Barnes Dennig Employee Benefit Plan

401(k) Benchmarking Report

2022 Edition

BARNES DENNIG

Accounting • Tax • Business Insight

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Introduction

What are the top trends in 401(k) plans and plan management? How are strategies evolving? And what steps are businesses and non-profits taking to help their employees be retirement-ready?

Every three years, we survey organizations of all different sizes across industries to identify trends, topics, and new ideas that are helping attract and retain talent – and help employees prepare for a successful retirement. In this report, we'll share their answers and compare trends to the findings in the 2018 edition of our study.

Methodology

We surveyed companies across a range of industries as well as not-for-profits asking 25 key questions on multiple topics, including plan size, success and success factors, operations and management, and satisfaction (both employer and employee).

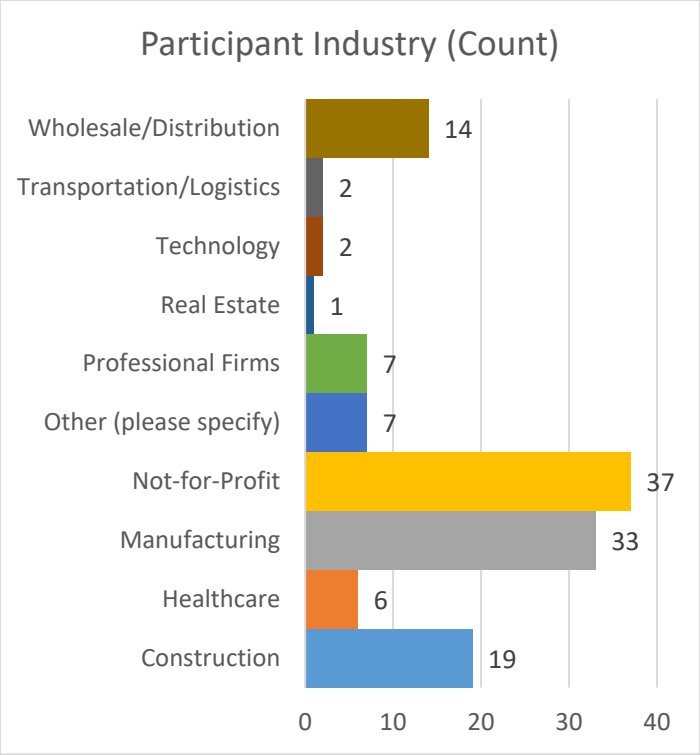
The survey was conducted online in the third quarter of 2021. 128 companies and non-profits responded – nearly double the participation of the 2018 survey.

Please note that many of the percentages indicated do not total 100% due to rounding and to a small number of participants indicating "other," or responding that they are unsure of their organization's industry.

Participant Breakout

Construction – 14.8%
Healthcare – 4.7%
Manufacturing – 25.8%
Not-for-Profit – 28.9%
Professional Services – 5.5%
Real Estate – 0.8%
Technology – 1.6%
Transportation & Logistics – 1.6%
Wholesale/Distribution – 10.9%
Other – 5.5%

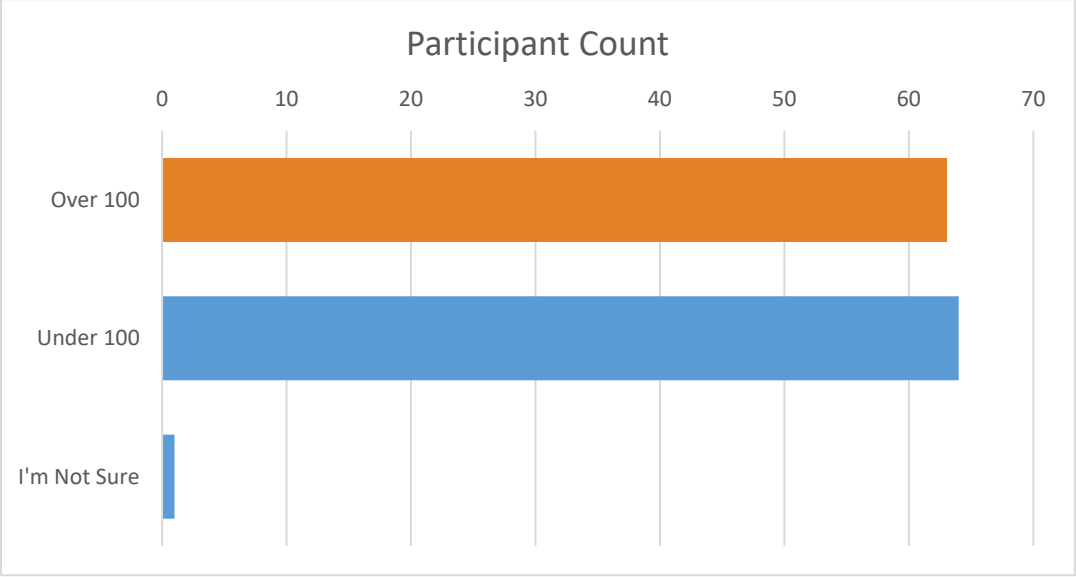
The self-described "Other" category designations include: design services, scientific professional services, hospitality, financial, retail, social services & behavioral health, and engineering services.



Facts & Stats

Plan Size

49% of respondents report their plan has over 100 participants, down from 65% in the 2018 survey, while 50% say their plan has 100 or fewer participants.



To Bundle or Unbundle

In a bundled plan, the same entity serves as the administrator, record-keeper, and custodian of the 401(k) plan. Slightly more survey participants reported their plans are unbundled (52.7%), with nearly 42% saying their plan is bundled.

This represents a slight increase in unbundled plans from the 2018 study, in which 49% of respondents said their plan was unbundled and 50% said their plan was bundled.

Plan Oversight

Plan administrators have great responsibility when it comes to plan oversight – typically including monitoring investments and their performance, as well as regular review of third-party administrators, trustees, custodians, and investment advisors. Evaluating plan design and whether the plan is meeting its objectives remains critical to plan oversight as well.

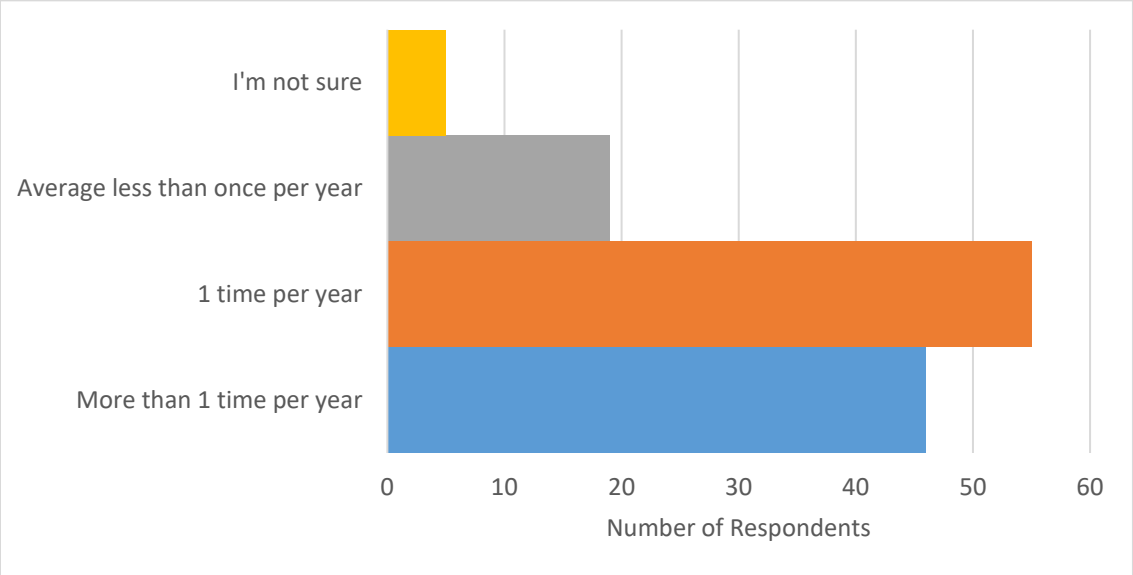
Review Frequency

A large majority of respondents keep a watchful eye on their 401(k) plans, with 81% reporting having plan performance and design reviewed by a plan committee or having a third-party company manage reviewing their plan at least once a year or more frequently – in fact, 36.8% report having the plan reviewed more than once per year.

While these statistics are impressive, it's important to note this is still a decline from the 2018 study, when 93% of participants reported reviewing the plan performance and design once per year (30%) or more often (63%).

Just 15% of respondents report reviewing their plan performance and design less frequently than once per year, up from 6% in the 2018 report. This may be in part due to the larger number of survey respondents and the increased number of those with fewer than 100 plan participants.

How often is plan performance and design reviewed by a plan committee or company management?



Trustee/Custodian Relationships

Nearly 77% of respondents have evaluated trustee/custodian relationships in the past three years, and 28% have evaluated these relationships within the past year. At the other end of the spectrum, 12.6% say it's been more than three years since they evaluated trustee/custodian relationships.

In the 2018 study, 88% of respondents indicated they had reviewed the trustee/custodial relationships within the previous three years, with 54% reporting the review had taken place within the past year. 10% indicated it has been three years or more since these relationships were reviewed – nearly consistent with 2021 findings.

The State of Investment Policy Statements

72% of respondents indicate they have an investment policy statement, down from 77% in the 2018 study. And while 11.7% do not have an investment policy statement, a somewhat surprising 16.2% report they are unsure whether their plan includes an investment policy statement.

Correction & Compliance

23.4% of survey respondents admit to having a self-correction – excluding Actual Deferral Percentage/Actual Contribution Percentage (ADP/ACP) testing failures – in the past two years. 19.8% indicate they have failed ADP/ACP compliance testing in the past 2 years – but this is an improvement from 2018, when 21% report having failed ADP/ACP testing.

On the positive side, the remaining 62% have not had a self-correction, and 72.1% have passed ADP/ACP compliance testing in the past two years. Still, the percentage that have passed ADP/ACP testing is down from the 2018 study, when 72% reported no self-correction or ADP/ACP testing failures. Again, this may in part be due to the larger number of survey respondents and an increase in the number of plans with fewer than 100 participants.

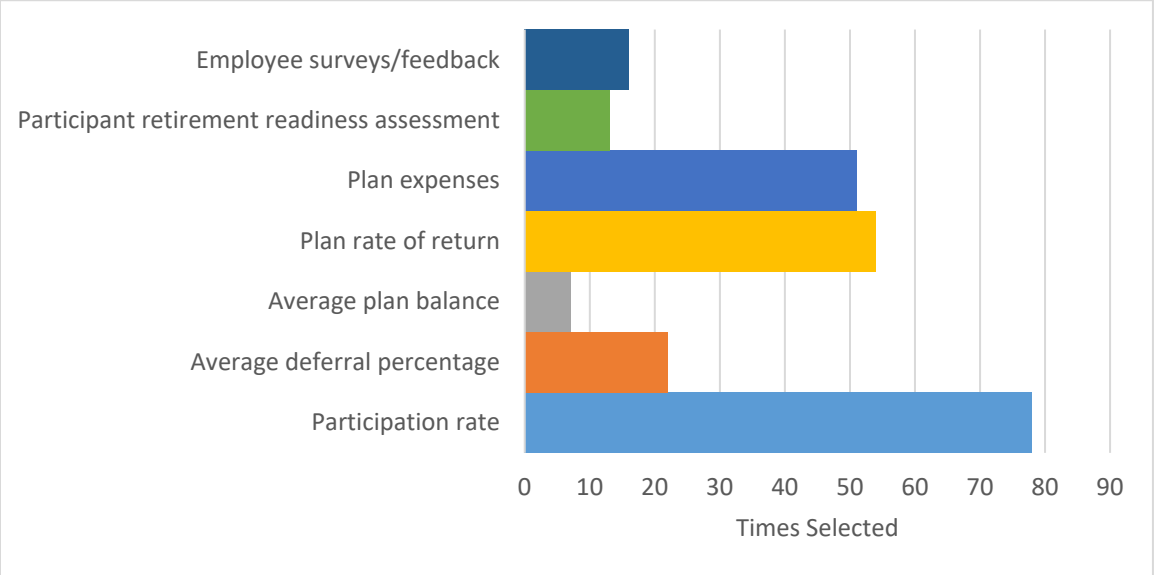
Plan Success & Satisfaction

When asked what they consider the two most significant factors in assessing plan success, 66% say participation rate is a top priority. Plan rate of return also tops the list, with 45.8% of participants indicating it's one of their top two most important factors in assessing plan success.

Close behind plan rate of return in assessing success is plan expenses, with 43.2% of respondents indicating that it's one of their most-important criteria. Participants are split on which other factors are most important to them, with 18.6% saying they look closely at average deferral percentage and 13.6% saying employee surveys and other feedback are among their most important metrics for evaluating plan success.

Small percentages indicated they consider average plan balance (5.9%) or participant retirement readiness assessment (11%) among their most important evaluation criteria, while others report evaluating fund performance, ensuring they're maximizing value for the cost, and overall benefit to employees among their top factors.

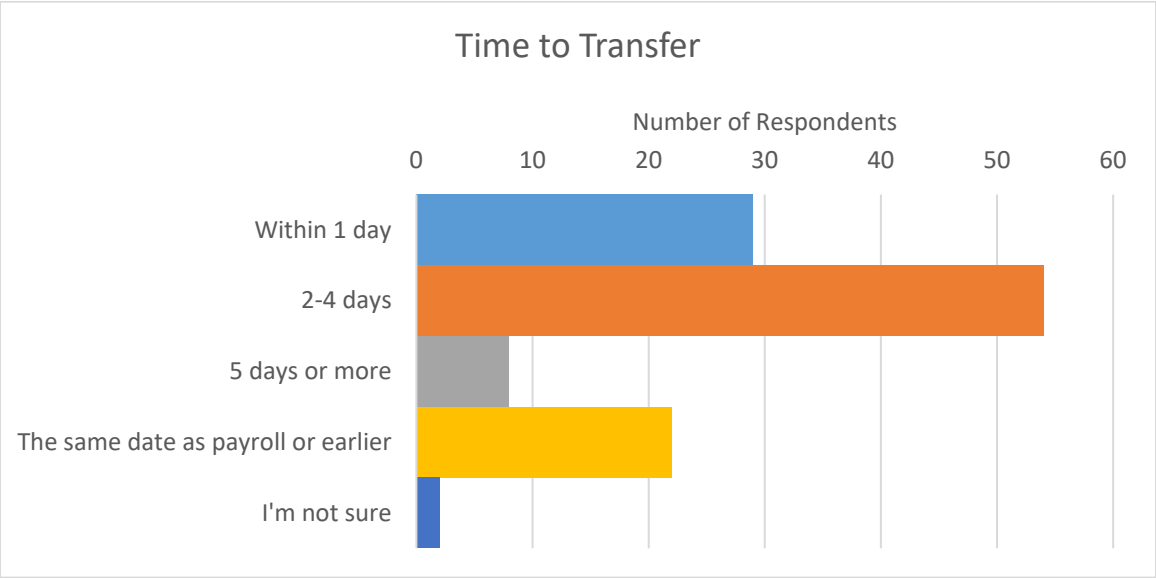
What are the two most significant factors you review in assessing plan success? (Respondents asked to choose two)



In the 2018 study, plan rate of return (69%) and participant rate (63%) were by far the most significant factor in determining plan success, with another 56% indicating plan expenses were a top indicator. Other factors were minimally impactful in determining plan success in the 2018 study.

Time to Transfer

Time to transfer increased from the 2018 study. When asked what the normal timing from payroll dates until funds are transferred into the plan, 47% of 2021 survey participants said within 2-4 days, up from 32% in 2018. And while 45.3% said either the same day as payroll or earlier (19.1%), or within one day (25.2%) in 2021, this is a drop from the 60% of 2018 participants who said the time to transfer is the same day as payroll or earlier, or within one day.



At the opposite end of the spectrum, 7% of respondents indicate it takes five days or more to transfer funds into the 401(k) plan. This is also a change from 2018, when only 4% said it took four days or more for funds to transfer into the plan.

Investments & Investment Options

74.3% of plans in the study allow for participant-directed investments, enabling participants to have more direct control of their financial future. 20.4% do not provide this option to their plan participants.

Most respondents say their plan offers between 10 and 20 investment options, with 71.4% reporting that their plans are in this range, up from 54% in 2018. And, nearly 22% say their plan offers more than 20 options – a significant decrease from 2018, when 34% reported offering more than 20 investment options for their participants. At the other end of the spectrum, a small number (6.7%) report that their plan offers fewer than 10 investment options for its participants, down from 8% in 2018.

Participant Loans

Nearly 70% of plans in our survey allow participant loans, allowing maximum options and flexibility for their employees. Still, this is lower than the 2018 survey finding, in which 75% of respondents said their plan offered participant loans.

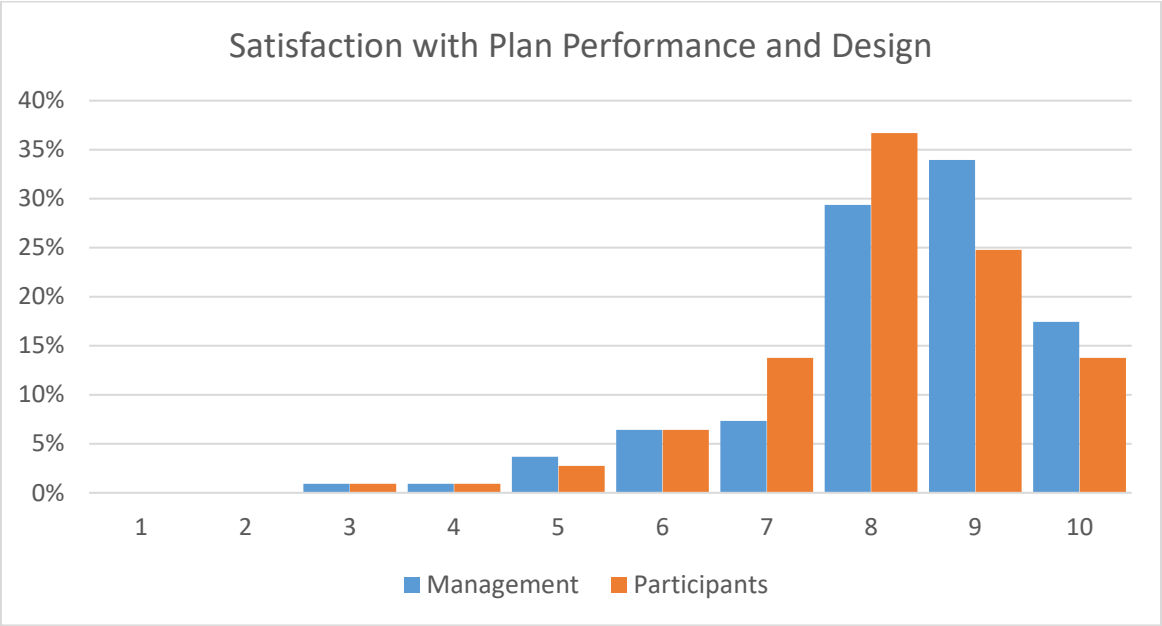
401(k) Plan Satisfaction Scores

Respondents were asked to rate plan satisfaction from management's and participants' perspectives on a scale from 1-10 with one (1) being extremely unsatisfied, five (5) being neutral, and ten (10) being extremely satisfied.

From an organization's management perspective, survey respondents report they're highly satisfied with the performance and design of their 401(k) plan, with nearly 81% rating their plan between 8 and 10 on a scale of 1-10 – and 17.4% score their plan's performance and design a perfect 10 out of 10.

This is consistent with 2018 survey findings, when 80% rated management's satisfaction with the plan between 8 and 10. The percentages of participants who rate their plan satisfaction a perfect 10 from the management perspective is up slightly from 2018's 16%.

Less than 2% rate their plan's performance and design a 4 or lower; the remaining 17.4% of respondents are neutral on plan design and performance.



Survey respondents were also asked to rate their plan participants' level of satisfaction with plan performance and design on the same scale.

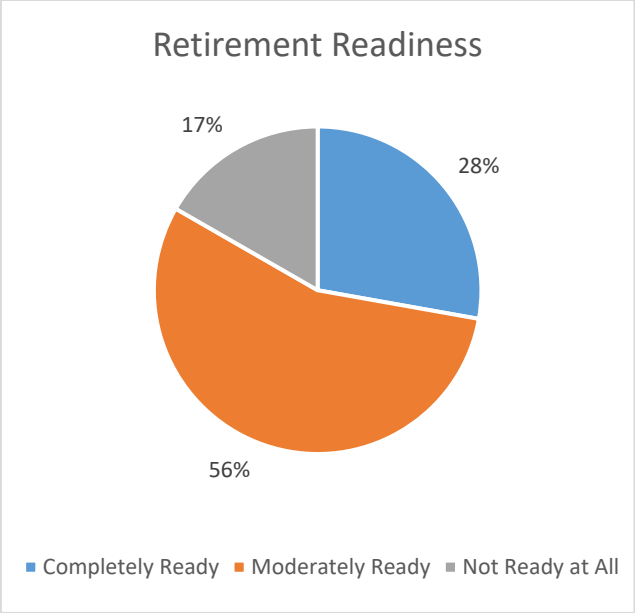
Participants are slightly less satisfied with plan design and performance, with survey respondents indicating 75.2% are highly to extremely satisfied (8-10 on a scale of 1-10). This is up marginally from 2018, when 72% of respondents rated their plan participant satisfaction at the 8-10 level. The percentage of plan participants who score their plan satisfaction at a perfect 10 is also up slightly, to 13.8% from 13% in 2018.

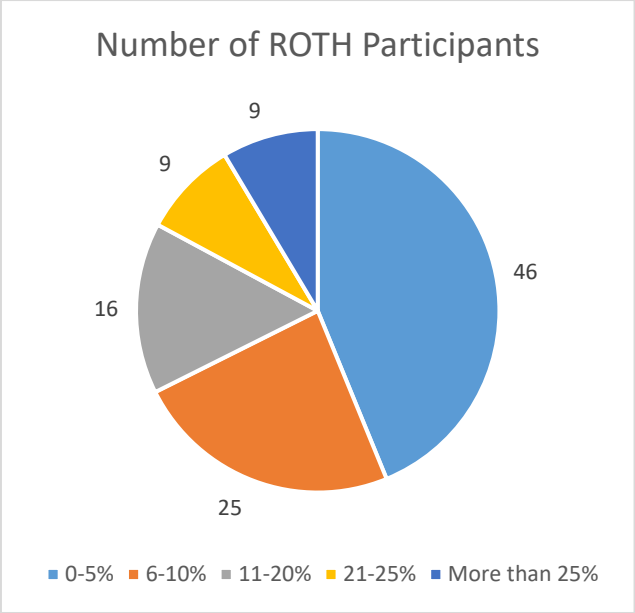
23% of plan participants are neutral on plan design and performance, and less than 2% are extremely dissatisfied.

Retirement Readiness and ROTH Deferrals

Are plan participants ready for retirement? Survey respondents say retirement readiness is lagging, with only 27.8% designated as being completely ready. 55.5% are moderately ready, and 16.7% are not at all ready.

When we asked this question in 2018 respondents said only 15% of plan participants were completely ready for retirement, and 18% were not at all ready – indicating there is improvement in retirement readiness, but there is more to do to support and promote retirement readiness.





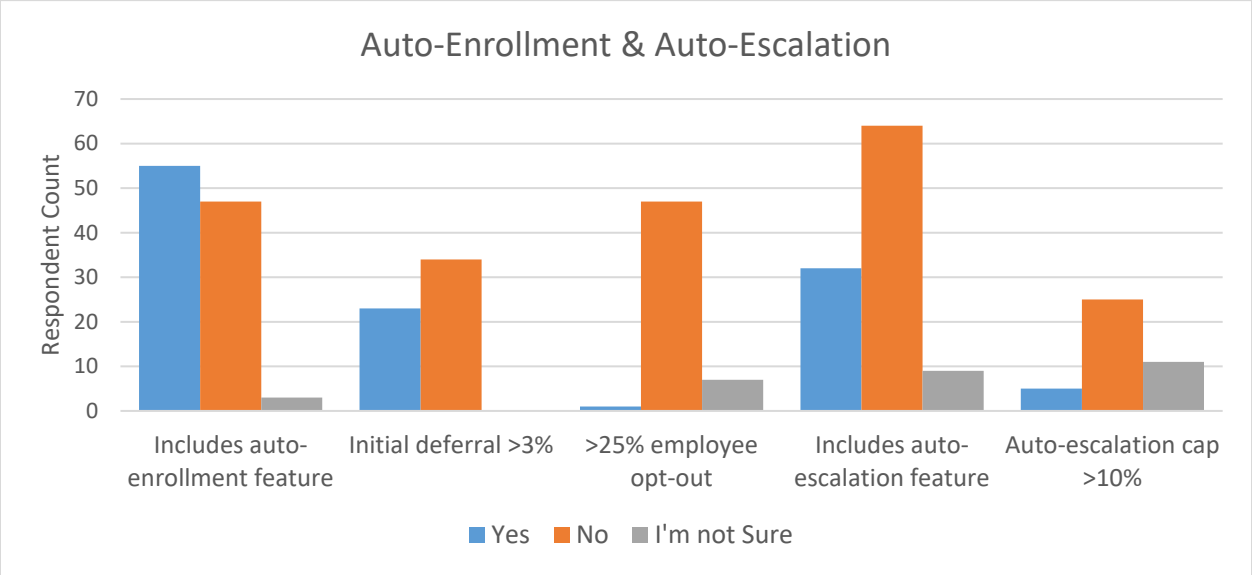
When asked what percentage of their plan participants are electing ROTH deferrals, 43.8% say that 5% or fewer of their employees are exercising this option, and another 23.8% say the number is between 6% and 10% of plan participants choosing to make ROTH deferrals.

17.1% report that more than 20% of their plan participants are electing to make ROTH deferrals, and 8.6% say more than 25% of their plan participants utilize this option. We framed the question differently in 2018, asking whether more than 25% of participants elect ROTH deferrals. In that survey, 10% responded yes, 57% responded no, and 26% indicated their plan did not offer ROTH deferrals.

Auto-Enrollment & Auto-Escalation

When it comes to auto-enrollment, survey respondents are close to evenly split – 52.4% say their plan includes an auto-enrollment feature, while 44.8% say it does not. In 2018, 49% of respondents said their plan did not include an auto-enrollment feature.

For those who do include auto-enrollment in their plan, 59.7% indicate the initial deferral percentage is 3% or less, up from 42% in 2018, while 40.4% say it's greater than 3% (only 17% of 2018 respondents said their initial deferral percentage is higher than 3%.)



Auto-enrollment seems to be an increasingly effective tactic for our survey participants, with only 1.8% of newly eligible employees electing out of the plan's auto-enrollment feature – a significant drop from the 8% who were opting-out in 2018.

85.5% say their newly-eligible employees accept the auto-enrollment.

While auto-enrollment is increasingly prevalent, auto-escalation lags somewhat, with 61% reporting their plan doesn't include auto-escalation, and 30.5% reporting their plan does include auto-escalation. For those that do utilize auto-escalation in their 401(k) plan, 12.2% report the auto-escalation cap is great than 10% (up from 4% in 2018), while 61% say their escalation cap is under the 10% mark (up from 41% in 2018).

Safe Harbor & Employer Contributions

Safe harbor plans are a popular option among survey respondents, with 58% reporting that their plan is a safe harbor plan (consistent with our 2018 findings). 41% also report that their plan has mandatory employer contributions, up from the 2018 survey's finding of 37%, while 53.3% say employer contributions are not mandated.

The Impact of COVID-19

While COVID-19 continues to affect many aspects of life, 401(k) plans were largely unaffected in our sample base. A large majority of survey respondents held fast in the face of the global pandemic, with 87.6% reporting they did not reduce their company match formula or employer discretionary contributions as a percentage of employee contributions in 2020 or 2021.

Survey respondents indicated that very few employees utilized provisions of the CARES Act related to qualified plans (e.g., plan loan amounts in excess of $50,000, delaying of participant loan payments, or receiving COVID-19-qualified distributions).

Of those whose employees did utilize plan-related CARES Act provisions, the numbers were small. Of the 28.6% of respondents who indicated employees utilized CARES Act provisions, 24.1% reported that 10 or fewer employees exercised the option, and for 18.8%, it was 5 employees or fewer. Only 4.5% of survey participants report more than 10 employees using plan provisions created by the CARES Act.

Summary & Conclusion

Many respondents to the 2021 survey have smaller plans (with fewer than 100 participants) than respondents in the 2018 report – but that's not surprising, considering that the number of survey respondents nearly doubled between editions

The larger number of respondents with smaller plans may impact other metrics in the report, including how frequently plans are reviewed, whether plans are bundled or unbundled, and the prevalence of mandated employer contributions. Some organizations may have adjusted some plan management to business impact from the global pandemic, though the study did not explore that.

Plan satisfaction for both management and participants remains steady, and the most important factors for measuring success remain constant, with plan performance, plan participation rate, and plan expenses topping the list in both 2018 and 2021.

If you have a question about effective strategies for 401(k) plan management, employee benefit plan audits (including preparing for your plan's first employee benefit plan audit) or would simply like to set up a conversation with a member of our employee benefit plan audit team, visit barnesdennig.com.