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Callan: Money manager-sponsored 401(k) plans have higher balances, contribution rates

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Asset manager-sponsored 401(k) plans have higher balances and employer and employee contribution rates than other plans even though they have largely thrown industry best practices out the window, according to a new study by Callan.

The study, to be released Thursday, found that asset managers embrace complexity in their plan design, offering substantially more investment options than typical plans. They are also partial to actively managed strategies and proprietary products and much less likely to offer target-date funds.

The study analyzed the practices of 157 asset management firms representing more than $200 billion in 401(k) assets and compared the data to a broader population of 55,000 plans.

While the 401(k) industry has been advocating for more streamlined investment lineups, asset managers have taken a contrarian approach, said Greg Allen, Callan's CEO and chief research officer.

"There's a disconnect between what our industry argues are best practice to our clients and what asset managers are doing with the design of their own 401(k) plans," Mr. Allen said in a telephone interview.

Participants in asset manager-sponsored plans had an average balance of $179,171, more than four times the average $42,394 balance in other plans, according to Callan's study. Employer and employee contributions were also notably higher. Employer contributions per employee averaged $5,938, almost five times the average $1,238 employer contribution for the broader population of plans. Employees of asset management firms, meanwhile, contributed an average of $7,187 to their 401(k) plans compared with the average $2,410 contribution other employees make.

The study found that high employer contributions were a strong predictor of high average balances, more so than employee contributions.

When companies make a "big deal" about their 401(k) plans, it creates "an awareness that isn't there when the employers are not engaged," Mr. Allen said. "If senior management illustrates that they support people saving by making big contributions, maybe people pay more attention to their 401(k) and maybe they put in more on balance," he said.

However, the study found that asset managers cast aside best practices in plan design. The 157 manager-sponsored plans in the study offered an average of 43 investment options, almost twice as many as the 23 for the general population. They provided an average of 12 U.S. equity options vs. four for other plans.

Unlike the broad universe of 401(k) plans, manager-sponsored plans for the most part are not enthusiastic supporters of target-date funds. Only 70% of the plans had a TDF series (vs. 91% for the broader population), and the average allocation of participant assets to TDFs was only 12% (vs. 32% for the broader population).

In defiance of industry trends, plans of asset managers also favored active over passive management. The plans had an average of 73% in actively managed strategies compared with 55% for the average large plan with more than $1 billion in the Callan DC index.

Given their relatively high allocation to active strategies, manager-sponsored plans have done a good job of handling investment expenses, according to Callan. The weighted average expense ratio across all of the funds used by the plans was 0.53% compared with an average investment expense ratio of roughly 0.45% for the broader population. The difference stems largely from the prevalence of active strategies in manager-sponsored plans, Callan said.

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