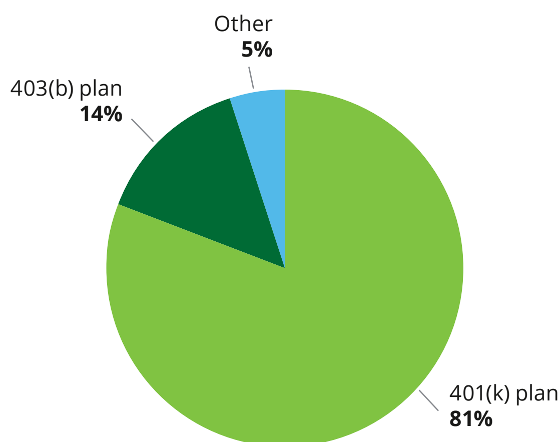
Both participation rate and average account balances, often seen as key indicators of plan performance, continue to trend upward. Participation rate increased to 84 percent, up from 80 percent in the 2017 edition of the survey, and average account balance grew to $116,244 among respondents, up from $97,040. The median average account balance among plan sponsors was $105,000.

Exhibit 1.3. How many employees work for your company?

	2015	2017	2019
1–100	8%	8%	5%
101–500	11%	12%	16%
501–1000	10%	10%	13%
1001–5000	31%	23%	29%
5,001–10,000	13%	10%	12%
More than 10,000	27%	37%	25%

n=264

Exhibit 1.4. Please identify whether you are responding for a:



n=240

Hot topics: Key trends in defined contribution plans

The changing face of retirement

Recent trends in employment have driven changes in retirement. What once was a world in which employees worked until a "normal retirement age" of 65 is quickly becoming a thing of the past. As the *2019 Deloitte Global Human Capital Trends* report indicates, the adoption of the alternative workforce is becoming more common.

Exhibit 2.2. For employees that are currently eligible to retire, what is the primary reason that they are delaying retirement?

	2017	2019
Haven't saved enough for retirement	13%	12%
Lower investment value	0%	0%
Need to keep health care coverage	16%	21%
Need to continue working to pay down debt or meet current expenses	8%	7%
Supporting family members	2%	0%
Employee preference	19%	23%
Unsure	38%	35%
Other	4%	2%

n=189

Due to the tight labor market and the need for skilled workers, there are more opportunities than ever for employees who would otherwise be contemplating or beginning retirement.

Our 2019 *Defined Contribution Benchmarking Survey* results indicate that while some employees have not saved enough for retirement, concern about losing health care coverage and employee preference to continue working are more commonly cited as primary reasons for delaying retirement (exhibit 2.2). These results are signaling a greater need for plan sponsors to rethink how to position retirement and to educate employees about the importance of retirement savings plans, health savings accounts as retirement savings vehicles, and other employer benefits that have been offered for years.

Exhibit 2.8. Are HSAs viewed primarily as retirement savings plans or as spending accounts to pay for current medical expenses by your employees?

	2019
Viewed almost exclusively as a retirement savings plan	0%
Viewed primarily as a retirement savings plan	0%
Mixed view between retirement savings plan and annual spending account	54%
Viewed primarily as an annual spending account	36%
Viewed almost exclusively as an annual spending account	10%

n=123

Retirement gets personal

From electing a deferral percentage that works best for them to choosing their investments, and ultimately portability of their retirement savings, defined contribution plans are in the hands of participants. The difference now is that plan sponsors are doing more than ever to help participants in their pursuit of more retirement savings. There was an increase of 9 percentage points from our last survey, from 24 percent to 33 percent, for plan sponsors feeling "very responsible for preparing employees for retirement (e.g., taking a very involved approach such as monitoring utilization of financial planning tools, etc.)." This large shift shows that plan sponsors care more than they have in the past about participant outcomes and the need to offer plans and tools that allow employees to meet their personalized retirement objectives.

Exhibit 1.10. As a plan sponsor, do you feel an obligation to prepare your employees for retirement?

	2015	2017	2019
We feel that our only responsibility is to offer a competitive retirement plan	15%	16%	17%
We feel that our responsibility includes taking an interest in whether our employees are tracking toward a comfortable retirement (i.e., offering options that allow participants to plan for a reasonable retirement income replacement ratio)	62%	60%	50%
We feel very responsible for preparing our employees for retirement (e.g., taking a very involved approach such as monitoring utilization of financial planning tools, etc.)	23%	24%	33%

n=212

Financial wellness comes full circle

When asked to rank the financial wellness concerns among employees, plan sponsors overwhelmingly cited both lack of emergency savings and paying down debt as important or nearly as important as retirement readiness.

The top three financial wellness concerns of employees:

- 91 percent—lack of retirement readiness
- 86 percent—paying down existing debt
- 82 percent—lack of emergency savings

This signals a growing need for greater financial wellness in the workforce (exhibit 2.1).

Exhibit 2.1. Please rank the following financial wellness concerns based on what you consider to be the most important among your employees: (Please rank the following options, with "1" being the most important. If an option is not important to your employees, it can be excluded from the ranking.)

	1	2	3	4	5	6
Lack of retirement readiness	47%	10%	12%	17%	6%	0%
Paying down existing debt	19%	26%	24%	12%	5%	0%
Lack of emergency savings	17%	21%	25%	16%	2%	1%
Inability to meet monthly expenses	16%	20%	12%	13%	15%	1%
Saving for milestone expenses (e.g., contributing to a 529 college savings plan)	1%	11%	12%	15%	32%	1%
Other	1%	0%	0%	1%	2%	20%

n=187

More digital than ever before

Plan sponsors have been offering more digital capabilities for participants to gain access to their retirement plans. From a continued increase in online statement availability mentioned previously to increases in mobile usage, retirement planning continues to evolve with the digital age.

Our survey results indicate the consistent trend of mobile phone use—with 71 percent of respondents indicating that mobile transactions are supported for all devices for defined contribution administration and 4 percent of respondents indicating certain devices have transactional capabilities. This represents a shift in the types of mobile devices allowed, with 2017 results indicating 59 percent of respondents had all devices supported, and 12 percent of respondents had certain devices supported.

There has also been movement toward the number of participants that now have access to their retirement plans via a handheld device in meetings. New trends show a jump to 26 percent in 2019 for handheld devices being used in group or individual meetings to allow immediate participant action, such as enrolling for the first time, making investment changes, or changing a deferral percentage.

Additionally, since 2015, there has been a jump from 54 percent to 77 percent of providers offering the opportunity for participants to receive an online retirement income projection illustrating anticipated annual income in retirement.

These shifts show a positive momentum toward meeting employees where they are and keeping pace with the digital elements. The challenge for plan sponsors: What more can be done to improve the overall employee experience? Is there an opportunity for plan sponsors to bring these key components—the digital and the employee experience—to keep pace with this ever-changing retirement landscape?

Eligibility and enrollment

Drivers for enrollment

The big story with the driving forces behind enrollment this year is the continued increase in plan sponsors auto-enrolling participants and the slight downward shift for participants to be lured by a company match. Based on the 2019 results for the reason employees participate in the plan, the top three reasons that plan sponsors believe participants enroll, which dominated the top three spots for the past three surveys (exhibit 3.1), are as follows:

- Taking advantage of the company match was at 37 percent (down from 41 percent in 2017)
- A personal desire to save for retirement was at 29 percent (down from 31 percent in 2017)
- Auto-enrollment and not taking action to opt out was at 24 percent (up from 19 percent in 2017)

Exhibit 3.1. What is the primary reason that employees participate in your plan?

	2015	2017	2019
Take advantage of company match	35%	41%	37%
Personal desire to save for retirement	40%	31%	29%
They were auto-enrolled and did not take action to opt out	18%	19%	24%
Proactive communications from your company and/or provider encouraging participation	2%	2%	4%
"Word of mouth"—their peers and supervisors participate	1%	1%	1%
Other	1%	1%	2%
Unsure	3%	5%	3%

n=169

Employees are still holding back

The survey indicates that plan sponsors believe employees are not saving due to insufficient income and other financial priorities that have caused them to defer savings (exhibit 3.2). Lack of awareness or understanding also remained a key challenge, highlighting the need to keep focused on employee communication and education campaigns.

Retirement on autopilot

Auto-enrollment continues to remain at the forefront, with 69 percent of plan sponsors reporting that their plan includes an automatic enrollment feature (exhibit 3.4). While this represents a slight rise in the percentage of plans including an automatic enrollment feature, a more impactful change is the increased aggressiveness of the default deferral percentages tied to these features. Forty-eight percent of survey respondents with automatic enrollment features indicated default deferral percentages of 5 percent or more, up from 38 percent in 2017 (exhibit 3.4). Since 2015, the default deferral percentage is most often set at either three percent (37 percent) or six percent (26 percent). Most employees are opting to stay enrolled, with the overwhelming majority of plan sponsors (91 percent) reporting that only up to 10 percent of employees cancel or opt out, though this represents a slight drop from 96 percent in 2017.

Exhibit 3.2. What is the primary reason that employees do not participate in your plan?

	2019
Insufficient income to save for retirement	29%
Other financial priorities have caused deferred savings	29%
Lack of awareness or understanding	13%
Lack of a company match	1%
Recent market performance has discouraged employees	1%
Uncertain economy/job market	0%
Employees are saving elsewhere	0%
Other	6%
Unsure	21%

n=169

Exhibit 3.4. Does your plan contain an automatic enrollment/negative election feature? (Defined as a feature that will automatically begin deducting contributions from participants as they become eligible unless the participant elects not to contribute.)

	2015	2017	2019
Yes, satisfies safe harbor conditions defined by the Pension Protection Act of 2006	40%	48%	48%
Yes, does not satisfy safe harbor conditions defined by the Pension Protection Act of 2006	15%	14%	11%
Yes, unsure of safe harbor conditions	7%	5%	10%
No, we have never had it	28%	25%	20%
No, we discontinued it	0%	0%	2%
No, but considering it	10%	7%	7%
No, we were unaware of this feature	0%	1%	2%

n=170

Exhibit 3.5. What is the default deferral percentage for automatic enrollment?

	2015	2017	2019
One percent	3%	3%	3%
Two percent	5%	8%	3%
Three percent	47%	35%	37%
Four percent	14%	16%	9%
Five percent	8%	8%	16%
Six percent	22%	28%	26%
Seven percent	1%	2%	3%
Eight percent	0%	0%	3%
Nine percent	0%	0%	0%
Ten percent or more	0%	0%	0%

n=117

As adoption of automatic enrollment features become saturated, it appears that more plan sponsors are turning to step-up contribution features to increase retirement savings. For plan sponsors who have a step-up contribution feature, 33 percent report that they are tied to auto-enrollment. This is up from 28 percent in 2015. Thirty-seven percent report that they are a separate, standalone feature. This is up from 34 percent in 2015 (exhibit 3.8).

For those that offer a step-up contribution, it's most typical (70 percent) to have contributions increase at 1 percent per year.

Exhibit 3.8. Does your plan contain a step-up contribution feature (typically a feature whereby the participants' deferrals are automatically increased each year)?

	2015	2017	2019
Yes, tied to the automatic enrollment feature	28%	31%	33%
Yes, as a separate, standalone feature	34%	33%	37%
No	27%	27%	22%
No, but considering it	10%	8%	7%
No, we were unaware of this feature	1%	1%	1%

n=169

Contributions

Employee contributions creep up

The 2019 survey results indicate a slight upward shift in the Annual Deferral Percentage (ADP). For Non-Highly Compensated Employees (NHCEs), the median ADP was 7.8 percent (compared to 7.2 percent in 2017), while the median ADP for Highly Compensated Employees (HCEs) was 6.2 percent (compared to 6.0 percent in 2017) (exhibit 4.1).

Exhibit 4.1. What is the Average Deferral Percentage (ADP) of the following groups?

	2015	2017	2019
All participants	N/A	N/A	7.1%
Highly Compensated Employees (HCEs)	7.0%	7.2%	7.8%
Non-Highly Compensated Employees (NHCEs)	5.9%	6.0%	6.2%

n=118

Roth contributions remain key

The Roth 401(k) continues to remain a key player in the defined contribution spectrum. Substantial increases emerged in 2019 in which 80 percent of plan sponsors now offer a Roth 401(k) (exhibit 4.2).

Participant adoption of the Roth 401(k) spiked in 2019, with 45 percent now reporting a utilization rate of more than 10 percent, up from 23 percent in 2017. Those with less than 5 percent adoption constitute 29 percent of respondents, down from 50 percent in 2017.

Exhibit 4.2. Do you offer a Roth 401(k) feature?

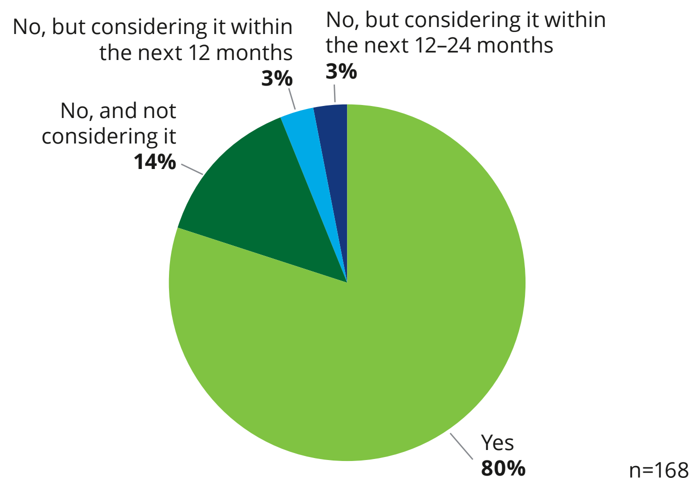
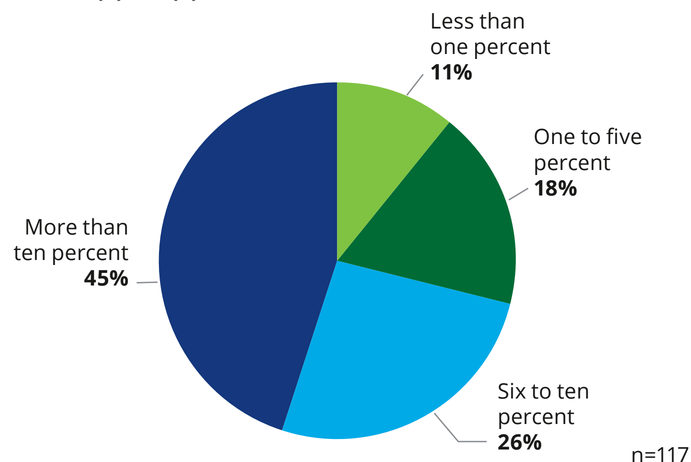


Exhibit 4.3. What is the current participant adoption rate of the Roth 401(k)/403(b) feature?



Employer match stands firm

Employer match continues to stay strong, with virtually all plan sponsors (92 percent) offering some form of matching or profit-sharing contribution in their defined contribution plans (exhibit 5.1). In terms of the employee service requirements, matching contributions made immediately upon participation continued to increase to 76 percent in 2019 (exhibit 5.2). The results on the match formula used for the majority of participants in a plan have stayed similar to past surveys and highly varied matching formulas (exhibit 5.3).

Exhibit 5.1. Do you offer:

	2015	2017	2019
Matching contributions on employee basic contributions only	37%	36%	39%
Matching contributions on employee basic and catch-up contributions	26%	27%	24%
Profit-sharing contributions only	5%	4%	7%
Both matching (employee basic only) and profit-sharing contributions	12%	15%	12%
Both matching (employee basic and catch-up contributions) and profit-sharing contributions	14%	11%	10%
None, we have suspended/discontinued company match	1%	2%	1%
None, we do not offer company match or profit-sharing contributions	5%	5%	7%

n=167

Exhibit 5.2. What service requirement must be met before employer matching contributions are made?

	2015	2017	2019
None, employer matching contributions are made immediately upon participation in the plan	71%	74%	76%
Less than one year	8%	4%	3%
One year	19%	20%	17%
Other	2%	2%	4%

n=144

Exhibit 5.3. What is the match formula used for the majority of participants in your plan?

	2015	2017	2019
25 percent of the first 6 percent of the employee's contribution	3%	1%	2%
50 percent of the first 6 percent of the employee's contribution	18%	16%	15%
100 percent of the first 3 percent of the employee's contribution	3%	6%	3%
100 percent of the first 4 percent of the employee's contribution	8%	9%	11%
100 percent of the first 5 percent of the employee's contribution	7%	7%	8%
100 percent of the first 6 percent of the employee's contribution	12%	11%	12%
100 percent of the first 3 percent of compensation and 50 percent of the next 2 percent of compensation without immediate vesting	1%	2%	3%
100 percent of the first 3 percent of compensation and 50 percent of the next 2 percent of compensation with immediate vesting (Safe Harbor)	7%	9%	8%
3 percent nondiscretionary contribution with immediate vesting (Safe Harbor)	1%	1%	0%
Other	40%	38%	38%

n=143

Investments

Providing the right investment options continues to be an essential decision-making element for sponsors of defined contribution plans. Plan sponsors continue to simplify the investment option offering to make the defined contribution experience more understandable and feasible to the participant (exhibit 9.9).

Exhibit 9.9. What sort of behavioral finance approaches has your organization adopted to help participants plan for retirement?

	2019
Enhanced or introduced “autopilot” solutions (e.g., automatic enrollment, step-up feature, managed accounts)	67%
Simplification of investment options	40%
Social norms/peer comparisons	14%
Investment re-enrollment periods/forced investment assessments	7%
Delayed implementation of automatic enrollment features	1%
Other	3%
None	12%

n=135

Investment options overview

In terms of core investment options offered, although the top 10 continue to stay somewhat the same, there have been shifts up and down, which are captured below. Plan sponsors are increasingly offering self-directed brokerage accounts, providing participants with greater investment flexibility, with the 501–1,000 employee-size plans nearly doubling in offering these accounts.

In-plan retirement income products, which provide a steady income stream during retirement, have also increased, indicating that plan sponsors want to offer "pension-like" payments to help increase retirement readiness for participants.

Top 10 investment option offerings from the 2019 survey:

- 89 percent: General/core bond
- 86 percent: Actively managed global/international equity
- 84 percent: Actively managed domestic equity
- 79 percent: Passively managed domestic equity
- 78 percent: Stable value/guaranteed investment contract (GIC)
- 63 percent: Money market
- 60 percent: Emerging markets
- 58 percent: Passively managed global/international equity
- 52 percent: High-yield bond fund/Treasury bond fund
- 47 percent: Actively managed life cycle funds (time-based)

Investment option trends from 2019 to 2017

Upward trends

- 44 percent offering self-directed brokerage compared to 35 percent in 2017
- 44 percent offering real estate funds compared to 38 percent in 2017
- 12 percent offering in-plan retirement income product (annuity) compared to 6 percent in 2017

Downward trends

- 8 percent offering socially responsible funds compared to 17 percent in 2017
- 12 percent offering sector funds compared to 18 percent in 2017
- 13 percent offering mutual fund window compared to 16 percent in 2017

Relatively trends

- 31 percent offering Treasury inflation-protected securities (TIPS) compared to 32 percent in 2017
- 28 percent offering employer stock (same as 2017 and 2015)
- 4 percent offering hedge funds compared to 3 percent in 2017
- 8 percent offering exchange traded funds compared to 10 percent in 2017

Exhibit 6.1. Do you offer the following types of core investment options in your plan (check all that apply)?

	Yes	No
Stable value/guaranteed investment contract (GIC)	78%	22%
Money market	63%	37%
General/core bond	89%	11%
TIPS (Treasury inflation-protected securities)	31%	69%
High-yield bond fund/Treasury bond fund	52%	48%
Actively managed lifestyle funds (risk-based)	21%	79%
Passively managed lifestyle funds (risk-based)	13%	87%
Actively managed life cycle funds (time-based)	47%	53%
Passively managed life cycle funds (time-based)	40%	60%
Custom target date funds	43%	57%
Actively managed domestic equity (i.e., large/ mid/small cap, value, growth, blend)	84%	16%
Passively managed domestic equity (i.e., large/ mid/small cap, value, growth, blend)	79%	21%
Actively managed global/international equity (i.e., large/mid/small cap, value, growth, blend)	86%	14%
Passively managed global/international equity (i.e., large/mid/small cap, value, growth, blend)	58%	42%
Emerging markets	60%	40%
Socially responsible	8%	92%
Real estate	44%	56%
Sector funds (e.g., technology, communications, biotechnology, health care, utilities)	12%	88%
Hedge funds	4%	96%
Employer stock	28%	72%
Mutual fund window (mutual funds only)	13%	87%
Self-directed brokerage	44%	56%
Exchange traded funds (ETFs)	8%	92%
In-plan retirement income product (annuity)	12%	88%

n=147

This year, we asked plan sponsors where they expected investment allocations to be in five years. The largest increases from current investment allocations included hedge funds (from 2 percent to 17 percent), in-plan retirement income products (from 2 percent to 12 percent), and socially responsible funds (from 2 percent to 5 percent).

The biggest decreases include custom target date funds (from 29 percent to 8 percent), actively managed domestic equity (from 22 percent to 13 percent), and passively managed life cycle funds (risk-based) (from 10 percent to 1 percent). Time will tell if plan sponsors' predictions will come true.

Managed accounts and financial planning on the rise

There has been a gravitation toward more support in investment and financial planning from plan sponsors due to shifts in fiduciary concerns and a growing urgency to provide guidance in this often complex and confusing area of retirement planning.

In terms of managing investment options, the survey indicates that managed accounts continue to be offered at the same rate as in 2017, with 45 percent total plan sponsors reporting it is offered. The breakdown in offering is: 17 percent offered via a third-party provider, 28 percent offered by the recordkeeper, and 6 percent considering it (exhibit 6.8).

The big story with managed accounts is that more participants are tapping into them. The number of plan sponsors who reported more than 10 percent of employees using the managed account service peaked above 20 percent for the first time (exhibit 6.9).

Financial counseling continues to be more prevalent and is expected to rise, but fiduciary concerns remain a significant barrier. When asked why the feature is not offered, 44 percent of plan sponsors reported fiduciary concerns—again, the top option, though down from 53 percent in 2017. Cost also remained a key consideration with 27 percent of respondents citing this concern compared to 25 percent in 2017 (exhibit 6.13).

Exhibit 6.8. Do you offer managed accounts? (Allows employees to choose a professional manager for their 401(k)/403(b) plan account where investment decisions are made and executed in line with their investment objectives and risk tolerance.)

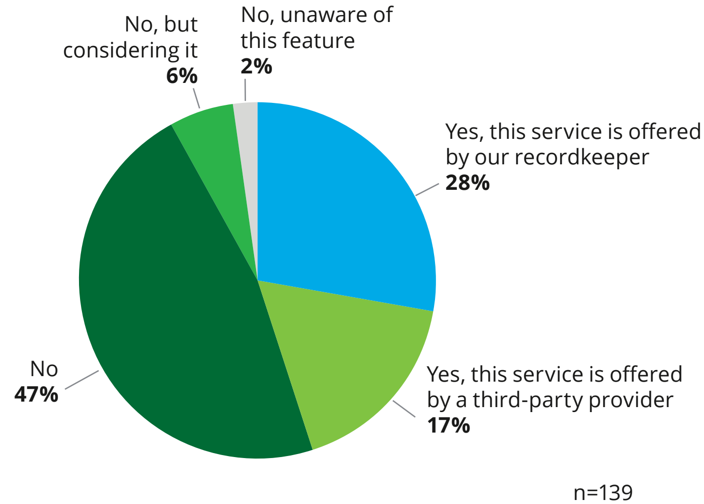


Exhibit 6.9. What percentage of participants use the managed account service?

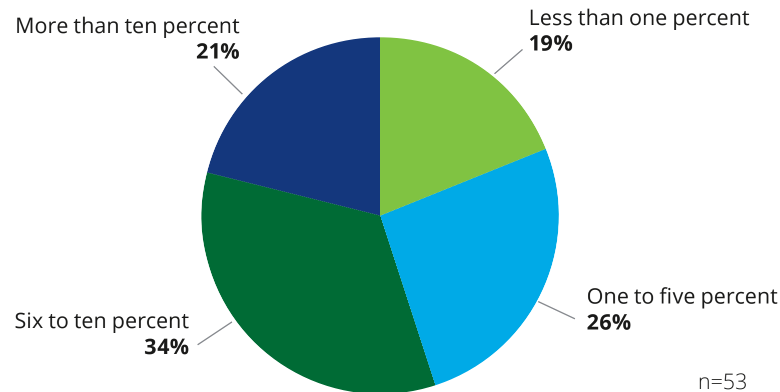


Exhibit 6.13. Why is financial counseling/investment advice not offered?

	2015	2017	2019
Potential fiduciary liability	48%	53%	44%
Cost	36%	25%	27%
Employees are not requesting this service	30%	33%	22%
We were unaware of this feature	2%	2%	0%
We are actively researching this feature and may implement in the future	21%	22%	17%
Simply not interested in offering in the defined contribution plan	10%	10%	7%
Other	8%	4%	5%

n=41

Fees

The 2019 survey shows a continued shift in how plan sponsors administer fees, indicating heightened fiduciary concern over fees. Currently, the most common arrangement plan sponsors have for the payment of administrative and recordkeeping fees is through a direct fee that is charged by the recordkeeper. However, that was not the case in 2015. The contrast from 2015 to 2019 is most notable with respect to the question of how the 401(k) plan's recordkeeping and administrative fees are paid (exhibit 7.1).

- In 2019, 33 percent of plan sponsors responded with "No additional fees—all of the recordkeeping and administrative fees are paid through investment revenue," dropping from 39 percent in 2017 and 50 percent in 2015.
- In 2019, 51 percent of plan sponsors responded with "There is a direct fee that is charged by the recordkeeper," down very slightly from 53 percent in 2017 and 41 percent in 2015.

The average per-participant direct fee reported was $54, up from $50 in 2017, with the consistent trend of not utilizing investment revenue to pay fees. The average percentage of total assets (wrap/basis point) is 0.09 percent, compared to 0.13 percent in 2017. In addition, we saw a significant shift in the overall average weighted expense ratio paid—0.5 percent or less for 75 percent of plans, which was 40 percent in 2017.

There has been a shift in how fees are charged by 401(k)/403(b) recordkeepers in terms of allocation to participants, with the playing field now fairly even. For 2019, recordkeeping fees paid "based on an equal flat-dollar amount" was 28 percent, closer to where it was in 2015 at 31 percent, a shift down from 2017 where it was 43 percent. It is neck and neck with both "the paid directly by the company" payment option (25 percent) and "allocated to participants pro rata based on account balances" (29 percent) (exhibit 7.2). Employers seem to be split across the board in terms of how fees are paid—a shift from prior years.

Exhibit 7.1. How are your 401(k)/403(b) plan's recordkeeping and administrative fees paid?

	2015	2017	2019
No additional fees—all of the recordkeeping and administrative fees are paid through investment revenue (e.g., expense ratios or revenue-sharing arrangements that may be in place with the plan's investment funds)	50%	39%	33%
There is a direct fee that is charged by the recordkeeper	41%	53%	52%
There are additional fees in the form of a wrap fee or added basis point charge on the investments	9%	8%	15%

n=138

Exhibit 7.2. How are the fees charged by your 401(k)/403(b) recordkeeper paid?

	2015	2017	2019
Allocated to participants pro rata based on account balances	15%	15%	29%
Allocated to participants based on an equal flat-dollar amount	31%	43%	28%
Paid directly by the company	36%	25%	25%
Both the company and the participants pay this fee	18%	17%	12%
Paid from the forfeiture account	N/A	N/A	3%
Other	N/A	N/A	3%

n=94

Administration, innovation, and communications

As the future of work continues to evolve, and shifts in the expectations of employees emerge, plan sponsors have tried to keep pace by offering increasingly more digital capabilities for participants to gain access to their defined contribution accounts.

Our survey results indicate the consistent trend of mobile phone use—with 75 percent of respondents indicating that mobile transactions are supported for defined contribution administration (exhibit 8.2).

Additionally, since 2015, there has been a jump from 54 percent to 77 percent of providers offering the opportunity for participants to receive an online retirement income projection illustrating anticipated annual income in retirement (exhibit 8.3).

In terms of targeting participants, there continues to be shifts toward outreach to those not taking advantage of their defined contribution plan—either those that have not enrolled in the plan (44 percent) or those not benefiting from the employer match (46 percent) (exhibit 9.3). Specifically, targeted communications are being used to either encourage nonparticipants to enroll in the plan (53 percent) or encourage participants to increase their savings rate/adopt the step-up contribution feature (60 percent).

In terms of the administration around financial wellness, plan sponsors report that the tools and services are integrated with their defined contribution plan offering, with 46 percent indicating integration with retirement planning, 40 percent with financial market education, and 38 percent with budgeting and expense projections and with debt management.

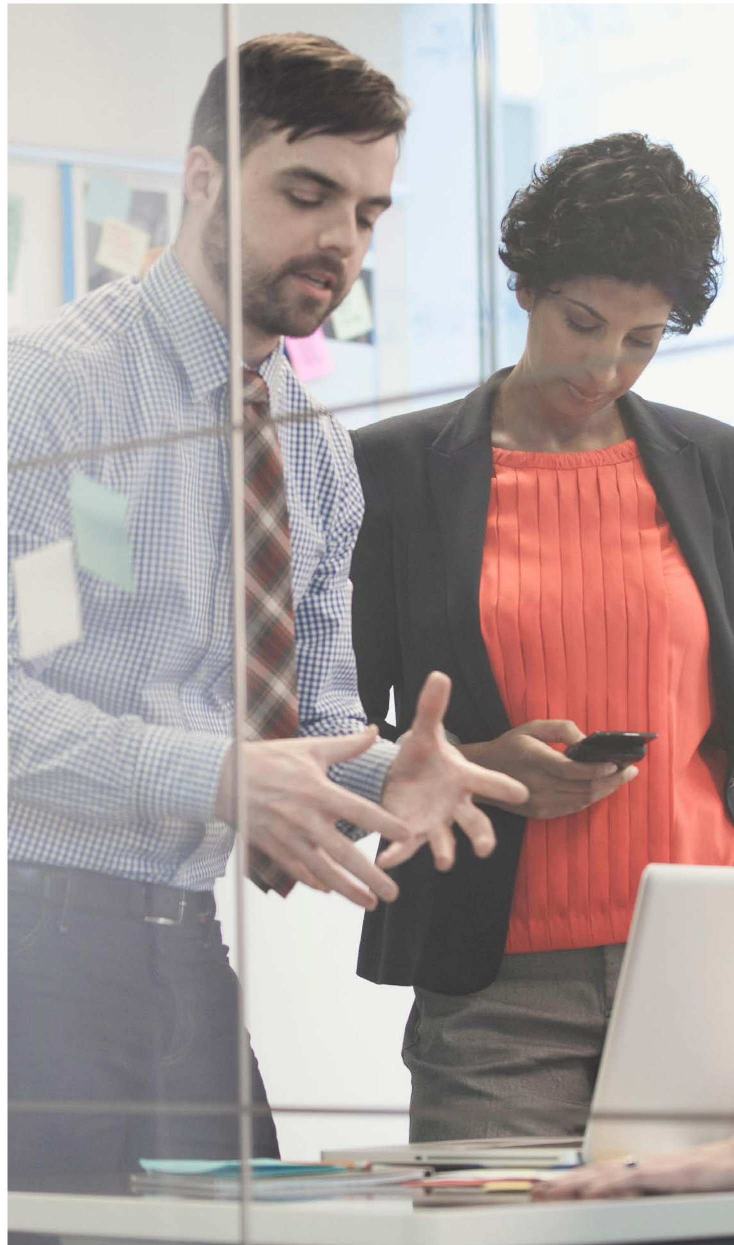
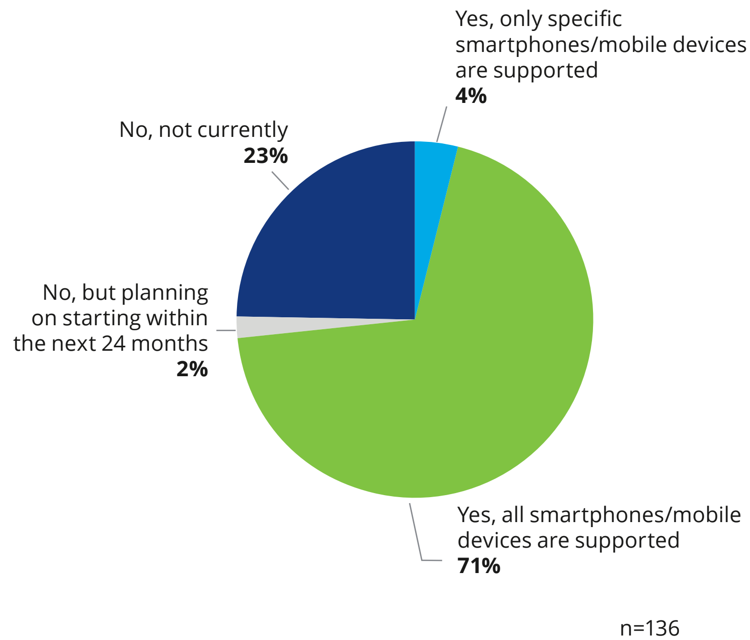


Exhibit 8.2. Does your primary provider support transaction processing via smartphone or other mobile device?



n=136

Exhibit 8.3. Do participants receive retirement income projections illustrating anticipated annual income in retirement?

	2015	2017	2019
Yes, provided online	54%	66%	77%
Yes, via participant statements	15%	11%	8%
Yes, via separate communication	8%	5%	7%
No, we are considering adding this feature in the next 12 months	6%	3%	1%
No, we are considering adding this feature in the next 12–24 months	1%	1%	1%
No, this feature is not offered by our vendor	9%	5%	4%
No, we are not considering adding this feature	7%	9%	2%

n=131

Exhibit 9.1. Have participants interacted with your recordkeeper through any of the following methods? (Check all that apply)

	2015	2017	2019
Handheld devices are used in group and individual meetings to allow immediate participant action (enrollment, investment changes, allocation changes, etc.)	14%	25%	26%
Participants use social media to interact with our recordkeeper (Facebook, LinkedIn, Twitter, etc.)	4%	7%	6%
Participants use instant chat via the recordkeeper's secure participant website	13%	12%	15%
Participants use smartphone and/or tablet applications to interact with our recordkeeper (via iPhone, iPad, Android, Blackberry, etc.)	40%	48%	55%
No	20%	18%	11%
Unsure	38%	31%	27%

n=137

Exhibit 9.2. Do you believe participants are interested in interacting with retirement providers via social media channels?

	2019
Demographic-based (e.g., generational targeting like Baby Boomers and Millennials)	54%
Activity-based (i.e., targeting based on actions participants have taken, such as sending targeted emails based on links participants click on)	43%
Behavior-based (i.e., based on certain participant behaviors like not meeting the match, or "others like me" comparisons)	51%
Other	3%
We do not use targeted communications	30%

n=138

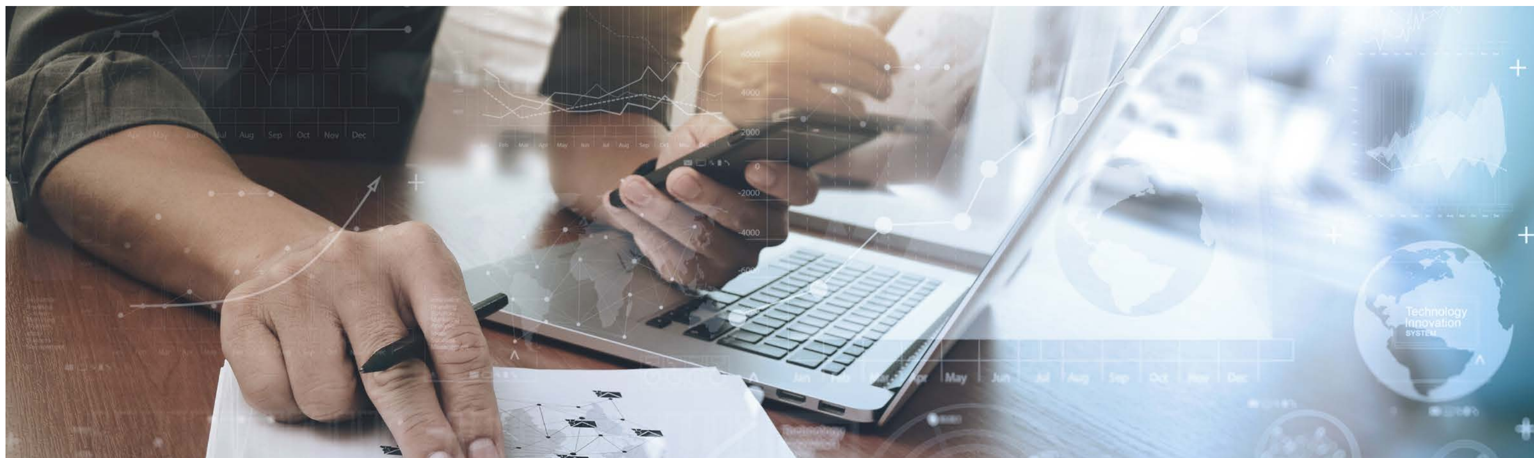


Exhibit 9.3. Which groups are actively being targeted?

	2019
Baby Boomers	39%
Generation X	33%
Generation Y/Millennials	36%
Nonparticipants	44%
Participants who have recently reduced deferral percentages	12%
Participants who have recently increased deferral percentages	4%
Employees who are not contributing up to the match	46%
Other	9%
None/not applicable	25%

n=138

Exhibit 9.4. How are targeted communications being used?

	2019
Encourage nonparticipants to enroll in the plan	53%
Encourage participants to increase savings rate/adopt step-up contribution feature	60%
Provide investment and financial market education	41%
Encourage participants to use recordkeeper tools	43%
Other	3%
None/not applicable	23%

n=138

Provider relationships

Provider and plan sponsor relationship goals

Fifty percent of plan sponsors report they've been with the same recordkeeper for more than 10 years, down slightly from 53 percent in 2017 (exhibit 10.2). Of those plan sponsors who have switched recordkeepers in the past five years, it's been either due to cost (25 percent) or quality of recordkeeping services (21 percent) (exhibit 10.3). Cost has replaced quality of recordkeeping services as the top reason for leaving a recordkeeper for the first time in survey history. Of those plan sponsors who have not changed recordkeepers in more than five years, 30 percent reported that the primary or most compelling reason they've stayed is "overall relationship" (exhibit 10.4). The overall satisfaction rate of recordkeepers remains extremely high at 88 percent (exhibit 10.7).

Exhibit 10.1. What is your primary recordkeeper structure?

	2015	2017	2019
Bundled (all services and funds coordinated through one vendor; investments may include multiple fund families)	71%	69%	71%
Alliance (services and funds provided by different vendors under an alliance agreement, with the coordination of trust, investment, and recordkeeping services handled by the primary vendor, not the plan sponsor)	8%	9%	5%
Unbundled (services and funds provided by unrelated vendors; plan sponsor plays a role in the coordination of trust, investment, and recordkeeping services)	21%	22%	24%
Participants use smartphone and/or tablet applications to interact with our recordkeeper (via iPhone, iPad, Android, Blackberry, etc.)	40%	48%	55%

n=127

Exhibit 10.7. In general, how satisfied are you with the services provided by your recordkeeper?

	2015	2017	2019
Very satisfied	47%	53%	46%
Satisfied	44%	41%	41%
Neither satisfied nor dissatisfied	6%	4%	8%
Dissatisfied	3%	1%	3%
Very dissatisfied	0%	1%	2%

n=129

Exhibit 10.2. How long have you been with your recordkeeper?

	2015	2017	2019
Fewer than 2 years	10%	3%	8%
2–5 years	12%	17%	8%
5–10 years	33%	27%	34%
More than 10 years	45%	53%	50%

n=133

Recordkeeping structures have remained relatively the same since 2015. Most plan sponsors (71 percent) continue to use a bundled structure, while the unbundled structure increased slightly to 24 percent. The alliance structure dropped slightly by 4 percentage points, down to just 5 percent (exhibit 10.1).

Exhibit 10.3. If you have made a change in recordkeepers in the last five years, please list the primary or most compelling reason for the change:

	2015	2017	2019
Vendor consolidation	9%	3%	4%
A change in your organizational structure	8%	3%	4%
Local presence	1%	0%	4%
Quality of service representatives	5%	6%	8%
Quality of recordkeeping services	27%	36%	21%
Quality of investment choices	4%	3%	0%
Overall cost to plan	14%	7%	25%
Overall cost to participants	5%	6%	4%
Overall relationship	11%	13%	17%
Other	16%	23%	13%

n=24

Exhibit 10.4. If you have not changed recordkeepers in more than five years, please list the primary or most compelling reason you stay with the current vendor:

	2015	2017	2019
Local presence	3%	0%	1%
Quality of service representatives	3%	5%	2%
Quality of recordkeeping services	17%	20%	21%
Quality of investment choices	1%	1%	3%
Overall cost to participants	5%	13%	9%
Overall cost to plan	4%	2%	3%
Overall relationship	32%	30%	30%
No compelling reason to change	26%	24%	25%
Other	9%	5%	6%

n=105

Room for improvement

In terms of improvements to be made, our study shows that the top areas that plan sponsors could improve is in the areas of reducing fees to the plan sponsor, offering investment options with lower fees and/or better performance, adding/enhancing the plan sponsor website and tools, improving participant experience, and improving participant retirement readiness (exhibit 10.9).

Exhibit 10.9. Please rank the top five changes/improvements that your recordkeeper could make based on order of importance. (Please rank the following options with "1" being the most important.)

	1	2	3	4	5
Reduce direct fees to plan sponsor	10%	4%	2%	2%	3%
Offer investment options with lower fees and/or better performance	7%	5%	2%	3%	2%
Add/enhance plan sponsor website and tools	15%	12%	8%	11%	5%
Add/enhance participant website and tools	11%	10%	5%	7%	6%
Improve participant experience (enhanced website, expanded call center hours, targeted communications)	11%	11%	10%	7%	8%
Improve participant readiness for retirement	18%	4%	8%	3%	7%
Improve communications/participant education	7%	11%	11%	7%	3%
Products and services for other benefit programs (defined benefit, health and welfare, nonqualified)	1%	1%	0%	1%	2%
Improve accuracy of information	2%	4%	6%	2%	0%
Improve turnaround times for reports and statements	0%	2%	2%	1%	2%
Improve relationship management and responsiveness to plan sponsor inquiries/issues	5%	7%	2%	4%	1%
Fee transparency	2%	1%	4%	1%	2%
Other	2%	0%	0%	0%	0%

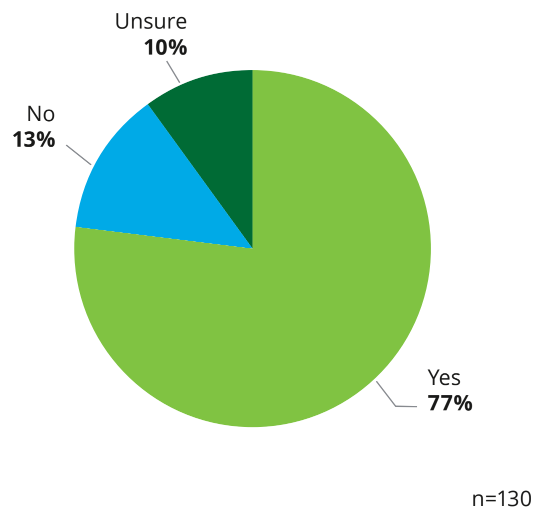
n=123

Plan effectiveness and looking ahead

In this era of increased emphasis on employee rewards programs, retention, and engagement, it is more critical than ever before to assess the effectiveness of defined contribution plans.

This year's survey indicates that 77 percent of employers believe their defined contribution plan is an effective recruiting tool (exhibit 11.1).

Exhibit 11.1. Do you feel that your 401(k)/403(b) plan is an effective recruiting tool?



n=130

Recruiting and retention

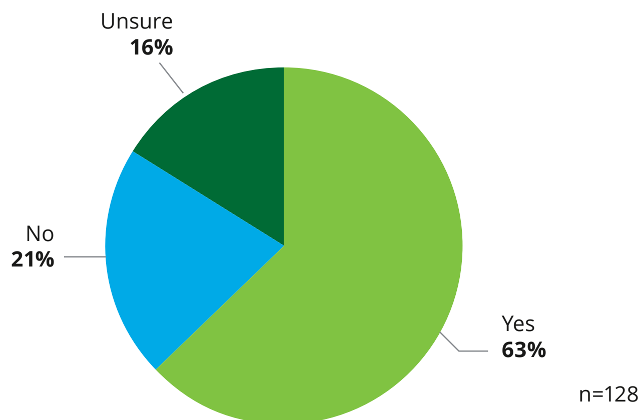
When asked if there were any barriers in making the defined contribution plan an effective recruiting tool, 50 percent of respondents stated there were no barriers (exhibit 11.1). In terms of retention, 63 percent of respondents agree that their plans were effective at retaining existing employees (exhibit 11.3). It is notable that there's been a decrease in this belief since 2012 of 14 percentage points. It can be argued that employers continue to have less confidence in their plans as effective recruiting and retention tools. Plan sponsors (and providers) need to continue to search for ways they can make plans more effective to stay current in this changing retirement landscape.

Exhibit 11.2. Do you feel there are any barriers to making your 401(k)/403(b) plan a more effective recruiting tool? (Check all that apply)

	2015	2017	2019
Our plan does not provide a competitive level of benefits (eligibility period, match, vesting, profit sharing, etc.)	15%	17%	14%
Most individuals do not understand how such a plan works	11%	11%	8%
Participants do not value this benefit	11%	8%	9%
A defined contribution plan is required just to do business in my industry	16%	18%	20%
Other	6%	7%	5%
No barriers	50%	48%	51%

n=133

Exhibit 11.3. Do you feel that your 401(k) plan assists in retaining your existing employees?



n=128

Exhibit 11.4. Do you feel there are any barriers to making your 401(k)/403(b) plan a more effective retention tool? (check all that apply)

	2015	2017	2019
It is not a differentiator; all of our competitors have similar plans	24%	30%	30%
Participants do not have an adequate understanding of the benefits of our plan	11%	12%	12%
Our plan is not competitive (eligibility, match, profit sharing, etc.)	16%	18%	15%
Other	5%	1%	4%
No barriers	50%	47%	41%

n=133

Opportunities for plan sponsors in employee engagement

If plan sponsors are going to focus on engaging employees, perhaps one of the first places to start would be to reach out to employees to get a pulse on where there are gaps in their knowledge of the plans—as one-third of all plan sponsors have reported that they have not solicited/received feedback. In terms of those who have received feedback, one-third of all respondents believe there is still confusion around what to invest in (exhibit 11.6). This continues to be the most commonly cited response, shows the need for financial market education, and explains some of the rationale behind the rising adoption of managed accounts. Additionally, one-third of plan sponsors report having conducted a retirement readiness assessment in the past year, which supports the continued focus on employee outcomes.

In time, due to this changing retirement landscape in which employees increasingly want to have a say and an impact on decisions, and if we are to move the needle toward an increase in retirement plan participation and interest, plan sponsors need to engage employees—through outreach, education, and retirement readiness assessments—and be willing to make changes to support employees in their retirement goals.

Exhibit 11.6. If you have ever solicited or received feedback from your employees regarding aspects of the plan that they found to be confusing, please indicate those items here. (Check all that apply)

	2015	2017	2019
Where to invest/which funds to use	40%	39%	34%
Company contributions	20%	22%	23%
Employee contributions	5%	11%	10%
Enrollment	9%	13%	11%
Vesting	12%	16%	16%
Fund transfers/reallocations	13%	9%	13%
Conversion/blackout periods	5%	4%	5%
Impacts of contribution limitations/ discrimination testing	9%	14%	11%
Withdrawals	17%	19%	17%
Loans	16%	24%	16%
Rollovers	13%	20%	14%
Fees	14%	11%	10%
Financial planning tools	17%	11%	15%
Website	16%	12%	12%
Voice response system	2%	4%	5%
Participant statements/confirmation statements	3%	7%	5%
How much to save for retirement	30%	34%	17%
Force-out conditions	2%	1%	5%
Other	3%	1%	2%
Have never solicited/received feedback	32%	27%	28%

n=133

Exhibit 11.7. Have you conducted a retirement readiness assessment in the past 12 months to determine expected income replacement ratios for employees in retirement?

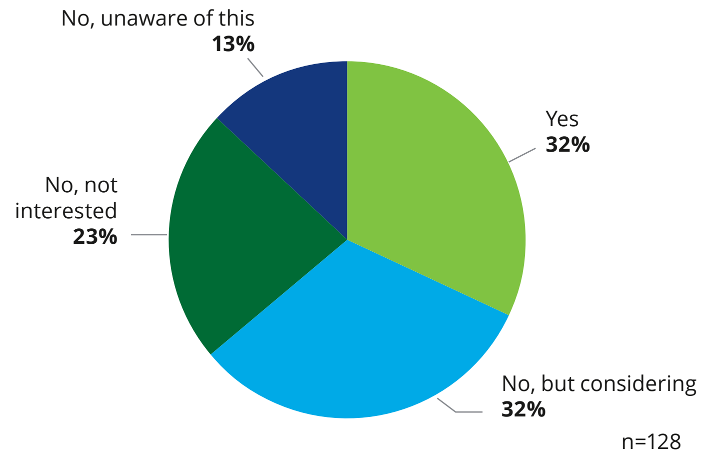


Exhibit 11.8. Please indicate whether you agree with the following statements:

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
Employees are well informed of plan features and investment options	12%	52%	31%	5%	0%
An employee education campaign, either through targeted communications or meetings, would be highly utilized and valuable to our employees	13%	51%	31%	5%	0%
Our recordkeeper/plan administrator offers valuable tools to educate employees on investment fundamentals and retirement readiness	20%	58%	15%	6%	1%
We utilize the latest communication methods (e.g., social media, smartphone/tablet applications) to educate employees on retirement readiness	8%	23%	31%	34%	4%

n=120

Exhibit 11.9. In your opinion, are your employees saving adequately for retirement?

	2015	2017	2019
Most employees are or will be financially prepared for retirement	19%	19%	18%
Some employees are or will be financially prepared for retirement	67%	65%	73%
Very few employees are or will be financially prepared for retirement	13%	15%	9%
Other	1%	1%	0%

n=122

Exhibit 11.10. Please indicate whether you feel the following will positively impact employee retiree readiness:

	Not at all likely	Not sure	Somewhat likely	Very likely
Enactment of the auto-IRA	25%	41%	31%	3%
Expanding auto-enrollment to cover all employees (not just new hires)	14%	11%	47%	28%
Expanding auto step-up as the default option with auto-enrollment	10%	11%	37%	42%
Improving company match	9%	6%	33%	52%
Enhancing participant communication/education strategy	8%	2%	62%	28%
Simplifying investment choices	26%	9%	50%	15%

n=109

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