Callan Institute

Research

# 2022 Defined Contribution Trends Survey

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# Key Findings

Callan conducted our 15th annual *Defined Contribution (DC) Trends Survey* in the fall of 2021. The survey incorporates responses from 101 plan sponsors, including both Callan clients and other organizations. We highlight key themes and findings from 2021 and expectations for 2022.

**Top 2022 Priorities**

1. **Plan fees**
2. **Investment Policy Statement**
3. **Formal Fiduciary Training**

See page 10 for details

2022 area of communication focus:

**Retirement Readiness**

See page 44 for details

**100% of plans offer advisory services**

Most popular services:

**Guidance**
**Seminars**
**Financial Wellness**

See page 28 for details

**90%** offer a 401(k) plan

**74%** with > $1 bn in assets

See pages 4 & 5 for details

**95%** of plans have a **target date fund**

**20%** use a TDF proprietary to their recordkeeper

**18%** plan to in 2022

**56%** of TDFs are offered via a collective trust

See pages 15 & 16 for details

**51%** have a policy on asset retention

**76%** of those focus on retaining assets

See page 33 for details

Most important step in improving fiduciary position for 2021:

**Reviewing Plan Fees**

See page 10 for details

**86%** have taken steps to prevent plan leakage

*Most common step:*

**Offer partial distributions**

See page 34 for details

# Key Findings

**71%**
do not benchmark managed account performance

See page 30 for details

## Fee Payment Trends

**76%** of plans use an explicit per participant fee

**16%** of plans use revenue sharing as a payment method

See page 40 for details

**8%**
of plans offer an environmental, social, and governance (ESG) option

See page 24 for details

**9/10**
plan sponsors say they engage an investment consultant

**20%** report using a 3(38) discretionary adviser

**21%** are unsure if their consultant has discretion over the plan

See page 7 for details

### Top factors for measuring plan success

Participation

Investment Performance

Contribution Rate

See page 8 for details

**1 in 4**
intend to conduct a recordkeeper search in 2022

See page 43 for details

### Continued focus on passive investments

**81%** offer TDF that is at least partially indexed

**33%** use active/passive mirror for core lineup

### Continued fee pressure in 2022

**72%** likely to conduct a fee study

**61%** will evaluate indirect compensation

**58%** plan to switch to lower-cost vehicles

See pages 17, 21, 43 for details

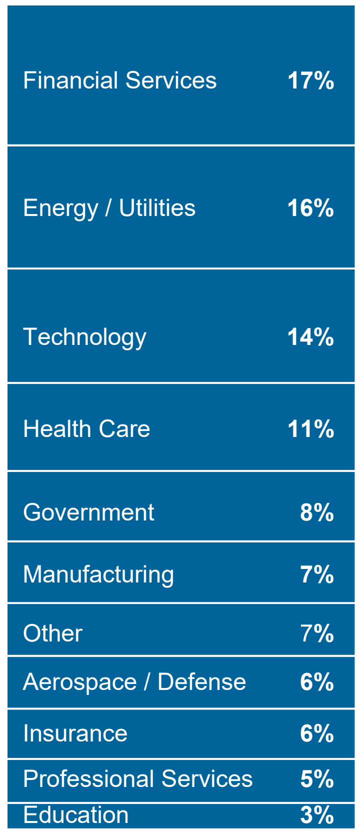
# Respondent Characteristics

Callan conducted our 15th annual Defined Contribution (DC) Survey online in the fall of 2021. This, the *2022 DC Survey,* incorporated responses from 101 large DC plan sponsors, including both Callan clients and other organizations.

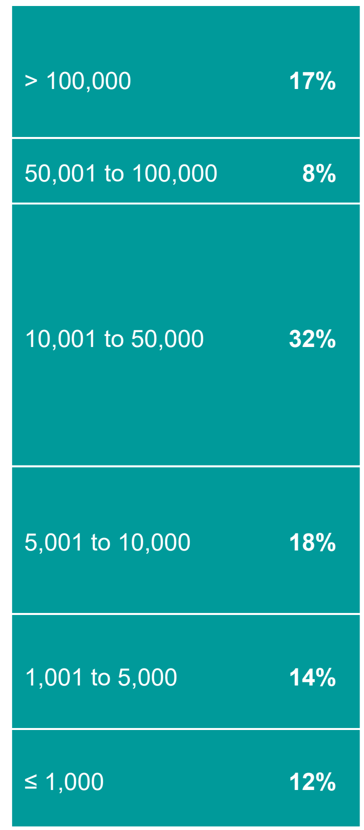
Respondents spanned a range of industries; the top were financial services, energy/utilities, technology, health care, and government. Note, the survey requested the primary industry that an employer looks to hire from, which means that there is some disconnect between the responses on this page and the organization type described on the following page.

More than 97% of plans in the survey had over $100 million in assets; moreover, 74% were "mega plans" with more than $1 billion in assets. The majority of respondents (57%) had more than 10,000 participants.

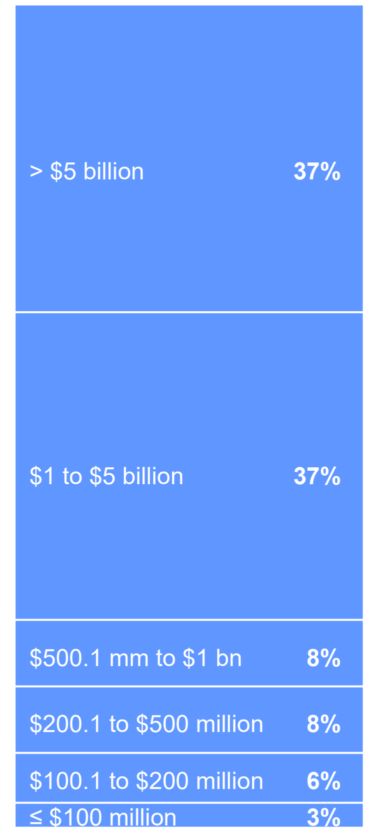
## Primary industry




## Number of participants in DC plan




## Assets in DC plan




Note: Throughout the survey, charts may not sum to 100% due to rounding.

# Respondent Characteristics (continued)

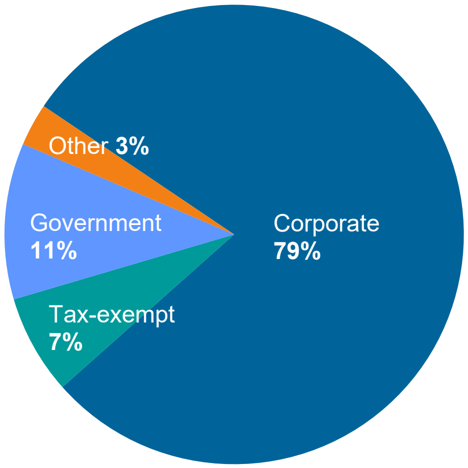
More than three quarters of respondents were corporate organizations, followed by governmental (11%) and tax-exempt (7%) entities.

As seen in prior surveys, a 401(k) plan was the primary DC offering (90%). The majority of tax-exempt entities (e.g., hospitals and nonprofits) offered a 403(b) plan as the primary DC plan.

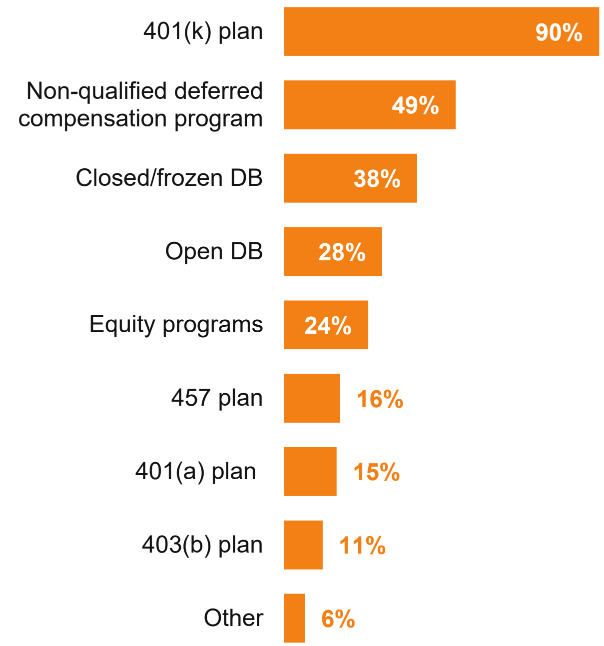
Roughly half of corporate respondents offered a nonqualified deferred compensation (NQDC) plan, while a majority of the tax-exempt and governmental entities offered a 457 plan.

About 3 in 10 DC plan sponsors surveyed offered an open defined benefit (DB) plan, compared to 39% in 2015. Governmental entities were more likely to offer an open DB plan, while corporate plan sponsors were the most likely to have a closed or frozen DB plan.

## Organization type




## Retirement benefits offered*




*Multiple responses allowed.

# Plan Structure: Bundled vs. Unbundled Arrangements

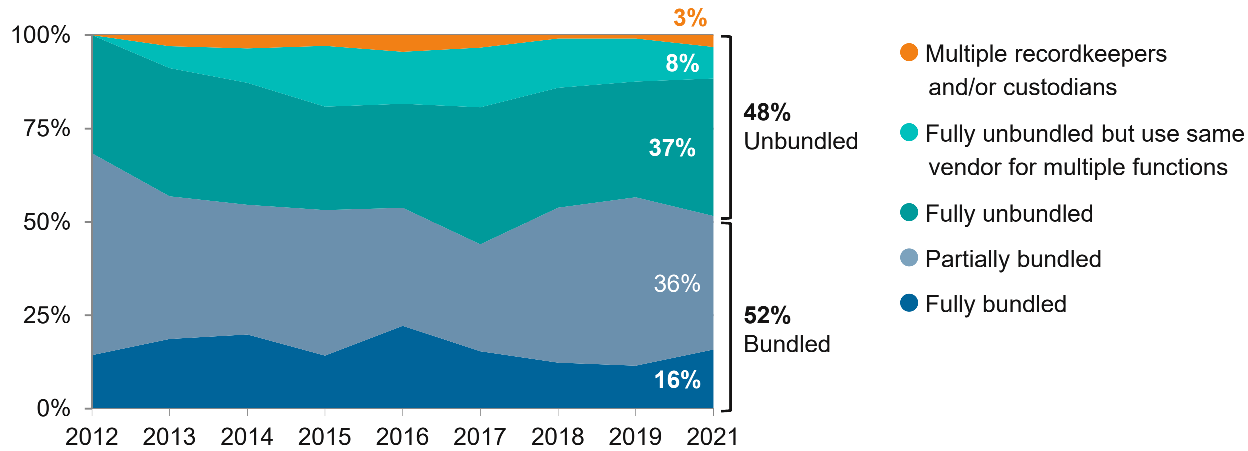
Bundled and unbundled arrangements remain evenly split going back to 2013. Prior arrangements were decidedly bundled.

This question was not asked in last year's survey, so there is no 2020 data point. It is interesting to note there was a small uptick in the fully unbundled approach from 2019.

The number of plans that identified themselves as being fully bundled (16%) was also up slightly from 12% in 2019. We suspect this minor uptick is due to a change in the respondents' composition between the two surveys.

A new question in this year's survey was "What recordkeeper did the plan sponsor employ?" The five largest noted in the bottom chart represented 69% of the plans in the survey.

## Plan structure



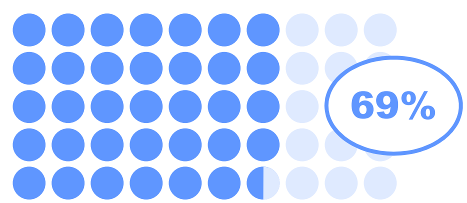

**Fully bundled:** The recordkeeper and trustee are the same, and all of the investment funds are managed by the recordkeeper.

**Partially bundled:** The recordkeeper and trustee are the same, but not all of the investment funds are managed by the recordkeeper.

**Fully unbundled:** The recordkeeper and trustee are independent, and none of the investment funds are managed by the recordkeeper.

## Top 5 Recordkeepers Used

- Fidelity
- Alight
- Charles Schwab
- Empower
- Vanguard




of respondents use these 5 recordkeepers

# Use of Investment Consultants and Documentation

Almost 9 in 10 of plan sponsors engaged an investment consultant (retainer and/or project) in 2021, closely in line with both 2019 and 2020 (89%). In all years, more sponsors used a retainer than a project consultant.

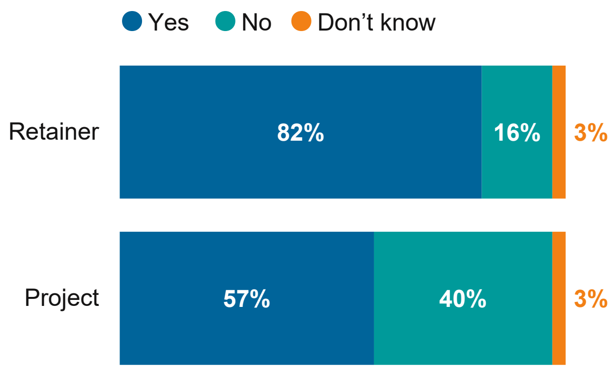
Of those that used a retainer investment consultant, most did so on a 3(21) non-discretionary basis (70%). A notable portion of plan sponsors (21%) were unsure whether they use a discretionary or non-discretionary consultant.

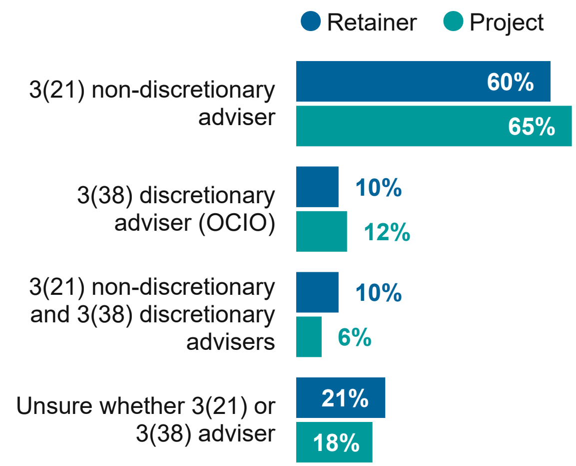
For governance and decision making, nearly all plan sponsors used an investment policy statement. Committee/board charters were used frequently as well.

**3(38) discretionary consultant:** The investment consultant selects and monitors funds and acts as a co-fiduciary (also known as an outsourced chief investment officer or OCIO model).

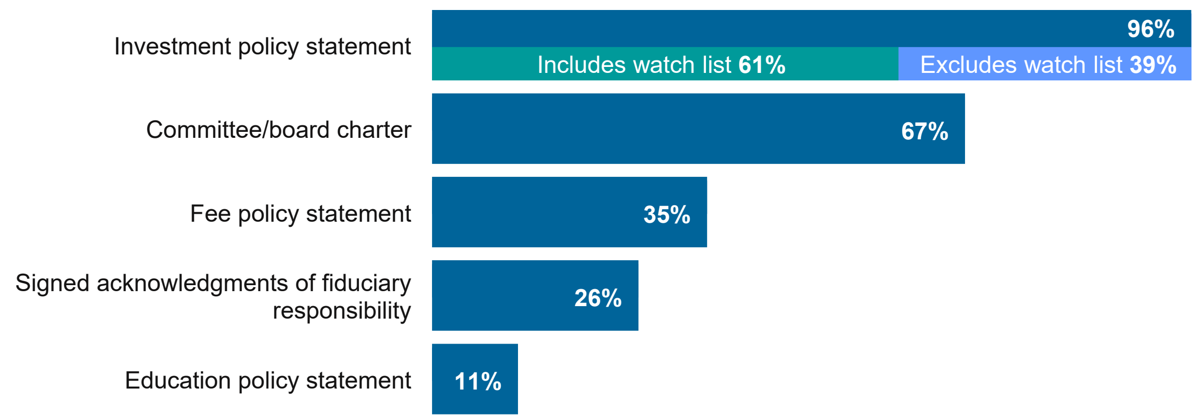
**3(21) non-discretionary consultant:** The investment consultant monitors and recommends changes as a co-fiduciary, while the plan sponsor maintains the fiduciary responsibility in selecting investments.

## Use of investment consultant (project or retainer)




## Documentation used for governance and to support decision making*



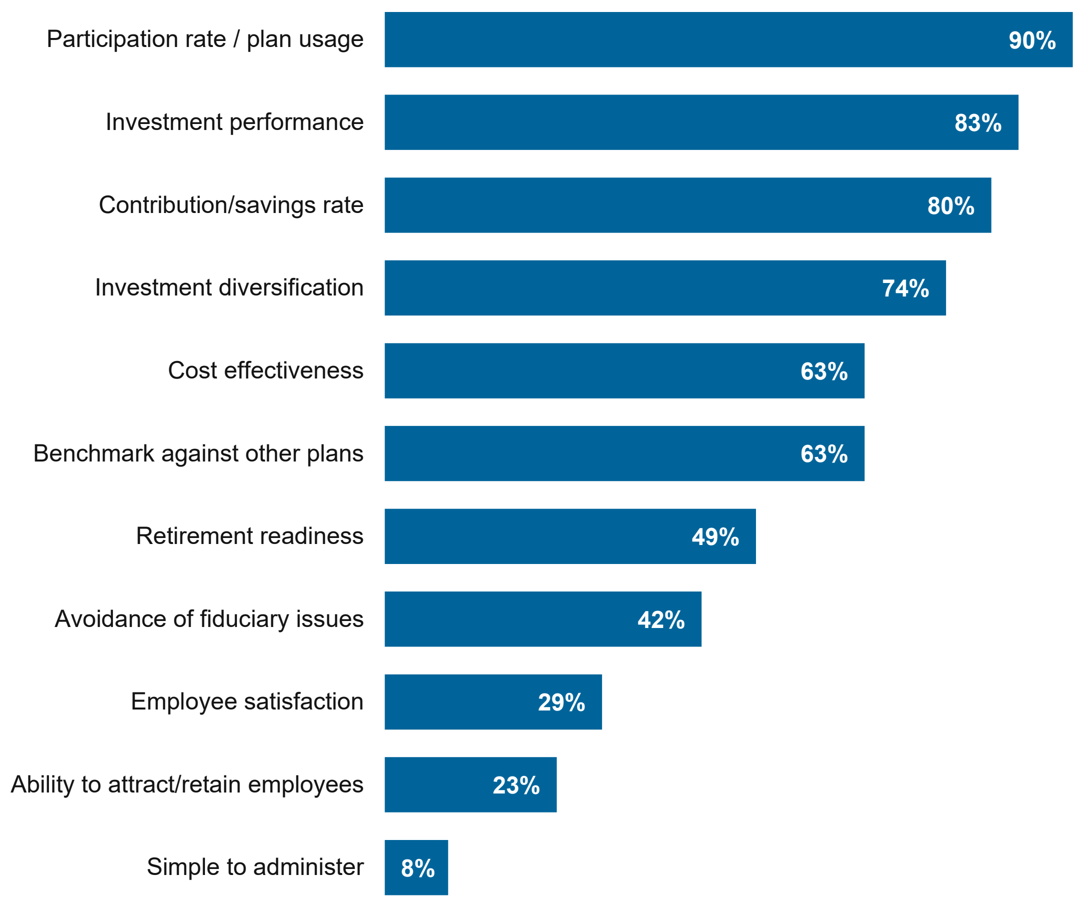

*Multiple responses allowed.

# DC Plan Measurement

Survey respondents monitor 6 metrics, on average, to measure the success of the DC plan.

In line with the past three years, most plan sponsors use participation rate/plan usage to measure the success of their DC plan. Contribution/savings rate and investment performance tied for the second most common metrics, followed by investment diversification.

## Criteria used to measure plan success*




Additional 2021 categories: don't measure (1%); other (12%)

*Multiple responses allowed.

# Areas of Focus

Following a decade of abundant litigation, DC committees have refined the elements of plan governance. The *2022 DC Survey* reflects multiple topics that were newly introduced in the prior year's survey. As such, the resulting rankings are more diluted and nuanced, and span a broader range, than in previous years.

Total plan fees were broken out between administration fee and investment management fee categories. Investment fees ranked as the highest area of focus while plan administration fees came in third. Investment fees are generally more straightforward to benchmark and monitor, allowing for more frequent review. Plan sponsors should be mindful to review all plan fees on an ongoing basis.

Respondents rank plan governance and process (a category added to the survey last year) as the second highest area of focus. This broad category includes much of the basic blocking and tackling that plan sponsors do on an ongoing basis.

Investment structure and fund/manager due diligence are still in the top five, but both dropped in their ranking from last year.

## Top areas of focus

| 2021 | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| Plan investment management fees | 2.8 | Plan governance and process | 3.9 | Total plan fees | 3.5 |
| Plan governance and process | 2.7 | Investment structure evaluation | 2.7 | Participant education and communications | 3.5 |
| Plan administration fees | 2.5 | Fund / manager due diligence | 2.7 | Fund / manager due diligence | 3.3 |
| Fund / manager due diligence | 2.3 | Plan investment management fees | 2.3 | Financial wellness | 3.3 |
| Investment structure evaluation | 2.2 | Asset allocation and diversification | 1.2 | Participant retirement readiness | 3.2 |
| Participant retirement readiness | 1.5 | Participant education and communications | 1.2 | Investment structure evaluation | 3.1 |
| Cybersecurity | 1.5 | Committee education and fiduciary training | 1.1 | Cybersecurity | 2.9 |
| Participant education and communications | 1.1 | Qualified default fund selection | 1.1 | Evaluation of providers | 2.8 |
| Asset allocation and diversification | 1.1 | Plan administration fees | 1.1 | Plan design | 2.7 |
| Committee education and fiduciary training | 1.1 | | | Committee education and fiduciary training | 2.5 |

(5=Most focus. Total ranking is weighted average score.)

Additional 2021 categories: evaluation of providers, financial wellness (0.9); plan operational compliance, lifetime income options (0.8); plan design (0.7); qualified default fund (0.6); market volatility (0.4); alternative asset classes (0.3)

# Fiduciary Initiatives

In 2020 and 2021, DC plan sponsors were largely focused on reviewing plan fees, their investment policy statement (IPS), and the plan's investment structure. These were all top areas in 2021 and will be areas of focus in 2022 as well.

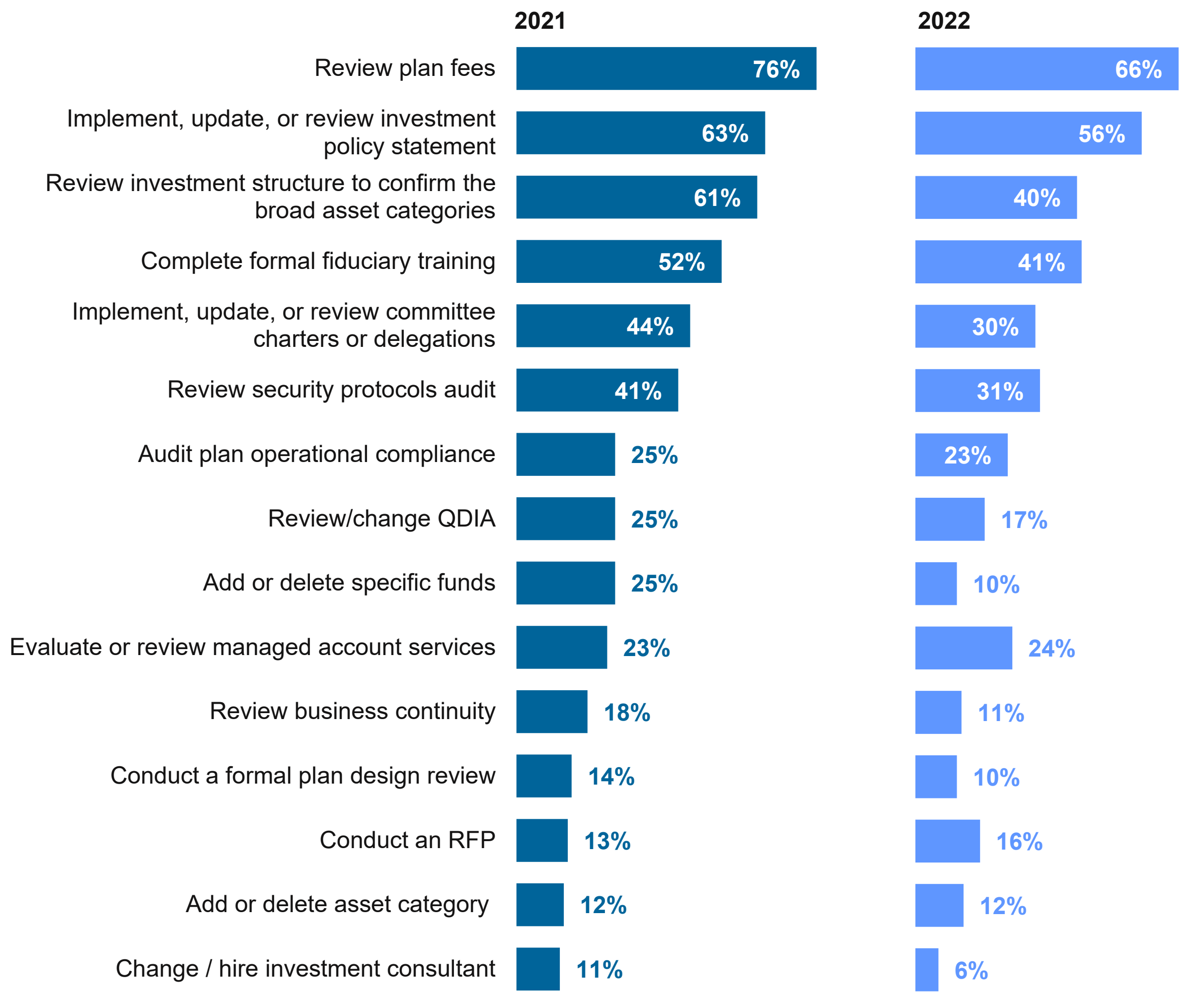
Reviewing security protocol was also a priority with 41% of plan sponsors taking this action in 2021. About a third will do the same in 2022.

Around one-quarter of respondents added or deleted a fund in 2021, but fewer plans expect to do so in 2022 (10%). This drop-off reflects the general nature of fund changes: They are not necessarily premeditated many months in advance.

**Top Actions Planned for 2022**

1. Review plan fees
2. Implement, update, or review IPS or structure
3. Complete formal fiduciary training

## Fiduciary actions DC plans have taken or will take*




*Multiple responses allowed.
Other actions taken with less than 6% include: Evaluate/implement 3(38) discretionary services, Evaluate independent fiduciary services for company stock, Add /remove managed account services, Implement a written plan fee policy statement, Change recordkeeper, Change trustee/custodian.

# Company Match

Only 12% of plan sponsors reported making a change to their company match in 2021, the same as in 2020. Of those that made a change in 2021, none described actions that were unfavorable (i.e., no plan sponsors eliminated, suspended, or reduced the match). Rather, 29% reinstated the match while another 29% increased the match. Of the 29% who selected "other," one was exploring adding a match.

In 2022, a slightly higher percentage (16%) plan to make a change to the match while another 8% may consider a change. Of those planning a change, again, no sponsors plan to eliminate, suspend, or reduce the matching contribution. Most plan to increase (40%) or restructure (40%) their match.

**Of those making a change, 3 in 10 plans increased the match in 2021.**

**4 in 10 will do so in 2022.**

## Company match actions*

| Took step in 2020 | | Took step in 2021 | | Will take step in 2022 | |
|---|---|---|---|---|---|
| Add a match true-up feature | 57% | Reinstate matching contributions | 29% | Increase matching contributions | 40% |
| Suspend matching contributions | 29% | Increase matching contributions | 29% | Restructure matching formula | 40% |
| Increase matching contributions | 14% | Other | 29% | Other | 20% |
| Reinstate matching contributions | 0% | Restructure matching formula | 14% | Change to stretch match | 10% |
| Restructure matching formula | 0% | Add a match true-up feature | 14% | Add a match true-up feature | 10% |
| Change to stretch match | 0% | Suspend matching contributions | 0% | Suspend matching contributions | 0% |
| Other | 0% | Change to stretch match | 0% | Reinstate matching contributions | 0% |

*Percentages out of those taking steps with respect to the company match. Multiple responses allowed.

# Re-enrollment

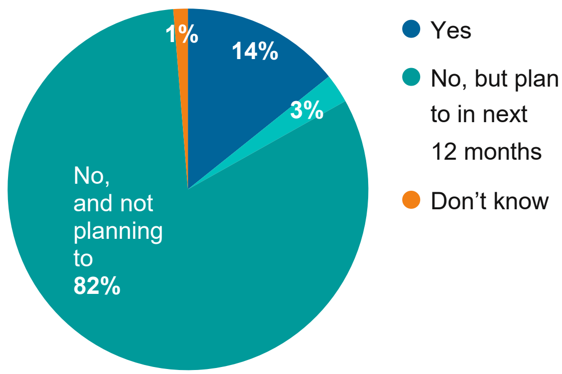
In 2021, 14% of plan sponsors indicated they had conducted an asset re-enrollment—defined as requiring all participants in the plan to make a new fund selection or be defaulted into the default investment option. Although this represented a slight decrease from 2019 (18%), it remains above the 9% of sponsors that indicated they had conducted a re-enrollment in 2018.

Of the plans that had engaged in a re-enrollment, the majority (64%) did so more than 12 months ago, while a smaller share (36%) engaged in a re-enrollment within the past 12 months.

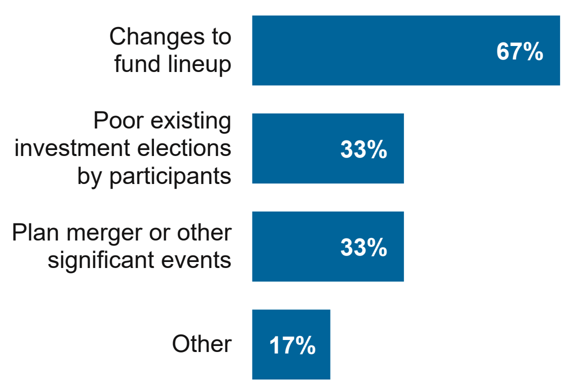
“Changes to the fund lineup” was the most common motivation for re-enrollment (67%), followed by a tie between poor existing investment elections by participants (33%) and a plan merger or other significant events (33%).

For those not planning to conduct a re-enrollment, it was primarily because plan sponsors believed it was not necessary, that participants would object, or that it was not a priority.

## Have you conducted an asset re-enrollment?




## Re-enrollment reasons*




*Multiple responses were allowed.

## Reasons for not conducting re-enrollment

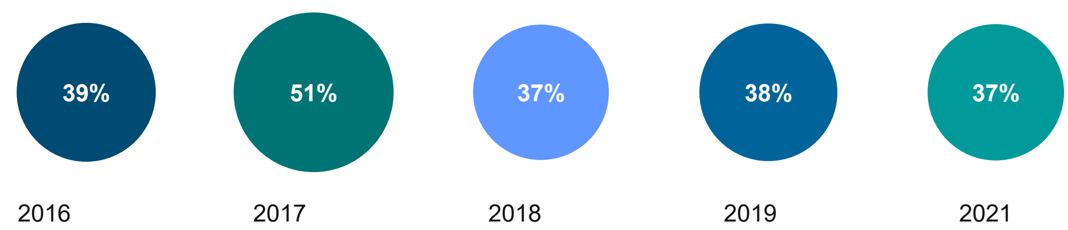

(7=Most important. Total ranking is weighted average score.)

# Company Stock Prevalence

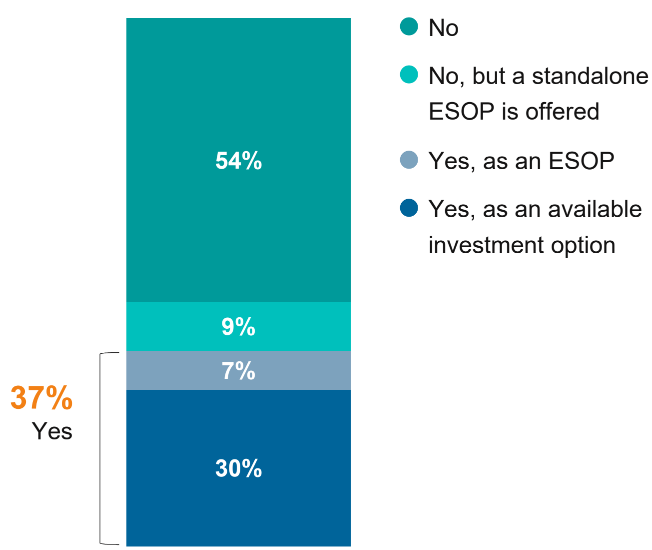
The share of plan sponsors that offered company stock either as an available investment option or as an ESOP within the plan remained consistent with prior years, except for 2017, which appears to be an aberration.

Most plans that did not offer company stock indicated the plan has never done so (62%). However, 21% of respondents indicated that the plan once offered company stock but has eliminated it, and another 17% offered company stock but have since frozen it.

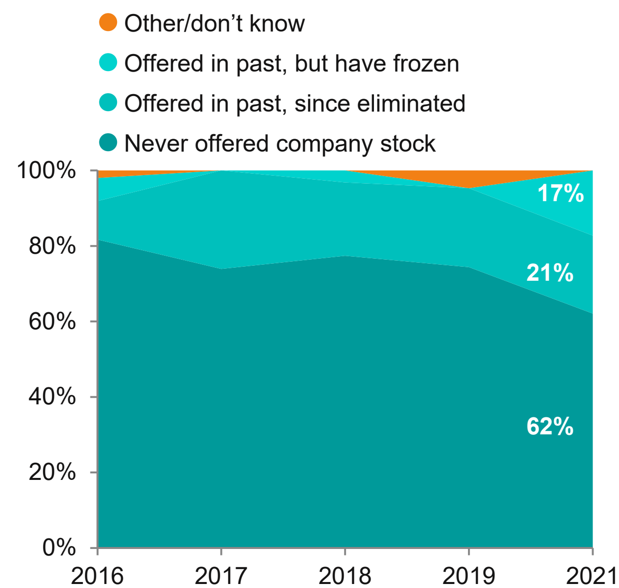
## Plans offering company stock




## Plans offering company stock




## Plan's experience with company stock, if not now offered



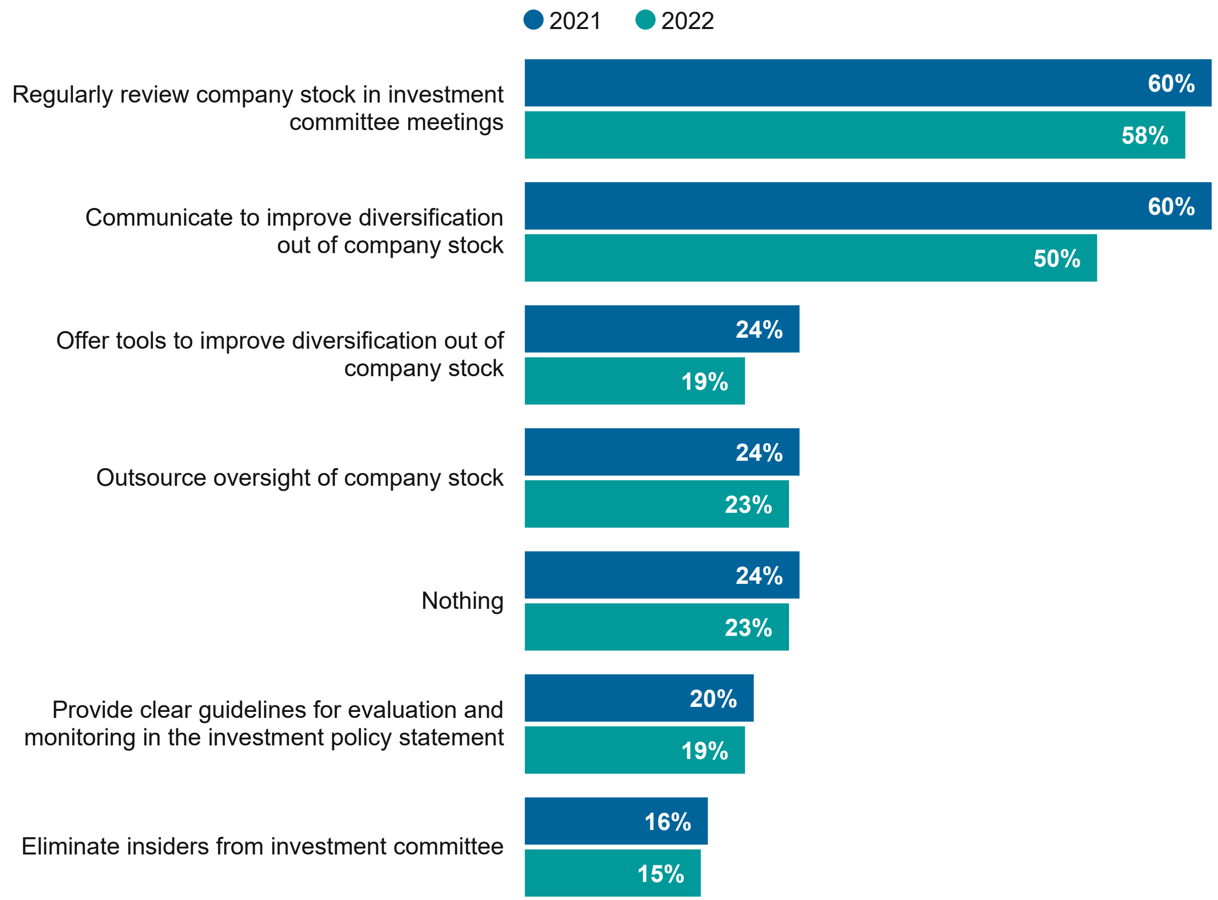
# Anticipated Changes to Company Stock

More than three-quarters of plan sponsors with company stock took some type of action regarding their company stock offering in 2021, and a similar share of plans anticipate taking an action in 2022.

The most prevalent actions that plan sponsors took regarding company stock in 2021 were reviewing their company stock offering in investment committee meetings and communicating to participants to improve diversification out of company stock (60% each). These are also the most common action sponsors anticipate taking in 2022.

Slightly more than one-third of plan sponsors included company stock in the DC plan. In 2021, 8% of sponsors with company stock froze the offering, and another 4% plan to do so in the coming year.

## Steps taken / will take regarding company stock*




Additional categories (2021/2022): Freeze company stock (8%/4%); Hard-wire company stock into the plan document (8%/8%); Cap contributions to company stock (4%/0%), Other (0%/4%)

*Multiple responses allowed.

# Default Investments

Most DC plans had a qualified default investment alternative (QDIA) as the default investment fund (97%).

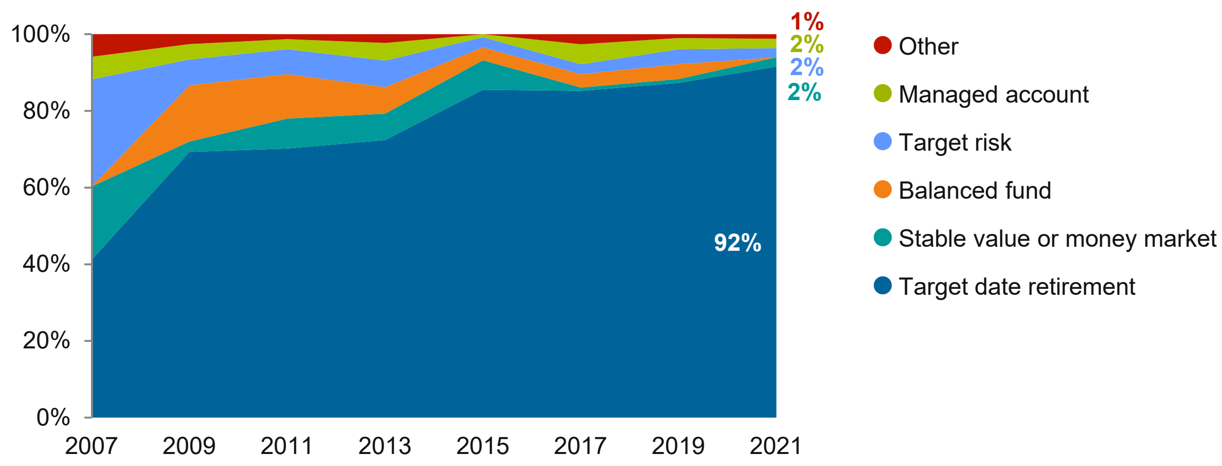
A key provision of the 2006 Pension Protection Act (PPA) provides relief to DC fiduciaries that default participant assets into QDIAs under regulation 404(c)(5). Plan sponsors complying with this provision are responsible for the prudent selection and monitoring of the plan's QDIA, but are not liable for any loss incurred by participants invested in the QDIA.

Before the PPA, target date fund usage as a QDIA was only 35% in 2006, with money market/stable value making up 30% and risk-based funds at 28%. The PPA paved the way for a major uptick in the adoption of target date funds as QDIAs.

In 2021, 92% of plans used a target date fund as their default for non-participant directed monies, an all-time high. Use of other QDIA types remained low.

## Plans offering target date funds


## Current default investment for non-participant directed monies



# Target Date Fund Approaches

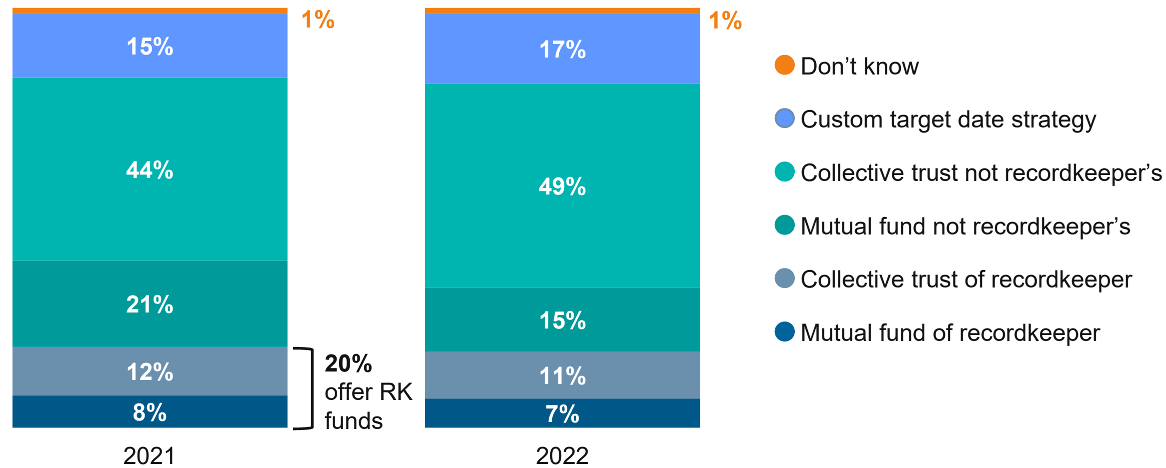
The use of recordkeeper's proprietary target date vehicles in DC plans continues to drop over time.

Only 20% of respondents used their recordkeeper's target date option in 2021, a small decrease from 23% last year, but a sharp drop from 67% from a decade ago. That number is projected to decrease slightly in 2022 to 18%.

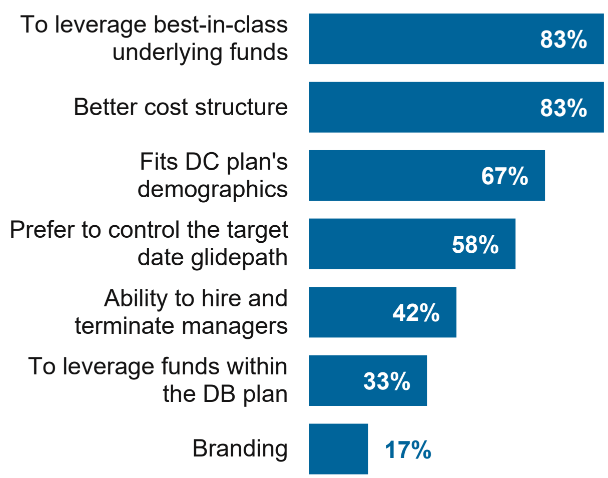
The prevalence of mutual funds for the target date fund is on the decline, as well. In 2010, 67% of plans used a mutual fund for their target date fund compared to 42% in 2020. In a noticeable jump, this went down further in 2021 to 29%. Even less plan to use mutual funds next year (22%).

For those that use custom target date funds, the most common reasons for doing so are to have a better cost structure and to leverage best-in-class underlying funds or to use funds from the core lineup.

## Target date fund approach: in place and will be in place

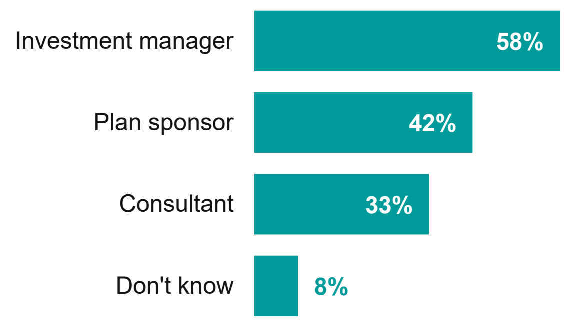



## Why custom target date funds are used




*Multiple responses were allowed.

## Custom target date fund fiduciary

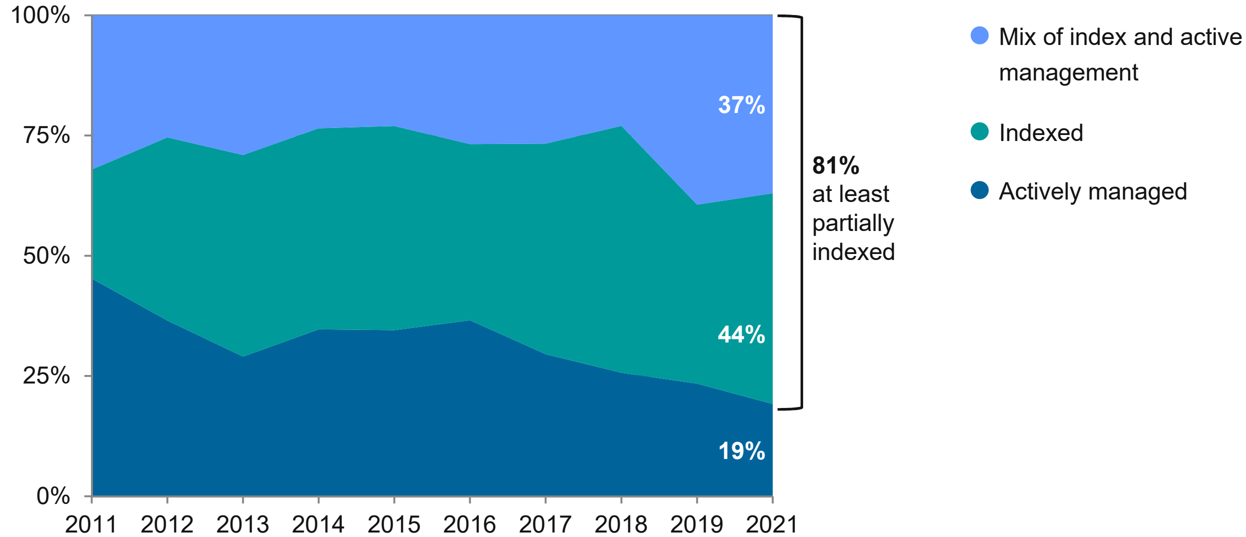


# Target Date Fund Landscape

Among those that offer TDFs, over 8 in 10 used an implementation that was at least partially indexed.

The share of active-only strategies continued to be the smallest and is now at its lowest point (19%).

## Target date fund investment approach



# Target Date Fund Selection

While the order was different, priorities remained the same as previous years. The top three reasons for selecting or retaining target date funds in 2021 were: performance, fees, and portfolio construction.

## Criteria for selecting or retaining target date funds

Most important key attributes

| 2017 | 2018 | 2019 | 2021 | Ranking |
|---|---|---|---|---|
| Portfolio construction | Performance | Portfolio construction | Performance | 3.4 |
| Fees | Portfolio construction | Fees | Fees | 3.3 |
| Performance | Fees | Performance | Portfolio construction | 3.2 |
| Risk | Number, type, and quality of underlying funds | Ability to achieve pre-specified retirement goal | Risk | 1.9 |
| Ability to achieve pre-specified retirement goal | Risk | Risk | Number, type, and quality of underlying funds | 1.1 |
| Number, type, and quality of underlying funds | Active vs. passive | Active vs. passive | Ability to achieve pre-specified retirement goal | 0.9 |
| Active vs. passive | Usage of tactical asset allocation | Number, type, and quality of underlying funds | Active vs. passive | 0.7 |
| Usage of tactical asset allocation | Name recognition | Usage of tactical asset allocation | Name recognition | 0.1 |
| Name recognition | Whether the funds are proprietary to the recordkeeper | Name recognition | Usage of tactical asset allocation | 0.1 |
| Whether the funds are proprietary to the recordkeeper | Ability to achieve pre-specified retirement goal | Whether the funds are proprietary to the recordkeeper | Whether the funds are proprietary to the recordkeeper | 0.1 |

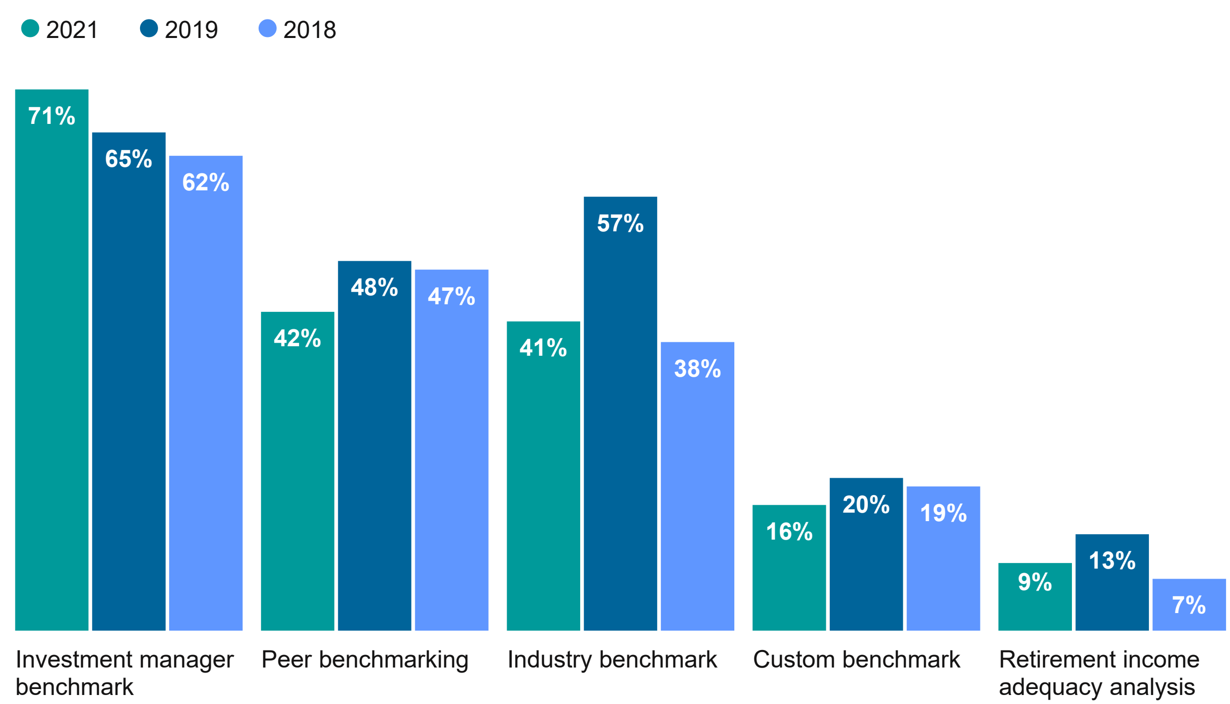
(7=Most important. Total ranking is weighted average score.)

# Target Date Fund Benchmarking

Two-thirds of plan sponsors reported using multiple benchmarks to monitor their target date funds, indicating that plan sponsors are taking a more varied approach. No respondents indicated they do not benchmark their TDFs.

Manager benchmarks (71%) continued to be the most common means of measurement and have shown increased acceptance over the past few years. Peer benchmarks as well as industry benchmarks are next most used, at about the same level.

## Target date fund benchmarks*




Additional categories (2021 data): Don't know (3%); other (14%).

*Multiple responses were allowed.

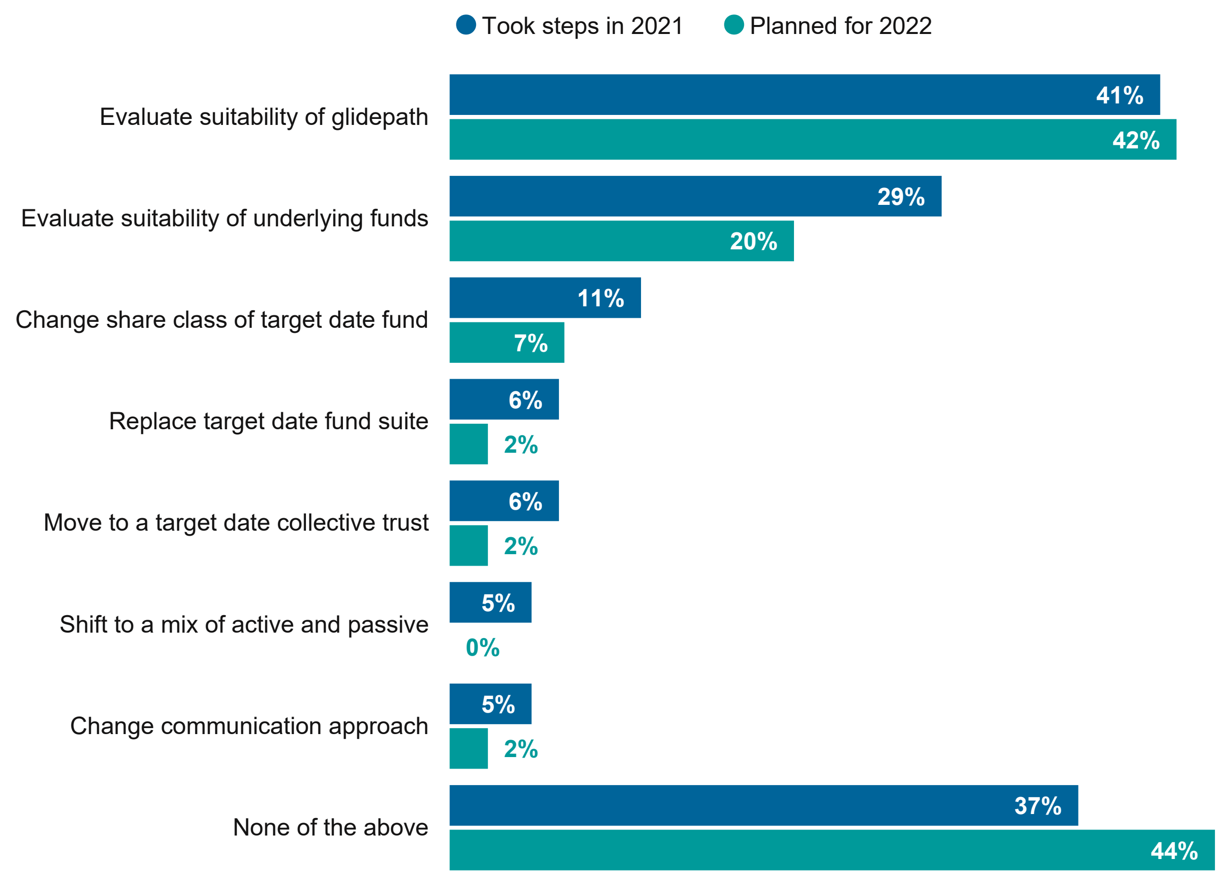
# Actions Taken Around Target Date Funds

Over 6 in 10 plans took at least one action around the target date fund in 2021 (63%). The most common were to evaluate the suitability of the glidepath and the suitability of the underlying funds.

A similar percentage of plans aim to evaluate the suitability of the glidepath in 2022. Of respondents that reviewed the glidepath in 2021, 22% also report they would do so in 2022.

Notably, 18% of respondents indicated they were changing the share class of the target date fund in either 2021 or 2022.

## Actions taken or planned regarding target date fund suite*




Additional categories with <4% (2021): Replace fund/manager, add target date fund suite, shift to all passive, move to dynamic QDIA, eliminate target date fund.

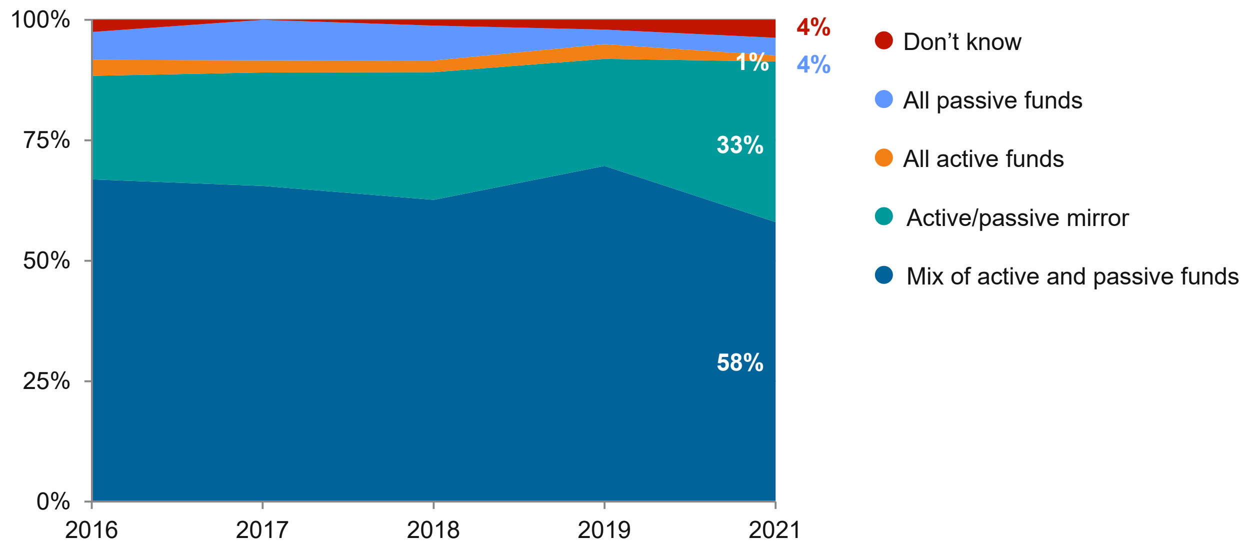
*Multiple responses allowed.

# Investment Menu

The vast majority of DC plans had a mix of active and passive investment funds (91%). Purely active (1%) or passive (4%) remains a rarity.

Over the past two years, there was a notable increase in those offering an active/passive mirror vs. those offering a mix of active and passive funds. A mirrored lineup is when virtually all core funds are represented by both active and passive versions.

## Investment menu approach



# Investment Menu Structure

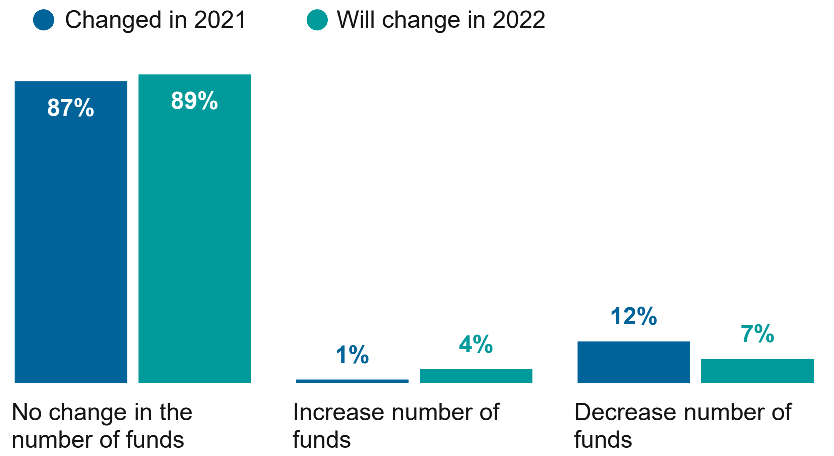
Most plan sponsors did not change the quantity or style of the funds offered last year, nor do they expect to in 2022.

Only 13% of plan sponsors reported making changes to the number of funds in 2021. Even fewer sponsors indicated they are planning a change next year—11% of all respondents. Of those that made changes or are planning to make changes, the more common action was to decrease the number of funds.

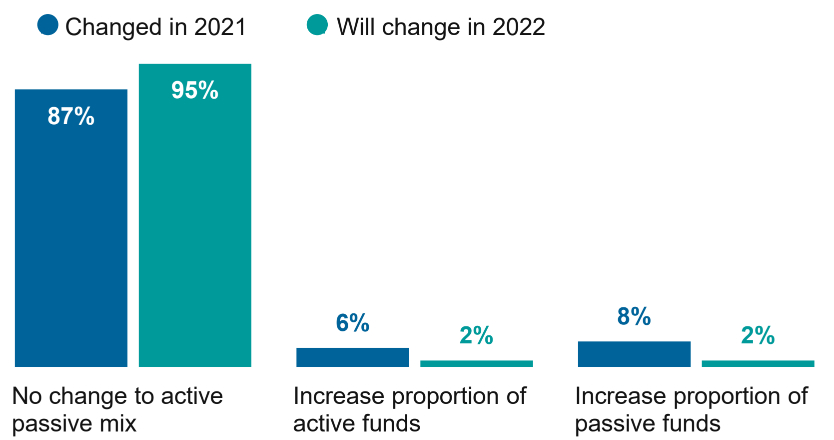
Similarly, most plan sponsors did not change the proportion of active versus passive funds in their plan in 2021. Even fewer sponsors indicate they are planning a change next year—5% of all respondents. For those that made a change in 2021, slightly more increased the proportion of passive funds (8%) than active funds (6%).

Fewer than **2 in 10** plan sponsors are **planning some change to the investment structure** in 2022.

## Investment structure change in fund quantity




## Investment structure change in fund style

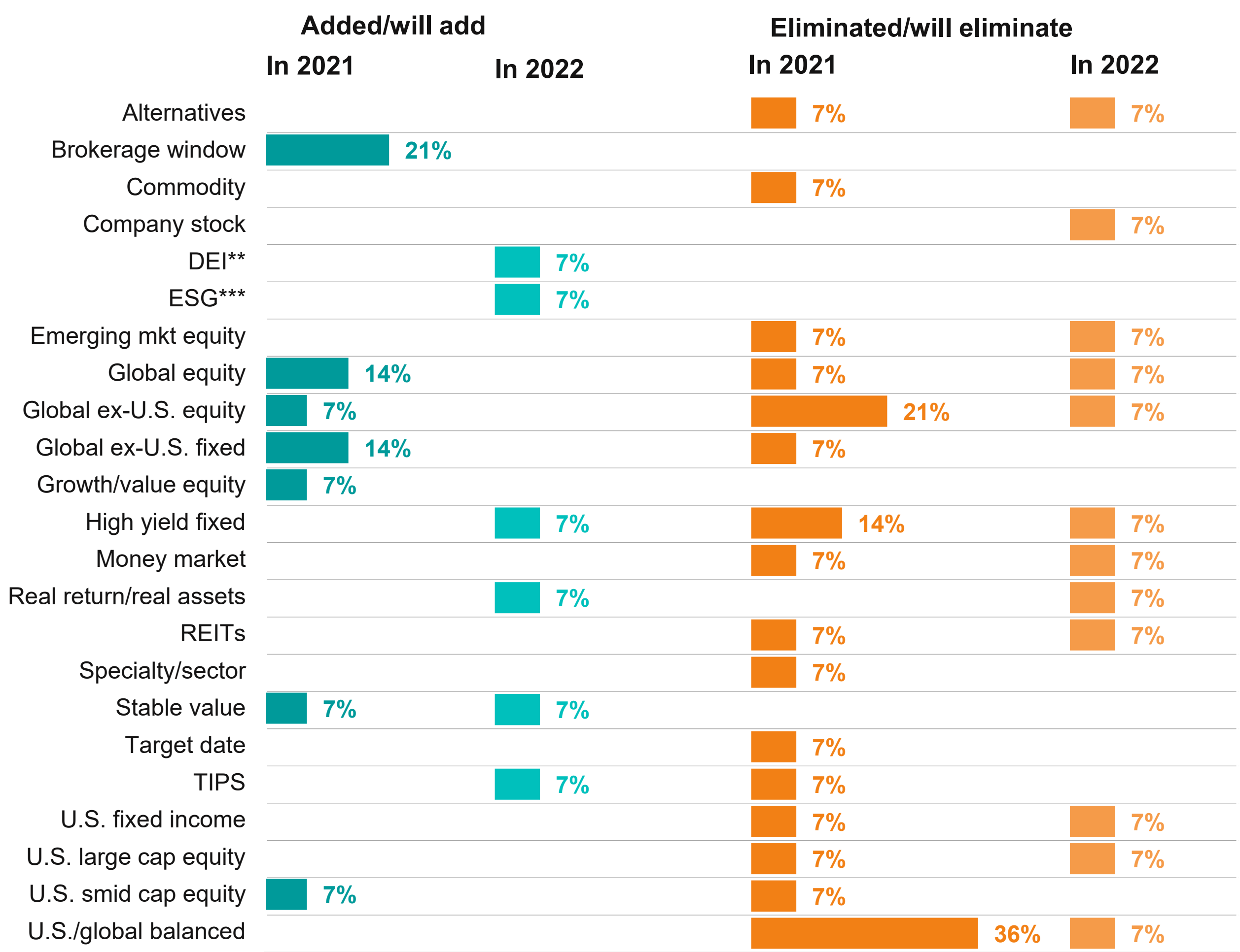


## Investment Menu Structure (continued)

Of those that added funds in 2021, adding a brokerage window was the most common action (21%). Additions of global equity and global ex-U.S. fixed income were next. While none added DEI or ESG funds in 2021, 7% (each) expect to in 2022.

Balanced and global ex-U.S. equity were the most commonly eliminated funds in 2021 while a wide array of strategies will likely be eliminated in 2022.

### Types of funds added or eliminated*




**Diversity, equity, inclusion. ***Environmental, social, and governance.

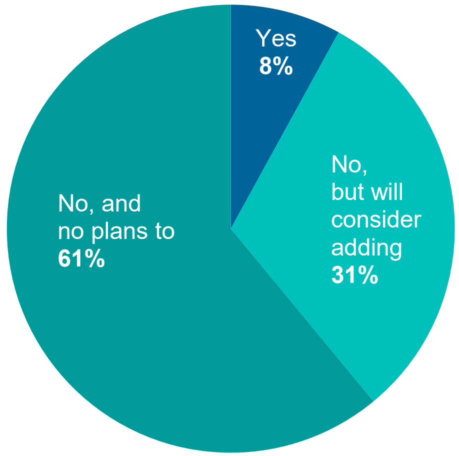
*Percentages out of those that made a change.

Multiple responses allowed.

# ESG in DC Plans

Most plans  (9 in 10) do not offer an ESG fund. While that's the case, about a third will at least consider adding an ESG option in the future. This was a newly added question for the *2022 DC Survey*.

**Plans that offer an environmental, social, governance (ESG) fund**



# Types of Investment Vehicles

Mutual funds (85%) and collective trusts (78%) continued to be the most prevalent investment vehicles. Plans were less likely to use collective trusts for stable value funds (35%) than non-stable value options (65%).

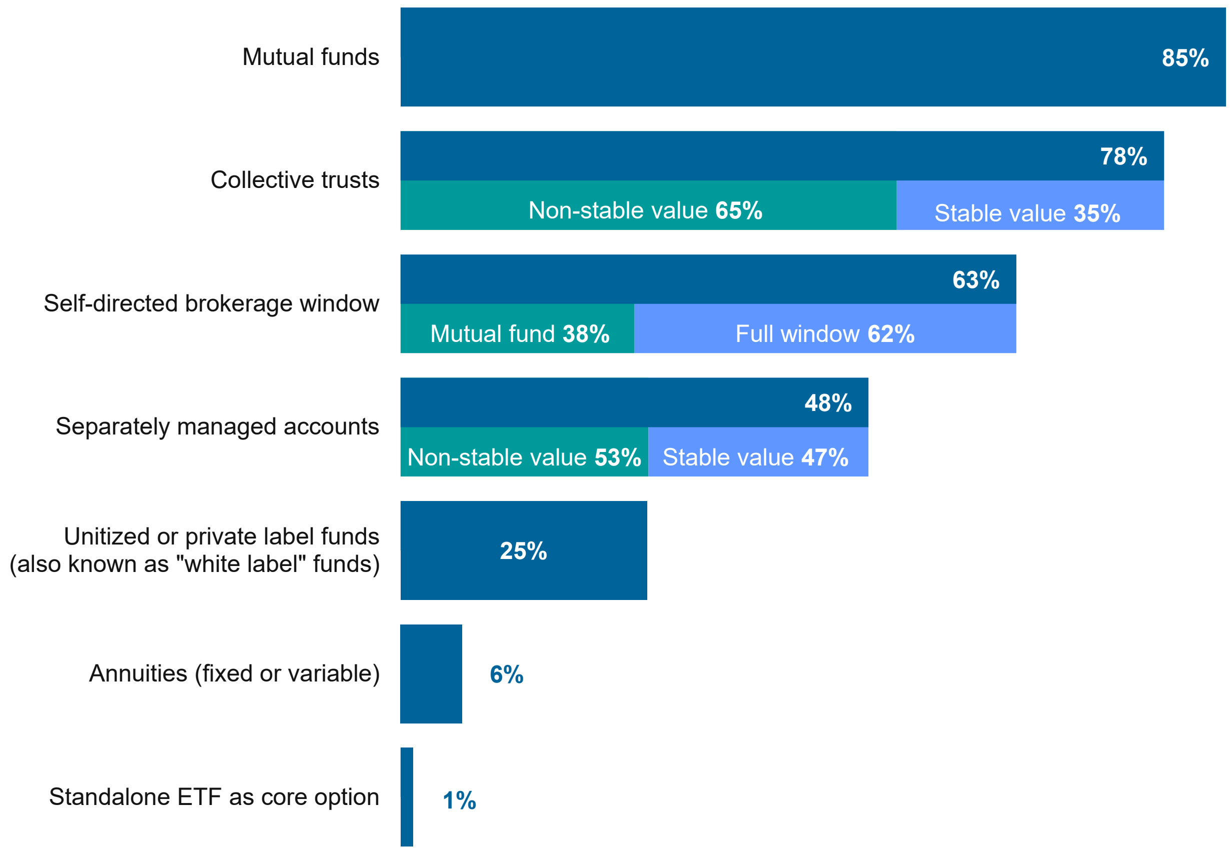
Over the past decade, the use of mutual funds fell by about 10 percentage points while the use of collective trusts rose by about 35 percentage points. Separate account use was also up by nearly 10 percentage points.

About a quarter of plans used unitized funds in 2021. All of the plans that used unitized funds had over $1 billion in assets. Of those, 10% had between $1 and $5 billion and the remaining 90% had over $5 billion in plan assets.

**2011 Investment Types**

| | |
|---|---|
| Mutual funds | **95%** |
| Collective trusts | **44%** |
| Separately managed accounts | **40%** |

## Investment types within the fund lineup*



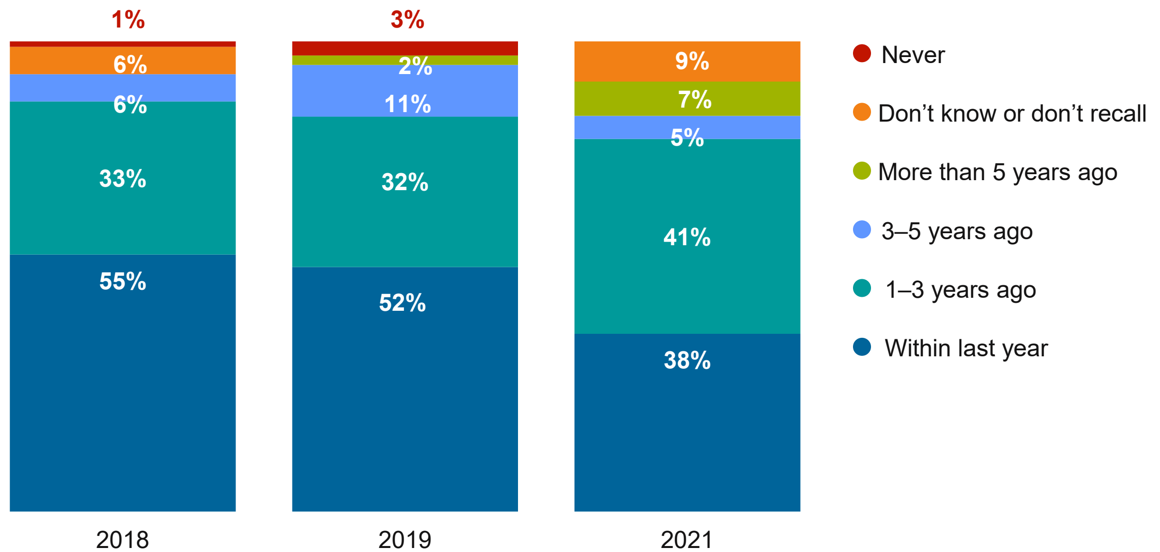

*Multiple responses allowed. Some respondents offer multiple asset classes in each vehicle type (e.g., both stable value and another asset class are offered as a collective trust and/or separate account).

# Investment Structure Evaluation and Mapping

In a drop off from past years, only 38% of plan sponsors conducted an investment structure evaluation within the past year, while 79% have done so within the past three years.

A surprising 9% don't know the last time an investment structure evaluation was conducted.

## Timing of investment structure evaluation

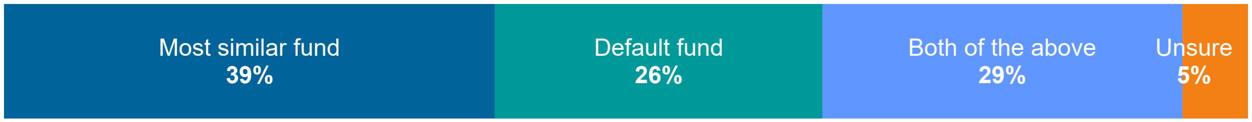



**39% of plans mapped assets in eliminated funds to similar funds**

26% mapped to the default fund

29% mapped to both

## Assets mapped from eliminated funds



# Investment Criteria

As we often see, investment performance stood as the top-ranking criteria for evaluating and selecting investment funds. Filling a gap tied with cost and fees as the second most-important criteria.

Participant request and brand name continue to be low-ranking attributes in the evaluation and selection of investment funds.

## Fund evaluation and selection criteria

Most important

| | Ranking |
|---|---|
| Investment performance | 3.8 |
| Fills style or strategy gap | 3.1 |
| Cost and fees | 3.1 |
| Investment management team stability | 2.3 |
| Style consistency | 1.5 |
| Ease of integration with recordkeeping system | 0.4 |
| Quality of service to plan sponsor | 0.4 |
| Participant communication and educational support | 0.2 |
| Leverages existing DB managers | 0.1 |
| Brand name / market image | 0.1 |
| Participant request | 0.1 |

Least Important

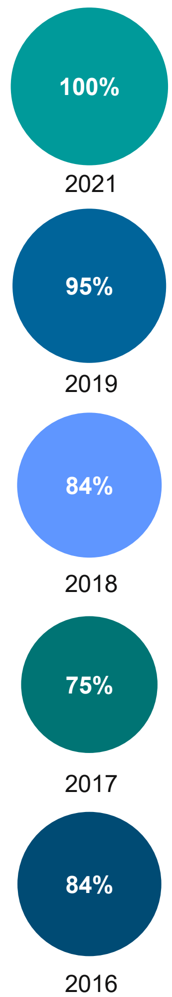
(5=Most important. Total ranking is weighted average score.)

# Advisory Services: Prevalence

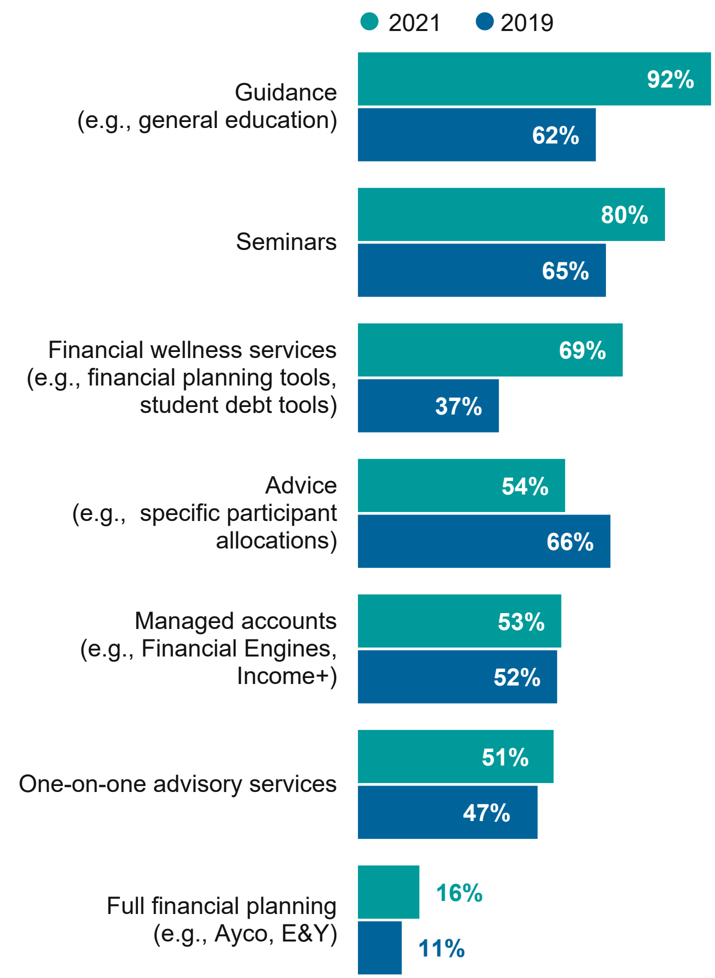
Up notably in recent years, all DC plan sponsors offered some form of investment guidance or advisory service to participants.

Nearly all respondents offered general guidance (92%), while a further 80% offered seminars, and 69% offered some financial wellness tools. All categories of guidance increased in frequency compared to last year with the exception of investment advice, which reduced slightly from 66% to 54%.

## Plans offering advisory services




## Type of service offered*




*Percentages out of those offering advisory services. Multiple responses were allowed.

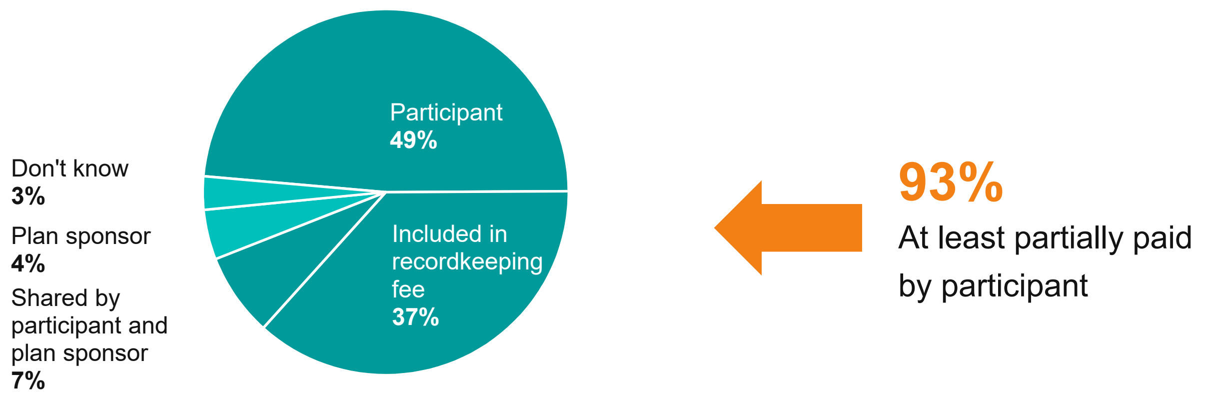
It remained most common for participants to pay for advisory services, either explicitly or as part of the overall recordkeeping costs.

The percentage of plan sponsors that paid the full expense of investment advisory services came in at only 4%, continuing a multi-year trend lower.

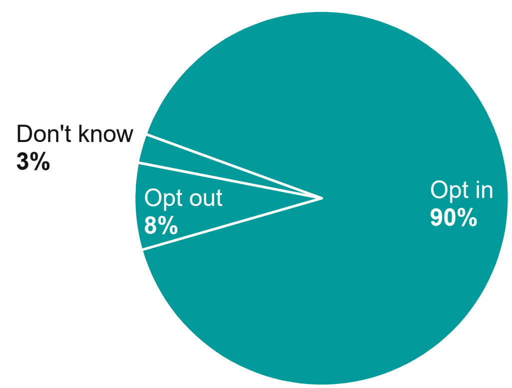
For plan sponsors that offered managed accounts, the vast majority (90%) offered them as an opt-in feature whereby participants must elect to use the feature.

By comparison, few plans enrolled participants on an opt-out basis (8%), although this is up from 3% in 2019. Plan sponsors cited the associated fees as the top reason for not offering opt-out enrollment.

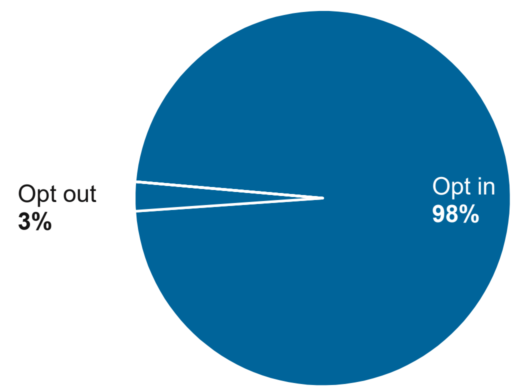
### Who pays for advisory services?




### How are participants enrolled in managed accounts?




2021




2019

# Managed Accounts and Advice – Fiduciary Relationship

There are two basic types of fiduciary arrangements for managed account services and advice providers: sub-advised and direct.

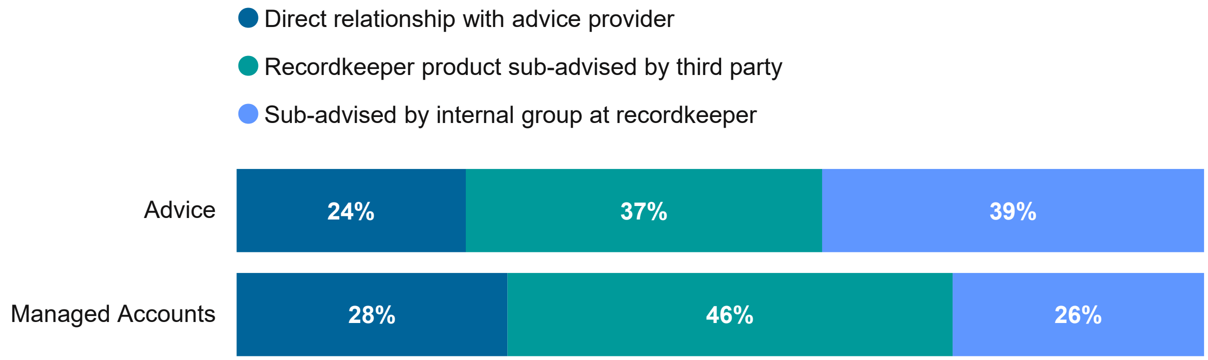
**Sub-Advised Relationship**
The recordkeeper (or an affiliate) is the adviser and fiduciary; the advice provider serves as a sub-adviser. The communications and call center are supported by the recordkeeper. The recordkeeper sets the fees and pays the advice provider a sub-advisory fee, if applicable.

**Direct Relationship with Advice Provider**
The advice provider serves as the adviser and fiduciary while also generating communications and providing call center support. It also determines fees and pays the recordkeeper an ongoing data connectivity fee for data, transactional, web, and operational support.

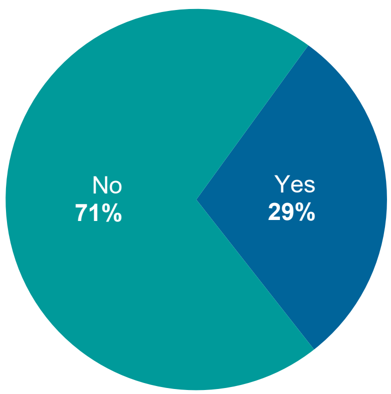
Managed accounts services are most commonly offered through a recordkeeper product sub-advised by a third party (46%), with similar rates for managed accounts powered internally (26%) or through a direct relationship (28%).

A majority of respondents offering managed account services (71%) did not benchmark the outcomes of the services.

## Fiduciary relationship of managed accounts services or advice*




## Performance of managed accounts services is benchmarked



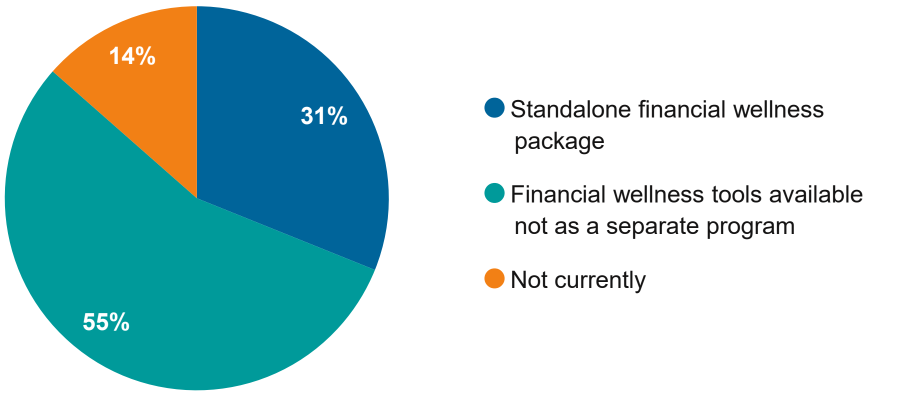

*Managed account products include an advice component.

# Financial Wellness

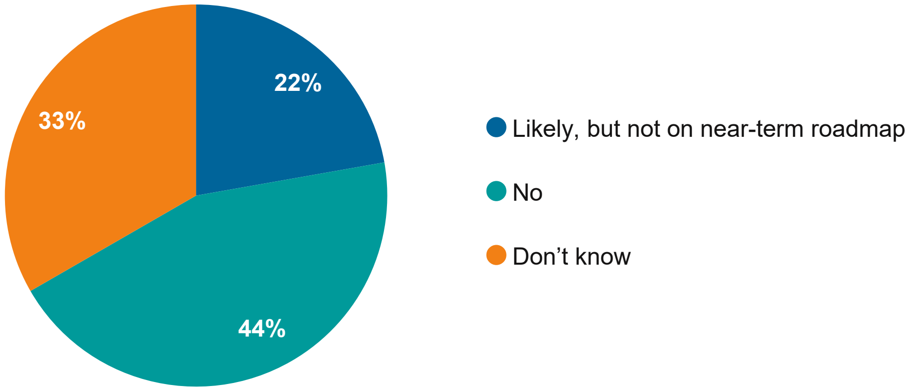
Financial wellness has been a topic of interest for several years, yet most employers do not have a formal standalone financial wellness program. Instead, most respondents (55%) provided financial wellness tools in conjunction with other benefits (e.g., retirement or health and welfare benefits). Only 14% did not offer any financial wellness tools, a figure that continues to decline as these programs become more common.

**86%** of employers offered financial wellness support. Of those employers that did not offer any financial wellness programs, 22% indicate they may do so in the near future.

## Financial wellness program availability




## Plans to create a financial wellness program for employees*




*Percentages out of those without a program in place.

# Satisfaction with Advisory Services

Satisfaction with investment advisory services was generally high. Full financial planning, one-on-one advisory services, and advice received the highest overall marks, with 100% of respondents very or somewhat satisfied. Guidance also ranked highly, at 97%.

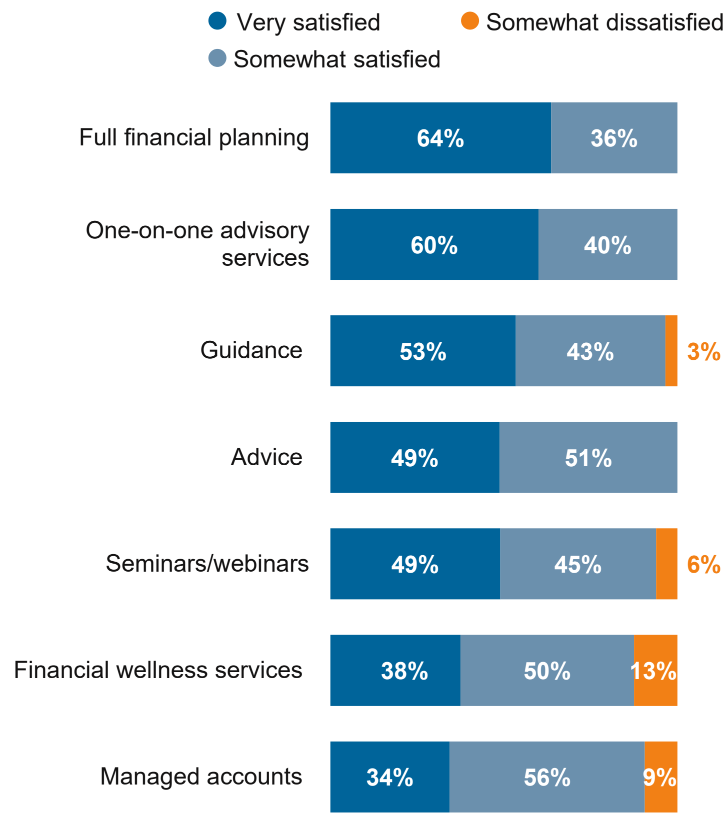
The service with the largest percentage of dissatisfied respondents was financial wellness services, with 13% of respondents reporting being somewhat dissatisfied. While that is the case, no respondents selected very dissatisfied for any of the services.

In the coming year, for sponsors that plan to add advisory services of some kind, financial wellness (50%), advice (30%), managed accounts (20%), and full financial planning (20%) are the most likely to be added.

Few plan sponsors are likely to eliminate investment advisory services—only one respondent noted this expected action.

## Types of advisory services expected to be added in 2022*


## Satisfaction ratings advisory service




*Percentages out of those planning to add. Multiple responses allowed.

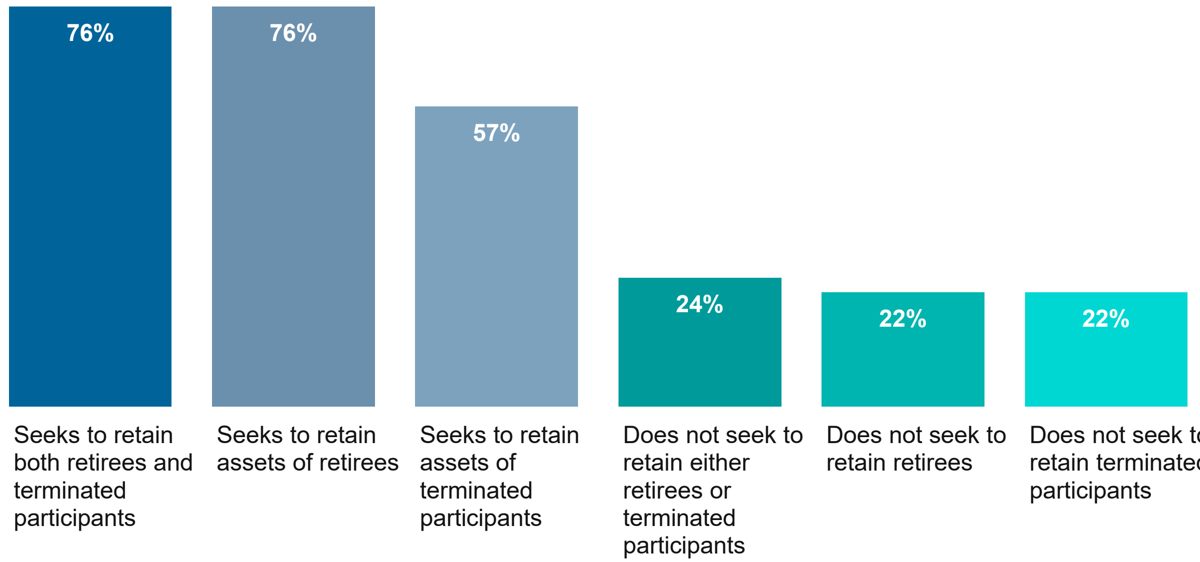
# Post-Employment Assets

More than three-quarters of plan sponsors with a defined strategy around this issue sought to retain the assets of both retiree and terminated participants, a notable increase from 2015 (44%). The same share sought to retain retiree assets. Fewer (nearly 6 in 10) sought to retain terminated participant assets.

Various rationales can drive the decision to retain assets. For example, retirees often have higher account balances, which can lead to cost efficiencies for the plan. On the other hand, account balances of employees who terminate before retirement can vary widely, as can the length of time before retirement, making these accounts potentially less efficient to retain.

Plan sponsors should weigh cost efficiency benefits against the fiduciary responsibility of retaining assets for participants who are not actively employed with the plan sponsor (e.g., maintain contact information to provide notices, monitor investments).

## Strategies to retain retiree / terminated assets*




*Percentages out of those with a stated intent in place. Multiple responses allowed.

# Plan Leakage

Most plan sponsors (86%) took steps to prevent plan leakage. Actions included offering partial distributions (66%) and installment payments (57%). These types of distribution options can help prevent plan leakage since the participant is not forced to take a total distribution.

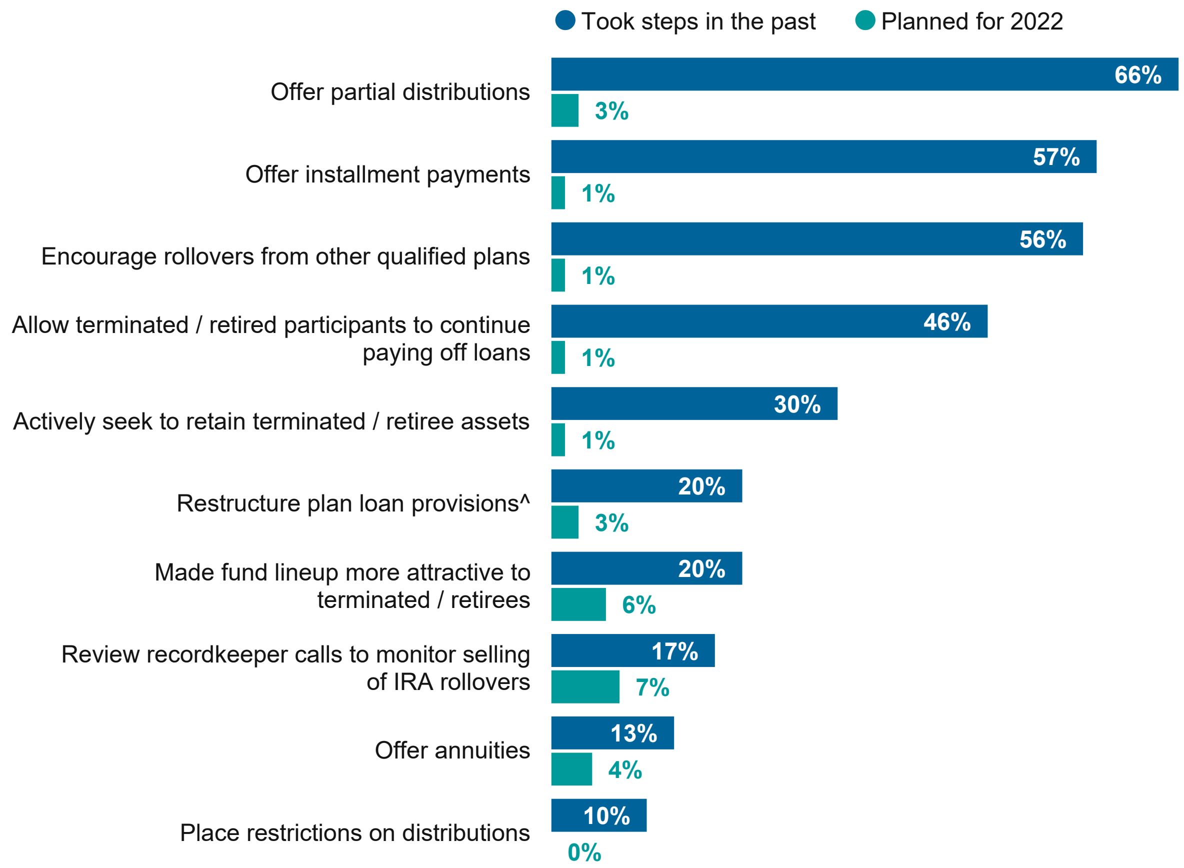
Another common action was to encourage rollovers into the plan (56%). Slightly fewer than half of survey respondents allowed terminated participants to continue repaying their DC plan loans.

Only 20% of respondents anticipated taking additional steps to prevent plan leakage in 2022—most notably, to review recordkeeper calls and to make the fund lineup more attractive to retirees.

**Nearly 9 in 10** plan sponsors have taken steps to **prevent plan leakage.**

These plan sponsors reported taking an **average of 4 actions** to reduce leakage.

## Steps taken to prevent plan leakage*




*Multiple responses allowed.

^e.g., reduce number of loans allowed, change loan frequency.

# Retirement Income Solutions

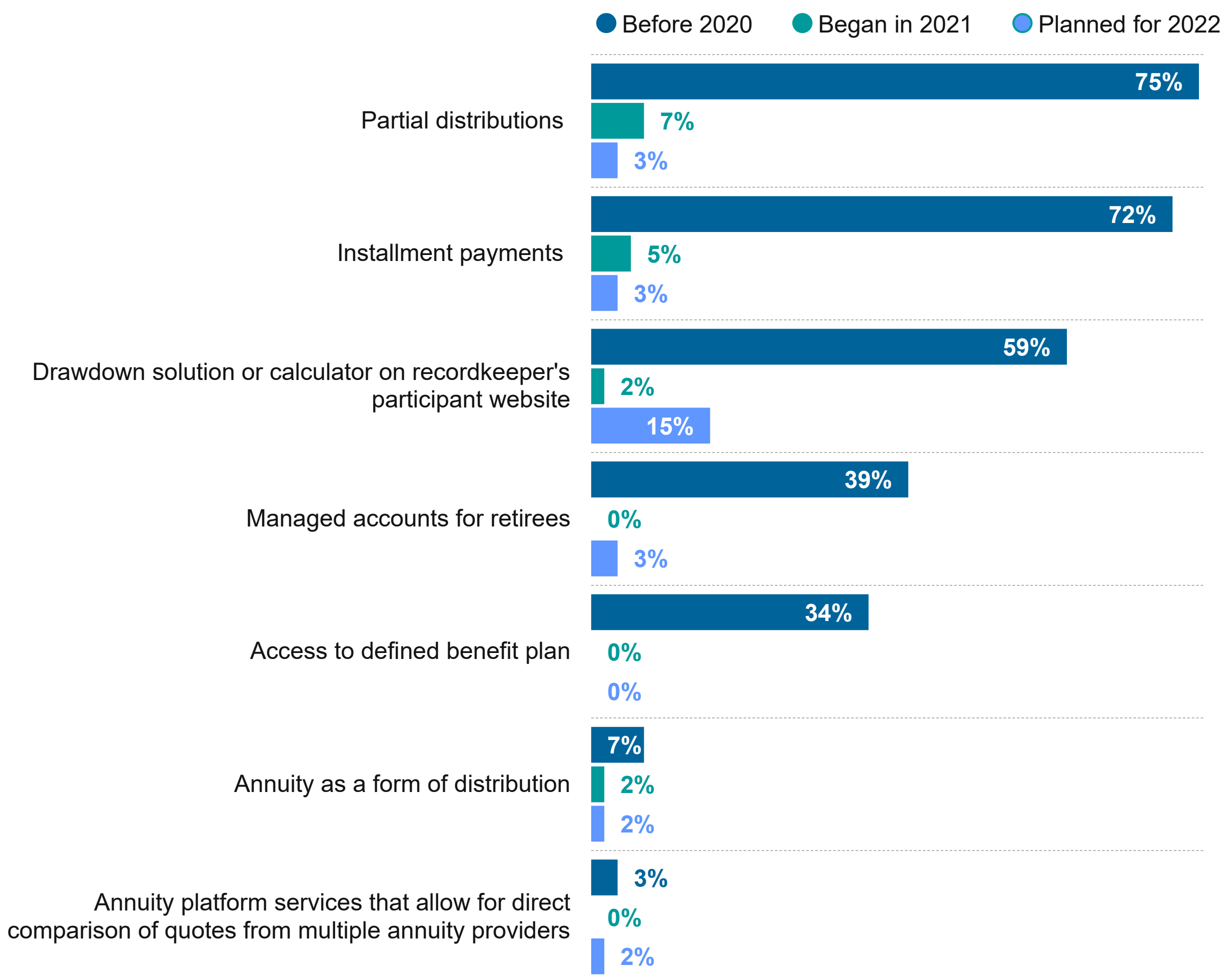
Over three-quarters of plans (85%) offered some sort of retirement income solution to employees by 2021. Partial distributions (82%) and installment payments (77%) were the most common solutions. Providing access to a drawdown solution or managed account service were the next two most common.

**Explainer:** a drawdown solution is a simplified process on the participant website (e.g., a one-step button) to implement the output from a retirement calculator. It is a more streamlined process for participants to establish a stream of income, who would otherwise have to manually transfer the calculator output into the transactional section of the website.

No plan sponsors offer qualified longevity annuity contracts (QLACs) or longevity insurance in their plans despite a 2014 Treasury Department ruling making it easier to do so.

**85%** of plan sponsors offer a **retirement income solution.**

## Retirement income solutions offered*




*Percentages out of those with a solution in place. Multiple responses allowed.
Solutions offered in 2020 but not in 2021 and not planned in 2022: target date fund with an annuity (2%); in-plan guaranteed minimum withdrawal benefit product (2%)

# Reasons for Not Offering Annuities

Plan sponsors cited a number of reasons to explain why they are unlikely to offer an annuity-type product in the near term.

Plan sponsors reported a lack of participant need/demand, being uncomfortable or unclear about the fiduciary implications, and that offering an annuity-type product is unnecessary or not a priority. Respondents also noted the difficulty in communicating this type of product to participants as part of the reason not to offer these products.

## Reasons for not offering an annuity-type product

| Most important → Least Important | Ranking |
|---|---|
| No participant need or demand | 2.9 |
| Uncomfortable/unclear about fiduciary implications | 2.7 |
| Unnecessary or not a priority | 2.5 |
| Difficult to communicate to participants | 2.1 |
| Products are not portable | 1.8 |
| Too costly to plan sponsor/participants | 1.7 |
| Concerned about insurer risk | 1.5 |
| Availability of DB plan | 1.4 |
| Lack of product knowledge | 1.3 |
| Too administratively complex | 1.1 |
| Uncomfortable with available products | 1.0 |
| Recordkeeper will not support this product | 0.7 |

(5=Most important. Total rating is weighted average score.)

# Fee Calculation

All-in fees can encompass a variety of expenses, including administration, participant transaction fees, compliance, custody, communications (e.g., print and distribution), indirect sources of revenue, and more.

Nearly **7 in 10** plan sponsors calculated their all-in DC plan fees within the past 12 months. Another 14% did so in the past one to two years. Only 5% were unsure of the last time all-in fees were calculated.

When calculating all-in fees, 4 in 10 plan sponsors evaluated indirect revenue (e.g., revenue shared with the recordkeeper generated from sources such as managed accounts, brokerage windows, or rollovers of DC plan balances into an individual retirement account). Fewer plans (17%) did not evaluate indirect revenue, and a larger proportion (43%) did not know whether their all-in fee calculation involved an evaluation of indirect revenue.

**6 in 10** respondents are somewhat or very **likely to evaluate indirect revenue** in 2022.

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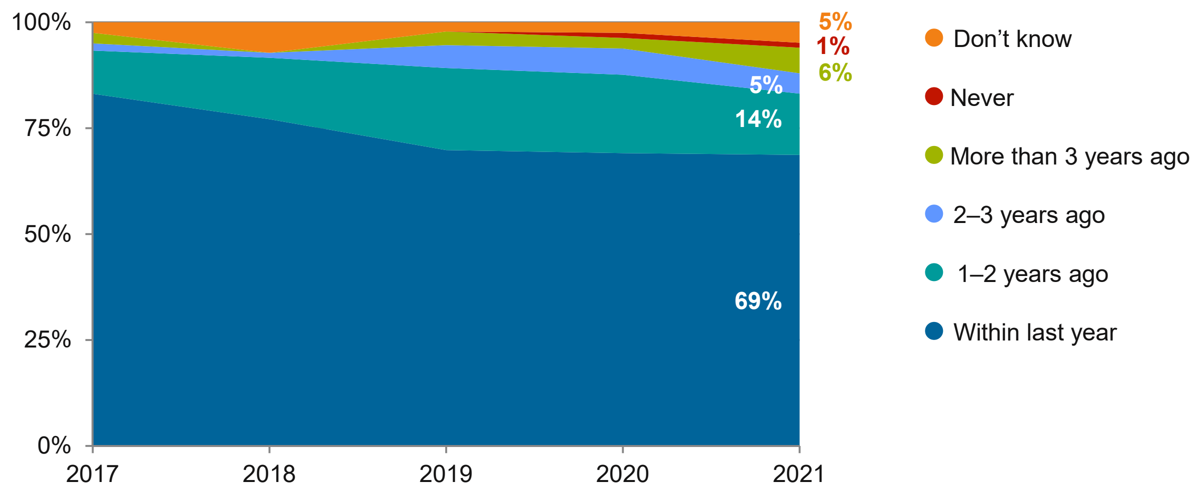
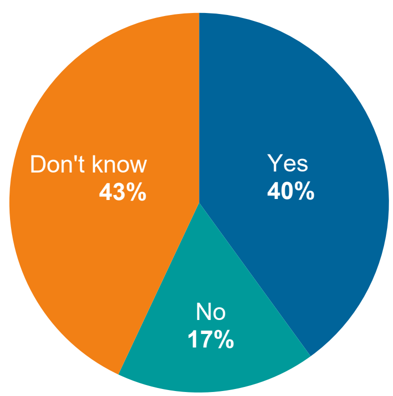
## Last time all-in plan fees were calculated*




## Evaluated indirect revenue when calculating all-in fees




*All-in fees include all applicable administration, recordkeeping, trust/custody, and investment management fees.

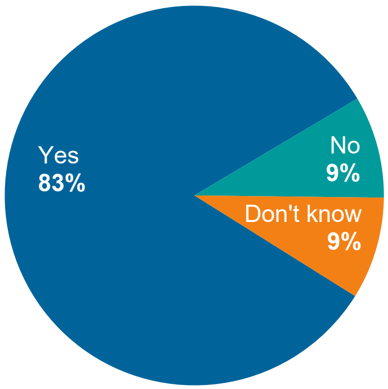
# Fee Benchmarking

More than 8 in 10 plan sponsors benchmarked the level of plan fees as part of their fee evaluation process, down slightly from 2019 (89%). The percentage of plan sponsors that did not know whether plan fee levels were benchmarked (9%) increased slightly from 6% in 2019.

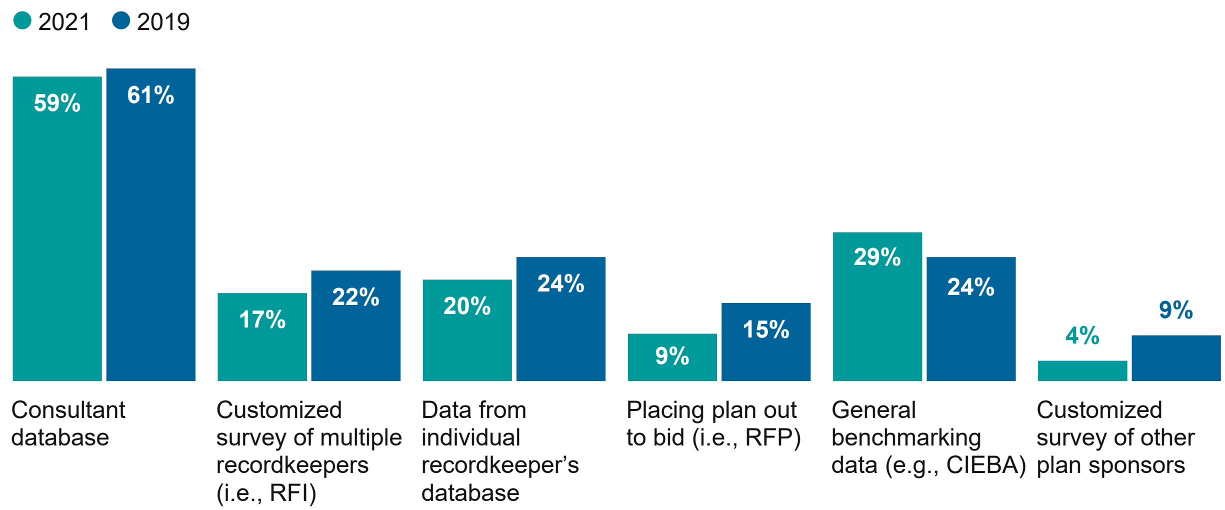
Plan sponsors tend to use multiple data sources in benchmarking their fees. Consultant databases (59%) were the most commonly used method, consistent with 2019. General benchmarking data (29%), data from the recordkeeper (20%), and RFIs (17%) were the next most frequently cited benchmarking practices.

**58%** both **calculated and benchmarked** plan fees within the past 12 months

## Fees were benchmarked when calculating




## How benchmarking was done*




*Multiple responses were allowed.

# Fee Calculation and Benchmarking Outcomes

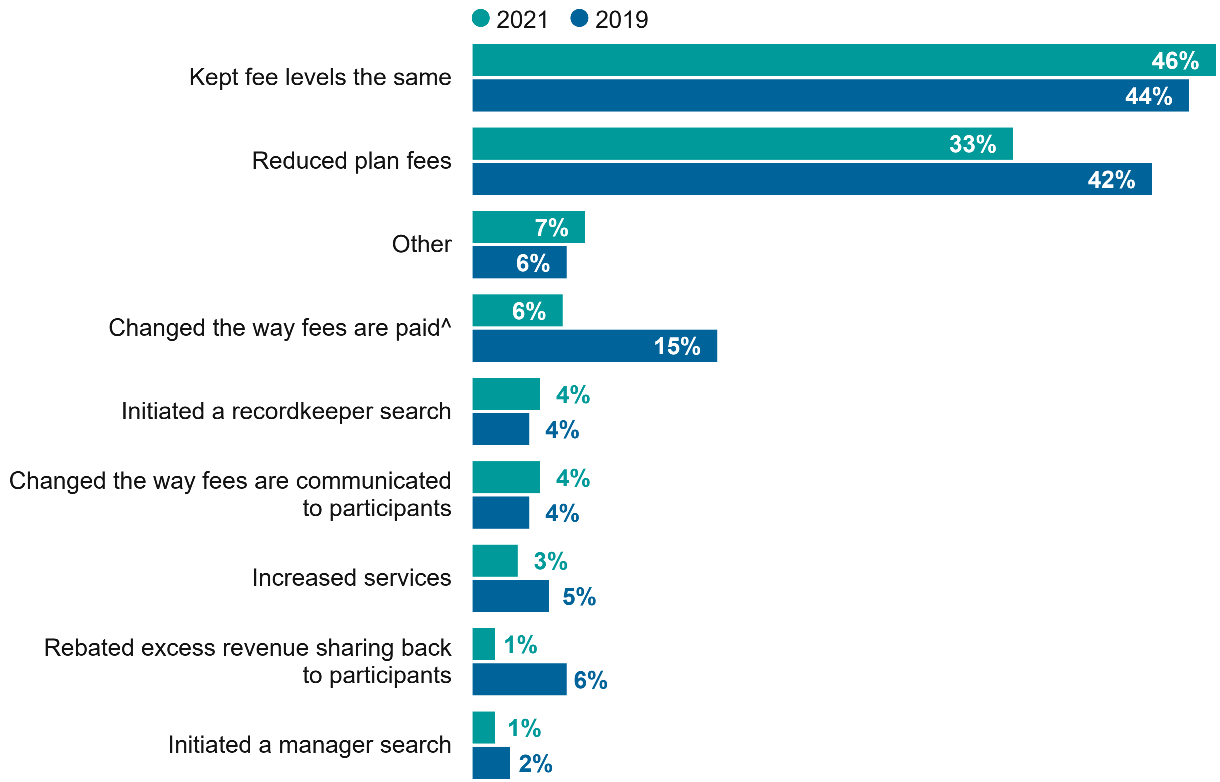
Fewer than half of plan sponsors kept fees the same following their most recent fee review, while one-third reduced fees.

After reducing fees, the next most prevalent action resulting from a fee assessment in 2021 was changing the way fees were paid (6%). This marked a material reduction from 2019 (15%)—potentially reflecting the fact that many plan sponsors have already changed their fee payment model.

Few plan sponsors have initiated a recordkeeper search (4%) or changed the way fees are communicated to participants (4%) as a result of their fee review.

Of those selecting "Other," one respondent was in the process of evaluating plan fees but indicated that increased services were a likely result. The majority of the others were still in process with their assessment and had not yet determined a probable outcome.

## Outcome of fee analysis*




Additional categories (2019/2021): Don't know (2%/8%); implemented an ERISA-type account (0%/0%).

^e.g., change from use of revenue sharing to an explicit participant fee

*Multiple responses were allowed.

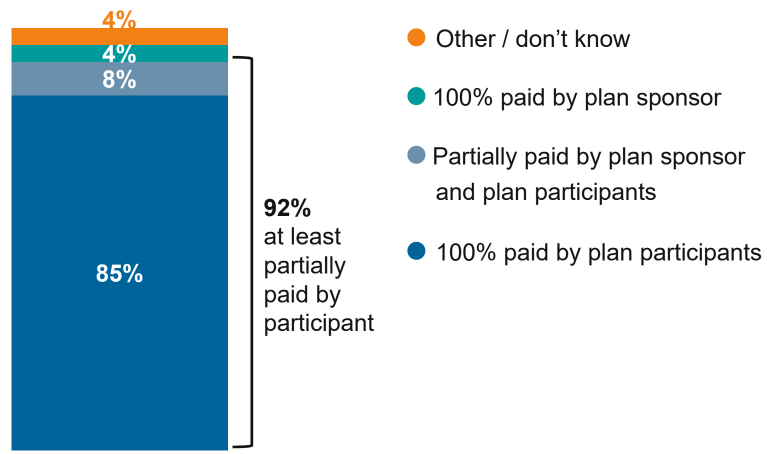
# Fee Payment

Investment management fees were most often paid entirely by participants (85%), and almost always at least partially paid by participants (92%). By contrast, 58% of all administrative fees were paid entirely by participants, up slightly from last year (49%). Most plan sponsors (79%) noted that at least some administrative fees were paid for by participants.

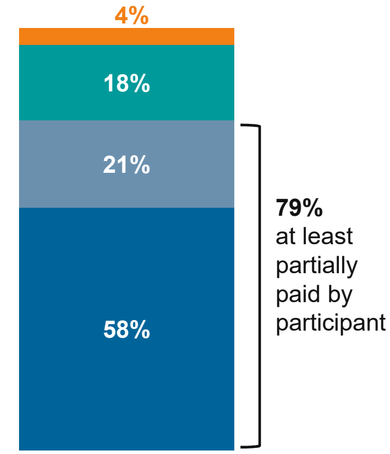
More than three-quarters of plan sponsors reported using a per-participant fee for plan administration. Flat, per-participant fees continued to be more prevalent than asset-based fees that fluctuate based on account balances (76% vs. 24%, respectively).

**88%** of respondents were somewhat or very **unlikely to change the way fees are paid** (e.g., move from asset-based to flat, per-participant fee) in 2022.

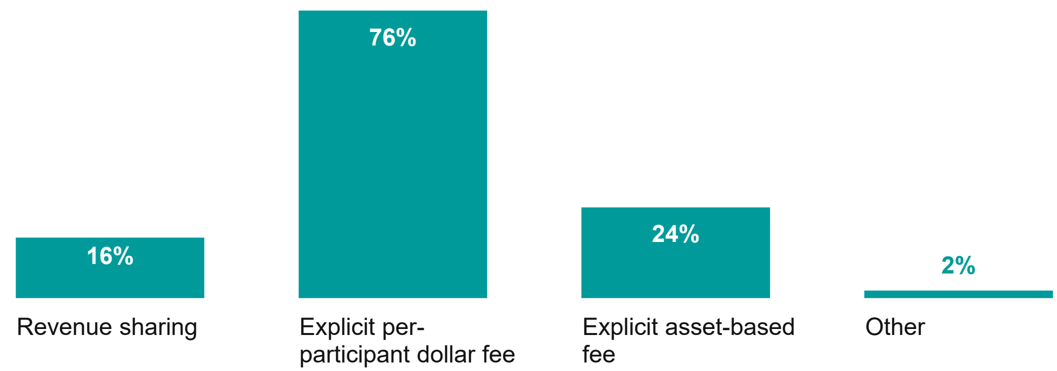
## How investment management fees are paid




## How administrative fees are paid




## How participants pay for plan administration*




*Multiple responses allowed.

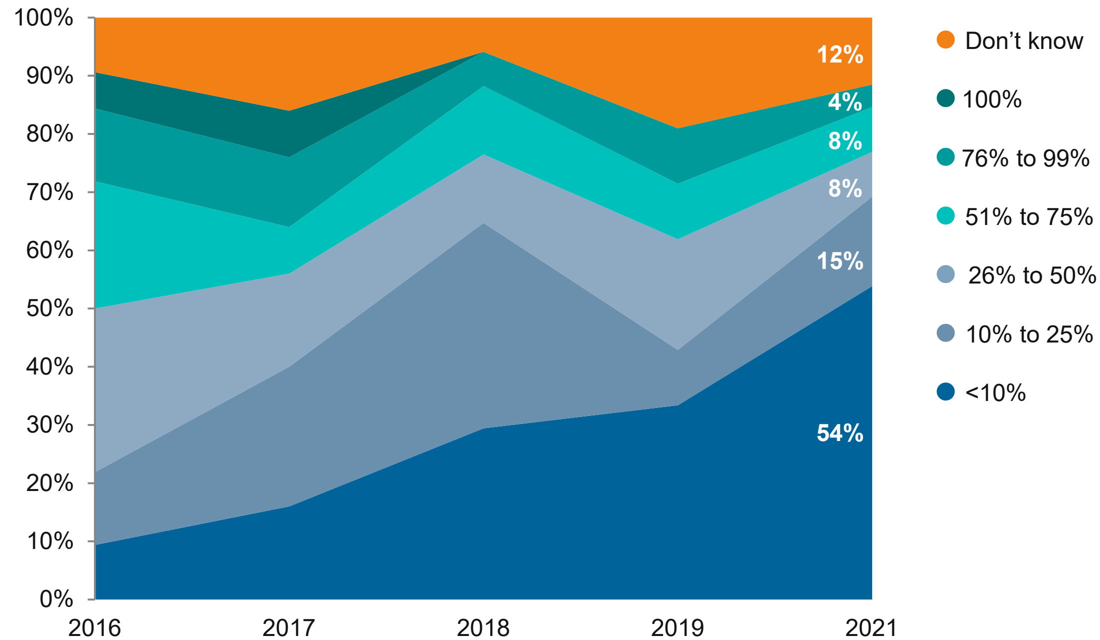
# Revenue Sharing

Of plans with revenue sharing (or some kind of administrative allocation back from the investment fund), none reported that all of the funds in the plan provided revenue sharing, consistent with 2019.

The most common was to have fewer than 10% of funds paying revenue sharing (54%). This represents a trend that has continued over time, as the percentage of plans with fewer than 10% of funds with revenue sharing has increased each year since 2016 (9%).

Plan sponsors that did not know the percentage of the funds in the plan that had revenue sharing decreased from 19% in 2019 to 12% in 2021.

## Percentage of funds that have revenue sharing



# Forfeiture and ERISA Accounts

About two-thirds of plan sponsors had either a forfeiture account (45%), an ERISA account (4%), or both (18%).

Notably, 16% of respondents did not know whether they offered a forfeiture account or an ERISA account.

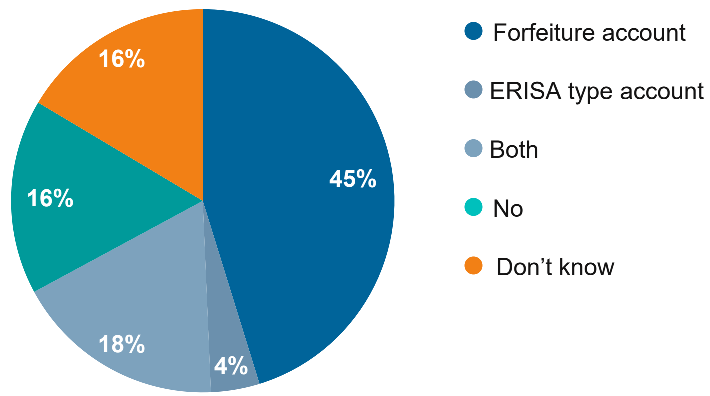
Auditing and consulting fees were the most commonly paid expenses through the forfeiture and/or ERISA account(s).

Notably, more plan sponsors used assets in the forfeiture and/or ERISA account(s) to pay for legal and communication expenses (46% for both in 2021 compared to 35% for both in 2019).

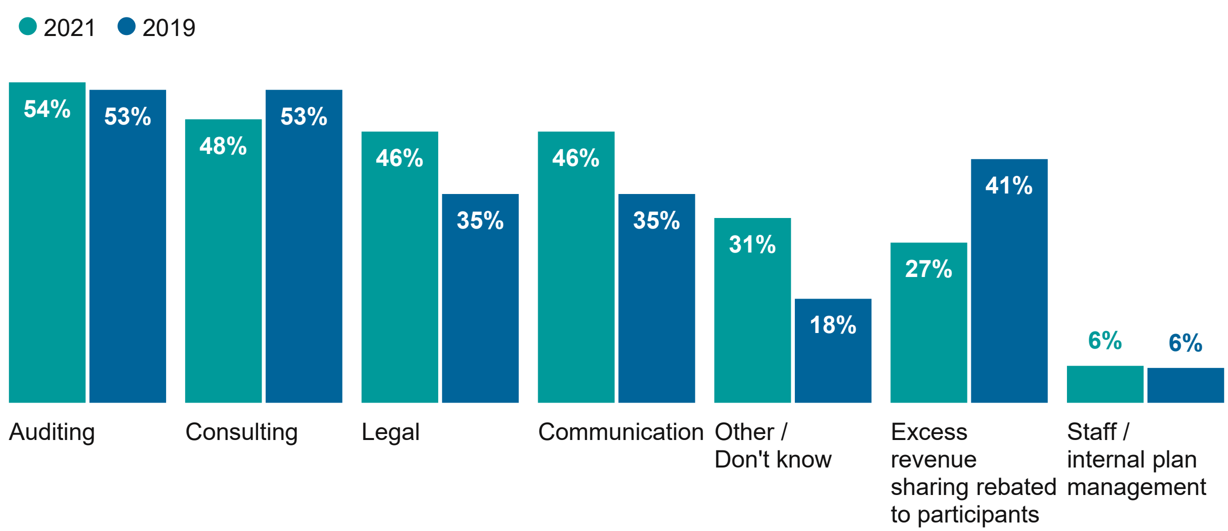
On the other hand, a smaller share of plan sponsors used assets in the account(s) to rebate excess revenue sharing to participants (27% in 2021 compared to 41% in 2019).

Among respondents selecting “Other,” the most common usage of forfeiture and/or ERISA account assets was to offset employer contributions.

## Have a forfeiture account and/or ERISA type account




## Expenses paid through the forfeiture/ERISA account*




*Multiple responses were allowed.

# 2022 Fee Initiatives

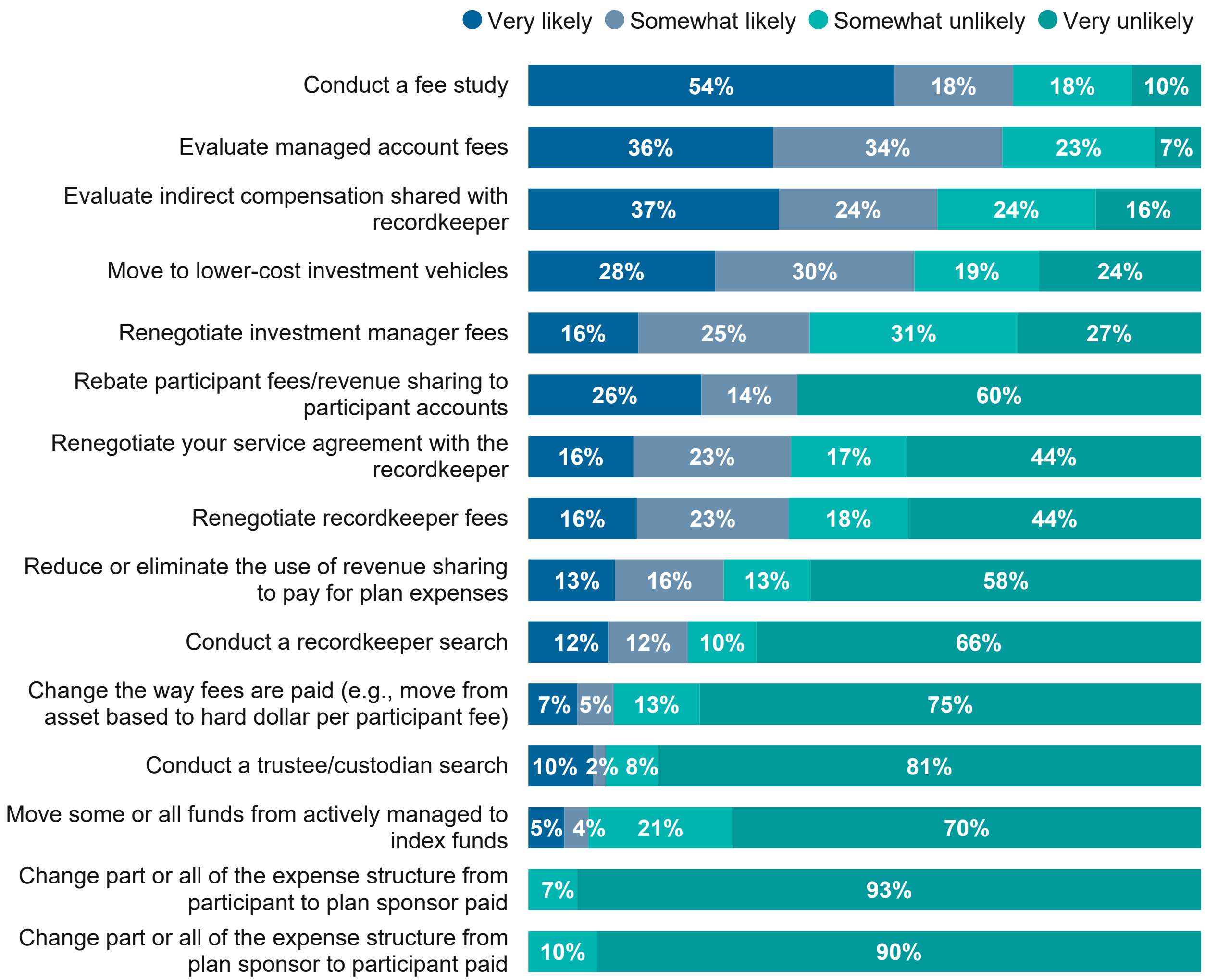
Nearly three-quarters of plan sponsors are either somewhat or very likely to conduct a fee study in 2022 (72%), consistent with the prior year's DC survey (71%). Most respondents also indicated they are very or somewhat likely to review other fee types (e.g., managed account services fees) and indirect revenue.

Nearly one quarter of plan sponsors (24%) reported exploring a recordkeeper search in the coming year, an increase from last year (14%).

Nearly 6 in 10 respondents are likely to move to lower-cost investment vehicles (e.g., move from an R6 share class to a collective investment trust) in 2022.

Other somewhat or very likely actions include renegotiating investment manager fees (41%), renegotiating the service agreement with the recordkeeper (39%), and renegotiating recordkeeper fees (39%).

## Fee initiatives planned for 2022



# Participant Communication

Retirement readiness and increasing savings rates tied as the top areas of focus for plan communications—both were also in the top three last year. Financial wellness came in third.

While plan sponsors were heavily focused on managing plan fees, they were not as focused on communicating them, according to their lower ranking.

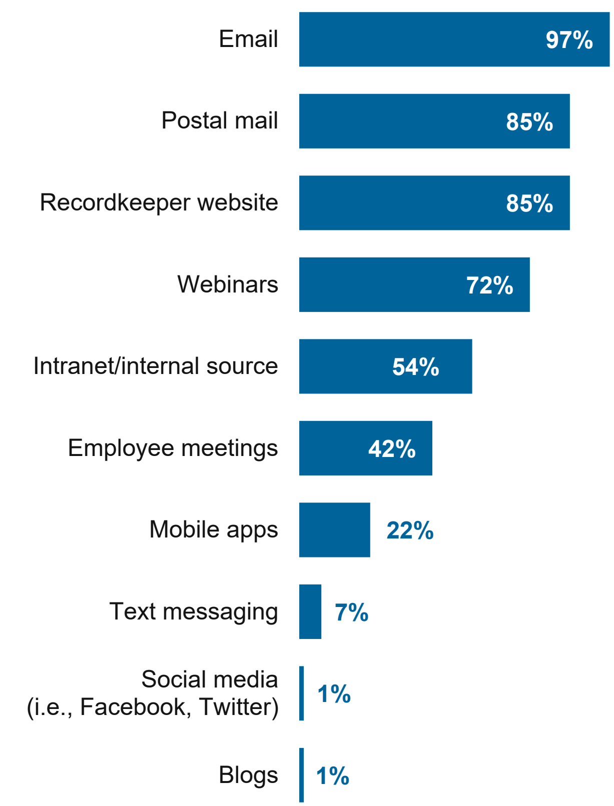
In terms of media channels, email continued to be the most used channel, with 97% of plan sponsors using it. The recordkeeper's website and postal mail came in second, at 85%. Mobile apps saw a notable reduction in prevalence to 22%, while webinars remained popular during the pandemic, at 72%. Text messaging, blogs, and social media were not widely used.

## Areas of communication focus for 2022

| | Ranking |
|---|---|
| Retirement readiness (e.g., income replacement levels) | 3.3 |
| Increasing savings rates | 3.3 |
| Financial wellness | 2.5 |
| Plan participation | 2.4 |
| Investing (e.g., market activity, use of funds, diversification, market timing) | 2.0 |
| Managing income in retirement | 1.3 |
| Plan fees | 1.0 |

(5=Most focus. Total ranking is weighted average score.)
Additional categories: Plan design changes (0.6); managed account services (0.4); withdrawals/distributions (0.4); loans (0.3); company stock (0.2); other (0.1).

## Media channels used to communicate plan information to participants*




*Multiple responses were allowed.

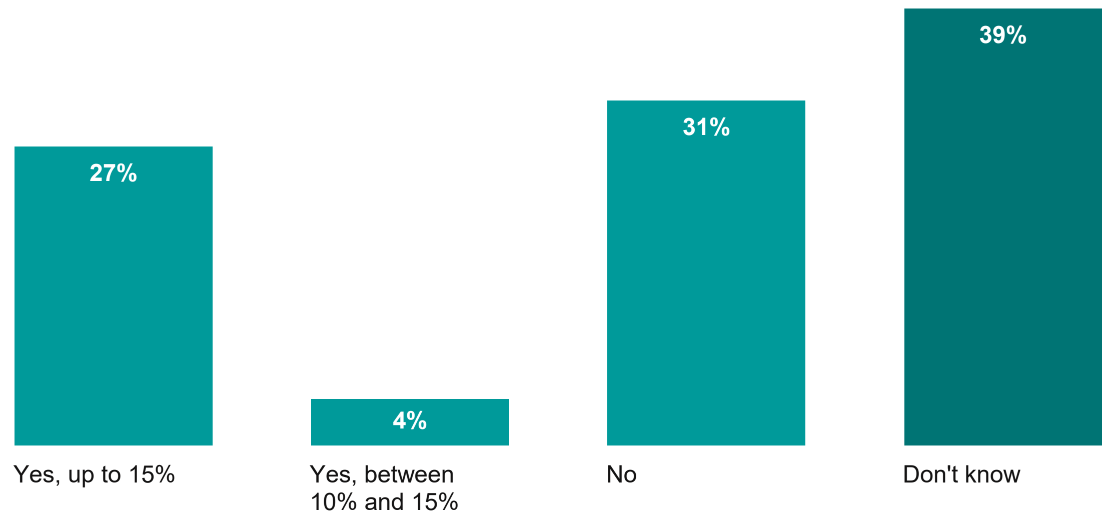
# SECURE Act: Encouraging Retirement Savings

Plan design changes  are driven in part by legislation or regulations providing guidance to plan sponsors. The 2019 SECURE Act allows plan sponsors with an automatic enrollment safe harbor (Qualified Automatic Contribution Arrangement or QACA) plan design to increase the automatic escalation cap to 15%. The cap was previously set at 10% as per the Pension Protection Act of 2006 (PPA). Without this new legislation, plan sponsors with a QACA would not be able to take advantage of a higher automatic savings rate.

Remarkably, 27% of the plan sponsors that have a QACA indicate they will increase the automatic escalation cap to 15% and another 4% indicated that they would increase the cap between 10% and 15%.

While 31% of plan sponsors with a QACA said that they would not increase the rate, that number could fall once the pandemic has passed and plan sponsors have an opportunity to revisit retirement savings. Further, the 39% that currently “don’t know” may also elect to make a change in the future.

## Have or will increase automatic escalation cap in QACAs




**31%** of plan sponsors with a QACA will **increase their automatic escalation rate** as a result of SECURE Act.

# SECURE Act: In-Plan Annuity Safe Harbor

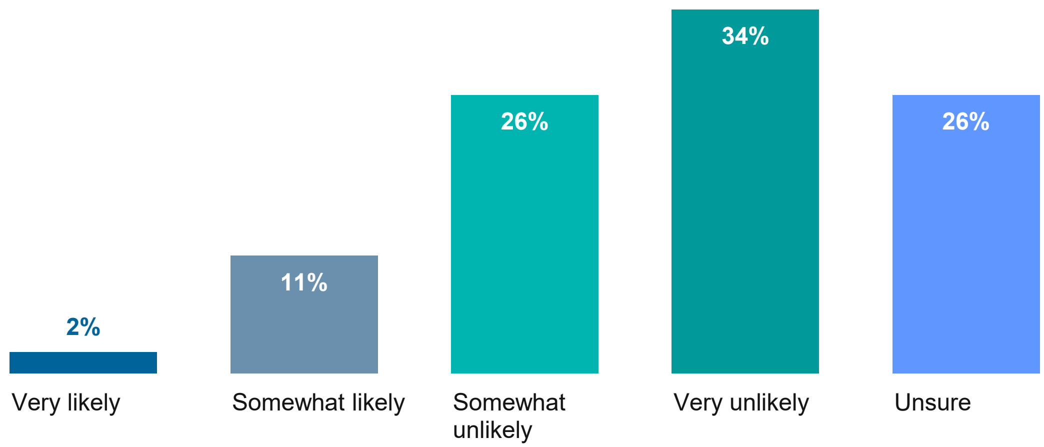
The SECURE Act looked to address plan sponsors' concerns and provide a safe harbor for in-plan annuity selection.

**13%** of respondents indicated they are very or somewhat likely to **add an annuity option** following the SECURE Act—a slight decrease from 2020 when 17% indicated this was likely.

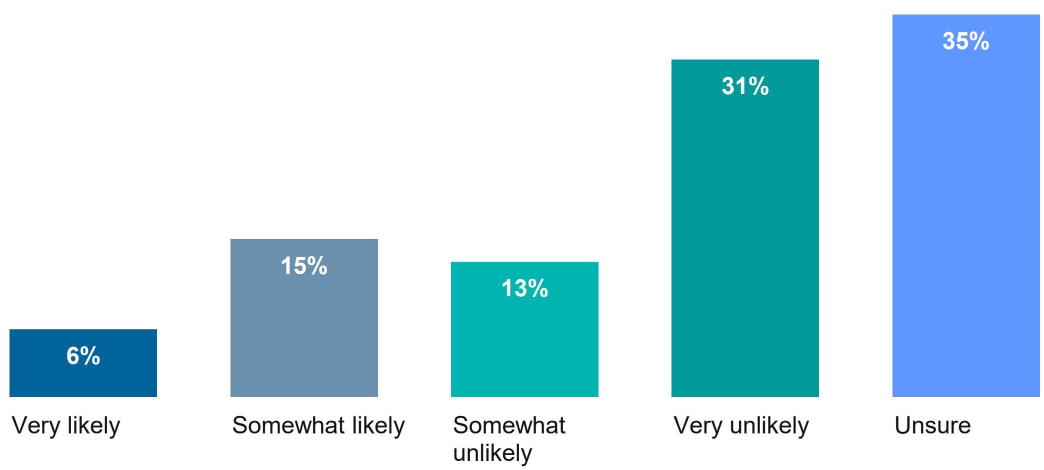
Until the SECURE Act, DC plans that allowed investment in a lifetime income investment faced a dilemma if they wished to remove the product from the plan or move to a new recordkeeping platform that did not support the product. The SECURE Act creates portability for lifetime income options that can no longer be held as an investment option in a DC plan by permitting a direct rollover to an IRA or other retirement plan, or in the case of an annuity contract, through direct distribution to the individual.

This change gives plan sponsors the flexibility to remove these options while permitting participants to preserve their lifetime income investments and avoid surrender charges or penalties. As a newer provision, this option has not been triggered frequently—but 21% of plan sponsors indicated that they would be very or somewhat willing to utilize it, if needed.

## Likeliness to add an annuity option following SECURE




## Willing to rollout lifetime income balances based on SECURE, if needed



# SECURE/CARES Acts: New Withdrawal Types & Coronavirus-Related Distributions

**Birth/Adoption Withdrawals**

SECURE allows parents to take early withdrawals of up to $5,000 per child from their retirement accounts within a year of a child's birth or adoption. These withdrawals are not subject to the 10% excise tax for distributions prior to age 59½ or 20% mandatory withholding. Participants can repay this type of withdrawal to the distributing plan (if it accepts rollover contributions).

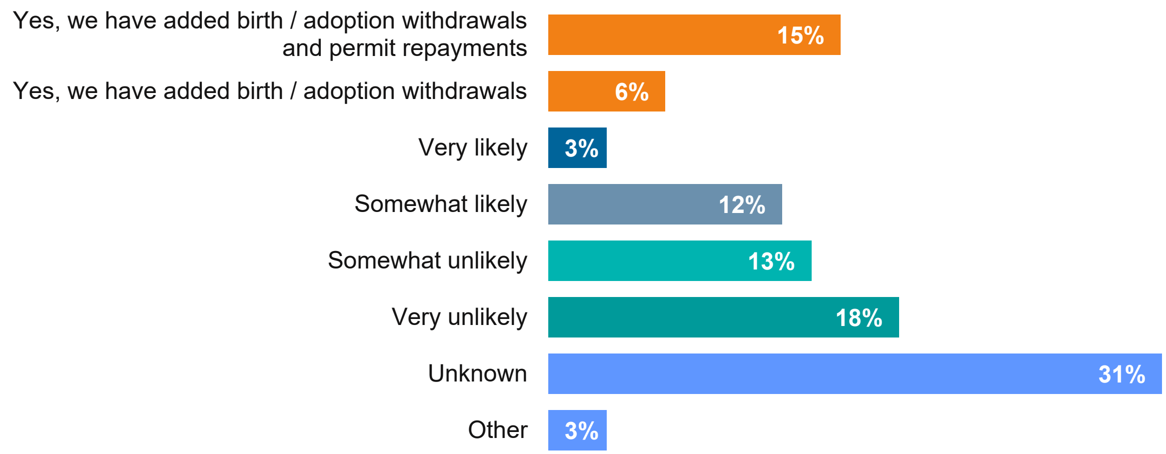
**21% currently offer birth / adoption withdrawals—a dramatic increase from the 4% found in the *2021 DC Survey*.**

**Coronavirus-Related Distributions**

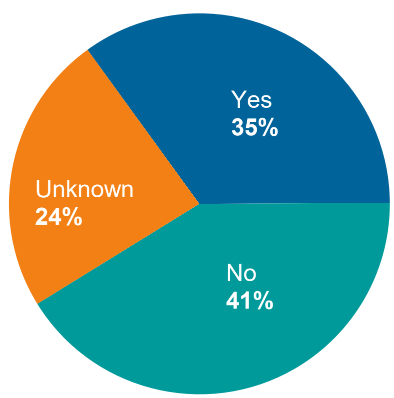
The CARES Act established coronavirus-related distributions for qualified individuals. Normally employees are not permitted to take withdrawals of their deferrals prior to attaining age 59½ and while employed with the plan sponsor. This limitation was waived for CRDs taken in 2020. Participants were allowed to repay the amounts taken out of the plan, and for amounts not repaid, were permitted to spread the taxation ratably over 3 years.

**35% reported that they were actively encouraging affected participants to make repayments.**

## Will add birth or adoption withdrawals




## Actively encourage repayment of coronavirus-related distributions (CRDs)



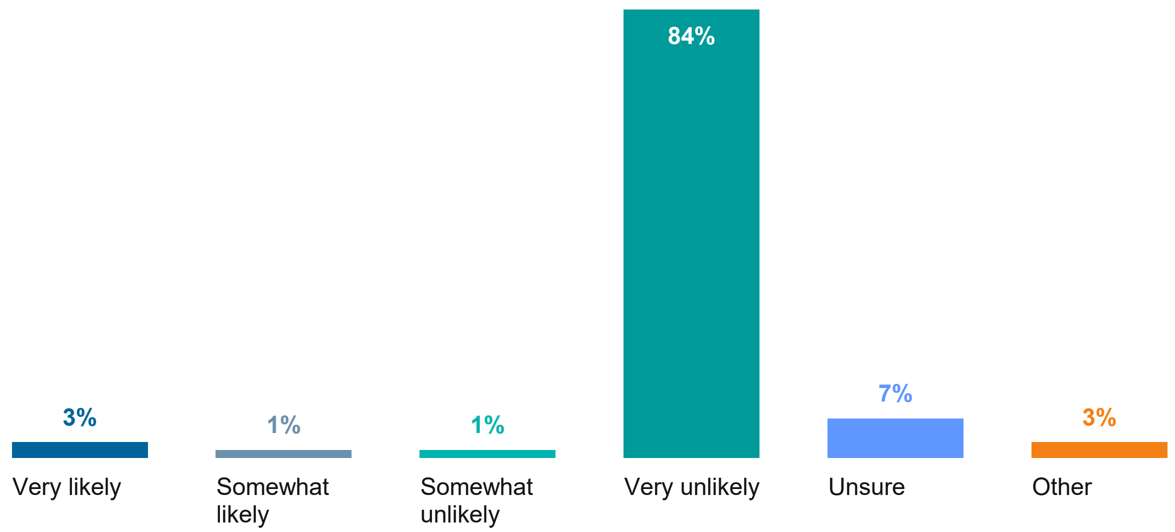
# SECURE Act: MEP / PEP Adoption

SECURE paves the way to expand open multiple employer plan (MEP) usage by removing the requirement that participating employers share a common nexus (i.e., business affiliation). It also removes the “one bad apple” rule, and protects employers in an MEP from penalties if other participating employers violate fiduciary rules.

The SECURE Act goes beyond the current scope of MEPs by creating pooled employer plans (PEP),  which is a 401(k) MEP sponsored by a pooled plan provider (PPP). A PPP is the main fiduciary and a 3(16) administrator for the plan. At present, PEPs are not available for 403(b) or 457(b) plans.

MEPs and PEPs require a uniform fund lineup and may be cumbersome to administer (e.g., multiple payrolls, numerous money sources with differing vesting schedules or distribution options). While they have traditionally targeted micro-plans, SECURE does not limit MEPs/PEPs to small plans.

## Likelihood of joining an MEP or PEP*




**The majority of respondents (84%)** signaled they are **very unlikely to join an MEP or PEP** with 1% being somewhat unlikely. Only 4% of respondents are very or somewhat likely to participate in these plan types. Another 7% are unsure or awaiting further guidance.

*Of those that do not currently participate in a MEP or PEP.

# SECURE Act: MEP / PEP Concerns

Guidance is still required for countless administrative and compliance hurdles, including safe harbor plan status for certain members, nondiscrimination testing, distribution tracking (e.g., managing distributions and rollovers for a participant who leaves one employer in the MEP and moves to another), complexity around administration (e.g., employees moving between employers with different rights or features based on money source, nondiscrimination testing, limits monitoring), and a prohibited transaction exemption for PPPs.

**Survey respondents were generally concerned about administrative issues:** 63% of respondents identified less control over plan administration as a concern (3.9 weighted ranking out of 5) and administration complexity was cited by 60% of respondents (3.2). Competitiveness relative to the existing plan was a concern for 50% of respondents (2.9) and limited cost efficiencies was cited by 53% of respondents (2.6).

## Top concerns around moving to an MEP or PEP, as defined in the SECURE Act

| | Ranking |
|---|---|
| Less control over plan administration | 3.9 |
| Competitiveness relative to existing plan | 3.2 |
| Complexity around administration | 2.9 |
| Limited cost efficiencies due to efficiencies in current plan size | 2.6 |
| Employee satisfaction | 1.7 |
| Data security | 1.1 |
| Limited investment choices | 1.0 |
| Payroll programming obstacles | 0.9 |
| Vendor pool and capabilities | 0.8 |
| Regulatory landscape | 0.8 |

(5=Most concerned. Total ranking is weighted average score.)

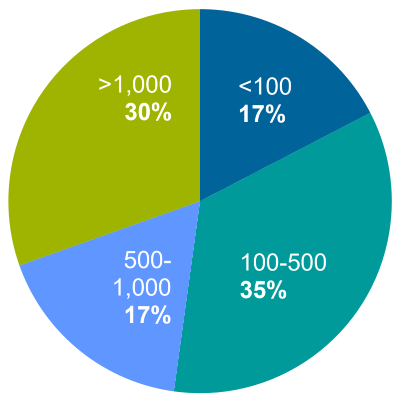
# Non-Qualified Plans

For those offering a non-qualified (NQ) plan, the size of the plan by number of participants (top left chart) and the plan assets (top right chart) were pretty evenly distributed. Roughly 47% of the plans had 500 or more participants while 46% had at least $100 million in assets.

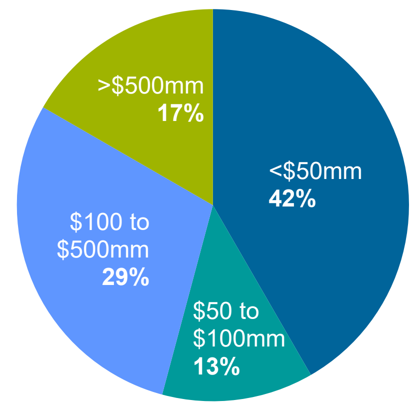
The NQ plan investment menu design mirrored the DC plan 70% of the time with just under a quarter of plans offering fewer options than what was offered in the DC plan.

In terms of plan governance, 50% of respondents used the same committee members for the DC plan and the NQ plan.

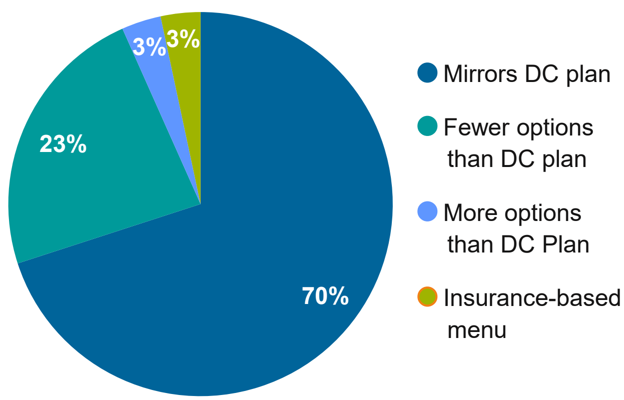
### Number of participants in NQ plan



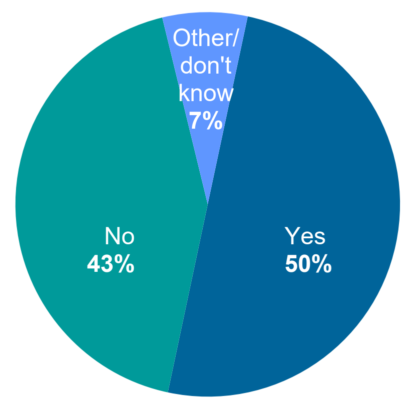

### Assets in NQ plan




### Investment menu design




### Oversight committee same as primary DC plan



# Defined Contribution Consulting

**1997** DC team formalized at Callan to serve as a dedicated, specialized resource

**17** Years of average industry experience

**81** DC projects in 2021 (i.e., investment structure or target date suitability studies, vendor search, and fee studies)

**80** Email "Insights" and blog posts in 2020 focused on litigation, legislation, and regulation

**5** Organizations we serve in leadership or committees (DCIIA, EBRI, NAGDCA, PRRL, SPARK DSOB)

Callan's DC Consulting Team complements our investment consultants, providing specialty research and expertise around plan trends, aspects of compliance and administration, behavioral aspects of structure design specific to DC plans, and vendor and fee management. We have a strongly tenured team that works with a wide variety of plan sponsors and recordkeepers, which provides valuable context and expertise to our clients.

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# Disclosure

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