
Deloitte publishes annual DC benchmarking survey

By Editorial Staff Wed, Aug 27, 2014

There continues to be limited interest in in-plan annuities, with 6% of plans offering this option in 2013, up from 4% in 2012. Ten percent of plan sponsors indicated they are looking into adding an accumulation annuity to their current plan.

In 2013 and early 2014, Deloitte conducted an online DC plan survey of 401(k) and 403(b) plans, collecting data from 265 plan sponsors. The [report](#) on the survey provides an overview of the plan features, policies, objectives, and attitudes of the DC plan sponsors participating in the survey.

There continued to be limited interest in in-plan annuities, with 6% of plans offering this option in 2013, up from 4% in 2012. (See chart from report at right.) Four percent of plans offered exchange-traded funds (ETFs), a two percentage-point increase from 2012. Ten percent of plan sponsors indicated they are looking into adding an accumulation annuity to their current plan with 12% looking into adding an annuity purchase option and/or annuity selection software for final plan distributions.

Exhibit 5.2 Have you considered adding an in-plan retirement income product (accumulation annuity) to your current plan?

	2011	2012	2013
Yes, we are looking into it.	14%	15%	10%
Yes, we have added this to the plan.	0%	4%	4%
No, we are not considering at this time.	74%	69%	71%
Unaware of this feature.	12%	12%	15%
n=174			

Exhibit 5.3 Have you considered adding an at-retirement income solution (annuity purchase option and/or annuity selection software) to your current plan?

	2011	2012	2013
Yes, we are looking into it.	17%	17%	12%
Yes, we have added this to the plan.	5%	6%	5%
No, we are not considering at this time.	72%	66%	69%
Unaware of this feature.	6%	11%	14%
n=174			

The 2013-2014 survey revealed that only 54% believe employees are informed of plan features and investment options. Eighty-two percent said that their record keeper/plan administrator offers valuable tools to educate employees and 65% indicated that an employee education campaign would be highly utilized and valuable to employees.

With the economic recovery having taken hold and market performance stabilized, the percentage of plan sponsors who chose “uncertain economy/job market” as the key reason for lack of employee participation in the DC plan fell sharply to 14% in 2013 from 24% in 2012. Thirty-percent of respondents in 2013 cited “lack of awareness or understanding,” compared to 21% in 2012. Of those plan sponsors citing “other” as the primary reason (20%), the most common write-in responses related to prioritizing other financial goals and obligations ahead of retirement, and a perception by employees that they cannot afford to contribute.

The 2013-2014 survey showed little change in average deferral percentages (ADP). For non-highly compensated employees (NHCEs), the median ADP was 5.2% (compared to 5.6% in 2012), while the median ADP for highly compensated employees (HCEs) was 6.9% (compared to 7.0% in 2012).

Fourteen percent of plan sponsors have different contribution limits for HCEs and NHCEs, while 50% have the same limits and 36% do not limit employee contributions other than the regulatory limits (compared to 34% in 2012). Four percent of organizations increased maximum contribution percentages for participants in the past year.

In terms of core investment options, there are few surprises at the top of the list with DC plans:

- 85% offer actively managed domestic equity
- 81% offer general/core bond
- 80% offer actively managed global/international equity
- 77% offer stable value/Guaranteed Investment Contract (GIC)
- 77% offer lifecycle funds (time based)
- 73% offer passively managed domestic equity

Survey findings revealed some upward trends in options for a DC portfolio with 2013 results compared to 2012, with:

- 37% offering real estate funds compared to 31%
- 28% offering self-directed brokerage compared to 22% — this option is more common among plans with more than 10,000 employees at 44%
- 26% offering lifestyle funds (risk based) compared to 23%
- 14% offering socially responsible funds compared to 6% — this option is more common among plans with fewer than 1,000 employees at 30%
- 14% offering custom/hybrid funds compared to 9%

Proprietary funds make up a high portion (76%-100%) of a fund lineup in 9% of plans, ramping down to a moderate portion of the lineup (26%-75%) in 33% of plans then dropping to a lower portion of the lineup (0%-25%) in 58% of plans. Surprisingly, there was no clear difference in proprietary fund usage based on plan size. Fund lineups were composed of more than 75% proprietary funds for 9% of plan sponsors with fewer than 5,000 employees and for 9% with more than 5,000 employees.

The most common arrangement sponsors have for payment of administration and recordkeeping fees is through investment revenue with no additional fees, with 47% of

respondents indicating this arrangement. The number of plan sponsors reporting this arrangement, however, continued to decline from 55% in 2011, to 51% in 2012, and to 47% in 2013.

From a plan size perspective, 57% of plans with under 5,000 employees pay no additional fees, while only 33% of plans with more than 5,000 employees use this arrangement. Approximately 30% of respondents report being charged a direct fee by their record keeper, a slight decrease from last year, but nearly equal to 2011 levels. Other fee arrangements, cited by 14% of plan sponsors, included combinations of per-participant and/or asset-based fees with revenue sharing.

Overall, most plan sponsors (71%) continue to use a single vendor to coordinate all services and funds with a bundled recordkeeping structure. Based on survey data, 403(b) plans are more likely to have a bundled recordkeeping structure at 88%. The story changes when looking at plan size. For the largest plans (more than 10,000 participants), only 57% utilize a single vendor. Just over half of survey respondents (54%) report vendor service agreements of three years or less.

A noteworthy decline in importance was seen in fee disclosure regulations from 73% in 2012 to 60% in 2013, likely attributable to the fact that the new requirements are fully implemented and have a year's experience behind them. Similar to last year, eight out of 10 respondents (82%) characterized participant response to fee disclosures as neutral. On the employer side, approximately half of sponsors (55%) reported a neutral response.

Significant shifts were also recorded in 2013 with respect to the level of participant activity with their DC plans. Respondents reported the number of employees performing a significant level of activity jumped to 27% compared to 14% in 2012. This suggests that the level of interaction is growing for participants, possibly fueled by the ease-of-access via mobile devices as noted above.