Research

PSCA's 62nd Annual Survey

Savings rates hit new highs, and some popular plan design features may have plateaued.

By Hattie Greenan

PSCA's *62nd Annual Survey of Profit Sharing and 401(k) Plans*, reflecting the 2018 plan-year experience of 608 DC plan sponsors, found that average savings rates (both pre-tax and after-tax) hit new highs, some key trends may be leveling off, and there is continued evolution of automatic features to boost savings rates. Other key findings include record company contributions, less immediate vesting, and fewer hardship withdrawals.

Record Savings Rates

Participant deferrals rose in 2018 to an average of 7.7 percent of pay, up from 7.1 percent in 2017 and 6.8 percent in 2016. With company contributions coming in at an average of 5.2 percent in 2018, the average combined savings rate is now at 12.9 percent, up from 2017's record finding of a combined savings rate of 12.2 percent.

Nearly a quarter of participants (23 percent) elected to make Roth after-tax contributions when given the opportunity, up from 19.5 percent in 2017 and 18.1 percent in 2016 — an increase of nearly 30 percent in just three years.

Key Trends Leveling Off

After years of steady increase, plan sponsor adoption of automatic enrollment features, Roth availability, and addition of target-date funds to the lineup may be leveling off. These features have seen significant uptake over the last 10 or so years and they have succeeded in helping to boost plan participation, employee contribution rates, and investment diversification, which, in combination, have resulted in increased account balances.

Automatic Enrollment

For plans that haven't adopted automatic enrollment, the number one reason (stated by more than half) is that they are satisfied with participation rates. Plan sponsors have had more than a decade to consider the appropriateness of automatic enrollment for their plan and those that are going to add it, probably already have. However, given the resulting improvement in participation and contribution rates by the plans who have adopted automatic enrollment, auto features are here to stay and we expect to see continued evolution in the application of other automatic features to plans.

Roth

It took less than 15 years for Roth 401(k) provisions to become commonplace. Today the Roth option is offered in a super-majority of 401(k) plans. See Exhibit 1. And while the percentage of surveyed plans offering Roth features may have plateaued, the percentage of workers contributing to their plans on a Roth basis continues to increase as Roth takes hold and becomes more understood by participants — we expect to see this trend continue.

Target-Date Funds

Nearly 70 percent of plans offer target-date funds (68.6 percent), about the same as five years ago and down from the peak of 73.1 percent in 2016. However, more than three-fourths of plans with a QDIA use a target-date fund as the default. TDFs now account for 20.7 percent of plan assets, while ten years ago, only 5.1 of plan assets were allocated to TDFs. So, even if slightly fewer plans are offering TDF investments, we should expect to see continued growth

Exhibit 1: Availability of Roth Over Time

	Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Percentage of Plans	41.3%	45.5%	49.0%	53.8%	58.2%	62.0%	59.9%	63.1%	69.6%	69.1%

Exhibit 2: Plans with an Auto-Escalation Feature

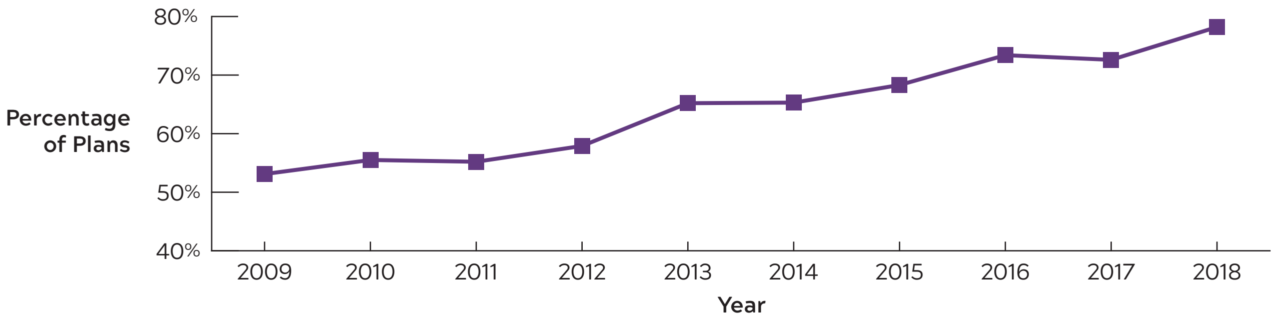


Exhibit 3: Participation Measurements Over Time

	Year								
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Percentage with an Account Balance	86.3%	85.9%	87.6%	88.8%	87.2%	87.6%	88.7%	88.9%	89.3%
Percentage Making Contributions to the Plan	76.9%	79.5%	80.7%	80.3%	80.5%	81.9%	84.9%	84.9%	84.2%
Average Deferral Rate	6.2%	6.4%	6.7%	6.7%	6.5%	6.8%	6.8%	7.1%	7.7%

in participants' allocations to these, or similar, funds.

Automatic Features

While the survey found that the adoption of automatic enrollment features may be slowing, plans that have embraced this feature are building on its success by helping workers save more for retirement. Specifically, while plans tended to set the default participant savings rate at 3 percent (the safe harbor starting point for such programs articulated in the Pension Protection Act of 2006), the survey finds that is changing — in 2018, more than 60 percent of plans with automatic enrollment used a default deferral rate above 3 percent. Further, the percentage of plans with automatic enrollment using a default deferral rate of 6 percent of pay increased by 25 percent — from 23.8 percent in 2017, to 29.7 percent in 2018.

Plans with automatic enrollment are also making it easier for participants to increase the amount they save every year. Nearly 80 percent of automatic enrollment plans include features that facilitate an increase in the savings rate; some automatically raise the deferral rate for all participants, others raise it for those who are under-contributing only, while some simply provide that option to participants. See Exhibit 2.

The combination of these plan design enhancements — coupled with steady increases in contributions made by employers on behalf of their workers — have resulted in record savings rates for those with access to these programs.

Other Key Survey Findings

Employee Eligibility

Ninety percent of U.S. employees at respondent companies are eligible to participate in their employer's DC plan. Eligibility has remained consistent throughout the last several years.

Most companies allow employees to begin contributing within three months of hire (67.4 percent of companies). Employees are eligible to receive matching company contributions within 3 months of hire at more than half of organizations (52.1 percent) that provide one. For organizations that provide a non-matching contribution, more than a third (34.8 percent) also provide that contribution within the first three months of hire.

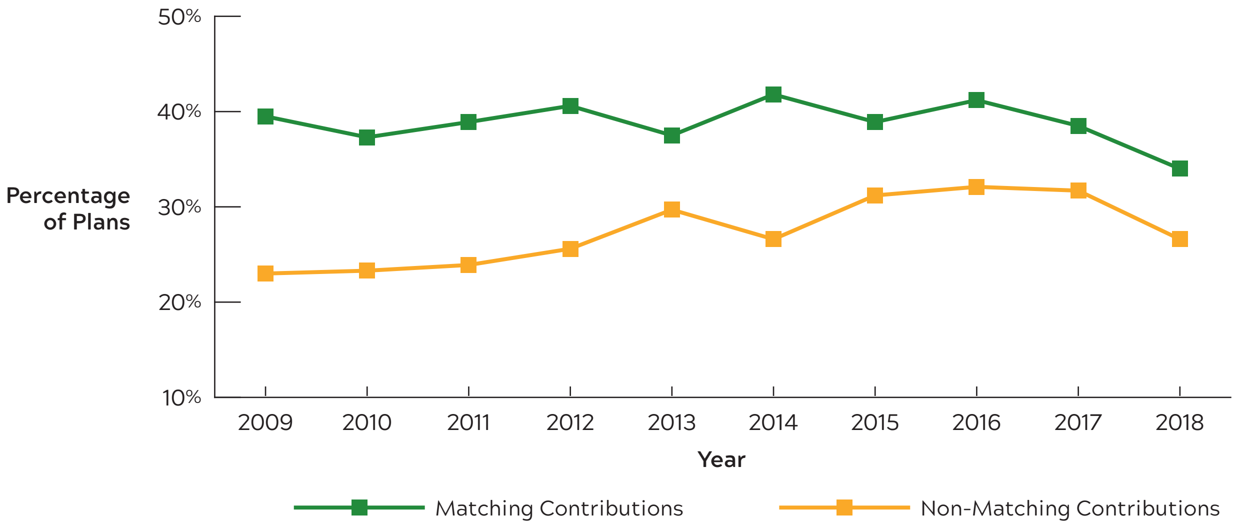
Participant Contributions

The average percentage of eligible employees who have a balance in the plan is 89.3 percent. An average of 84.2 percent of eligible employees made contributions to the plan in 2018, the same as in 2017. The average percentage of salary deferred (pre- and after-tax) for all eligible participants in this survey was 7.7 percent, up from 7.1 percent in 2017 and 6.8 percent in 2016. See Exhibit 3.

Company Contributions

The average company contribution in 401(k) plans is 5.1 percent, and the average in combination plans is 5.2 percent of pay. One-third of respondents contributed less than three percent of pay (33.2 percent), one-third (35.7 percent) contributed between three and six percent of pay, and twenty percent contributed between six and ten percent. Nearly 14 percent contributed more than 10 percent of pay.

Exhibit 4: Percentage of Plans with Immediate Vesting Over Time



Vesting

A third of plans provide immediate vesting for matching contributions, while 26.6 percent provide immediate vesting for non-matching contributions. Among plans that do not have immediate vesting, graduated vesting is the most common arrangement for all contribution types. See Exhibit 4.

Asset Investment

Plans offer an average of 19 funds for both company and participant contributions. On average, plans offer two bond funds, six actively managed domestic equity funds, three indexed domestic equity funds, and two actively managed international equity funds. Assets are most frequently invested in target-date funds (20.7 percent), actively managed domestic equity funds (19.0 percent of assets), indexed domestic equity funds (17.8 percent), and stable value funds (7.2 percent).

More than a third of plans offer a professionally managed account alternative to participants (36.3 percent). Fewer than ten percent of plans offer an in-plan annuity option to participants. Seventy percent of plans use a Qualified Default Investment Alternative (QDIA), and for three-fourths of those plans, the QDIA is a target-date fund.

Company Stock

Twelve percent of plans allow company stock as an investment option for both participant and company contributions, while four percent restrict it to company contributions only. An average of 17.1 percent of total plan assets is invested in company stock. Half of plans that allow company stock as an option have 10–50 percent of total plan assets invested in it and 1.2 percent have 50 percent or more.

Nearly two-thirds of plans (64.0 percent) limit the amount of plan assets that can be invested in company stock, up from 55.9 percent in 2017. Half of plans with company stock as an option make contributions to the plan in company stock.

Plan Loans

The majority of plans (84.1 percent) continue to permit participants to borrow against their plan accounts. Most plans permit participants to have only one loan outstanding at a time (56.3 percent), while a third permit two loans. Fewer than a quarter of participants have at least one loan outstanding with an average loan amount of $10,642. Less than two percent of total plan assets are currently loaned to participants.

Distributions and Withdrawals

Hardship withdrawals are permitted in 76.3 percent of plans and were taken by an average of 1.8 percent of participants, down from 2.3 percent in 2017. In-service distributions, other than hardship withdrawals, are permitted in 64.3 percent of plans.

Lump sum is the most frequently offered distribution option for both pre-retirement and retirement distributions (by 74.9 percent and 83.6 percent of respondent plans, respectively).

PSCA's *62nd Annual Survey* is available for purchase at www.psca.org/research.

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