



Fiduciary Awareness in 403(b) Plans

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Executive Summary

The Plan Sponsor Council of America (PSCA) conducted a survey of 403(b) plan sponsors in October 2018 to assess their awareness of fiduciary responsibilities, and if it has changed in the last two years. The survey also assessed what was driving any change – the uncertainty regarding a Fiduciary rule, the multiple lawsuits in the news regarding 403(b) plans, or other factors.

Three hundred 403(b) plan sponsors responded to the survey, representing a diverse group of organizations. Two-thirds of respondents are ERISA plans, nearly a quarter are not subject to ERISA, and ten percent of respondents were unsure of their ERISA status. One-third of respondents have fewer than 50 participants, and less than 20 percent have more than 1,000. Respondents included a wide range of industries including social and community services organizations, higher education, K-12 Education, and religious institutions.

Notable Findings:

- Eighty percent of respondents view themselves as **plan fiduciaries**, up from 76.5 percent in 2016.
- **Investment Changes:** Half of plans made changes to investments, including 72.0 percent of large plans (more than 1,000 participants) and less than twenty percent of small plans (fewer than 50 participants). Of those that made investment changes:
 - Half of large plans changed from retail to institutional share classes.
 - Mid-size plans eliminated proprietary funds of the service provider (19.4 percent of plans with 200-999 participants).
 - One-fourth of small plans adopted a Qualified Default Investment Option (QDIA).
- **Plan Governance Changes:** Seventeen percent of plans made governance changes, including a quarter of large plans.
 - Half of these plans hired a fiduciary advisor or switched from a non-fiduciary to a fiduciary advisor.
 - Half reevaluated the plan's governance structure, and 40 percent created an Investment Policy Statement.
- **Plan Fee Assessments:** One-fourth of plans made changes to fees, including half of large plans.
 - Of those, nearly half implemented fee levelization, and thirty percent began benchmarking fees.
- **Reasons for Changes:** Half of respondents indicated they made plan changes as a normal course of plan governance, including nearly 70 percent of large plans.
 - Forty percent of large plans made changes in light of recent lawsuits and nearly half made changes to mitigate risk.

Demographics

Table 1: Respondent Demographics by Organization Size and ERISA Status

| ERISA Status | Plan Size (# of Participants) | | | | |
|--------------|-------------------------------|--------|---------|--------|-----------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| ERISA | 66.0% | 75.0% | 83.1% | 37.3% | 66.9% |
| Non-ERISA | 12.6% | 16.3% | 15.3% | 60.8% | 22.5% |
| Unsure | 21.4% | 8.8% | 1.7% | 2.0% | 10.6% |
| All Plans | 34.9% | 28.2% | 19.8% | 17.1% | 100.0% |

Table 2: Respondents by Industry Type

| Industry | Number of Plans | Percentage of Plans |
|--|-----------------|---------------------|
| Arts/Cultural | 13 | 4.3% |
| Association | 13 | 4.3% |
| Foundation | 8 | 2.7% |
| Healthcare (other than hospitals) | 19 | 6.3% |
| Higher Education (including faith-based) | 60 | 20.0% |
| Hospitals & Hospital Systems (including faith-based) | 9 | 3.0% |
| K-12 Education | 71 | 23.7% |
| Library/Museum | 11 | 3.7% |
| Other Education | 21 | 7.0% |
| Religious Intuition (i.e. Churches) | 8 | 2.7% |
| Research, Science, or Environmental | 25 | 8.3% |
| Social/Community Services | 35 | 11.7% |
| Other | 7 | 2.3% |
| Total | 300 | 100.0% |

Table 3: Approximate Plan Asset Size of Respondents

| Total Assets | All Plans |
|-----------------------|------------------|
| Less than \$1 million | 17.7% |
| \$1-5 million | 29.9% |
| \$5-10 million | 12.6% |
| \$10-20 million | 9.2% |
| \$20-50 million | 10.2% |
| \$50 million+ | 20.4% |
| Total | 100.0% |

Table 4: Number of Plan Providers Used, by Plan Size

| Number of Plan Providers | Plan Size (# of Participants) | | | | |
|---------------------------------|--------------------------------------|---------------|----------------|---------------|------------------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| 1 | 94.1% | 88.0% | 82.8% | 43.1% | 81.3% |
| 2 | 2.0% | 9.6% | 10.3% | 23.5% | 9.5% |
| 3 | 3.9% | 0.0% | 1.7% | 5.9% | 2.7% |
| 4 | 0.0% | 1.2% | 3.4% | 3.9% | 1.7% |
| 5 | 0.0% | 1.2% | 1.7% | 3.9% | 1.4% |
| More than 5 | 0.0% | 0.0% | 0.0% | 19.6% | 3.4% |
| Total | 100.0% | 100.0% | 99.9% | 99.9% | 100.0% |

Plan Fiduciaries

Table 5. Percentage of Respondents Who View Themselves or Their Organization’s Investment Committee as a Plan Fiduciary

| ERISA Status | Plan Size (# of Participants) | | | | |
|-----------------|-------------------------------|--------|---------|--------|-----------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| ERISA Plans | 69.1% | 94.8% | 89.8% | 94.7% | 84.5% |
| Non-ERISA Plans | 69.2% | 91.7% | 77.8% | 77.4% | 78.5% |
| All Plans | 64.4% | 91.4% | 88.1% | 84.3% | 80.0% |

Table 6. Entities Other Than the Plan Sponsor that Act as Plan Fiduciaries

| Entity | Plan Size (# of Participants) | | | | |
|---------------|-------------------------------|--------|---------|--------|-----------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| Plan Provider | 39.0% | 40.2% | 35.6% | 34.0% | 37.8% |
| Plan Advisor | 21.0% | 42.7% | 47.5% | 30.0% | 33.8% |
| Consultant | 10.5% | 34.1% | 42.4% | 52.0% | 30.4% |
| None | 25.7% | 8.5% | 5.1% | 20.0% | 15.9% |
| Unsure | 18.1% | 9.8% | 10.2% | 10.0% | 12.8% |

Plan Changes Made

Table 7. Types of Plan Changes Made in the Last Two Years

| Changes Made | Plan Size (# of Participants) | | | | |
|-----------------------------|-------------------------------|--------|---------|--------|-----------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| Investment Changes | 18.3% | 59.5% | 62.1% | 72.0% | 47.6% |
| Plan Governance Changes | 7.7% | 25.0% | 17.2% | 24.0% | 17.2% |
| Plan Fee Assessment/Changes | 1.9% | 25.0% | 41.4% | 52.0% | 24.7% |
| Plan Design | 4.8% | 4.8% | 6.9% | 8.0% | 5.7% |
| None | 70.2% | 35.7% | 25.9% | 20.0% | 43.2% |
| Other | 1.9% | 0.0% | 0.0% | 2.0% | 1.0% |

Table 8. Types of Investment Changes Made

| Changes Made | Plan Size (# of Participants) | | | | |
|---|-------------------------------|--------|---------|--------|-----------|
| | 1-49* | 50-199 | 200-999 | 1,000+ | All Plans |
| Removed/replaced underperforming investments. | 63.2% | 83.7% | 88.9% | 88.6% | 82.9% |
| Reduced the number of annuity providers. | 0.0% | 2.0% | 11.1% | 17.1% | 7.9% |
| Reduced the number of investment options. | 10.5% | 12.2% | 19.4% | 28.6% | 17.9% |
| Changed from retail to institutional share classes. | 0.0% | 16.3% | 11.1% | 45.7% | 20.0% |
| Eliminated proprietary funds of the service provider | 0.0% | 12.2% | 19.4% | 5.7% | 10.7% |
| Adoption of a Qualified Default Investment Alternative (QDIA) | 26.3% | 22.4% | 16.7% | 11.4% | 17.9% |
| Other | 15.8% | 18.4% | 8.3% | 14.3% | 14.3% |

*Small sample size.

Table 9. Types of Plan Governance Changes Made, When Made

| Changes Made | Percentage of All Plans |
|--|--------------------------------|
| Hired an advisor to act as a fiduciary or changed from a non-fiduciary advisor to a fiduciary advisor. | 51.1% |
| Created an Investment Policy statement. | 42.6% |
| Re-evaluated the plan’s governance structure. | 48.9% |
| Reduced the number of plan providers or recordkeepers. | 12.8% |
| Reviewed or modified fiduciary insurance | 19.1% |
| Other | 25.5% |

Table 10. Types of Fee Changes Made, When Made

| Change Made | Percentage of All Plans |
|---|--------------------------------|
| Began benchmarking fees. | 29.9% |
| Fee leveling. | 46.3% |
| Changed allocation of recordkeeping/plan administration fees from basis points to per participant and/or transaction based fees | 28.4% |
| Other | 19.4% |

Table 11. Reasons for Making Plan Changes, when Changes Were Made

| Reason | Plan Size (# of Participants) | | | | |
|---|-------------------------------|--------|---------|--------|-----------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| To enhance governance. | 16.7% | 23.1% | 34.9% | 40.0% | 28.9% |
| To prepare for the fiduciary rule that did not go into effect. | 13.3% | 11.5% | 9.3% | 10.0% | 10.8% |
| To prepare for other fiduciary rules currently being developed by the SEC and various states. | 6.7% | 5.8% | 4.7% | 7.5% | 6.0% |
| These are ordinary changes in the course of the plan's governance. | 33.3% | 63.5% | 44.2% | 67.5% | 53.6% |
| Our advisor recommended we do so. | 40.0% | 55.8% | 48.8% | 47.5% | 48.8% |
| In light of the litigation surrounding plans today. | 3.3% | 7.7% | 18.6% | 40.0% | 17.5% |
| To mitigate risk. | 13.3% | 30.8% | 37.2% | 47.5% | 32.5% |
| Other | 30.0% | 17.3% | 20.9% | 12.5% | 19.3% |

Investment Assistance

Table 12. Entities Relied on in Making Investment Line-up Decisions

| Entity | Plan Size (# of Participants) | | | | |
|--|-------------------------------|--------|---------|--------|-----------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| No outside help. | 16.8% | 3.6% | 3.4% | 0.0% | 7.3% |
| The plan's recordkeeper. | 25.3% | 14.5% | 8.6% | 5.9% | 15.3% |
| A fiduciary advisor though the plan recordkeeper. | 23.2% | 19.3% | 17.2% | 2.0% | 17.1% |
| The investment committee in conjunction with the plan advisor or provider. | 27.4% | 57.8% | 63.8% | 70.6% | 51.2% |
| Other | 7.4% | 4.8% | 6.9% | 21.6% | 9.1% |
| Total | 100.1% | 100.0% | 99.9% | 100.1% | 100.0% |

Table 13. Percentage of Organizations Offering, or Planning to Offer, Investment Decision Assistance to Participants

| Availability | Plan Size (# of Participants) | | | | |
|---|-------------------------------|--------|---------|--------|-----------|
| | 1-49 | 50-199 | 200-999 | 1,000+ | All Plans |
| Currently Offer | 39.4% | 76.2% | 80.7% | 77.1% | 64.2% |
| Planning to offer within the next year. | 6.7% | 3.6% | 1.8% | 4.2% | 4.4% |
| Don't offer and no plans to offer. | 53.8% | 20.2% | 17.5% | 18.8% | 31.4% |
| Total | 99.9% | 100.0% | 100.0% | 100.1% | 100.0% |

Appendix I – Questionnaire

The following questions were posed to respondents online.

1. Do you view yourself, or your organization's investment committee (if applicable), as a Fiduciary on your organization's 403(b) plan?
Yes No Unsure

2. What other entities act as fiduciaries on your organization's 403(b) plan?
Consultant
Plan Provider
Plan Advisor
None
Other: _____

3. A. What types of plan changes have you made in the last two years? Check all that apply.
 - Investment Changes
 - Plan Governance Changes
 - Plan Fee Assessment/Changes
 - Other: _____
 - None
 - a. What investment changes were made?
 - Removed/replaced underperforming investments from the lineup.
 - Reducing the number of annuity providers.
 - Reduced the number of investment options.
 - Changed from retail to institutional share classes.
 - Eliminating proprietary funds of the service provider
 - Adoption of a Qualified Default Investment Alternative (QDIA)
 - Other: _____

 - b. What plan governance changes were made?
 - Hired an advisor to act as a fiduciary or changed from a non-fiduciary advisor to a fiduciary advisor.
 - Created an Investment Policy statement.
 - Re-evaluated the plan's governance structure.
 - Reduced the number of plan providers or recordkeepers.
 - Reviewed or modified fiduciary insurance
 - Other: _____

 - c. What plan fee assessment or changes were made?
 - Began benchmarking fees.
 - Fee leveling.
 - Changing allocation of recordkeeping/plan administration fees from an asset management basis (basis points) to per participant and/or transaction based fees
 - Other: _____

- B. If you made any of the changes above, why? Check all that apply.
 - To enhance governance.
 - To prepare for the fiduciary rule that did not go into effect.
 - To prepare for other fiduciary rules currently being developed by the SEC and various states.
 - These are ordinary changes in the course of the plan's governance.

- Our advisor recommended we do so.
 - In light of the litigation surrounding plans today.
 - To mitigate risk.
 - Other: _____
4. Who does the organization rely on to make decisions about the plan's investment line-up?
- The organization's investment committee does all of the research, analysis, and makes the decision without outside help.
 - The plan's recordkeeper.
 - A fiduciary advisor though the plan recordkeeper.
 - The investment committee in conjunction with the plan advisor or provider.
5. Do you currently, or do you plan to, offer your participants help with deciding what plan investments to invest in, either through an online advice option, or one-on-one counseling with an investment advisor (phone or in-person).
- Currently offer
 - Planning to offer within the next year.
 - Don't offer and no plans to offer.