



2004 Defined Contribution Survey

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Executive Summary

Callan Associates conducted this 2004 Defined Contribution (DC) Survey of defined contribution plan sponsors to report on practices and trends in the industry. Callan conducted similar surveys in the past. Comparisons with previous survey data reveal some interesting and, in some cases, surprising changes in the characteristics of today's plans and how they are administered and managed. Key findings are highlighted below.

Survey Respondent Characteristics

- Ninety-five plan sponsors with more than \$100 billion in total assets and more than 1.1 million participants participated in this survey.
- More than one-third (39%) of respondents qualify as large plans with assets greater than \$500 million.
- Overall, plan participation registered at 82% and the average balance was \$105,000.

Decision Makers and Due Diligence

- Relative to three years ago, more plans today are relying on committees consisting of Treasury/Finance and Human Resources personnel to initiate investment decisions.
- Investment oversight continues to improve; most respondents indicated they have a formal investment policy statement in place and that their plans are ERISA 404(c) compliant. In addition, more than 85% of the respondents have, within the last three years, conducted a structure review of their plan's investment options to address any gaps or overlaps.

Plan Investment Trends

- Recently, the trend has been to offer fewer choices in investment options across all plan size segments, reversing a trend we noted in 2001. The average number of options offered by all plans is 16, down from 20 just three years ago.
- In evaluating and selecting investments for their plans, survey respondents indicated that their primary consideration is how well a fund fills a certain style need or gap, and the second most important factor is competitive investment performance. This has not changed since 2001.
- While 75% of the plans offer a lifestyle or asset allocation option, participants are allocating less than 10% of their assets to these funds.



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Plan Investment Trends (continued)

- Of the 66% of respondents who also have a defined benefit plan, fewer than 20% use some of the same managers for both plans. The use of the same manager for both plans is most common in the fixed income category.
- The use of self-directed brokerage accounts has not significantly changed, with slightly more than 20% of the respondents now offering this option.

Plan Administration Trends

- There has been an increase in the use of bundled service structures relative to unbundled platforms. This can be attributed, in part, to the continuing reduction in the number of providers. We also note that while sponsors seek unbundled investments, plan services and fees are typically bundled.
- Larger plans, in particular, are making a strong move toward bundled structures.
- Not surprisingly, service issues and uncompetitive fees are the two primary drivers behind provider searches.

Participant Communication, Education, and Advice

- Plan sponsors continue to rely heavily on their own internal resources to coordinate and provide participant communication and education; however, we see a shift towards utilizing providers more frequently.
- Approximately one-third (up from 25% in 2001) of plans offer advice services to their participants. This number is expected to increase in the near future, as many respondents indicated this was a service area they planned to add in the next 12 to 18 months.
- Other "automatic" services are being introduced to participants, including auto-enrollment, auto-rebalancing, auto-deferral increases, etc.

Fees

- Almost every survey respondent has had a fee discussion or reduction with their provider in the last three years.
- Roughly one-third of respondents report out of pocket recordkeeping fees—this is down significantly from 57% in 1998.

To order the survey please email your contact information to the Callan Investments Institute at institute@callan.com, or call Ray Combs or Gina Falsetto at 415.974.5060.