

2013 Trends & Experience in Defined Contribution Plans

An Evolving Retirement Landscape

Highlights



Survey Highlights

The employer-provided retirement system plays a critical role in helping participants meet their financial needs. Our research shows that for three-quarters of employers, a defined contribution plan is the primary source of retirement income for their employees. While this has largely shifted the risk and responsibility of retirement planning onto the shoulders of individuals, plan sponsors are taking bold actions to empower their employees to save.

This report, which highlights defined contribution plan design from over 400 plan sponsors—employing more than 10 million workers, in plans that total nearly \$500 billion in retirement assets—finds that sponsors are strengthening their plans in the following ways:

Refocusing Employer Dollars on Match Formulas. Currently, the most common match provided is a \$1.00 per \$1.00 match on the first 6% of employee deferrals. Previously, a match of \$0.50 per \$1.00 on the first 6% was the most popular. Overall, nearly all employers (98%) provide some sort of employer contribution to the plan.

Relaxing Eligibility Requirements. Plan sponsors have been changing requirements to expand the groups who are eligible for plan participation and to provide new hires with an earlier opportunity to save in the plan. In 2013, more than three-quarters of plan sponsors report that they now allow their workers to start participating in the plan immediately.

Broadening Roth Availability. Recognizing that individuals have different tax situations, employers have been keen to add Roth provisions to their plans. Over the last six years, the percentage of employers that allow Roth contributions has increased from 11% to 50%. In addition, where Roth is available, nearly 30% of plans allow in-plan Roth rollovers/conversions and another 16% are planning on adding the feature in the next 12 months.

Simplifying and Improving Investment Choices. Two-thirds of all plans use a tiered structure to communicate investment options to their participants. Target-date portfolios are standard in a significant majority of plans, with 86% of plans offering them. The number of investment options offered has leveled out, with relatively few sponsors expressing interest in further expansion of the fund lineup. Plans continue to engage non-mutual fund (“institutional”) options, with over 90% employing at least one such option, and approximately one-third of plans utilizing these vehicles as the majority of their fund options.

Offering Savings Education and Advice. The past few years have seen an increase in the number of employers who offer outside investment help to employees. Today, three out of every four plan sponsors offer at least one of the following tools to assist their employees with saving for retirement: online guidance, one-on-one financial counseling, online advice and/or managed accounts.

While enhancements continue to be implemented across a variety of segments, there remain areas where further expansion would benefit plan participants and the overall retirement system, including:

Improving Plan Default Elections. Solutions that automate the savings process for participants continue to be broadly adopted, but there remains opportunity for improvement. For example, 59% of plans utilize automatic enrollment—however, more than 50% of these plan sponsors set the default savings rate below the plan's match threshold. Such an approach tends to result in higher participation levels, but lower overall savings levels.

Decreasing Reliance on Company Stock. At their outset, many defined contribution plans were supplemental savings plans—or essentially, even company stock investment plans. Currently, defined contribution plans serve as the primary retirement savings vehicle for most plan sponsors and their employees. As such, relying upon concentrated holdings in any single security is not appropriate for the majority of investors. However, 14% of all assets included in this broad survey are held in company stock and, undoubtedly, many individual investors are over-allocated to that category.

Relatively subtle changes can result in significantly improved long-term outcomes for plan participants, and leading sponsors have already begun to take such action.

The employer-provided retirement system is broad and far-reaching. It covers a comprehensive cross section of the American workforce: young and old, males and females, high- and low-paid. A system this complex in scope will continuously undergo change. We are pleased to see that in 2013, plan sponsors are reporting actions that strengthen their programs and promote more retirement savings among individuals. Results expanding on the improvements of the employer-provided system and other trends are detailed in this report.

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