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Comprehensive New BrightScope/ICI 401(k) Study Shows Most Employers Make Contributions to Their Plans

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Study Lets Public Tap Deep Store of Data on Plan Design, Features

Washington, DC, December 8, 2014—A comprehensive new study of 401(k) plans conducted by BrightScope Inc. and the Investment Company Institute (ICI) shows that employers are actively participating in their plans, collectively using a range of formulas for their matching contributions. In addition, the in-depth study, released today, reveals that plans offer a wide variety of investment choices and that mutual fund fees in 401(k) plans have trended down over time.

The study, "The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans ," gives employees, plan sponsors, and policymakers a deep store of previously untapped data for comparing plan design and features across a wide range of 401(k) plans. The analysis focuses on about 35,500 defined contribution (DC) plans, nearly all of which were 401(k) plans with 100 or more participants, drawn from the BrightScope Defined Contribution Plan Database. The data are mostly drawn from audited reports that the plans were required to file with the Department of Labor, giving this database a unique range and scope. Most studies of 401(k) plan features are based on samples of plans that volunteer for the study or are affiliated with specific service providers.

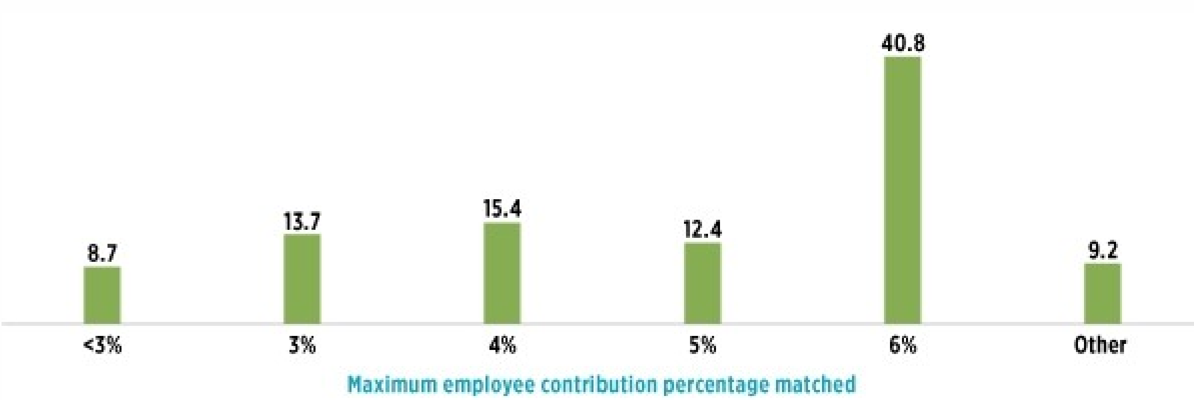
BrightScope Database Illuminates Many Dimensions of Defined Contribution Plans

The BrightScope database is designed to shed light on DC plans across many dimensions, including the number and types of investments offered in plans; assets in those investments; employer contribution structures; and the design of the plan's auto-enrollment features. The data allow analysis by plan size (either by plan assets or by number of participants) and over time. BrightScope and ICI augmented the audited filings with information drawn from other sources on fees, assets, and contributions to provide an unusually rich picture of the 401(k) landscape.

"The flexible structure of 401(k) plans allows employers to shape their own plan designs to meet the needs of their workforce," says ICI Chief Economist Brian Reid. "These data suggest that employers, working with employees and plan service providers, have adopted a variety of features that can encourage employee participation, provide a range of appropriate investment choices, and result generally in use of lower-cost mutual funds. This flexibility and innovation are keys to the success of the 401(k) and should be encouraged."

Employers with Simple Matches Use a Variety of Formulas

Percentage of plans with simple match formulas, 2012



Note: Components do not add to 100 percent because of rounding.

Source: BrightScope Defined Contribution Plan Database

More Than Four out of Five Plan-Sponsoring Employers Make Contributions

The great majority of employers that sponsor 401(k) plans—more than 80 percent—make plan contributions. Simple matching formulas, where the employer matches a certain percentage of employee contributions up to a maximum percentage of employee salary, were the most common type of employer contribution.

Forty percent of plans had a simple match formula in 2012, while other types of employer matches were seen in less than 10 percent of plans. Employers made other types of contributions (such as percentage of salary and lump-sum contributions, contributed without regard to employee contributions) in 37 percent of plans. The most common simple matching formula—used in 17 percent of plans in 2012—was matching 50 percent of contributions up to 6 percent of salary, followed closely by the 15 percent of plans in which employers matched 100 percent of contributions up to 6 percent of salary.

“This study reveals a high level of engagement and commitment by employers as 401(k) plan sponsors, in making contributions to their plans,” said Sarah Holden, ICI’s senior director of retirement and investor research. “We also found that employers typically provide employees a wide range of investment choices on the plan menu.”

401(k) Plans Offer a Wide Range of Investment Options

The average 401(k) plan in 2012 offered a wide range of investment options for employees to choose from—25 options—of which about 13 were equity funds, three were bond funds, and six were target date funds. (“Funds” in this analysis include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.) Although the number of investment options varies little by plan size, there is considerable variation between plans. For example, 10 percent of plans offered 15 or fewer investment options and 10 percent of plans had 37 or more.

Domestic equity funds, international equity funds, and domestic bond funds were the most likely investment options to be offered in 401(k) plans in 2012. Nearly all plans in the study had these funds in their investment lineups. When domestic equity funds are an option, multiple funds—10 funds, on average—are offered, compared with three international equity funds and three domestic bond funds offered, on average.

Target date funds have become more common in 401(k) plans since 2006, when they were offered by less than a third (about 29 percent) of plans in the study. By 2012, nearly 70 percent of plans offered target date funds as an investment option. During the same six-year period, the percentage of 401(k) plan assets invested in target date funds increased from 3 percent to 13 percent. On average, in 2012 there were about eight target date funds in a suite of target date funds covering a range of anticipated retirement dates.

Index Funds Are a Significant Component of 401(k) Assets

Index funds held nearly a quarter of 401(k) assets in 2012. Index funds held a greater share of assets in larger 401(k) plans, rising from about 10 percent of assets in plans with $10 million or less in plan assets to more than 20 percent of assets in plans with more than $250 million in plan assets. The number of index funds offered by plans that were in the BrightScope database every year between 2006 and 2012 (“consistent plans”) doubled between 2006 and 2012, from an average of a little more than two index funds to more than four index funds.

Mutual Fund Fees in 401(k) Plans Have Fallen over Time

Mutual funds account for 46 percent of assets in 401(k) plans in 2012 in the BrightScope database. An analysis of the consistent plans between 2009 and 2012 showed that average mutual fund expense ratios in these ongoing plans tended to decrease. This finding aligns with prior research by ICI looking at snapshots of mutual fund fees paid by all 401(k) participants.

“As the data demonstrate, we see downward pressure on 401(k) fees over time. This can be attributed to the rising awareness by both plan sponsors and plan participants of fees and their effect on 401(k) savings,” said Brooks Herman, head of data and research at BrightScope. “Our comprehensive database on plans will help advance that awareness.”

This study provides insight into how mutual fund expenses vary across the wide cross-section of 401(k) plans in the sample. Based on a 2012 snapshot, mutual fund expense ratios tend to be lower in larger plans. For example, the asset-weighted average expense ratio for domestic equity mutual funds was 0.48 percent for plans with more than $1 billion in plan assets, compared with 0.95 percent for plans with less than $1 million in plan assets.
