403(b) Research

PSCA's 2020 403(b) Survey

PSCA's annual survey of nonprofits shows that 403(b) plans made great improvements in 2019.

By Hattie Greenan

PSCA's annual survey of non-profit organizations that sponsor 403(b) plans for employees showed improvement in nearly all key metrics in 2019 — participation rates, savings rates, organization contributions, average account balances, etc. — as well as continuing additions of plan design features geared towards improving retirement outcomes for participants. Though we acknowledge that the 2020 plan-year will be drastically different as nonprofits were, and continue to be, very hard hit by the economic conditions resulting from the COVID-19 pandemic, 403(b) plans were in the best shape they ever had been at the end of 2019. PSCA is currently surveying nonprofits about the current economic impact and will have those results for you in the Winter 2020 issue of *Defined Contribution Insights*.

The annual 403(b) survey was conducted in the spring of 2020 and received responses from 393 non-profit organizations. Respondents varied in sizes and industries as well as ERISA status. A summary of the key findings follows.

Eligibility and Participation

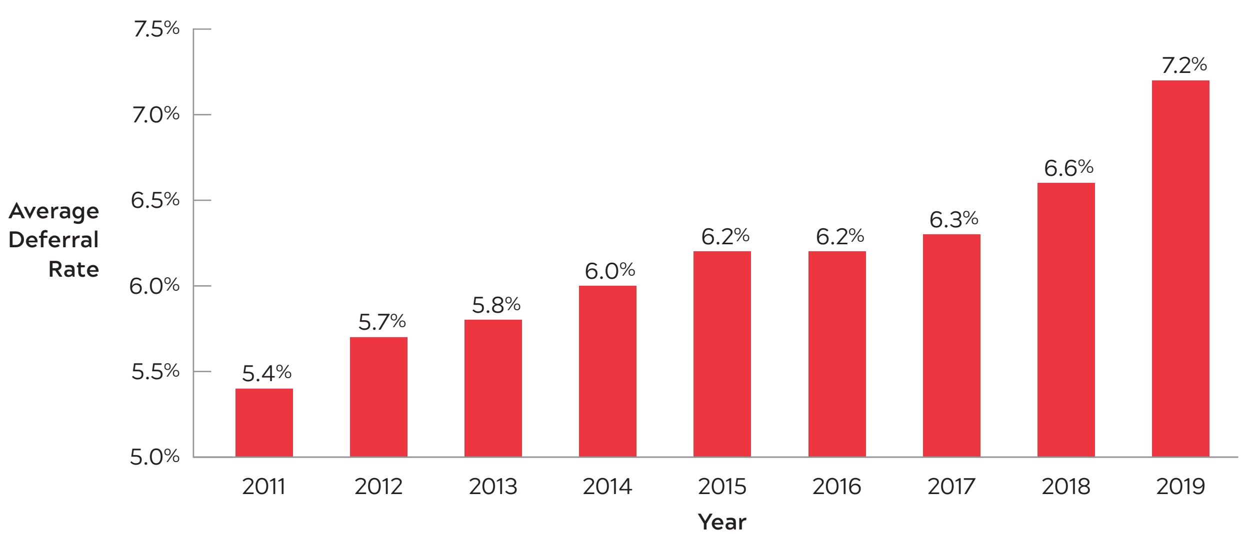
The survey found that the percentage of employees eligible to participate in the plan has increased 5 percentage points in the last three years to 89.0 percent of employees in 2019.

Nearly thirty percent of plans allow eligible employees to receive matching contributions immediately, while 49.8 percent require a year or more of service. More than half (55.9 percent) of responding organizations require a year or more of service to receive non-matching contributions while a quarter do not have a service requirement for those contributions.

Eighty percent of eligible active employees have a 403(b) plan account balance with an average of 76.6 percent of eligible employees making contributions to the plan in 2019. The average account balance for active and inactive plan participants is $99,939.

Participants contributed an average of 7.2 percent of their gross annual pay to the plan, up from 6.6 in 2018 and up a third in ten years. *(See Exhibit 1.)*

Exhibit 1: Average Deferral Rates Over Time



Roth

Thirty percent more plans now offer Roth after-tax contributions — it is now available at 46.8 percent of organizations. The percentage of participants making Roth contributions in 2019 was 12.4 percent.

Employer Contributions

The average organization contribution as a percentage of payroll is 6.3 percent, up from 5.5 percent in 2018, and 4.7 percent of pay in 2017 — a 34 percent increase in 2 years.

Investment Advice

More than a third (36.7 percent) of organizations now offer investment advice to participants — up from 27.7 percent in 2018. The availability of one-on-one in person counseling increased from fewer than 80 percent of plans in 2018 to 93.3 percent of organizations in 2019.

Automatic Enrollment

Nearly a quarter of plans (24.4 percent) have an automatic enrollment feature. Automatic enrollment is still more prevalent at large organizations — 37.5 percent of plans with 1,000 or more participants used it in 2019 — up from 29.8 percent of those plans in 2018.

The default deferral rate used in plans with automatic enrollment continues to climb — nearly half (45.9 percent) of plans use a default deferral rate higher than 3 percent, up from 37.7 percent in 2018.

We are also seeing a continued increase in the number of plans with automatic enrollment that automatically increase the default deferral rate over time — more than half (51.1 percent) did so in 2019, up from 45.1 percent in 2018.

Hardship Withdrawals

Eighty percent of plans allow participants to take hardship withdrawals. The criteria for such requests varies — 89.7 percent allow them for purchase of a primary residence or to prevent eviction or foreclosure, 68.4 percent permit them to pay for post-secondary education, and 66.2 percent of plans allow them to pay for medical expenses. Fewer than one percent of plan participants (0.8 percent) took a hardship withdrawal in 2019 when permitted.

In-Service and Retirement Distributions

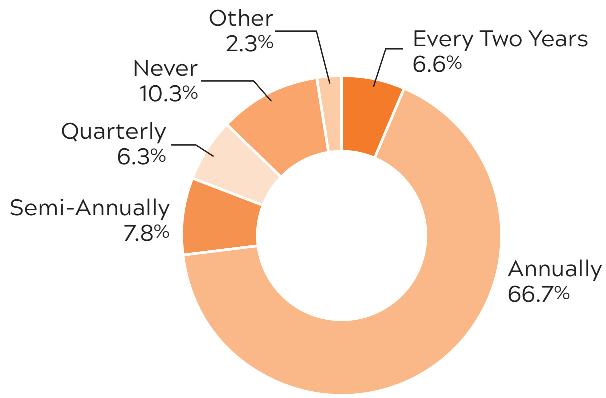
Nearly 40 percent of plans allow non-hardship in-service distributions. For those that do, they are only allowed for participants aged 59.5 years or older at the majority of plans (94.8 percent). Eighty percent of plans allow pre-retirement distributions to be rolled over to another plan, more than 60 percent allow lump sum distributions, 37.9 percent allow periodic withdrawals, and 20.7 percent allow annuities.

Most plans also allow retirement distributions to be rolled over to another plan or distributed as a lump sum. Additionally, 70 percent allow participants to retain assets in the plan post-retirement, 72.9 percent allow installment payments, and more than half allow annuities.

Plan Expenses

Two-thirds of organizations (66.7 percent) formally evaluate plan-paid fees annually. Ten percent of plans state that they never review the fees. *(See Exhibit 2.)*

Exhibit 2: Frequency Plan Fees Are Formally Evaluated



Education

More than a third of organizations state that their primary purpose for providing plan-related education is retirement planning (34.8 percent) — the first time the most common primary goal has been anything other than increasing participation.

Cybersecurity

Half of organizations took some type of cybersecurity measures in 2019 while a quarter did not and a quarter of respondents were unsure.

Conclusion

An increase in the number of employees eligible to participate along with increased participation by those eligible, coupled with increased savings rates and increased organization contribution rates, led to higher average account balances at the end of 2019. That, coupled with the plan design features that organizations are implementing to improve outcomes (higher default rates, automatic escalation, Roth contributions), gives hope that though 403(b) plans along with their nonprofits are undoubtably being hit hard by the current economic conditions, recovery will be swift once we see improvement in the economy.

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