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Survey

2019 Defined Contribution Trends

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Key Findings

Callan conducted our 12th annual *Defined Contribution (DC) Trends Survey* in the fall of 2018. The survey incorporates responses from 106 plan sponsors, including both Callan clients and other organizations. We highlight key themes and findings from 2018 and expectations for 2019.

Fee Payment Trends

64% Of plans use explicit per participant fees

19% Of plans use explicit asset-based fees

See page 44 for details

3 most important factors in measuring plan success

PARTICIPATION

CONTRIBUTION RATE

COST EFFECTIVENESS

See page 10 for details

86%

offer a 401(k) plan

62%

with > $1 bn in assets

See page 4 for details

4 out of 5

plan sponsors say they engage an investment consultant

16% reported using a 3(38) discretionary adviser

16% are unsure if their consultant has discretion over the plan

See page 9 for details

58%

have a policy on asset retention

70% of those focus on retaining assets

See page 37 for details

Most important step in improving fiduciary position for third year in a row:

1

Reviewing Plan Fees

See page 11 for details

22%

made a change to the company match

33%

of those increased the match

See page 13 for details

Key Findings

75%
of plans use collective trusts
See page 28 for details

2019 area of communication focus:
Financial Wellness
See page 48 for details

Most popular financial wellness services:
Basic financial education
Budgeting tools
See page 35 for details

85%
of plans now offer a Roth feature
See page 17 for details

87% of plans have a **target date fund**

74% offer a target date fund that is at least partially indexed

59% use a target date fund offered by someone other than their recordkeeper

Custom target date fund usage at **13%**

See pages 22 & 23 for details

Top 2019 Priorities

1. Plan fees
2. Participant communication
3. Financial wellness

See page 12 for details

1 in 5
intend to conduct a recordkeeper search in 2019
See page 47 for details

Calculating and Benchmarking Fees

83% are benchmarking fees

53% likely to conduct a fee study in 2019

42% do not know or are not evaluating indirect revenue

Fee payment shifting away from participants

28% of sponsors pay all administrative fees

39% pay at least some administrative fees

34% pay full or partial advisory fees

See pages 34, 41, 42, 44, 47 for details

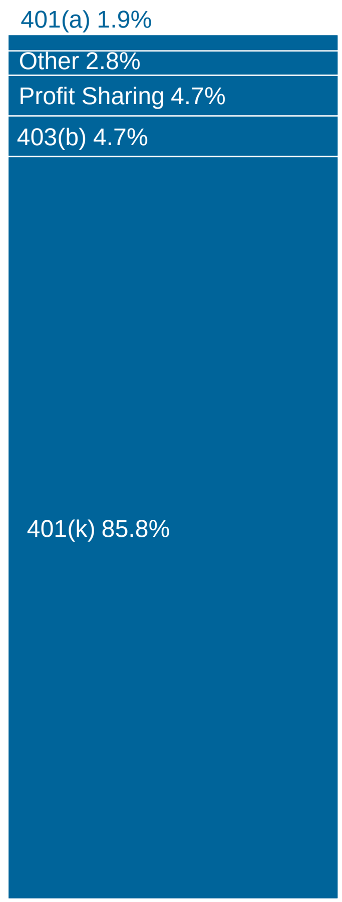
Respondent Characteristics

Callan conducted our 12th annual *Defined Contribution (DC) Trends Survey* online in September and October of 2018. The survey incorporates responses from 106 DC plan sponsors, including both Callan clients and other organizations.

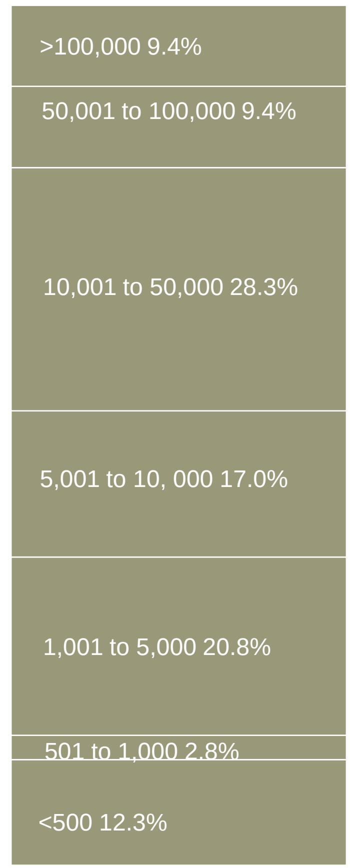
As in prior surveys, the majority of respondents offered a 401(k) plan as the primary DC plan. The proportion of 401(k) plans in the survey increased from 64.5% in 2017 to 85.8% in 2018—this was due to the exclusion of government plans.

More than 90% of plans in the survey had over $100 million in assets; 62.2% were “mega plans” with more than $1 billion in assets, a slight increase from 2017.

What is the primary DC plan that you offer?



How many participants are in the primary DC plan?



What is the size of the primary DC plan?

Note: Throughout the survey, charts may not sum to 100% due to rounding.

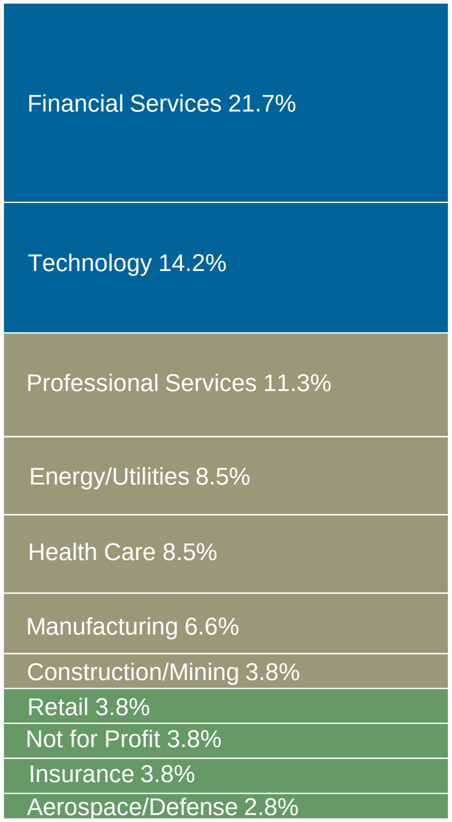
Respondent Characteristics (continued)

Only one-third (35.8%) of DC plan sponsors surveyed offered an open defined benefit (DB) plan. In 2017, that number was higher (46.0%); however the difference is largely explained by the exclusion of governmental entities this year.

Respondents spanned a wide range of industries; the top industries were financial services (21.7%), technology (14.2%), professional services (11.3%), energy/utilities (8.5%), and health care (8.5%).

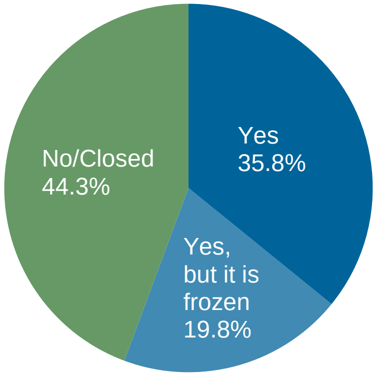
Financial Services plans **doubled** from 2017

In what industry is your employer?



Additional categories: Automotive, Education, Telecom, Transportation, Other

In addition to the DC plan, does your employer offer a defined benefit plan?

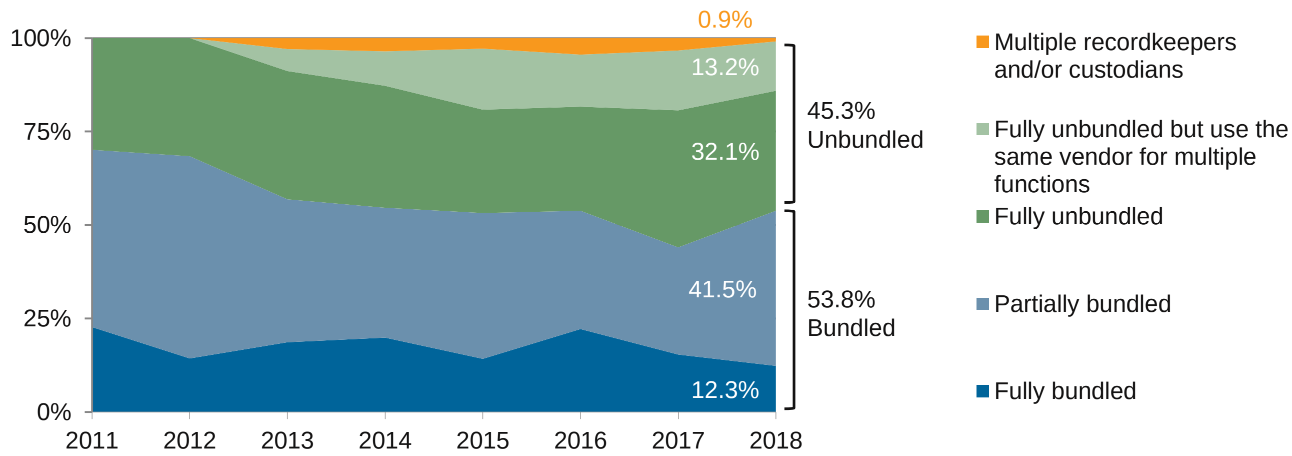


Plan Structure: Bundled vs. Unbundled Arrangements

While the proportion of plans that were at least partially bundled rose from last year, the number of plans that identified themselves as fully bundled (12.3%) is at the lowest in the survey's history. This reflects a larger unbundling trend we have observed over time.

Fewer than one in ten (9.1%) mega plans (assets greater than $1 billion) had a fully bundled structure. Conversely, 56.1% of mega plans were unbundled. Nearly two-thirds (65.0%) of mid-sized plans ($100-$500 million in assets) reported using a partially bundled structure and 15.0% indicated they utilized a fully bundled structure, down from 21.9% last year.

Describe your plan structure



Fully bundled: The recordkeeper and trustee are the same, and all of the investment funds are managed by the recordkeeper.

Partially bundled: The recordkeeper and trustee are the same, but not all of the investment funds are managed by the recordkeeper.

Fully unbundled: The recordkeeper and trustee are independent, and none of the investment funds are managed by the recordkeeper.

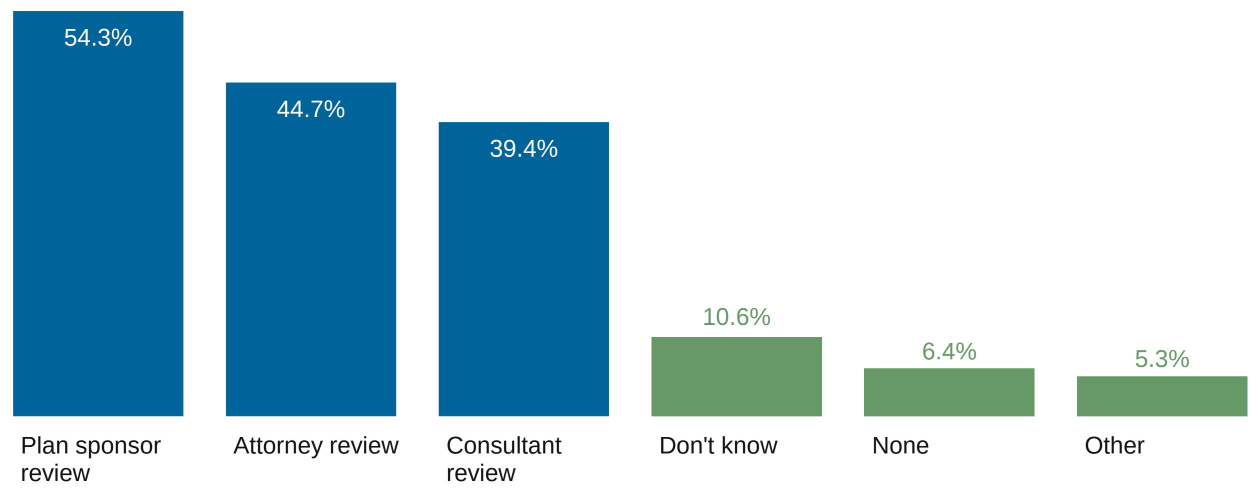
ERISA Section 404(c) Compliance

Most DC plan sponsors (83.0%) said they took steps within the past 12 months to ensure ERISA Section 404(c) compliance—down slightly from 2017 (84.9%).

More than half of respondents (54.3%) personally reviewed compliance. Many engaged third parties to review 404(c) compliance, such as their attorney (44.7%) and their consultant (39.4%).

While the percentage that did not know what steps had been taken to ensure compliance modestly fell—from 11.6% in 2017 to 10.6% in 2018—nearly double the proportion of respondents took no action at all (3.5% in 2017 vs. 6.4% in 2018).

Steps taken in the past 12 months to ensure that your plan is ERISA section 404(c) compliant*



83.0% **took steps** to ensure compliance

*Multiple responses were allowed.

Investment Policy Statement

Nine out of ten DC plans maintained an investment policy statement (IPS) in 2018 (90.5%), a slight decrease from 2017 (94.1%).

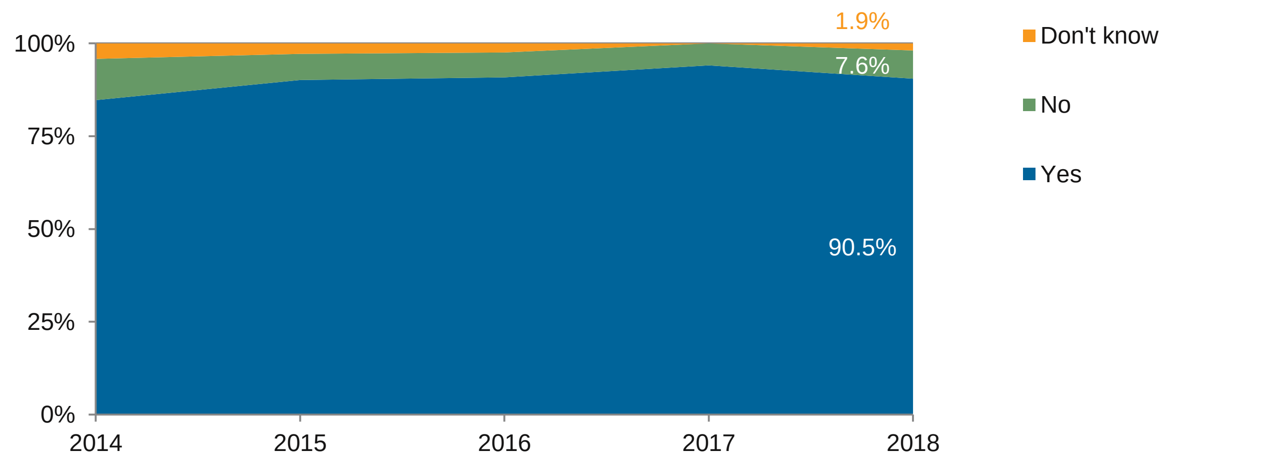
Seven in ten respondents with an IPS indicated it included a watch list, while a quarter said it does not (25.7%).

Nearly two thirds (64.8%) of plan sponsors reviewed their IPS in the past 12 months, and over half (52.4%) reviewed and updated it over that same period of time. This is an increase from 2017, when 56.5% of plan sponsors reported that they had reviewed their IPS in the past 12 months and 43.5% had updated it.

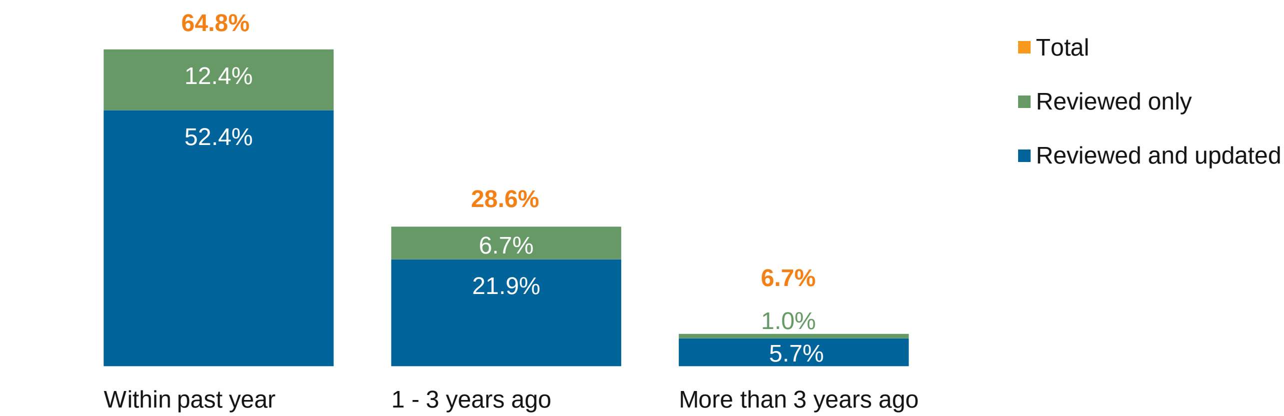
Best practice dictates a review of the IPS on a regular basis (i.e., once per year), particularly if changes are made to the DC plan.

71.6% of those with an IPS include a **watch list**

Do you maintain an investment policy statement for the DC plan?



When was the last time the investment policy statement was reviewed or reviewed and updated?



Fee Policy and Use of Investment Consultants

Almost half of the plan sponsors surveyed had a written fee payment policy in place, either as part of their investment policy statement (19.0%) or as a separate document (27.0%). This number is down from the 54.8% that reported having a written fee policy in 2017.

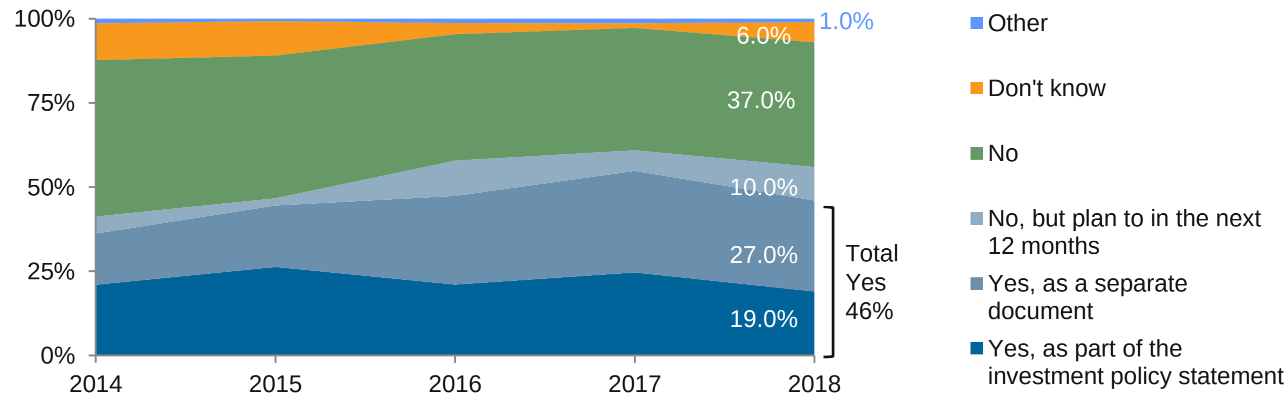
Consistent with last year, more than eight in ten plan sponsors said they engage an investment consultant. Of those that utilize an investment consultant, 68.3% reported using only a 3(21) non-discretionary adviser. The percentage of plan sponsors that used a 3(38) discretionary adviser, either exclusively or partially, rose from 10.2% in 2017 to 15.9% in 2018.

A notable portion (15.9%) were unsure whether they use a discretionary or non-discretionary consultant.

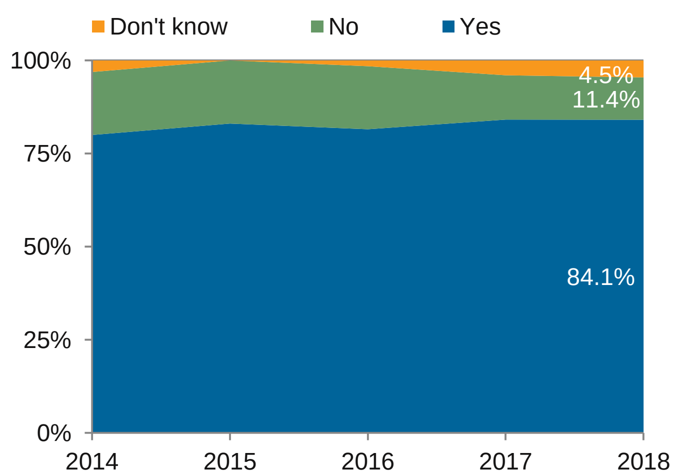
3(38) discretionary consultant: Selects and monitors funds and acts as a co-fiduciary (also known as OCIO).

3(21) non-discretionary consultant: Monitors and recommends changes as a co-fiduciary, while the plan sponsor selects investments.

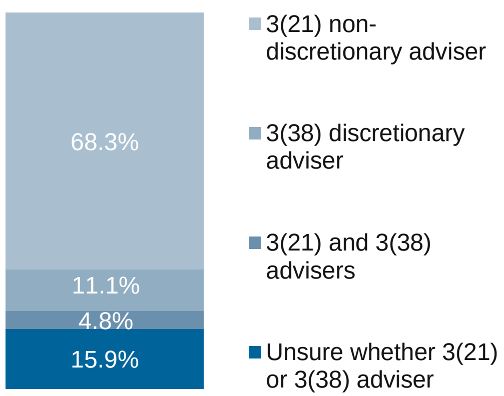
Do you have a written fee payment policy that documents your approach to payment of plan fees?



Do you use an investment consultant on either a project or retainer basis?



If you use a consultant, what type do you use?*



*Retainer/ongoing basis only.

DC Plan Measurement

In line with 2016 and 2017, participation rate/plan usage was the highest-rated determinant for measuring DC plan success.

Contribution/savings rate was the second most important factor, followed by cost effectiveness and investment performance.

How do you measure the success of your plan?

Most important

2015	2016	2017	2018	Rating
Contribution/ savings rate	Participation rate/ plan usage	Participation rate/ plan usage	Participation rate/plan usage	4.1
Participation rate/ plan usage	Contribution/ savings rate	Investment performance	Contribution/ savings rate	3.6
Cost effectiveness	Investment performance	Contribution/ savings rate	Cost effectiveness	3.4
Employee satisfaction	Cost effectiveness	Cost effectiveness	Investment performance	3.3
Investment performance	Investment diversification	Retirement income adequacy	Employee satisfaction	3.2
Investment diversification	Retirement income adequacy	Investment diversification	Retirement income adequacy	3.1
Benchmark against other plans	Employee satisfaction	Employee satisfaction	Investment diversification	3.1
Retirement income adequacy	Avoidance of fiduciary issues	Avoidance of fiduciary issues	Avoidance of fiduciary issues	3.0
Ability to attract/retain employees	Benchmark against other plans	Benchmark against other plans	Ability to attract/retain employees	2.7
Don’t measure	Ability to attract/ retain employees	Ability to attract/ retain employees	Benchmark against other plans	2.6

Least important

(5=Most important. Total rating is weighted average score.)

Additional categories (2018): Simple to administer (1.8); Don’t measure (0.4); Don’t know (0.2); Other (0.2)

Fiduciary Positioning

The most important step plan sponsors took within the past 12 months to improve the fiduciary position of their DC plan was to review plan fees, consistent with prior years. This ranked significantly higher than any other activity undertaken.

Implementing, updating, or reviewing the investment policy statement came in second. Conducting a plan audit ranked third, followed by changing the investment menu, conducting formal fiduciary training, and reviewing compliance.

Rank the actions that your plan has taken within the past 12 months to improve its fiduciary positioning

Most important → Least important

2015	2016	2017	2018	Ranking
Updated or reviewed IPS	Reviewed plan fees	Reviewed plan fees	Reviewed plan fees	3.9
Reviewed plan fees	Updated or reviewed IPS	Updated or reviewed IPS	Implemented, updated or reviewed IPS	2.3
Changed investment menu	Reviewed compliance	Conducted formal fiduciary training	Conducted plan audit	1.5
Conducted formal fiduciary training	Conducted formal fiduciary training	Changed investment menu	Changed investment menu	1.4
Reviewed 404(c) compliance	Changed investment menu	Conducted plan audit	Conducted formal fiduciary training	1.4
Replaced fund manager(s)	Replaced fund manager(s)	Reviewed compliance with fiduciary rule	Reviewed compliance	1.4
Changed/hired investment consultant	Other (e.g., plan audit, operational processes)	Replaced fund manager(s)	Replaced fund manager(s)	1.1
Reviewed/changed QDIA	Reviewed/changed QDIA	Audited security protocols	Audited security protocols	0.7
Changed recordkeeper	Audited security protocols	Changed/hired investment consultant	Reviewed/changed QDIA	0.4
Changed communi-cation approach	Changed communi-cation approach	Reviewed/changed QDIA	Changed/hired investment consultant	0.4

(5=Most important. Total ranking is weighted average score.)

Additional categories (2018): Evaluated/implemented 3(38) discretionary services (0.3); Changed recordkeeper (0.2); Changed trustee/custodian (0.2); Implemented a written plan fee policy statement (0.1)

Areas of Focus

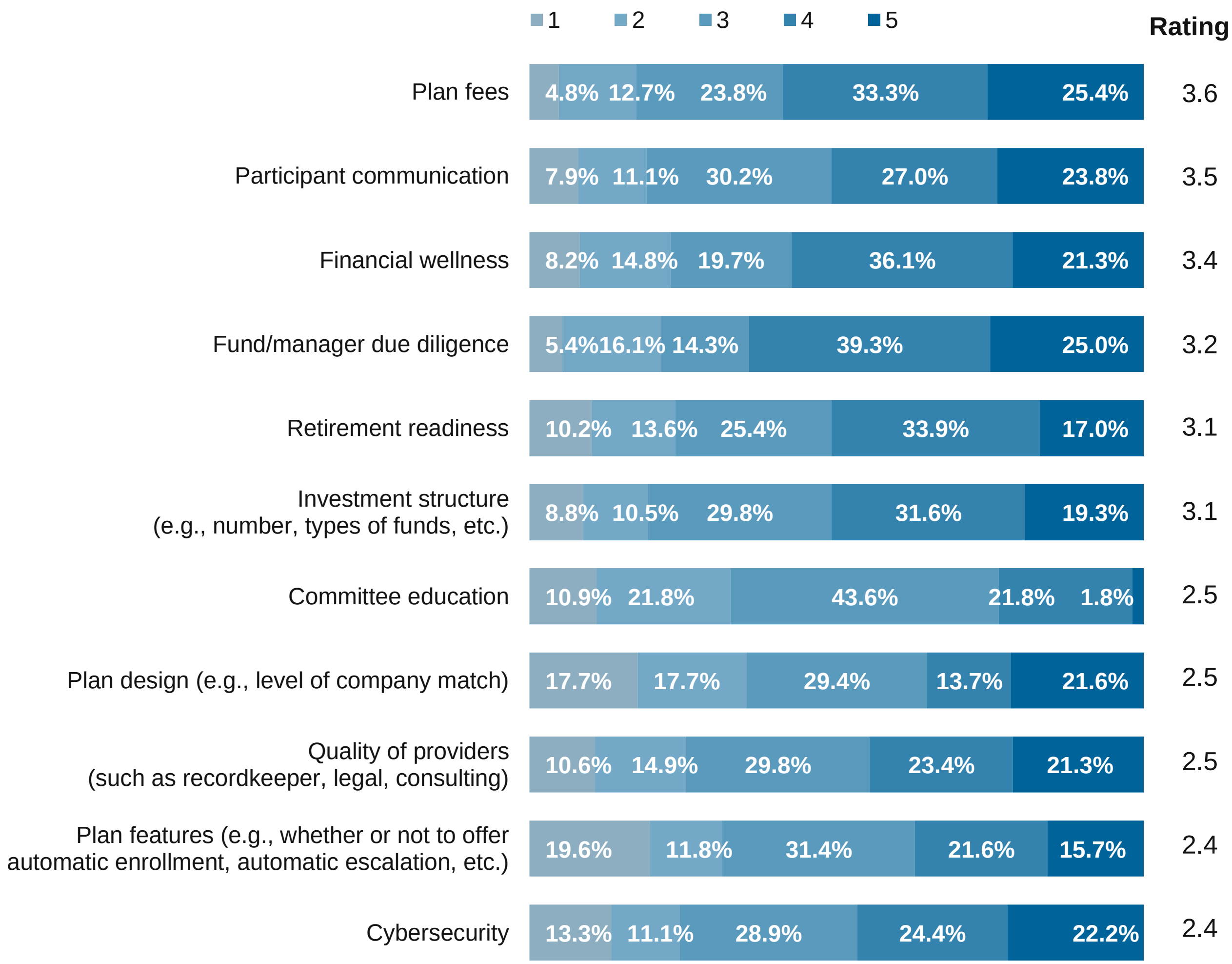
Plan fees ranked as the most likely primary area of focus over the next 12 months. This replaces last year's highest rated area, retirement readiness, which fell to the middle of the pack for 2019.

Participant communication and financial wellness (a new category this year) were the next two highest areas of focus for 2019. Prioritizing financial wellness and communications may likely go hand-in-hand in 2019.

Despite being a newsworthy topic, cybersecurity was reported as a low priority in this year's survey.

Rate what are likely to be your primary areas of focus over the next 12 months

5=most important. Total rating is the weighted average score.



Company Match

A notable 21.7% of plan sponsors made a change to their company match policy in 2018, representing a dramatic increase from 2017 (2.3%).

Additionally, over a third anticipate making a change in 2019. While many are unsure what that change will be, 23.3% plan to increase the match. In contrast, only 6.6% of plans report they are going to eliminate or reduce the company match.

Among those that will change to a stretch match, one reported a stretch match formula of 50% match up to 12%.

21.7% made changes in 2018

34.5% expect to make a change in 2019

What steps have you taken or will you take, with respect to the company match?*

Past 12 months		Next 12 months	
Increased	33.3%	Don't know	26.7%
Made one-time employer contribution	16.7%	Increase	23.3%
Other	16.7%	Change to stretch match	13.3%
Changed to stretch match	11.1%	Restructure	6.7%
Restructured	5.6%	Make one-time employer contribution	6.7%
Changed timing	5.6%	Move to safe harbor design	6.7%
Eliminated	5.6%	Other	6.7%
Moved to safe harbor design	5.6%	Add match true-up feature	3.3%
		Eliminate	3.3%
		Reduce	3.3%

Additional categories with 0.0% (2018): Don’t know; Added match true-up feature; Reduced; Reinstated. Additional categories with 0.0% (2019): Change timing; Reinstate.

*Percentages out of those taking steps with respect to the company match. Multiple responses were allowed.

Automatic Enrollment

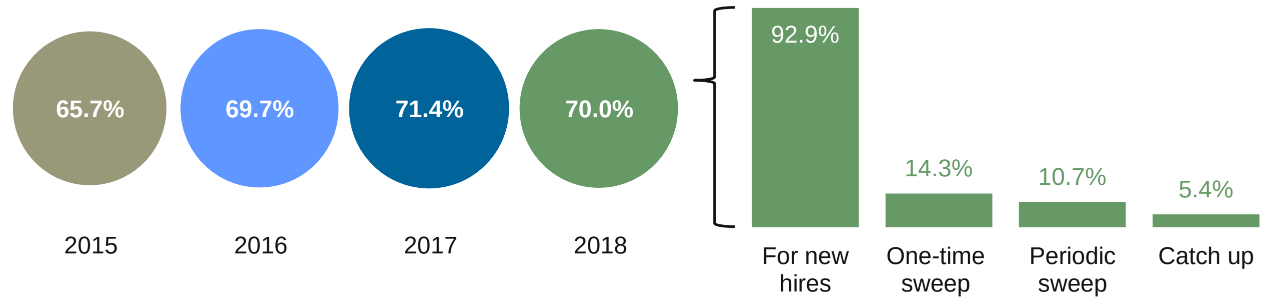
The prevalence of automatic enrollment has seemingly plateaued, remaining at around seven in ten plans (70%) for the past three years. Of those that did not automatically enroll employees, less than 5% are very likely to implement this feature in 2019.

Unsurprisingly, most plans with auto enrollment offered it to new hires (92.9%). However, a solid quarter (25%) had auto-enrolled existing employees either as a one-time sweep or periodic sweep.

Key reasons for not implementing automatic enrollment included: not being perceived as necessary, lack of buy-in from upper management, and the potential cost impact.

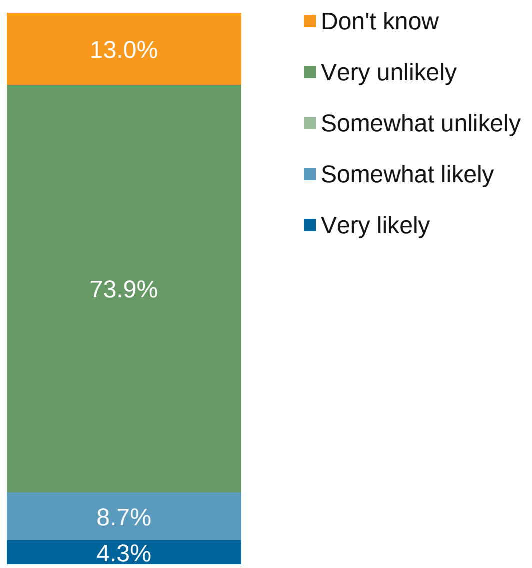
Automatic enrollment was more prevalent in large plans: **75%** of plans with automatic enrollment had 5,000 or more participants

Does your DC plan offer automatic enrollment?

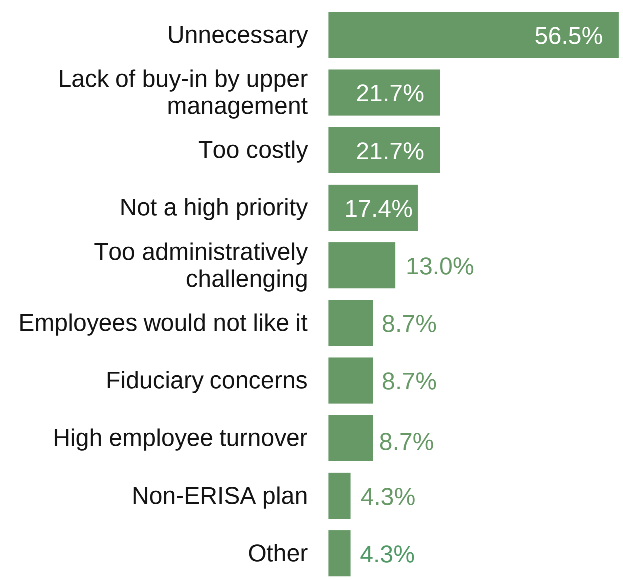


Note: Multiple responses were allowed.

If you do not currently offer automatic enrollment, will you offer it in 2019?



Reasons you do not currently offer automatic enrollment*



*Multiple responses were allowed.

Automatic Contribution Escalation

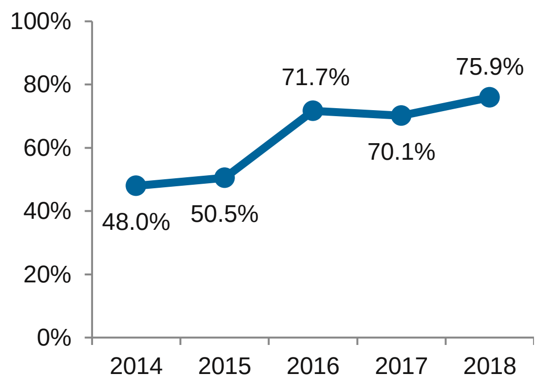
Plans with automatic enrollment were more likely to offer automatic contribution escalation—while 75.9% of overall DC plans offered automatic escalation, 85.5% of plans that had automatic enrollment also offered automatic escalation (up from 80% in 2017).

After rising sharply from 2015 to 2016, the prevalence of automatic contribution escalation has remained at about seven in ten for the past three years.

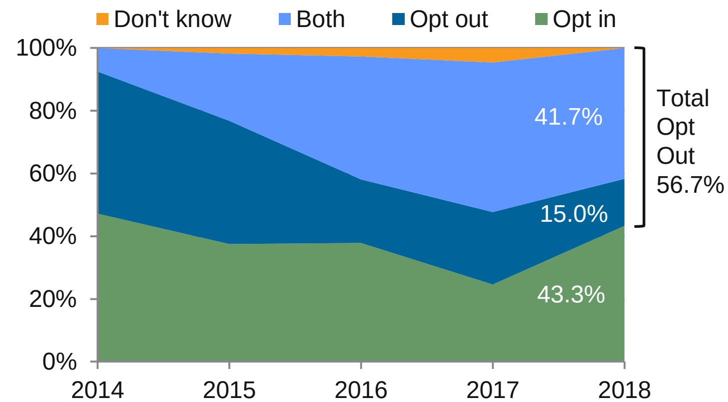
The percentage of plans with automatic contribution escalation that use an opt-out approach decreased in 2018 (56.7%) after increasing markedly in 2017 (70.8%), returning to similar levels as previous years: 2016 (59.5%), 2015 (60.7%), and 2014 (52.8%).

A notable 33.3% of plans without automatic contribution escalation are somewhat or very likely to adopt this feature in 2019. The top reasons for not offering automatic contribution escalation were that it was not a high priority and employees would not like it.

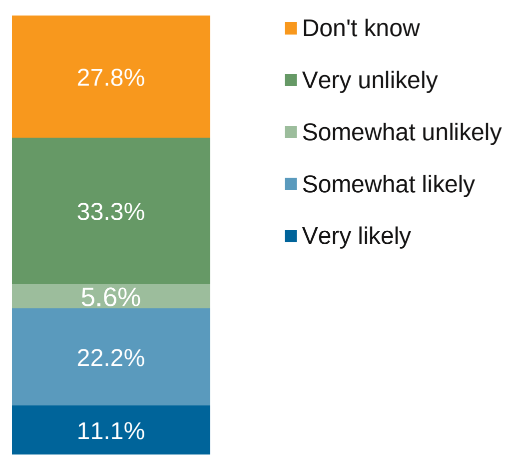
Plans offering automatic contribution escalation



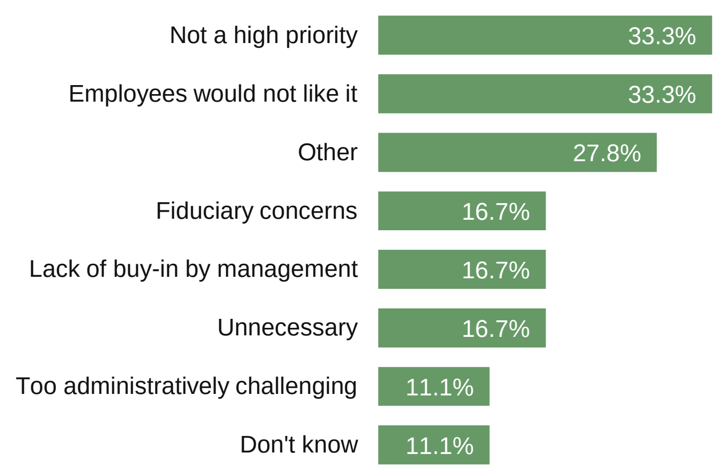
Does automatic escalation require participants to opt in or are they defaulted into it (opt out)?



If automatic contribution escalation is not currently used, will you offer it in 2019?



Reasons you do not offer automatic contribution escalation*



*Multiple responses were allowed.

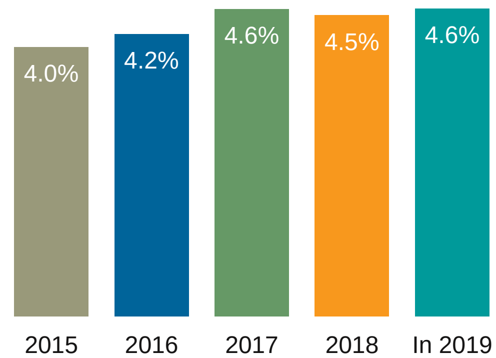
Automatic Features: Rates and Caps

In 2019, default contribution rates for automatic enrollment will range from 2% to 10%, with the average holding steady at 4.6% and median staying at a 4.0% rate. Consistent with the prior two years, the most common reasons behind the selection of the default rate were allowing participants to maximize the company match and being most palatable to participants.

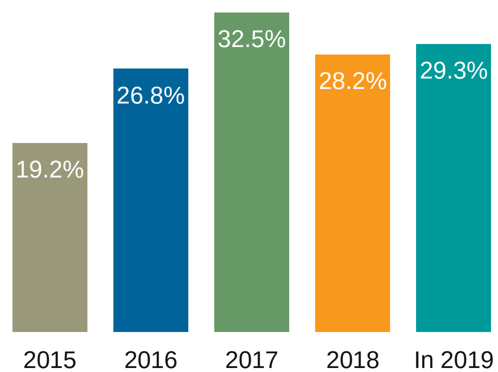
Similar to prior years, plans with opt-out automatic contribution escalation most frequently had an annual increase rate of 1% (94% report this level).

The average cap on automatic contribution escalation has risen steadily over the past few years to approximately 30%. Just over 6% reported no cap on contribution escalation. The median cap decreased to 10% in 2018 from 2016 and 2017 at 15%. The most common reason behind the selection of the cap was being most palatable to participants. Maximizing the likelihood that participants will reach their retirement goals came in second.

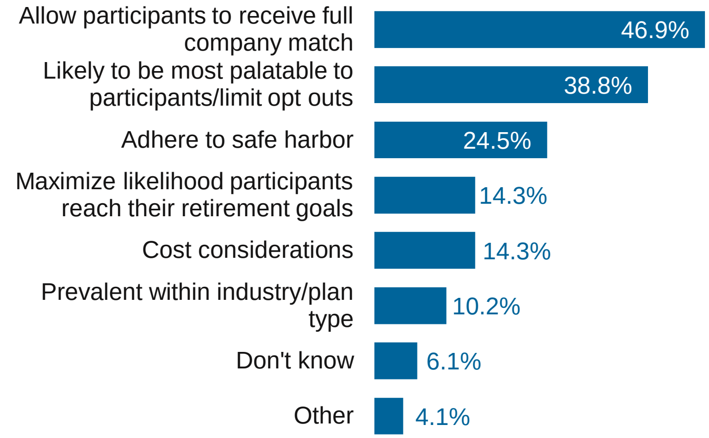
What is/will be the automatic enrollment default rate for your plan?



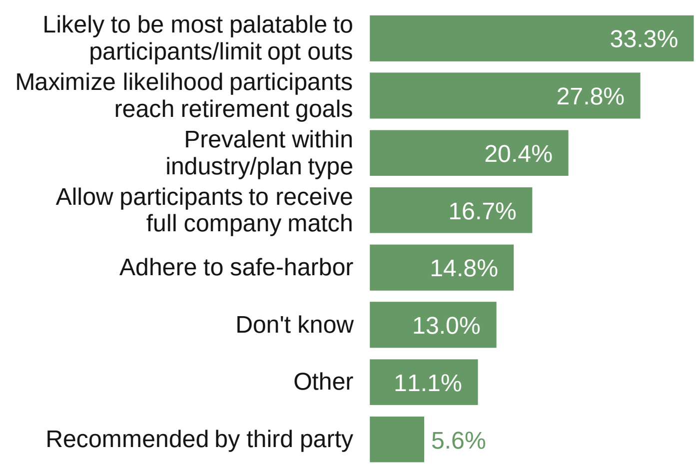
What is/will be the cap on contributions under automatic escalation?



For the automatic enrollment default contribution rate, why did you select the rate that you did?*



For automatic escalation, why did you select the cap that you did?*



*Multiple responses were allowed.

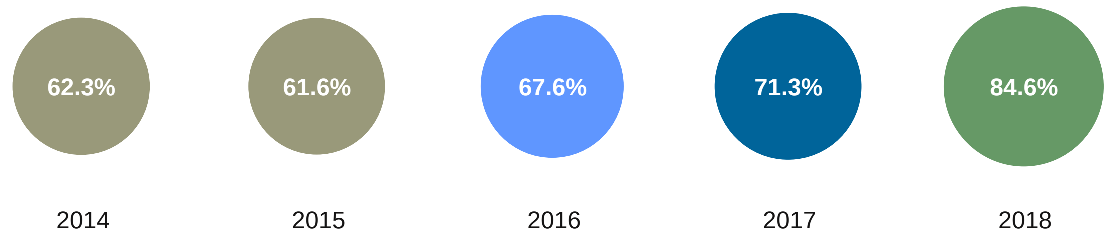
Roth Features

The prevalence of Roth contributions in DC plans increased notably over the past two years from 67.6% in 2016 to 84.6% in 2018.

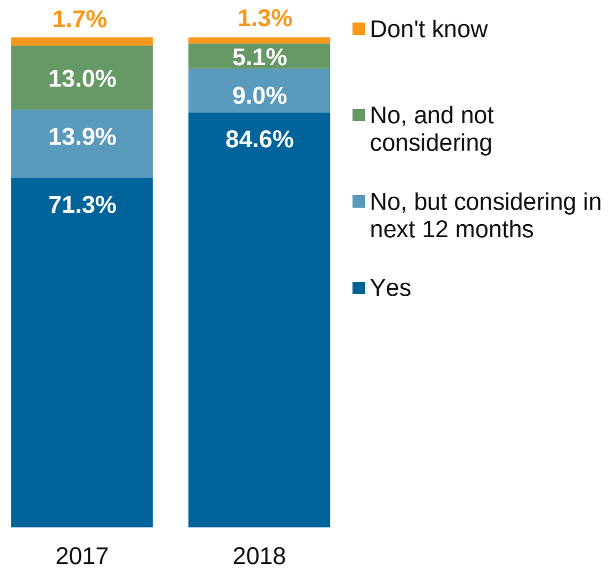
While only 5.1% did not allow and are not considering Roth-designated accounts, 9.0% of plan sponsors are considering allowing them in the coming year. The most common reason for waiting or not adding a Roth feature was due to complications of a participant communication campaign to describe the feature and how it works.

The percentage of plans allowing for in-plan Roth conversions has leveled off at 54.5% with an additional 6.1% that intend to offer it in the next year. The large number of respondents that did not know whether they allowed in-plan Roth conversions in 2017 (15.0%) was because, unlike in prior years, pre- and after-tax conversions were distinguished from each other.

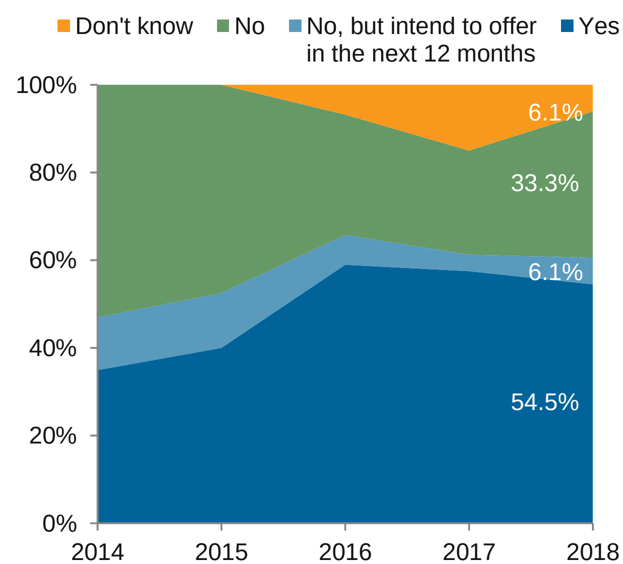
DC plans allowing Roth-designated accounts



Does your DC plan allow for Roth-designated accounts?



Does your DC plan allow for in-plan Roth conversions?

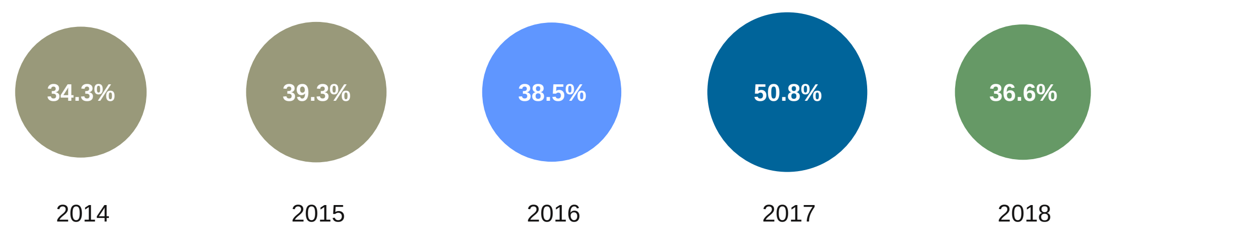


Company Stock Prevalence

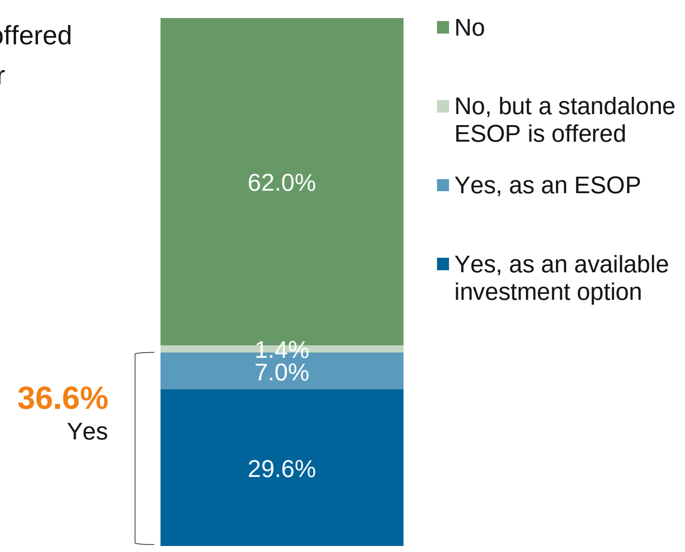
The share of plans that offer company stock either as an available investment option or as an ESOP within the plan declined in 2018 to be consistent with past years. 2017 appears to be an aberration in the sample, when slightly more than half of plans reported offering company stock either as an available investment option or as an ESOP within the plan. This is supported by the fact that no plan sponsors reported adding a company stock fund to their plan in 2017.

Most plans that do not offer company stock indicated that the plan has never done so (77.4%). However, approximately 20% of respondents indicated that the plan once offered company stock but has since eliminated or frozen it.

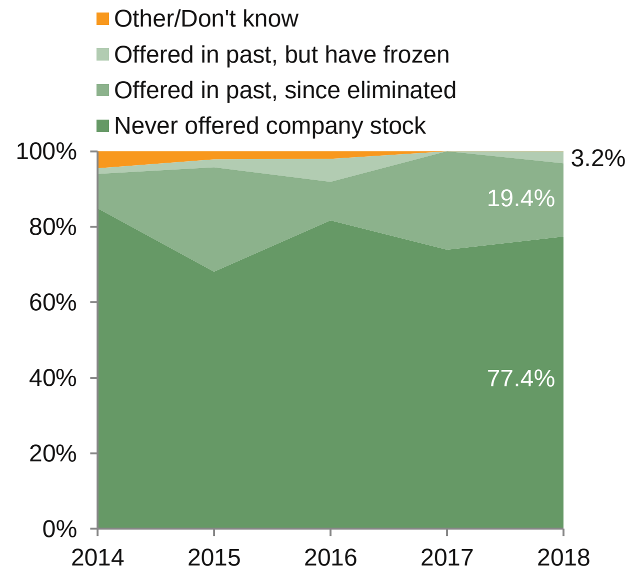
Do you offer company stock in the plan?



Is company stock offered in the plan?



If company stock is not currently offered, please describe the plan's past experience with company stock



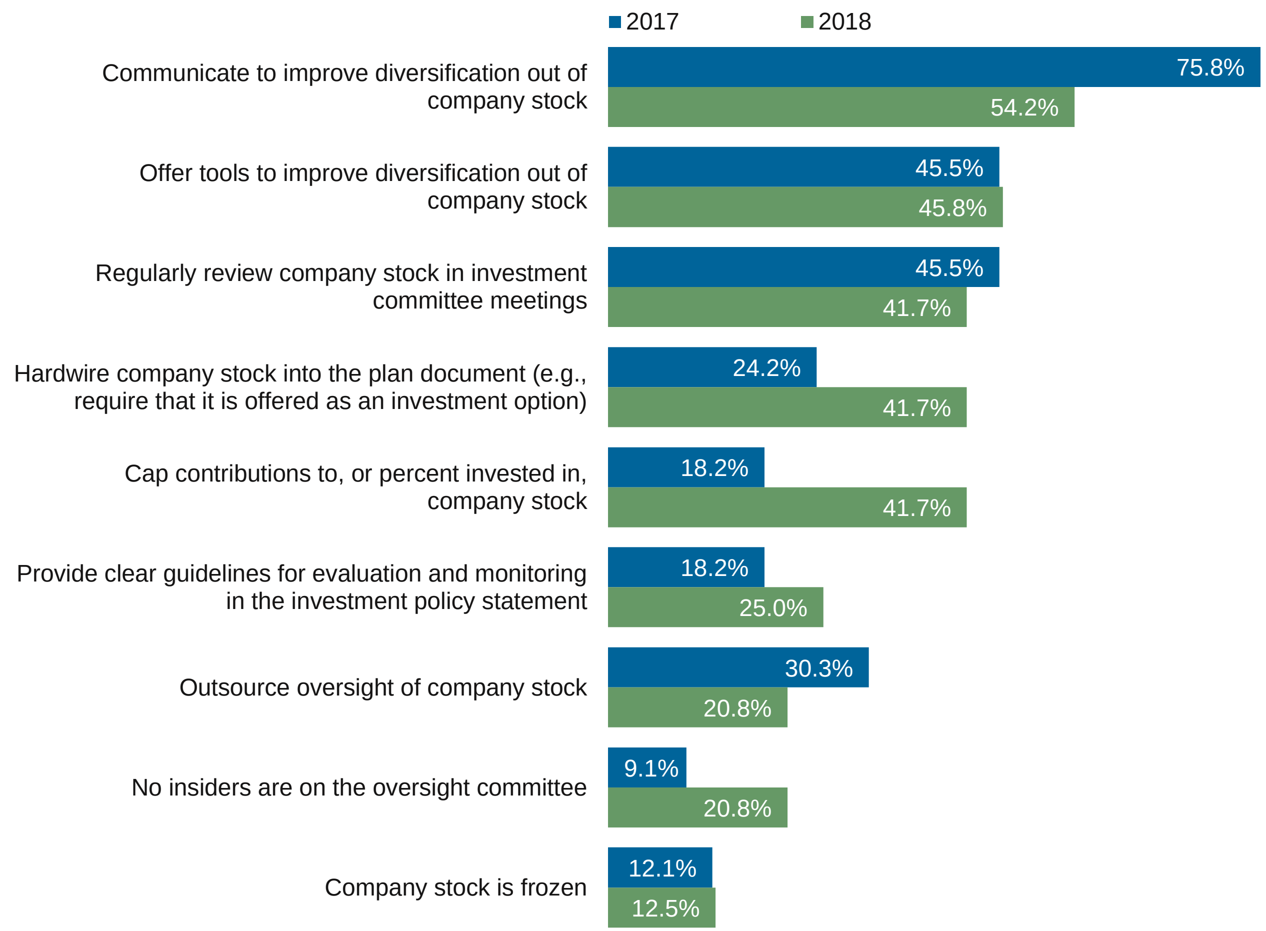
Limiting Company Stock Liability

All plan sponsors with company stock took some action to limit their liability, with an average of three actions being taken. The most common was to communicate diversification principles (54.2%), down from a record high of 75.8% last year. Offering tools to help improve diversification out of company stock remained consistent, with slightly less than half of respondents taking this approach (45.8%).

Two in ten plan sponsors outsourced oversight of company stock to a third party fiduciary, down from 2017.

Those capping company stock increased dramatically from 18.2% in 2017 to 41.7% in 2018.

How do you limit potential liability with respect to company stock?*



Additional categories (2017/2018 data): Other (6.1%/0.0%); Sunset the company stock and will remove it as an investment option (3.0%/0.0%); Nothing (3.0%/0.0%)

*Multiple responses were allowed.

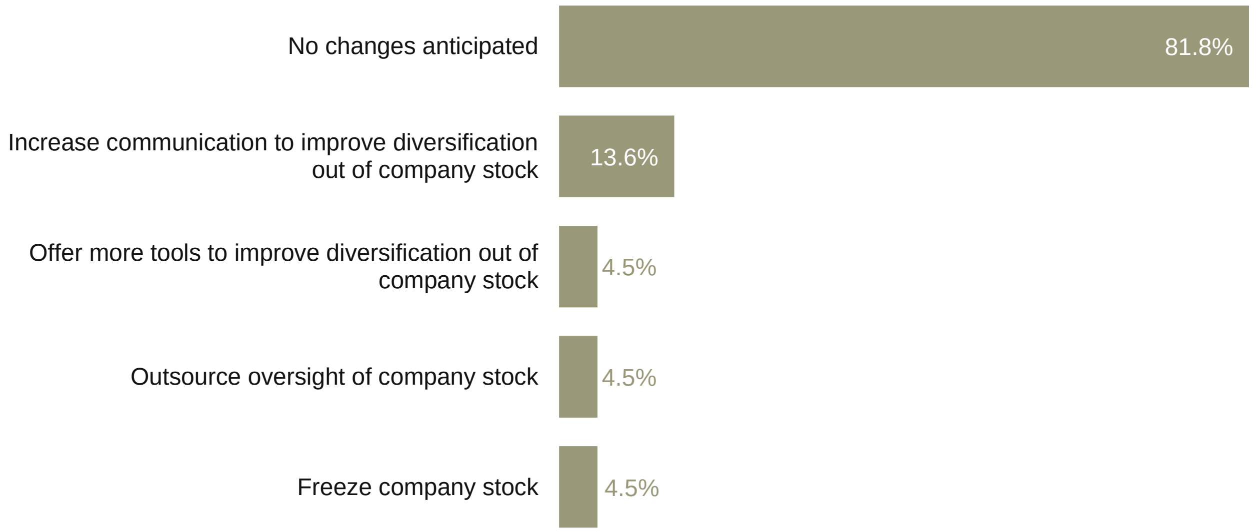
Anticipated Changes to Company Stock

More than four in five respondents anticipate no changes to their company stock in the coming year, which represents a slight increase over prior years (66.7% in 2016, 72.7% in 2014).

In 2019, 13.6% of plan sponsors will increase communication around participant diversification away from company stock, continuing the decrease from 2017 (15.6%) and 2016 (22.2%).

No respondents indicated that they intend to eliminate company stock, in contrast to 2.8% in 2016 and 6.3% in 2017, and 4.5% of plans indicated they plan to either outsource the oversight of company stock or freeze company stock.

What changes do you anticipate with respect to company stock in the next year?*



Additional categories with 0.0%: Eliminate insiders from investment committee; Hardwire company stock into the plan document; Change language in the investment policy statement; Waiting to make decision pending the outcome of recent stock drop lawsuits; Cap contributions to company stock; Eliminate company stock as a plan option; Regularly review company stock in investment committee meetings; Other.

*Multiple responses were allowed.

Default Investments

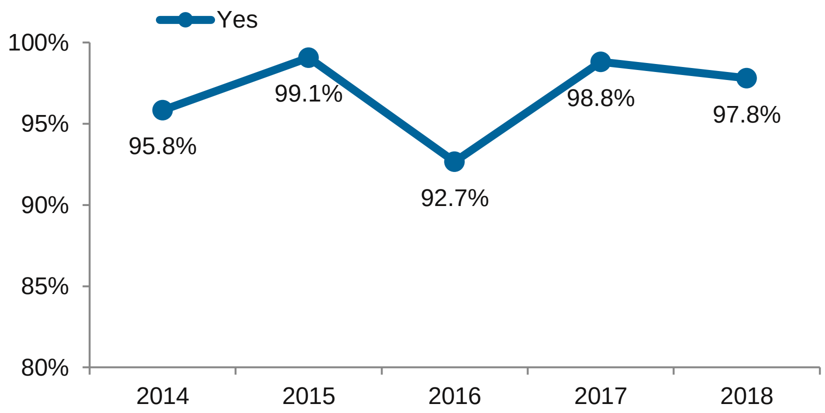
Most DC plans had a qualified default investment alternative (QDIA) as the default investment fund (97.8%).

A key provision of the Pension Protection Act (PPA) provides relief to DC fiduciaries that default participant assets into QDIAs under regulation 404(c)(5). Plan sponsors complying with this provision are responsible for the prudent selection and monitoring of plan QDIAs, but are not liable for any loss by participants invested in the QDIA.

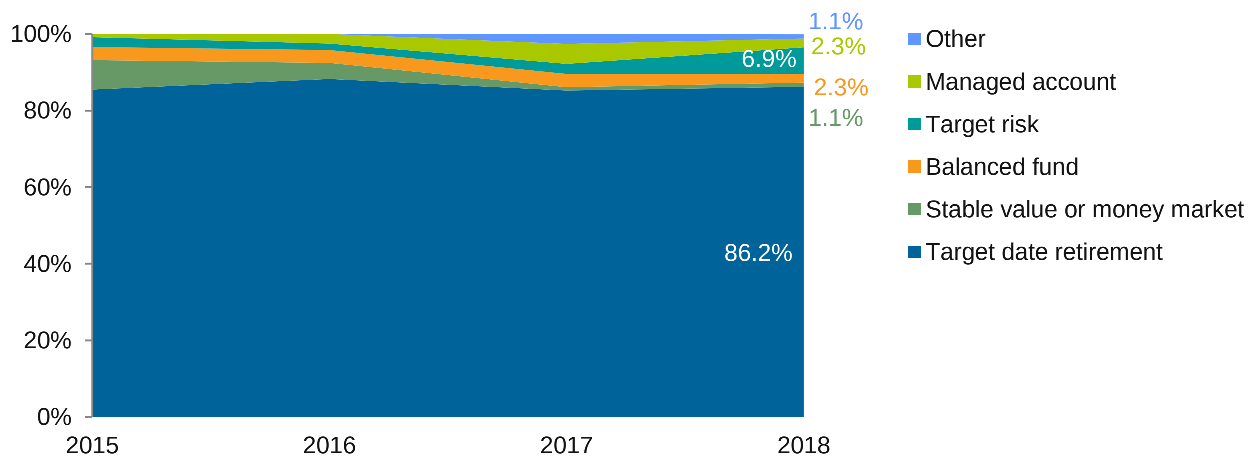
In 2018, 86.2% of plans used a target date fund as their default for non-participant directed monies, in line with prior years. Usage of other QDIA types also stayed fairly static with previous periods.

As a point of interest, target date fund usage as a QDIA was only 32.5% back in 2006, with money market/stable value making up 30% and risk-based funds usage at 27.5%. The PPA paved the way for a major uptick in target date funds as QDIAs.

Is your DC plan's default investment fund a qualified default investment alternative?



What is your current default investment alternative for non-participant directed monies?



Target Date Fund Landscape

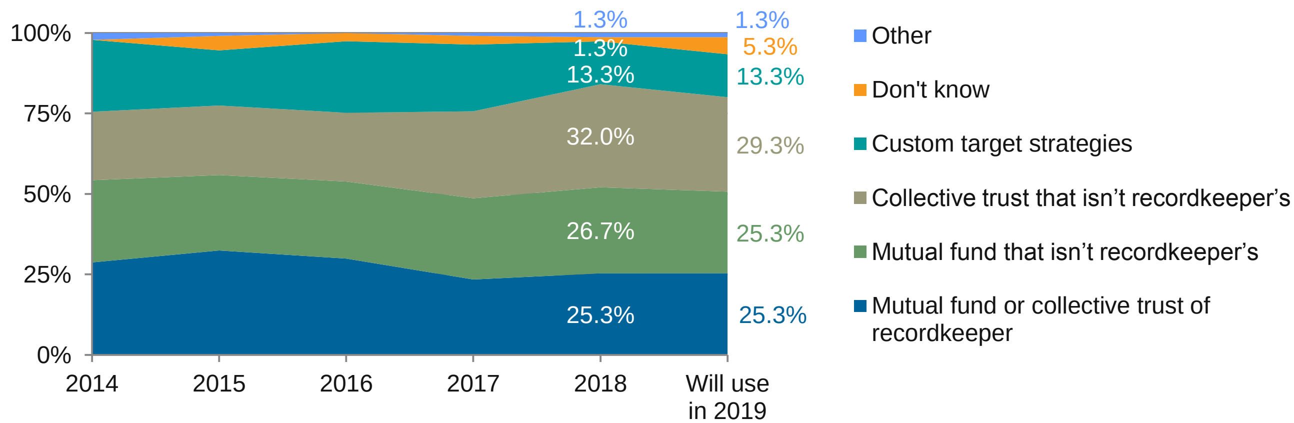
Most DC plans offered target date funds (86.7%). Continuing a long-observed trend, those offering their recordkeeper's target date option continued to drop—from more than 50% in 2012 to 25.3% in 2018. There is more uncertainty over what approaches will be used going forward, as evidenced by the 5.3% that do not know which target date fund approach they will use in 2019.

The prevalence of custom solutions, which long hovered in the low 20% range, decreased to 13.3%. Those offering custom solutions cited a better cost structure, control over the glidepath, and access to best-in-class underlying funds as the top motivations.

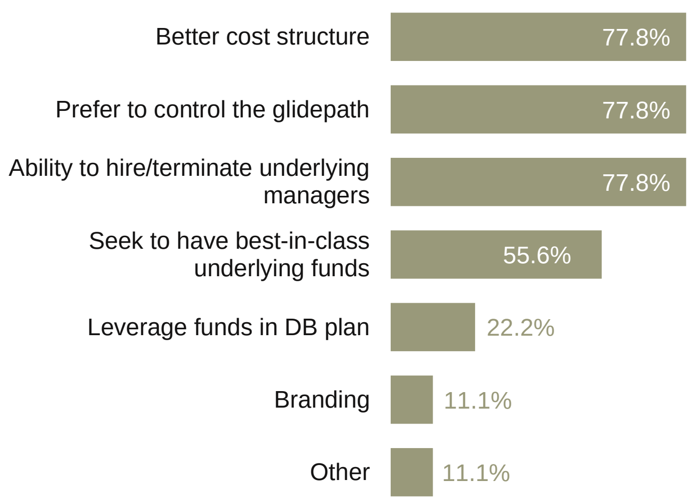
The majority (55.6%) of those using a custom solution reported that the plan sponsor acts as a fiduciary. This marks a steep decrease from several years ago (2016 and 2015) when the figure stood at 77% and 84%, respectively. The investment manager is also widely cited as the fiduciary, coming in at 55.6% as well.

86.7% of plans have a target date fund in their lineup

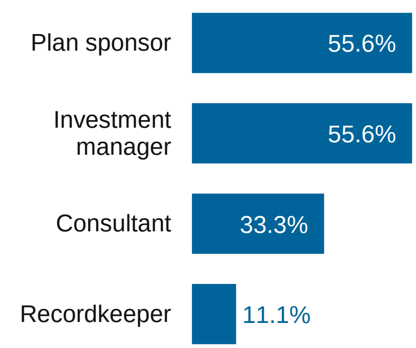
If you offer target date funds, which approach do you use?



Why have you elected (are you electing) to use custom target date funds?*



Who is the fiduciary with respect to the custom target date fund?*



*Multiple responses were allowed.

Target Date Fund Landscape (continued)

Among those that offered target date funds, over 70% used one that was at least partially indexed. Indexed solutions gained traction over the year, increasing in prevalence from 43.8% to 51.4%. This increase came at the expense of both active and blended strategies, which decreased by 3.8% and 3.7%, respectively.

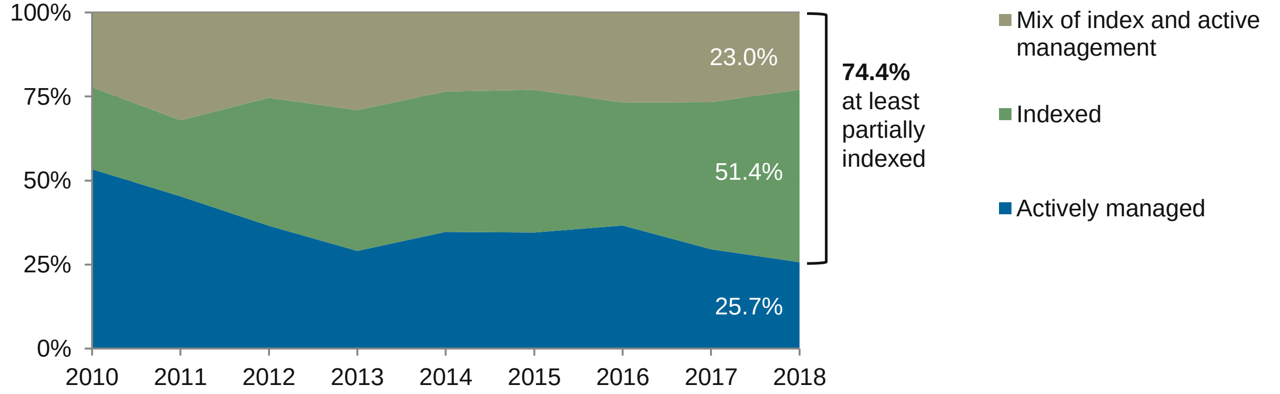
Nearly half (46.4%) of plan sponsors took some sort of action with regard to their target date funds in 2018. Of those taking action, evaluating the glidepath suitability maintained its place as the most prevalent course of action (56.3%). Changing the share class of the target date fund (15.6%) and changing the manager (12.5%) rounded out the top three.

46.4% took action

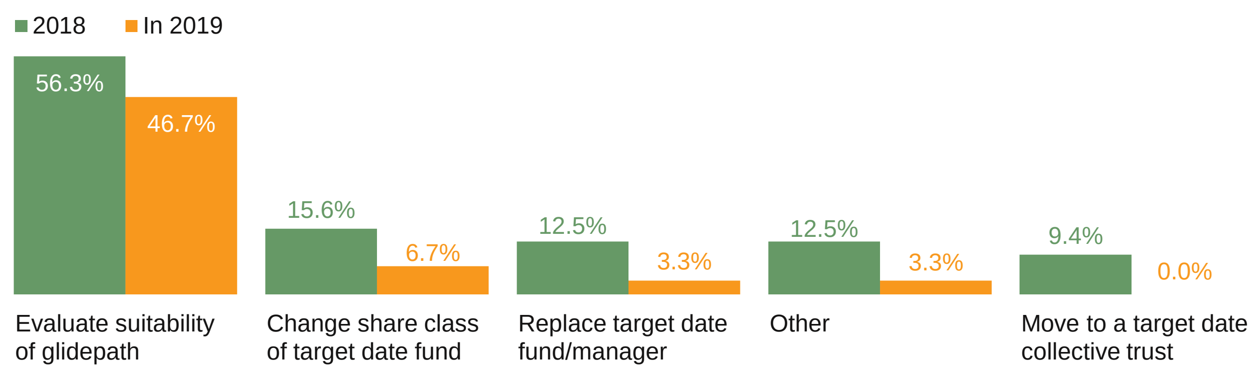
53.6% took no action

with respect to their target date fund

What investment approach does your target date fund use?



What action was/is expected to be taken with your target date fund?*



Additional categories (2018/expected 2019 data): Shift to all-passive target date fund (3.1%/0.0%); Move to custom target date funds (0.0%/3.3%); Shift to a mix of active and passive target date fund (0.0%/3.3%)

*Percentages out of those taking/expecting to take action with their target date fund. Multiple responses were allowed.

Target Date Fund Selection

While the order was different, priorities remained the same as previous years. The top three reasons for selecting or retaining target date funds in 2018 were: performance, portfolio construction, and fees.

What are the most important criteria for selecting or retaining target date funds?

Most important key attributes ↑

2015	2016	2017	2018	Ranking
Portfolio construction	Performance	Portfolio construction	Performance	5.5
Fees	Fees	Fees	Portfolio construction	5.3
Performance	Portfolio construction	Performance	Fees	4.6
Risk	Risk	Risk	Number, type, and quality of underlying funds	3.1
Number, type, and quality of underlying funds	Number, type, and quality of underlying funds	Ability to achieve pre-specified retirement goal	Risk	2.8
Active vs. passive	Ability to achieve pre-specified retirement goal	Number, type, and quality of underlying funds	Active vs. passive	2.3
Ability to achieve pre-specified retirement goal	Active vs. passive	Active vs. passive	Usage of tactical asset allocation	1.6
Usage of tactical asset allocation	Usage of tactical asset allocation	Usage of tactical asset allocation	Name recognition	1.2
Name recognition	Name recognition	Name recognition	Whether the funds are proprietary to the recordkeeper	0.8
Whether the funds are proprietary to the recordkeeper	Whether the funds are proprietary to the recordkeeper	Whether the funds are proprietary to the recordkeeper	Ability to achieve pre-specified retirement goal	0.2

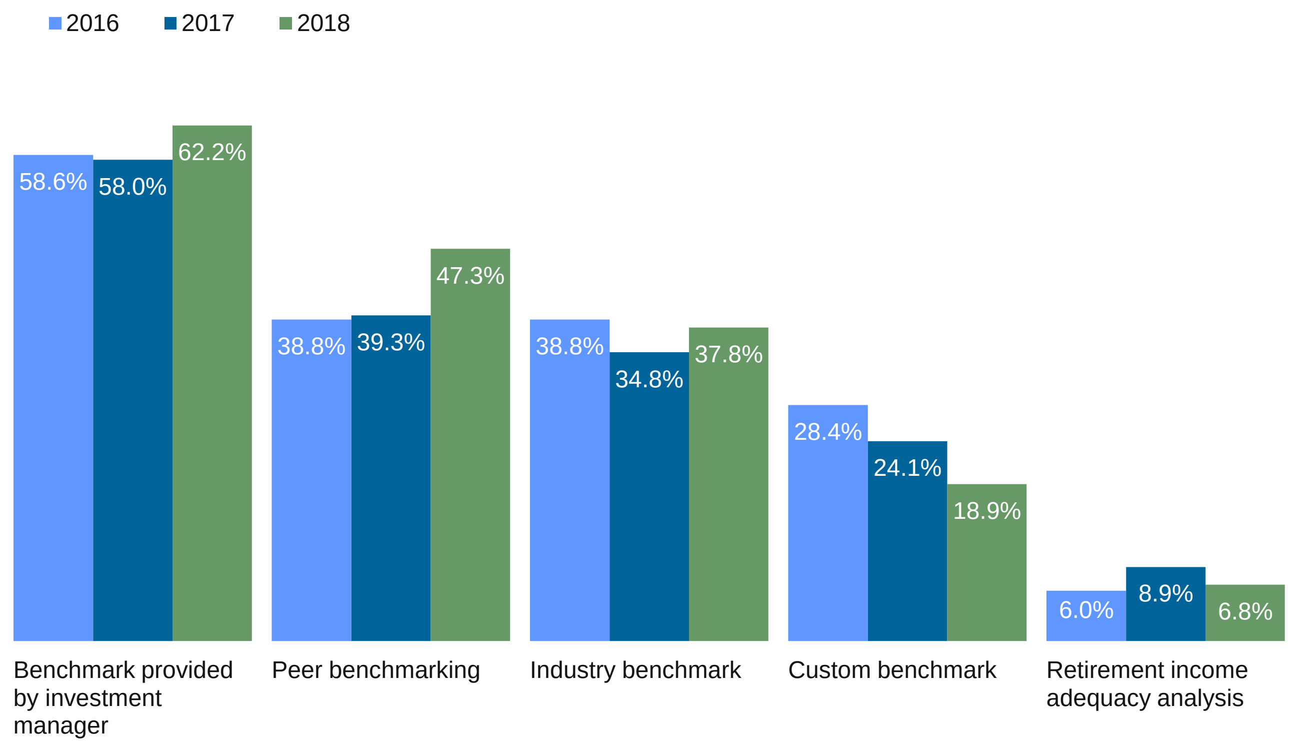
(7=Most important. Total ranking is weighted average score.)

Target Date Fund Monitoring and Benchmarking

Over three-quarters of plan sponsors (77%) reported using multiple benchmarks to monitor their target date funds. Surprisingly, 2.7% of respondents indicated they do not benchmark their target date funds.

Manager benchmarks continued to be the most common means of measurement.

How do you monitor your target date funds?*



Additional categories (2018 data): Do not benchmark (2.7%); Don't know (1.4%)
*Multiple responses were allowed.

Investment Menu

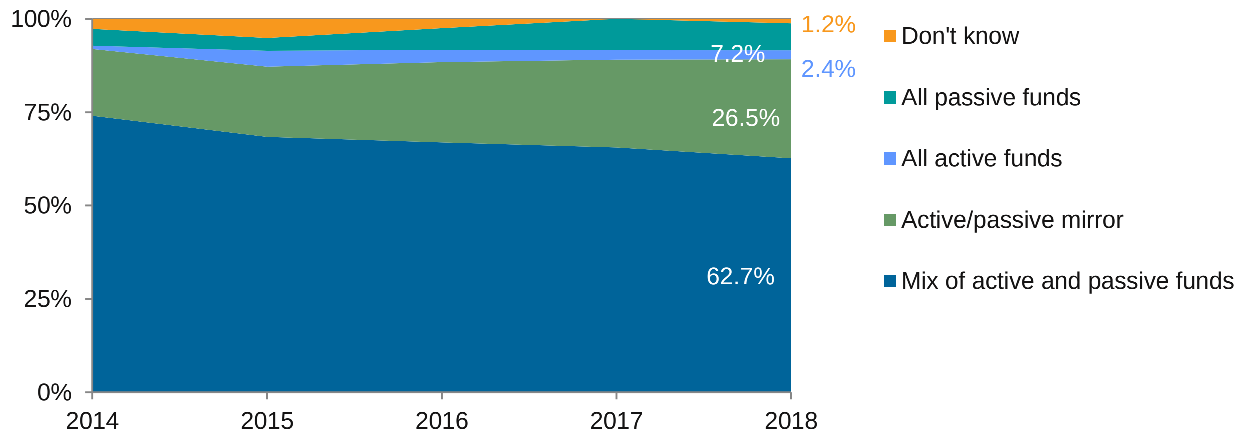
Roughly two-thirds of DC plans had a mix of active and passive investment funds (62.7%). Purely passive lineups remained rare (7.2%), representing a slight decrease over the previous year (8.4%).

Most plan sponsors (86.2%) did not change the proportion of active versus passive funds in their plan in 2018. For those making changes, far more increased the proportion of passive funds than active funds in 2018 (10.3%) and plan to do so in 2019 (14.3%).

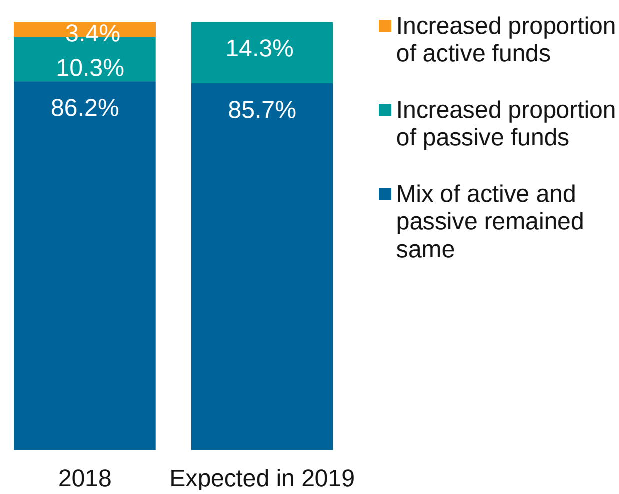
The use of a tiered investment structure surpassed the high reached in 2017, also representing a marked increase from 48.3% in 2016. Most described their tiered structure as being comprised of some form of asset allocation fund tier, core fund tier, and specialty fund tier.

Tiered investment structure: *Allows plan sponsors to build fund lineups for a heterogeneous participant base that includes "do-it-for-me" (tier 1), "do-it-myself" (tier 2), and "investment savvy" participants (tier 3).*

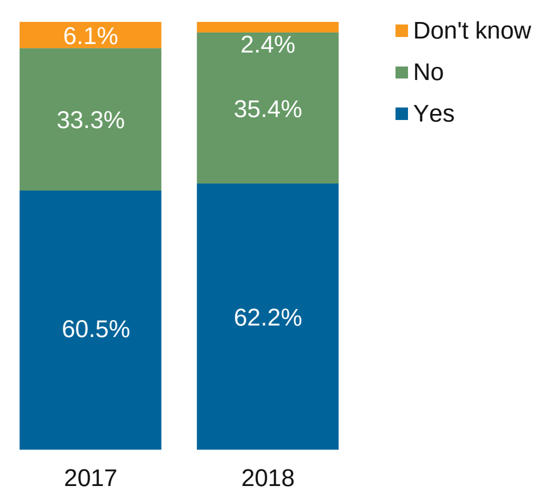
What best describes your plan's investment menu approach?



How have/will the mix of active and passive funds change?



Does your plan use a tiered investment structure?



Investment Menu (continued)

The majority of plan sponsors did not change the number of funds in their DC plan in 2018. When changes did occur, more plans increased the number of funds, which is consistent with the stated intentions in last year's survey.

Target date funds were the fund most commonly added in 2018, which is likely referring to the addition of a new vintage (e.g., 2060 fund). For 2019, 5.6% plan on adding a small/mid-cap fund. Equity funds of various flavors (small/mid cap, emerging markets, and REITs) were the funds most commonly removed.

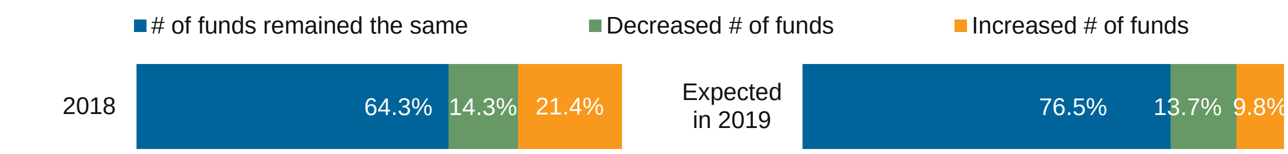
53.8% of plans mapped assets in eliminated funds to similar funds

34.6% mapped to the default fund

7.7% mapped to both

3.8% did something else

Have/will the number of funds available change?



Which funds were/will be added or eliminated?

	Added/will add		Eliminated/will eliminate	
	In 2018	In 2019	In 2018	In 2019
Alternatives				
Brokerage window		1.9%		
Company stock				1.9%
U.S. fixed income	3.7%			
U.S. large cap equity	1.9%	3.7%	1.9%	1.9%
U.S. sm/mid cap equity	3.7%	5.6%	3.7%	3.7%
U.S./global balanced	1.9%		1.9%	1.9%
Emerging mkts equity			3.7%	
Global equity	1.9%		1.9%	
High yield fixed		3.7%		
Non-U.S. equity	3.7%		1.9%	
Non-U.S./global fixed	1.9%	3.7%	1.9%	
Money market		1.9%		1.9%
Real return		1.9%		
REITs	1.9%		3.7%	
ESG*	3.7%	3.7%		
Specialty/sector				1.9%
Stable value		3.7%	1.9%	
Target date	7.4%	1.9%	1.9%	
TIPS		1.9%	1.9%	
Other	5.6%	5.6%	1.9%	7.4%

*Environmental, social, and governance.

Investment Vehicles

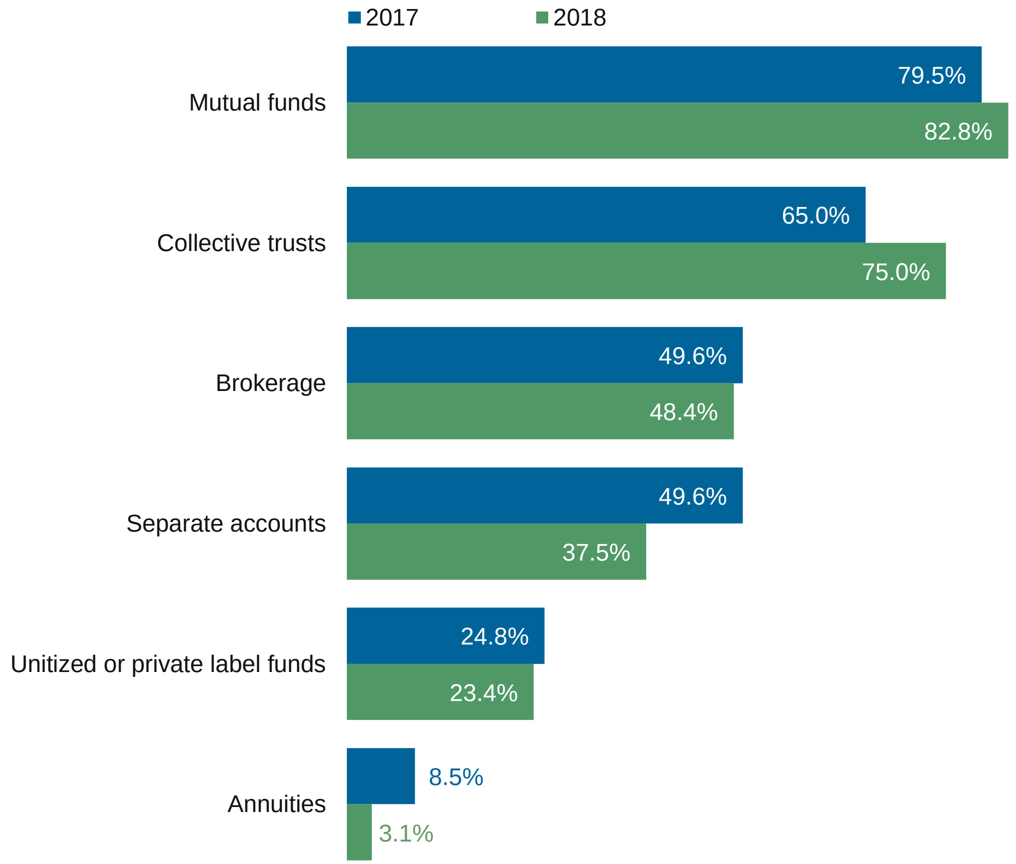
Use of collective trusts continued to rise, reaching a high of 75% in 2018 from 44% in 2011. More often, plans used collective trusts for non-stable value options rather than the stable value option.

The use of separate accounts decreased from nearly 50% in 2017 to 38% in 2018. This can partly be explained by the sample not including government plans this year.

The proportion of plans using unitized funds remained similar from 2017 to 2018. Of those using unitized funds, 87.5% had over $1 billion in plan assets.

Of those offering a brokerage window, 71% offered a full window (vs. 29% offering a more limited mutual fund window).

Does your plan offer the following investment types within the fund lineup?*



Additional categories (2018 data): Pooled insurance accounts (3.1%); Standalone ETFs (1.6%); Other (1.6%)

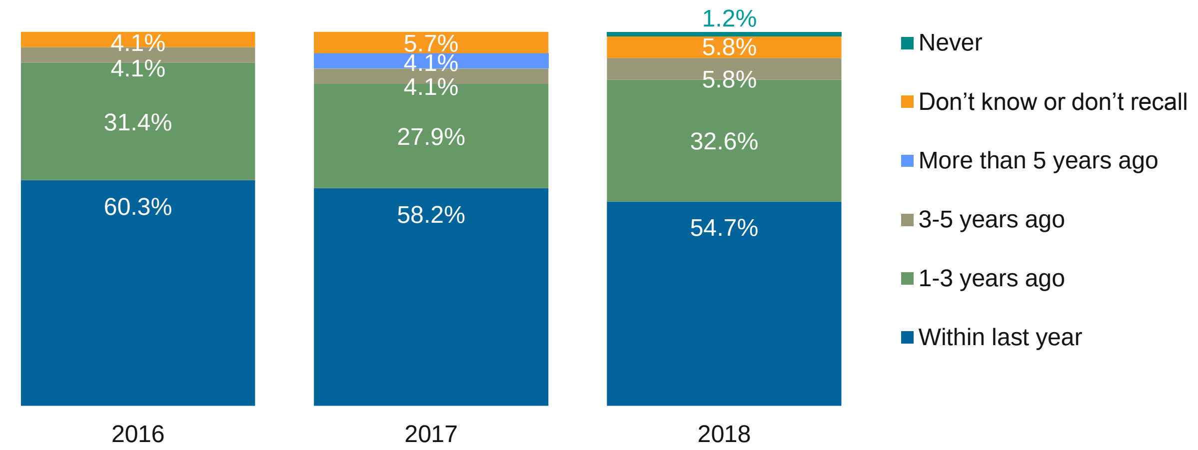
*Multiple responses were allowed. Some respondents offer multiple asset classes in each vehicle type; e.g., both stable value and another asset class are offered as a collective trust and/or separate account.

Investment Structure Evaluation

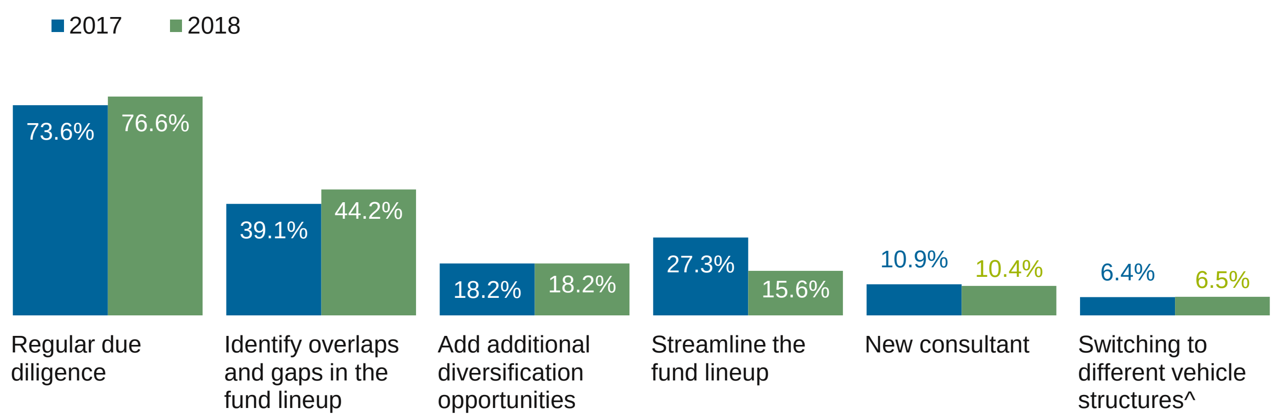
As in recent years, the majority of plan sponsors (54.7%) conducted an investment structure evaluation within the past year.

Regular due diligence remained the most common reason for conducting an investment structure evaluation. The next two most common reasons were to identify overlaps and gaps in the fund lineup (44.2%) and to add additional diversification opportunities (18.2%).

When was the last time your organization conducted an investment structure evaluation to determine gaps/overlaps in the investment offerings?



What motivated the most recent investment structure evaluation?*



Additional categories (2017/2018 data): Other (1.8%/7.8%); Participant demand for additional funds (4.5%/3.9%); New recordkeeper (4.5%/2.6%).
^e.g., unitization, separate accounts, collective trusts

*Multiple responses were allowed.

Investment Evaluation and Selection Criteria

Investment performance retook the top-ranking attribute for 2018. The previous leader, fills style or strategy gap, slipped to number three.

Participant request continues to be a low-ranking attribute in the evaluation and selection of investment funds.

What are the most important attributes in the evaluation and selection of investment funds?

Most important

	Ranking
Investment performance	3.8
Cost and fees	3.4
Fills style or strategy gap	3.2
Investment management team stability	1.9
Style consistency	1.3
Brand name/market image	0.4
Participant communication and educational support	0.3
Quality of service to plan sponsor	0.2
Ease of integration with recordkeeping system	0.2
Participant request	0.2
Leverages existing pension fund managers	0.1

Least Important

(5=Most important. Total ranking is weighted average score.)

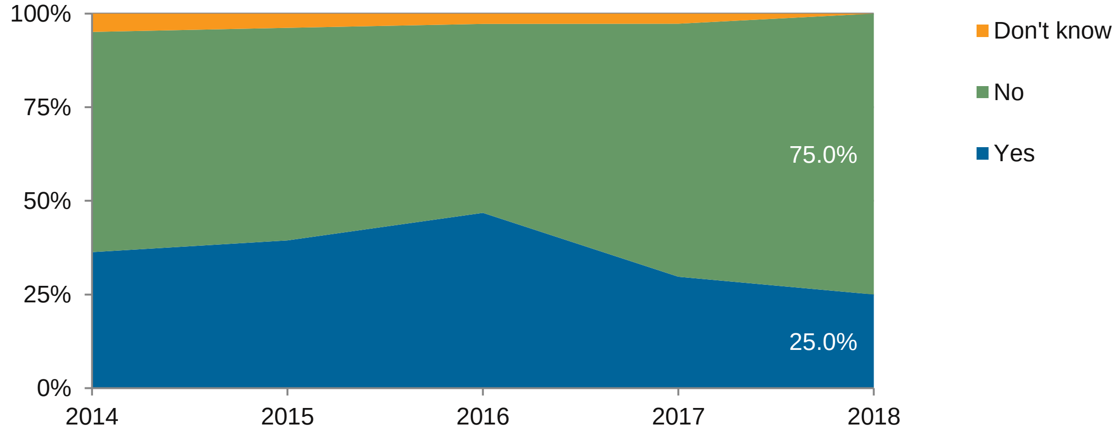
Manager/Fund Replacement

In 2018, a quarter of plan sponsors reported replacing managers/funds in the past year due to performance-related reasons. This was down from 30% in 2017.

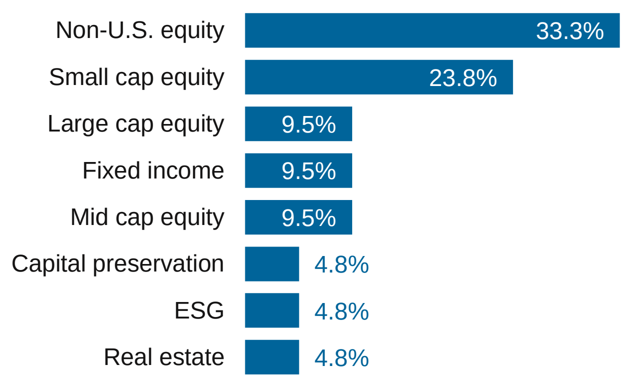
Non-U.S. equity was the most commonly replaced fund, which could be due to plan sponsors switching from developed to more broad non-U.S. mandates (e.g., ACWI ex-US). As in previous years, small cap equity was near the top.

Of the manager/fund changes made, only 9.5% were in large cap equity, a notable decline from 50.0% in 2017.

Did you replace managers/funds in the past year due to performance-related reasons?



Which funds did you replace?*



*Percentages are out of just those that made changes. Multiple responses were allowed.

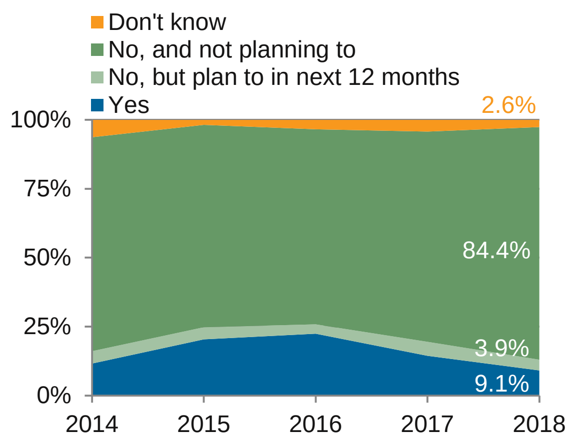
Re-enrollment

In 2018, 9.1% of plan sponsors indicated they had ever engaged in an asset re-enrollment—defined here as requiring all participants in the plan to make a new fund selection or else be defaulted into the default investment option.

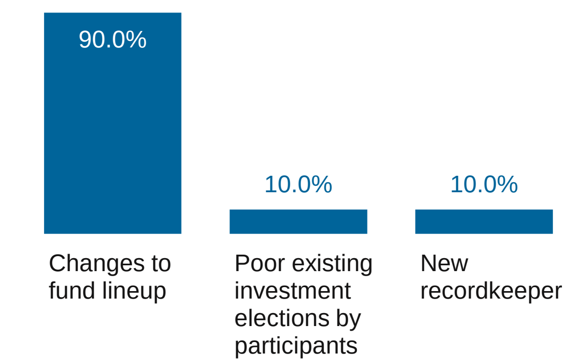
Of the plans that had engaged in a re-enrollment, the majority (71.4%) did so more than 12 months ago versus 28.6% that either engaged in a re-enrollment within the past 12 months or have had multiple re-enrollments. Few plans (3.9%) are planning a re-enrollment in the next 12 months—primarily because plan sponsors believe it is not necessary, not a priority, or that participants would object.

“Changes to the fund lineup” was the most common motivation for re-enrollment (90.0%).

Have you ever engaged in an asset re-enrollment of the plan?



What is the motivation for the re-enrollment?*



*Multiple responses were allowed.

Why has there been/will there be no re-enrollment?

Most important → Least important

	Ranking
Not necessary	5.0
Participants would object to re-enrollment	4.7
Not a priority	4.4
Too much potential fiduciary liability	3.3
Too difficult to communicate	3.1
Too many administrative complexities	2.6
Objections from senior management	2.0
Too costly	1.1
Other	0.7
Too many employers to coordinate with to be feasible	0.6
Already re-enrolled participants	0.2

(7=Most important. Total ranking is weighted average score.)

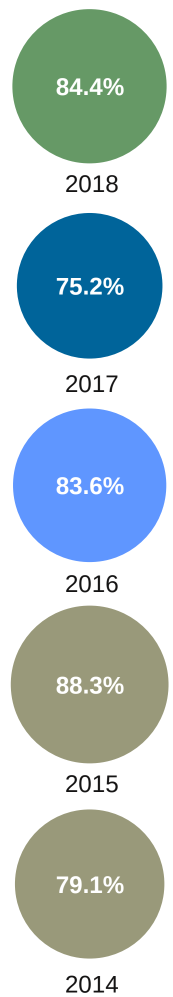
Investment Advisory Services: Prevalence

The vast majority of DC plan sponsors (84.4%) offered some form of investment guidance or advisory service to participants. In many cases, sponsors provided a combination of different advisory services, with two services provided on average.

While there was an increase across all categories of advice/guidance, those offering guidance increased the most. This is partially due to the exclusion of government plans this year.

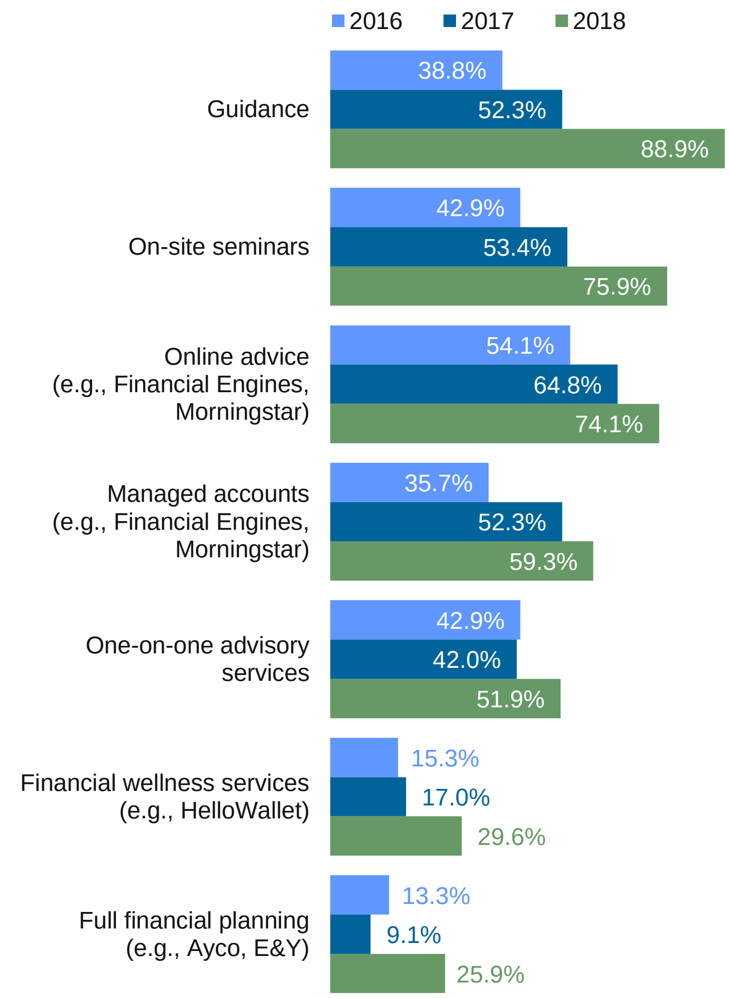
On-site seminars were the next most common (75.9%), followed closely by online advice (74.1%). Managed accounts also saw an uptick to 59.3%. Full financial planning and financial wellness services were the least common services offered—although both saw a notable increase from last year.

Do you offer investment guidance/advisory services?



*Multiple responses were allowed.

What type of guidance or advice do you offer?*



Additional categories (2018 data): Other (3.7%); Don't know (0.0%)

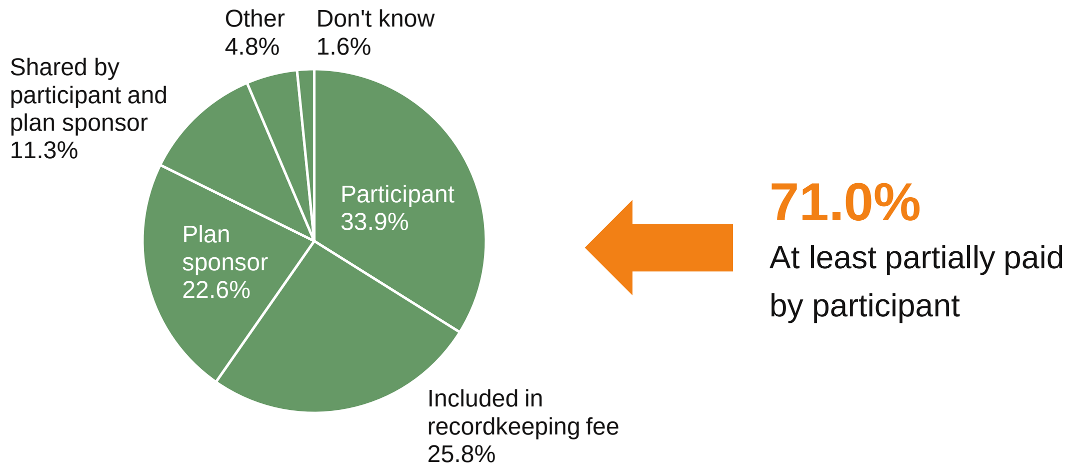
Investment Advisory Services: Enrollment and Payment

The percentage of plan sponsors that paid the full expense of investment advisory services rose to 22.6% in 2018 from 13.3% in 2017. However, it remained most common for participants to pay, either explicitly or as part of the overall recordkeeping costs.

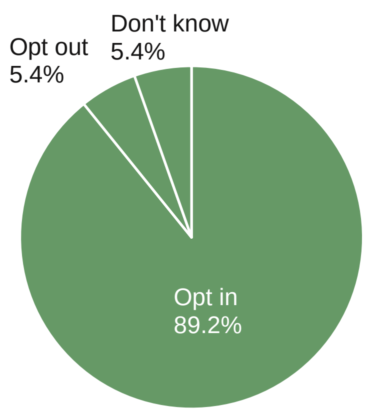
For plan sponsors that offered managed accounts, the vast majority (89.2%) offered them as an opt-in feature whereby participants must proactively elect to use the managed account feature. This was similar to 2017, but remains significantly up from 2016 (78.2%).

By comparison, few plans enrolled participants on an opt-out basis (5.4%). Plan sponsors cited the associated fees as the top reason for not offering opt-out enrollment for managed accounts.

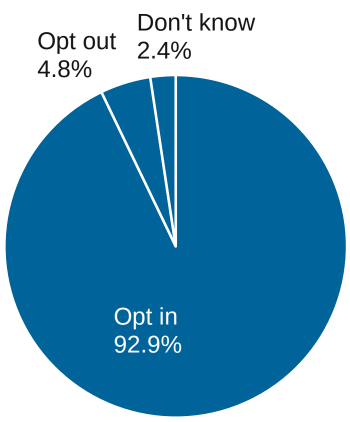
Who pays for investment advisory services?



How are participants enrolled in managed accounts?



2018



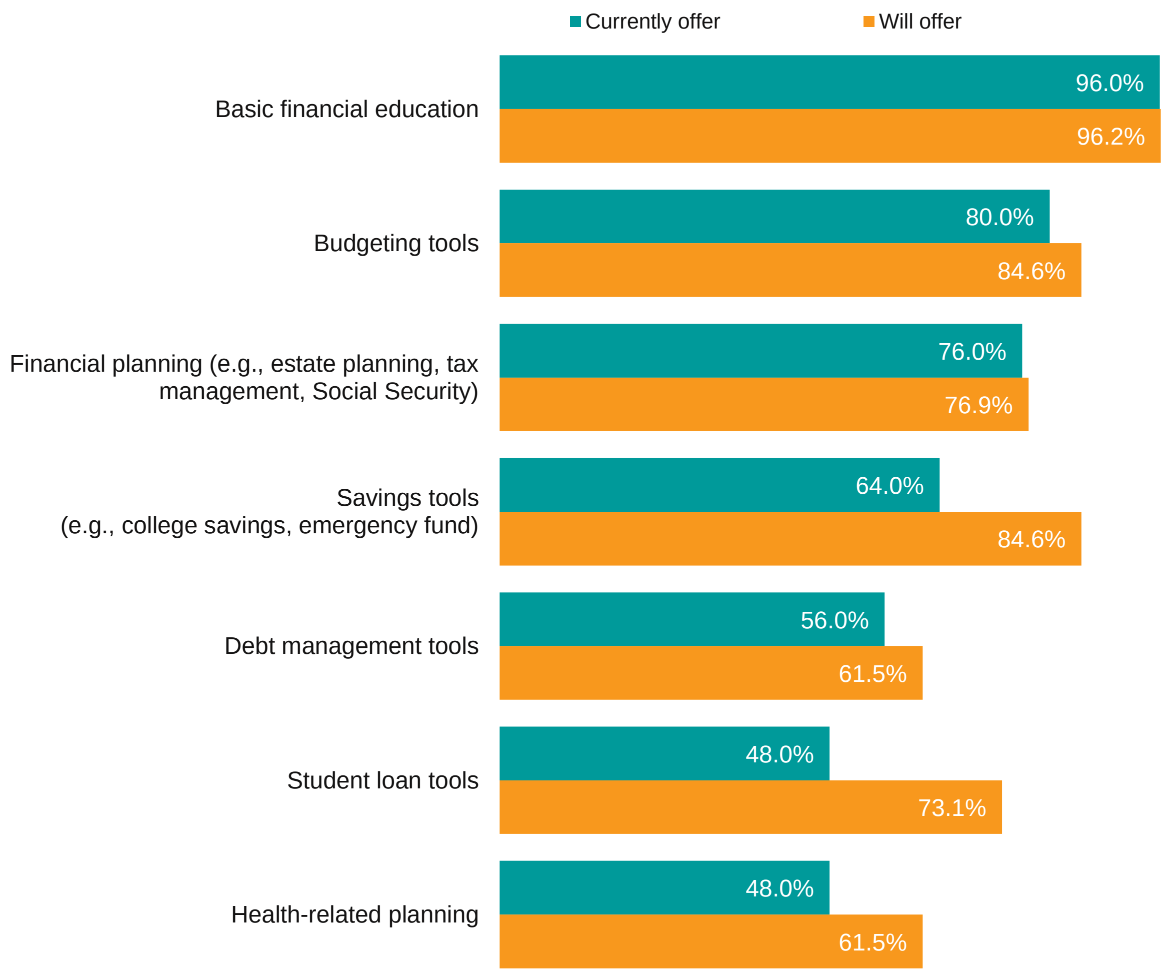
2017

Financial Wellness Services

The percentage of plan sponsors that offered some type of financial wellness service increased to 29.6% in 2018 from 17.0% in 2017. And 17.2% of plans that do not currently offer these services plan to add them next year.

Of those offering wellness services, basic financial education was the most widely offered (96.0%). Budgeting tools came in second (80.0%) with financial planning following closely behind (76.0%).

Of those who offer (or will offer) financial wellness, what service are (will be) used?



Investment Advisory Services: Satisfaction

Satisfaction with investment advisory services was generally high. Guidance and managed accounts received the highest marks, with 100% of respondents very or somewhat satisfied. On-site seminars, though still high on the list, dropped from the top spot last year.

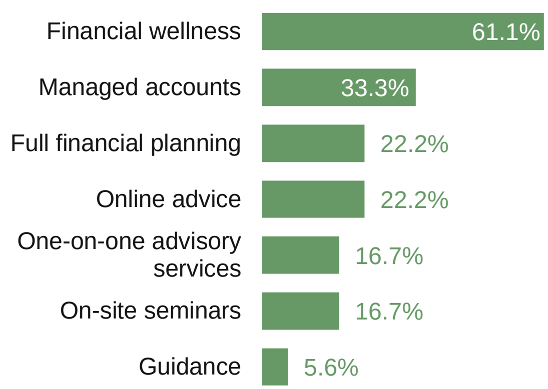
While the majority of plan sponsors were satisfied with their financial planning and financial wellness services, over 10% expressed some level of dissatisfaction.

In the coming year, for sponsors that plan to add new/additional advisory services, the majority expect to add financial wellness services (61.1%) followed by managed accounts (33.3%).

Few plan sponsors are likely to eliminate investment advisory services—only one respondent noted this expected action.

Low participant demand, cost, and uncertainty were top reasons plan sponsors will not offer advice.

If you plan to add advisory services, which type will you offer?

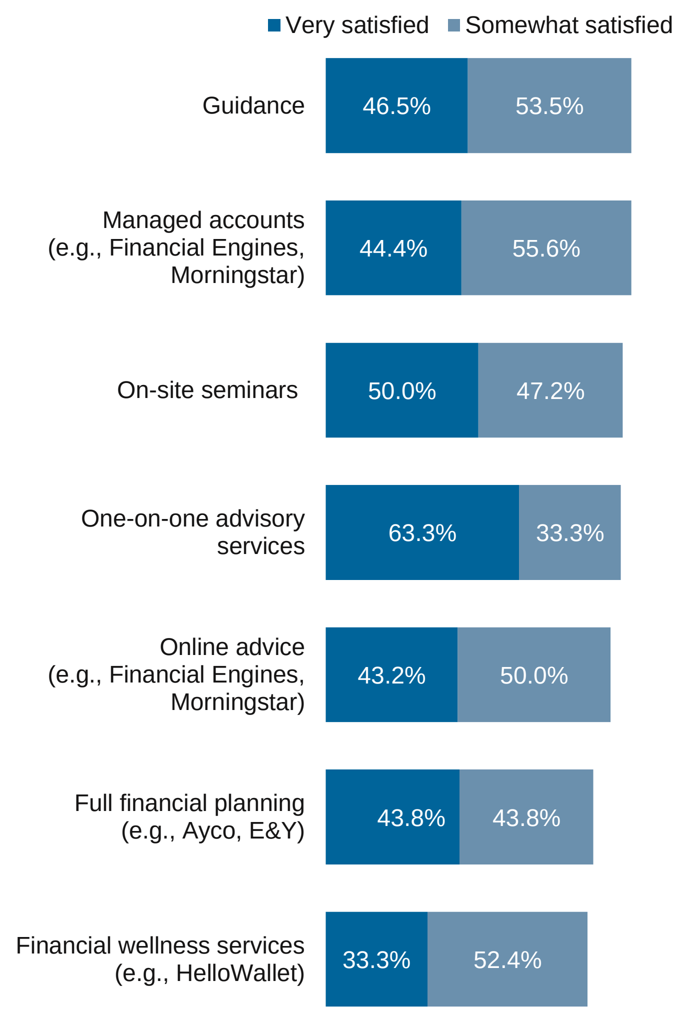


If you plan to eliminate or do not offer advice, what motivates your decision?

	Ranking
Low participant demand/potential utilization	4.3
Too costly to participants	4.3
Unsure how to do so in current regulatory environment	4.2
Too costly to plan sponsor	2.7

(7=Most important. Total ranking is weighted average score.) Additional categories: Not a high priority (1.7) Dissatisfied with available products (1.7)

How satisfied are you with the guidance or advisory service?

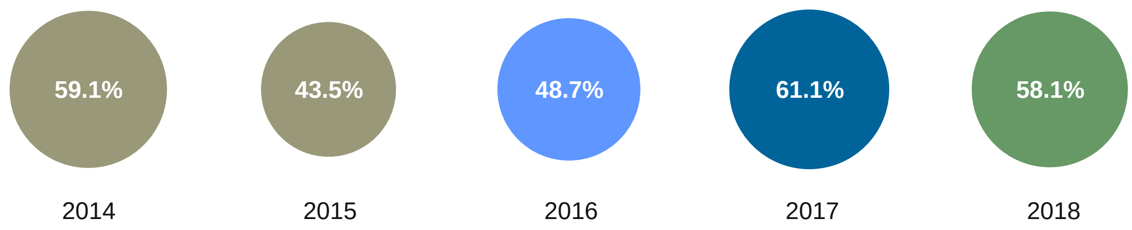


Post-Employment Assets

The percentage of plan sponsors that have a policy for retaining retiree/terminated participant assets remained similar to 2017 findings, still a notable increase from 48.7% in 2016. Among plan sponsors that had a policy, more seek to retain assets than not to retain them.

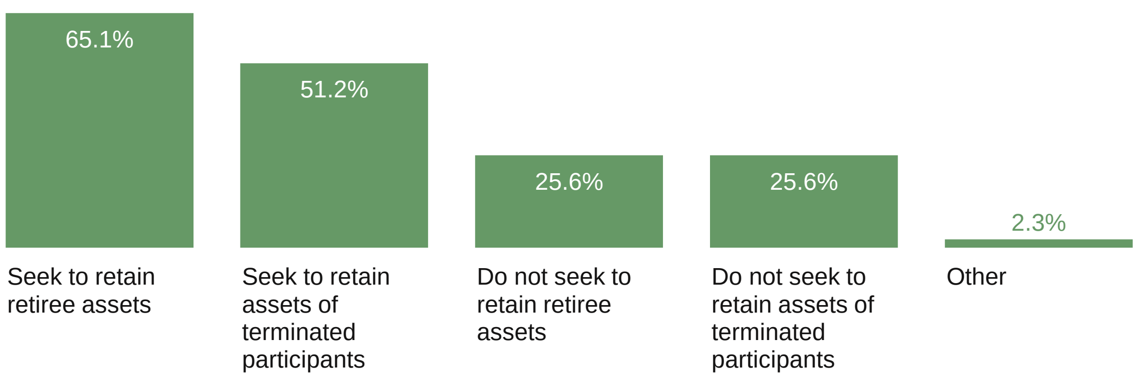
Many of the plans seeking to retain assets offer an institutional structure that is more cost effective than what is available in the retail market.

Does your plan have a policy for retaining retiree/terminated assets?



69.8% sought to **retain assets in 2018** vs. **27.9%** that did not

If you have a policy with respect to retaining retiree/terminated assets within the plan, what is that policy?*



*Multiple responses were allowed.

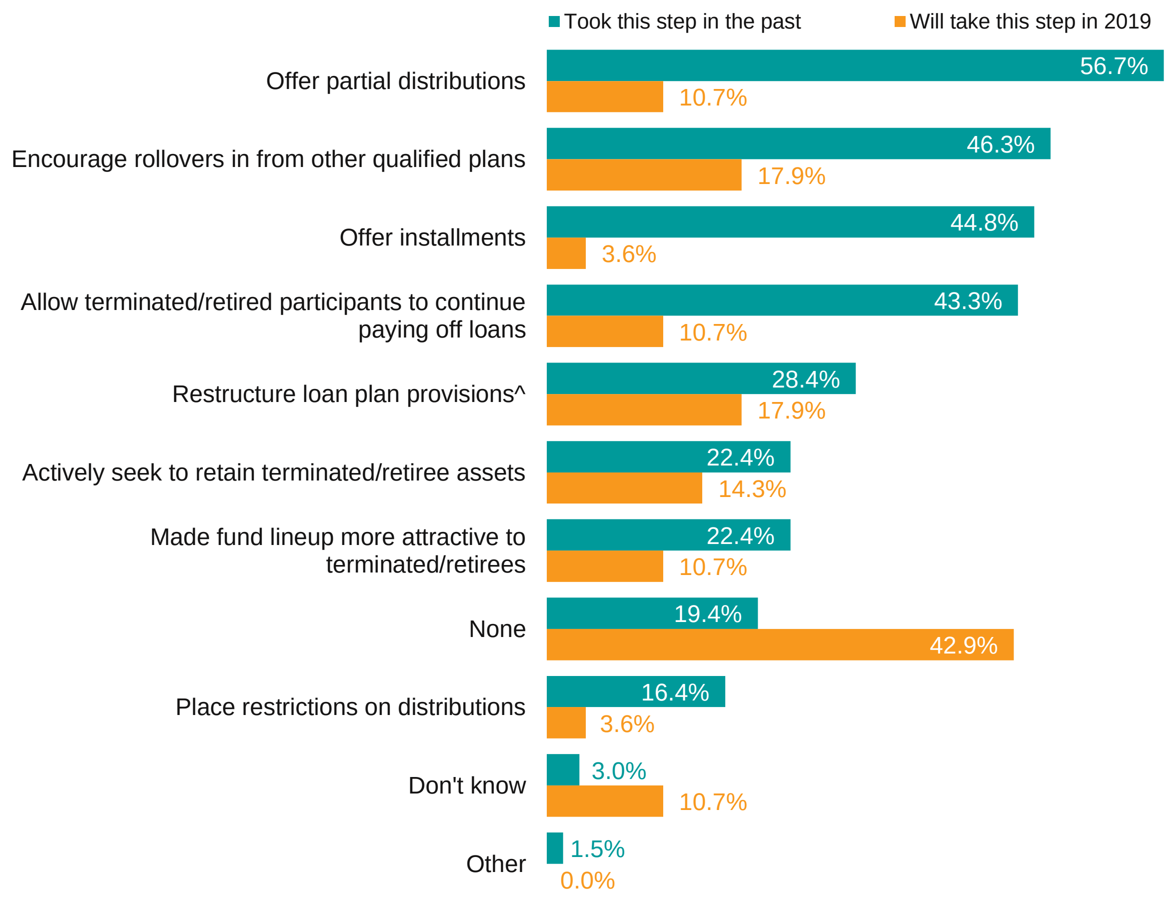
Plan Leakage

Most plan sponsors (77.6%) have taken steps in the past to prevent plan leakage. This included offering partial distributions (56.7%) and encouraging rollovers in from other qualified plans (46.3%). About four in ten reported offering installments (44.8%) or allowing terminated participants to continue paying off loans (43.3%).

In 2019, 46.4% anticipate taking additional steps to prevent plan leakage—most notably, to encourage rollovers and restructure the loan provisions.

77.6% have taken steps in the past to **prevent plan leakage**

What steps have you taken, and will you take, to prevent plan leakage?*



^e.g., reduce number of loans allowed, change loan frequency

*Multiple responses were allowed.

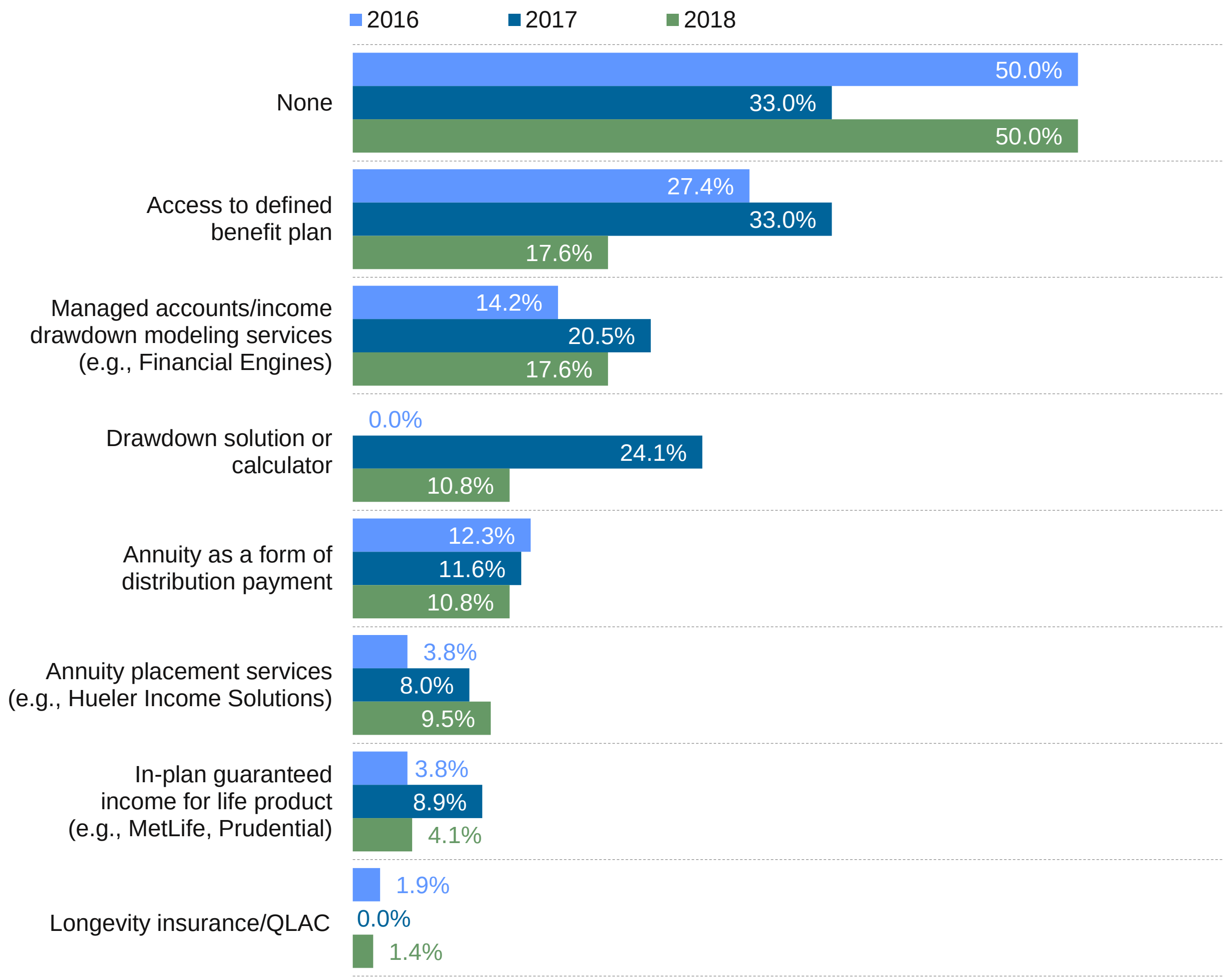
Retirement Income Solutions

Half of plans (50.0%) offered some sort of retirement income solution to employees. The most common solution was providing access to a defined benefit plan or via a managed account service.

The rate of plan sponsors that reported offering qualified longevity annuity contracts (QLACs) or longevity insurance in their plans remains low, despite a 2014 Treasury Department ruling making it easier to do so.

50% offered a **retirement income solution**

What retirement income solutions do you offer to employees?*



*Multiple responses were allowed.

Reasons for Not Offering Annuities

Plan sponsors cited a number of reasons to explain why they are unlikely to offer an annuity-type product in the near term. The top reasons revolved around complexity and uncertainty.

Plan sponsors reported being uncomfortable or unclear about the fiduciary implications, and that an annuity-type product is unnecessary or not a priority. Respondents also indicated that a lack of participant need or demand, the difficulties in communicating to participants, and concern over insurer risk drove the decision to not offer these products.

If your DC plan does not offer an annuity-type product, please indicate why by rating the following choices

Most important

	Rating
Uncomfortable/unclear about fiduciary implications	4.1
Unnecessary or not a priority	3.6
No participant need or demand	3.3
Difficult to communicate to participants	2.6
Concerned about insurer risk	2.3
Too costly to plan sponsors/participants	2.2
Too administratively complex	2.1
Products are not portable	2.1
Uncomfortable with available products	1.9
Lack of product knowledge	1.8
Availability of DB plan	1.8
Recordkeeper will not support this product	1.4

Least Important

(5=Most important. Total rating is weighted average score.)

Fee Calculation

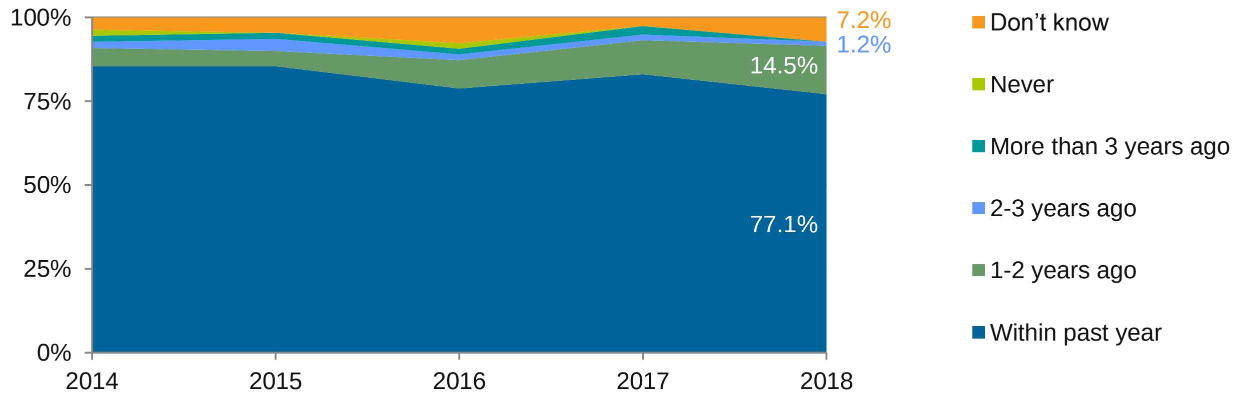
The percentage of plan sponsors that calculated their DC plan fees within the past 12 months came in at 77.1% in 2018. This remained down from a high of 92.9% in 2013. In an uptick from last year, 7.2% were unsure of the last time all-in fees were calculated.

A combination of entities are generally responsible for calculating plan fees. In 2018, fees were most frequently calculated by the consultant, followed by the plan sponsor and/or recordkeeper.

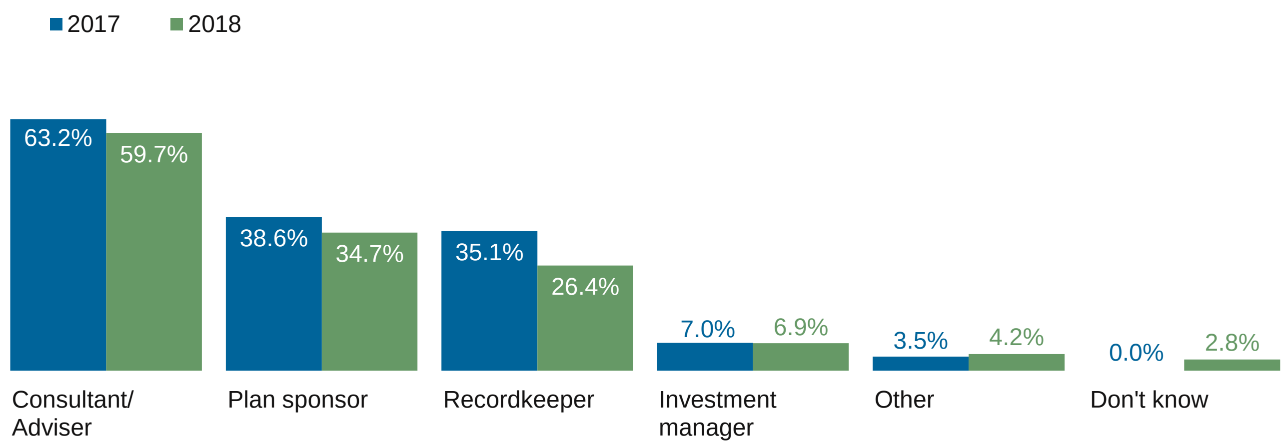
57.6% evaluated **indirect revenue** when calculating fees

24.2% did not know if it was evaluated

When was the last time you calculated all-in fees for your DC plan? (All-in fees include all applicable administration, recordkeeping, trust/custody, and investment management fees.)



Who was responsible for your fee calculation?*



*Multiple responses were allowed. Additional category (2017/2018 data): Actuary (0.0%/0.0%)

Fee Benchmarking

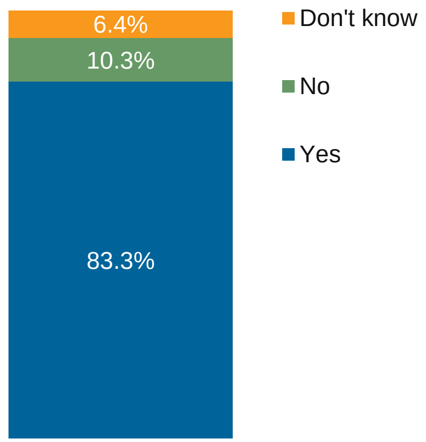
Over four in five plan sponsors (83.3%) benchmarked the level of plan fees as part of their fee calculation process, up from last year (77.2%). The percentage of plan sponsors that did not know whether plan fee levels were benchmarked (6.4%) was down from 9.6% in 2017.

In the majority of cases, the consultant/adviser conducted the benchmarking (82.4%), which was consistent with last year. More plan sponsors benchmarked their own plan fees in 2018 than in 2017 (22.1% vs. 14.1%, respectively).

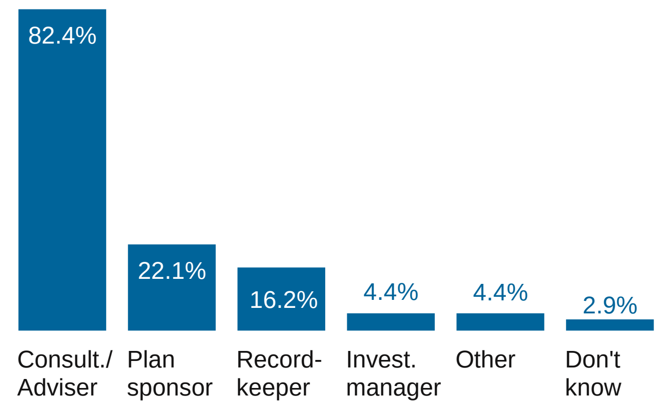
Plan sponsors tend to use multiple data sources in benchmarking. Consultant databases (67.7%) were the most heavily used method, showing a substantial increase year-over-year. RFIs (25.8%) and data from the recordkeeper's database (24.2%) were the next most frequently cited, also both up from last year. General benchmarking data fell in half from last year (46.0% in 2017 vs. 22.6% in 2018).

66.3% both **calculated and benchmarked** plan fees within the past 12 months

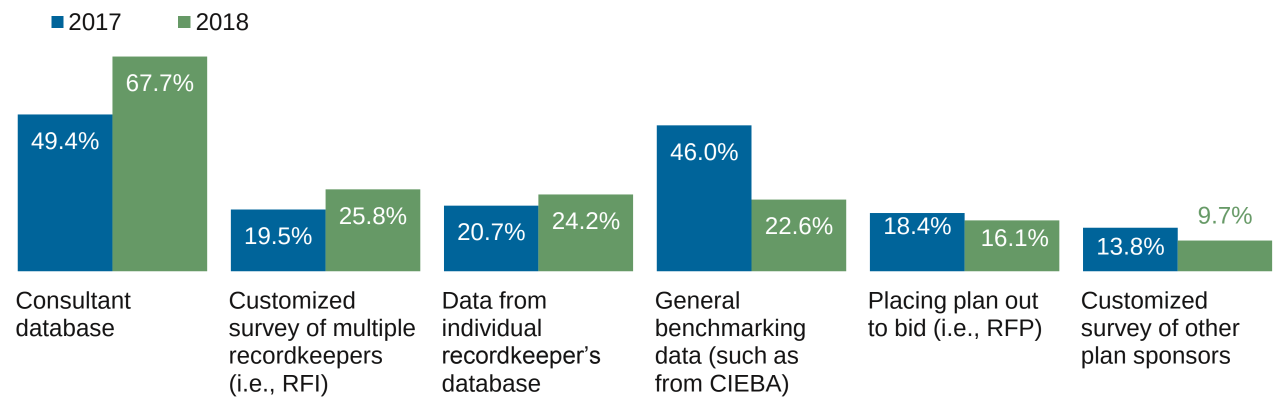
In calculating fees, did you benchmark the level of fees?



Who was responsible for the fee benchmarking?*



How was benchmarking accomplished?*



*Multiple responses were allowed.

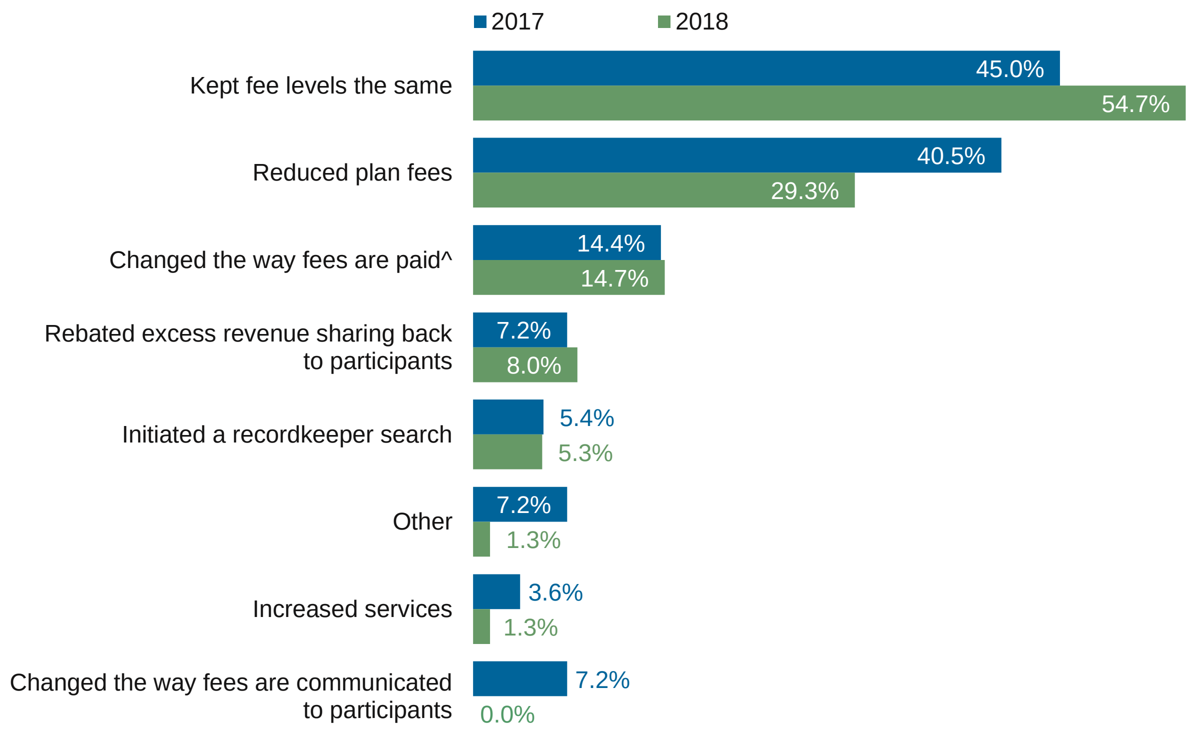
Fee Calculation and Benchmarking Outcomes

Over half of plan sponsors kept fees the same following their most recent fee review (54.7%), while about three in ten plans (29.3%) reduced fees.

After reducing fees, the next most common activity resulting from a fee assessment in 2018 was changing the way fees were paid (14.7%). This proportion remains down significantly from 2016—potentially reflecting the fact that many plan sponsors have already changed their fee payment model.

In last year's survey, plan sponsors rated fees as a lower priority communication topic. This panned out as expected for the year with no plan sponsors having changed the way fees are communicated to participants as a result of their fee review.

What was the outcome of your fee calculation and/or benchmarking?*



Additional categories (2017/2018 data): Initiated a manager search (1.8%/0.0%); Implemented an ERISA-type account (0.9%/0.0%)

^e.g., change from use of revenue sharing to an explicit participant fee

*Multiple responses were allowed.

Fee Payment

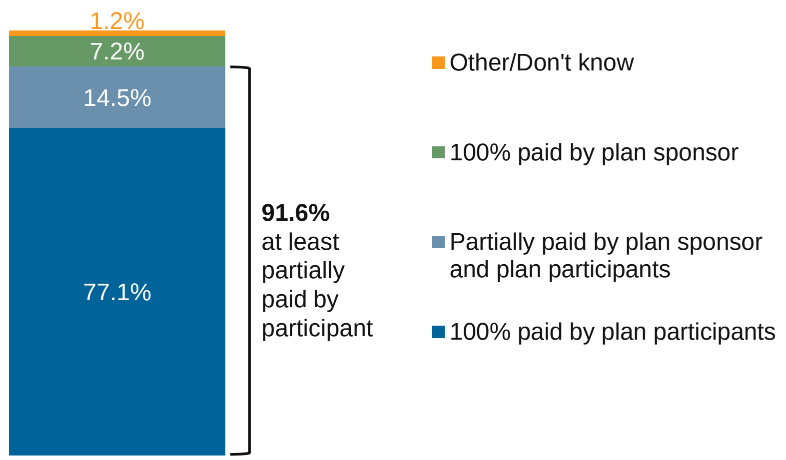
Investment management fees were most often entirely paid by participants (77.1%), and almost always at least partially paid by participants (91.6%). In contrast, about one third (32.5%) of all administrative fees were paid entirely by participants, down significantly from 62.7% in 2017. This was offset by an increase in fees being entirely paid by the plan sponsor (17.8% in 2017 vs. 27.7% in 2018) and fees being split between the sponsor and participant (19.5% in 2017 vs. 38.6% in 2018). Most plan sponsors (71.1%) noted that at least some administrative fees were participant-paid.

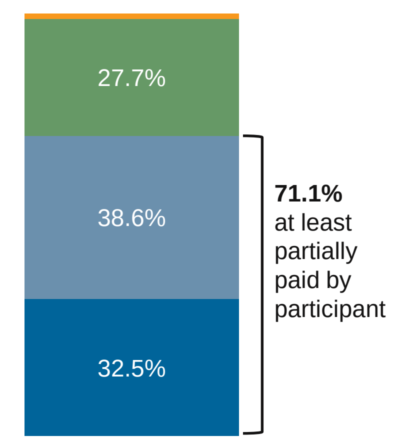
In a modest increase from last year, 29.3% of participants paid administrative fees either solely through revenue sharing or through a combination of revenue sharing and some type of out-of-pocket fees. Only 13.8% paid solely through revenue sharing (vs. 14.7% in 2017).

Of those paying through an explicit fee, using a per-participant fee continued to be more popular than an asset-based fee, and by a much wider margin in 2018.

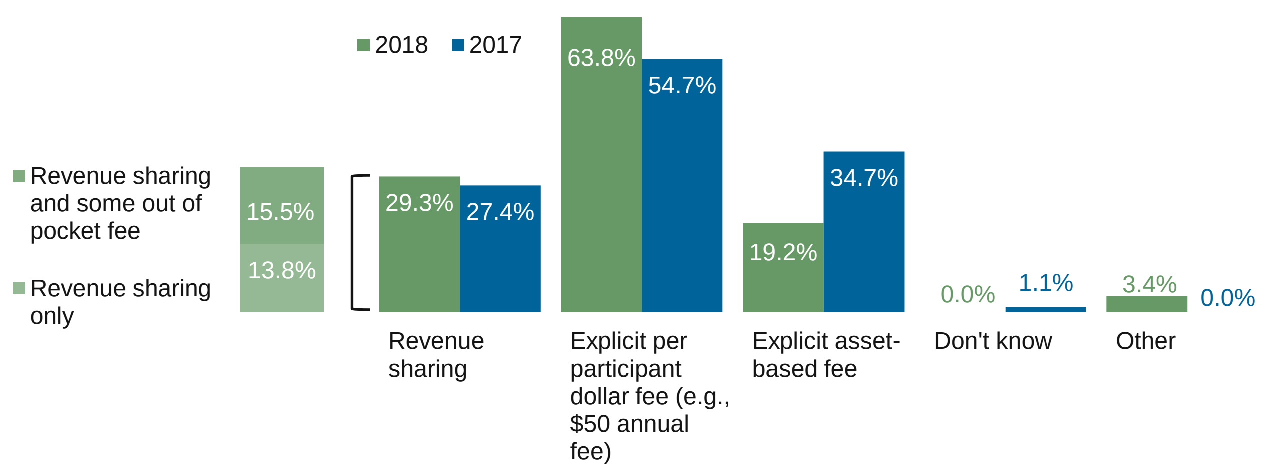
How are the plan's investment management fees paid?

How are the plan's administrative fees paid?





How do participants pay for the administration of the plan?*



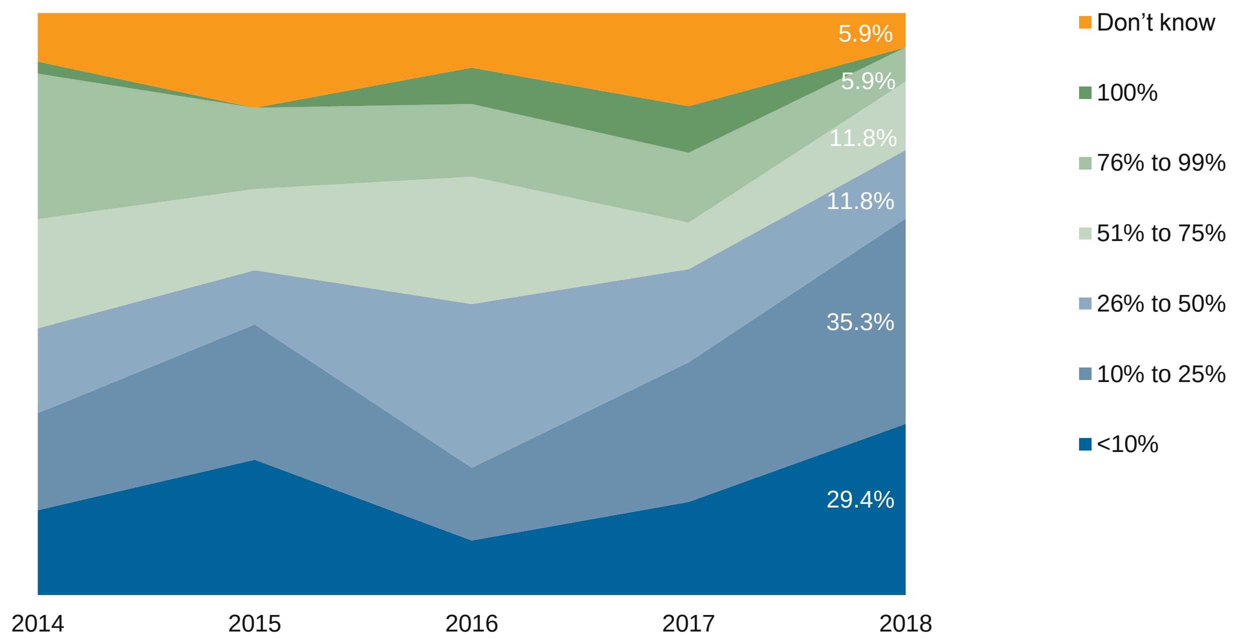
*Multiple responses were allowed.

Revenue Sharing

No plans with revenue sharing reported that all of the funds in the plan provided revenue sharing, a decrease from 2017. The most common was to have between 10% and 25% of funds paying revenue sharing, consistent with 2017.

Still, about 6% said they are not sure what percentage of the funds in the plan offer revenue sharing.

What percentage of the funds in the plan offer revenue sharing or some kind of administrative allocation back from the investment fund?



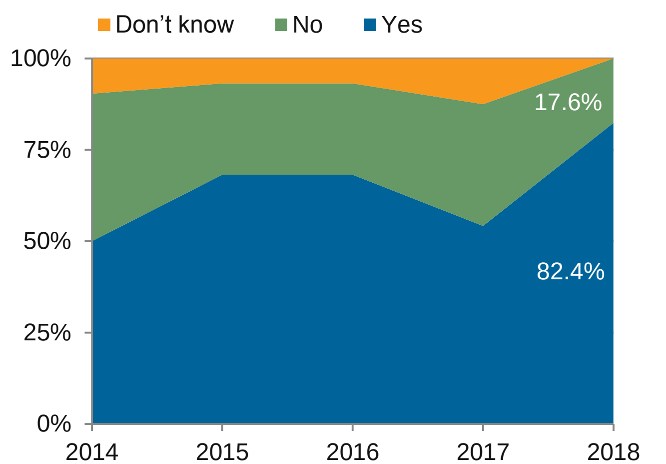
ERISA Accounts for Plans with Revenue Sharing

Eight out of ten plan sponsors with revenue sharing had an ERISA account. This was up significantly from 2017 (54.2%) and even more so since 2011 when just over a third reported having one. For the first time, no plan sponsors responded that they did not know if they had an ERISA account, notably down from 12.5% in 2017.

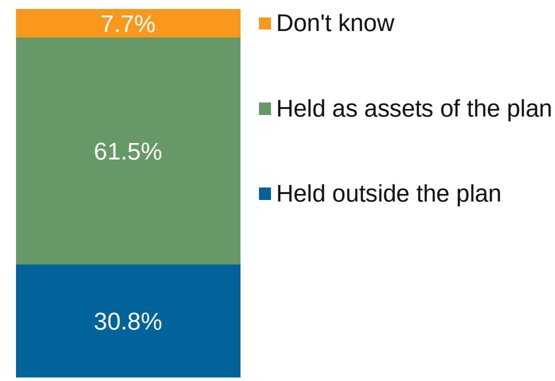
In most cases (61.5%), reimbursed administrative fees were held as a plan asset.

Consulting fees were the most commonly paid expense through the ERISA account (57.1%), taking over the number one spot from communications, which came in fifth place. Rebating excess revenue sharing, auditing fees, and legal fees tied for second place.

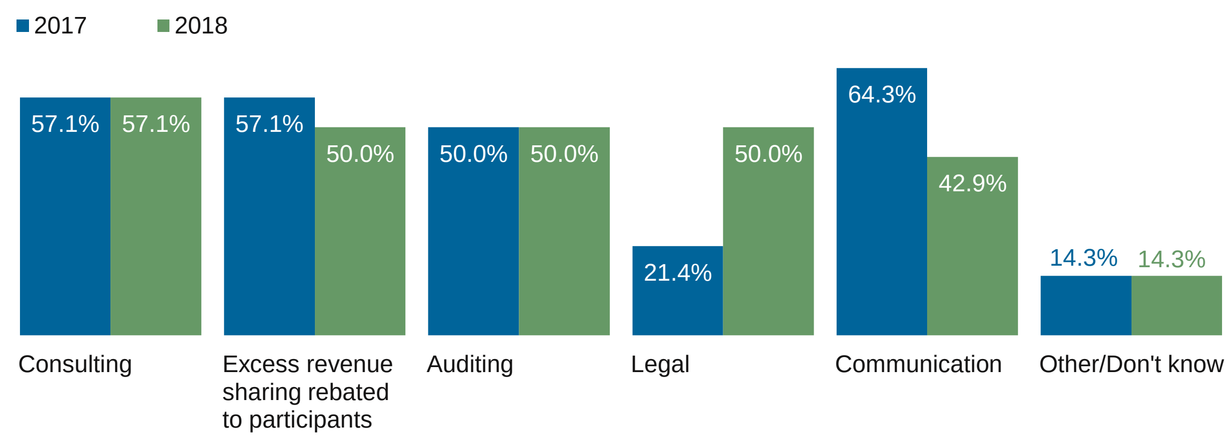
Do you currently have an ERISA expense reimbursement account?



Are ERISA account assets held outside the plan or as assets of the plan?



What expenses are paid through the ERISA account?*



*Multiple responses were allowed.

Fee Initiatives in 2019

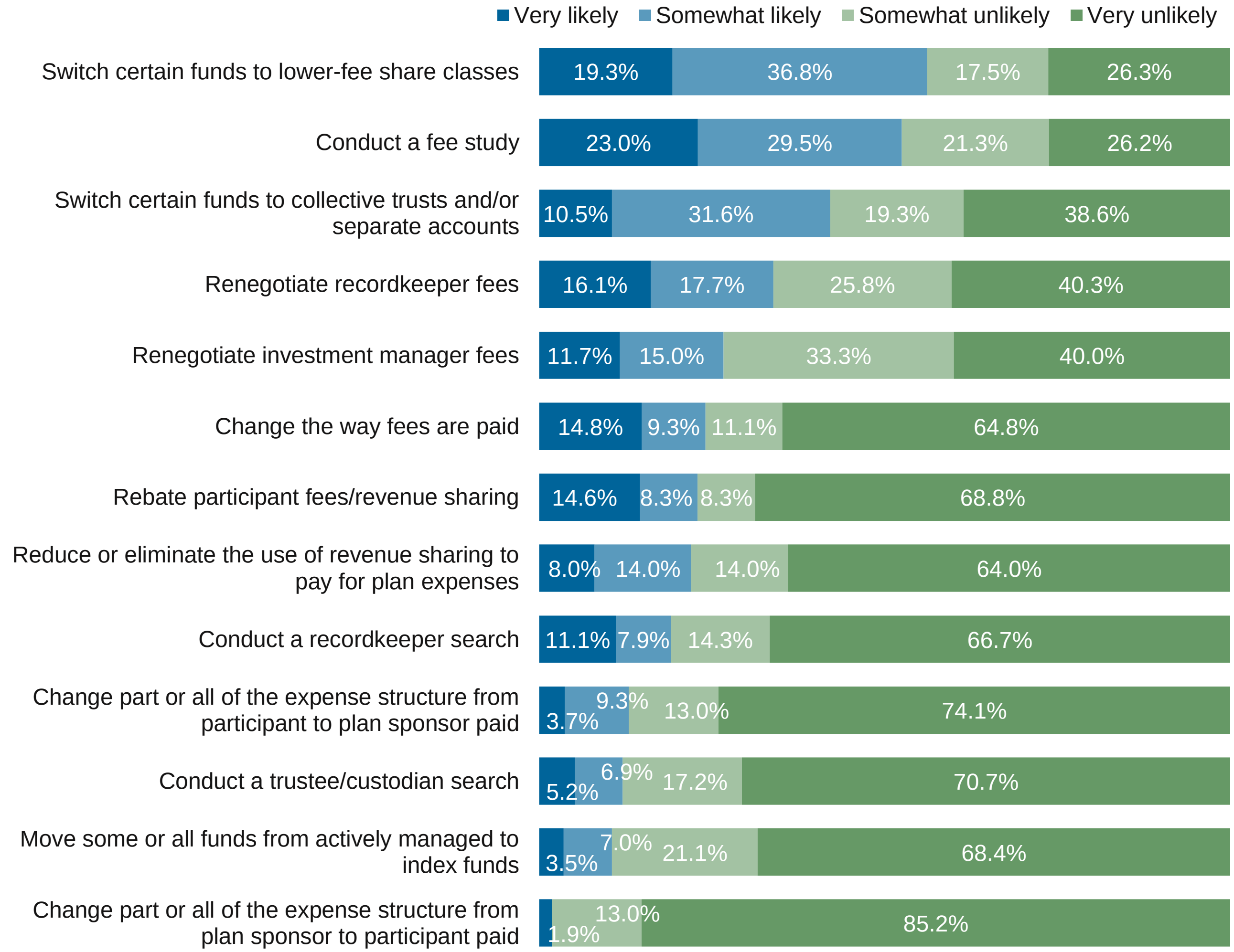
Five in ten plan sponsors are either somewhat or very likely to conduct a fee study in 2019 (52.5%), somewhat down from last year (60.0%).

Other somewhat or very likely actions include switching to lower-fee share classes (56.1%) and switching to more institutional vehicles such as collective trusts or separate accounts (42.1%). Renegotiating recordkeeper and investment manager fees will also be on plan sponsors' to-do lists (33.8% and 26.7%, respectively).

Recordkeeper search activity is likely to continue in 2019, with 19.0% saying they are very or somewhat likely to conduct a search, up from last year, though still down from a record high of 25.5% in 2016.

More plan sponsors intend to shift fees from the participant to the plan sponsor rather than from the sponsor to the participant.

What steps around fees are you most likely to engage in next year (2019)?



Participant Communication

For the second year in a row, financial wellness ranked as the number one upcoming area of communication focus. Investing came in second, up from fifth place last year. Retirement income adequacy fell from second to fourth place.

Similar to last year, while plan sponsors are heavily focused on managing plan fees, they are not as focused on communicating them, according to their sixth place spot.

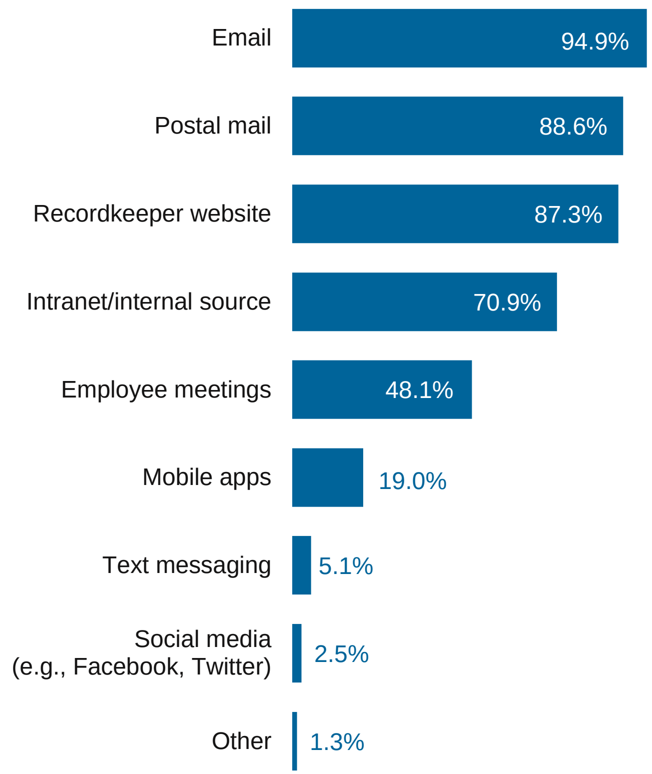
In terms of media channels, email continued to be among the most used channels at 94.9% in 2018, followed by postal mail and the recordkeeper's website. Mobile apps, text messaging, and social media still are not widely used.

Which areas of communication will you focus on in 2019?

	Ranking
Financial wellness	5.5
Investing (e.g., market activity, diversification, etc.)	4.3
Contribution levels	4.1
Retirement income adequacy	3.9
Plan participation	3.3
Fees	2.4
Managing income in retirement	2.2

7=Most focus. Total ranking is weighted average score.
Additional categories:
Loans (1.6)
Withdrawals/distributions (1.3)
Company stock (0.5)

What media channels do you use to communicate plan changes, information, benefits, etc., to participants?*



*Multiple responses were allowed.

Retirement Income Projections

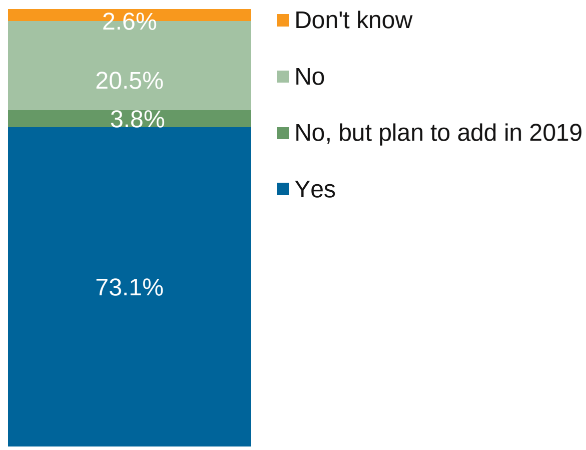
Retirement income projections show plan participants how their current balance might translate into income in retirement.

Plan sponsors providing a retirement income projection fell modestly, to 73.1%, from the last two years (77.7% in 2016 and 78.4% in 2017), following a dramatic increase in 2015 (56.1%).

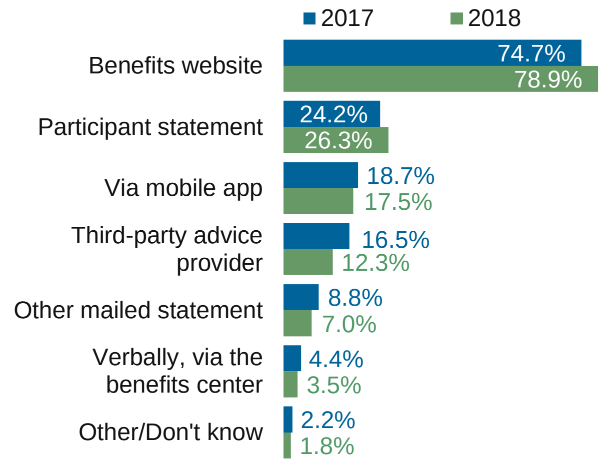
As in past years, the benefits website was the most common way to provide the retirement income projection (78.9%). Participant statements also showed the projection (26.3%). This information was sometimes disseminated via mobile apps (17.5%) or through a third party (12.3%).

The projected income calculation was usually shown as a projection of monthly income in retirement (80.4%).

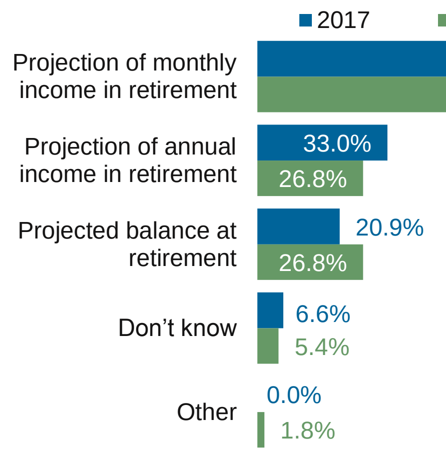
Do you provide a retirement income projection for participants?



How is the retirement income projection provided?*



How is the projected retirement income calculation displayed?*



*Multiple responses were allowed.

About the Authors

Jamie McAllister is a Senior Vice President and defined contribution consultant in Callan's Fund Sponsor Consulting group based in the Chicago office. Jamie is responsible for providing support to Callan's DC clients and consultants, including DC provider searches, structure reviews, fee analyses, maintaining the recordkeeping database, and developing DC research. Jamie regularly participates in judging the Innovator Awards sponsored by Pensions & Investments (P&I) and the Defined Contribution Institutional Investment Association (DCIIA) as well as the Plan Sponsor Council of America (PSCA) Signature Awards, and is a member of National Association of Government Defined Contribution Administrators (NAGDCA). She is a shareholder of the firm. Jamie has over 10 years of defined contribution experience. Jamie earned a BBA in Finance with a concentration in international business from the University of Notre Dame.

Greg Ungerman, CFA, is a Senior Vice President and Defined Contribution Practice Leader. Greg is responsible for setting the direction of Callan's DC business, providing DC support both internally to Callan's consultants and externally to Callan's clients, and working with Callan's team of DC subject matter experts to develop research and insights into DC trends for the benefit of clients and the industry. Previously Greg was the co-manager of Callan's San Francisco Fund Sponsor consulting office. He worked with a variety of plan sponsor clients across the western region, including corporate defined benefit and defined contribution plans, foundations/endowments, multi-employer and public plans. His client service responsibilities included strategic planning, plan implementation, coordination of special client requests and customized performance reporting. Greg is a member of Callan's Management and Defined Contribution committees and is a shareholder of the firm. Greg joined Callan in October of 1998. Greg graduated in 1998 from UC Davis with a BS degree in Managerial Economics. Greg is a holder of the right to use the Chartered Financial Analyst® designation. He belongs to the CFA Society of San Francisco and CFA Institute.

Disclosure

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Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are backed by proprietary research, exclusive data, and ongoing education. Today, Callan advises on more than $2 trillion in total fund sponsor assets, which makes it among the largest independently owned investment consulting firms in the U.S. Callan uses a client-focused consulting model to serve pension and defined contribution plan sponsors, endowments, foundations, independent investment advisors, investment managers, and other asset owners. Callan has six offices throughout the U.S. For more information, please visit www.callan.com.

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