403(b) Research

2022 403(b) Plan Survey

More save more in 403(b) plans in 2021.

By Hattie Greenan

As employers everywhere continue to recover from the long-term impacts of the COVID-19 pandemic and compete for talent, nonprofits are increasing contributions and focusing on providing resources to participants to boost savings. While not yet back to pre-COVID levels, average deferral rates are up, more participants are contributing, more plans are permitting immediate eligibility, and employer contribution rates to 403(b) plans rose almost 24 percent year-over-year, according to PSCA's 2022 403(b) Survey.

The survey, sponsored by Principal Financial Group®, gathered information from more than 300 nonprofit organizations about their 403(b) plan experience in 2021.

Contributions Increase

Even after weathering the financial impacts of the COVID-19 pandemic, the average employer contribution is now higher than it was three years ago (though not yet at pre-pandemic levels). Nonprofits contributed an average of 5.7 percent of gross annual pay in 2021, up from 4.6 percent in 2020. *See Exhibit 1.*

Employees are also contributing more. An average of 79.4 percent of eligible employees made contributions to their plans in 2021, an increase from 77.2 percent in 2020 and a more than 13 point increase in ten years. After a drop off in 2020, employees increased deferrals in 2021 to 6.9 percent of gross pay. *See Exhibit 2.*

Plan Design Enhancements

Additional survey findings showed not only an overall increase in contribution rates, but plan design enhancements including Roth, immediate eligibility, and investment advice.

- Availability to make Roth contributions jumped from 49.5 percent in 2020 to 58.8 percent in 2021, nearly doubling in five years. *See Exhibit 3.*
- The percentage of plans providing immediate eligibility rose for both matching and non-matching contributions by 7 percent and 20 percent, respectively. *See Exhibit 4.*
- More than half of plans (54.2 percent) in 2021 offered investment advice, up from 41.6 percent in 2020.

These plan design enhancements, coupled with education, are likely responsible for the increases in participation and savings rates.

Exhibit 1: Average Contribution as a Percentage of Annual Payroll Over Time

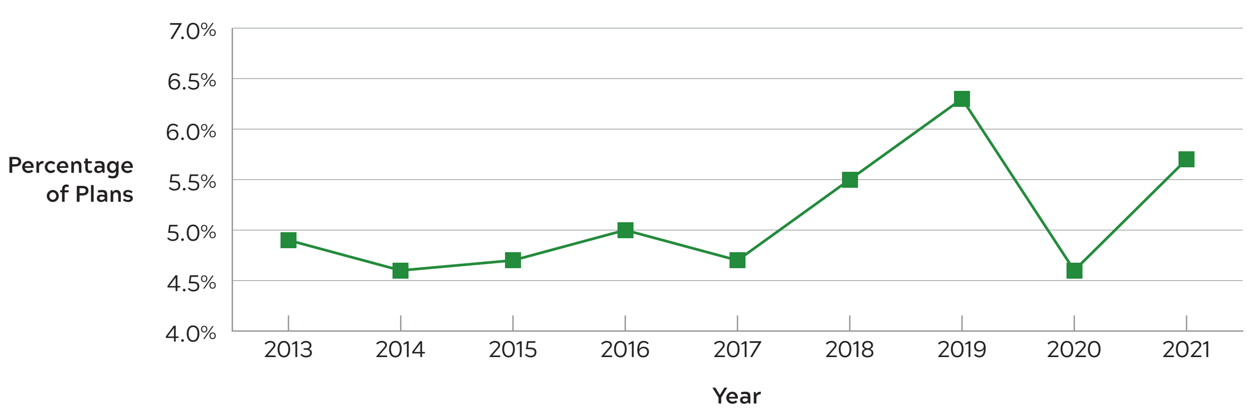

Exhibit 2: Participant Contribution Measurements Over Time

	Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Employees With Accounts	77.4%	76.7%	76.8%	79.1%	78.9%	79.2%	81.0%	80.4%	82.6%	83.4%
Employees That Made Contributions	66.2%	66.4%	67.0%	71.6%	70.7%	71.9%	72.0%	76.6%	77.2%	79.4%
Average Deferral Rate	5.7%	5.8%	6.0%	6.2%	6.2%	6.3%	6.6%	7.2%	6.2%	6.9%

Exhibit 3: Availability of Roth

	Year									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Average Percentage of Pay	23.8%	22.3%	25.2%	28.6%	33.2%	37.4%	36.9%	46.8%	49.5%	58.8%

Exhibit 4: Percentage of Plans With Immediate Eligibility for Employer Contributions

	Year							
	2014	2015	2016	2017	2018	2019	2020	2021
Matching Contributions	30.6%	31.3%	30.8%	28.8%	32.7%	28.7%	33.8%	36.3%
Non-Matching Contributions	13.8%	23.2%	21.5%	20.9%	27.4%	24.3%	23.2%	27.9%

Education Shift

For the first time, increasing overall financial literacy (30.3 percent of plans) moved above increasing participation (28.0 percent) as the primary purpose for providing plan education to employees. Organizations are also showing more interest in providing financial wellness programs to employees — 22.1 percent now do, including more than half (54.3 percent) of organizations with 1,000-plus employees having a comprehensive program. For those that offer a financial wellness program, 83.9 percent provide information on budgeting, 76.8 percent provide information on debt management, and 53.6 percent provide information on student loan debt, helping employees establish positive savings habits beyond plan participation.

Investments

Nonprofits have historically offered more investment options in 403(b) plans than companies do in 401(k) plans, though the average number of funds in 403(b) plans has been slowly dropping the last ten years. This year the average held steady at 23 funds, closer to the average of 19 in 401(k) plans than it was 10 years ago (27 funds). *See Exhibit 5.*

The majority of plans (88.2 percent) offer mutual funds and 51.1 percent include annuities. Eighty percent of plans offer target-date funds as an investment option, including 96.4 percent of large plans. Though 403(b) plans have always been more likely to offer an ESG funds than 401(k) plans, the percentage of plans offering an ESG fund increased from 37.7 percent in 2020 to 42.7 percent in 2021.

Exhibit 5: Average Number of Investment Options

	Year							
Contribution Type	2014	2015	2016	2017	2018	2019	2020	2021
For Organization Contributions	27	25	23	24	25	25	22	23
For Participant Contributions	29	29	26	25	26	26	23	23

Exhibit 6: Usage of Plan Loans Over Time

	Year				
	2017	2018	2019	2020	2021
Participants With Loans	22.9%	11.1%	11.8%	13.6%	8.9%
Average Loan Amount	$3,818	$10,846	$9,483	$16,195	$8,939
Percentage of Plan Assets Loaned	0.8%	0.7%	1.0%	1.5%	0.5%

Loans and Withdrawals

Nearly three quarters of plans allow participants to borrow against their account — and more than half of plans allow participants to have more than one loan outstanding. After a slight increase in loan use in 2020, fewer participants used this plan feature in 2021. The use of plan loans last year dropped to the lowest levels in years with only 8.9 percent of participants having an outstanding loan with only 0.5% of total plan assets loaned. *See Exhibit 6.*

Nearly eighty percent of plans allow participants to take hardship withdrawals. More participants took a hardship withdrawal in 2021 than in 2020, though the percentage remains very low — only 1.5 percent of plan participants took one in 2021, up from 1.3 percent in 2020, and 0.8 percent in 2019.

Plan Changes

Nearly half of respondents made no changes to their plan in 2021 (47.2 percent). Forty percent made minor changes to their investment lineup, up from 22 percent in 2020. Nearly ten percent made changes to employer contributions. More than half of organizations don't anticipate making changes in 2022 though nearly a quarter anticipate making minor changes to the investment lineup. *See Exhibit 7.*

Conclusion

It's promising to see the recovery of organization contributions in 2021 and the continued increase in retirement plan participation from nonprofit workers. This bodes well for the resiliency of retirement plans, and for nonprofit organizations and workers as we again face economic uncertainty amid market volatility and inflation.

The increase in plans providing investment advice along with the increased availability of financial wellness programs and the expanded emphasis on financial literacy, demonstrates the commitment of nonprofits to not just to providing a savings vehicle, but to helping employees achieve better outcomes in the long run.

PSCA's 2022 403(b) Plan Survey is available to purchase at: https://www.psca.org/research/403b/2022AR.

Hattie Greenan, MA, is the Director of Research and Communication for the Plan Sponsor Council of America.

Exhibit 7. Plan Changes

Change	Made in 2021	Planned for 2022
Minor Changes to the Investment Lineup	40.4%	23.7%
A Comprehensive Re-Design of the Investment Lineup	2.3%	4.7%
Added Plan Loans	0.9%	0.5%
Added an Automatic Enrollment Feature	1.8%	2.3%
Added Roth	4.6%	4.2%
Other Plan Design Changes (Vesting, Eligibility, etc.)	2.3%	5.1%
Changed or Added Employer Contributions	9.2%	6.0%
Changed or Added Participant Contributions	1.8%	2.3%
Changed or Added Providers, Advisors, or Consultants	3.2%	2.3%
Consolidated the Number of Providers on the Plan	0.5%	1.9%
Put Out a Request for Proposal (RFP) for the Plan	3.7%	7.0%
Other	2.8%	4.2%
None	47.2%	55.8%