PSCA's 2019 403(b) Survey

Participation and contribution rates climb in 403(b) plans.

By Hattie Greenan

PSCA conducted its annual survey of 403(b) plan sponsors in the spring of 2019. The survey received responses from 580 non-profit organizations that currently sponsor a 403(b) plan for their employees. Respondents represented a wide range in size and industry — from small community-based organizations to large hospital and university systems. Respondents this year reported growth in both plan participation and contribution rates. Additionally, the survey found a strong interest in financial wellness programs and a continued focus on fiduciary responsibility.

Increased Contributions

Plan sponsor contribution rates rose in the last year to an average of 5.5 percent of pay (up from 4.7 percent a year ago), and more workers benefited sooner from those contributions as the number of organizations offering immediate eligibility also rose. The survey also found an increase in participant contributions, now an average of 6.6 percent of pay, and responding employers noted a robust 81 percent participation rate. Combined, employer and employee contributions average more than 12 percent of pay. Plan design features like automatic enrollment, currently in place at one-in-five responding organizations, encourage higher participation and contributions. More than a third of plans (37.7 percent) with automatic enrollment use a default deferral rate of more than 3 percent

Financial Wellness Programs

Responding to a new question in this year's survey, a quarter of organizations indicated they already have a financial wellness program in place and nearly half (47 percent) have plans or interest in implementing one in the future. For those that currently offer a program, two thirds provide information on debt management, and 63.7 percent cover budgeting while half discuss the importance of having emergency savings.

Fiduciary Focus

The survey, which has previously noted an increased emphasis on fiduciary responsibility by plan sponsors, found that a growing number rely on the use of an investment policy statement (IPS). More than 60 percent of plans have one in place, a 40 percent increase throughout the last decade.

A summary of additional data highlights follows.

Employee Eligibility

The percentage of total employees eligible to participate in the 403(b) plan increased to 86.4 percent of employees, the highest in the history of the survey.

Participation

An average of 81.0 percent of eligible active employees have a balance in the plan, up from 79.2 percent in 2017. The average account balance for active and inactive plan participants is $86,697 — nearly double the average balance in 2011. An average of 72.0 percent of eligible employees made contributions to the plan in 2018 and contributed an average of 6.6 percent of their gross annual pay. See Exhibit 1.

Exhibit 1 Average Deferral Rates Over Time

	Year							
	2011	2012	2013	2014	2015	2016	2017	2018
Percentage of Pay	5.4%	5.7%	5.8%	6.0%	6.2%	6.2%	6.3%	6.6%

Exhibit 2: Availability of Roth Over Time

	Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Percentage of Pay	13.9%	16.9%	21.7%	23.8%	22.3%	25.2%	28.6%	33.2%	27.4%	26.9%

Roth Feature

Roth availability may be leveling off after years of rapid increase; 36.9 percent of plans offer the option, roughly matching the rate in 2017, though nearly triple the level recorded in 2009. See Exhibit 2.

Organization Contributions

Nearly all organizations make contributions to their 403(b) plan (84.0 percent) — half make only matching contributions, 22.6 percent make only non-matching contributions, and 13.5 percent make both matching and non-matching contributions to the plan. The average organization contribution is 5.5 percent of pay, up from 4.7 percent of pay in 2017.

Vesting

Slightly more than sixty percent of plans (60.8 percent) provide immediate vesting for non-matching contributions, and nearly as many (57.6 percent of plans) provide immediate vesting for matching contributions, up from 54.5 percent in 2017.

Investments

Plans provide access to an average of 25 funds for organization contributions and 26 funds for participant contributions. A quarter of responding plans provide access to 26 to 50 funds, and 8.5 percent have more than fifty funds available for participant contributions.

Investment Monitoring

More than 60 percent of respondents have an investment policy statement, extending the trend of increasing availability of these guidelines for monitoring plan investments. The use of an investment policy statement has increased by 40 percent in the last ten years.

Investments are most often monitored annually (46.9 percent of plans) followed by quarterly (31.6 percent).

Investment Advice

More than a quarter (27.7 percent) of organizations offer investment advice to participants.

Automatic Enrollment

More than one-in-five (21.8 percent) organizations have an automatic enrollment feature. Automatic enrollment is still more prevalent for large plans (29.8 percent of plans with 1,000 or more participants).

Thirty percent of plans with automatic enrollment have a default deferral rate of 3 percent of pay, and 18.2 percent have a default deferral of 2 percent of pay. However, nearly forty percent of plans (37.7 percent) use a default deferral rate higher than 3 percent.

Loans

Seventy percent of plans allow participants to borrow against their account. Half of those plans allow loans for any reason, while 20.2 percent permit loans only in hardship situations. An average of 11.1 percent of participants have a loan outstanding, when permitted, with an average loan balance of $10,846. Less than one percent of all plan assets are loaned to participants.

Hardship Withdrawals

Nearly three-quarters (71.7 percent) of plans allow participants to take hardship withdrawals. However, fewer than one percent of plan participants (0.8 percent) took a hardship withdrawal in 2018 when permitted.

Financial Wellness

More than a fourth of organizations provide financial wellness programs to employees. For those that do, two-thirds provide information on debt management, and 63.7 percent cover budgeting. Half discuss having emergency savings.

Plan Expenses

Investment management fees, investment consultant fees, plan recordkeeping fees, and trustee fees were more likely to be paid by the plan, while the cost of plan audits, legal fees, and compensation for internal administrative staff were most likely paid by the organization. Nearly thirty percent of organizations (29.3 percent) are re-evaluating the allocation of plan-related expenses, up from 25.6 percent in 2017.

Nearly sixty percent of organizations (58.2 percent) formally evaluate plan-paid fees annually. Ten percent of plans state that they never review the fees.

Forfeitures

Of plans that have forfeitures, more than half (54.6 percent) apply them to reduce employer contributions and 41.9 percent use them to pay plan fees. Nearly 30 percent reallocate forfeitures to participants.

The full report is available for purchase at www.psca.org/research.

Hattie Greenan is PSCA's Director of Research and Communications.