

403(b) Plans

2020 403(b) Plan Priorities

Compliance, participation, and deferral rates are among the top priorities for 403(b) plan sponsors in 2020.

By Hattie Greenan

The Plan Sponsor Council of America (PSCA) conducted a survey of 403(b) plan sponsors in October 2019, with sponsorship from Principal Financial Group®, to determine their priorities for their retirement plan in 2020. The survey also assessed what changes are planned in 2020 to address those priorities.

Nearly 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 fewer than ten percent of respondents were unsure of their ERISA status.

Plan Priorities

Keeping the plan compliant and reducing fiduciary liability is overwhelmingly the top priority for 403(b) plan sponsors with more than half (54.0 percent) of respondents citing it as their top concern. The majority are addressing this priority by increasing internal oversight processes, seeking outside counsel, and/or doing continuous research and education to stay up to date on current regulation.

Increasing participation rates and participant deferral rates were the second and third most commonly indicated priorities, followed by offering a financial wellness program and reducing plan cost. More than three-fourths of respondents indicated that they will

Top Five 2020 403(b) Plan Priorities

1. Plan Compliance/Reducing Fiduciary Liability
2. Increasing Participation Rates
3. Increasing Deferral Rates
4. Adding Financial Wellness Programs
5. Reducing Plan Cost

address participation and deferral rates by increasing targeted education on the topic — a low-cost way of addressing this concern. Seventy percent of organizations stated that they are looking to further reduce plan costs by changing to lower-cost investment funds, and a third are looking at reallocating expenses between the plan and the organization.

Only five percent of respondents stated that Cybersecurity is a priority for 2020, indicating that plan sponsors do not yet see it as a part of their fiduciary responsibility. This is an emerging trend we will be watching.

Notably, nearly thirty percent of respondents from organizations with fewer than 50 eligible employees indicated that they have no priorities for their plan next year, whereas 100 percent of organizations with more than 1,000 eligible employees have at least one.

Plan Changes

Forty percent of respondents indicated they will be making plan design

changes in 2020. The most common change cited was changing the number of investment options offered, indicated by nearly 15 percent of plans, including thirty percent of organizations with 1,000 or more eligible employees. Interestingly, small organizations are looking to increase the number of options available, whereas larger organizations are looking to decrease the number of options available.

Top Three 403(b) Plan Changes for 2020

1. Changing the Number of Investment Options
2. Adding Automatic Enrollment
3. Adding a Roth Option

The primary reason cited by plan sponsors for making changes is to increase participant outcomes/retirement readiness, indicated by more than 30 percent of organizations making changes. This is consistent across organization size, and signals a shift, along with the interest in offering financial wellness programs, from getting participants in the plan, to ensuring they are saving enough to have a comfortable retirement.

The full report is available at: psca.org/research/snapshots.

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