Public Sector Defined Contribution Plan Survey Report

Published March 2015
BACKGROUND AND RESPONDENT DEMOGRAPHICS
The 2015 NAGDCA Defined Contribution Plan survey covered 129 government defined contribution plans, including:

- 457 – 88 plans (37 state, 21 city, 22 county, 5 special district, 3 other)
- 401(k) – 15 plans (12 state, 2 city, 1 county)
- 401(a) – 21 plans (12 state, 3 city, 3 county, 2 special district, 1 other)
- 403(b) – 5 plans (2 state, 2 higher education, 1 K-12 school district)

NAGDCA also solicited responses from public 401(a) plans. Twenty-one responding governmental 401(a) plans had assets valued at over $50.6 billion. The 12 responding state 401(a) plans held over $48 billion of these assets. The largest state 401(a) plan responding to the survey is the State Universities Retirement System of Illinois with nearly $19 billion in assets, and the largest local 401(a) plan is Gwinnett County with $1.4 billion in assets.

Five responding governmental 403(b) plans had assets valued at over $4.6 billion.

To view historical data on plan assets, please see the additional charts on page five.

Roth 457
Twenty-eight percent of responding plans offer Roth accounts and 7% offer in-service Roth conversions.

Of those that offer a Roth account, 71% indicated 5% or less of their participants contribute to a Roth. Of those that offer an in-service Roth conversion, all responding plans indicated that 2% or less of the plan’s participants have made a Roth conversion.

PARTICIPANT BEHAVIOR
Eligibility and Participation
Approximately 2.9 million of eligible employees participated in the plans in 2014. The average participation rate for all plans was 58%.

At the end of 2014, responding 457 plans reported 1.7 million respondents, and a 40% participation rate. 401(k) respondents reported over 920,000 participants, and a participation rate of 20%, while 401(a) respondents reported 120,000 participants and a participation rate of 86%. 403(b) respondents reported 127,000 participants and a 49% participation rate.
Of all the governmental plans reporting, there were 254,000 participants who had separated from service (former employees who maintain an account balance).

**Participant Account Balances**

As of December 31, 2014, the average participant account balance for responding state and local government plans was nearly $59,000. Of the responding plans, the average median account value was $24,000.

As of December 31, 2014, the average participant account balance for responding 457 plans was approximately $60,100 and the average for 401(k) plans was $41,500. The average for 401(a) plans was $55,800, and the average participant account balance for responding 403(b) plans was nearly $106,400.

To view account balance changes over the years, please see the additional charts on page six.

**Employer Match**

Of responding single employer plans, 69% do not offer an employer matching contribution. Of the remaining 31%, 76% indicated that they provide a match based on a percentage of pay per payroll period.

**Annual Deferrals**

The average annual deferral amount for responding government plans was $5,701.

**Contribution Types**

For calendar year 2014, the total employee pre-tax contribution amount for all responding plans was $6.5 billion.

The total employer matching contribution amount for responding plans was $981 million.

The total employee mandatory contribution amount for responding plans was $542 million, while the total employer mandatory contribution amount for responding plans was $331 million.

**Defined Benefit Plan**

Ninety-three percent of responding governmental plans reported plan participants are also covered by a Defined Benefit (DB) plan.

Fifty-seven percent of defined benefit plan respondents said no changes have been made to the current level of benefits provided by the DB plan. The remaining reported benefit reductions were recently implemented or are planned for the future (39%) or there has been a soft freeze (DB closed to new hires) (4%).

**PLAN FEATURES**

Eighty-seven percent of responding single employer plans said plan participation was elective and 89% of those plans with elective participation do not utilize auto-enrollment. The majority of plans who do not utilize auto-enrollment don’t do so because state law doesn’t allow it (53%), and/or because it must be approved through collective bargaining process (22%) and/or because it feels paternalistic (16%). Eighteen percent are considering auto-enrollment currently.
**Self-Directed Brokerage Account**
Thirty-seven percent of responding governmental plans reported the plan offers a self-directed brokerage account. Of those that offer a self-directed brokerage account, 86% reported that less than 2% of plan participants utilize the self-directed brokerage account, while 11% reported that 2-5% of plan participants do.

**Social Security Replacement Plan**
Responding plans offer the following investment options for social security replacement plan for part-time, temporary, or seasonal employees:
- Plan doesn’t offer social security replacement plan – 85%
- Stable Value Fund – 12%
- Core Investment Options – 4%
- Self-Directed Brokerage Account – 3%
- Target Date Fund – 3%
- Bank Depository – 3%

**Fees**
Seventy-six percent of responding plans currently adhere as much as possible to the same participant fee disclosure rules as ERISA governed plans, and 10% plan to do so in the future. Ten percent of responding plans were unsure.

<table>
<thead>
<tr>
<th>Are you disclosing fees in other ways?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at this time</td>
</tr>
<tr>
<td>0%</td>
</tr>
</tbody>
</table>

Of responding plans, 84% disclose fees via the plan websites, 82% disclose via statements, 19% via separate mailings, and 7% do not disclose at this time.

Seventy-three percent of responding plans currently adhere as much as possible to the same service provider fee disclosure rules as ERISA governed plans, while 7% plan to do so in the future. Eight percent of plans do not currently adhere as much as possible to the same service provider fee disclosure rules as ERISA, while 12% are unsure.

Sixty-eight percent of responding plans underwent a process to determine the reasonableness of fees within the last year. Of those, 55% initiated an RFP process and

55% utilized a formal benchmarking process. Other responding plans utilized consultants, internal processes, and surveys.

**Income Projections**
Of the responding plans, 67% provide income projection information, 12% are considering providing it in the next twelve months, and 20% do not provide income projections.

Of those plans that provide income projection information, 28% consolidate projections for all plans, while 44% consolidate projections for just DC plans, and 40% are done separately for each plan.

Of the plans that provide income projection information, 87% do via website, 65% do via statements, 15% do via a separate retirement income projection notice, and 8% do via a combined defined contribution and defined benefit retirement income projection notice.

**Guaranteed Retirement Income Solutions**
When asked if the plan offered a guaranteed retirement income solution product, 30% of responding plans answered yes, while 61% responded no. An additional 9% currently do not offer a guaranteed retirement income solution product but were considering adding one.

Of those plans responding that they offered a guaranteed retirement income solutions product, 61% of respondents said the product has been offered for more than 5 years. Most plans, 76%, responded that they were prompted to offer the guaranteed retirement income solution product because of industry trends while 38% did so because of participant request.
Of the plans offering a guaranteed retirement income solution product or considering adding one, 91% responded that it is a fixed pay-out product, and 35% responded that the product has inflation protection features. Thirty-three percent of the plans stated that the guaranteed retirement income solution product is not a variable payout product and 50% stated it is not a Guaranteed Minimum Withdrawal Benefit. Fifty-five percent said it is not a Longevity Insurance product.

Fifty-four percent of responding plans stated that their guaranteed retirement income solution product was offered ‘outside’ of the plan and 43% was “inside” of the plan, while 4% weren’t sure. Forty-seven percent of responding plans that offered a guaranteed retirement income solutions product reported that less than 1% of participants used it. Retirees utilize the guaranteed retirement income solution product more than active plan participants.

Investments
Thirty percent of responding plans reported they have 1-15 core funds available to participants with 3% offering over 31-50 core funds.

<table>
<thead>
<tr>
<th>How many core funds are available to participants?</th>
<th>Less than 10</th>
<th>10-15</th>
<th>16-20</th>
<th>21-30</th>
<th>31-50</th>
<th>Over 50</th>
</tr>
</thead>
<tbody>
<tr>
<td>401(a)</td>
<td>1</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>401(k)</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>403(b)</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>457</td>
<td>5</td>
<td>15</td>
<td>14</td>
<td>17</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Eight-four percent of responding plans offer target-date funds, 36% offer balanced funds, 22% offer target-risk funds, and 19% offer funds of funds.

Of the responding plans, 22% offered one asset allocation option, while 15% offered two, 2% offered 3, and 58% offered more than four.

Twenty percent of plans have less than 10% of plan assets invested in asset allocation funds, while 30% have 11-20%, 21% have 21-30%, 13% has 31-40% and 6% have greater than 41%-50% invested in asset allocation funds. Ten percent have more than 50% invested in asset allocation funds. Of those asset allocation funds offered, 70% are off the shelf and 30% are customized.

Most responding plans, 64%, utilize target date funds as the default option, while 10% utilize stable value funds, 7% utilize target risk funds, 7% utilize balanced funds, and 2% utilize money market funds. Fourteen percent of the responding plans have no default fund and require an active investment selection at enrollment.

Investment vehicles offered by the plans can be found in the chart below.
Additional Charts – Plan Assets

**Total Plan Assets**

- **2011**: $100
- **2012**: $150
- **2013**: $200
- **2014**: $250

**401(a) Assets**

- **2011**: $10
- **2012**: $20
- **2013**: $30
- **2014**: $40

**401(k) Assets**

- **2011**: $15
- **2012**: $5
- **2013**: $30
- **2014**: $40

**403(b) Assets**

- **2012**: $4
- **2013**: $5
- **2014**: $6

**457(b) Assets**

- **2011**: $50
- **2012**: $70
- **2013**: $90
- **2014**: $130
Additional Charts – Account Balances Over the Years

Average Account Balances

![Average Account Balances Chart](chart)

Average 401(a) Account Balance

![Average 401(a) Account Balance Chart](chart)

Average 401(k) Account Balance

![Average 401(k) Account Balance Chart](chart)

Average 403(b) Account Balance

![Average 403(b) Account Balance Chart](chart)

Average 457(b) Account Balance

![Average 457(b) Account Balance Chart](chart)