Callan Institute

Research

# 2020 Defined Contribution Trends Survey

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# Key Findings

Callan conducted our 13th annual *Defined Contribution (DC) Trends Survey* in the fall of 2019. The survey incorporates responses from 114 plan sponsors, including both Callan clients and other organizations. We highlight key themes and findings from 2019 and expectations for 2020.

**Top 2020 Priorities**

1. **Plan fees**
2. **Participant communication**
3. **Manager due diligence**

See page 12 for details

2020 area of communication focus:

**Financial Wellness**

See page 47 for details

**95% of plans offer advisory services**

Most popular services:

**Online advice**
**On-site seminars**
**Guidance**

See page 33 for details

**86%** offer a 401(k) plan

**65%** with > $1 bn in assets

See page 4 for details

**93%** of plans have a **target date fund**

**77%** offer a target date fund that is at least partially indexed

**77%** use a target date fund offered by someone other than their recordkeeper

**17%** use a custom target date fund

**21%** plan to in 2020

See pages 22 & 23 for details

**63%** have a policy on asset retention

**75%** of those focus on retaining assets

See page 36 for details

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

**1**

**Reviewing Plan Fees**

See page 11 for details

**89%** have taken steps to prevent plan leakage

*Most common step:*

**Offer partial distributions**

See page 37 for details

## Key Findings

**80%** of plans use institutional vehicles

See page 28 for details

**Fee Payment Trends**

**65%** of plans use explicit per participant fees

**12%** of plans use revenue sharing as sole payment method

See page 43 for details

**87%** of plans now offer a Roth feature, an all-time high

See page 17 for details

**9/10** plan sponsors say they engage an investment consultant

**22%** reported using a 3(38) discretionary adviser

**18%** are unsure if their consultant has discretion over the plan

See page 9 for details

**Top factors for measuring plan success**

Participation

Contribution Rate

Investment Performance

See page 10 for details

**1 in 4** intend to conduct a recordkeeper search in 2020

See page 46 for details

**Calculating and benchmarking fees**

**89%** benchmark fees

**56%** likely will conduct a fee study in 2020

**47%** do not know or do not evaluate indirect revenue

**Focus on fees in 2020**

**67%** plan to switch to lower-fee share classes

**50%** plan to renegotiate manager fees

**45%** plan to renegotiate recordkeeper fees

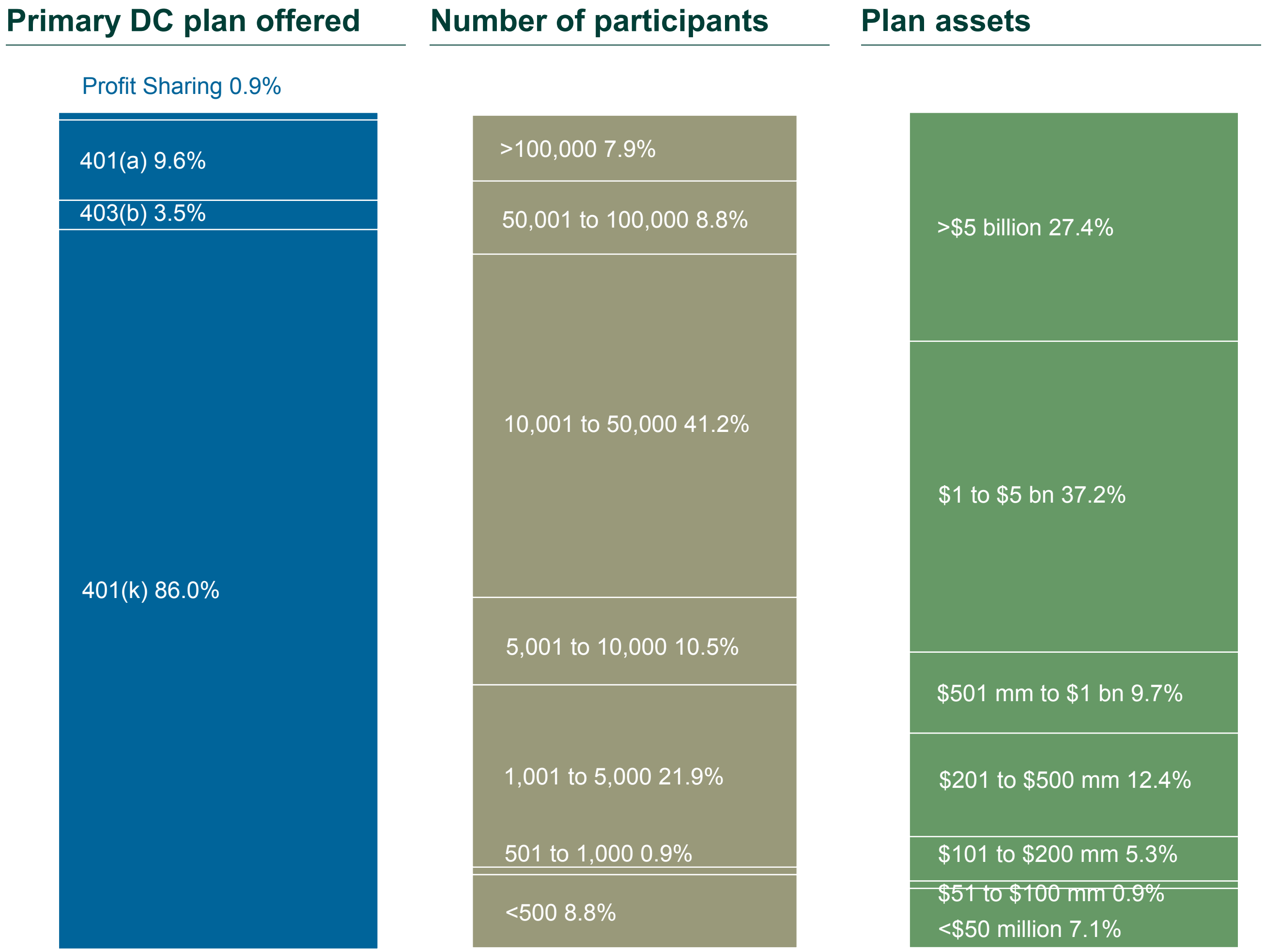
See pages 40, 41, 46 for details

# Respondent Characteristics

Callan conducted our 13th annual *Defined Contribution (DC) Trends Survey* online in September and October of 2019. The survey incorporates responses from 114 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 remained largely the same as last year—85.8% in 2018 and 86.0% in 2019.

More than 90% of plans in the survey had over $100 million in assets; moreover, 64.6% were “mega plans” with more than $1 billion in assets, a slight increase from 2018.



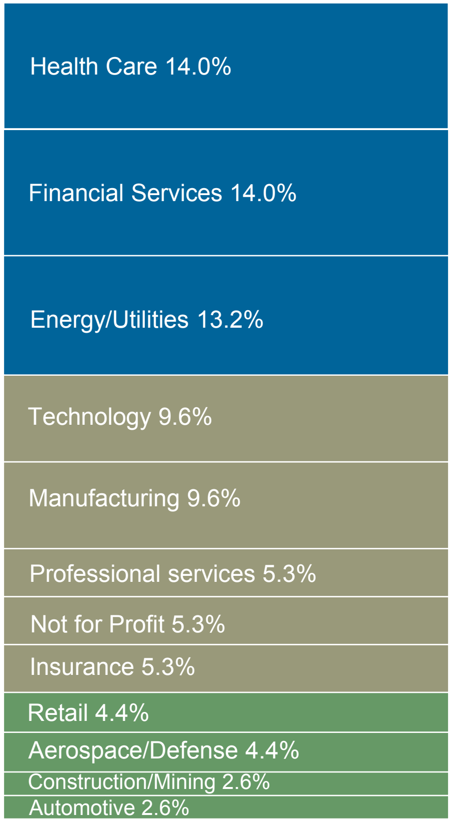

Note: Throughout the survey, charts may not sum to 100% due to rounding.

About 3 in 10 (29.8%) DC plan sponsors surveyed offered an open defined benefit (DB) plan, compared to 35.8% in 2018. Both figures, however, are significantly lower than the 46.0% figure in 2017, largely explained by the exclusion of governmental entities since then.

Respondents spanned a wide range of industries; the top were health care, financial services, energy/utilities, technology, and manufacturing.

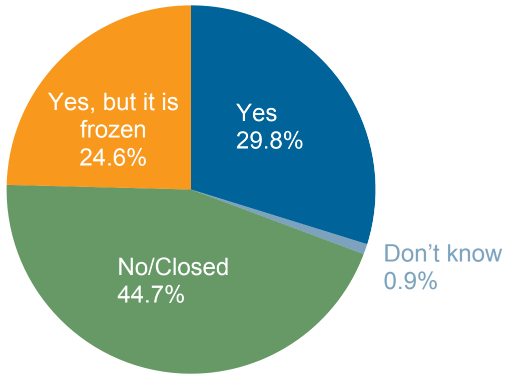
**Health Care** plans increased by **two-thirds** from 2018

## Sponsors' industry




Additional categories: Education (2.6%), transportation (2.6%), other (2.6%), telecommunications (1.8%).

## Does employer also offer a DB plan?

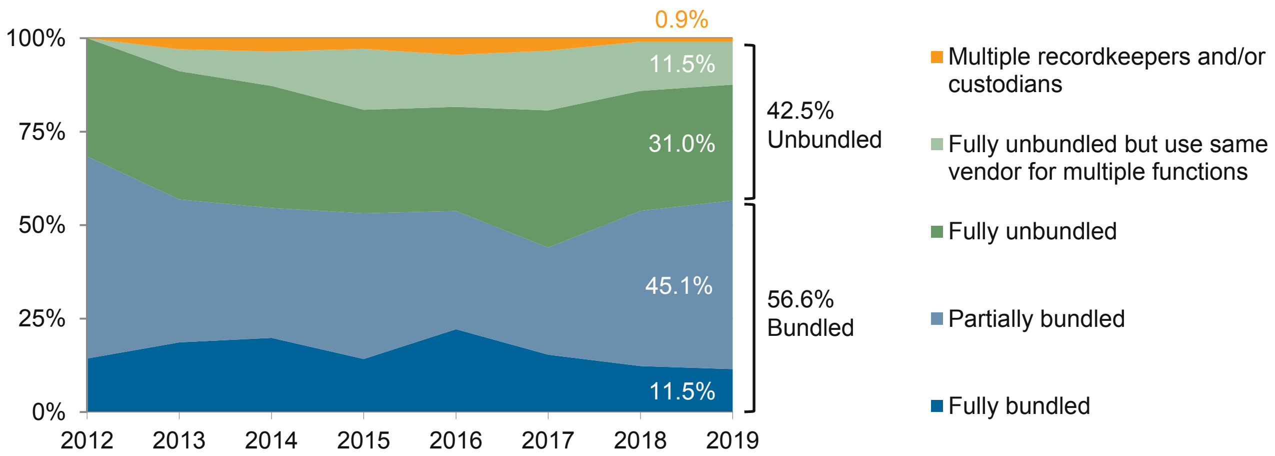


# Plan Structure: Bundled vs. Unbundled Arrangements

While the proportion of plans that were at least partially bundled rose from last year, the number of plans that identified themselves as being fully bundled (11.5%) was the lowest in survey history. This reflects a larger unbundling trend we have observed over time.

Fewer than 1 in 10 (6.8%) mega plans (assets greater than $1 billion) had a fully bundled structure. Conversely, 56.2% of mega plans were unbundled. About half of mid-sized plans ($100-$500 million in assets) reported using a partially bundled structure, whereas 25.0% indicated they utilized a fully bundled structure, up from 15.0% in 2018.

## 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.

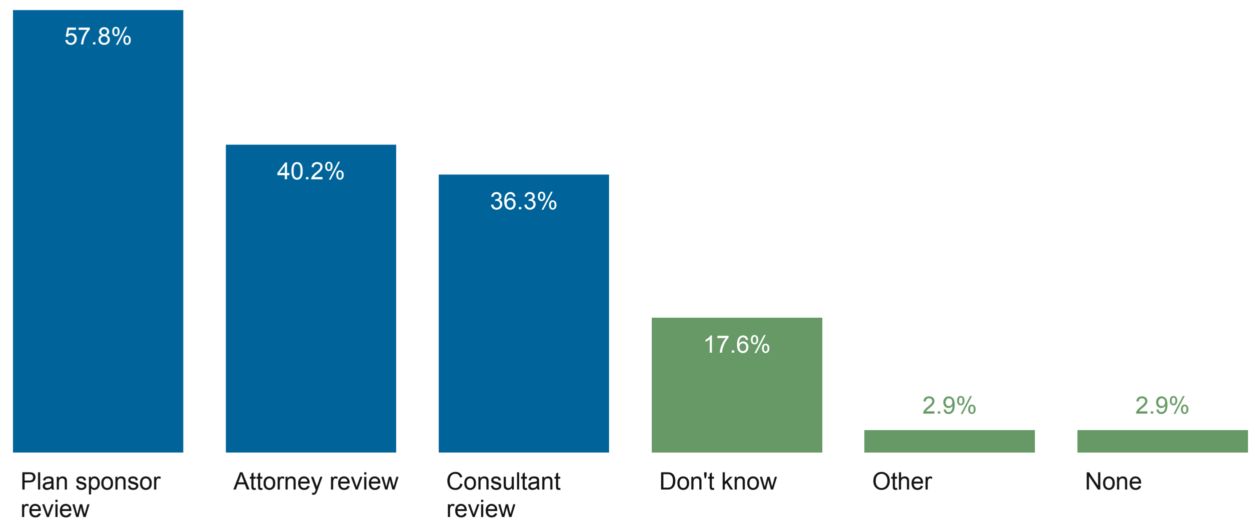
# ERISA Section 404(c) Compliance

Nearly 4 in 5 (79.5%) DC plan sponsors said they took steps within the past 12 months to ensure ERISA Section 404(c) compliance.

More than half of respondents (57.8%) personally reviewed compliance. Many plans engaged third parties to review 404(c) compliance, including their attorney (40.2%) and their consultant (36.3%).

While the percentage that did not know what steps had been taken to ensure compliance increased—from 10.6% in 2018 to 17.6% in 2019—the proportion of respondents that took no action at all fell by more than half (6.4% in 2018 vs. 2.9% in 2019).

**Steps in past year to ensure ERISA Section 404(c) compliance***




**79.5% took steps** to ensure compliance

*Multiple responses were allowed.

# Investment Policy Statement

The overwhelming majority of DC plans maintained an investment policy statement (IPS) in 2019 (93.8%), a slight increase from 2018 (90.5%).

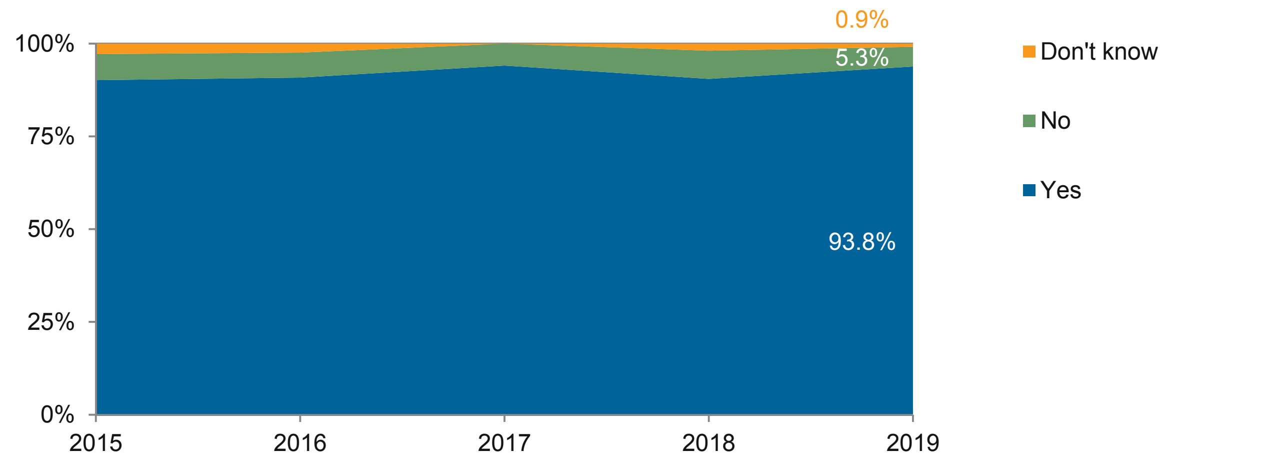
About two-thirds of respondents with an IPS indicated it included a watch list, while the other one-third indicated that it did not.

Additionally, about two-thirds (66.7%) of plan sponsors reviewed their IPS in the past 12 months, and half reviewed and updated it over that same time period. Although the percentage of sponsors that reviewed their IPS during this timeframe increased from 2018 (64.8%), the percentage that also updated the IPS slightly decreased (52.4%).

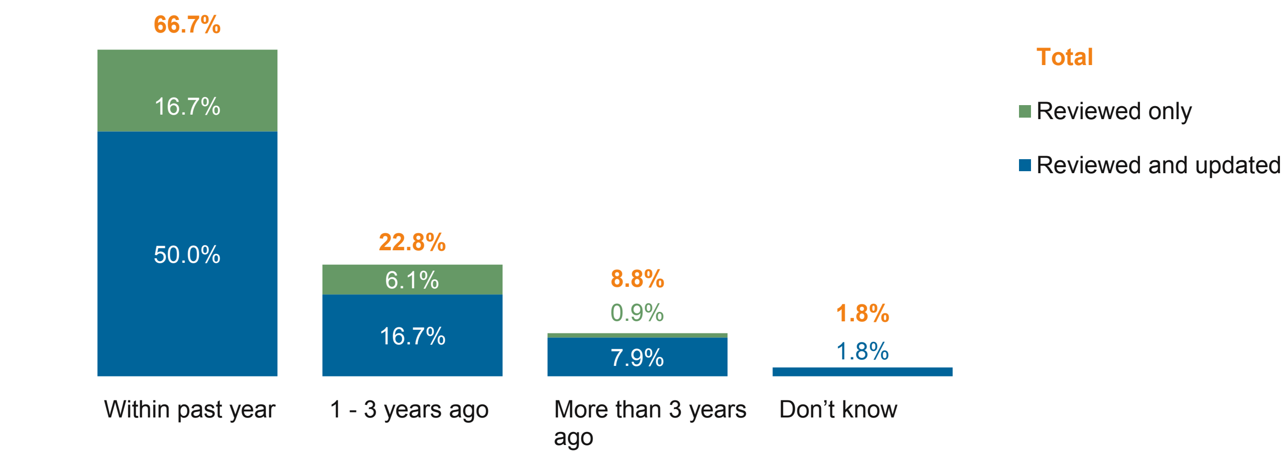
Best practice dictates a review of the IPS on a regular basis (i.e., once per year), particularly if changes are made to the DC plan.

**67.0%** of those with an IPS include a **watch list**

## Does DC plan have an IPS?




## Last time the IPS was reviewed or reviewed and updated



# Fee Policy and Use of Investment Consultants

More than 6 in 10 (62.0%) plan sponsors surveyed had a written fee payment policy in place, either as part of their investment policy statement (32.4%) or as a separate document (29.6%). This number is up considerably from the 46.0% that reported having a written fee policy in 2018.

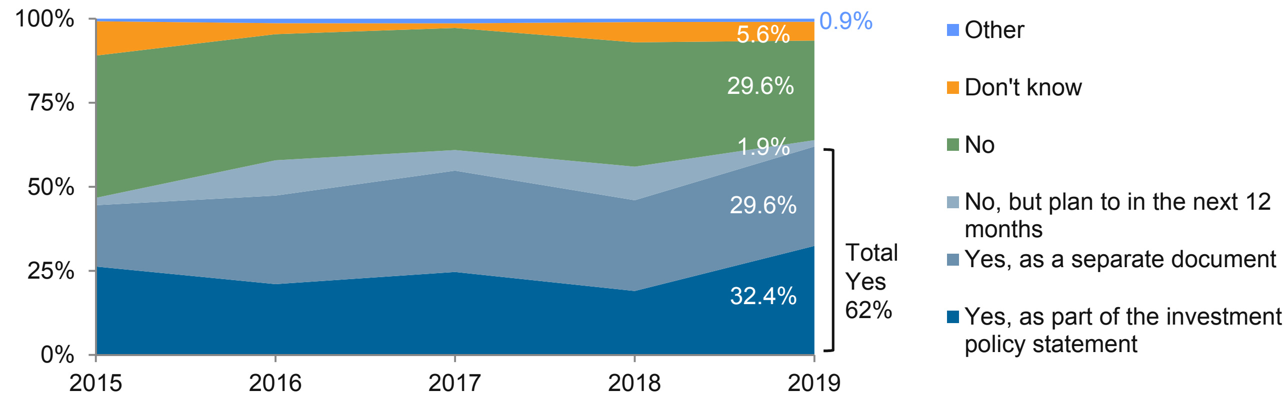
Nearly 9 in 10 (89.2%) plan sponsors said they engage an investment consultant. This figure is up from 2018 (84.1%) and is the highest in survey history. Of those that utilize an investment consultant, 60.2% reported using only a 3(21) non-discretionary adviser. The percentage of sponsors that used a 3(38) discretionary adviser, either exclusively or partially, rose from 15.9% in 2018 to 21.6% in 2019.

A notable portion of sponsors (18.2%) were unsure which type of consultant they use.

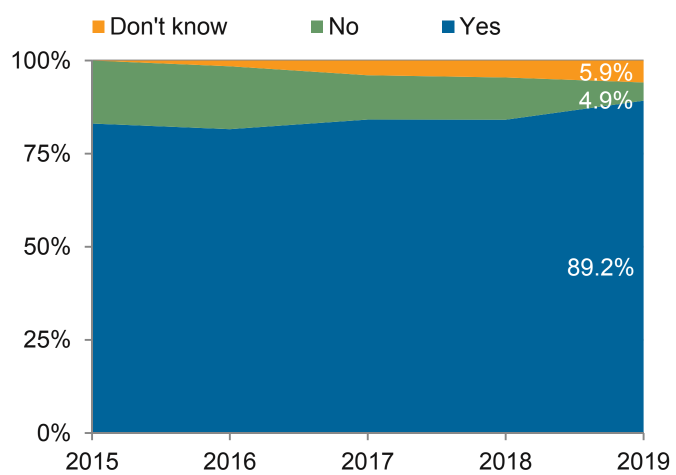
**3(38) discretionary consultant:** Selects and monitors funds and acts as a co-fiduciary (also known as OCIO).

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

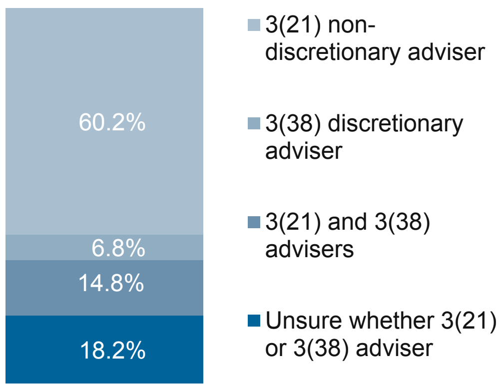
## Do you have a written fee payment policy documenting your approach to payment of plan fees?




## Do you use an investment consultant (either project or retainer)?




## Type of consultant used*




*Retainer/ongoing basis only.

# DC Plan Measurement

In line with the past three years, plan sponsors rated participation rate/plan usage as the most important determinant for measuring the success of their DC plan.

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

## Criteria to measure plan success

| | 2016 | 2017 | 2018 | 2019 | Rating |
|---|---|---|---|---|---|
| Most important | Participation rate/ plan usage | Participation rate/ plan usage | Participation rate/ plan usage | Participation rate/ plan usage | 4.4 |
| | Contribution/ savings rate | Investment performance | Contribution/ savings rate | Contribution/ savings rate | 3.7 |
| | Investment performance | Contribution/ savings rate | Cost-effectiveness | Investment performance | 3.3 |
| | Cost-effectiveness | Cost-effectiveness | Investment performance | Cost-effectiveness | 3.2 |
| | Investment diversification | Retirement income adequacy | Employee satisfaction | Ability to attract/retain employees | 3.1 |
| | Retirement income adequacy | Investment diversification | Retirement income adequacy | Investment diversification | 3.0 |
| | Employee satisfaction | Employee satisfaction | Investment diversification | Retirement income adequacy | 3.0 |
| | Avoidance of fiduciary issues | Avoidance of fiduciary issues | Avoidance of fiduciary issues | Employee satisfaction | 3.0 |
| | Benchmark against other plans | Benchmark against other plans | Ability to attract/retain employees | Benchmark against other plans | 2.9 |
| Least important | Ability to attract/ retain employees | Ability to attract/ retain employees | Benchmark against other plans | Avoidance of fiduciary issues | 2.9 |

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

Additional categories (2019): Simple to administer (2.0); other (0.6) don't measure (0.3); don't know (0.2).

# Fiduciary Positioning

For the fourth year in a row, plan sponsors ranked reviewing plan fees as the most important step they took over the past 12 months to improve the fiduciary position of their DC plan. This action ranked significantly higher than any other activity undertaken.

Implementing, updating, or reviewing the investment policy statement came in second. Conducting formal fiduciary training ranked third, followed by replacing fund manager(s), conducting a plan audit, and reviewing compliance.

## Rank of actions taken to improve fiduciary positioning

Most important ↑ / ↓ Least important

| 2016 | 2017 | 2018 | 2019 | Ranking |
|---|---|---|---|---|
| Reviewed plan fees | Reviewed plan fees | Reviewed plan fees | Reviewed plan fees | 4.0 |
| Updated or reviewed IPS | Updated or reviewed IPS | Implemented, updated or reviewed IPS | Implemented, updated, or reviewed IPS | 2.1 |
| Reviewed compliance | Conducted formal fiduciary training | Conducted plan audit | Conducted formal fiduciary training | 1.9 |
| Conducted formal fiduciary training | Changed investment menu | Changed investment menu | Replaced fund manager(s) | 1.7 |
| Changed investment menu | Conducted plan audit | Conducted formal fiduciary training | Conducted plan audit | 1.5 |
| Replaced fund manager(s) | Reviewed compliance with fiduciary rule | Reviewed compliance | Reviewed compliance | 1.2 |
| Other (e.g., plan audit, operational processes) | Replaced fund manager(s) | Replaced fund manager(s) | Changed investment menu | 1.1 |
| Reviewed/changed QDIA | Audited security protocols | Audited security protocols | Audited security protocols | 0.8 |
| Audited security protocols | Changed/hired investment consultant | Reviewed/changed QDIA | Reviewed/changed QDIA | 0.6 |
| Changed communi-cation approach | Reviewed/changed QDIA | Changed/hired investment consultant | Other (e.g., operational processes) | 0.6 |

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

Additional categories (2019): Changed/hired investment consultant (0.4); evaluated/implemented 3(38) discretionary services (0.3); implemented a written fee payment policy statement (0.2); changed recordkeeper (0.1); changed trustee/custodian (0.1).

# Areas of Focus

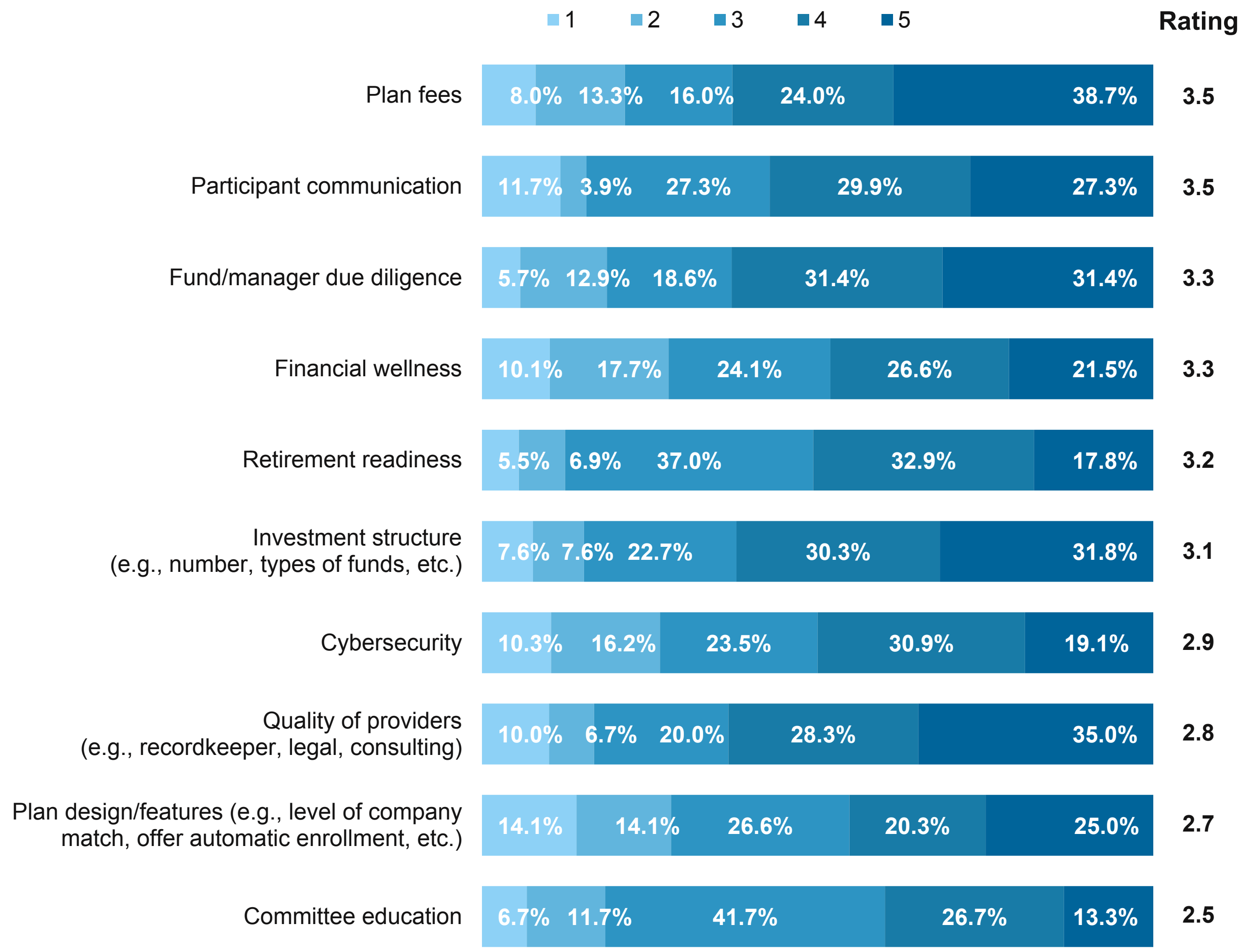
Plan fees and participant communication are the most likely primary areas of focus over the next 12 months. These two areas were also rated first and second in last year's survey.

Fund/manager due diligence and financial wellness were the next two highest areas of focus for 2020, followed closely by retirement readiness and investment structure.

Cybersecurity, a newsworthy topic, increased slightly in priority from last year.

## Rating of primary areas of focus over the next 12 months

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



# Company Match

In 2019, 13.8% of plan sponsors made a change to their company match policy, which was down from last year's figure (21.7%). Of those that made a change, the most common action was restructuring the match (41.7%).

Nearly a third anticipate making a change in 2020. While many are unsure what that change will be, 16.7% plan to increase the match. In contrast, no plans reported that they plan to eliminate or reduce the match.

Among those that plan to change to a stretch match, one reported a stretch match formula of a 50% match up to 8%.

**13.8%** made changes in 2019

**29.3%** expect to make a change in 2020

## Company match actions*

| Past 12 months | | Next 12 months | |
|---|---|---|---|
| Restructured | 41.7% | Don't know | 54.2% |
| Made one-time employer contribution | 25.0% | Increase | 16.7% |
| Added match true-up feature | 25.0% | Change to stretch match | 16.7% |
| Reinstated | 16.7% | Make one-time employer contribution | 12.5% |
| Increased | 16.7% | Add match true-up feature | 12.5% |
| Changed to stretch match | 16.7% | Reinstate | 4.2% |
| Reduced | 8.3% | Restructure | 4.2% |
| Changed timing | 8.3% | Change timing | 4.2% |
| Other | 8.3% | Other | 4.2% |

Additional categories with 0.0% (2019): Eliminated, moved to safe harbor design, don't know. Additional categories with 0.0% (2020): Eliminate, reduce, move to safe harbor design.

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

# Automatic Enrollment

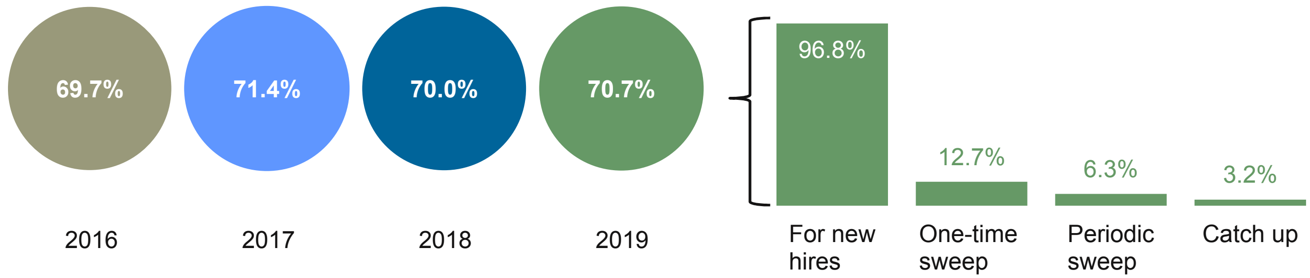
Automatic enrollment has seemingly reached saturation, remaining at around 7 in 10 plans for the past four years. Automatic enrollment is most prevalent in the telecommunications, manufacturing, and technology industries.

Of those that do not automatically enroll employees, 5.6% report that they are very likely to implement this feature in 2020. The plans that do not offer auto enrollment span plan sizes and industries.

Unsurprisingly, most plans with auto enrollment use it for new hires (96.8%). However, nearly 20% had auto-enrolled existing employees either through a one-time or periodic sweep.

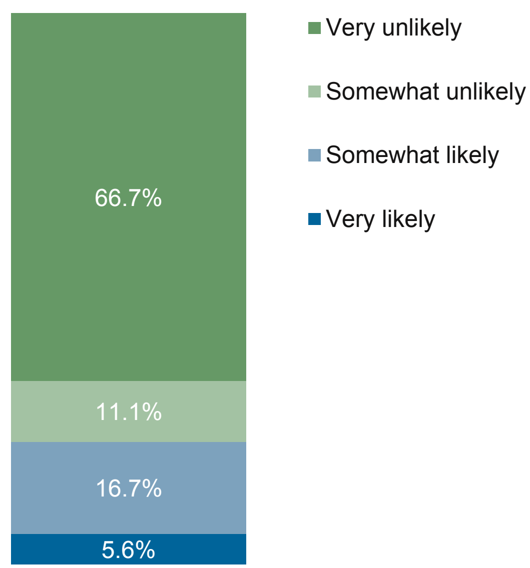
Key reasons for not implementing automatic enrollment included: not being perceived as necessary, the potential cost impact, or not being a high priority.

## Plans offering automatic enrollment



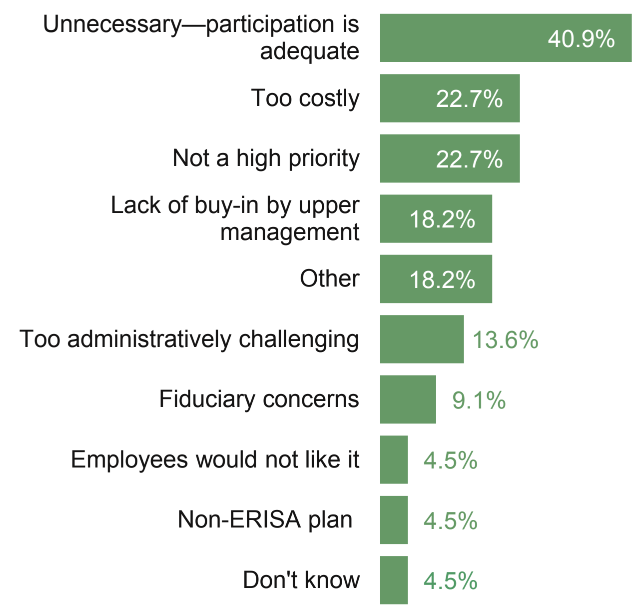

Note: Multiple responses were allowed.

## If automatic enrollment is not used, will it be in 2020?




*Multiple responses were allowed.

## Reasons for not offering automatic enrollment*



# Automatic Contribution Escalation

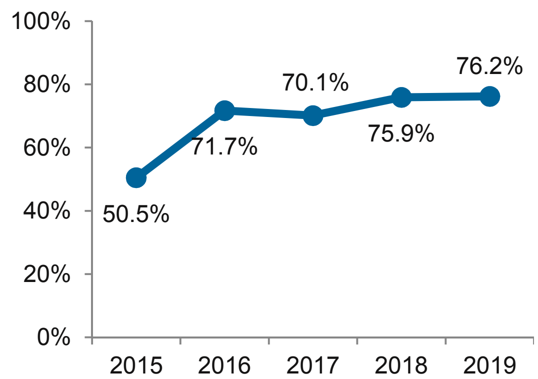
Plans with automatic enrollment were more likely to offer automatic contribution escalation—while 76.2% of all DC plans offered automatic escalation, that figure was 81.9% for plans that also had automatic enrollment, compared to 60.1% of plans without automatic enrollment.

After rising sharply from 2015 to 2016, the prevalence of automatic contribution escalation has remained at about 7 in 10 for the past four years.

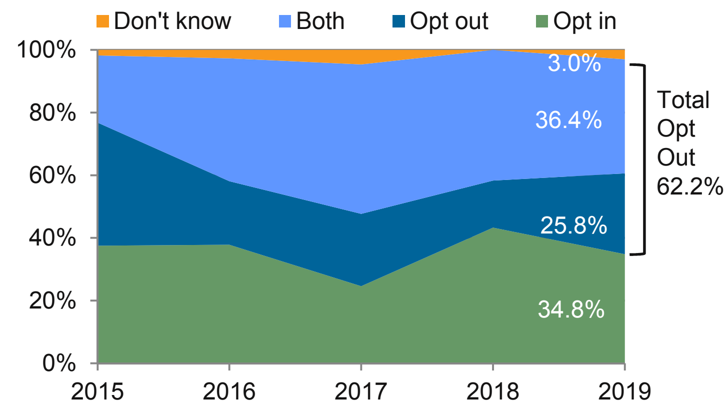
The percentage of plans with automatic contribution escalation that use an opt-out approach came in at 62.2% in 2019, returning to similar levels as previous years (2016: 59.5%, 2015: 60.7%, and 2014: 52.8%), after increasing markedly in 2017 (70.8%).

A notable 47.0% of plans without automatic contribution escalation are somewhat or very likely to adopt this feature in 2020. The top reasons for not offering automatic contribution escalation were that employees would not like it or it was not a high priority.

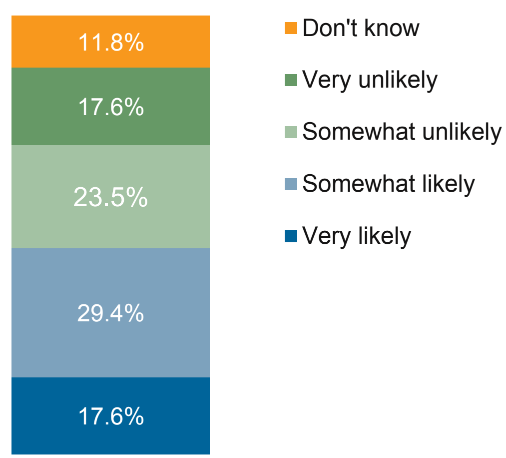
## Plans offering automatic contribution escalation



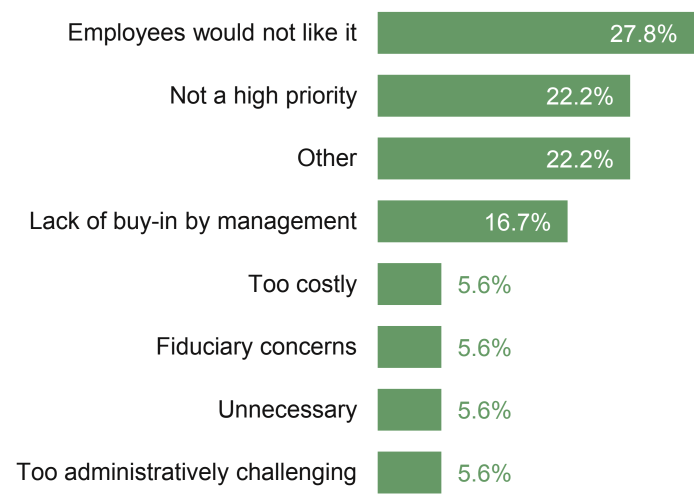

## Approach for automatic escalation




## If automatic escalation is not used, will it be in 2020?




## Reasons for not offering automatic escalation*




*Multiple responses were allowed.

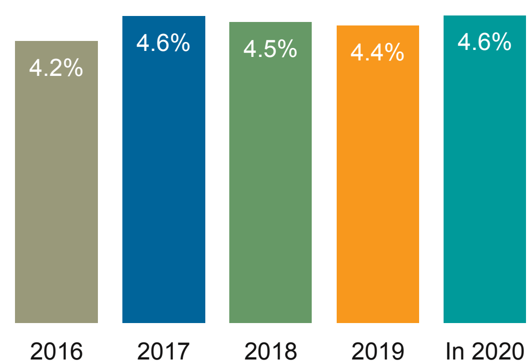
# Automatic Features: Rates and Caps

In 2019, default contribution rates for automatic enrollment ranged from 1% to 8%, with the average holding steady at 4.4% 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.

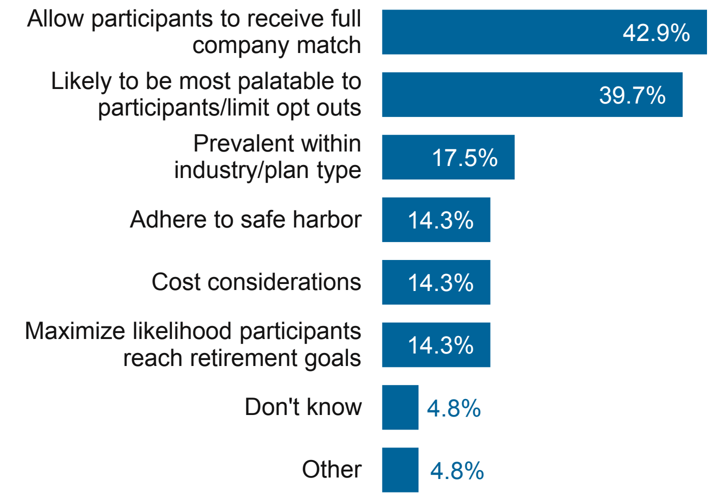
Similar to prior years, plans with opt-out automatic contribution escalation most frequently had an annual increase rate of 1% (93% report this level, with the remainder reporting a 2% automatic escalation rate).

The average cap on automatic contribution escalation declined somewhat in 2019 to 23.3% from 28.2% in 2018. The median cap remained steady at 10% in 2019. 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.

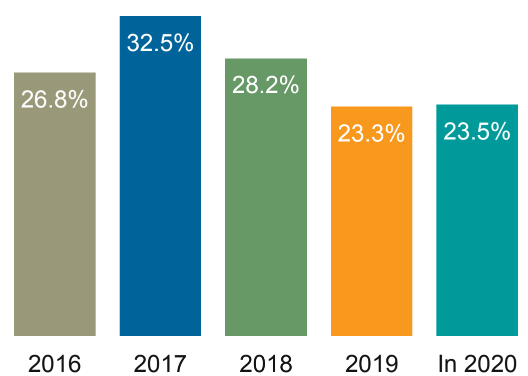
## Default contribution rate over time



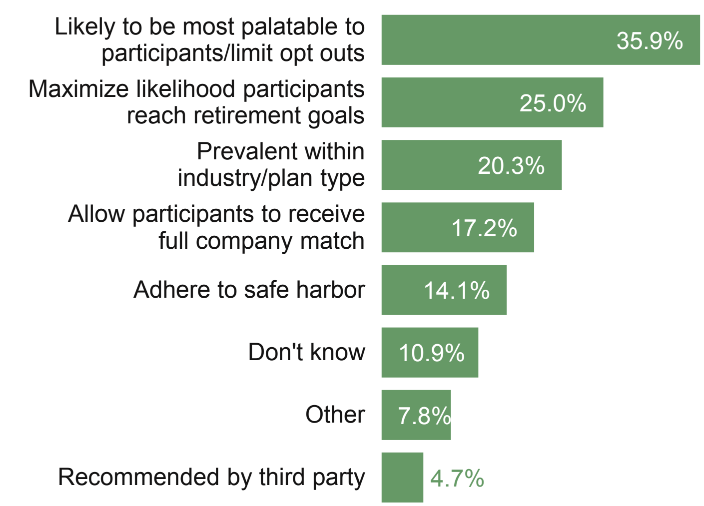

## Reasons for selecting the default rate*




## Escalation cap over time




## Reasons for selecting escalation cap*




*Multiple responses were allowed.

# Roth Features

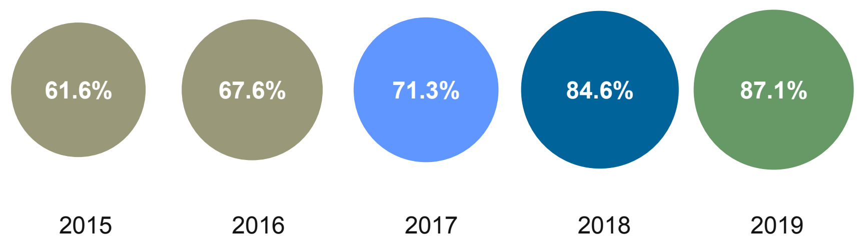
The prevalence of Roth accounts in DC plans increased notably over the past few years from 61.6% in 2015 to 87.1% in 2019.

While only 7.1% of sponsors did not allow and are not considering Roth-designated accounts, 3.5% are considering allowing them in the coming year. The most common reason for waiting to add a Roth feature or not offering one was due to the complexity of a participant communication campaign to describe the feature.

The percentage of plans allowing in-plan Roth conversions continued to increase, now at 66.7%, with an additional 4.2% that intend to offer it in the next year.

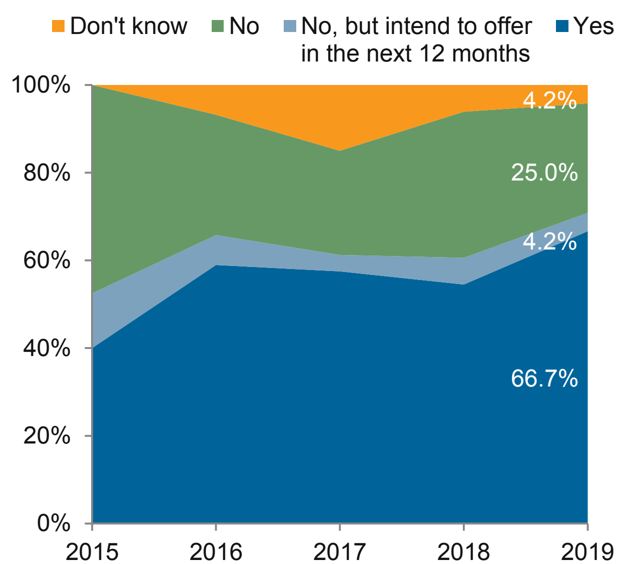
The most common type of in-plan Roth conversions offered allow for the conversion of both pretax and after tax monies, at 45.8% of respondents.

## DC plans allowing Roth-designated accounts

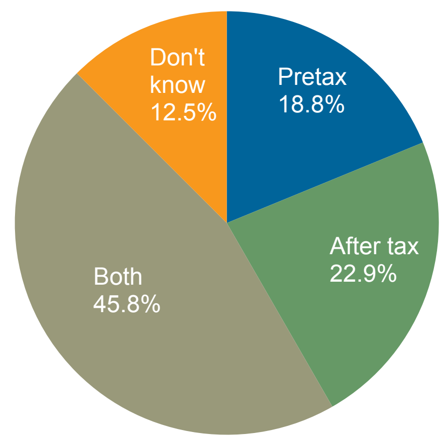



**3.5%** No, but considering in next 12 months

## DC plans allowing in-plan Roth conversions




## Type of in-plan Roth conversions offered



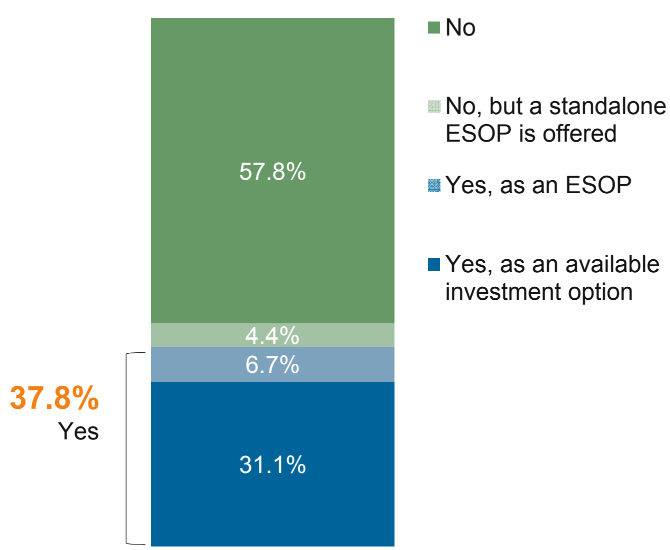
# Company Stock Prevalence

The share of sponsors that offer company stock either as an available investment option or as an ESOP within the plan remained consistent with prior years, except for 2017, which appears to be an aberration.

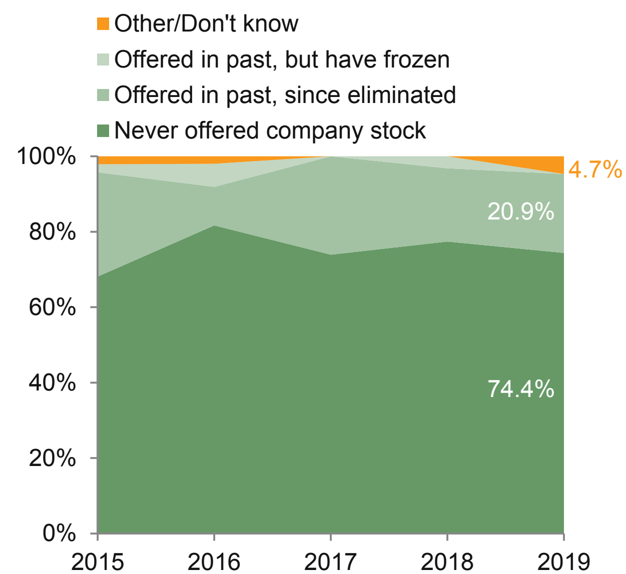
Most plans that do not offer company stock indicated the plan has never done so (74.4%). However, approximately 20% of respondents indicated that the plan once offered company stock but has since eliminated it.

## Plans offering company stock


## Is company stock offered?




## Plan's experience with company stock, if not now offered



# Limiting Company Stock Liability

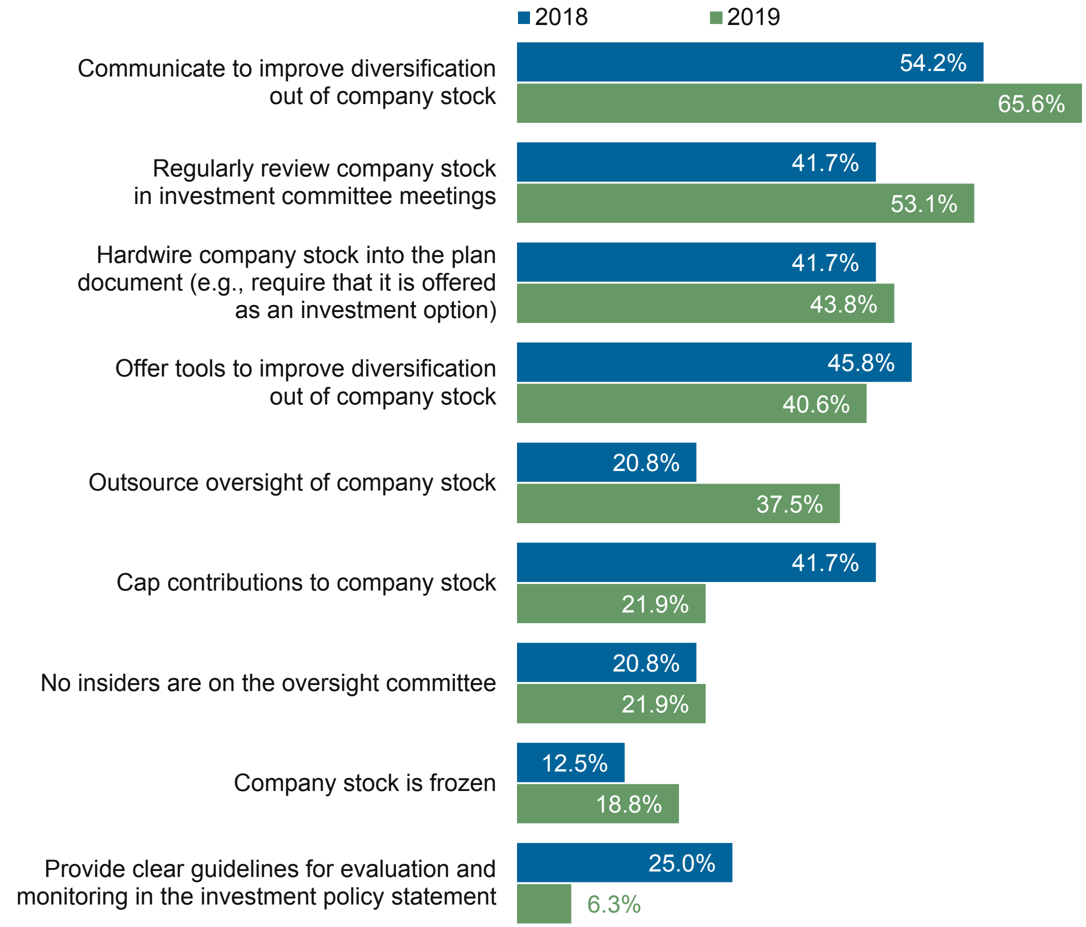
All plan sponsors with company stock took some steps to limit their liability, with an average of three actions being taken. The most common was to communicate diversification principles (65.6%), down from a record high of 75.8% in 2017. About 53% of respondents indicated that company stock was regularly reviewed in investment committee meetings and 43.8% indicated that company stock was hardwired into the plan document.

Offering tools to help improve diversification out of company stock somewhat declined, with 4 in 10 respondents taking this approach (40.6%).

Outsourcing oversight of company stock to a third-party fiduciary nearly doubled in 2019 from the 20.8% of plan sponsors that reported engaging a third party in 2018.

Those capping company stock decreased to 21.9% after fluctuating from 18.2% in 2017 to 41.7% in 2018.

## Actions to limit potential liability for company stock*




Additional categories (2018/2019): Other (0.0%/6.3%); sunset the company stock and will remove it as an investment option (0.0%/0.0%); nothing (0.0%/0.0%).

*Multiple responses were allowed.

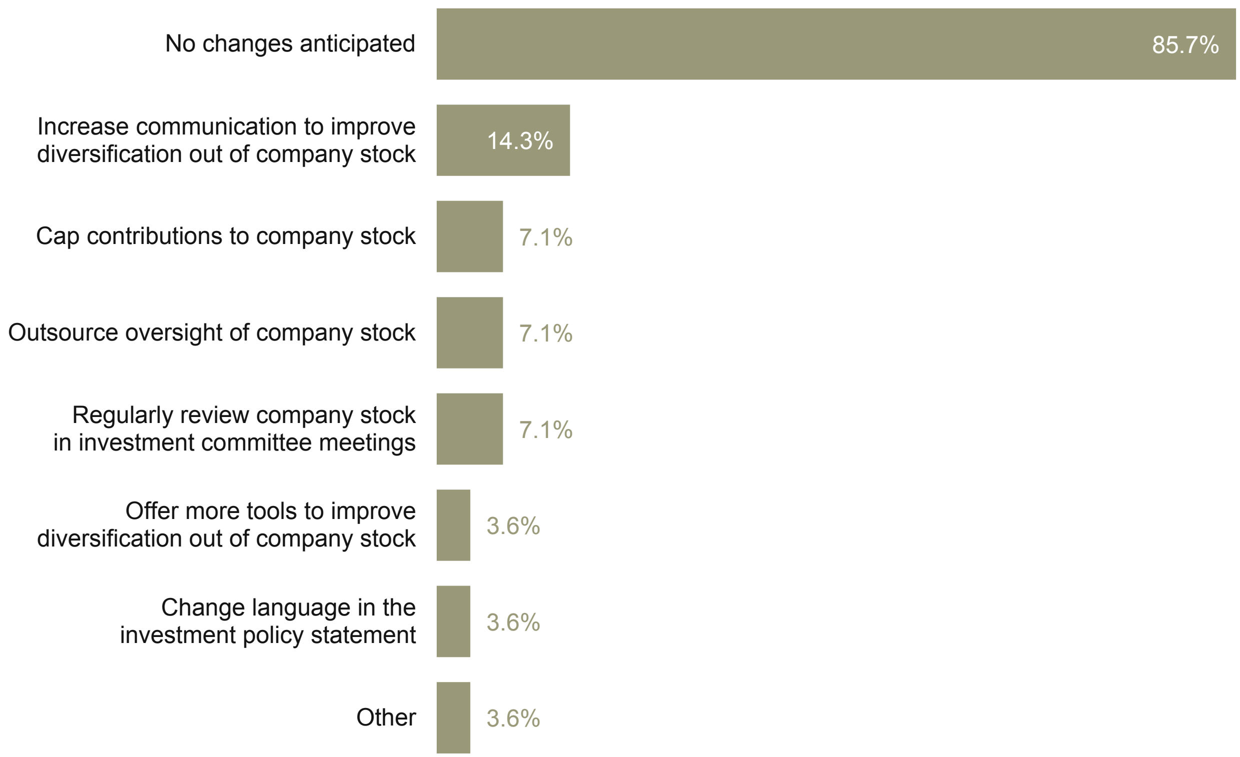
# Anticipated Changes to Company Stock

More than 4 in 5 respondents (85.7%) anticipate no changes to their company stock in the coming year, which represents an increase over prior years (81.8% in 2018, 66.7% in 2016, 72.7% in 2014).

Next year, 14.3% of plan sponsors will increase communication around participant diversification away from company stock.

Similar to last year's findings, no respondents indicated that they intend to eliminate company stock in 2020, in contrast to 2.8% in 2016 and 6.3% in 2017.

## Changes regarding company stock next year*




Additional categories with 0.0%: Eliminate insiders from investment committee; hardwire company stock into the plan document; waiting to make decision pending the outcome of recent stock drop lawsuits; freeze company stock; eliminate company stock as a plan option.

*Multiple responses were allowed.

# Default Investments

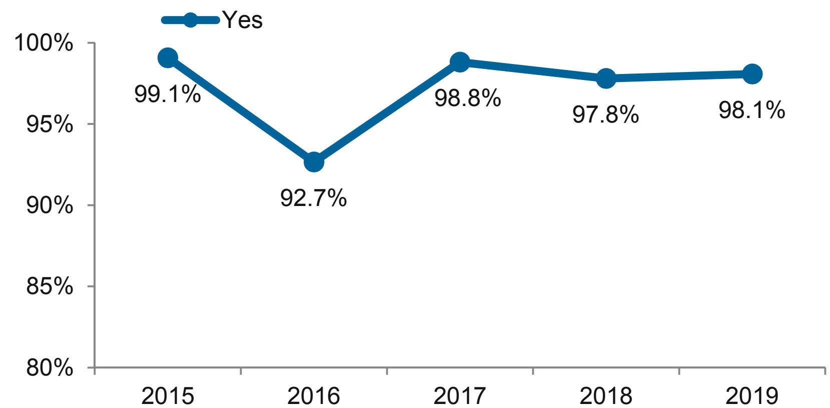
Most DC plans had a qualified default investment alternative (QDIA) as the default investment fund (98.1%).

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 the plan's QDIA, but are not liable for any loss incurred by participants invested in the QDIA.

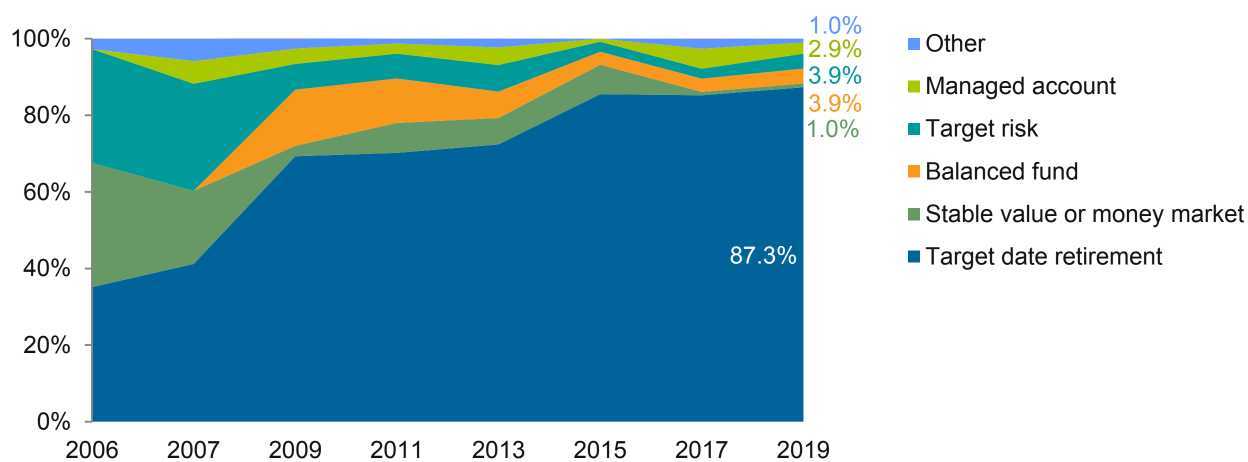
In 2019, 87.3% of plans used a target date fund as their default for non-participant directed monies, in line with recent years. Usage of other QDIA types also stayed fairly static.

Before the PPA, target date fund usage as a QDIA was only 35.1% in 2006, with money market/stable value making up 30% and risk-based funds at 27.5%. The PPA paved the way for a major uptick in the adoption of target date funds as QDIAs.

## Is the default investment fund a QDIA?




## Current default investment alternative for non-participant directed monies



# Target Date Fund Landscape

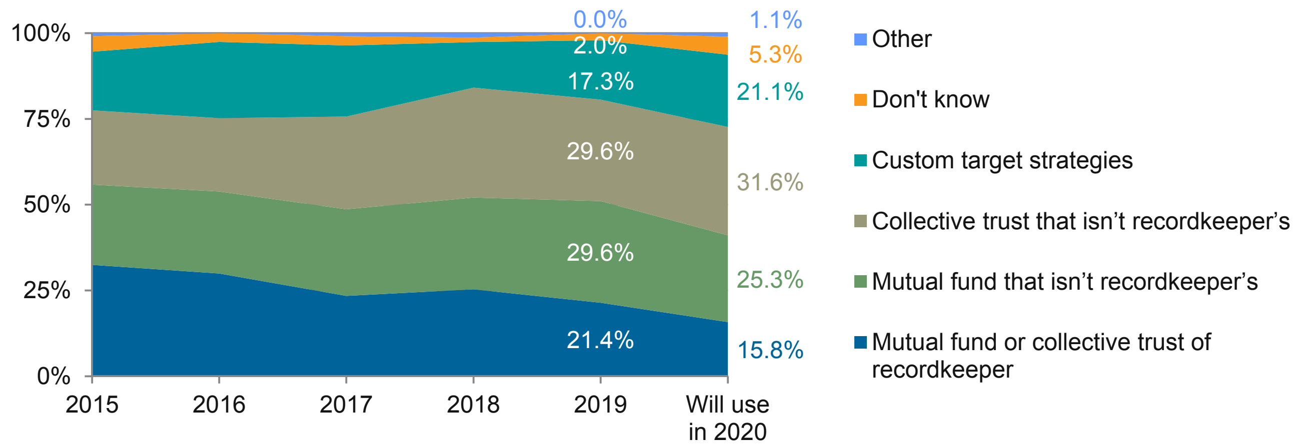
Nearly every DC plan offered target date funds (93.3%). Continuing a long-observed trend, those offering their recordkeeper's target date option continued to drop—from more than 50% in 2012 to 21.4% in 2019. As with last year, there is more uncertainty over what approaches will be used going forward, as evidenced by the 5.3% that do not know which target date fund (TDF) approach they will use in 2020.

The prevalence of custom target date solutions witnessed a modest increase (from 13.3% to 17.3%) during the past year. Further, 21.1% expect to use a custom approach in the coming year. Those offering custom solutions cited access to best-in-class underlying funds, better cost structure, and control over the glidepath as the top motivations.

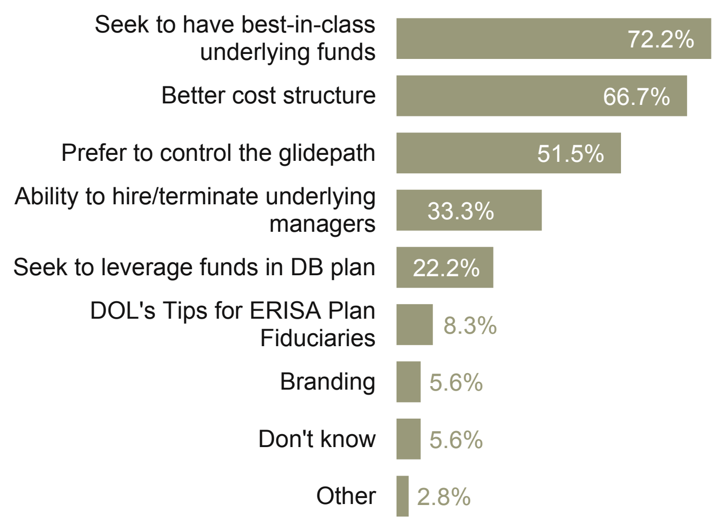
The majority (60.8%) of those using a custom solution reported that the plan sponsor acts as a fiduciary. This is still down historically. For comparison the figure stood at 77% and 84%, respectively in 2016 and 2015.

93.3% of plans offer a target date fund in their lineup

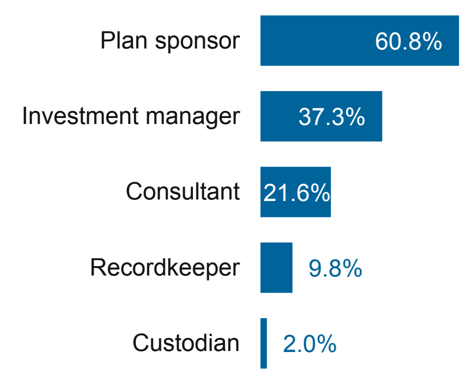
## Approach used for target date funds




## Reason for custom TDF*




## Custom TDF fiduciary*




*Multiple responses were allowed.

# Target Date Fund Landscape (continued)

Among those that offered TDFs, nearly 77% used an implementation that was at least partially indexed. The share of mixed (or blended) strategies increased year-over-year from 23.0% to 39.4%. This sharp increase came largely at the expense of purely passive implementations, which witnessed a decline from 51.4% to 37.2%.

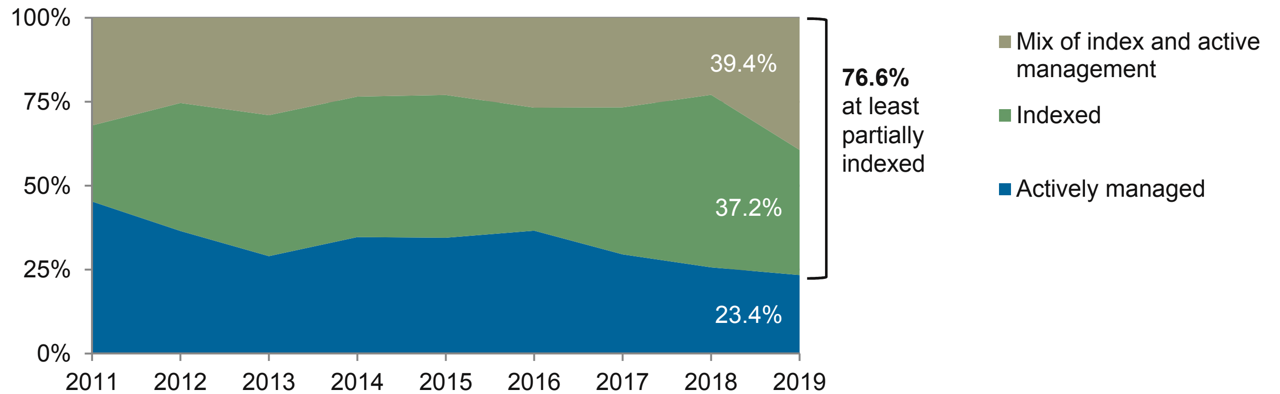
Over half (56.2%) of plan sponsors took some sort of action with regard to their TDFs in 2019. Of those taking action, evaluating the glidepath suitability maintained its place as the most prevalent course of action (80.5%). Changing the share class of the TDF (19.5%) and replacing the TDF (12.2%) rounded out the top three.

**56.2%** **took action**

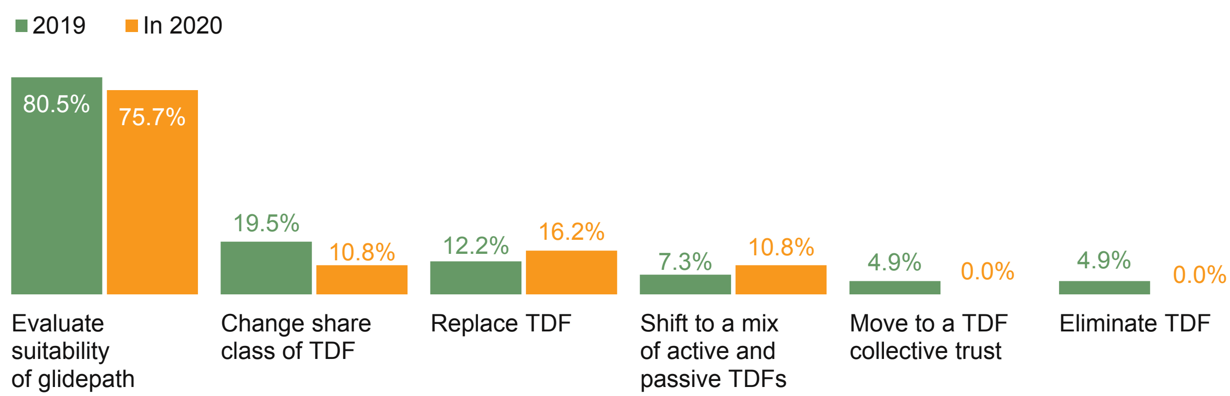
**43.8%** **took no action**

with respect to their target date fund

## Target date fund investment approach




## TDF actions taken or planned*




*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 2019 were: portfolio construction, fees, and performance.

## Criteria for selecting or retaining target date funds

Most important key attributes

| 2016 | 2017 | 2018 | 2019 | Ranking |
|---|---|---|---|---|
| Performance | Portfolio construction | Performance | Portfolio construction | **5.2** |
| Fees | Fees | Portfolio construction | Fees | **5.1** |
| Portfolio construction | Performance | Fees | Performance | **4.8** |
| Risk | Risk | Number, type, and quality of underlying funds | Ability to achieve pre-specified retirement goal | **2.8** |
| Number, type, and quality of underlying funds | Ability to achieve pre-specified retirement goal | Risk | Risk | **2.8** |
| Ability to achieve pre-specified retirement goal | Number, type, and quality of underlying funds | Active vs. passive | Active vs. passive | **2.3** |
| Active vs. passive | Active vs. passive | Usage of tactical asset allocation | Number, type, and quality of underlying funds | **2.3** |
| Usage of tactical asset allocation | Usage of tactical asset allocation | Name recognition | Usage of tactical asset allocation | **1.3** |
| Name recognition | Name recognition | Whether the funds are proprietary to the recordkeeper | Name recognition | **1.3** |
| Whether the funds are proprietary to the recordkeeper | Whether the funds are proprietary to the recordkeeper | Ability to achieve pre-specified retirement goal | Whether the funds are proprietary to the recordkeeper | **0.6** |

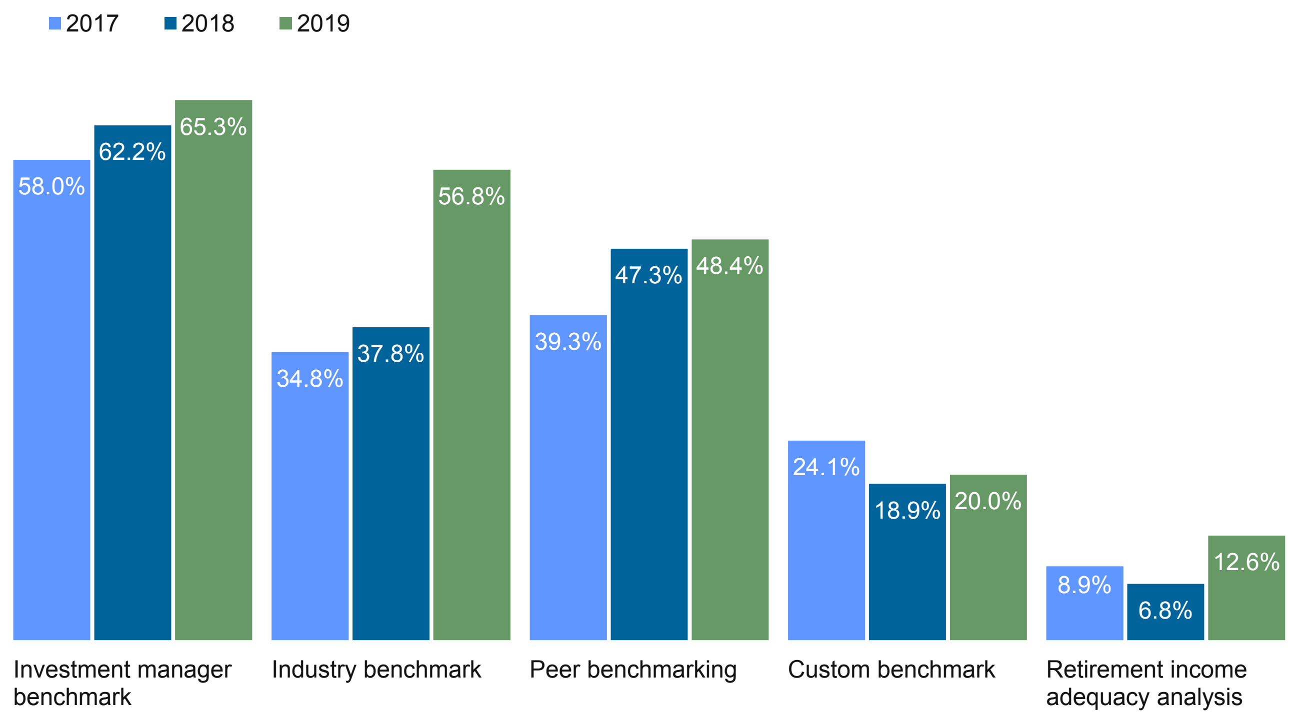
(7=Most important. Total ranking is weighted average score.)

# Target Date Fund Benchmarking

Over three-quarters of plan sponsors (77%) reported using multiple benchmarks to monitor their target date funds. Surprisingly, 2.1% of respondents indicated they do not benchmark their TDFs.

Manager benchmarks continued to be the most common means of measurement and have shown increased acceptance over the past few years. Industry benchmarks as well as peer benchmarks also experienced increased acceptance over time, indicating the possibility of plan sponsors taking a more varied approach.

## Target date fund benchmarks*




Additional categories (2019 data): Do not benchmark (2.1%); don't know (2.1%); other (2.1%).
*Multiple responses were allowed.

# Investment Menu

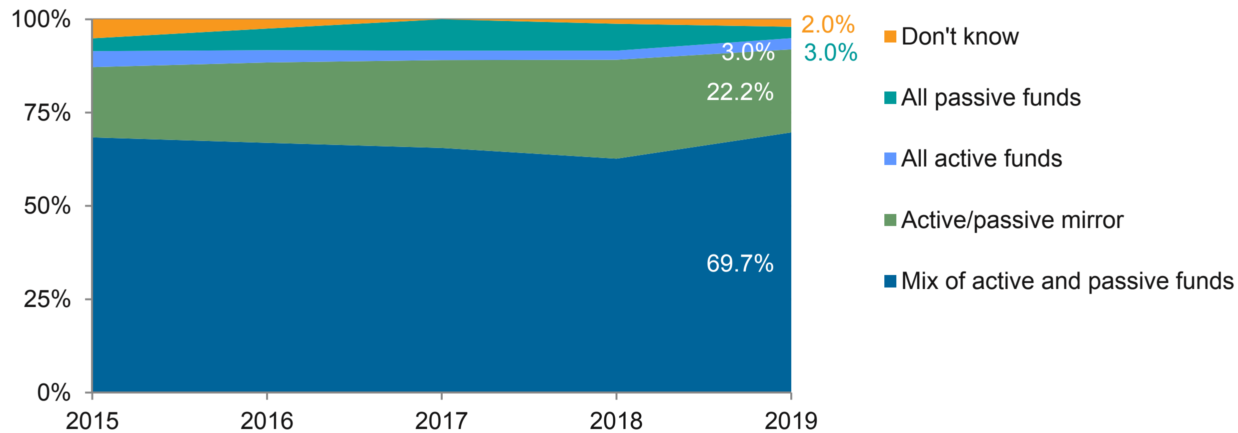
The vast majority of DC plans had a mix of active and passive investment funds (92%). Purely active (3.0%) or passive (3.0%) remain a rarity.

Most plan sponsors (76.9%) did not change the proportion of active versus passive funds in their plan in 2019. For those making changes, far more increased the proportion of passive funds than active funds in 2019 (17.9%) and plan to do so in 2020 (7.3%).

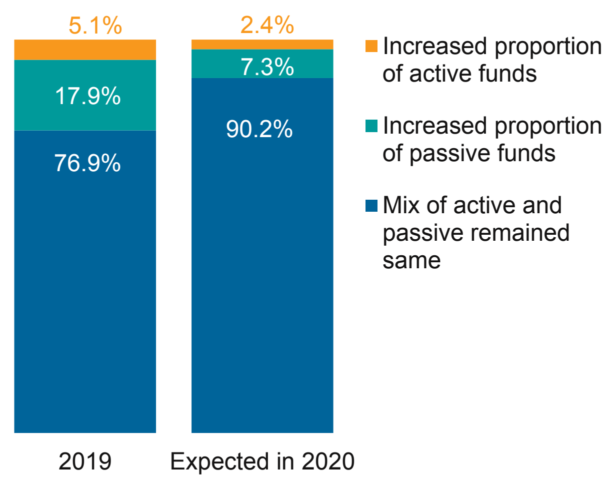
The use of a tiered investment structure climbed yet again, reaching a high of 69.8%, representing a marked increase from 48.3% in 2016. Most described their tiered structure as being comprised of some form of asset allocation fund tier, core fund tier, and specialty fund tier.

**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).*

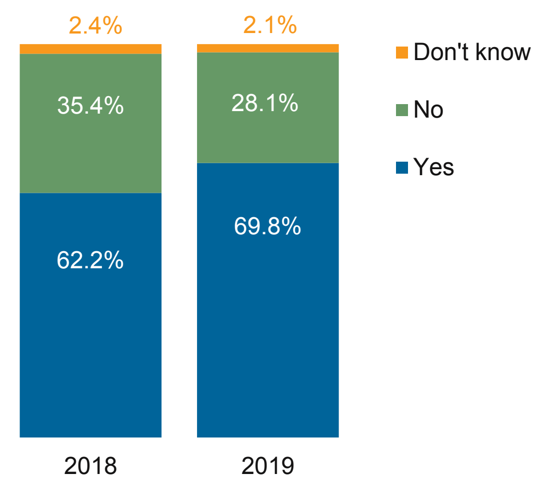
## Investment menu approach




## Active/passive mix changes




## Use of tiered investment structure



# Investment Menu (continued)

The majority of plan sponsors did not change the number of funds in their DC plan in 2019. When changes did occur, more plans decreased the number of funds, which is consistent with the stated intentions in last year's survey.

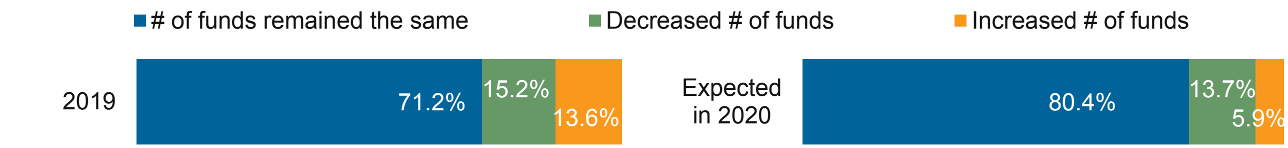
U.S. small/mid cap equity and global ex-U.S. equity were the most commonly added funds in 2019 while emerging market funds were the most commonly removed. For 2020, 5.3% plan on adding a target date fund, which is likely referring to the addition of a new vintage (e.g., 2065 fund).

**53.1% of plans mapped assets in eliminated funds to similar funds**

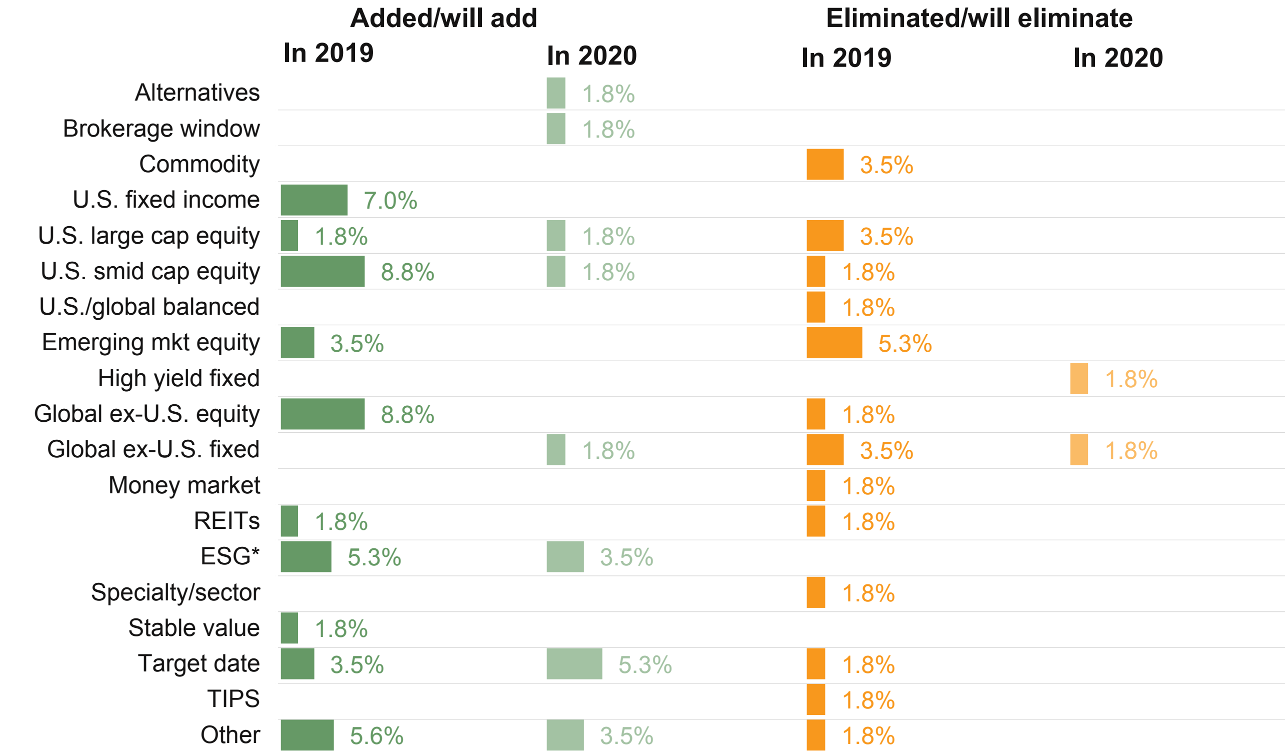
**31.3%** mapped to the default fund

**15.6%** mapped to both

## Changes to the number of funds




## Types of funds added or eliminated




*Environmental, social, and governance.

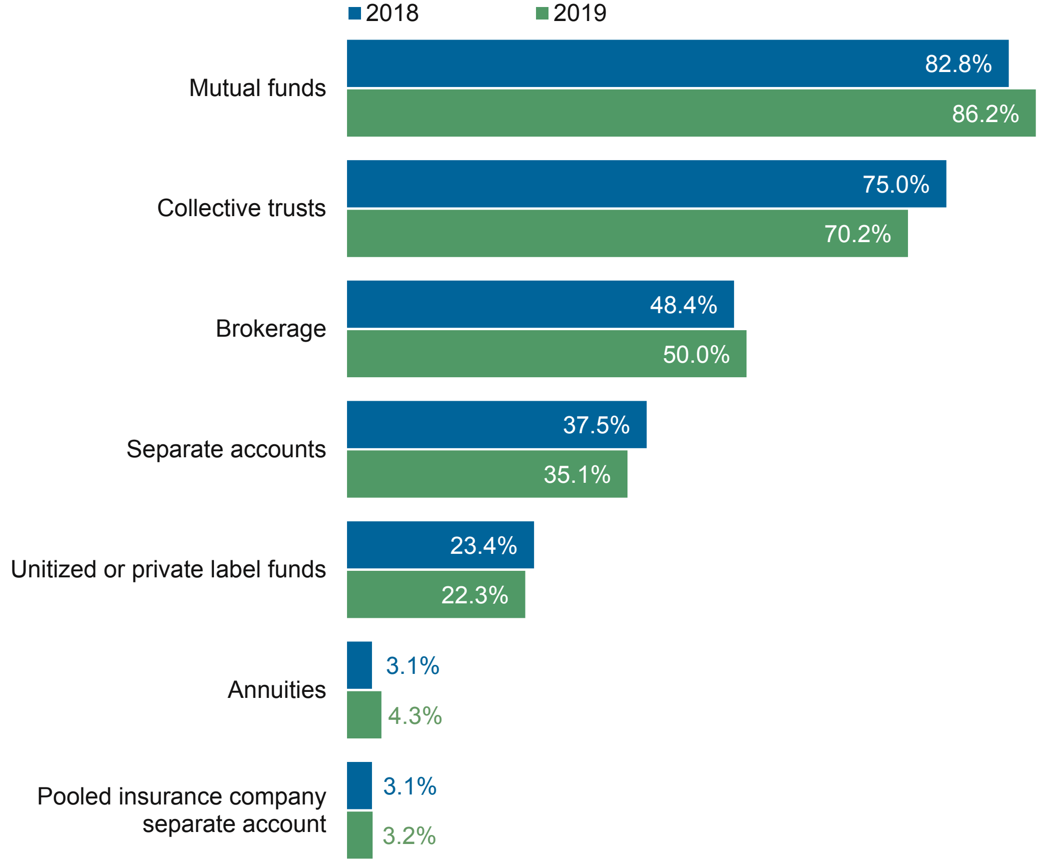
# Investment Vehicles

Use of mutual funds and collective trusts continues to be the most prevalent, at 86.2% and 70.2%, respectively. More often, plans used collective trusts for non-stable value options rather than the stable value option. The use of separate accounts in 2019 remained similar to the levels seen in 2018, at 35.1%.

The proportion of plans using unitized funds also remained similar from 2018 to 2019. Of those using unitized funds, 90.5% had over $1 billion in plan assets.

Use of a brokerage window rose slightly in 2019, to 50.0%. Of those offering a brokerage window, 74% offer a full window while 26% offer only mutual funds.

## Investment types within the fund lineup*



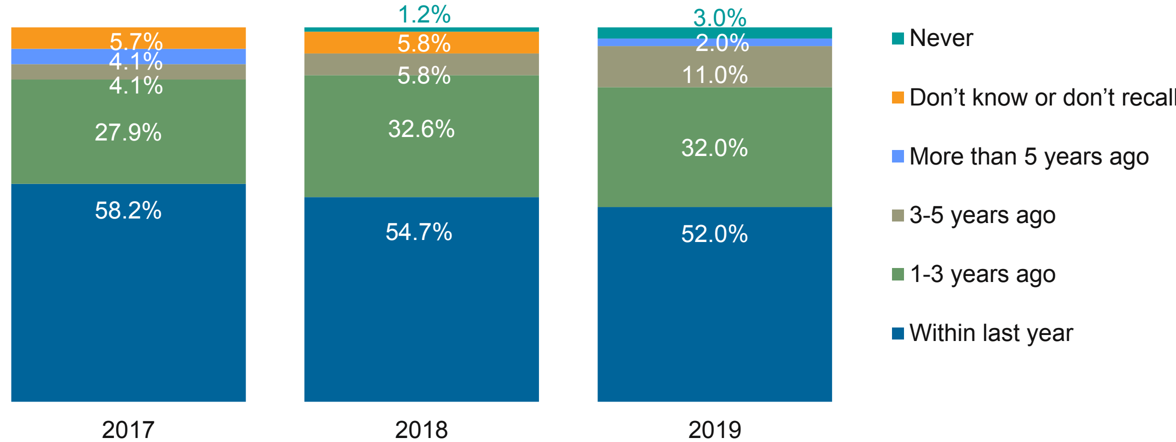

*Multiple responses were allowed. Some respondents offer multiple asset classes in each vehicle type (e.g., both stable value and another asset class are offered as a collective trust and/or separate account).

# Investment Structure Evaluation

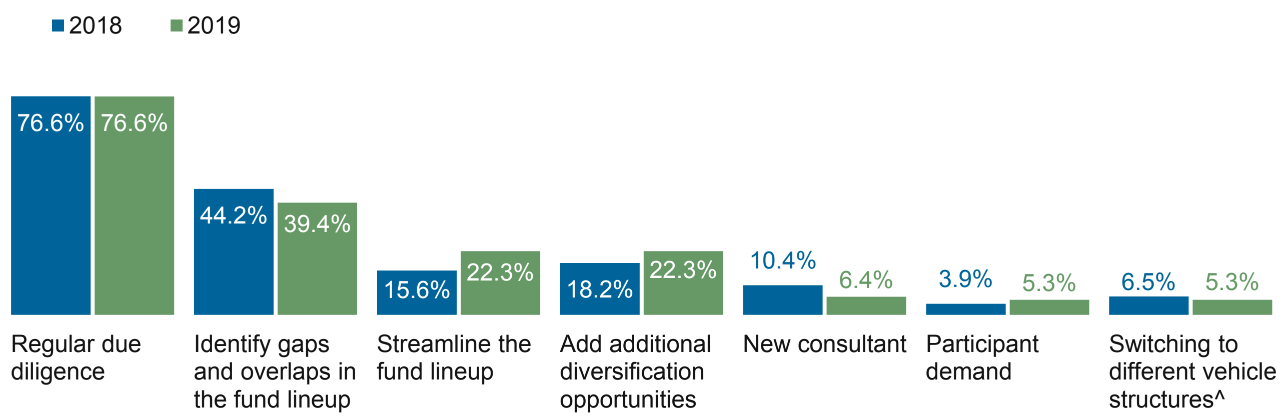
As in recent years, the majority of plan sponsors (52.0%) conducted an investment structure evaluation within the past year.

Regular due diligence remained the most common reason for conducting an investment structure evaluation. The next most common reasons were to identify gaps and overlaps in the fund lineup (39.4%), streamline the fund lineup (22.3%), and to add additional diversification opportunities (22.3%).

## Timing of investment structure evaluation




## Reasons for most recent investment structure evaluation*




Additional categories (2018/2019 data): New recordkeeper (2.6%/3.2%); other (7.8%/2.1%).
^e.g., unitization, separate accounts, collective trusts

*Multiple responses were allowed.

# Investment Criteria

As in 2018, investment performance stood as the top-ranking criteria for evaluating and selecting investment funds. Likewise cost and fees remained the second most-important criteria.

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

## Fund evaluation and selection criteria

Most important

| | Ranking |
|---|---|
| Investment performance | 3.9 |
| Cost and fees | 3.4 |
| Fills style or strategy gap | 2.7 |
| Investment management team stability | 2.1 |
| Style consistency | 1.2 |
| Quality of service to plan sponsor | 0.5 |
| Ease of integration with recordkeeping system | 0.4 |
| Brand name/market image | 0.3 |
| Participant communication and educational support | 0.2 |
| Leverages existing pension fund managers | 0.2 |
| Participant request | 0.1 |

Least Important

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

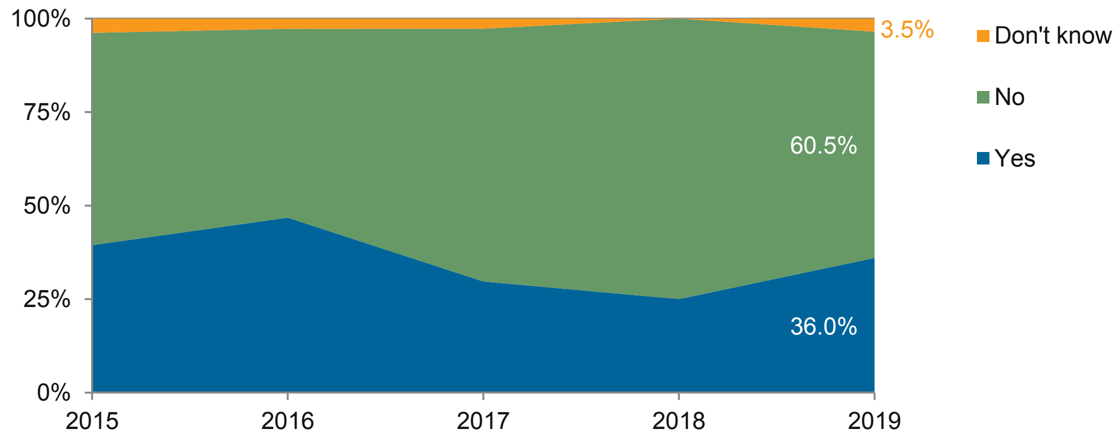
# Fund Replacement

In 2019, more than one-third of plan sponsors reported replacing funds in the past year because of performance-related reasons. This was a notable increase from the 25% that replaced a fund in 2018.

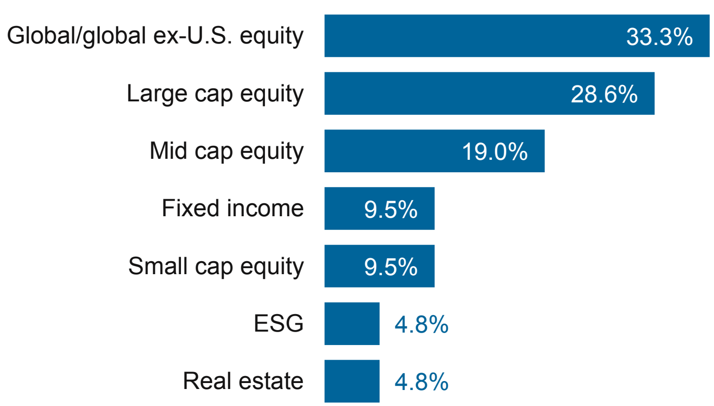
Global/global ex-U.S. equity was the most commonly replaced fund type, which could partially be a result of plan sponsors' decision to switch from developed to more broad non-U.S. mandates (e.g., MSCI ACWI ex-USA). Contrary to last year, large cap equity was replaced relatively often, whereas small cap equity was not.

Of the fund changes made, 19.0% were for mid cap equity, a notable increase from 2018 (9.8%).

## Plans replacing funds due to performance-related reasons




## Funds replaced*




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

# Re-enrollment

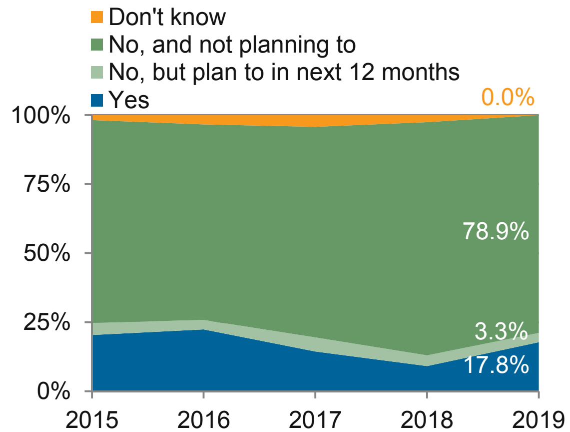
In 2019, 17.8% of plan sponsors indicated they had ever conducted an asset re-enrollment—defined as requiring all participants in the plan to make a new fund selection or else be defaulted into the default investment option. This represented a considerable increase from 2018, when 9.1% of sponsors said they had conducted a re-enrollment.

Of the plans that had engaged in a re-enrollment, 68.8% did so more than 12 months ago, versus 31.2% that either engaged in a re-enrollment within the past 12 months or have had multiple re-enrollments.

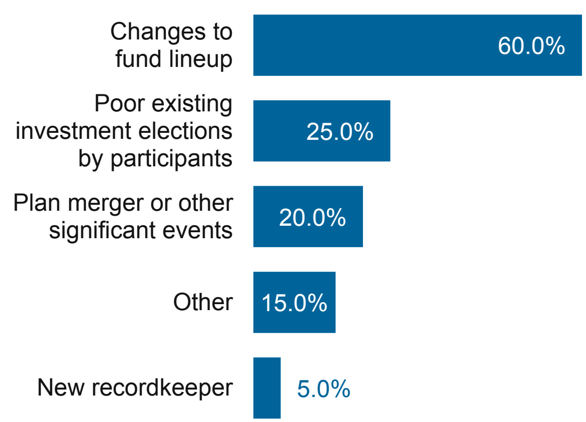
"Changes to the fund lineup" was the most common motivation for re-enrollment (60.0%), followed by poor existing investment elections by participants (25.0%).

Most plans are not planning a re-enrollment—primarily because plan sponsors believe that it is not necessary, that participants would object, or that it is not a priority.

## Have you conducted an asset re-enrollment?




## Re-enrollment reasons*




*Multiple responses were allowed.

## Reasons for not conducting re-enrollment

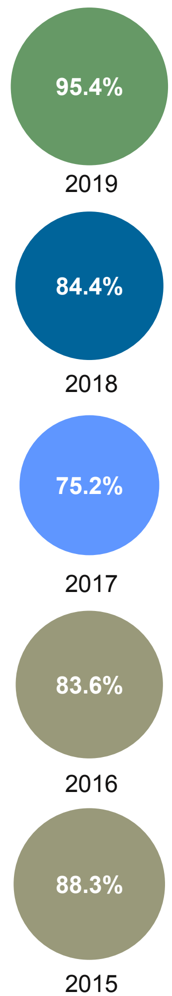

(7=Most important. Total ranking is weighted average score.)

# Investment Advisory Services: Prevalence

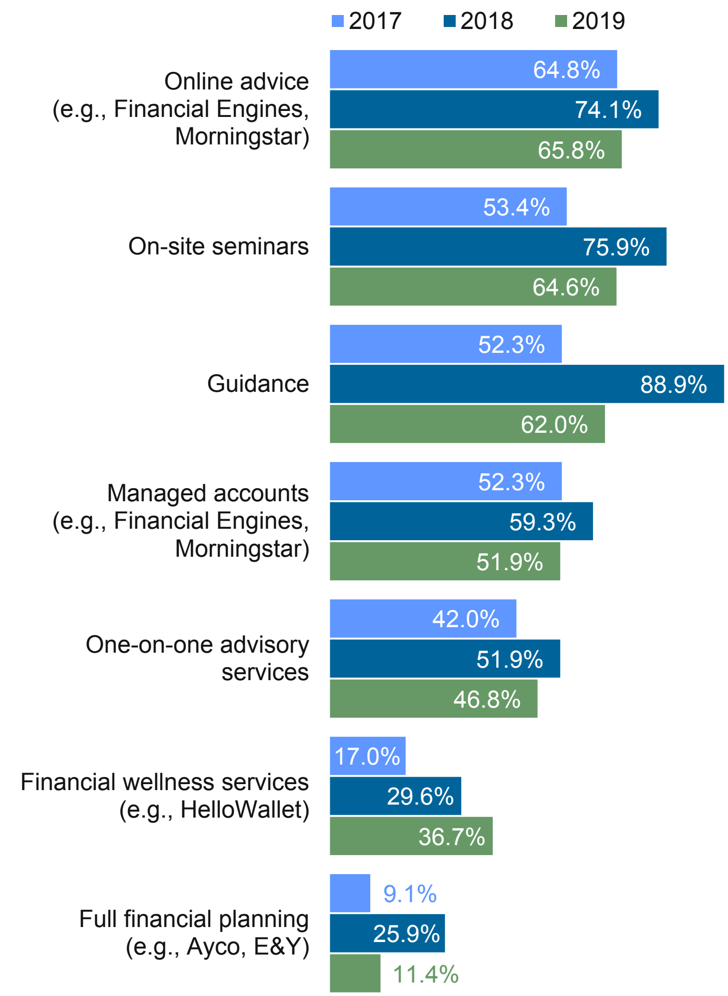
Up notably in recent years, the vast majority of DC plan sponsors (95.4%) offered some form of investment guidance or advisory service to participants. In many cases, sponsors provided a combination of different advisory services, with 3.4 provided on average. This is up from two on average last year.

Online advice was the most commonly offered service (65.8%). On-site seminars were the next most common (64.6%), followed closely by guidance (62.0%). While financial wellness services were among the least commonly offered, it was the only service that saw an uptick from last year (29.6% in 2018 vs. 36.7% in 2019).

### Plans offering guidance/advisory services




### Type of guidance or advice offered*




*Percentages out of those offering advisory services. Multiple responses were allowed.

# Investment Advisory Services: Enrollment and Payment

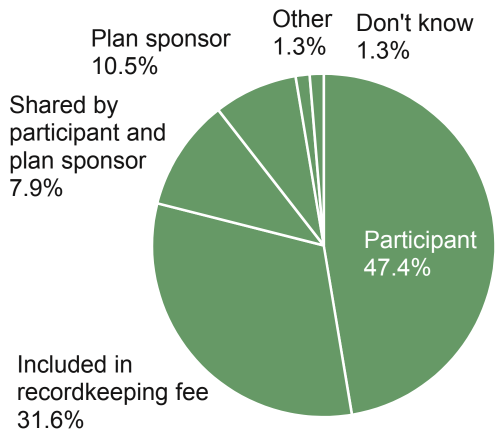
It remained most common for participants to pay for advisory services, either explicitly or as part of the overall recordkeeping costs.

The percentage of plan sponsors that paid the full expense of investment advisory services came in at 10.5% in 2019, a level similar to that of 2017 (13.3%).

For plan sponsors that offered managed accounts, the vast majority (97.5%) offered them as an opt-in feature whereby participants must elect to use the feature. This is significantly up from 2016 (78.2%).

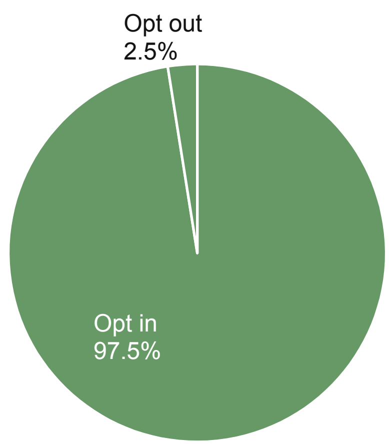
By comparison, few plans enrolled participants on an opt-out basis (2.5%). Plan sponsors cited the associated fees as the top reason for not offering opt-out enrollment.

## Who pays for investment advisory services?

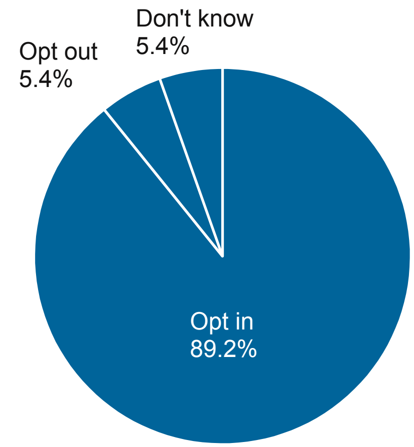



**86.9%**
At least partially paid by participant

## How are participants enrolled in managed accounts?




2019




2018

# Investment Advisory Services: Satisfaction

Satisfaction with investment advisory services was generally high. On-site seminars received the highest marks, with 100% of respondents very or somewhat satisfied. Guidance and one-on-one advisory services also ranked highly, at 98.0% and 97.2%, respectively.

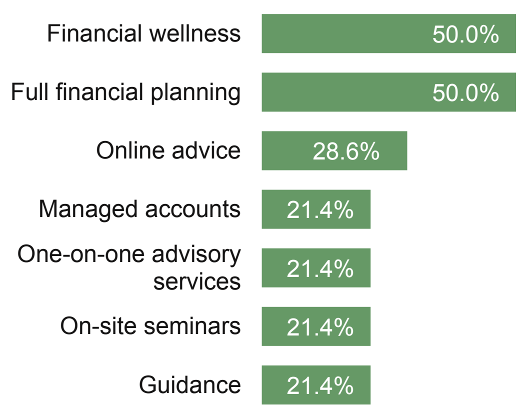
While the majority of plan sponsors were satisfied with their full financial planning services, 25% expressed some level of dissatisfaction.

In the coming year, for sponsors that plan to add advisory services, financial wellness (50.0%) and full financial planning (50.0%) are the most likely to be added.

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

Low participant demand, being a lower priority, and cost were the top three reasons plan sponsors will not offer advice.

## Types of advisory services expected to be added in 2020*



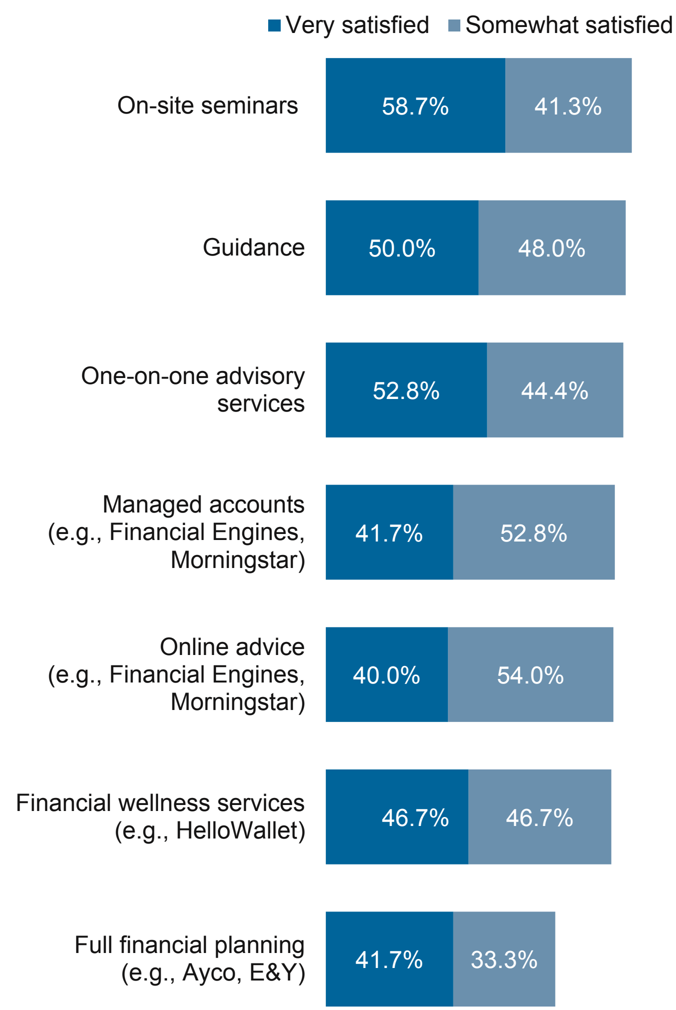

## Reasons for eliminating/not offering advisory services

| | Ranking |
|---|---|
| Low participant demand/potential utilization | 4.3 |
| Not a high priority | 4.0 |
| Too costly to participants | 3.6 |
| Unsure how to do so in current regulatory environment | 3.5 |

(6=Most important. Total ranking is weighted average score.) Additional categories: Dissatisfied with available products (2.8); too costly to plan sponsor (1.5).

*Multiple responses were allowed.

## Satisfaction ratings of guidance or advisory service



# Post-Employment Assets

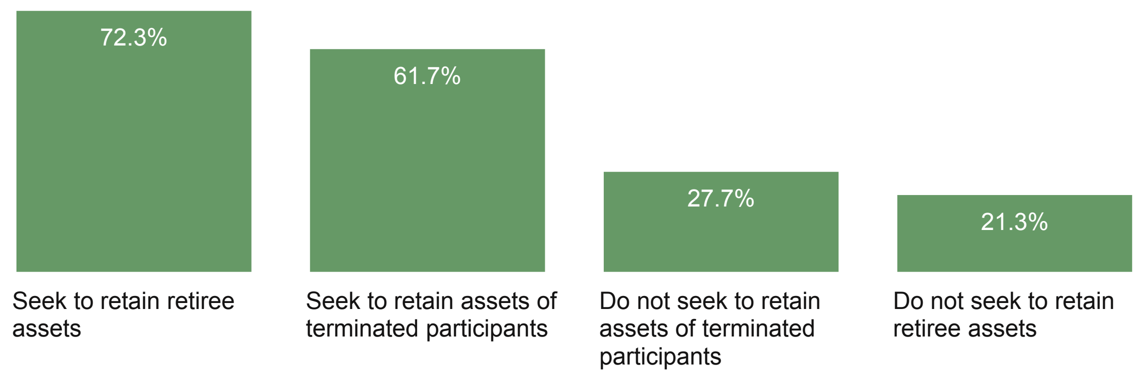
The percentage of plan sponsors that have a policy for retaining retiree/terminated participant assets remained similar to 2017 and 2018 findings, still a notable increase from 43.5% in 2015. Among plan sponsors that had a policy, more seek to retain assets than not.

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.

## Plans with a policy for retaining retiree/terminated assets


**74.5%** sought to **retain assets in 2019**

## Types of retention policies*




*Percentages out of those with a policy. Multiple responses were allowed.

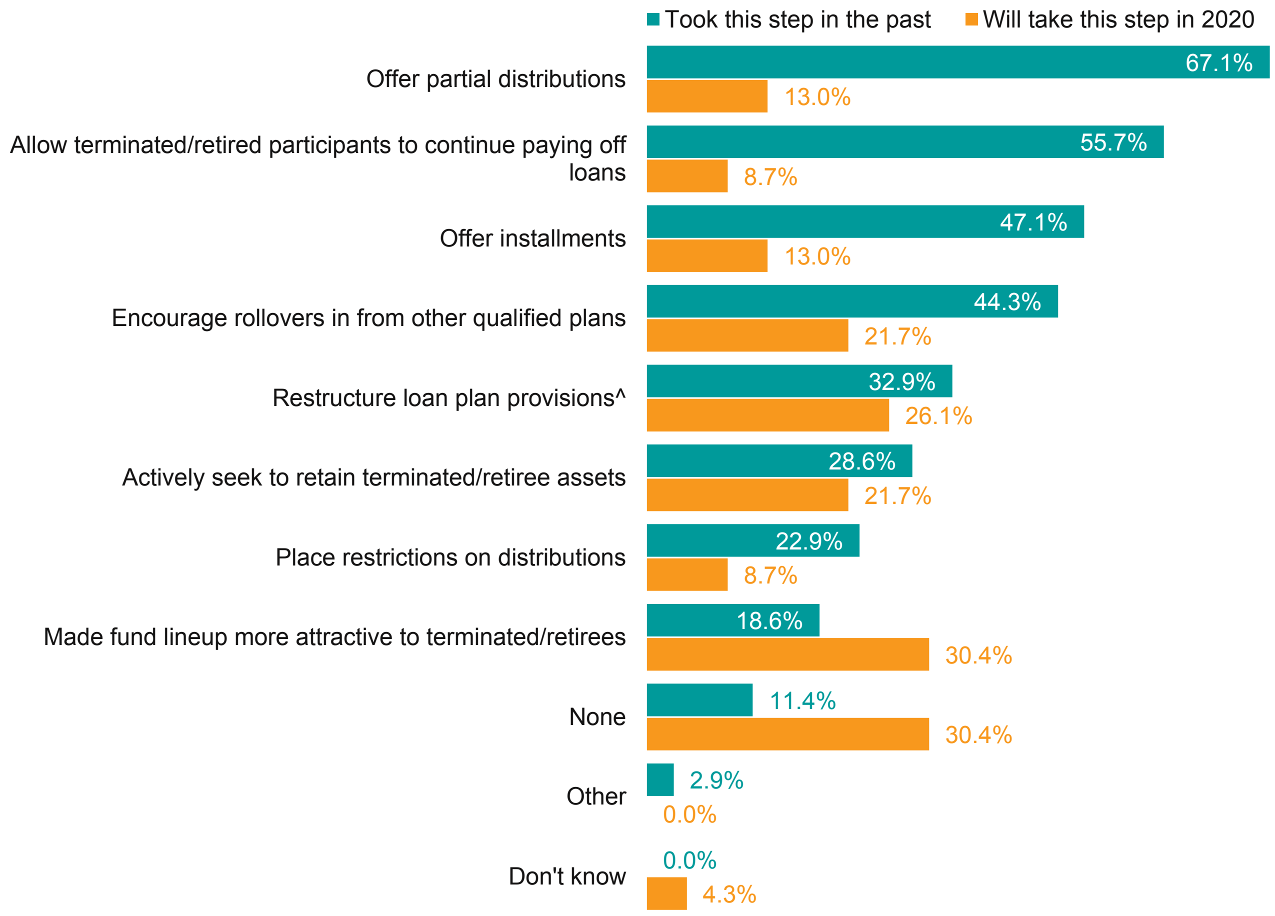
# Plan Leakage

Most plan sponsors (88.6%) have taken steps to prevent plan leakage. This included offering partial distributions (67.1% in 2019 vs. 56.7% in 2018) and installment payments (47.1% in 2019 vs. 44.8% in 2018). More than half allowed terminated participants to continue paying off loans (55.7%).

In 2020, 65.3% anticipate taking additional steps to prevent plan leakage—most notably, to make the fund lineup more attractive to retirees, restructure loan plan provisions, encourage rollovers into the plan, or support the retention of assets.

**88.6%** have taken steps to **prevent plan leakage**

## Steps taken to prevent plan leakage*




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

*Multiple responses were allowed.

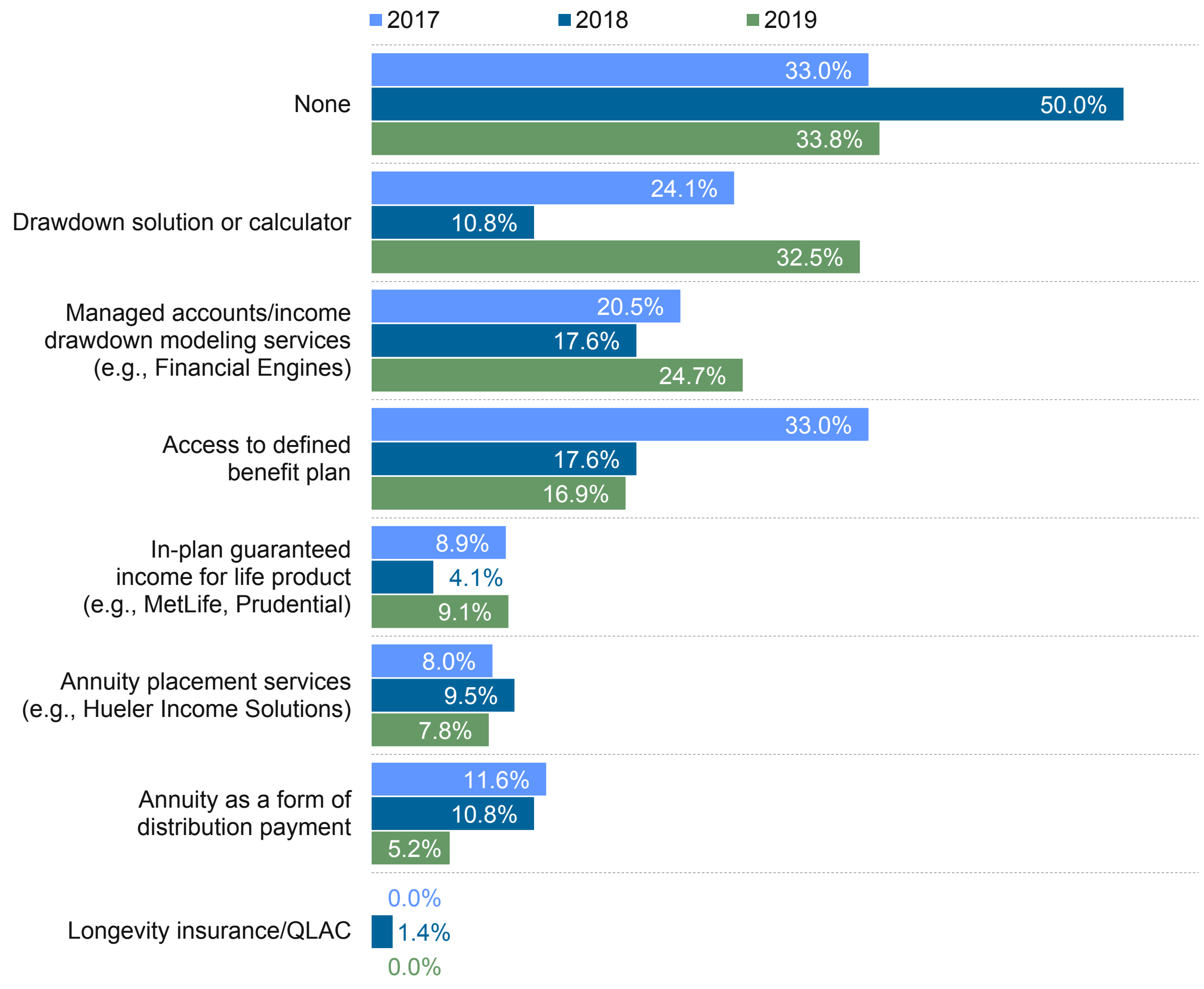
# Retirement Income Solutions

Two-thirds of plans (66.2%) offered some sort of retirement income solution to employees. Providing access to a drawdown solution or to a managed account service were the two most common.

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.

**66.2%** offered a **retirement income solution**

## Retirement income solutions offered*




*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.

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, concern over insurer risk, and concern over cost drove the decision to not offer these products.

## If you will not offer an annuity-type product, please rate the reasons for not doing so

Most important

| | Rating |
|---|---|
| Uncomfortable/unclear about fiduciary implications | 3.6 |
| Unnecessary or not a priority | 3.4 |
| No participant need or demand | 3.2 |
| Concerned about insurer risk | 3.0 |
| Too costly to plan sponsors/participants | 2.3 |
| Difficult to communicate to participants | 2.1 |
| Uncomfortable with available products | 2.1 |
| Too administratively complex | 2.0 |
| Availability of DB plan | 2.0 |
| Products are not portable | 1.8 |
| Lack of product knowledge | 1.5 |
| Recordkeeper will not support this product | 1.1 |

Least Important

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

# Fee Calculation

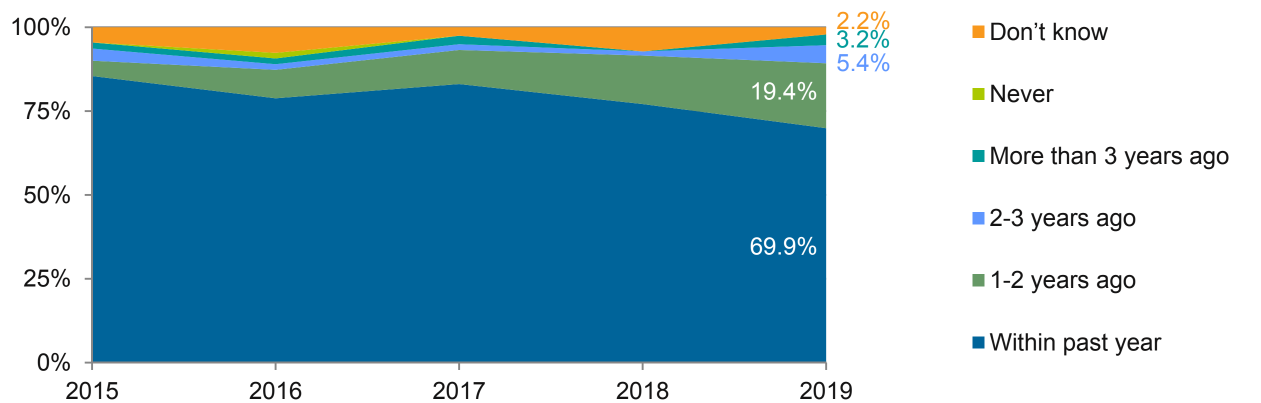
The percentage of plan sponsors that calculated their all-in DC plan fees within the past 12 months came in at nearly 70% in 2019. Another 19.4% have done so in the past one to two years. Only 2.2% were unsure of the last time all-in fees were calculated, down from last year.

A combination of entities are generally responsible for calculating plan fees. In 2019, fees were most frequently calculated by the consultant, followed by the plan sponsor and/or recordkeeper.

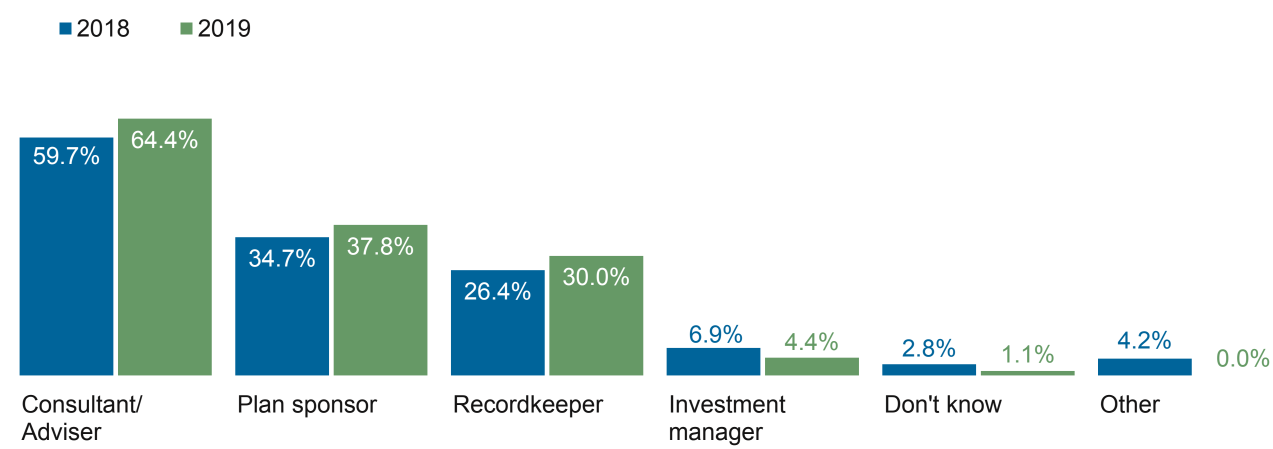
**52.6%** evaluated **indirect revenue** when calculating fees

**21.8%** did not know if it was evaluated

## Last time all-in plan fees were calculated*




## Who handled your fee calculation?**




*All-in fees include all applicable administration, recordkeeping, trust/custody, and investment management fees.

**Multiple responses were allowed.

# Fee Benchmarking

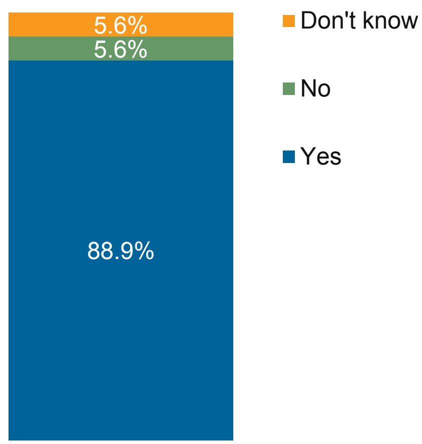
Nearly 9 in 10 plan sponsors (88.9%) benchmarked the level of plan fees as part of their fee evaluation process, up from last year (83.3%). The percentage of plan sponsors that did not know whether plan fee levels were benchmarked (5.6%) was down slightly from 6.4% in 2018.

In the majority of cases, the consultant/adviser conducted the benchmarking (83.5%), which was consistent with last year.

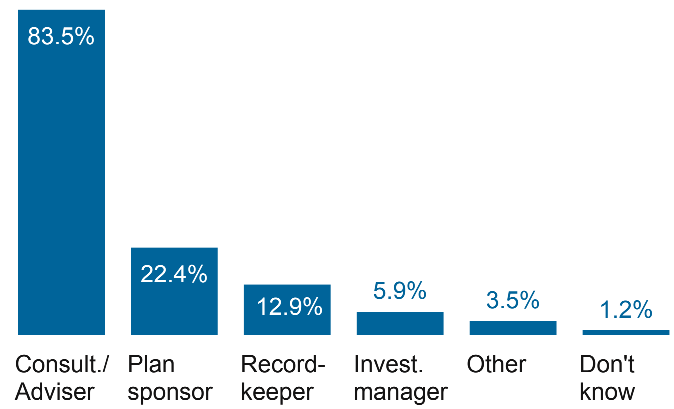
Plan sponsors tend to use multiple data sources in benchmarking. Consultant databases (60.8%) were the most heavily used method. Data from the recordkeeper (24.1%), general benchmarking data (24.1%), and RFIs (21.5%) were the next most frequently cited.

**62.4%** both **calculated and benchmarked** plan fees within the past 12 months

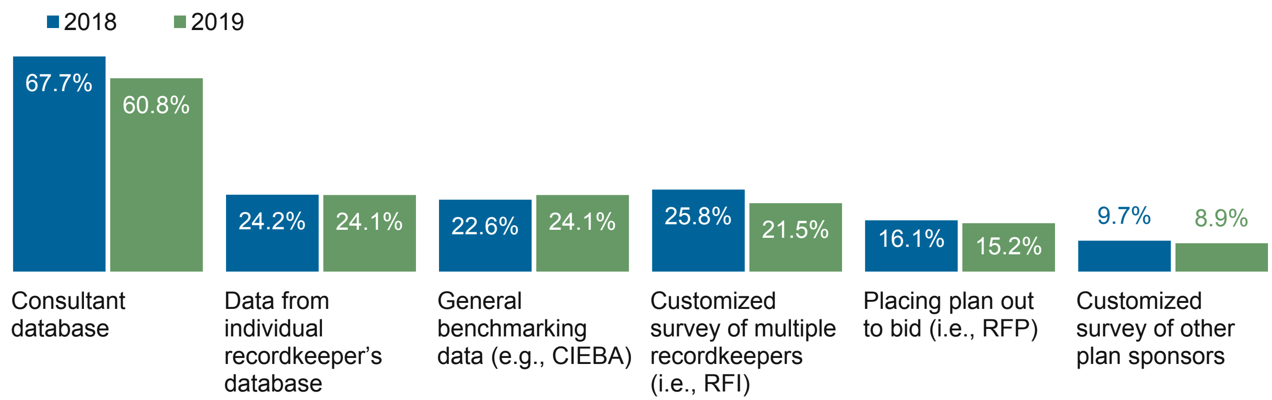
## In calculating fees, did you benchmark them?




## Who handled the benchmarking?*




## How benchmarking was done*




*Multiple responses were allowed.

# Fee Calculation and Benchmarking Outcomes

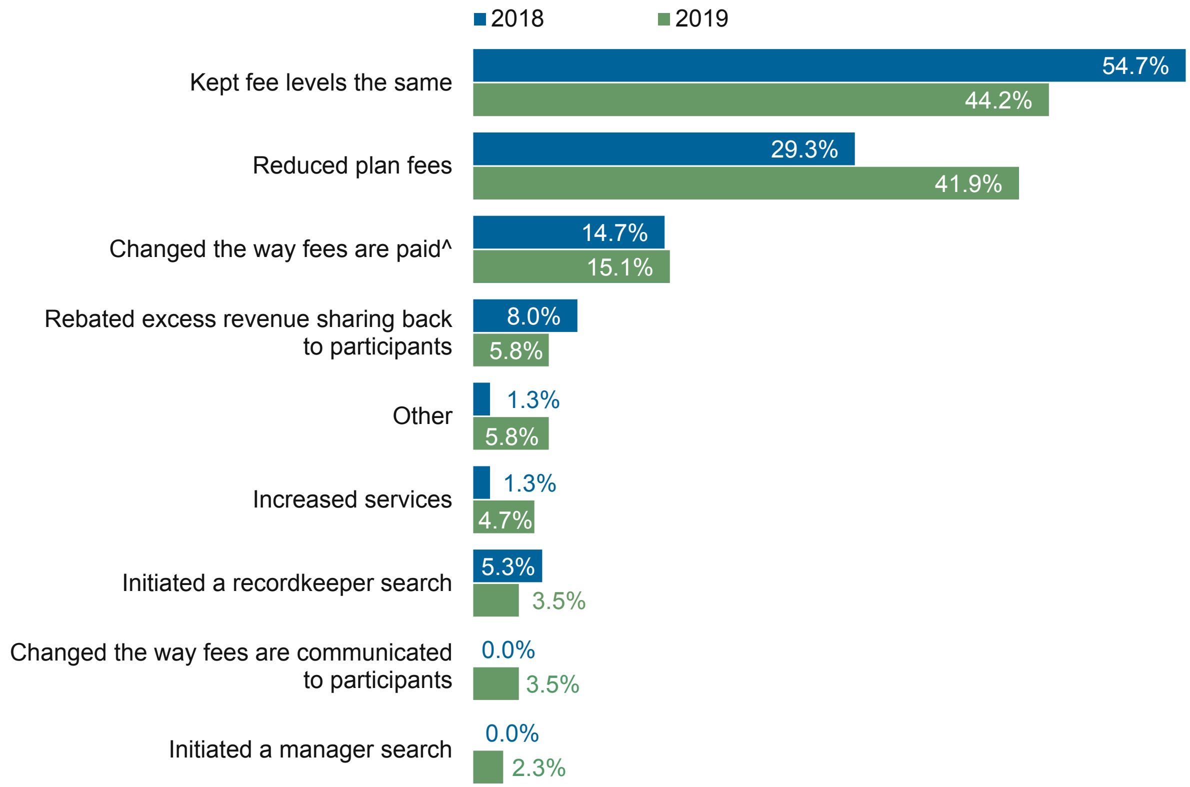
Less than half of plan sponsors kept fees the same following their most recent fee review (44.2%), while nearly the same proportion (41.9%) reduced fees.

After reducing fees, the next most common activity resulting from a fee assessment in 2019 was changing the way fees were paid (15.1%). This 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 few plan sponsors (3.5%) having changed the way fees are communicated to participants as a result of their fee review.

Of those selecting "Other," one changed its recordkeeper as a result of its fee assessment. The majority of the others were still in progress with their assessment and had not determined the outcome.

## Outcome of fee analysis*




Additional categories (2018/2019): Don't know (2.7%/2.3%); implemented an ERISA-type account (0.0%/0.0%).

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

*Multiple responses were allowed.

# Fee Payment

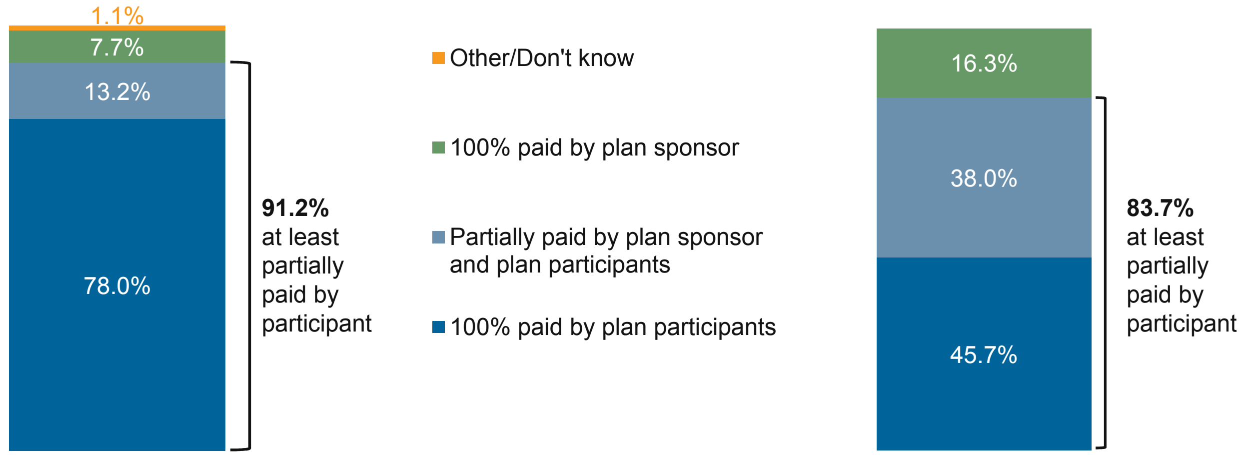
Investment management fees were most often entirely paid by participants (78.0%), and almost always at least partially paid by participants (91.2%). In contrast, nearly half (45.7%) of all administrative fees were paid entirely by participants, up from last year, but still down significantly from 62.7% in 2017. Most plan sponsors (83.7%) noted that at least some administrative fees were participant-paid.

In a modest decrease from last year, 27.3% 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 11.7% paid solely through revenue sharing (vs. 13.8% in 2018).

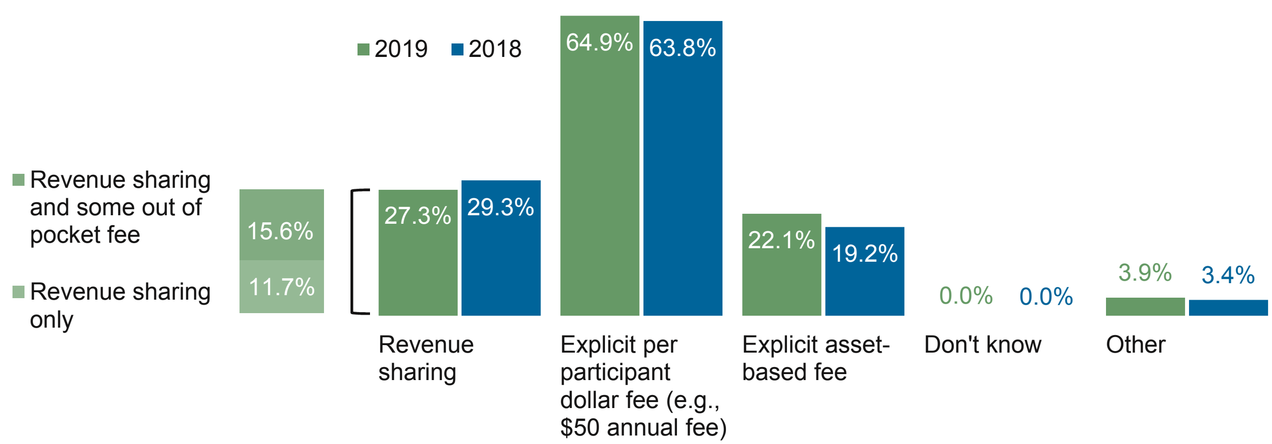
Of those paying through an explicit fee, using a per-participant fee continued to be more popular than an asset-based fee (64.9% vs. 22.1%).

## How investment management fees are paid

## How administrative fees are paid




## How participants pay for plan administration*



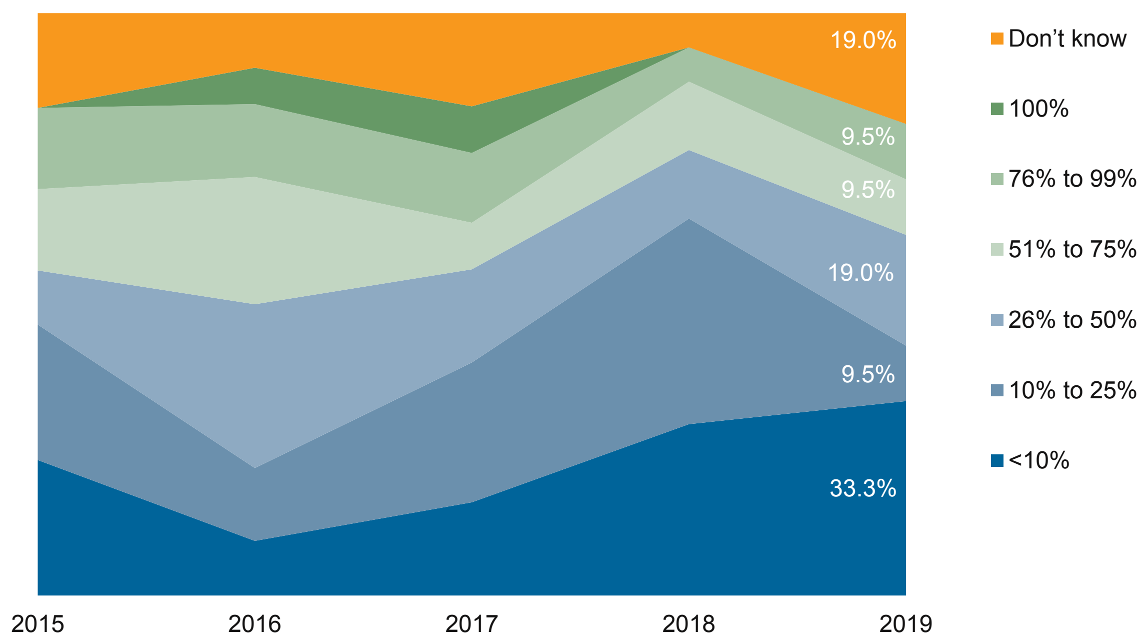

*Multiple responses were allowed.

# Revenue Sharing

Of plans with revenue sharing (or some kind of administrative allocation back from the investment fund), none reported that all of the funds in the plan provided revenue sharing, similar to 2018. The most common was to have less than 10% of funds paying revenue sharing, a change from 2018 in which between 10% and 25% of funds was the most common response.

Plan sponsors that are not sure what percentage of the funds in the plan offer revenue sharing increased markedly from 5.9% in 2018 to 19.0% in 2019.

## Percentage of funds that have revenue sharing



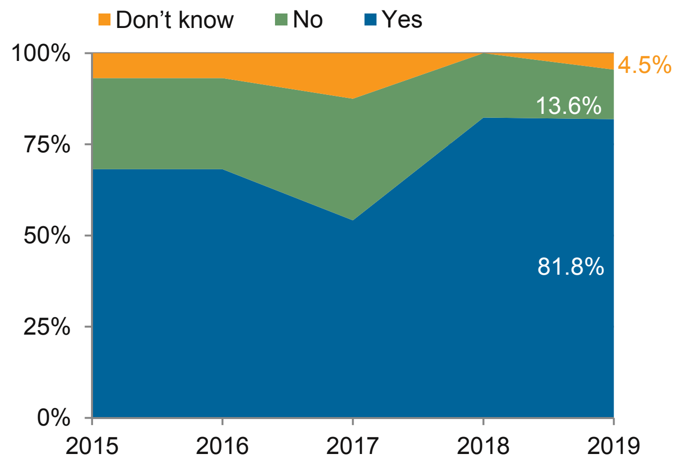
# ERISA Accounts for Plans with Revenue Sharing

Eight out of 10 plan sponsors with revenue sharing had an ERISA account. This was consistent with 2018 (82.4%). Up from last year, 4.5% of plan sponsors responded that they did not know if they had an ERISA account, though still down notably from 12.5% in 2017.

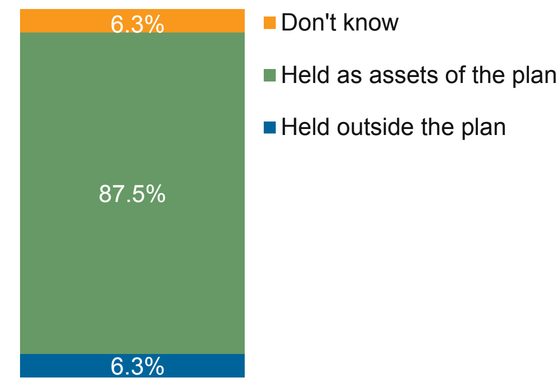
In most cases (87.5%), reimbursed administrative fees were held as a plan asset.

Consulting and auditing fees were the most commonly paid expense through the ERISA account (52.9% for each). In 2019, the ERISA account was used less frequently for legal- and communication-related fees.

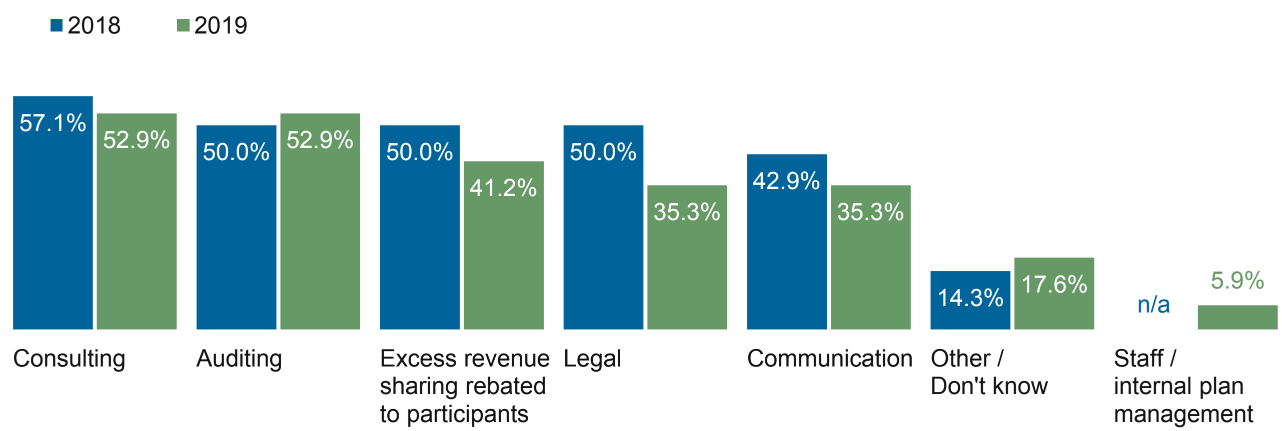
## Do you have an ERISA expense reimbursement account?




## Where are ERISA account assets held?




## Expenses paid through the ERISA account*




*Multiple responses were allowed.

# Fee Initiatives in 2020

Two-thirds of plan sponsors are either somewhat or very likely to switch to lower-fee share classes in 2020 (66.7%).

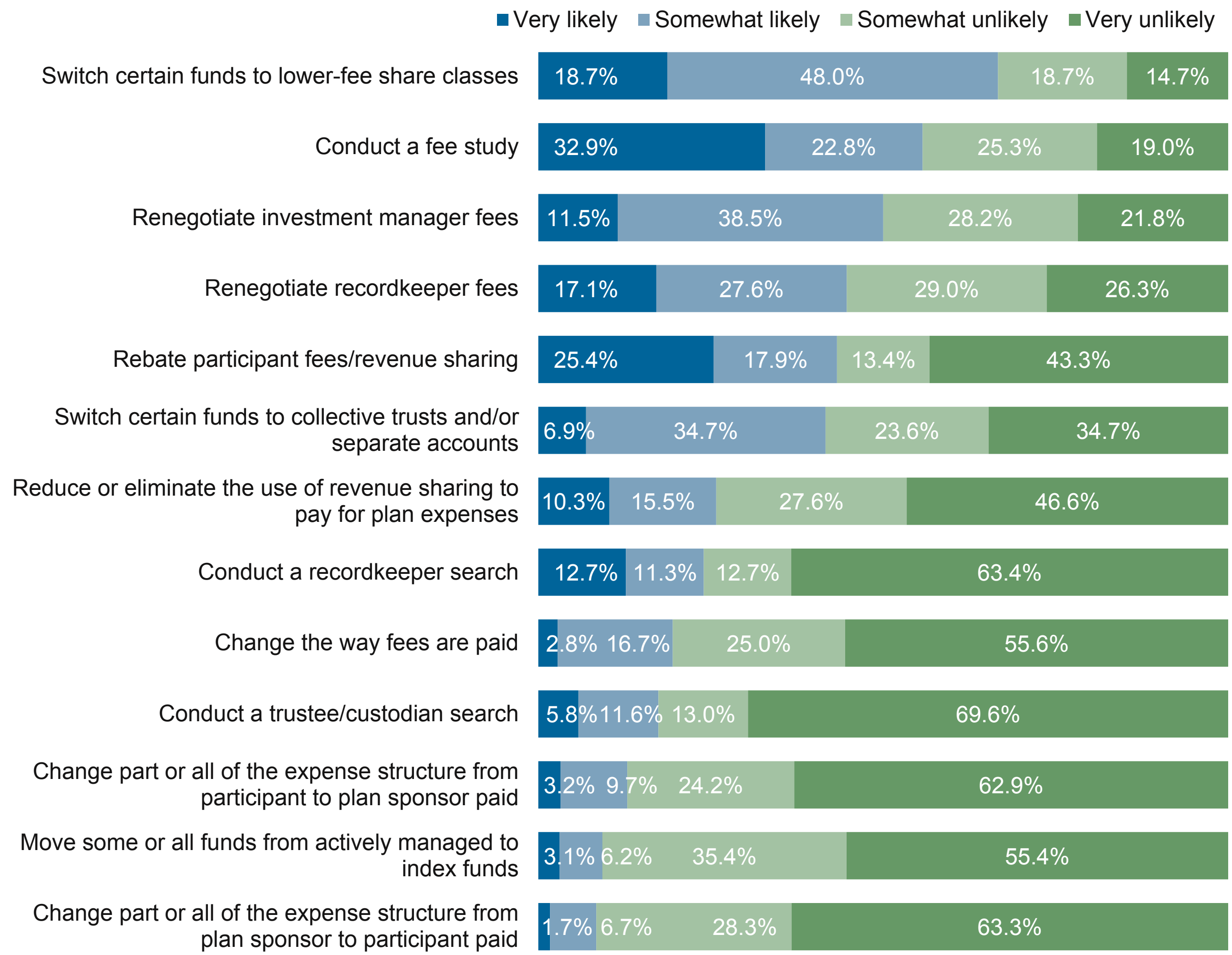
Falling from the most likely step last year, 55.7% of plan sponsors are likely to conduct a fee study in 2020.

Other somewhat or very likely actions include renegotiating investment manager and recordkeeper fees (50.0% and 44.7%, respectively).

In a similar effort to reduce fees, 41.6% of plan sponsors intend to switch to more institutional vehicles such as collective trusts or separate accounts.

Recordkeeper search activity is likely to continue in 2020, with 24.0% saying they are very or somewhat likely to conduct a search, up from last year, and close to the record high of 25.5% in 2016.

## Types of fee initiatives planned for 2020



# Participant Communication

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

While plan sponsors are heavily focused on managing plan fees, they are not as focused on communicating them, according to their lower ranking.

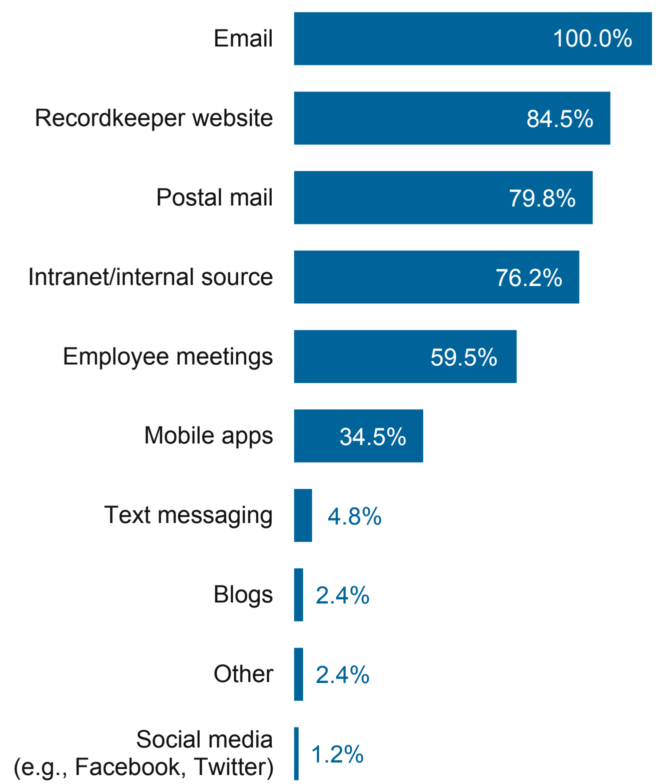
In terms of media channels, email continued to be among the most used channels with all plan sponsors now using it. The recordkeeper's website came in second, pushing postal mail into third for 2019. Mobile apps saw a notable increase from last year (19.0% in 2018 vs. 34.5% in 2019). Text messaging, blogs, and social media still are not widely used.

## Areas of communication focus in 2020

| | Ranking |
|---|---|
| Financial wellness | 5.3 |
| Plan participation | 4.2 |
| Contribution levels | 4.0 |
| Retirement income adequacy | 3.9 |
| Investing (e.g., market activity, use of funds, diversification, market timing) | 3.6 |
| Managing income in retirement | 2.9 |
| Fees | 2.7 |

(7=Most focus. Total ranking is weighted average score.) Additional categories: Loans (1.8); withdrawals/distributions (1.8); company stock (0.8).

## Media channels used to communicate plan information to participants*




*Multiple responses were allowed.

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**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.

**Patrick Wisdom** is an assistant vice president and associate defined contribution consultant in Callan's Fund Sponsor Consulting group based in the Chicago office. In this role, he is responsible for providing support to Callan's DC clients, including fee analyses and structure reviews. Patrick joined Callan in June of 2018 as an analyst for the Callan Institute. In this position, he helped coordinate Institute events and webinars as well as analyzed Callan's use of Salesforce and other platforms. Before joining Callan, Patrick interned as a copy editor at the New York Times.

# Disclosure

**About Callan**

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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The Callan Institute, established in 1980, is a source of continuing education for those in the institutional investment community. The Institute conducts conferences and workshops and provides published research, surveys and newsletters. The Institute strives to present the most timely and relevant research and education available so our clients and our associates stay abreast of important trends in the investments industry.

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