

# The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2014

DECEMBER 2016



## THE BRIGHTSCOPE/ICI DEFINED CONTRIBUTION PLAN PROFILE

*The BrightScope/ICI Defined Contribution Plan Profile* is a collaborative research effort between BrightScope and the Investment Company Institute that analyzes plan-level data gathered from audited Form 5500 filings of private-sector defined contribution (DC) plans, providing unique, new insights into private-sector DC plan design. The research draws from information collected in the BrightScope Defined Contribution Plan Database. The database is designed to shed light on DC plan design across many dimensions, including the number and type of investment options offered; the presence and design of employer contributions; the types of recordkeepers used by DC plans; and changes to plan design over time. In addition, industrywide fee information is matched to investments in DC plans allowing analysis of the cost of DC plans. The *BrightScope/ICI Defined Contribution Plan Profile* supplements existing plan sponsor surveys and research based on recordkept data, and it is designed to increase public understanding in this critical area of retirement savings.

This report in the *BrightScope/ICI Defined Contribution Plan Profile* series focuses on private-sector 401(k) plans in 2014. This report first analyzes 401(k) plans in the Department of Labor 2014 Form 5500 Research File. Focus then shifts to nearly 30,000 audited 401(k) plans in the BrightScope Defined Contribution Plan Database, which have between four and 100 investment options, at least \$1 million in plan assets, and typically 100 participants or more. Private-sector 403(b) plans have been excluded from this analysis; for analysis of ERISA 403(b) plans, see *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans, 2013* (May 2016), available at [www.ici.org/pdf/ppr\\_16\\_dcplan\\_profile\\_403b.pdf](http://www.ici.org/pdf/ppr_16_dcplan_profile_403b.pdf).

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# Contents

<b>Exhibits</b> .....	5
<b>Key Findings</b> .....	7
<b>Introduction</b> .....	9
The Role of 401(k) Plans in US Retirement Planning.....	9
The Department of Labor Form 5500 Research File .....	11
The BrightScope Defined Contribution Plan Database .....	12
Research Agenda for This Report.....	15
<b>Chapter 1: 401(k) Plan Enrollment, Employer Contributions, and Use of Loans</b> .....	17
Employer Plan Design Choices .....	17
<i>The Role of Automatic Enrollment</i> .....	18
<i>The Role of Employer Contributions</i> .....	19
<i>The Use of Participant Loans</i> .....	26
401(k) Plan Activity Combinations .....	27
401(k) Plan Activities by Presence of Automatic Enrollment .....	28
<b>Chapter 2: 401(k) Investment Menu Design</b> .....	29
Number and Types of Investment Options.....	29
Investment Vehicles.....	37
Aggregate Asset Allocation.....	38
Index Funds.....	41
<b>Chapter 3: 401(k) Plans Engage a Variety of Service Providers</b> .....	43
Types of Recordkeepers.....	43
Proprietary Funds.....	44
<b>Chapter 4: 401(k) Plan Fees</b> .....	47
Total Plan Cost.....	47
Mutual Fund Expenses .....	48
<i>Comparison of ICI and BrightScope Mutual Fund Expense Analyses</i> .....	51
<i>Mutual Fund Expenses by 401(k) Plan Size</i> .....	52
<i>Variation in Mutual Fund Expenses</i> .....	55
<i>Changes in Mutual Fund Expenses in Consistent 401(k) Plans, 2009–2014</i> .....	57

**Appendix**..... 59  
**Notes**..... 65  
**Glossary** ..... 71  
**References**..... 73

# Exhibits

## Introduction

Exhibit I.1: 401(k) Plans Hold \$4.9 trillion in Assets.....	10
Exhibit I.2: Universe of 401(k) Plans.....	11
Exhibit I.3: BrightScope Audited 401(k) Filings and the Universe of 401(k) Plans by Plan Assets .....	12
Exhibit I.4: BrightScope Audited 401(k) Plans' Share of the 401(k) Universe by Plan Assets .....	13
Exhibit I.5: BrightScope Audited 401(k) Plans and the Universe of 401(k) Plans by Number of Plan Participants.....	14

## Chapter 1: 401(k) Plan Enrollment, Employer Contributions, and Use of Loans

Exhibit 1.1: Larger 401(k) Plans Are More Likely to Automatically Enroll Participants.....	18
Exhibit 1.2: Employers Make Contributions in Most 401(k) Plans.....	19
Exhibit 1.3: Larger 401(k) Plans Are More Likely to Offer Employer Contributions.....	20
Exhibit 1.4: Employers Make Significant Contributions to 401(k) Plans .....	21
Exhibit 1.5: Employer Contributions Are a Slightly Larger Share of Total Contributions in Larger 401(k) Plans.....	22
Exhibit 1.6: Design of 401(k) Employer Contributions.....	23
Exhibit 1.7: Employers with Simple Matches Use a Variety of Matching Formulas.....	24
Exhibit 1.8: Eligibility and Vesting in BrightScope Audited 401(k) Plans .....	25
Exhibit 1.9: Nearly All Large 401(k) Plans Have Participant Loans Outstanding.....	26
Exhibit 1.10: 401(k) Plans with Selected Plan Activity Combinations .....	27
Exhibit 1.11: 401(k) Plans with Automatic Enrollment Are More Likely to Have Both Employer Contributions and Outstanding Loans.....	28

## Chapter 2: 401(k) Investment Menu Design

Exhibit 2.1: Number of Investment Options in 401(k) Plans.....	30
Exhibit 2.2: Distribution of Number of Investment Options in 401(k) Plans .....	31
Exhibit 2.3: Consistent 401(k) Plans Have Increased the Number of Investment Options Offered.....	32
Exhibit 2.4: Equity and Bond Funds Are the Most Common Investment Options in 401(k) Plans .....	33
Exhibit 2.5: Average Number of Investment Options in 401(k) Plans by Type of Investment .....	34
Exhibit 2.6: Incidence and Number of Investment Options Offered in 401(k) Plans by Type of Investment .....	35
Exhibit 2.7: Average Number of Investment Options in Consistent 401(k) Plans.....	36
Exhibit 2.8: Types of Investment Vehicles in 401(k) Plans .....	37
Exhibit 2.9: The Largest Share of 401(k) Assets Is Invested in Equity Funds.....	38

Exhibit 2.10: Target Date Fund Use Has Increased in 401(k) Plans..... 39

Exhibit 2.11: Larger 401(k) Plans Tend to Be More Likely to Offer Target Date Funds..... 40

Exhibit 2.12: Index Fund Use Has Increased in 401(k) Plans..... 41

Exhibit 2.13: Index Fund Use Is Nearly Universal in Larger 401(k) Plans ..... 42

**Chapter 3: 401(k) Plans Engage a Variety of Service Providers**

Exhibit 3.1: Larger 401(k) Plans Are More Likely to Use Asset Managers for Recordkeeping ..... 44

Exhibit 3.2: Types of Recordkeepers Used by 401(k) Plans ..... 45

Exhibit 3.3: Proprietary Fund Use Varies with 401(k) Plan Size..... 46

**Chapter 4: 401(k) Plan Fees**

Exhibit 4.1: Total Plan Cost by 401(k) Plan Assets ..... 49

Exhibit 4.2: Distribution of Total Plan Cost by 401(k) Plan Assets ..... 50

Exhibit 4.3: 401(k) Mutual Fund Investors Tend to Pay Lower-Than-Average Expenses for Equity Mutual Funds ..... 50

Exhibit 4.4: ICI and BrightScope Analyses of 401(k) Mutual Fund Expenses..... 51

Exhibit 4.5: Average Expense Ratios of Mutual Funds in 401(k) Plans, 2014 ..... 53

Exhibit 4.6: Average Expense Ratios of Mutual Funds in 401(k) Plans, 2009 ..... 54

Exhibit 4.7: Distribution of Mutual Fund Expense Ratios Paid by 401(k) Plan Participants ..... 56

Exhibit 4.8: 401(k) Plan Mutual Fund Fees in Consistent 401(k) Plans Tended to Decrease Between 2009 and 2014 ..... 57

Exhibit 4.9: Average Expense Ratios of Mutual Funds in Consistent 401(k) Plans by Plan Assets, 2009 and 2014 ..... 58

**Appendix**

Exhibit A.1: 401(k) Plan Activity Combinations..... 59

Exhibit A.2: Distribution of Participants by 401(k) Plan Activity Combinations..... 60

Exhibit A.3: Employer Contribution Activity in 401(k) Plans ..... 61

Exhibit A.4: Conditional Average Number of Investment Options in 401(k) Plans by Type of Investment ..... 62

Exhibit A.5: Detailed Distribution of Mutual Fund Expense Ratios Paid by 401(k) Plan Participants ..... 63

# The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2014

## Key Findings

- » **Larger 401(k) plans are more likely to report that they automatically enroll workers into the plan.** More than half of 401(k) plans in the sample with more than \$100 million in plan assets reported that they automatically enrolled their participants and nearly six in 10 plans with more than \$1 billion in plan assets did, compared with about one in six plans with \$1 million to \$10 million in plan assets. Automatic enrollment was analyzed in a sample of about 50,000 401(k) plans with 100 participants or more and at least \$1 million in plan assets in 2014.
- » **Most 401(k) plans offer employer contributions.** In 2014, more than three-quarters of the universe of nearly 534,000 401(k) plans covering nearly nine out of 10 401(k) participants had employer contributions. Nearly all large plans—about 95 percent of all 401(k) plans with 5,000 participants or more—had employer contributions. Employer contributions also are common even among small 401(k) plans, with more than three-quarters of 401(k) plans with fewer than 100 participants having them in 2014.
- » **Larger 401(k) plans are more likely to report participant loans outstanding.** Analysis of a sample of about 50,000 401(k) plans with 100 participants or more and at least \$1 million in plan assets in 2014 finds that more than 90 percent of 401(k) plans in the sample with more than \$50 million in plan assets had participant loans outstanding, compared with 70 percent of 401(k) plans with \$1 million to \$10 million in plan assets. Overall, 78 percent of 401(k) plans in the sample had participant loans outstanding and 88 percent of participants were in those plans in 2014.
- » **Larger 401(k) plans tend to be more likely to have employer contributions, participant loans outstanding, and automatic enrollment.** Analysis of a sample of about 50,000 401(k) plans with 100 participants or more and at least \$1 million in plan assets in 2014 finds that more than 35 percent of plans in the sample with 1,000 participants or more had employer contributions, participant loans outstanding, and automatic enrollment, compared with about one in six plans in the sample with 100 to 499 participants. Overall, 21 percent of 401(k) plans in the sample had reported evidence of all three activities.
- » **401(k) plans with automatic enrollment are more likely to have both employer contributions and participant loans outstanding than plans without automatic enrollment.** In 2014, more than three-quarters of 401(k) plans in a sample of about 50,000 401(k) plans with 100 participants or more and at least \$1 million in plan assets with automatic enrollment also had both employer contributions and participant loans outstanding, compared with fewer than two-thirds of plans in the sample without automatic enrollment.
- » **401(k) plans offer participants a wide variety of investment options.** In 2014, the average 401(k) plan offered 28 investment options, of which about 14 were equity funds, four were bond funds, and seven were target date funds, based on analysis of the audited Form 5500 reports in the BrightScope Defined Contribution Plan Database for nearly 30,000 401(k) plans. Nearly all plans offered at least one equity and bond fund, and about three-quarters of plans offered a suite of target date funds. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

- » **Mutual funds were the most common investment vehicle in 401(k) plans.** Mutual funds held nearly half of 401(k) plan assets in 2014. Collective investment trusts held 26 percent of assets, guaranteed investment contracts (GICs) held 9 percent, separate accounts held 4 percent, and the remaining 16 percent was invested in individual stocks (including company stock), bonds, brokerage, and other investments. Mutual funds accounted for more than half of the assets in all but the largest plans. Collective investment trusts accounted for a somewhat larger share of assets in the largest plans than mutual funds.
- » **Equity funds accounted for the largest share of assets in 401(k) plans.** In 2014, 44 percent of assets were held in equity funds, 21 percent was held in balanced funds (with most of that being held in target date funds), and 8 percent was held in bond funds. GICs and money funds accounted for 11 percent of assets.
- » **Target date funds have become more common in 401(k) plans since 2006.** In 2006, 32 percent of 401(k) plans offered target date funds; this had risen to 76 percent of plans by 2014. Similarly, the percentage of participants that were offered target date funds increased from 42 percent of participants to 77 percent between 2006 and 2014, and the percentage of assets invested in target date funds increased from 3 percent to 17 percent.
- » **Index funds make up a significant component of 401(k) assets, holding 29 percent of 401(k) assets in 2014.** Index funds held a greater share of assets in larger 401(k) plans, rising from 14 percent of assets in plans with \$1 million to \$10 million in plan assets to about one-third of assets in plans with more than \$1 billion. Larger plans also are more likely to offer index funds compared with smaller plans. For example, more than 95 percent of 401(k) plans with more than \$50 million in plan assets offered index funds in their plan lineups in 2014, compared with 84 percent of 401(k) plans with \$1 million to \$10 million. Index funds, which tend to be equity index funds, generally have lower expense ratios than actively managed equity funds.
- » **Employers choose from a range of providers for 401(k) plan recordkeeping.** Insurance companies were the most common recordkeeper type for 401(k) plans, and were more likely to provide recordkeeping services for smaller 401(k) plans. Asset managers, which include mutual fund companies, were the second most common recordkeepers across plans, and they were more likely to provide recordkeeping services for larger plans. As a result, asset managers provided recordkeeping services for 29 percent of plans, but for 40 percent of participants and 54 percent of plan assets.
- » **Most 401(k) plans offered investment options that included investment options proprietary to the plan's recordkeeper, but proprietary investments accounted for a smaller share of total 401(k) assets.** Plan sponsors choose a plan recordkeeper and select the investment lineup for the plan. Nearly two-thirds of 401(k) plans included investment options proprietary to the plan's recordkeeper in their investment lineups, and those investments accounted for a little more than one-quarter of total plan assets.
- » **The BrightScope measure of total 401(k) plan costs has decreased since 2009, looking at snapshots of 401(k) plan fees.** In 2014, the average total plan cost was 0.97 percent of assets, down from 1.02 percent in 2009. The average participant was in a lower-cost plan, with a total plan cost of 0.55 percent of assets in 2014 (down from 0.65 percent in 2009), while the average dollar was invested in a plan with a total plan cost of 0.39 percent in 2014 (down from 0.47 percent in 2009). BrightScope's total plan cost includes administrative, advice, and other fees from Form 5500 filings, as well as asset-based investment management fees.
- » **Mutual fund expense ratios in 401(k) plans tend to be lower in larger plans and have trended down over time.** For example, the average asset-weighted expense ratio for domestic equity mutual funds was 0.82 percent for plans with \$1 million to \$10 million in plan assets, compared with 0.39 percent for plans with more than \$1 billion in plan assets. Mutual fund expense ratios also have tended to decrease in 401(k) plans between 2009 and 2014.



# Introduction

## The Role of 401(k) Plans in US Retirement Planning

A 401(k) is an employer-sponsored defined contribution (DC) retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan. Employers offer 401(k) plans as part of an overall compensation package of wages and benefits in order to attract workers and provide them with a benefit package that helps them save for retirement. Employers determine the features that their 401(k) plans will include, within rules governing 401(k) plans, and typically engage service providers to administer the plan and provide investment options.

Employers decide whether they will automatically enroll employees or have employees sign up for the plan. They also may make employer contributions into employee 401(k) accounts. Plan sponsors also decide whether they will allow access to 401(k) account assets through a loan feature. Typically, plan participants direct the investment of their accounts, choosing from the lineup of options offered in the plan. With \$4.9 trillion in assets at the end of the second quarter of 2016, 401(k) plans have become one of the largest components of US retirement assets, accounting for one-fifth of all retirement assets (Exhibit I.1).

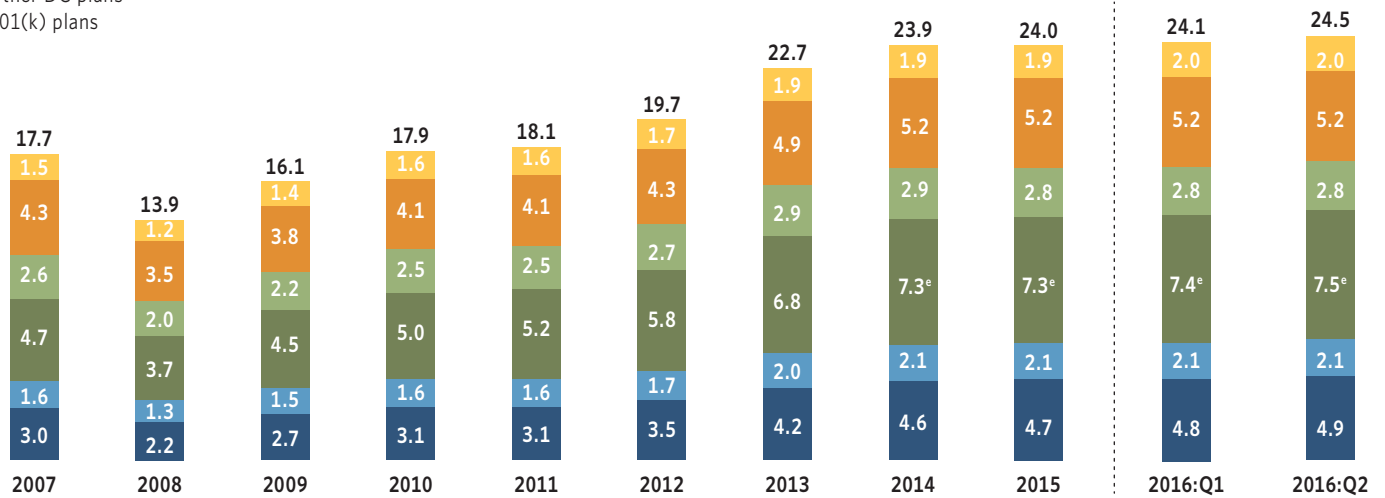
As the prevalence of private-sector defined benefit (DB) pension plans has declined, DC plans (such as 401(k) plans) have become a more important component of retirement savings for American workers. Because of the tax advantages they provide, and their importance for retirement, researchers and policymakers have an interest in understanding how workers are using 401(k) plans to prepare for retirement. Researchers and policymakers also are interested in how employers have structured their plans, including the incentives to participate such as automatic enrollment or employer contributions, plan loans, the number and types of investment offerings, and the fees paid to operate the plan.

EXHIBIT I.1

**401(k) Plans Hold \$4.9 Trillion in Assets**

Trillions of dollars; end-of-period, selected periods

- Annuities<sup>1</sup>
- Federal, state, and local government pension plans<sup>2</sup>
- Private defined benefit plans
- IRAs
- Other DC plans<sup>3</sup>
- 401(k) plans



<sup>1</sup> Annuities include all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans, and private pension funds. Because ICI estimates of annuities held in IRAs, 457 plans, and 403(b) plans are netted from the Federal Reserve Board's financial accounts' annuities (life insurance pension fund reserves) figure and reported in their respective categories by ICI, ICI reports a lower annuities total than in the financial accounts of the United States (see US Federal Reserve Board 2016).

<sup>2</sup> Federal pension plans include US Treasury security holdings of the civil service retirement and disability fund, the military retirement fund, the judicial retirement funds, the Railroad Retirement Board, and the foreign service retirement and disability fund. These plans also include securities held in the National Railroad Retirement Investment Trust.

<sup>3</sup> Other DC plans include 403(b) plans, 457 plans, private employer-sponsored DC plans without 401(k) features, and the Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).

<sup>e</sup> Data are estimated.

Note: Components may not add to the total because of rounding.

Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division; see Investment Company Institute 2016b

## The Department of Labor Form 5500 Research File

Private-sector 401(k) plans are required to file Form 5500 with the US Department of Labor (DOL)<sup>1</sup> and those filings contain information including the number of plan participants, assets held in the plan, and other plan features. The DOL makes available not only individual Form 5500 reports, but also a comprehensive database for the universe of 401(k) plans, which researchers can analyze.<sup>2</sup> In 2014, tabulations of the DOL 2014 Form 5500 Research File find that there were nearly 534,000 401(k) plans, covering nearly 63 million workers

(Exhibit I.2).<sup>3</sup> Small, medium, and large employers in all industries and covering diverse workforces sponsor these plans, and they choose to design their plans to meet their unique circumstances. Although most plans are small (56.9 percent have less than \$1 million in plan assets), most participants<sup>4</sup> are in larger plans (58.5 percent are in plans with more than \$50 million in plan assets). Therefore, this report will focus on plan design both from the plan perspective and from the participant perspective. Chapter 1 of this report will discuss plan design with respect to automatic enrollment, employer contribution, and loan use across 401(k) plans.

### EXHIBIT I.2

#### Universe of 401(k) Plans

*Distribution of 401(k) plans, participants, and assets by plan assets or number of plan participants (2014)*

Plan assets	Plans		Participants		Assets	
	Number	Percent	Thousands	Percent	Billions of dollars	Percent
Less than \$1M	303,753	56.9%	4,606.3	7.4%	\$104.8	2.4%
\$1M to \$10M	199,362	37.4	12,024.7	19.2	580.7	13.2
>\$10M to \$50M	23,432	4.4	9,406.9	15.0	474.2	10.8
>\$50M to \$100M	3,033	0.6	3,951.4	6.3	211.9	4.8
>\$100M to \$250M	2,174	0.4	6,338.4	10.1	339.9	7.7
>\$250M to \$500M	864	0.2	4,432.7	7.1	304.5	6.9
>\$500M to \$1B	508	0.1	4,739.8	7.6	348.3	7.9
More than \$1B	572	0.1	17,129.9	27.4	2,034.3	46.2
All plans	533,697	100.0	62,630.0	100.0	4,398.5	100.0

Number of plan participants	Plans		Participants		Assets	
	Number	Percent	Thousands	Percent	Billions of dollars	Percent
Fewer than 100	479,307	89.8%	8,600.2	13.7%	\$679.6	15.5%
100 to 499	41,620	7.8	8,564.1	13.7	458.0	10.4
500 to 999	5,922	1.1	4,115.1	6.6	237.1	5.4
1,000 to 4,999	5,341	1.0	11,266.3	18.0	754.2	17.1
5,000 to 9,999	747	0.1	5,226.4	8.3	415.9	9.5
10,000 or more	760	0.1	24,857.9	39.7	1,853.8	42.1
All plans	533,697	100.0	62,630.0	100.0	4,398.5	100.0

Note: Components may not add to the total because of rounding. Assets are fair market value at the year-end of the plan and include loans. The results exclude 403(b) plans with a 401(k) feature.

Source: Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

## The BrightScope Defined Contribution Plan Database

To better understand DC retirement plans, BrightScope has created the BrightScope Defined Contribution Plan Database, which is compiled by extracting information from audited reports filed annually by larger private-sector DC plans with the DOL. These audited filings supplement the DOL Form 5500 Research File, providing additional detail for the larger plans. Generally, plans with 100 participants or more are required to file an audited report with the DOL.<sup>5</sup> These reports generally contain information on the investments offered by the plan, assets in these investments, and employer contribution structures. BrightScope also has included existing information from the Form 5500, which private-sector sponsors of 401(k)

plans (as well as other types of private-sector employer-sponsored pension plans) are required to file with the DOL annually.<sup>6</sup> These filings contain important information about the plans, including the number of participants covered, total plan assets, and total contributions to and distributions from the plan. In addition, BrightScope has combined the audited data with outside data sources to incorporate the fees paid by 401(k) and other DC plan participants associated with the investments in their plans. For chapters 2, 3, and 4 of this report, the additional detailed data from audited Form 5500 filings for about 30,000 401(k) plans are analyzed (Exhibit I.3).<sup>7</sup> For 2014, the BrightScope Defined Contribution Plan Database contains audited information on 6 percent of 401(k) plans, covering 70 percent of 401(k) plan participants and 77 percent of 401(k) plan assets (Exhibit I.4).<sup>8</sup>

### EXHIBIT I.3

#### BrightScope Audited 401(k) Filings and the Universe of 401(k) Plans by Plan Assets

*Distribution of 401(k) plans, participants, and assets by plan assets (2014)*

Plan assets	BrightScope audited 401(k) filings			Department of Labor 401(k) universe		
	Plans	Participants Thousands	Assets Billions of dollars	Plans	Participants Thousands	Assets Billions of dollars
Less than \$1M	1,055	246.1	\$0.6	303,753	4,606.3	\$104.8
\$1M to \$10M	13,890	3,548.7	68.0	199,362	12,024.7	580.7
>\$10M to \$50M	9,979	5,037.3	217.0	23,432	9,406.9	474.2
>\$50M to \$100M	2,132	2,764.1	154.3	3,033	3,951.4	211.9
>\$100M to \$250M	2,077	6,177.5	325.3	2,174	6,338.4	339.9
>\$250M to \$500M	833	4,337.2	294.2	864	4,432.7	304.5
>\$500M to \$1B	493	4,651.7	337.2	508	4,739.8	348.3
More than \$1B	554	16,910.2	1,969.3	572	17,129.9	2,034.3
All plans	31,013	43,672.8	3,365.8	533,697	62,630.0	4,398.5

Note: BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options or more than 100 investment options are excluded from BrightScope audited 401(k) filings for this analysis. Components may not add to the total because of rounding. Assets are fair market value at the year-end of the plan and include loans.

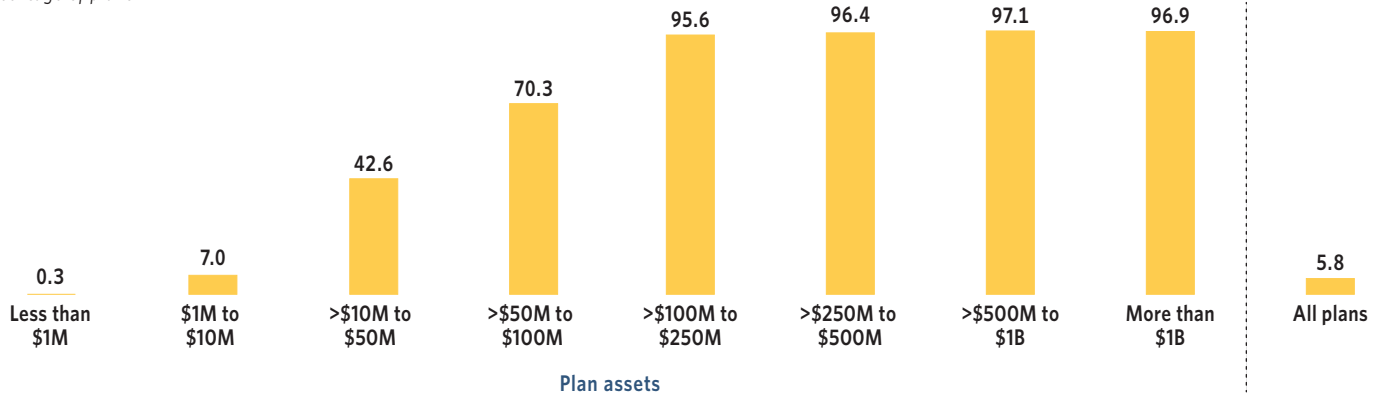
Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

EXHIBIT I.4

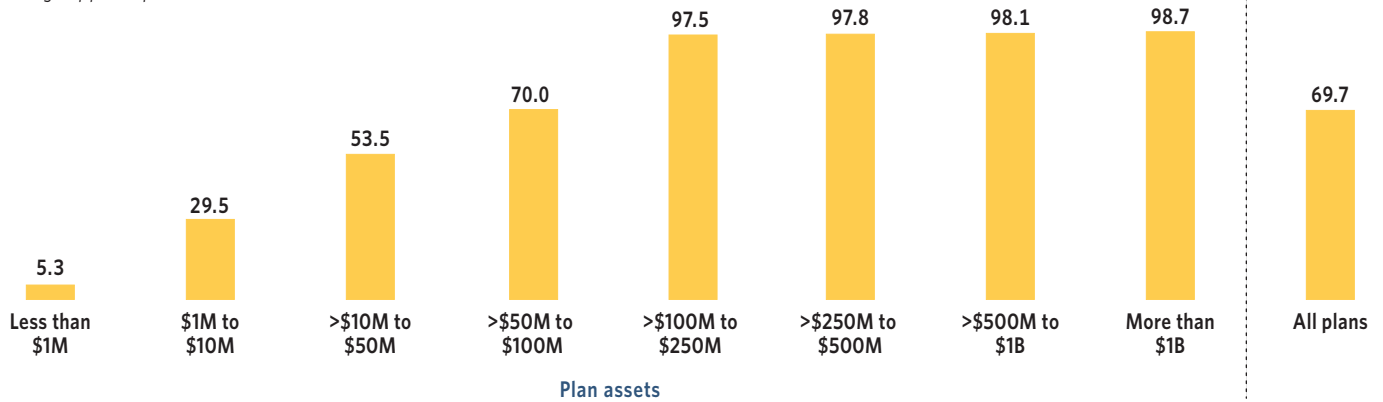
**BrightScope Audited 401(k) Plans' Share of the 401(k) Universe by Plan Assets**

Share of Department of Labor 401(k) universe in BrightScope audited 401(k) filings by plan assets, 2014

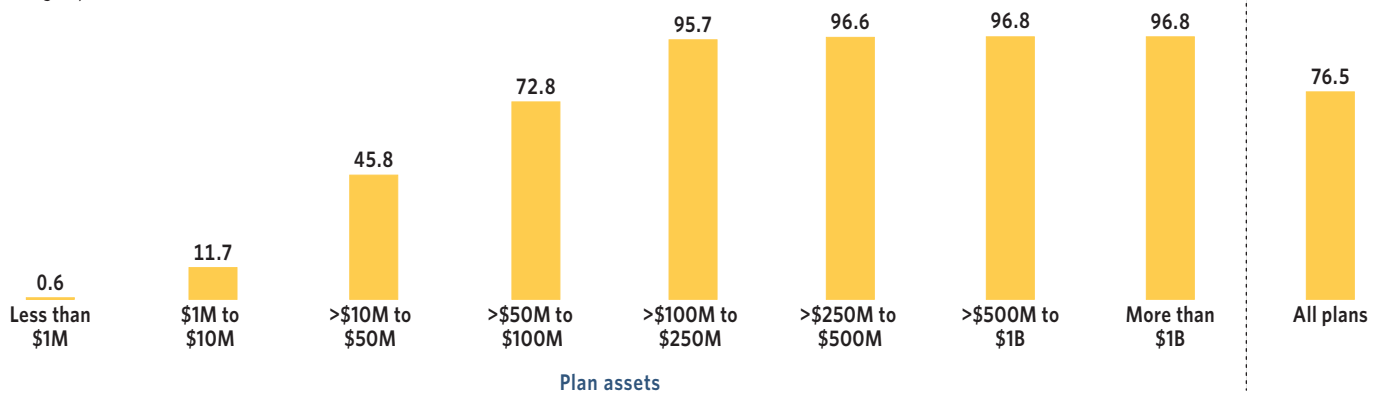
Percentage of plans



Percentage of participants



Percentage of assets



Note: The sample is 31,013 plans with \$3.4 trillion in assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options or more than 100 investment options are excluded from BrightScope audited 401(k) filings for this analysis.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

Because 401(k) plans with fewer than 100 participants are generally not required to file the audited reports required of larger plans, the BrightScope Defined Contribution Plan Database does not contain many small plans. Though most 401(k) plans are small plans, most participants and assets are in larger plans. For example, although the sample analyzed contains information on about 30,000, or nearly 6 percent, of the nearly 534,000 plans in the DOL 401(k) universe, it contains \$3.4 trillion, or 77 percent, of the \$4.4 trillion in assets

(Exhibits I.3, I.4, and I.5). Coverage rates in the database are higher for larger plans. The database contains audited information on very few plans with less than \$1 million in plan assets, but more than 95 percent of plans with more than \$100 million are included (Exhibit I.4). Coverage rates of 401(k) plans in the database grouped by number of plan participants tell a similar story, with larger plans much more likely to be included than smaller plans (Exhibit I.5).

## EXHIBIT I.5

### BrightScope Audited 401(k) Plans and the Universe of 401(k) Plans by Number of Plan Participants

*Distribution of 401(k) plans, participants, and assets by number of plan participants (2014)*

BrightScope audited 401(k) filings			
Number of plan participants	Plans	Participants <i>Thousands</i>	Assets <i>Billions of dollars</i>
Fewer than 100	2,471	190.0	\$21.9
100 to 499	19,678	4,318.0	269.8
500 to 999	3,588	2,523.6	182.6
1,000 to 4,999	3,910	8,571.3	688.2
5,000 to 9,999	667	4,682.2	405.3
10,000 or more	699	23,387.7	1,797.9
All plans	31,013	43,672.8	3,365.8

Department of Labor 401(k) universe			
Number of plan participants	Plans	Participants <i>Thousands</i>	Assets <i>Billions of dollars</i>
Fewer than 100	479,307	8,600.2	\$679.6
100 to 499	41,620	8,564.1	458.0
500 to 999	5,922	4,115.1	237.1
1,000 to 4,999	5,341	11,266.3	754.2
5,000 to 9,999	747	5,226.4	415.9
10,000 or more	760	24,857.9	1,853.8
All plans	533,697	62,630.0	4,398.5

Share of Department of Labor 401(k) universe in BrightScope audited 401(k) filings			
Number of plan participants	Plans <i>Percent</i>	Participants <i>Percent</i>	Assets <i>Percent</i>
Fewer than 100	0.5%	2.2%	3.2%
100 to 499	47.3	50.4	58.9
500 to 999	60.6	61.3	77.0
1,000 to 4,999	73.2	76.1	91.3
5,000 to 9,999	89.3	89.6	97.5
10,000 or more	92.0	94.1	97.0
All plans	5.8	69.7	76.5

Note: BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options or more than 100 investment options are excluded from BrightScope audited 401(k) filings for this analysis. Components may not add to the total because of rounding.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

The BrightScope database contributes to an existing body of information on 401(k) plans. Surveys of households and plan sponsors also have contributed to a better understanding of how 401(k) plans are used and structured. ICI conducts two annual household surveys that provide information about 401(k) and other DC plans and participants.<sup>9</sup> These surveys provide information about who participates in 401(k) plans, the assets they hold inside their plans, and their views about the features of their plans. In addition, other publicly available surveys provide important information to help researchers better understand how people use 401(k) plans to prepare for retirement.<sup>10</sup> These surveys can provide detailed information about the people who participate in 401(k) plans (such as age, income, and other demographic characteristics) and how they feel about their plans, but may be limited in their ability to provide accurate information on account balances and plan design features, which individuals may have difficulty recalling. By using audited plan-level data, the BrightScope database increases the quality of information about plan design and allows for improved understanding about how 401(k) plans are structured.

Detailed information on plan design also is available through various surveys of plan sponsors.<sup>11</sup> These surveys provide information about plan design, including fees and expenses, but can suffer from small, nonrandom samples, which may limit their suitability for extrapolation to the entire 401(k) market. The BrightScope database's sample for this report of about 30,000 401(k) plans allows for analysis of a much broader array of DC plans based on regulatory filings. In addition, the BrightScope database has nearly universal coverage of larger plans.

ICI collects data from mutual fund companies directly, as well as from other sources, to gain an understanding of the fees and expenses that 401(k) plan participants pay as a group, on average.<sup>12</sup> The BrightScope database allows for analysis of the variation in mutual fund fees across different 401(k) plan sizes, as well as the ability to track consistent 401(k) plans over time. In addition, by combining mutual fund expense data with expenses on other assets as well as other fees and expenses paid for the operation of 401(k) plans, BrightScope also builds a total plan cost measure for many plans. This provides a comprehensive description of the range of fees and expenses incurred in 401(k) plans.

Researchers also have used administrative data to understand participant-level behavior in 401(k) plans.<sup>13</sup> These data can provide a rich understanding of how 401(k) account balances, asset allocation, and contributions and distributions vary across participants, but often lack detailed information about the design of the plan itself, which is included in the BrightScope database.

## Research Agenda for This Report

This report primarily focuses on plan year 2014 from the DOL Form 5500 Research File and from the BrightScope Defined Contribution Plan Database, which contains details from audited Form 5500 reports typically filed by plans with 100 participants or more. The report presents data on how 401(k) plans are structured, the types of service providers that plan sponsors engage with, the investment options offered in 401(k) plans, and the fees and expenses paid by 401(k) participants and plan sponsors. Analysis of prior years also is included, both for all 401(k) plans in a given year as well as 401(k) plans that are consistently included in the database, to explore changes over time.

Chapter 1 reports information about automatic enrollment, employer contributions, and plan loans outstanding, primarily relying on the DOL 2014 Form 5500 Research File. In designing their 401(k) plans, employers may choose to automatically enroll participants. The employer decides if and how much they will contribute to participants' 401(k) accounts. In addition, they may include a loan feature in the 401(k) plan. This chapter explores the combinations of these activities and how they vary across 401(k) plans.

Chapter 2 focuses on the structure of the 401(k) plans, analyzing the number and types of investment options that participants have to choose from, as well as the investment options that the participants do choose, based on the audited 401(k) plans in the BrightScope Defined Contribution Plan Database. Because target date funds have continued to become more prevalent in 401(k) plans over the past several years, this chapter explores how often they are offered in plans, what portion of plan assets are dedicated to these funds, and how these measures have changed in recent years. This chapter also explores the growing role of index funds.

Chapter 3 explores the types of recordkeepers that are engaged in servicing 401(k) plans, based on the audited 401(k) plans in the BrightScope Defined Contribution Plan Database. A wide variety of businesses—such as asset managers (including mutual fund companies), insurance companies, banks, brokerage firms, and pure recordkeepers—provide recordkeeping services. Employers choose from a wide variety of investment options for their plan lineup, including in some cases funds that are sponsored by the plan's recordkeeper, known as proprietary funds. The percentage of plans offering at least one proprietary fund and the percentage of plan assets invested in proprietary funds are presented in this chapter.

Chapter 4 analyzes fees paid to operate 401(k) plans, based on the audited 401(k) plans in the BrightScope Defined Contribution Plan Database and fee information from industry sources. BrightScope has built a total plan cost measure for plans with sufficiently complete information. Because participants and assets tend to be concentrated in larger plans, BrightScope's total plan cost measure is analyzed for the average participant and the average dollar, as well as for the average plan. Then, because investment fees tend to be a significant portion of plan expenses and extensive information on mutual fund fees is available, the expense ratios of mutual funds in 401(k) plans are presented, with a special focus on the variation in mutual fund fees across plan size and different investment objectives (e.g., equity funds, balanced funds, bond funds, money market funds, and other funds).



## CHAPTER 1

# 401(k) Plan Enrollment, Employer Contributions, and Use of Loans

When designing their 401(k) plans, employers make decisions regarding elements of plan design, including these key features:

- (1) automatic enrollment of employees into the plan at a given contribution rate to encourage participation;
- (2) provision of employer contributions (perhaps designing those contributions to encourage contribution of at least a certain percentage of salary from participants),<sup>14</sup> eligibility for employer contributions, and vesting time frame; and
- (3) access to plan assets through participant loans.<sup>15</sup>

These plan design features have an impact on employee experience with 401(k) plans, and the thinking on plan design has evolved. In addition to these plan design features, plan sponsors also select the lineup of investment options<sup>16</sup> offered in the plan (which will be discussed in chapter 2).

## Employer Plan Design Choices

Although participants generally choose whether and how much to contribute to 401(k) plans and what assets to invest in, employers are responsible for the plan architecture in which those decisions are made. For example, employers pick the investment choices to offer in the plan, whether to automatically enroll employees in the plan, whether to encourage participant contributions through an employer match, and whether to allow access to account assets before retirement. This chapter focuses on three such plan design features: automatic enrollment, employer contributions, and loans.

Prior work has tended to focus on the availability of individual plan design features in isolation.<sup>17</sup> However, plans are designed by selecting a package of features in order to attract and retain qualified workers. In order to understand the choices that employers make, this chapter extends earlier research by using data primarily from the DOL Form 5500 Research File to focus on the plan feature combinations that employers choose when designing their 401(k) plans.<sup>18</sup>

### DATA ON AUTOMATIC ENROLLMENT, EMPLOYER CONTRIBUTIONS, AND USE OF LOANS

This chapter's analysis relies primarily on data from the Department of Labor 2014 Form 5500 Research File. However, because of incomplete reporting, the use of automatic enrollment by a plan is confirmed by either or both of two reports: (1) the reported plan feature on the 2014 Form 5500, and (2) the information on automatic enrollment collected from the 2012 audited filings in the BrightScope Defined Contribution Plan Database. Determining the presence and amount of employer contributions relies on Form 5500 reports of the income statement of the 401(k) plans, and the analysis of employer contributions is across the universe of 401(k) plans. The availability of a loan feature is not reported, but it is possible to determine whether any participants have loans using the balance sheet item on the Form 5500 for participant loans outstanding. Although the loan analysis captures loan use rather than loan offering, the analysis was narrowed to plans with 100 participants or more and at least \$1 million in plan assets because it is likely that at least one participant in such plans offering loans would have a loan outstanding.

## The Role of Automatic Enrollment

The adoption of automatic enrollment by many plan sponsors marks a significant innovation and change to 401(k) plan design. Employers can choose to automatically enroll employees in 401(k) plans, choosing a default initial contribution rate and a default investment, unless the employee indicates otherwise. The employee can then choose to opt out of the plan entirely, adjust the contribution rate or investment allocation, or leave the default options unchanged.

Larger plans are more likely to report an automatic enrollment feature. The presence of automatic enrollment was determined if the plan sponsor indicated on their 2014 Form 5500 that the plan had automatic enrollment, or if the audited Form 5500 filing for 2012 indicated the plan had automatic enrollment.

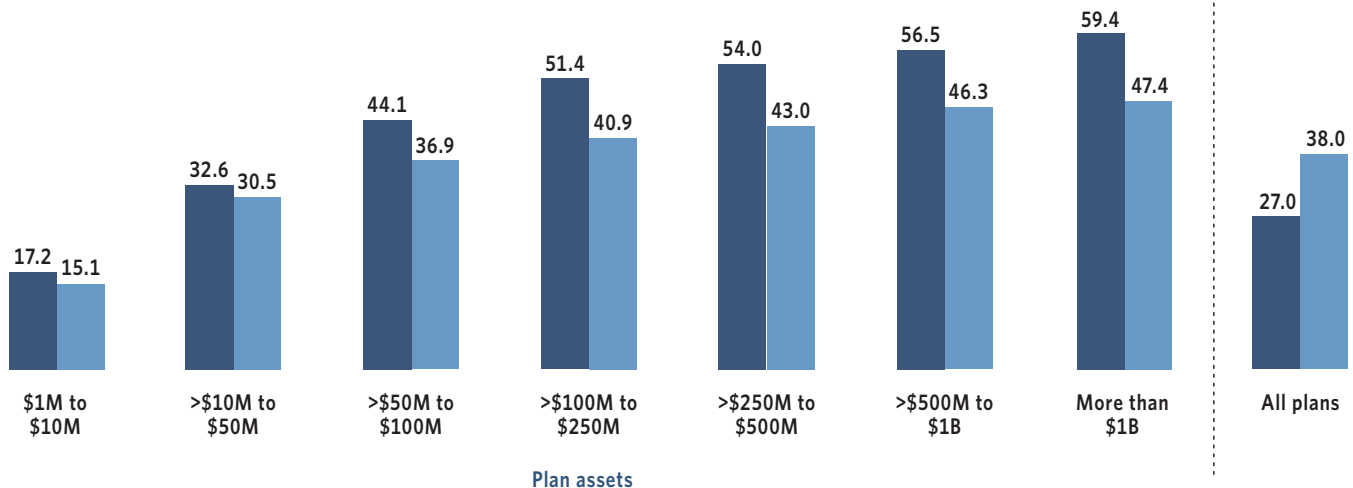
It was necessary to supplement the Form 5500 data with the BrightScope audited Form 5500 data because of incomplete reporting,<sup>19</sup> and thus, analysis of automatic enrollment is limited to 401(k) plans with 100 participants or more and at least \$1 million in plan assets. In 2014, more than half of 401(k) plans in the sample with more than \$100 million in plan assets had automatic enrollment, and nearly six in 10 plans with more than \$1 billion in plan assets did (Exhibit 1.1). Overall, 27 percent of 401(k) plans with 100 participants or more and at least \$1 million in plan assets reported they automatically enrolled participants. Because larger plans are more likely to have automatic enrollment, overall, 38 percent of 401(k) plan participants in plans with 100 participants or more and at least \$1 million in plan assets were in plans with an automatic enrollment feature.

EXHIBIT 1.1

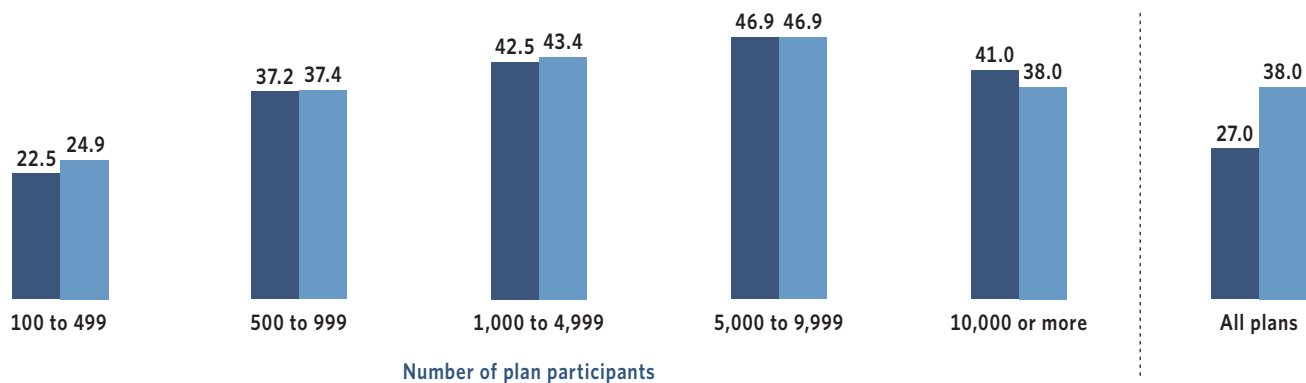
### Larger 401(k) Plans Are More Likely to Automatically Enroll Participants

■ Plans  
■ Participants

Percentage of 401(k) plans and percentage of participants in 401(k) plans with automatic enrollment by plan assets, 2014



Percentage of 401(k) plans and percentage of participants in 401(k) plans with automatic enrollment by number of plan participants, 2014



Note: The sample is 50,115 plans with \$3.7 trillion in assets. The results exclude 403(b) plans with a 401(k) feature and plans with fewer than 100 participants or less than \$1 million in plan assets.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

## The Role of Employer Contributions

Employers choose whether, how, and how much to contribute to their employees' 401(k) accounts. Employers can choose to make contributions to their employees' 401(k) plans, either through matching employee contributions or by making automatic contributions without regard to employee contribution behavior. Employer contributions are reported as part of the income statement across 401(k) plans of all sizes. The DOL

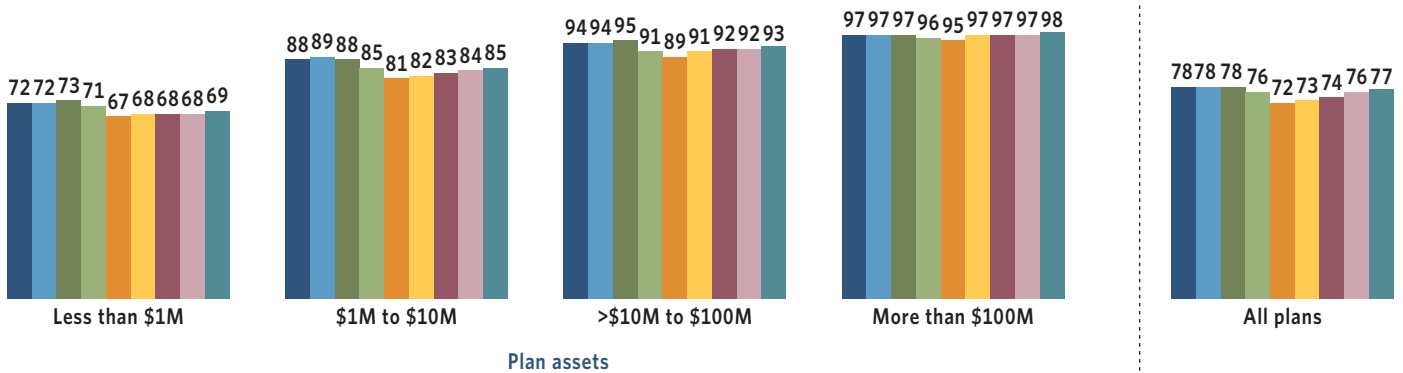
Form 5500 Research File data for the universe of 401(k) plans indicate that employers made contributions in more than three-quarters of 401(k) plans in 2014,<sup>20</sup> which has not changed much over the past several years (Exhibit 1.2). In addition, relatively consistently, nearly nine out of 10 401(k) plan participants were in plans with employer contributions, reflecting the fact that larger 401(k) plans are more likely to have employer contributions.

EXHIBIT 1.2

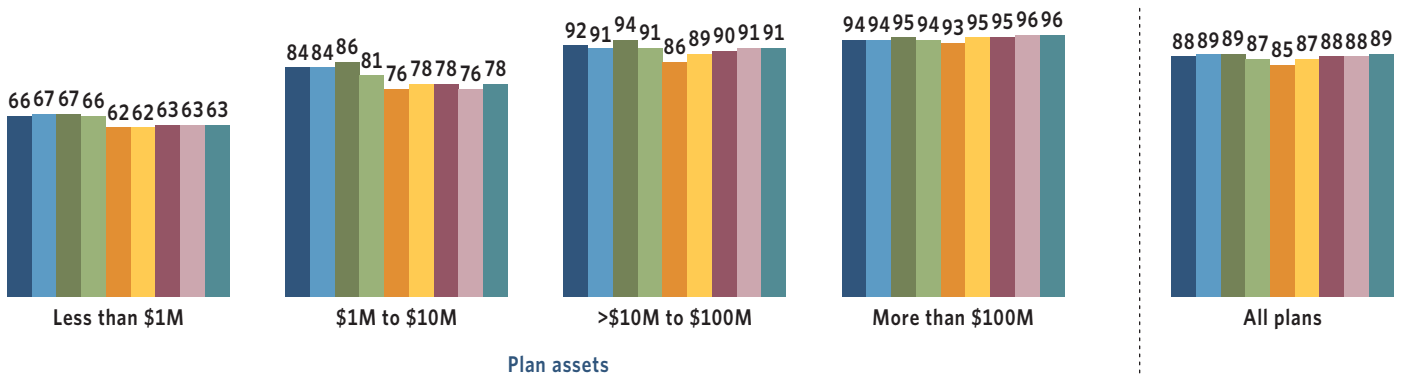
### Employers Make Contributions in Most 401(k) Plans



Percentage of 401(k) plans with employer contributions (by plan assets, plan year 2006-2014)



Percentage of participants in 401(k) plans with employer contributions (by plan assets, plan year 2006-2014)



Note: See Exhibit A.3 in the appendix for additional detail. The results exclude 403(b) plans with a 401(k) feature.

Source: Investment Company Institute tabulations of US Department of Labor Form 5500 Research File

Larger 401(k) plans were more likely than smaller plans to provide employer contributions. For example, in 2014, more than 90 percent of 401(k) plans with more than \$10 million in plan assets had employer contributions, compared with nearly seven

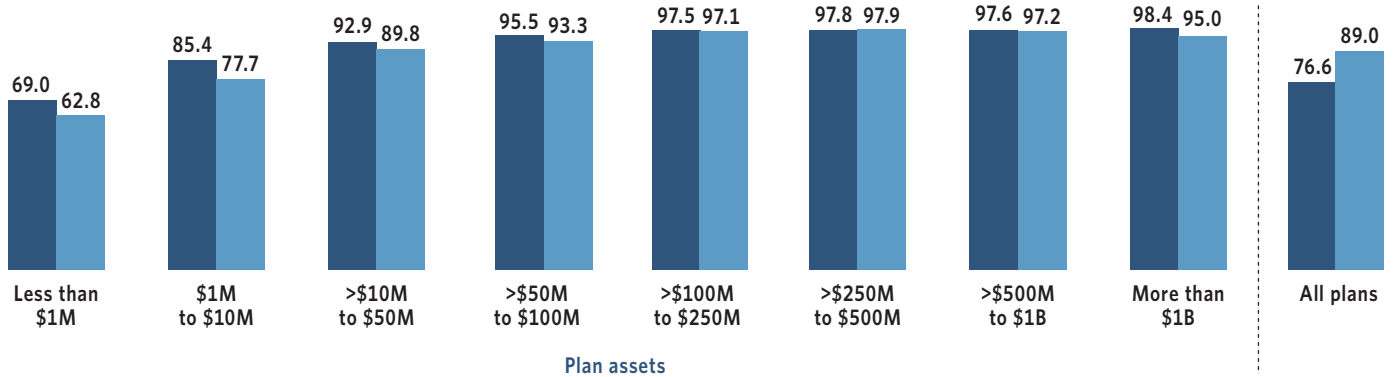
in 10 401(k) plans with less than \$1 million (Exhibit 1.3, upper panel). A similar pattern is evident across 401(k) plans analyzed by number of plan participants (Exhibit 1.3, lower panel).

EXHIBIT 1.3

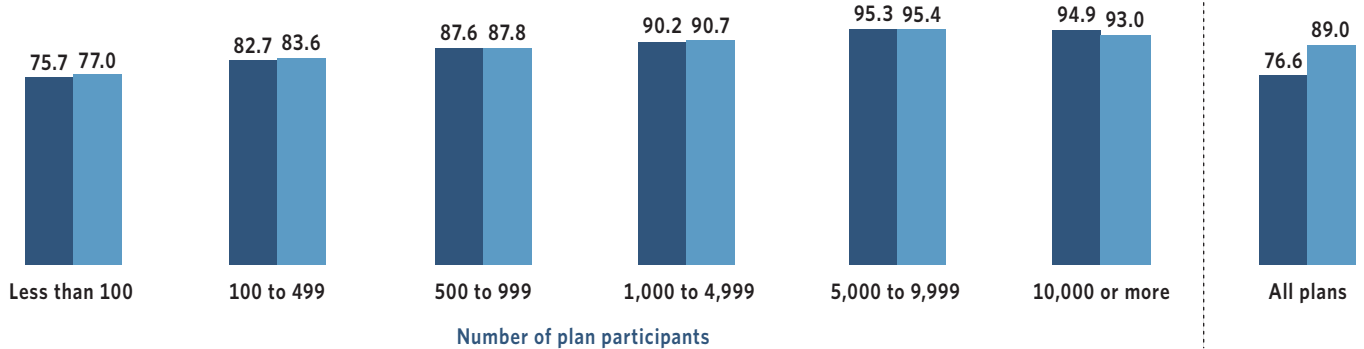
**Larger 401(k) Plans Are More Likely to Offer Employer Contributions**

■ Plans  
■ Participants

Percentage of 401(k) plans and percentage of participants in 401(k) plans with employer contributions by plan assets, 2014



Percentage of 401(k) plans and percentage of participants in 401(k) plans with employer contributions by number of plan participants, 2014



Note: The sample is 533,697 plans with \$4.4 trillion in assets. The results exclude 403(b) plans with a 401(k) feature.

Source: Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

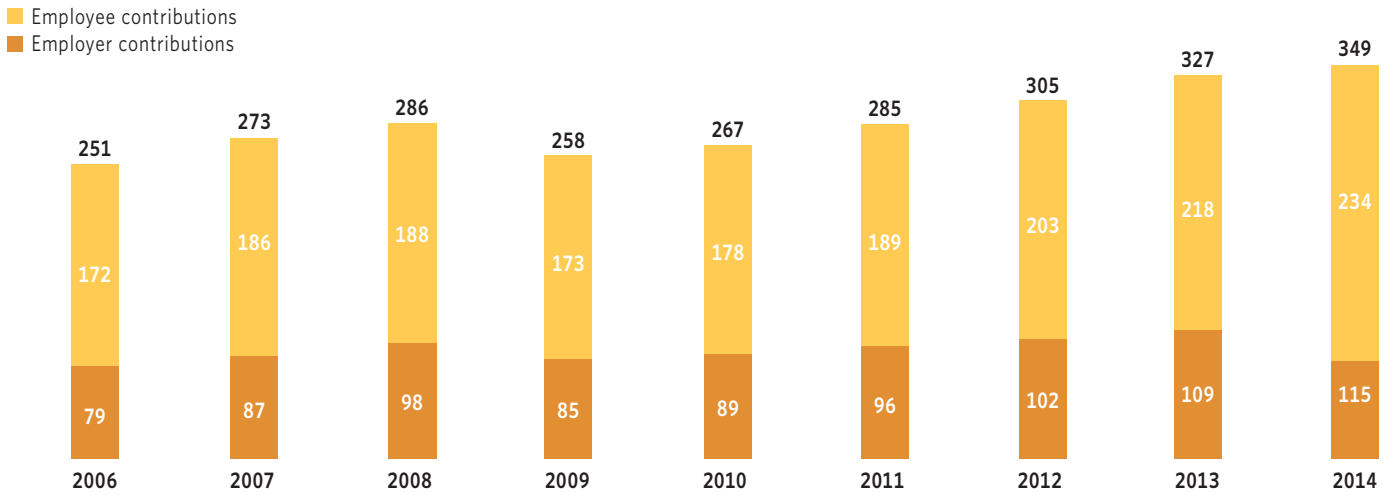
Employer contributions represent a significant portion of contributions flowing into 401(k) plans. In 2014, \$115 billion, or about one-third of total contributions into 401(k) plans, was from employer contributions (Exhibit 1.4). Employer

contributions have represented a relatively steady share of contributions over the past several years; in 2006, 31 percent of contributions were employer contributions.

EXHIBIT 1.4

**Employers Make Significant Contributions to 401(k) Plans**

*Billions of dollars, plan year 2006-2014*



Note: Employee contributions contain a small amount of contributions from others, which includes rollovers into 401(k) plans. Employer contributions include a de minimis amount of noncash contributions. The results exclude 403(b) plans with a 401(k) feature.

Source: Investment Company Institute tabulations of US Department of Labor Form 5500 Research File

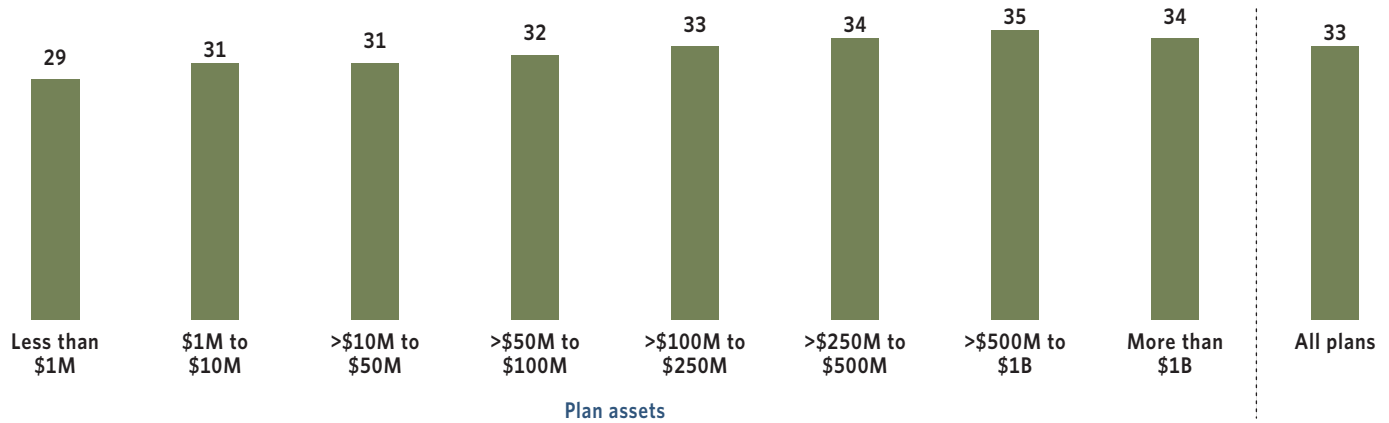
The share of employer contributions in total plan contributions by 401(k) plan size varies only slightly. Twenty-nine percent of total contributions flowing into the smallest 401(k) plans came

from employers, while nearly 35 percent of contributions flowing into the largest 401(k) plans did (Exhibit 1.5).

EXHIBIT 1.5

**Employer Contributions Are a Slightly Larger Share of Total Contributions in Larger 401(k) Plans**

*Employer contributions as a percentage of total 401(k) plan contributions by plan assets, 2014*



Note: The sample is 533,697 plans with \$4.4 trillion in assets. Employee contributions contain a small amount of contributions from others, which includes rollovers into 401(k) plans. Employer contributions include a de minimis amount of noncash contributions. The results exclude 403(b) plans with a 401(k) feature.

Source: Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

*Types of Employer Contributions*

Employers choosing to make contributions to their employees' 401(k) plan accounts can choose either to match contributions made by the employees or to make contributions regardless of employee contributions. If the employer chooses to match employee contributions, the options include a simple match formula, a tiered match formula, or a maximum dollar match formula. With a simple match formula, employee contributions are matched up to a fixed percentage of salary (for example, the employer matches 50 percent of employee contributions for the first 6 percent of the employee's salary, for a maximum employer contribution of 3 percent of the employee's salary). With a tiered match formula, different levels of employee contributions are matched at different rates (for example, matching 100 percent of the first 4 percent of salary contributed and 50 percent of

the next 2 percent, for a maximum employer contribution of 5 percent of the employee's salary). With a maximum dollar match formula, employee contributions are matched up to a given dollar threshold (for example, matching 50 percent of the first \$2,000 in contributions, for a maximum employer contribution of \$1,000).

In 2014, 45 percent of 401(k) plans in the BrightScope database had a simple match formula, 14 percent had a tiered match formula, and 2 percent of 401(k) plans matched employee contributions up to a maximum dollar amount (Exhibit 1.6). Twenty-five percent of 401(k) plans contributed money to the plan without regard to how much the employee contributed.<sup>21</sup> Participants in the remaining 14 percent of 401(k) plans did not receive any employer contributions in 2014.

Simple match formulas were slightly less common in the smallest plans. While 41 percent of 401(k) plans with \$1 million to \$10 million in plan assets offered a simple match, about 50 percent of plans with more than \$10 million in plan assets did so (Exhibit 1.6). As in the Form 5500 401(k) universe, the

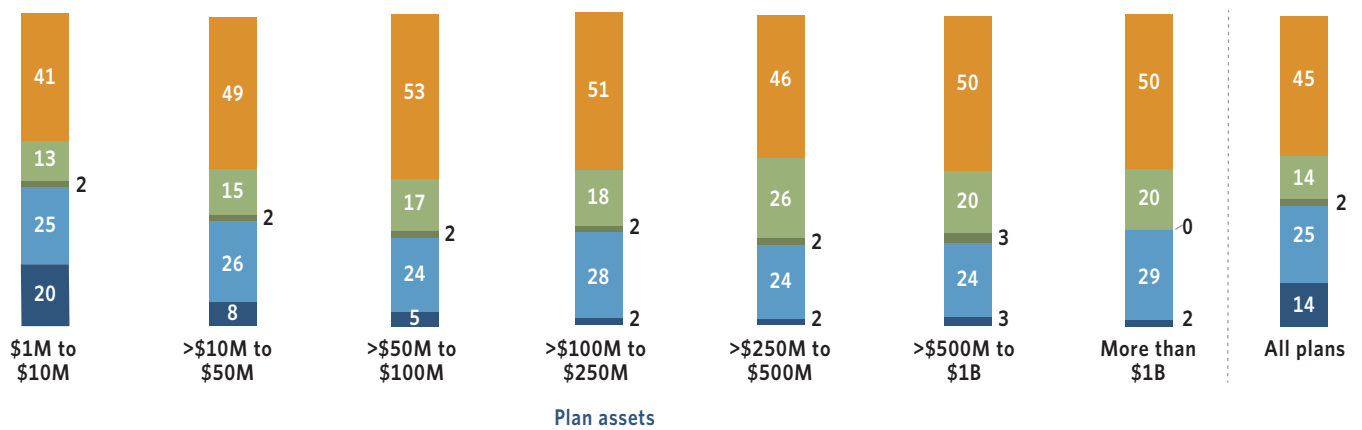
smallest plans in the BrightScope database were significantly less likely to have employer contributions: 20 percent of plans with \$1 million to \$10 million in plan assets offered no employer contribution in 2014. This fell to less than 5 percent of plans with more than \$100 million in plan assets.

EXHIBIT 1.6

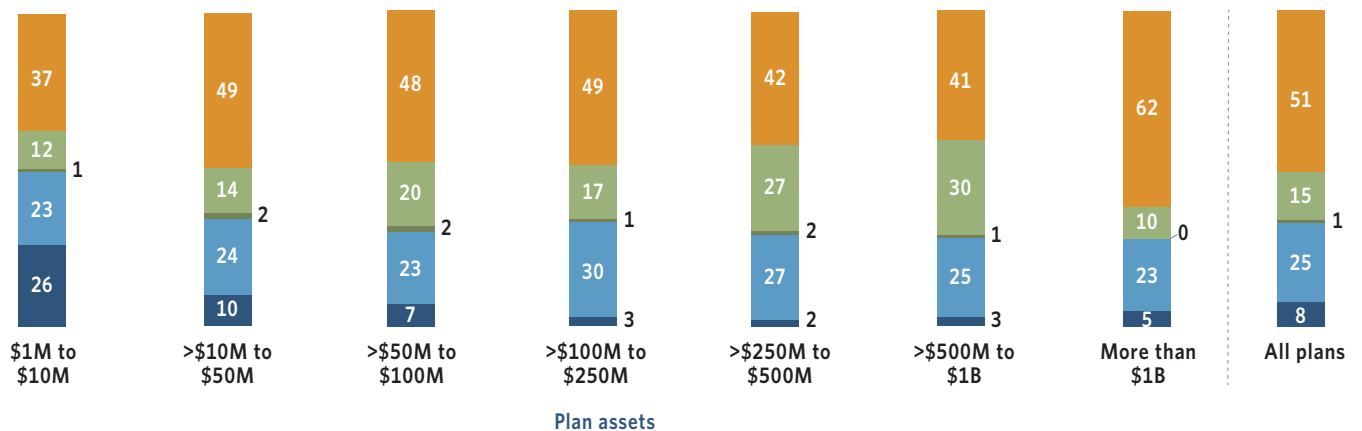
Design of 401(k) Employer Contributions

- Simple match formula<sup>1</sup>
- Tiered match formula<sup>2</sup>
- Maximum dollar match<sup>3</sup>
- Other employer contribution<sup>4</sup>
- No employer contribution

Percentage of plans by plan assets, 2014



Percentage of participants by plan assets, 2014



<sup>1</sup> Simple match formulas are employer contributions of a specified percentage of employee contributions up to a fixed percentage of employee salary (for example, matching 50 percent of employee contributions up to 6 percent of the employee's salary).  
<sup>2</sup> Tiered match formulas match employee contributions at different rates for different levels of employee contributions (for example, matching 100 percent of the first 4 percent of salary contributed and 50 percent of the next 2 percent).  
<sup>3</sup> Maximum dollar match formulas are employer contributions of some percentage of employee contributions up to a fixed dollar amount (for example, matching 50 percent of the first \$2,000 of employee contributions).  
<sup>4</sup> Other employer contributions include nonelective contributions and lump-sum contributions without an additional matching formula. Plans with missing match data may be included in this category.

Note: The sample of plans with employer contributions is 13,552 plans with \$1.1 trillion in assets. The percentage of plans without employer contributions is derived from the complete sample of 401(k) plans which filed a Schedule H. Plans with less than \$1 million in assets were excluded from this analysis. Components may not add to 100 percent because of rounding.

Source: BrightScope Defined Contribution Plan Database

## Simple Match Formulas

For simple match formulas, the employer chooses the percentage of employee contributions to match, as well as the maximum contribution percentage to match. Among the 45 percent of 401(k) plans with simple match formulas in the BrightScope database, the most common formula was matching 50 percent of contributions up to 6 percent of employee salary, with 18.1 percent of 401(k) plans using this formula (Exhibit 1.7, upper panel). The next most common simple match formula was a 100 percent match of contributions up to 4 percent of employee salary, in 10.6 percent of 401(k) plans. Altogether, the most common match rates for employee contributions (with various limits on the maximum employee contribution matched) were 50 percent and 100 percent, both used by about 37 percent of plans. The most common percentage of

employee contributions matched (with a variety of limits on the percentage of the contribution matched) was 6 percent, used by 34.3 percent of plans. However, participants were more likely to be in plans matching employee contributions up to 6 percent of salary. For example, 15.6 percent of participants in plans with simple matching formulas were in plans that matched 50 percent of contributions up to 6 percent of salary, while 32.7 percent were in plans that matched 100 percent of contributions up to 6 percent of salary (Exhibit 1.7, lower panel). Overall, 55 percent of participants were in plans matching 100 percent of employee contributions (with a variety of limits on the percentage of the contribution matched), and 56.2 percent were in plans matching employee contributions up to 6 percent of salary (with a variety of limits on the percentage of the contribution matched).

### EXHIBIT 1.7

#### Employers with Simple Matches Use a Variety of Matching Formulas

Percentage of plans or participants, 2014

Percentage of deferral matched	Percentage of plans Maximum deferral percentage matched								Total
	<3%	3%	4%	5%	6%	7%, 8%, or 9%	10% or more	Other	
25%	1.0	0.6	4.1	1.5	5.9	1.0	1.1	0.1	15.3
50%	1.9	3.6	6.2	3.7	18.1	1.9	1.2	0.1	36.7
75%	(*)	0.1	0.3	0.1	0.6	0.1	0.1	(*)	1.3
100%	4.2	7.7	10.6	5.5	6.0	0.6	1.5	0.8	36.9
Other	0.5	0.6	0.8	1.9	3.7	0.8	1.3	0.1	9.8
Total	7.6	12.6	22.1	12.7	34.3	4.4	5.1	1.1	100.0

Percentage of deferral matched	Percentage of participants Maximum deferral percentage matched								Total
	<3%	3%	4%	5%	6%	7%, 8%, or 9%	10% or more	Other	
25%	0.5	0.2	1.7	0.6	3.8	0.3	0.5	(*)	7.6
50%	1.2	2.5	2.7	2.3	15.6	2.4	0.5	0.1	27.2
75%	(*)	0.7	0.2	(*)	0.9	(*)	(*)	(*)	2.0
100%	2.1	4.1	8.9	5.0	32.7	0.7	0.7	0.8	55.0
Other	0.2	0.3	0.8	1.4	3.2	1.1	1.3	0.0	8.3
Total	3.9	7.8	14.1	9.4	56.2	4.4	3.1	1.0	100.0

(\*) = less than 0.05 percent

Note: Plans with no employer contribution, maximum dollar contributions, tiered match formulas, or only a nonmatching contribution were excluded. The sample is the 45 percent of plans with simple match formulas (see Exhibit 1.6). Plans with less than \$1 million in assets were excluded from this analysis. Row and column percentages may not add to the total because of rounding.

Source: BrightScope Defined Contribution Plan Database



## Timing of Employer Contributions

If employers offer contributions to employees, they can choose to impose a minimum service requirement before employees are eligible to receive the contributions. Employers also can choose to implement a vesting schedule, where employees forfeit some or all of the employer contributions in their accounts if they leave the employer before a specified length of time. (Employees are always 100 percent vested in their own contributions.)

The most common combination of contribution eligibility and vesting for plans with employer contributions was for employees

to receive employer contributions after a year of service, and to be fully vested in those contributions after six years: 20.8 percent of 401(k) plans in the sample of plans providing this information had this combination (Exhibit 1.8). This was followed closely by plans in which employees were eligible for employer contributions after a year, but were immediately vested in those contributions (18.2 percent of 401(k) plans in the sample). Overall, employees in nearly a third of 401(k) plans were immediately vested, and nearly 60 percent of plans made employees eligible for employer contributions after one year.

### EXHIBIT 1.8

#### Eligibility and Vesting in BrightScope Audited 401(k) Plans

Years until fully vested by months until eligible for matching contribution among plans with audited 401(k) filings in the BrightScope database, percentage of plans (2014)

Months until eligible for matching contribution	Years until fully vested							Total
	Immediate	One	Two	Three	Four	Five	Six	
Immediate	4.0	0.3	0.5	1.5	0.7	2.2	1.4	10.6
>0 to <12	8.8	0.3	0.9	3.5	1.9	6.2	7.5	29.2
12	18.2	0.2	1.2	6.3	1.8	10.7	20.8	59.1
More than 12	0.8	0.0	0.1	0.1	0.0	0.0	0.1	1.1
Total	31.8	0.8	2.7	11.4	4.4	19.2	29.8	100.0

Note: The sample is 4,172 plans with information on eligibility and vesting. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Row and column percentages may not add to the totals because of rounding.

Source: BrightScope Defined Contribution Plan Database

## The Use of Participant Loans

Employers also may consider whether to allow access to 401(k) account assets before retirement through a loan feature.<sup>22</sup> In plans that offer loans, participants can take a loan from their own accounts, subject to plan limits. Participants must then repay their loans, plus interest, into their accounts within a set period of time.<sup>23</sup> Although participants typically must pay any loans back shortly after leaving their employers, which can lead to defaults,<sup>24</sup> the existence of a loan feature may encourage workers to sign up for the plan in the first place, or to defer more of their salary into the plan.<sup>25</sup>

It is possible to determine if a participant has taken out a loan by gathering data on participant loans outstanding, which are part of the balance sheet reporting on the Form 5500. Because it is more likely that at least one participant has a loan outstanding in larger plans than in smaller plans, the loan-use analysis is limited to 401(k) plans with 100 participants or more and at least \$1 million in plan assets.<sup>26</sup>

Larger 401(k) plans are more likely to have loans outstanding than smaller 401(k) plans. In 2014, 78 percent of 401(k) plans with 100 participants or more and at least \$1 million in plan assets had participant loans outstanding (Exhibit 1.9). More than 90 percent of 401(k) plans in the sample with more than \$50 million in plan assets had participant loans outstanding, compared with 70 percent of 401(k) plans with \$1 million to \$10 million in plan assets. Because nearly all larger 401(k) plans in the sample had participant loans outstanding, 88 percent of 401(k) plan participants in the sample were in plans that had loans outstanding.<sup>27</sup> Similarly, larger 401(k) plans (as measured by the number of plan participants) were more likely to have participant loans outstanding, rising from 75 percent of plans with 100 to 499 participants to more than 90 percent of plans with 5,000 participants or more.

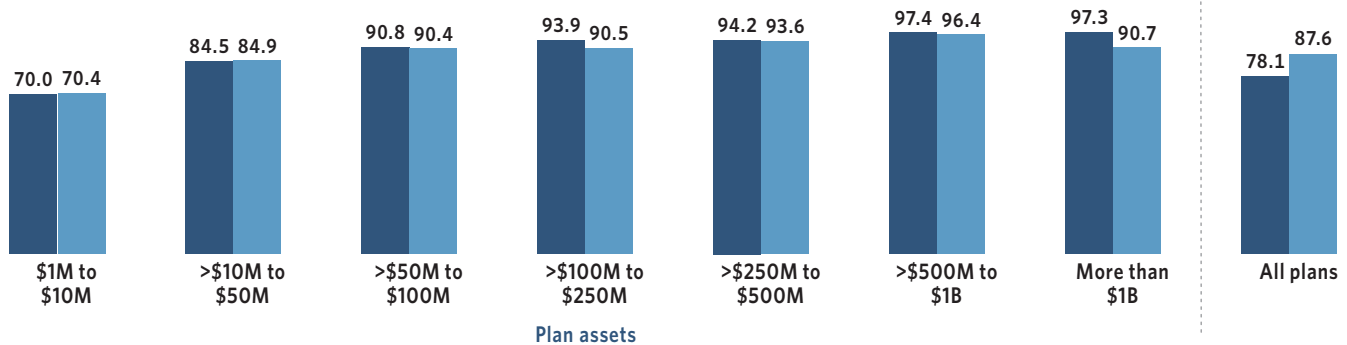
Even though loans are widely available, the amounts borrowed represent less than 2 percent of 401(k) plan assets.<sup>28</sup> In addition, DC plan recordkeeper data indicate that fewer than one in five 401(k) plan participants have loans outstanding.<sup>29</sup>

EXHIBIT 1.9

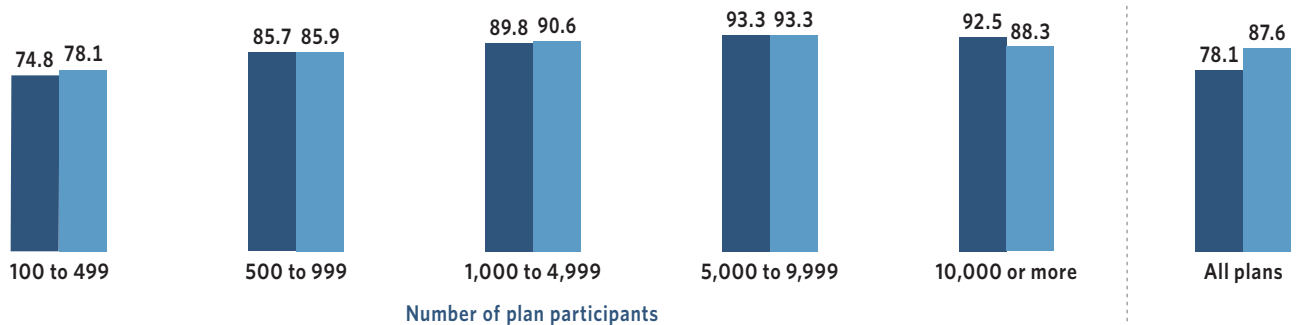
### Nearly All Large 401(k) Plans Have Participant Loans Outstanding

■ Plans  
■ Participants

Percentage of 401(k) plans and percentage of participants in 401(k) plans with participant loans by plan assets, 2014



Percentage of 401(k) plans and percentage of participants in 401(k) plans with participant loans by number of plan participants, 2014



Note: The sample is 50,115 plans with \$3.7 trillion in assets. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2014. The results exclude 403(b) plans with a 401(k) feature and plans with fewer than 100 participants or less than \$1 million in plan assets.

Source: Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

## 401(k) Plan Activity Combinations

When designing their compensation structures, employers choose a combination of wages and benefits to attract qualified workers. Similarly, employers design 401(k) plans by selecting a combination of features that their employees are likely to value. Nearly all of the sample of more than 50,000 401(k) plans with 100 participants or more and at least \$1 million in plan assets included at least one of the three activities explored in this research. Across the sample of 401(k) plans in 2014, only 2.5 percent did not offer employer contributions, did not automatically enroll employees, and did not have participant loans outstanding (Exhibit 1.10). The most prevalent combination of plan activities was employer contributions in plans that also had participant loans outstanding, which was

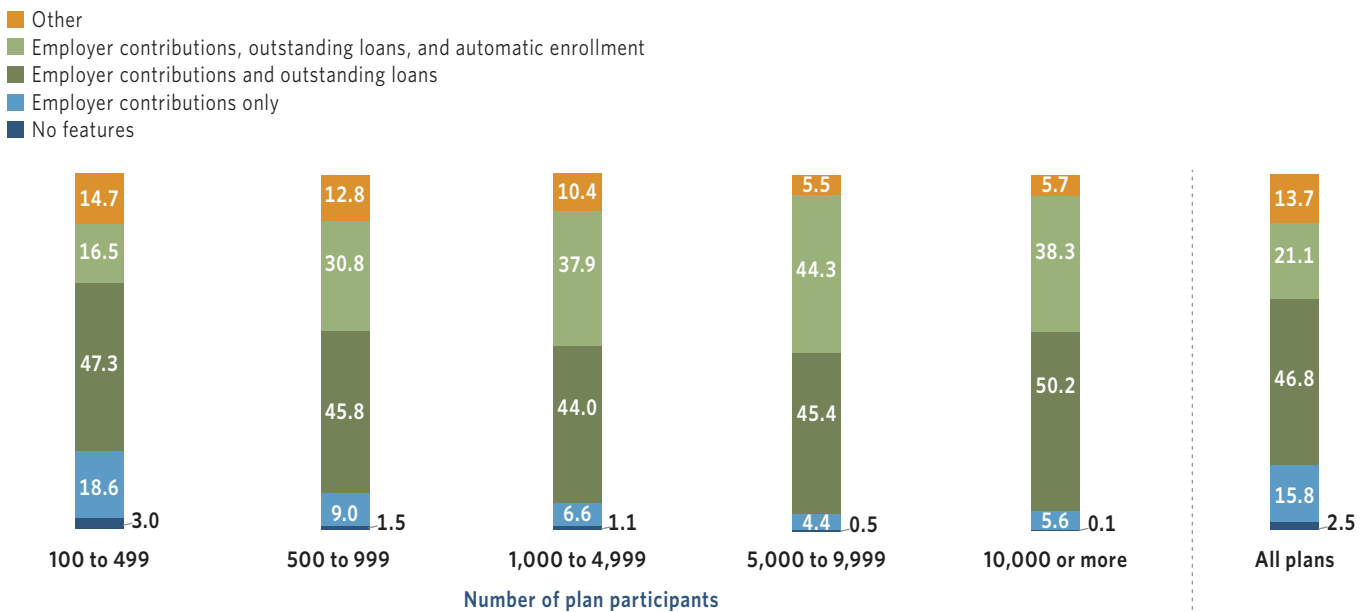
observed in 46.8 percent of 401(k) plans in the sample. Another 15.8 percent of 401(k) plans had employer contributions only, and 21.1 percent had employer contributions, outstanding loans, and automatic enrollment. The remaining 13.7 percent of 401(k) plans in the sample had some other configuration of some of the three features.

Larger 401(k) plans tend to be more likely to have employer contributions, participant loans outstanding, and automatic enrollment (Exhibit 1.10). More than 35 percent of 401(k) plans in the sample with 1,000 participants or more had employer contributions, participant loans outstanding, and automatic enrollment, compared with about one in six plans in the sample with 100 to 499 participants. Overall, 21.1 percent of 401(k) plans in the sample had reported evidence of all three activities.

### EXHIBIT 1.10

#### 401(k) Plans with Selected Plan Activity Combinations

Percentage of 401(k) plans with selected plan activity combinations by number of plan participants, 2014



Note: The sample is 50,115 plans with \$3.7 trillion in assets. Plan activities include employer contributions, automatic enrollment, and participant loans outstanding. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2014. The results exclude 403(b) plans with a 401(k) feature and plans with fewer than 100 participants or less than \$1 million in plan assets. Components may not add to 100 percent because of rounding. For additional detail and analysis by plan assets, see Exhibit A.1 in the appendix.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

## 401(k) Plan Activities by Presence of Automatic Enrollment

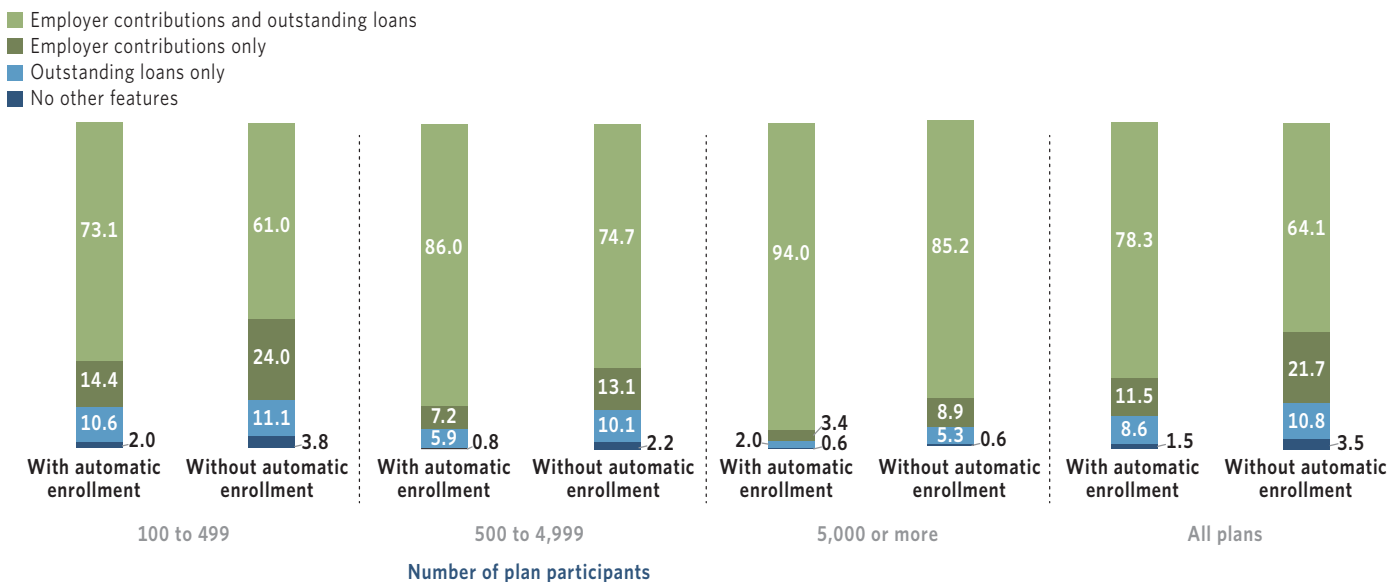
Another way to analyze the plan design combinations that employers choose is to look at how remaining plan design features vary while controlling for one feature. This section discusses employer contributions and outstanding participant loans, comparing their incidence in 401(k) plans with and without automatic enrollment. The data are explored this way because the participation results achieved with automatic enrollment may also be reflecting the influence of other plan features, for example. The sample analyzed is more than 50,000 401(k) plans with 100 participants or more and at least \$1 million in plan assets.

Plans with automatic enrollment are more likely to have both employer contributions and participant loans outstanding than plans without automatic enrollment. In 2014, 78.3 percent of 401(k) plans in the sample with automatic enrollment had employer contributions and outstanding participant loans, compared with 64.1 percent of plans in the sample without automatic enrollment (Exhibit 1.11). Nevertheless, employer contributions are only slightly more likely in 401(k) plans with automatic enrollment: in 2014, 89.8 percent of 401(k) plans in the sample with automatic enrollment had employer contributions, compared with 85.8 percent of plans without automatic enrollment. A similar pattern is observed across plan sizes, although plans with more participants are more likely to have employer contributions and outstanding participant loans whether or not they also automatically enroll participants.

EXHIBIT 1.11

### 401(k) Plans with Automatic Enrollment Are More Likely to Have Both Employer Contributions and Outstanding Loans

Percentage of 401(k) plans with selected plan design feature combinations by automatic enrollment and number of plan participants, 2014



Note: The sample is 50,115 plans with \$3.7 trillion in assets. Plan activities include employer contributions and participant loans outstanding. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2014. The results exclude 403(b) plans with a 401(k) feature and plans with fewer than 100 participants or less than \$1 million in plan assets. Components may not add to 100 percent because of rounding.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

## CHAPTER 2

# 401(k) Investment Menu Design

Employers choose whether or not to offer 401(k) plans to their employees, and if so, how to design their plans to attract and retain qualified workers.<sup>30</sup> These design choices include the number and types of investment options in the plan. This chapter explores the investment menus that employers have chosen for 401(k) plans in the BrightScope Defined Contribution Plan Database and how investments vary by plan size. The BrightScope Defined Contribution Plan Database contains detailed information from audited Form 5500 reports for private-sector 401(k) plans with \$1 million or more in plan assets and typically 100 participants or more.

### Number and Types of Investment Options

On average, 401(k) plans in the BrightScope Defined Contribution Plan Database offered participants 28 investment options in 2014 (Exhibit 2.1). The number of investment options offered varies little among 401(k) plans with \$1 million or more in plan assets (ranging from 27 options for plans with more than \$50 million to \$250 million in plan assets to 29 options for plans with more than \$10 million to \$50 million or more than \$1 billion). Because plans may offer suites of target date funds with options tailored to multiple anticipated retirement dates, an adjusted number that counts a suite of target date funds as one investment option also is presented. On average, 401(k) plans offer 22 options according to this target date fund-adjusted number, ranging from 20 investment options for plans with more than \$100 million to \$1 billion in plan assets to 23 investment options for plans with \$50 million or less in plan assets.

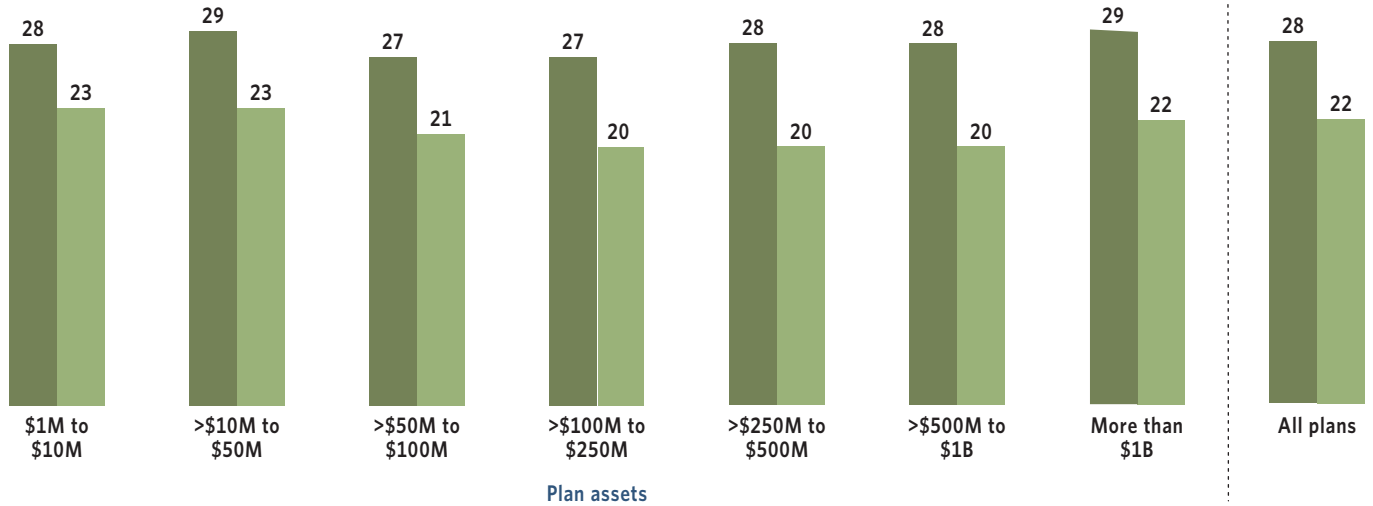
EXHIBIT 2.1

**Number of Investment Options in 401(k) Plans**

Average number of investment options among plans with audited 401(k) filings in the BrightScope database by plan assets, 2014

**Number of investment options**

- Average
- Target date fund-adjusted average\*



\* This measure counts an entire suite of target date funds as one investment option for plans offering target date funds. A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. A suite will cover a range of anticipated retirement dates.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database

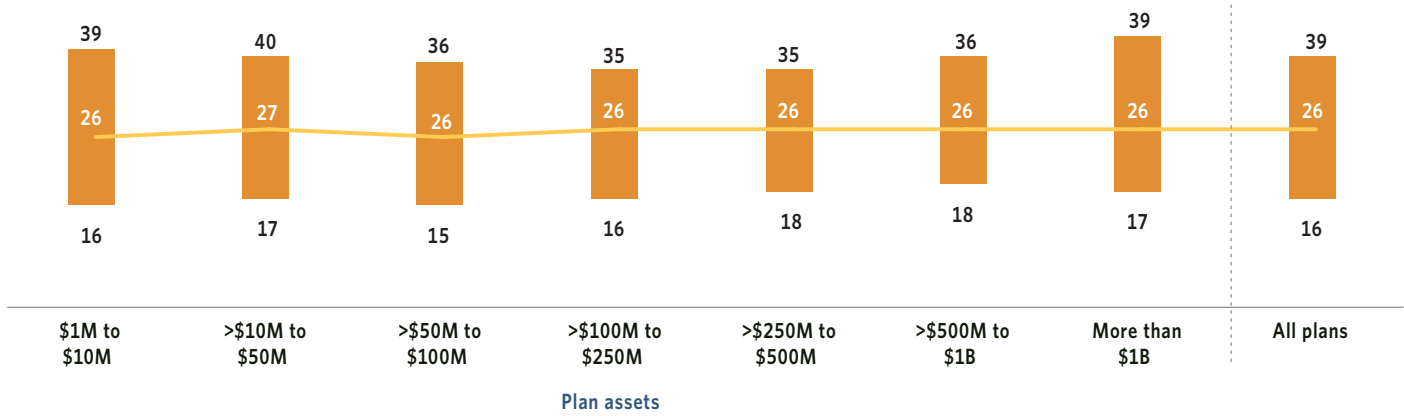
Although the number of investment options varies little by plan size, there is considerable variation between plans. For example, 10 percent of plans offer 16 or fewer investment options and plans at the 90th percentile offer 39 options (Exhibit 2.2, upper

panel). Even with a target date fund-adjusted measure, plans vary considerably, ranging from 13 options to 32 options at the 10th and 90th percentiles (Exhibit 2.2, lower panel).

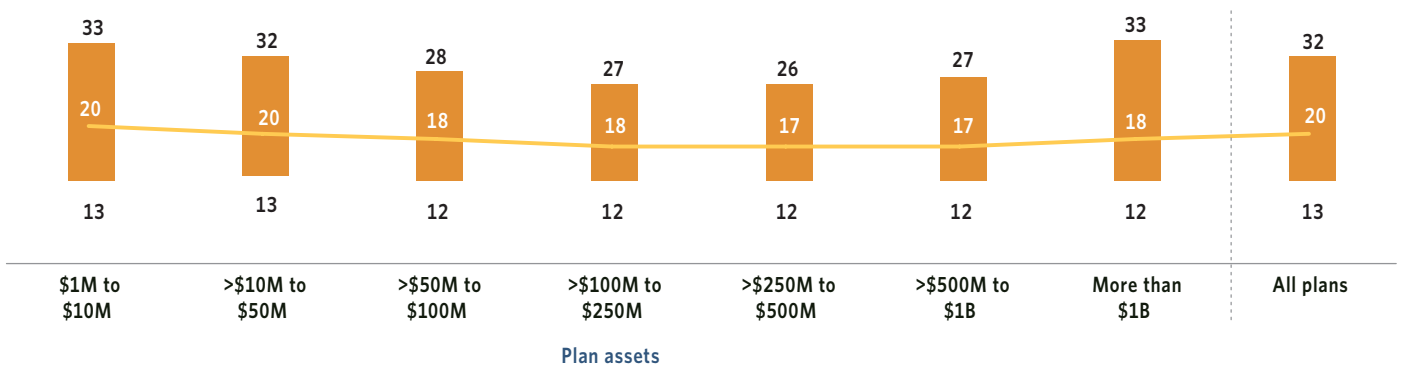
EXHIBIT 2.2

**Distribution of Number of Investment Options in 401(k) Plans**

10th percentile, median, and 90th percentile number of investment options among plans with audited 401(k) filings in the BrightScope database by plan assets (2014)



10th percentile, median, and 90th percentile number of target date fund-adjusted\* investment options among plans with audited 401(k) filings in the BrightScope database by plan assets (2014)



\* This measure counts an entire suite of target date funds as one investment option for plans offering target date funds. A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. A suite will cover a range of anticipated retirement dates.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from this analysis.

Source: BrightScope Defined Contribution Plan Database

Between 2006 and 2014, 401(k) plans that were in the BrightScope database in every year (referred to as *consistent plans* in this paper),<sup>31</sup> added an average of five investment options, on net, to their plan lineups, going from 23 investment options on average in 2006 to 28 in 2014 (Exhibit 2.3).<sup>32</sup> Target

date funds accounted for much of the net increase in the number of investment options offered. If a target date fund suite is counted as a single investment option, then the number of investment options offered in consistent plans only increased, on average, from 20 options in 2006 to 21 options in 2014.<sup>33</sup>

## EXHIBIT 2.3

### Consistent 401(k) Plans Have Increased the Number of Investment Options Offered

Average number of investment options among plans with audited 401(k) filings in the BrightScope database in every year by plan assets, 2006–2014

Plan assets	Average number of investment options								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
\$1M to \$10M	21	22	N/A	25	26	27	27	27	28
>\$10M to \$50M	22	22	N/A	24	25	25	25	26	27
>\$50M to \$100M	22	22	N/A	24	25	25	26	26	27
>\$100M to \$250M	23	23	N/A	25	26	26	26	26	27
>\$250M to \$500M	25	27	N/A	28	29	30	31	27	31
>\$500M to \$1B	26	28	N/A	30	30	33	34	33	30
More than \$1B	29	30	N/A	33	31	29	29	29	30
All plans	23	23	N/A	26	26	27	27	27	28

Plan assets	Target date fund-adjusted average number of investment options*								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
\$1M to \$10M	20	20	N/A	21	22	22	22	21	22
>\$10M to \$50M	19	19	N/A	19	20	20	20	20	20
>\$50M to \$100M	18	18	N/A	19	19	19	19	19	20
>\$100M to \$250M	19	18	N/A	19	19	19	17	18	18
>\$250M to \$500M	21	21	N/A	21	22	22	23	18	22
>\$500M to \$1B	22	22	N/A	23	22	25	25	25	21
More than \$1B	26	26	N/A	28	24	22	22	21	22
All plans	20	20	N/A	21	21	21	20	20	21

\* This measure counts an entire suite of target date funds as one investment option for plans offering target date funds. A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. A suite will cover a range of anticipated retirement dates.

N/A = not available

Note: The sample is 2,192 plans in the BrightScope Defined Contribution Plan Database in each year available between 2006 and 2014 (data for 2008 are not available). BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Plans are allocated to the plan asset category based on plan assets in 2006.

Source: BrightScope Defined Contribution Plan Database



Domestic equity funds, international equity funds, and domestic bond funds were the most likely investment options to be offered in 401(k) plans in 2014. Nearly all plans offered these types of funds, which can be mutual funds, collective investment trusts, or separate accounts (Exhibit 2.4). About three-quarters of plans offered target date funds, and about two-thirds offered non-target date balanced funds. About half of 401(k) plans offered money funds and seven in 10 offered guaranteed investment contracts (GICs). More than 60 percent of 401(k) plans had other investments, which include individual stocks (including company stock) and bonds. More than 30 percent of 401(k) plans had international bond funds in their investment lineups.

For most investment types, availability by plan size did not vary much. However, larger plans were more likely to offer other investments (which include company stock) and money funds. For example, 59.7 percent of the smallest plans offered other investments, compared with 90.1 percent of the largest plans (Exhibit 2.4).<sup>34</sup> Similarly, 49.5 percent of plans with \$1 million to \$10 million in plan assets offered money funds in 2014, compared with 78.3 percent of plans with more than \$1 billion. In contrast, smaller plans were more likely to offer non-target date balanced funds. While more than seven in 10 401(k) plans with \$1 million to \$10 million in plan assets offered non-target date balanced funds, about 44 percent of plans with more than \$1 billion did.

## EXHIBIT 2.4

### Equity and Bond Funds Are the Most Common Investment Options in 401(k) Plans

Percentage of plans with audited 401(k) filings in the BrightScope database offering the specified investment option by plan assets, 2014

Plan assets	Equity funds		Balanced funds		Bond funds					Memo: index funds
	Domestic	International	Target date funds <sup>1</sup>	Non-target date balanced funds	Domestic	International	Money funds	GICs	Other <sup>2</sup>	
\$1M to \$10M	99.7	98.4	74.7	71.9	97.5	34.5	49.5	63.4	59.7	83.9
>\$10M to \$50M	99.7	99.2	74.8	67.8	98.8	32.4	48.2	73.6	64.8	92.0
>\$50M to \$100M	99.4	98.4	75.8	61.1	98.4	24.5	54.7	75.4	64.8	96.9
>\$100M to \$250M	99.6	98.8	79.5	58.4	98.5	19.9	59.7	77.9	69.4	97.8
>\$250M to \$500M	99.8	99.3	85.0	57.0	99.4	17.8	66.5	77.8	74.2	99.3
>\$500M to \$1B	99.8	99.0	87.0	49.9	98.8	16.0	69.8	78.7	78.5	98.0
More than \$1B	99.8	97.1	79.6	43.5	97.3	16.6	78.3	72.0	90.1	98.4
All plans	99.7	98.7	75.7	67.5	98.1	31.0	51.5	69.5	61.5	89.4

<sup>1</sup> A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

<sup>2</sup> Other includes commodity funds, real estate funds, and individual stocks (including company stock) and bonds.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. Participant loans are excluded. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database

Equity funds were the most common investment option in 2014, with 401(k) plans offering 13.5 funds on average, of which 10.2 were domestic equity funds and 3.3 were international equity funds (Exhibit 2.5). Smaller plans tended to offer more equity funds; plans with \$1 million to \$10 million in plan assets offered 14.0 equity funds, and plans with more than \$1 billion in plan assets offered 10.0.

The next most common category in 401(k) investment lineups in 2014 was balanced funds, with 8.5 funds offered on average, most of which (6.8 funds) were target date funds (Exhibit 2.5). Larger 401(k) plans tended to have more target date funds for two reasons. First, larger plans tended to be more likely to offer target date funds (Exhibit 2.4). Second, larger plans offered more funds as part of their target date fund suites on average. For example, among plans with more than \$1 billion in plan

assets, the average target date fund suite included around 11 funds (8.5 target date funds divided by 0.8 target date fund suites) (Exhibit 2.5). For plans with \$1 million to \$10 million in plan assets, the average target date fund suite included around eight funds (6.0 target date funds divided by 0.8 target date fund suites). On average, there were about nine target date funds in a suite across all plans in the sample.

In 2014, 401(k) plans included 4.1 bond funds (mostly domestic) in their investment lineups, on average (Exhibit 2.5). Plans also offered money funds, GICs, and other options. These investments were not offered as widely (Exhibit 2.4) and were often included as the single choice in that investment type. Larger 401(k) plans tended to be somewhat more likely to offer these options and offered more of these funds when including that investment category.

## EXHIBIT 2.5

### Average Number of Investment Options in 401(k) Plans by Type of Investment

Average number of investment options among plans with audited 401(k) filings in the BrightScope database by plan assets, 2014

	Equity funds		Balanced funds		Bond funds					Memo:	
	Domestic	International	Target date funds <sup>1</sup>	Non-target date balanced funds	Domestic	International	Money funds	GICs	Other <sup>2</sup>	Index funds	Adjusted target date fund <sup>3</sup>
\$1M to \$10M	10.7	3.3	6.0	2.1	3.7	0.4	0.5	0.7	0.9	4.0	0.8
>\$10M to \$50M	10.6	3.3	6.9	1.6	3.8	0.4	0.5	0.8	1.1	4.7	0.8
>\$50M to \$100M	9.2	2.9	7.7	1.1	3.6	0.3	0.6	0.8	1.2	6.2	0.8
>\$100M to \$250M	8.9	2.8	8.2	1.0	3.5	0.2	0.7	0.8	1.3	6.5	0.8
>\$250M to \$500M	8.4	2.7	9.0	0.8	3.5	0.2	0.8	0.9	1.5	7.5	0.9
>\$500M to \$1B	8.1	2.6	9.5	0.7	3.7	0.2	0.9	1.0	1.6	8.0	0.9
More than \$1B	7.1	2.9	8.5	0.6	4.4	0.2	1.2	1.6	2.8	9.3	0.8
All plans	10.2	3.3	6.8	1.7	3.7	0.4	0.6	0.8	1.1	4.9	0.8

<sup>1</sup> A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

<sup>2</sup> Other includes commodity funds, real estate funds, and individual stocks (including company stock) and bonds, but each separate option is counted as a unique investment option.

<sup>3</sup> This measure counts an entire suite of target date funds as one investment option for plans offering target date funds. A suite will cover a range of anticipated retirement dates.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. Participant loans are excluded. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Exhibit A.4 in the appendix shows the average number of a given investment option offered by plans that have at least one of that investment option.

Source: BrightScope Defined Contribution Plan Database

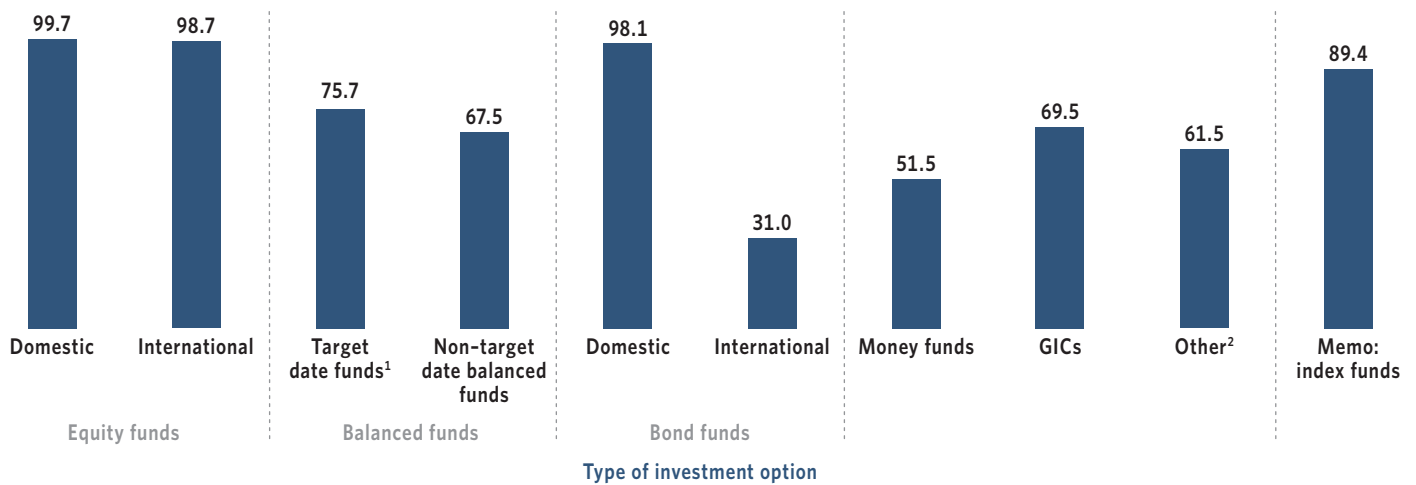
It is instructive to consider availability and then the number of investment options by investment category contingent on that investment category being offered in the 401(k) plan. For example, domestic equity funds are not only widely available, with 99.7 percent of 401(k) plans including them in their investment lineups in 2014 (Exhibit 2.6, upper panel), but also, when they are an option, multiple domestic equity funds—10.2 on average—are offered (Exhibit 2.6, lower panel). International equity funds are widely available, offered in 98.7 percent of 401(k) plans in 2014, but on average, 3.3 international equity

funds are offered in 401(k) plans including that investment type (Exhibit 2.6). Similarly, domestic bond funds are widely available, offered in 98.1 percent of 401(k) plans in 2014, but on average, 3.8 domestic bond funds are offered in 401(k) plans including that investment type. A little more than half of 401(k) plans offer one money fund on average, and about seven in 10 401(k) plans offer one GIC on average. Nearly 90 percent of 401(k) plans in 2014 had index funds in their investment lineups, offering 5.5 index funds on average.

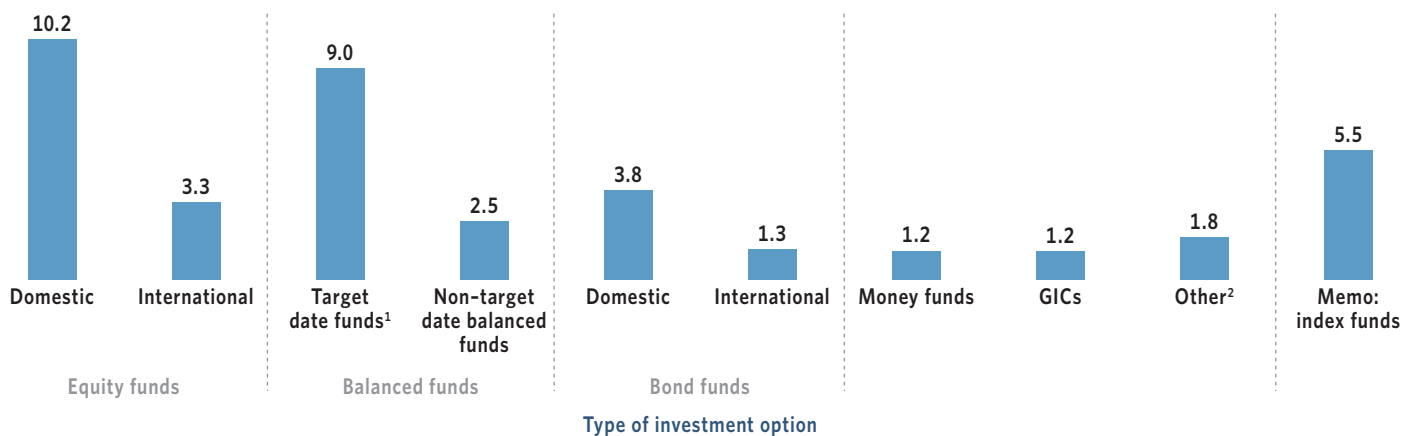
EXHIBIT 2.6

**Incidence and Number of Investment Options Offered in 401(k) Plans by Type of Investment**

Percentage of plans with audited 401(k) filings in the BrightScope database offering the specified investment option, 2014



Average number of investment options among plans with audited 401(k) filings in the BrightScope database offering a given investment option, 2014



<sup>1</sup> A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

<sup>2</sup> Other includes commodity funds, real estate funds, and individual stocks (including company stock) and bonds, but each separate option is counted as a unique investment option.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. Participant loans are excluded. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Exhibit A.4 in the appendix shows the average number of a given investment option offered by plans that have at least one of that investment option.

Source: BrightScope Defined Contribution Plan Database

For consistent 401(k) plans (plans that were in the BrightScope database from 2006 to 2014), investment offerings remained relatively stable between 2006 and 2014. The largest net change was in target date fund offerings, which increased from 2.9 funds per plan on average in 2006 to 7.8 funds per plan in 2014 (Exhibit 2.7). This corresponded to a net increase from 0.4 target date fund suites on average in 2006 to 0.8 suites in 2014. The number of international equity and domestic bond funds

offered also increased, on average, between 2006 and 2014. On average, international equity funds offered in consistent 401(k) plans increased, on net, from 2.4 funds in 2006 to 2.9 funds in 2014. Similarly, the number of domestic bond funds offered increased from 3.0 funds to 3.6 funds between 2006 and 2014. In addition, index fund investing rose in popularity: in 2006, consistent 401(k) plans offered 2.4 index funds, on average, which more than doubled to 6.0 index funds on average in 2014.

## EXHIBIT 2.7

### Average Number of Investment Options in Consistent 401(k) Plans

Average number of investment options among plans with audited 401(k) filings in the BrightScope database in every year by plan assets, 2006 and 2014

#### Average number of investment options, 2006

Plan assets	Equity funds		Balanced funds		Bond funds					Memo:	
	Domestic	International	Target date funds <sup>1</sup>	Non-target date balanced funds	Domestic	International	Money funds	GICs	Other <sup>2</sup>	Index funds	Adjusted target date fund <sup>3</sup>
\$1M to \$10M	10.2	2.5	1.6	2.2	2.9	0.1	0.7	0.7	0.6	1.7	0.3
>\$10M to \$50M	9.6	2.4	2.7	1.7	2.8	0.1	0.6	0.7	0.8	2.0	0.4
>\$50M to \$100M	9.0	2.2	3.7	1.6	2.6	0.1	0.6	0.8	1.0	2.4	0.5
>\$100M to \$250M	9.3	2.2	4.2	1.4	2.8	0.1	0.6	0.8	1.2	2.9	0.5
>\$250M to \$500M	10.2	2.5	4.9	1.6	3.2	0.1	0.5	0.9	1.2	3.7	0.6
>\$500M to \$1B	10.8	2.5	4.3	1.6	3.6	0.1	0.8	1.4	1.0	3.8	0.6
More than \$1B	10.9	3.3	3.1	1.8	4.9	0.2	1.0	2.0	1.6	4.4	0.5
All plans	9.8	2.4	2.9	1.8	3.0	0.1	0.6	0.9	0.9	2.4	0.4

#### Average number of investment options, 2014

Plan assets	Equity funds		Balanced funds		Bond funds					Memo:	
	Domestic	International	Target date funds <sup>1</sup>	Non-target date balanced funds	Domestic	International	Money funds	GICs	Other <sup>2</sup>	Index funds	Adjusted target date fund <sup>3</sup>
\$1M to \$10M	10.3	3.2	7.1	1.7	3.6	0.3	0.6	0.7	0.6	4.4	0.8
>\$10M to \$50M	9.5	2.9	7.3	1.2	3.5	0.3	0.6	0.8	0.9	5.2	0.8
>\$50M to \$100M	8.9	2.8	8.0	0.9	3.4	0.2	0.7	0.8	1.2	6.3	0.8
>\$100M to \$250M	8.2	2.4	9.2	0.8	3.3	0.2	0.7	0.9	1.1	6.9	0.9
>\$250M to \$500M	10.0	3.3	10.1	1.2	3.9	0.2	0.8	0.9	1.1	9.7	0.9
>\$500M to \$1B	8.2	2.6	10.0	0.9	4.0	0.1	1.1	1.4	1.2	8.6	1.0
More than \$1B	7.4	3.0	8.2	0.7	4.7	0.3	1.3	1.7	2.5	9.7	0.8
All plans	9.3	2.9	7.8	1.2	3.6	0.3	0.7	0.9	1.1	6.0	0.8

<sup>1</sup> A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

<sup>2</sup> Other includes commodity funds, real estate funds, and individual stocks (including company stock) and bonds, but each separate option is counted as a unique investment option.

<sup>3</sup> This measure counts an entire suite of target date funds as one investment option for plans offering target date funds. A suite will cover a range of anticipated retirement dates.

Note: The sample is 2,192 plans in the BrightScope Defined Contribution Plan Database in each year available between 2006 and 2014. Participant loans are excluded. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Plans are allocated to the plan asset category based on plan assets in 2006.

Source: BrightScope Defined Contribution Plan Database

## Investment Vehicles

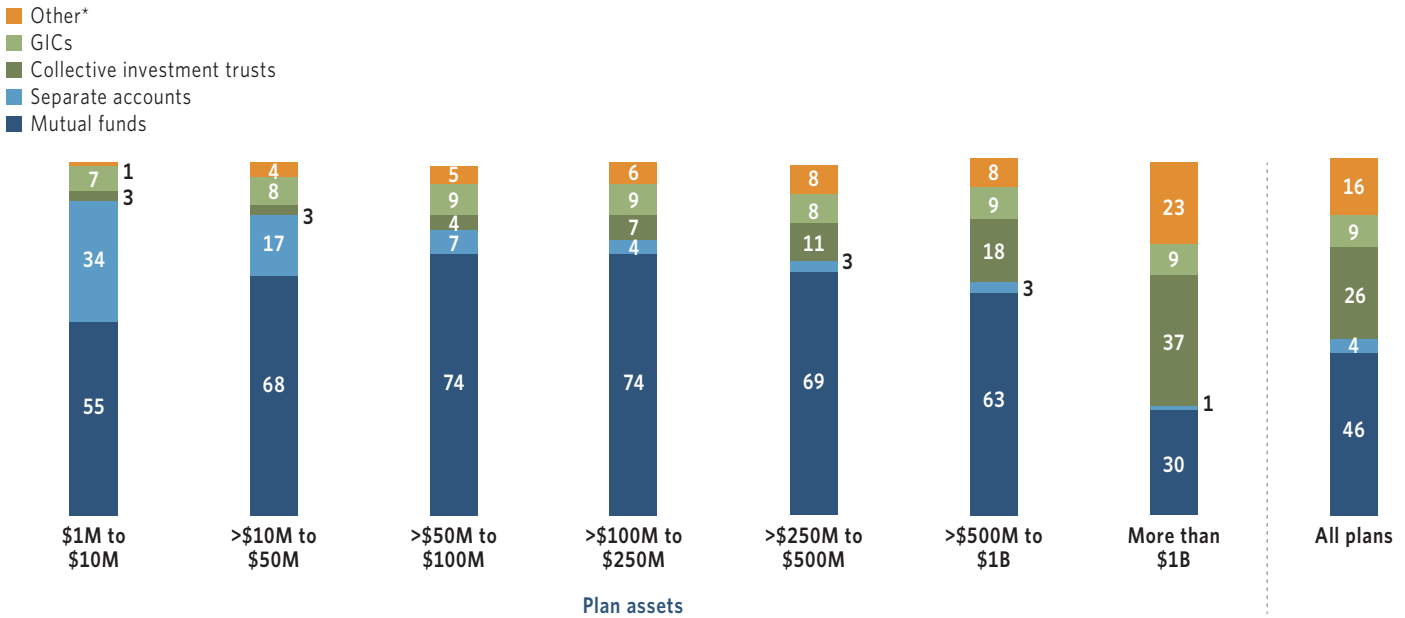
When choosing which investment options to offer, employers also choose the investment vehicles (for example, mutual funds, collective investment trusts, or separate accounts) for these options. Mutual funds were the most common investment vehicle in 401(k) plans in the BrightScope database, representing 46 percent of assets in 2014 (Exhibit 2.8). Mutual funds were a smaller share of assets in the largest 401(k) plans, accounting for between 55 percent and 74 percent of assets in plans with between \$1 million and \$1 billion in plan assets, but only 30 percent of assets in plans with more than \$1 billion in plan assets. Collective investment trusts accounted for an additional 26 percent of assets, overall, followed by GICs at 9 percent, and separate accounts with 4 percent of

assets. Collective investment trusts accounted for a larger share of assets in larger plans, while separate accounts were responsible for a larger share of assets in smaller plans and GICs accounted for a nearly constant share of assets across plan size categories. For example, collective investment trusts held 3 percent of assets in 401(k) plans with \$1 million to \$10 million in plan assets, compared with 37 percent in plans with more than \$1 billion. Conversely, separate accounts held 34 percent of assets in 401(k) plans with \$1 million to \$10 million in plan assets, compared with 1 percent of assets in plans with more than \$1 billion. Other investment vehicles, such as individual stocks (including company stock) and individual bonds, accounted for the remaining assets. The largest plans had the highest allocation to other investment vehicles, partially reflecting company stock investing.<sup>35</sup>

EXHIBIT 2.8

### Types of Investment Vehicles in 401(k) Plans

Percentage of total assets among plans with audited 401(k) filings in the BrightScope database by plan assets, 2014



\* Other includes individual stocks (including company stock), bonds, brokerage, and other investments. Participant loans are excluded.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Components may not add to 100 percent because of rounding.

Source: BrightScope Defined Contribution Plan Database

## Aggregate Asset Allocation

Although employers choose the investment options offered in 401(k) plans, participants generally choose where to allocate the money in their accounts among the available options.<sup>36</sup> In 2014, equity funds held the largest share (43.5 percent) of 401(k) assets in the BrightScope database, with the bulk invested in domestic equity funds (Exhibit 2.9). Bonded funds held the next largest share with 20.9 percent of 401(k) plan assets, which was divided between target date funds (17.4 percent of assets) and non-target date balanced funds (3.5 percent of assets). Other investments (which include company stock) followed with 16.7 percent of assets—then GICs (8.9 percent of assets). Bond funds (mostly domestic) held 7.8 percent of assets and

money funds held 2.1 percent.<sup>37</sup> Participants in larger 401(k) plans (as measured by plan assets) tended to have less of their assets invested in balanced funds. For example, participants in 401(k) plans with \$1 million to \$10 million in plan assets had 35.7 percent of their assets invested in balanced funds, on average, compared with 16.5 percent for participants in plans with more than \$1 billion in plan assets (Exhibit 2.9). However, participants in these larger 401(k) plans tended to have more of their money invested in other investments. This pattern reflects, in part, the pattern of company stock offering in 401(k) plans.<sup>38</sup> For example, in 2014, participants in plans with \$1 million to \$10 million in plan assets invested 2.3 percent of their assets in other investments, compared with 23.5 percent in other investments for plans with more than \$1 billion in plan assets.

### EXHIBIT 2.9

#### The Largest Share of 401(k) Assets Is Invested in Equity Funds

Percentage of total assets among plans with audited 401(k) filings in the BrightScope database by plan assets or number of plan participants, 2014

Plan assets	Equity funds		Balanced funds		Bond funds					Memo: index funds
	Domestic	International	Target date funds <sup>1</sup>	Non-target date balanced funds	Domestic	International	Money funds	GICs	Other <sup>2</sup>	
\$1M to \$10M	35.7	8.8	23.2	12.5	7.5	0.5	2.5	7.0	2.3	13.7
>\$10M to \$50M	39.6	8.8	19.9	8.0	8.1	0.5	2.1	8.4	4.6	16.3
>\$50M to \$100M	40.8	8.2	19.5	5.7	7.9	0.3	2.1	9.3	6.2	21.0
>\$100M to \$250M	40.5	7.7	21.0	5.0	7.7	0.3	2.1	9.1	6.5	22.3
>\$250M to \$500M	39.1	7.3	22.8	4.1	7.4	0.2	2.3	8.4	8.4	25.7
>\$500M to \$1B	38.4	7.3	22.7	3.9	7.6	0.1	2.1	8.9	9.0	27.2
More than \$1B	33.7	7.4	14.5	2.0	7.4	0.3	2.1	9.1	23.5	32.8
All plans	36.0	7.5	17.4	3.5	7.5	0.3	2.1	8.9	16.7	28.6

Number of plan participants	Equity funds		Balanced funds		Bond funds					Memo: index funds
	Domestic	International	Target date funds <sup>1</sup>	Non-target date balanced funds	Domestic	International	Money funds	GICs	Other <sup>2</sup>	
Fewer than 100	39.3	8.9	15.1	8.1	7.7	0.4	2.7	10.0	7.9	16.0
100 to 499	39.9	8.9	17.7	8.2	8.1	0.5	2.4	7.8	6.5	17.4
500 to 999	41.0	8.1	19.2	6.0	8.1	0.3	2.3	8.6	6.3	21.3
1,000 to 4,999	39.5	7.6	21.1	4.5	7.6	0.2	2.1	9.1	8.2	25.7
5,000 to 9,999	35.5	7.4	19.7	3.5	7.2	0.2	2.0	9.6	14.8	29.6
10,000 or more	33.7	7.3	15.3	2.0	7.4	0.3	2.1	8.9	23.0	32.1
All plans	36.0	7.5	17.4	3.5	7.5	0.3	2.1	8.9	16.7	28.6

<sup>1</sup> A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

<sup>2</sup> Other includes commodity funds, real estate funds, and individual stocks (including company stock) and bonds.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. Participant loans are excluded. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database

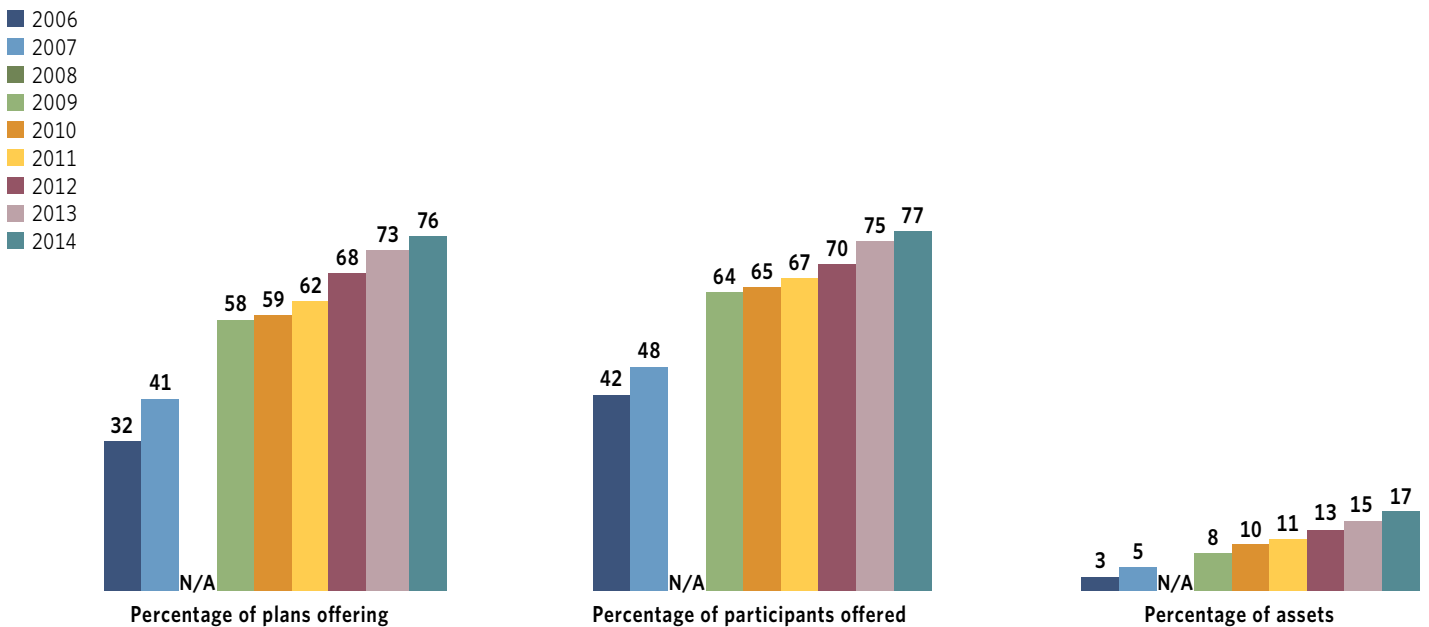
Since 2006 (the earliest data in the BrightScope database), 401(k) plans have become more likely to offer target date funds.<sup>39</sup> In 2014, 76 percent of 401(k) plans offered target date funds, compared with 58 percent in 2009 and 32 percent in 2006 (Exhibit 2.10).<sup>40</sup> The share of plan assets invested in these funds also increased, rising from 3 percent in 2006 to 8 percent in 2009 and 17 percent in 2014.<sup>41</sup> Smaller plans were more likely than larger plans to add target date funds to their investment lineups between 2006 and 2014. For example, 25.4 percent of plans with \$1 million to \$10 million in plan assets offered target date funds in 2006 and 74.7 percent did in 2014 (Exhibit 2.11,

upper panel). For plans with more than \$1 billion in plan assets, 43.6 percent offered target date funds in 2006 and 79.6 percent did so in 2014. Smaller plans also experienced the largest increase in the share of plan assets invested in target date funds. For example, in 2006, 3.5 percent of plan assets for plans with \$1 million to \$10 million in plan assets was invested in target date funds (Exhibit 2.11, lower panel). That rose to 23.2 percent in 2014. For plans with more than \$1 billion in plan assets, the percentage of plan assets invested in target date funds rose from 2.2 percent to 14.5 percent over the same period.

EXHIBIT 2.10

**Target Date Fund Use Has Increased in 401(k) Plans**

Percentage of plans offering, participants offered, and plan assets in target date funds\* among plans with audited 401(k) filings in the BrightScope database (2006-2014)



\* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

N/A = not available

Note: BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database

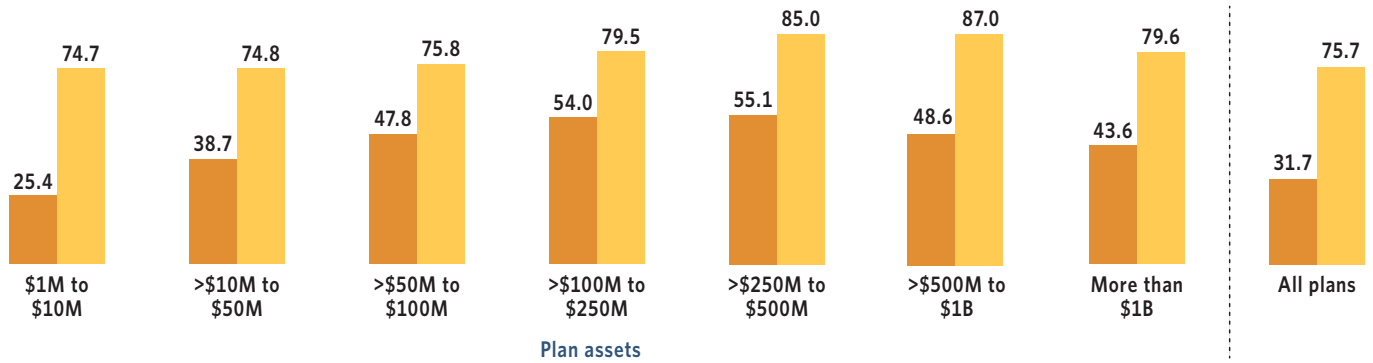
EXHIBIT 2.11

**Larger 401(k) Plans Tend to Be More Likely to Offer Target Date Funds**

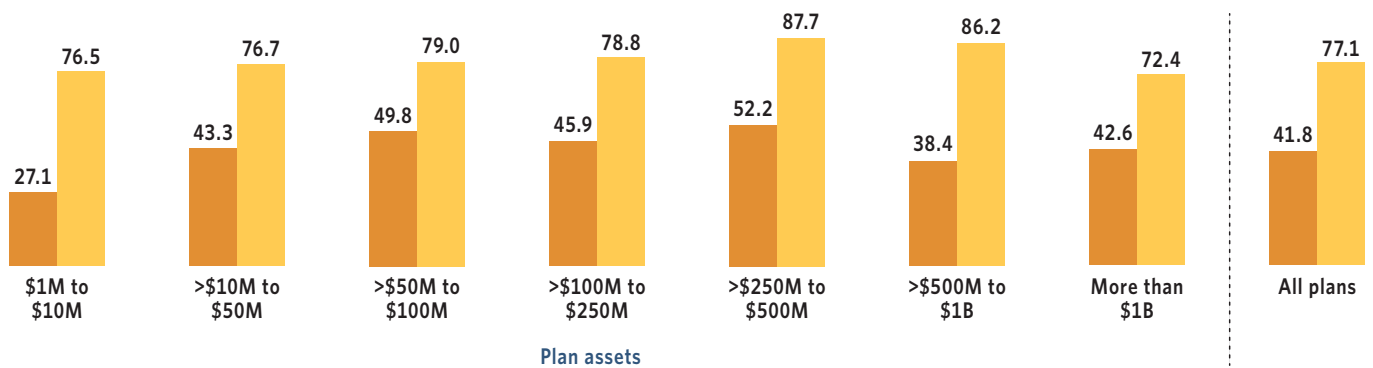
Percentage of plans offering, participants offered, and plan assets in target date funds\* among plans with audited 401(k) filings in the BrightScope database by plan assets, 2006 and 2014

■ 2006  
■ 2014

Percentage of plans offering target date funds\*



Percentage of participants offered target date funds\*



Percentage of assets in target date funds\*



\* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

Note: The samples are 22,592 plans in 2006 and 29,958 plans in 2014. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) plans for this analysis.

Source: BrightScope Defined Contribution Plan Database



## Index Funds

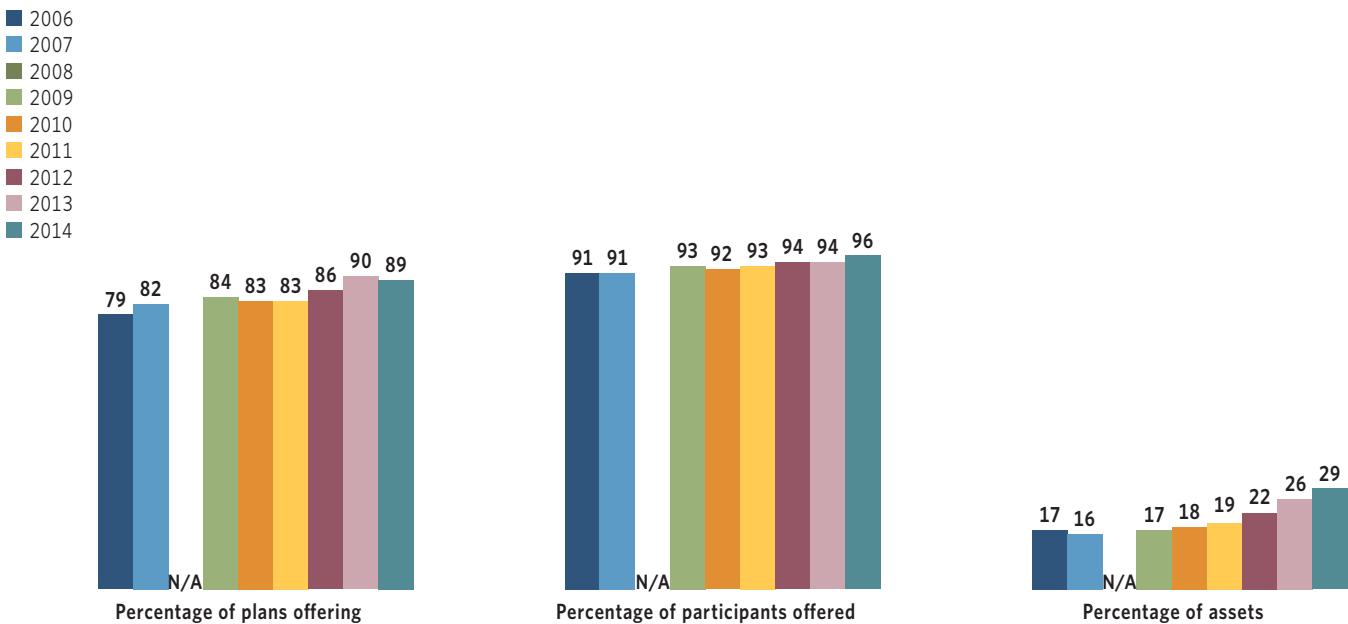
Index funds also have grown in popularity since 2006 (the earliest data in the BrightScope database).<sup>42</sup> In 2006, 79 percent of 401(k) plans in the BrightScope database offered index funds and 17 percent of plan assets were invested in such products (Exhibit 2.12). The use of index funds increased to 89 percent of 401(k) plans and 29 percent of assets in 2014. Although the percentage of 401(k) plans offering index funds increased for almost all plan asset groups, smaller plans experienced larger increases (Exhibit 2.13, upper panel). Nevertheless, larger plans are more likely to offer index funds compared with smaller plans. For example, more than 95 percent of 401(k) plans with

more than \$50 million in plan assets offered index funds in their plan lineups in 2014, compared with 83.9 percent of 401(k) plans with \$1 million to \$10 million. Index funds also generally claimed a greater share of assets in larger 401(k) plans than in smaller plans. On average, 28.6 percent of 401(k) assets in the BrightScope database were invested in index funds in 2014, but this fraction ranged from 13.7 percent of assets in plans with \$1 million to \$10 million in plan assets to 32.8 percent in plans with more than \$1 billion (Exhibit 2.13, lower panel). Similarly, 16.0 percent of assets in plans with fewer than 100 participants were invested in index funds, compared with 32.1 percent of assets in plans with 10,000 participants or more (Exhibit 2.9, lower panel).

EXHIBIT 2.12

### Index Fund Use Has Increased in 401(k) Plans

Percentage of plans offering, participants offered, and plan assets in index funds\* among plans with audited 401(k) filings in the BrightScope database (2006-2014)



\* An index fund is designed to track the performance of a market index. The fund's portfolio of securities is either a replicate or a representative sample of the designated market index. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

N/A = not available

Note: BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database

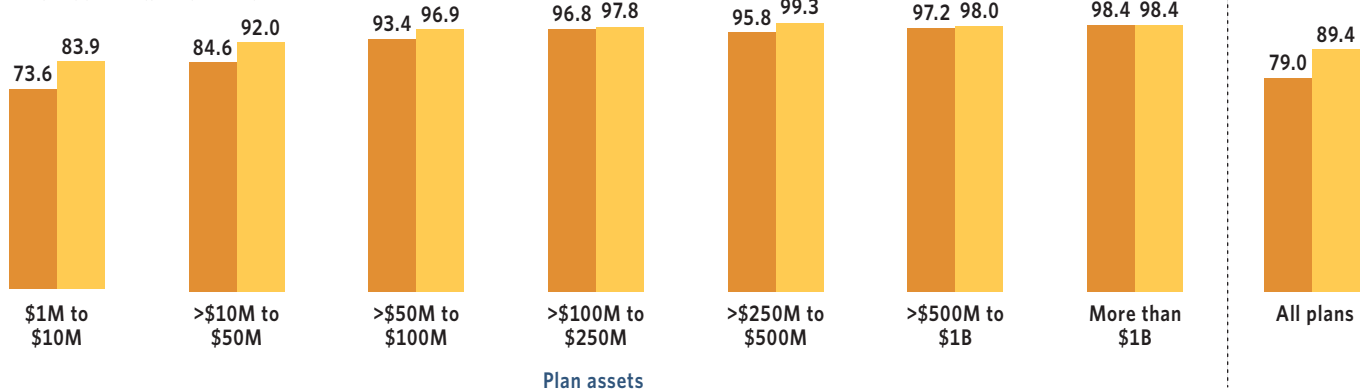
EXHIBIT 2.13

**Index Fund Use Is Nearly Universal in Larger 401(k) Plans**

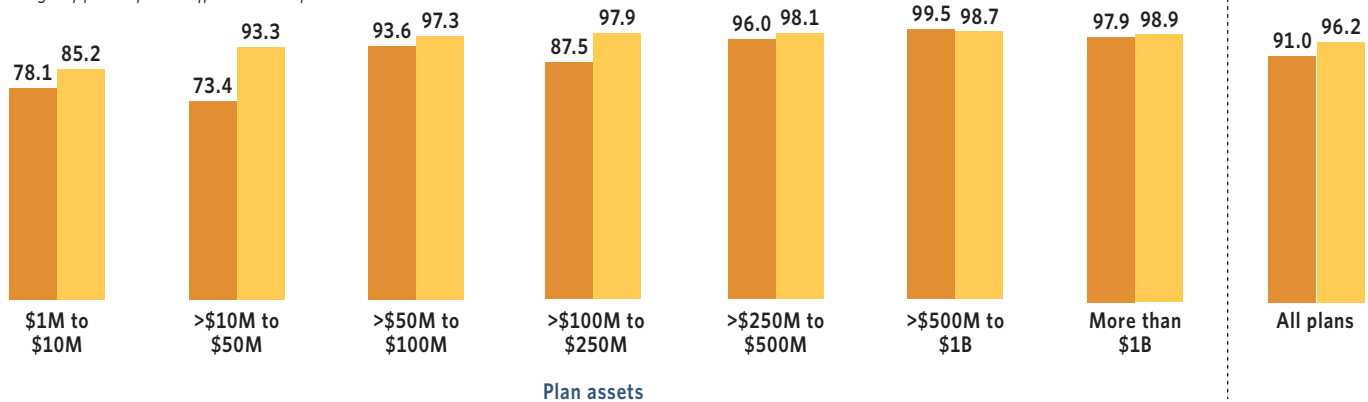
Percentage of plans offering, participants offered, and plan assets in index funds\* among plans with audited 401(k) filings in the BrightScope database by plan assets, 2006 and 2014

■ 2006  
■ 2014

Percentage of plans offering index funds\*



Percentage of participants offered index funds\*



Percentage of assets in index funds\*



\* An index fund is designed to track the performance of a market index. The fund's portfolio of securities is either a replicate or a representative sample of the designated market index. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

Note: The samples are 22,592 plans in 2006 and 29,958 plans in 2014. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) plans for this analysis.

Source: BrightScope Defined Contribution Plan Database

## CHAPTER 3

# 401(k) Plans Engage a Variety of Service Providers

When employers offer a 401(k) plan to their employees, they also engage service providers to help manage the operation of the plan. This chapter focuses on the service providers engaged to provide recordkeeping to the plan, including maintaining plan records, processing employee contributions and distributions, and issuing account statements to employees. Employers can choose from a large number of service providers to provide recordkeeping services for their plans. Asset managers, insurance companies, brokerage firms, banks, or pure recordkeepers can provide these services.<sup>43</sup>

### Types of Recordkeepers

In 2014, insurance companies were the most common type of recordkeeper, providing recordkeeping services for 45.6 percent of 401(k) plans in the BrightScope database (Exhibit 3.1).<sup>44</sup> Insurance companies were significantly more likely to provide recordkeeping services for smaller plans, doing so for about half of plans with \$1 million to \$50 million in plan assets, but only 13.6 percent of plans with more than \$1 billion. Asset managers—which include mutual fund companies—serving as recordkeepers were more likely to provide services to larger plans. In 2014, asset managers provided recordkeeping services for 18.3 percent of plans with \$1 million to \$10 million in plan assets, 58.0 percent of plans with more than \$500 million to \$1 billion, and 55.4 percent of plans with more than \$1 billion.

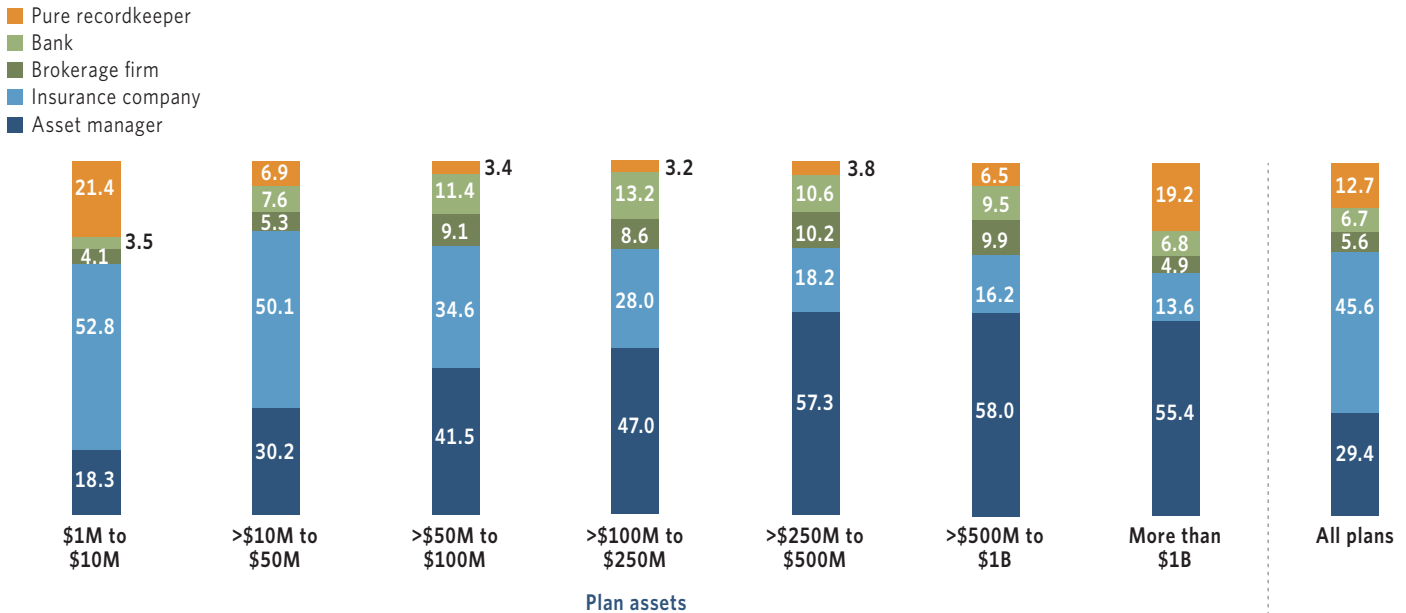
Overall, asset managers provided recordkeeping for 29.4 percent of 401(k) plans. Banks, which provided recordkeeping for 6.7 percent of plans, tended to be more likely to do so for midsize plans. Although banks provided recordkeeping services for only 3.5 percent of plans with \$1 million to \$10 million in plan assets and 6.8 percent of plans with more than \$1 billion in 2014, banks' recordkeeping activity rose to more than 10 percent of plans with more than \$50 million to \$500 million in plan assets.

Pure recordkeepers (firms that only offer recordkeeping services) were more likely to provide recordkeeping services for small or large 401(k) plans, but less likely to do so for midsize plans in 2014. Overall, pure recordkeepers provided recordkeeping for 12.7 percent of plans, but that fell from 21.4 percent of plans with \$1 million to \$10 million in plan assets to 3.2 percent of plans with more than \$100 million to \$250 million (Exhibit 3.1). This figure rose for larger 401(k) plans, to 19.2 percent of plans with more than \$1 billion in plan assets. Brokerage firms, which include discount and full-service brokerage firms, tended to be more likely to provide recordkeeping services for midsize plans, providing recordkeeping for only 4.1 percent of plans with \$1 million to \$10 million in plan assets and 4.9 percent of plans with more than \$1 billion in assets, but about 10 percent of plans with more than \$250 million to \$1 billion.

EXHIBIT 3.1

**Larger 401(k) Plans Are More Likely to Use Asset Managers for Recordkeeping**

Percentage of plans among plans with audited 401(k) filings in the BrightScope database by plan assets, 2014



Note: The sample is 20,711 plans with \$2.7 trillion in assets. The top 40 recordkeepers among audited 401(k) plans in the BrightScope database were classified according to their primary business, and only plans recordkept by those recordkeepers are included in this analysis. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Components may not add to 100 percent because of rounding.

Source: BrightScope Defined Contribution Plan Database

Because asset managers were more likely to provide recordkeeping services for large plans, their share of 401(k) assets is greater than their share of 401(k) plans. In 2014, asset managers provided recordkeeping services for 29.4 percent of plans (Exhibit 3.2, upper panel), but 53.5 percent of assets (Exhibit 3.2, lower panel) and 39.5 percent of participants (Exhibit 3.2, middle panel). Insurance companies, because they were more likely to provide recordkeeping for smaller plans, represented a smaller share of assets and participants than plans (18.8 percent of assets and 26.5 percent of participants versus 45.6 percent of plans). Brokerage firms (5.4 percent of assets), banks (8.0 percent), and pure recordkeepers (14.4 percent) provided the remaining recordkeeping services.

**Proprietary Funds**

When deciding on a recordkeeper, employers may simultaneously consider the recordkeepers' proprietary funds. That is, the employer may choose the XYZ asset manager for recordkeeping and also choose to include one or more XYZ mutual funds, XYZ collective investment trusts, or XYZ separate accounts in the investment lineup. In 2014, 65.4 percent of 401(k) plans included proprietary funds in their investment lineups, and proprietary fund assets accounted for 26.1 percent of plan assets (Exhibit 3.3, upper panel). Larger plans tended to be more likely to include proprietary funds in their investment lineups, although this effect was reversed for the largest plans (those with more than \$1 billion), which included proprietary

## EXHIBIT 3.2

## Types of Recordkeepers Used by 401(k) Plans

## Percentage of plans among plans with audited 401(k) filings in the BrightScope database by type of recordkeeper, 2014

Plan assets	Type of recordkeeper				
	Asset manager	Insurance company	Brokerage firm	Bank	Pure recordkeeper
\$1M to \$10M	18.3	52.8	4.1	3.5	21.4
>\$10M to \$50M	30.2	50.1	5.3	7.6	6.9
>\$50M to \$100M	41.5	34.6	9.1	11.4	3.4
>\$100M to \$250M	47.0	28.0	8.6	13.2	3.2
>\$250M to \$500M	57.3	18.2	10.2	10.6	3.8
>\$500M to \$1B	58.0	16.2	9.9	9.5	6.5
More than \$1B	55.4	13.6	4.9	6.8	19.2
All plans	29.4	45.6	5.6	6.7	12.7

## Percentage of participants among plans with audited 401(k) filings in the BrightScope database by type of recordkeeper, 2014

Plan assets	Type of recordkeeper				
	Asset manager	Insurance company	Brokerage firm	Bank	Pure recordkeeper
\$1M to \$10M	19.0	50.9	3.8	4.4	21.9
>\$10M to \$50M	29.0	50.2	4.4	10.0	6.4
>\$50M to \$100M	35.9	37.7	6.3	15.7	4.3
>\$100M to \$250M	37.9	29.6	6.4	21.0	5.1
>\$250M to \$500M	46.5	23.3	6.8	19.8	3.5
>\$500M to \$1B	47.6	17.3	6.9	22.0	6.2
More than \$1B	42.6	17.1	2.5	15.4	22.4
All plans	39.5	26.5	4.6	16.2	13.2

## Percentage of plan assets among plans with audited 401(k) filings in the BrightScope database by type of recordkeeper, 2014

Plan assets	Type of recordkeeper				
	Asset manager	Insurance company	Brokerage firm	Bank	Pure recordkeeper
\$1M to \$10M	20.6	52.9	4.5	4.0	18.0
>\$10M to \$50M	32.5	48.3	5.4	8.2	5.7
>\$50M to \$100M	41.6	34.3	9.3	11.3	3.5
>\$100M to \$250M	47.4	27.6	8.6	13.2	3.2
>\$250M to \$500M	58.0	18.0	9.9	10.2	3.8
>\$500M to \$1B	58.8	16.4	9.3	9.2	6.3
More than \$1B	56.6	13.0	3.2	6.4	20.9
All plans	53.5	18.8	5.4	8.0	14.4

Note: The sample is 20,711 plans with \$2.7 trillion in assets. The top 40 recordkeepers among audited 401(k) plans in the BrightScope database were classified according to their primary business, and only plans recordkept by those recordkeepers are included in this analysis. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. Row percentages may not add to 100 percent because of rounding.

Source: BrightScope Defined Contribution Plan Database

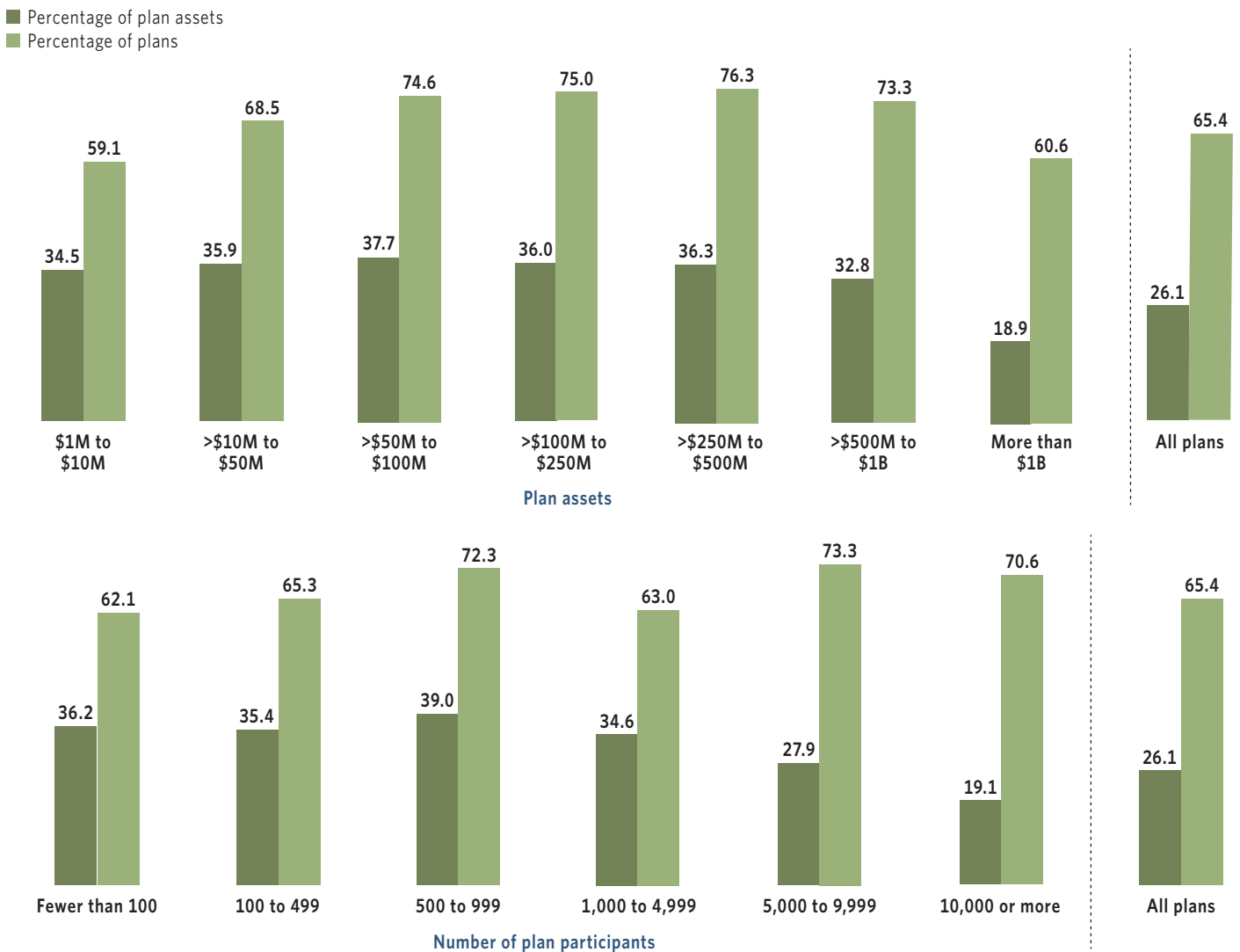
funds at about the same rate as the smallest plans (those with \$1 million to \$10 million). For example, 59.1 percent of plans with \$1 million to \$10 million in plan assets, 76.3 percent of plans with more than \$250 million to \$500 million in plan assets, and 60.6 percent of plans with more than \$1 billion in plan assets included proprietary funds. However, even though plans with more than \$250 million to \$500 million in plan assets were significantly more likely to offer proprietary funds than

the smallest plans, participant investment in proprietary funds was similar. For all plan size groups with less than \$1 billion in plan assets, proprietary funds accounted for between 32 and 38 percent of plan assets. Participants in plans with more than \$1 billion in plan assets held a lower share of their assets (18.9 percent) in proprietary funds. A roughly similar pattern emerges when variation across plans by number of plan participants is analyzed (Exhibit 3.3, lower panel).

EXHIBIT 3.3

**Proprietary Fund Use Varies with 401(k) Plan Size**

Percentage of plan assets invested in proprietary funds and percentage of plans offering proprietary funds\* among plans with audited 401(k) filings in the BrightScope database by plan assets or number of plan participants, 2014



\* Proprietary funds are the investment products of the recordkeeping financial services firm. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

Note: The sample is 26,167 plans with \$2.9 trillion in assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database

## CHAPTER 4

# 401(k) Plan Fees

Employers offering 401(k) plans typically hire service providers to assist in operating the plans, and those service providers charge fees for their services. Many types of services are required to operate a 401(k) plan, including administrative services (e.g., recordkeeping and transaction processing), participant-focused services (e.g., participant communication, education, or advice), regulatory and compliance services (e.g., plan document services; consulting, accounting, and audit services; and legal advice), and investment management. As with any other employee benefit, the employer typically decides how the costs will be shared. In order to cover the expenses of providing a 401(k) plan, fees are paid by the plan itself, the employer, and/or the plan participants. These fees can be levied based on the number of participants, the amount of assets, or as a fixed dollar amount for the plan as a whole. In order to better understand the impact of fees, BrightScope has developed a *total plan cost* measure that includes all fees on the audited Form 5500 reports as well as fees paid through investment expense ratios (see the callout box below).

### Total Plan Cost

When looking at overall 401(k) plan fees, it is important to consider the sample to be analyzed. Fees can be calculated at the plan level (where each plan is treated equally), at the participant level (where each participant is treated equally), or at the asset level (where each dollar is treated equally). Because the average plan tends to be small, and the average participant and average dollar are in larger plans, the particular focus of the fee analysis can produce different answers. For this reason, this paper presents the total plan cost weighted by plans, participants, and assets.

In 2014, the average 401(k) plan in the BrightScope sample had a total plan cost of 0.97 percent of assets, while the average participant was in a plan with a total plan cost of 0.55 percent of assets, and the average dollar was in a plan with a total plan cost of 0.39 percent of assets (Exhibit 4.1; upper, middle, and lower panels). This pattern occurs for a couple of reasons. First, participants and assets tend to be concentrated in larger plans. For example, although only 1.8 percent of audited 401(k) plans in the BrightScope Defined Contribution Plan Database have more than \$1 billion in plan assets, nearly 40 percent of participants are in these plans, and they hold nearly 60 percent of all 401(k) assets (see Exhibit I.3). A similar pattern occurs in the DOL 401(k) universe.

#### ABOUT BRIGHTSCOPE'S TOTAL PLAN COST

*Total plan cost* includes asset-based investment management fees, asset-based administrative and advice fees, and other fees (including insurance charges) from the Form 5500 and audited financial statements of ERISA-covered 401(k) plans. When plans use products registered under the Investment Company Act of 1940—such as mutual funds—expense data from Lipper are used to calculate fees. When plans use non-1940 Act products, such as collective investment trusts and pooled separate accounts, BrightScope uses an algorithm to estimate investment management fees.

Another reason that participant-weighted and asset-weighted total plan costs are lower than plan-weighted total plan cost is because larger plans tend to have a lower total plan cost when measured as a percentage of plan assets. For example, 401(k) plans with \$1 million to \$10 million in plan assets had an average total plan cost of 1.20 percent of plan assets in 2014, compared with 0.52 percent of plan assets for plans with more than \$100 million to \$250 million and 0.30 percent of plan assets for plans with more than \$1 billion (Exhibit 4.1, upper panel). Similar patterns occur for both the participant-weighted and asset-weighted numbers. One reason that larger plans tend to have lower fees is related to the greater share of their assets invested in index funds (Exhibit 2.13), which tend to have lower expenses than other types of investments (Exhibit 4.5). In addition, there are fixed costs associated with offering a 401(k) plan. As a plan grows in size, those fixed costs can be spread over more participants and a larger asset base, lowering the total plan cost as a percentage of assets.

Since 2009, total plan cost has decreased whether measured on a plan-, participant-, or asset-weighted basis (Exhibit 4.1). For example, total plan cost decreased from 1.02 percent in 2009 to 0.97 percent in 2014 on a plan-weighted basis, from 0.65 percent to 0.55 percent on a participant-weighted basis, and from 0.47 percent to 0.39 percent on an asset-weighted basis. All plan size groups saw reductions in total plan cost between 2009 and 2014, but the largest occurred for plans with \$1 million to \$10 million in plan assets.

Total 401(k) plan costs varied around the plan-weighted average of 0.97 percent in 2014. For example, 10 percent of plans had a total plan cost of 0.47 percent or less, while another 10 percent had a total plan cost of 1.50 percent or more (Exhibit 4.2). Although there is significant diversity in total plan cost, the difference between the 10th percentile and 90th percentile plans tends to decrease as plan size increases. For example, in 401(k) plans with \$1 million to \$10 million in plan assets, total plan cost for 80 percent of plans ranged between 0.74 percent and 1.71 percent of assets. For plans with more than \$1 billion in plan assets, that range was significantly narrower, varying from 0.14 percent of assets to 0.51 percent.

## Mutual Fund Expenses

Some of the main costs of a 401(k) plan are the expenses associated with the investments in the plan.<sup>45</sup> Therefore, it is important to understand factors associated with these expenses (such as plan size or investment objective). ICI has analyzed mutual fund expenses for both the entire industry<sup>46</sup> as well as 401(k) plans specifically,<sup>47</sup> combining Lipper fee information with ICI mutual fund asset data at a share class level (see the callout box below). The ICI analysis has found that, both for mutual funds industrywide and mutual funds in 401(k) plans, fund expenses have declined significantly since 2000. For example, the simple average expense ratio for equity mutual funds was 1.60 percent in 2000, and declined to 1.31 percent by 2015 (Exhibit 4.3). However, mutual fund investors tend to concentrate their assets into lower-cost funds. The 0.68 percent asset-weighted industry average expense ratio in 2015, which gives greater weight to funds with higher assets, was a little more than half of the 1.31 percent industry simple average, and the asset-weighted average 401(k) expense ratio was even lower at 0.53 percent.

### FEES PAID ON MUTUAL FUNDS HELD IN 401(k) PLANS

Each year ICI updates its analysis of the fees paid by 401(k) investors in mutual funds on the funds held in their 401(k) plans (see Collins et al. 2016). ICI combines Lipper fee information with ICI data on 401(k) plan investments in mutual funds, share class by share class. Unfortunately, mutual fund company recordkeeping systems cannot see through to the underlying 401(k) plans, and thus it is not possible to analyze how mutual fund fees vary by plan size using the ICI mutual fund share class and Lipper fee data. The resulting asset-weighted measure of fees paid on 401(k) plan mutual fund investments reflects where the assets are invested and what 401(k) investors as a group paid on average for their 401(k) plan mutual fund investments.

BrightScope's database of audited 401(k) Form 5500 filings contains reporting of mutual fund holdings by share class in DC plans for about 60 percent of the funds in the database. In the remaining cases where the mutual fund is known, but not the specific share class, BrightScope assigns a share class to the mutual fund holdings in a given DC plan based on the size of the plan's investment in the mutual fund. If the DC plan has less than \$1 million invested in the mutual fund, a retail-type share class is assigned to the holding. If the DC plan has \$1 million or more invested in the mutual fund, then an institutional-type share class is assigned. BrightScope matches Lipper fee information by mutual fund share class to estimate the fees paid by DC plan participants on their mutual fund holdings in their DC plans. Because BrightScope has DC plan-level information, it is possible to report how mutual fund fees vary across plan size and in aggregate.



EXHIBIT 4.1

**Total Plan Cost by 401(k) Plan Assets**

Total plan cost\* as a percentage of assets among plans with audited 401(k) filings in the BrightScope database (by plan assets, 2009 and 2014)

■ 2009  
■ 2014

Plan-weighted



Participant-weighted



Asset-weighted



\* Total plan cost is BrightScope's measure of the total cost of operating the 401(k) plan and includes asset-based investment management fees, asset-based administrative and advice fees, and other fees (including insurance charges) from the Form 5500 and audited financial statements of ERISA-covered 401(k) plans. Total plan cost is computed only for plans with sufficiently complete information.

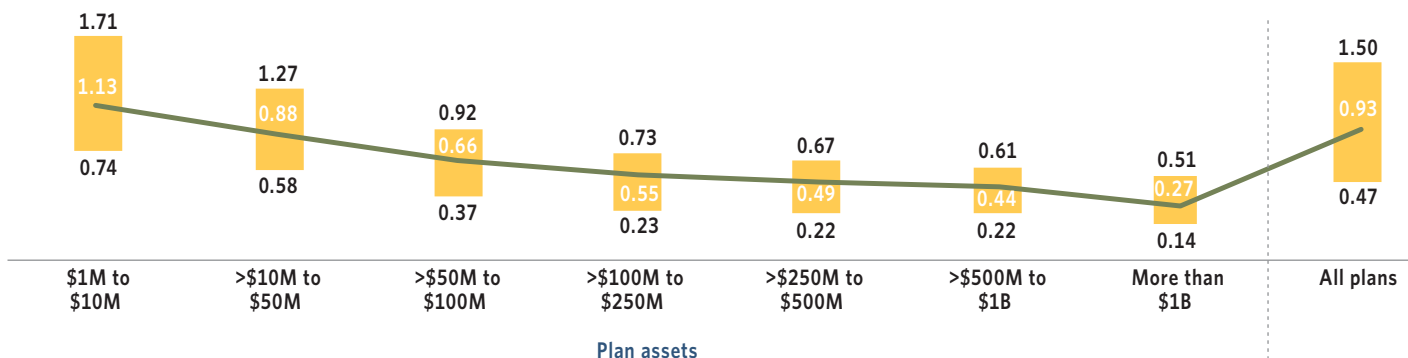
Note: The samples are 22,469 plans with \$1.9 trillion in assets in 2009, and 28,940 plans with \$3.2 trillion in assets in 2014. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper

EXHIBIT 4.2

**Distribution of Total Plan Cost by 401(k) Plan Assets**

10th percentile, median, and 90th percentile plan-weighted total plan cost\* as a percentage of assets among plans with audited 401(k) filings in the BrightScope database by plan assets, 2014



\* Total plan cost is BrightScope's measure of the total cost of operating the 401(k) plan and includes asset-based investment management fees, asset-based administrative and advice fees, and other fees (including insurance charges) from the Form 5500 and audited financial statements of ERISA-covered 401(k) plans. Total plan cost is computed only for plans with sufficiently complete information.

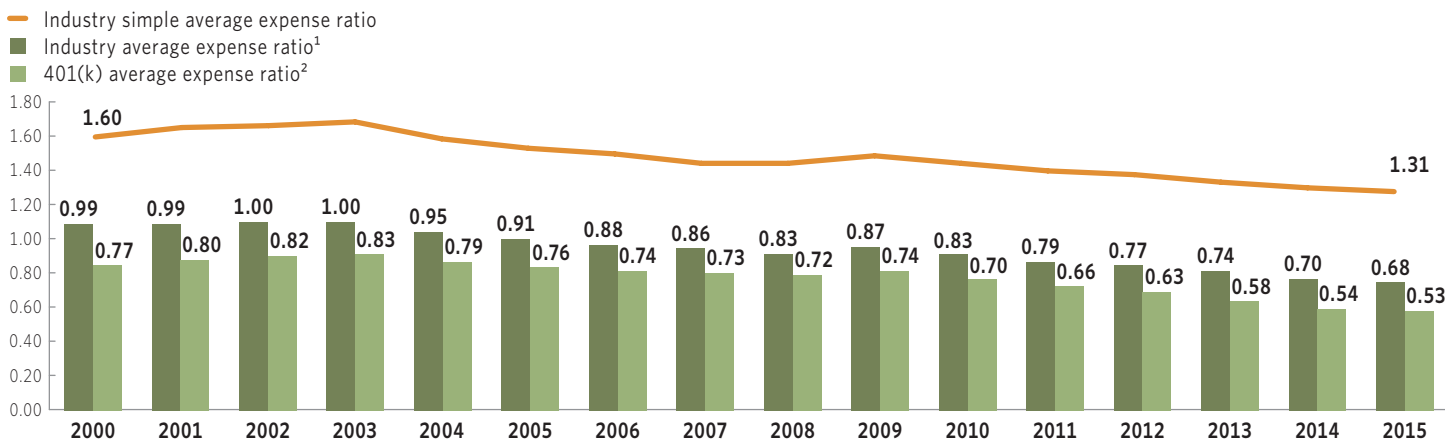
Note: The sample is 28,940 plans with \$3.2 trillion in assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper

EXHIBIT 4.3

**401(k) Mutual Fund Investors Tend to Pay Lower-Than-Average Expenses for Equity Mutual Funds**

Percentage of assets, 2000-2015



<sup>1</sup> The industry average expense ratio is measured as an asset-weighted average.

<sup>2</sup> The 401(k) average expense ratio is measured as a 401(k) asset-weighted average.

Note: Data exclude mutual funds available as investment choices in variable annuities.

Sources: Investment Company Institute and Lipper; see Collins et al. 2016

## Comparison of ICI and BrightScope Mutual Fund Expense Analyses

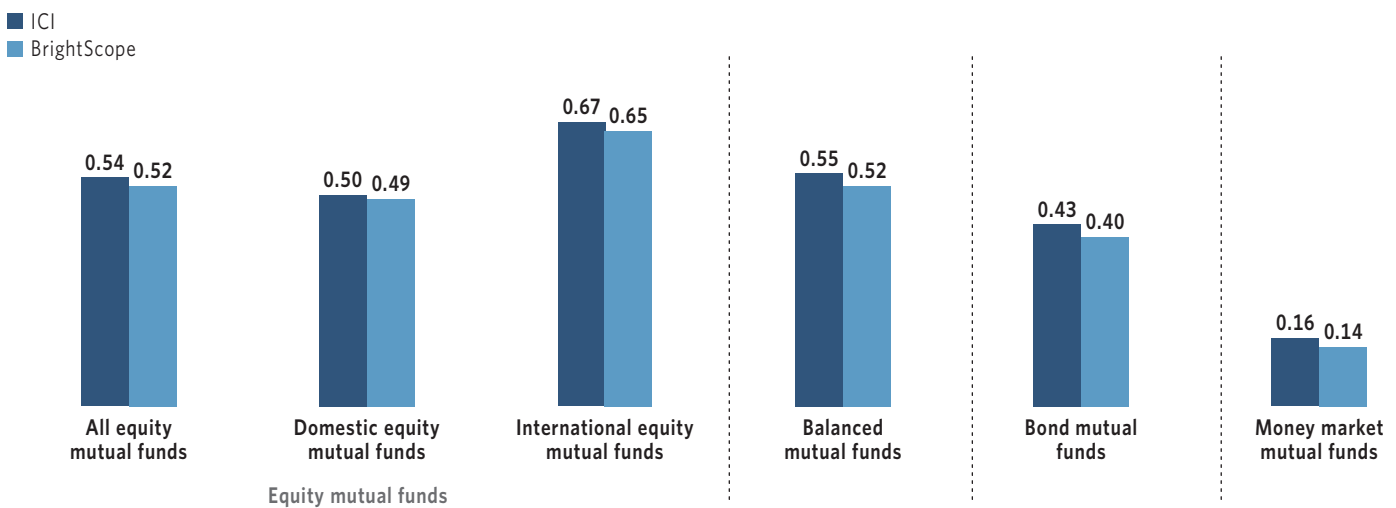
The asset-weighted mutual fund expense ratios in 401(k) plans in the BrightScope database tend to be slightly lower than in the ICI data analysis. For example, the asset-weighted total expense ratio paid by 401(k) participants for equity mutual funds in the BrightScope database was 0.52 percent of assets in 2014, compared with 0.54 percent in the ICI database, while the expense ratio for balanced mutual funds in the BrightScope database was 0.52 percent of assets, compared with 0.55

percent in the ICI database (Exhibit 4.4). Similarly, the average expense ratio for bond mutual funds in the BrightScope database was 0.40 percent, compared with 0.43 percent in the ICI database. This pattern can be partially explained by the underrepresentation of smaller 401(k) plans in the BrightScope database (because of DOL rules that generally only require audited filings from plans with 100 participants or more as well as the exclusion of plans with less than \$1 million in plan assets), which tend to be invested in funds with higher expense ratios than larger plans.<sup>48</sup>

### EXHIBIT 4.4

#### ICI and BrightScope Analyses of 401(k) Mutual Fund Expenses

Asset-weighted average expense ratio as a percentage of assets by mutual fund investment objective, 2014



Note: The 401(k) average expense ratio is measured as a 401(k) asset-weighted average. See the callout box on page 48 for a description of the fee analysis.

Sources: Investment Company Institute, BrightScope Defined Contribution Plan Database, and Lipper

## Mutual Fund Expenses by 401(k) Plan Size

In 2014, the asset-weighted average expense ratios of mutual funds in 401(k) plans in the BrightScope Defined Contribution Plan Database varied both with the size of the plan (with larger plans, measured by assets or participants, tending to have concentrated assets in mutual funds with lower expense ratios) and the type of investment (with domestic investment mutual funds tending to have lower expense ratios than international mutual funds, and money market mutual funds tending to have lower expense ratios than equity or bond mutual funds) (Exhibit 4.5).

The asset-weighted average expense ratio for domestic equity mutual funds held in 401(k) plans in 2014 was 0.49 percent of assets, ranging from 0.82 percent in 401(k) plans with \$1 million to \$10 million in plan assets to 0.39 percent in plans with more than \$1 billion (Exhibit 4.5, upper panel).<sup>49</sup> Expense ratios for international equity mutual funds held in 401(k) plans were higher compared with domestic equity mutual funds, with an asset-weighted average of 0.65 percent of assets, ranging from 1.03 percent of assets in 401(k) plans with \$1 million to \$10 million in plan assets to 0.55 percent in plans with more than \$1 billion. Plans with more participants also tended to have equity mutual funds with lower expense ratios. For example, domestic equity mutual funds ranged from an asset-weighted average expense ratio of 0.66 percent of assets in plans with fewer than 100 participants to 0.42 percent in plans with 10,000 participants or more, and international equity mutual fund asset-weighted average expense ratios ranged from 0.85 percent of assets in plans with fewer than 100 participants to 0.57 percent in plans with 10,000 participants or more (Exhibit 4.5, lower panel).

The average expense ratios for domestic bond mutual funds were lower than domestic equity mutual fund expense ratios (0.39 percent of assets for domestic bond mutual funds, compared with 0.49 percent of assets for domestic equity mutual funds), but expense ratios for international bond mutual funds were higher than those for international equity mutual funds (0.71 percent of assets for international bond and 0.65 percent of assets for international equity mutual funds) (Exhibit 4.5, upper and lower panels). Balanced mutual funds, which invest in a mix of equity and fixed-income securities, tend to have expense ratios that reflect the share of their investments in the different asset categories. Money market mutual funds had the lowest expense ratio of any of the asset classes, with an asset-weighted average expense ratio of 0.14 percent of assets in 2014 for money market mutual funds in 401(k) plans.

Index mutual funds, which tend to be domestic equity index mutual funds,<sup>50</sup> typically had lower expense ratios than other fund types.<sup>51</sup> For example, the asset-weighted average expense ratio for index mutual funds in 401(k) plans was 0.11 percent of assets in 2014, compared with 0.49 percent of assets for domestic equity mutual funds (including both index and actively managed funds) (Exhibit 4.5, upper and lower panels). Like other mutual fund types, index mutual funds also tend to have lower expense ratios in larger plans. For example, index mutual funds in plans with \$1 million to \$10 million in plan assets had an average expense ratio of 0.26 percent of assets, compared with 0.08 percent in plans with more than \$1 billion in plan assets. Similarly, index mutual funds in plans with fewer than 500 participants had an asset-weighted average expense ratio of 0.17 percent of assets, compared with 0.09 percent in plans with 10,000 participants or more.

## EXHIBIT 4.5

**Average Expense Ratios of Mutual Funds in 401(k) Plans, 2014**

Asset-weighted average expense ratio as a percentage of mutual fund assets among plans with audited 401(k) filings in the BrightScope database by mutual fund investment objective and plan size

Plan assets	Equity mutual funds		Balanced mutual funds		Bond mutual funds				Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International	Money market mutual funds	Other	
\$1M to \$10M	0.82	1.03	0.81	0.80	0.72	0.86	0.17	1.00	0.26
>\$10M to \$50M	0.69	0.87	0.68	0.65	0.59	0.76	0.17	0.92	0.19
>\$50M to \$100M	0.57	0.75	0.57	0.54	0.47	0.70	0.16	0.81	0.16
>\$100M to \$250M	0.54	0.70	0.55	0.47	0.42	0.70	0.16	0.78	0.13
>\$250M to \$500M	0.51	0.67	0.53	0.43	0.39	0.66	0.15	0.77	0.12
>\$500M to \$1B	0.48	0.62	0.50	0.41	0.37	0.68	0.15	0.71	0.10
More than \$1B	0.39	0.55	0.46	0.33	0.30	0.69	0.13	0.56	0.08
All plans	0.49	0.65	0.55	0.44	0.39	0.71	0.14	0.72	0.11

Number of plan participants	Equity mutual funds		Balanced mutual funds		Bond mutual funds				Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International	Money market mutual funds	Other	
Fewer than 100	0.66	0.85	0.68	0.65	0.56	0.77	0.17	0.85	0.17
100 to 499	0.65	0.84	0.66	0.63	0.55	0.75	0.17	0.89	0.17
500 to 999	0.56	0.74	0.58	0.51	0.46	0.73	0.16	0.81	0.13
1,000 to 4,999	0.51	0.67	0.53	0.45	0.40	0.69	0.15	0.76	0.12
5,000 to 9,999	0.44	0.59	0.52	0.42	0.34	0.68	0.14	0.50	0.10
10,000 or more	0.42	0.57	0.51	0.34	0.32	0.71	0.13	0.64	0.09
All plans	0.49	0.65	0.55	0.44	0.39	0.71	0.14	0.72	0.11

\* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

Note: The sample is 22,584 plans with \$1.4 trillion in mutual fund assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. See the callout box on page 48 for a description of the fee analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper

Mutual fund expenses decreased between 2009 and 2014 in 401(k) plans across all asset classes, looking at cross-sectional data. For example, domestic equity mutual funds had an asset-weighted average expense ratio of 0.49 percent in 2014, down from 0.64 percent in 2009 (Exhibits 4.5 and 4.6). Money market mutual funds experienced the largest percent decline in expenses, falling from 0.30 percent of assets in 2009 to 0.14 percent in 2014. This decline in money market mutual fund expenses was concentrated in smaller 401(k) plans, which tended to have higher expenses to begin with. For example, in 401(k) plans with \$1 million to \$10 million in plan assets, expenses on money market mutual funds decreased by more

than half between 2009 and 2014, falling from 0.47 percent to 0.17 percent of assets. However, plans in all size categories experienced decreases in their money market mutual fund expenses on average. For example, in 401(k) plans with more than \$1 billion in plan assets, money market mutual fund expenses declined by 10 basis points between 2009 and 2014, falling from 0.23 percent of assets to 0.13 percent. Some of the decline in money market mutual fund asset-weighted average expenses may be attributable to fee waivers, which increased substantially in money market funds because of the low interest rate environment following the market turmoil of 2008.<sup>52</sup>

#### EXHIBIT 4.6

### Average Expense Ratios of Mutual Funds in 401(k) Plans, 2009

Asset-weighted average expense ratio as a percentage of mutual fund assets among plans with audited 401(k) filings in the BrightScope database by mutual fund investment objective and plan size

Plan assets	Equity mutual funds		Balanced mutual funds		Bond mutual funds				Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International	Money market mutual funds	Other	
\$1M to \$10M	0.92	1.09	0.85	0.86	0.73	0.83	0.47	1.13	0.32
>\$10M to \$50M	0.79	0.96	0.74	0.71	0.59	0.82	0.41	1.02	0.24
>\$50M to \$100M	0.70	0.89	0.66	0.62	0.49	0.85	0.37	0.91	0.18
>\$100M to \$250M	0.65	0.83	0.62	0.57	0.45	0.84	0.35	0.88	0.16
>\$250M to \$500M	0.62	0.80	0.62	0.50	0.44	0.77	0.32	0.77	0.15
>\$500M to \$1B	0.60	0.80	0.63	0.53	0.41	0.79	0.28	0.85	0.13
More than \$1B	0.55	0.78	0.50	0.45	0.38	0.79	0.23	0.79	0.14
All plans	0.64	0.84	0.62	0.55	0.45	0.80	0.30	0.87	0.16

Number of plan participants	Equity mutual funds		Balanced mutual funds		Bond mutual funds				Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International	Money market mutual funds	Other	
Fewer than 100	0.78	0.98	0.74	0.73	0.60	0.90	0.43	1.08	0.21
100 to 499	0.79	0.96	0.73	0.70	0.58	0.81	0.41	1.02	0.23
500 to 999	0.70	0.90	0.67	0.63	0.52	0.81	0.38	0.96	0.19
1,000 to 4,999	0.65	0.84	0.63	0.56	0.45	0.81	0.33	0.89	0.16
5,000 to 9,999	0.60	0.79	0.60	0.52	0.42	0.80	0.28	0.68	0.14
10,000 or more	0.58	0.79	0.57	0.47	0.40	0.79	0.25	0.83	0.14
All plans	0.64	0.84	0.62	0.55	0.45	0.80	0.30	0.87	0.16

\* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

Note: The sample is 17,430 plans with \$0.9 trillion in mutual fund assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. See the callout box on page 48 for a description of the fee analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper

## Variation in Mutual Fund Expenses

In addition to the average expense ratio, it is important to examine different points in the distribution of expenses to understand the range of mutual fund expenses paid in 401(k) plans. For example, though the asset-weighted average expense ratio on equity mutual funds held in 401(k) plans was 0.52 percent in 2014 (Exhibit 4.4), 10 percent of assets were invested in funds with expense ratios of 0.04 percent or less, and 10 percent of assets were invested in funds with expense ratios of 0.98 percent or more (see Exhibits 4.7 and A.5). Similar patterns were observed for both domestic and international equity mutual funds.

Although 401(k) equity mutual fund expenses tend to decrease as total assets in a 401(k) plan increase, mutual fund expenses vary in plans of all sizes. For example, expenses for equity mutual funds ranged from 0.21 percent at the asset-weighted 10th percentile to 1.33 percent at the asset-weighted 90th percentile in 401(k) plans with \$1 million to \$10 million in plan assets (see Exhibits 4.7 and A.5). Similarly, equity mutual fund

expenses in 401(k) plans with more than \$1 billion in plan assets ranged between 0.02 percent of assets at the asset-weighted 10th percentile to 0.88 percent at the asset-weighted 90th percentile. The range in expenses is at least partly attributable to differences in fee arrangements. For example, though some or all costs associated with plan recordkeeping can be paid by fees associated with the mutual fund investment, other costs may be paid as a per-participant charge by participants or the employer. Expenses also may be paid through a combination of these methods.<sup>53</sup> In addition, the expense ratios applicable to funds vary within a given investment category.<sup>54</sup> For example, actively managed mutual funds can offer investors the chance to earn superior returns, access specialized sectors, or take advantage of alternative investment strategies, all of which can make a fund more expensive to manage. Similarly, equity mutual funds have different expense ratios depending on the extent to which they invest in small-cap, mid-cap, or emerging market stocks (which tend to be more expensive to manage) instead of large-cap or developed market stocks (which tend to be less expensive to manage).

EXHIBIT 4.7

**Distribution of Mutual Fund Expense Ratios Paid by 401(k) Plan Participants**

10th percentile, median, and 90th percentile asset-weighted mutual fund expense ratios as a percentage of plan assets among plans with audited 401(k) filings in the BrightScope database by mutual fund investment objective and plan assets, 2014



Note: The sample is 22,584 plans with \$1.4 trillion in mutual fund assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. For detailed expense information, see Exhibit A.5 in the appendix. See the callout box on page 48 for a description of the fee analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper



## Changes in Mutual Fund Expenses in Consistent 401(k) Plans, 2009-2014

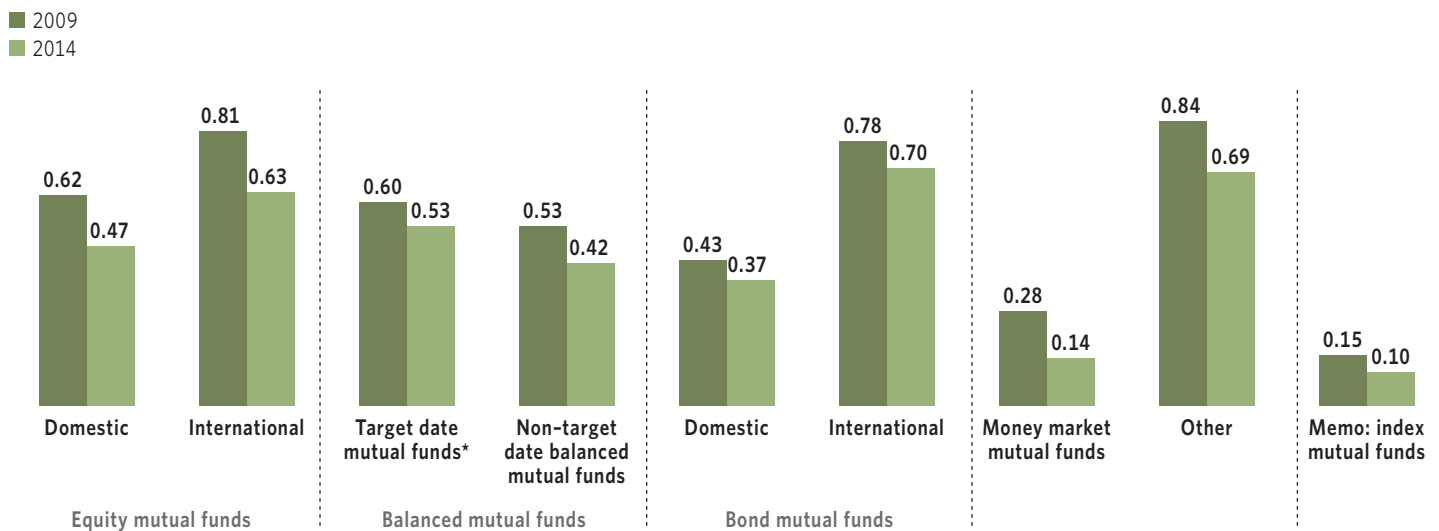
The BrightScope Defined Contribution Plan Database permits the tracking of the same plans over time; for this analysis, a large sample of about 8,000 401(k) plans with mutual fund assets were followed from 2009 through 2014. Asset-weighted average mutual fund expenses tended to decrease for the consistent 401(k) plans as a group and across all plan size asset and mutual fund investment categories. This is similar to the analysis of snapshots of 401(k) plans over time. For example, the asset-weighted average expense ratio for domestic equity mutual funds decreased from 0.62 percent of assets in 2009

to 0.47 percent of assets in 2014, a decline of 15 basis points, among 401(k) plans in the database every year between 2009 and 2014 (Exhibit 4.8). The asset-weighted average expense ratio for international equity mutual funds fell 18 basis points, from 0.81 percent in 2009 to 0.63 percent in 2014, and money market mutual fund expenses fell by 14 basis points, from 0.28 percent in 2009 to 0.14 percent in 2014. The asset-weighted average expense ratio for target date mutual funds decreased from 0.60 percent in 2009 to 0.53 percent in 2014 in these consistent 401(k) plans. Even index mutual fund fees fell for these consistent 401(k) plans, from 0.15 percent in 2009 to 0.10 percent in 2014.

### EXHIBIT 4.8

#### 401(k) Plan Mutual Fund Fees in Consistent 401(k) Plans Tended to Decrease Between 2009 and 2014

Asset-weighted average expense ratio as a percentage of plan assets among plans with audited 401(k) filings in the BrightScope database in every year between 2009 and 2014 by mutual fund investment objective



\* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

Note: The sample is 8,079 plans in the BrightScope Defined Contribution Plan Database in each year between 2009 and 2014 with \$0.6 trillion in mutual fund assets in 2009 and \$1.1 trillion in mutual fund assets in 2014. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. See the callout box on page 48 for a description of the fee analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper

The asset-weighted average mutual fund expenses decreased across all plan sizes and mutual fund investment categories. For example, among plans with \$1 million to \$10 million in plan assets in 2009 and consistently in the database through 2014, the asset-weighted average expense ratio of domestic equity mutual funds fell from 0.79 percent in 2009 to 0.61 percent

in 2014, a decline of 18 basis points (Exhibit 4.9). Among plans with more than \$1 billion in plan assets in 2009 and consistently in the database through 2014, the asset-weighted average expense ratio of domestic equity mutual funds fell from 0.57 percent in 2009 to 0.37 percent in 2014, a decline of 20 basis points.

#### EXHIBIT 4.9

### Average Expense Ratios of Mutual Funds in Consistent 401(k) Plans by Plan Assets, 2009 and 2014

Asset-weighted average expense ratio as a percentage of plan assets among plans with audited 401(k) filings in the BrightScope database in every year between 2009 and 2014 by mutual fund investment objective

#### 2009

Plan assets	Equity mutual funds		Balanced mutual funds		Bond mutual funds				Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International	Money market mutual funds	Other	
\$1M to \$10M	0.79	0.99	0.80	0.76	0.62	0.84	0.44	1.11	0.22
>\$10M to \$50M	0.74	0.91	0.70	0.67	0.53	0.79	0.37	0.95	0.21
>\$50M to \$100M	0.67	0.86	0.64	0.62	0.47	0.83	0.36	0.92	0.17
>\$100M to \$250M	0.62	0.80	0.63	0.53	0.43	0.79	0.34	0.78	0.16
>\$250M to \$500M	0.62	0.81	0.64	0.51	0.43	0.76	0.28	0.84	0.13
>\$500M to \$1B	0.54	0.76	0.56	0.47	0.39	0.78	0.24	0.86	0.14
More than \$1B	0.57	0.78	0.49	0.48	0.38	0.78	0.22	0.76	0.14
All plans	0.62	0.81	0.60	0.53	0.43	0.78	0.28	0.84	0.15

#### 2014

Plan assets	Equity mutual funds		Balanced mutual funds		Bond mutual funds				Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International	Money market mutual funds	Other	
\$1M to \$10M	0.61	0.80	0.64	0.59	0.53	0.81	0.17	0.95	0.15
>\$10M to \$50M	0.57	0.73	0.59	0.54	0.46	0.70	0.16	0.80	0.15
>\$50M to \$100M	0.53	0.70	0.53	0.47	0.42	0.69	0.16	0.79	0.12
>\$100M to \$250M	0.49	0.63	0.52	0.41	0.37	0.67	0.15	0.66	0.11
>\$250M to \$500M	0.48	0.63	0.53	0.43	0.36	0.73	0.14	0.71	0.09
>\$500M to \$1B	0.42	0.57	0.50	0.31	0.31	0.67	0.13	0.65	0.08
More than \$1B	0.37	0.55	0.39	0.35	0.31	0.70	0.13	0.54	0.09
All plans	0.47	0.63	0.53	0.42	0.37	0.70	0.14	0.69	0.10

\* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

Note: The sample is 8,079 plans in the BrightScope Defined Contribution Plan Database in each year between 2009 and 2014 with \$0.6 trillion in mutual fund assets in 2009 and \$1.1 trillion in mutual fund assets in 2014. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) plans for this analysis. See the callout box on page 48 for a description of the fee analysis. Plans are allocated to the plan asset category based on plan assets in 2009.

Sources: BrightScope Defined Contribution Plan Database and Lipper

# Appendix

## EXHIBIT A.1

### 401(k) Plan Activity Combinations

Percentage of plans with selected plan activity combinations by plan assets or number of plan participants, 2014

Plan assets	No features	Employer contributions only	Outstanding loans only	Automatic enrollment only	Employer contributions and outstanding loans	Employer contributions and automatic enrollment	Outstanding loans and automatic enrollment	Employer contributions, outstanding loans, and automatic enrollment
\$1M to \$10M	4.3	21.9	11.7	0.6	44.8	3.2	2.8	10.6
>\$10M to \$50M	0.7	11.2	4.5	0.2	51.0	3.4	2.1	26.9
>\$50M to \$100M	0.3	5.7	2.2	0.2	47.7	3.0	1.7	39.2
>\$100M to \$250M	0.1	4.1	1.5	0.0	42.9	1.9	0.7	48.8
>\$250M to \$500M	0.2	3.2	0.9	0.1	41.7	2.2	0.9	50.7
>\$500M to \$1B	0.0	1.4	1.6	0.2	40.5	1.0	0.6	54.7
More than \$1B	0.0	1.8	0.9	0.2	38.0	0.7	0.5	58.0
All plans	2.5	15.8	7.9	0.4	46.8	3.1	2.3	21.1

Number of plan participants	No features	Employer contributions only	Outstanding loans only	Automatic enrollment only	Employer contributions and outstanding loans	Employer contributions and automatic enrollment	Outstanding loans and automatic enrollment	Employer contributions, outstanding loans, and automatic enrollment
100 to 499	3.0	18.6	8.6	0.4	47.3	3.2	2.4	16.5
500 to 999	1.5	9.0	6.4	0.4	45.8	3.4	2.6	30.8
1,000 to 4,999	1.1	6.6	5.8	0.3	44.0	2.3	2.1	37.9
5,000 to 9,999	0.5	4.4	2.9	0.0	45.4	1.8	0.8	44.3
10,000 or more	0.1	5.6	3.1	0.5	50.2	1.2	0.9	38.3
All plans	2.5	15.8	7.9	0.4	46.8	3.1	2.3	21.1

Note: The sample is 50,115 plans with \$3.7 trillion in assets. The results exclude 403(b) plans with a 401(k) feature and plans with fewer than 100 participants or less than \$1 million in plan assets. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2014. Row percentages may not add to 100 percent because of rounding. See the callout box on page 17 for a description of the activities.

Source: Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

## EXHIBIT A.2

**Distribution of Participants by 401(k) Plan Activity Combinations**

Percentage of participants in plans with selected plan activity combinations by plan assets and number of plan participants, 2014

<b>Plan assets</b>	<b>No features</b>	<b>Employer contributions only</b>	<b>Outstanding loans only</b>	<b>Automatic enrollment only</b>	<b>Employer contributions and outstanding loans</b>	<b>Employer contributions and automatic enrollment</b>	<b>Outstanding loans and automatic enrollment</b>	<b>Employer contributions, outstanding loans, and automatic enrollment</b>
\$1M to \$10M	8.2	18.4	14.5	0.6	43.8	2.4	2.9	9.2
>\$10M to \$50M	0.9	10.4	6.2	0.8	52.1	3.1	2.6	24.0
>\$50M to \$100M	0.5	6.8	4.2	0.2	51.7	2.1	1.8	32.8
>\$100M to \$250M	(*)	7.5	2.2	0.0	49.4	2.0	0.7	38.2
>\$250M to \$500M	0.2	3.6	0.4	0.6	52.9	2.1	0.9	39.4
>\$500M to \$1B	0.0	2.9	2.4	(*)	48.3	0.6	0.3	45.3
More than \$1B	0.0	8.7	4.3	0.1	39.6	0.5	0.7	46.1
All plans	1.3	9.1	5.3	0.3	46.3	1.7	1.4	34.6

<b>Number of plan participants</b>	<b>No features</b>	<b>Employer contributions only</b>	<b>Outstanding loans only</b>	<b>Automatic enrollment only</b>	<b>Employer contributions and outstanding loans</b>	<b>Employer contributions and automatic enrollment</b>	<b>Outstanding loans and automatic enrollment</b>	<b>Employer contributions, outstanding loans, and automatic enrollment</b>
100 to 499	2.4	16.0	8.6	0.4	48.2	3.1	2.6	18.8
500 to 999	1.6	8.8	6.3	0.3	45.9	3.4	2.6	31.2
1,000 to 4,999	0.9	6.2	5.7	0.3	43.8	2.0	1.9	39.2
5,000 to 9,999	0.5	4.3	2.8	0.0	45.4	1.8	0.8	44.3
10,000 or more	1.3	9.3	4.4	0.4	47.1	0.7	0.7	36.2
All plans	1.3	9.1	5.3	0.3	46.3	1.7	1.4	34.6

(\*) = less than 0.05 percent

Note: The sample is 50,115 plans with \$3.7 trillion in assets. The results exclude 403(b) plans with a 401(k) feature and plans with fewer than 100 participants or less than \$1 million in plan assets. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2014. Row percentages may not add to 100 percent because of rounding. See the callout box on page 17 for a description of the activities.

Sources: Investment Company Institute tabulations of US Department of Labor 2014 Form 5500 Research File

EXHIBIT A.3

**Employer Contribution Activity in 401(k) Plans**

**Percentage of 401(k) plans with employer contributions (by plan assets, plan year 2006-2014)**

Plan assets	2006	2007	2008	2009	2010	2011	2012	2013	2014
Less than \$1M	72	72	73	71	67	68	68	68	69
\$1M to \$10M	88	89	88	85	81	82	83	84	85
>\$10M to \$50M	94	94	94	91	88	90	91	92	93
>\$50M to \$100M	95	95	95	93	92	95	95	95	95
>\$100M to \$250M	97	97	97	95	94	96	97	97	97
>\$250M to \$500M	97	97	98	97	96	96	97	98	98
>\$500M to \$1B	97	98	97	96	96	97	97	98	98
More than \$1B	95	96	96	96	96	97	97	98	98
All plans	78	78	78	76	72	73	74	76	77

**Percentage of participants in 401(k) plans with employer contributions (by plan assets, plan year 2006-2014)**

Plan assets	2006	2007	2008	2009	2010	2011	2012	2013	2014
Less than \$1M	66	67	67	66	62	62	63	63	63
\$1M to \$10M	84	84	86	81	76	78	78	76	78
>\$10M to \$50M	91	91	93	90	85	88	88	89	90
>\$50M to \$100M	93	93	96	93	88	91	93	93	93
>\$100M to \$250M	97	96	97	94	92	95	95	97	97
>\$250M to \$500M	98	98	98	97	96	98	98	98	98
>\$500M to \$1B	98	98	97	95	97	96	98	99	97
More than \$1B	91	91	92	92	91	95	94	95	95
All plans	88	89	89	87	85	87	88	88	89

Note: The results exclude 403(b) plans with a 401(k) feature.

Source: Investment Company Institute tabulations of US Department of Labor Form 5500 Research File

## EXHIBIT A.4

**Conditional Average Number of Investment Options in 401(k) Plans by Type of Investment**

Average number of investment options among plans with audited 401(k) filings in the BrightScope database offering a given investment option (by plan assets, 2014)

Plan assets	Equity funds		Balanced funds		Bond funds					Memo: index funds
	Domestic	International	Target date funds <sup>1</sup>	Non-target date balanced funds	Domestic	International	Money funds	GICs	Other <sup>2</sup>	
\$1M to \$10M	10.7	3.4	8.1	2.9	3.8	1.1	1.1	1.1	1.5	4.8
>\$10M to \$50M	10.6	3.4	9.3	2.4	3.9	1.1	1.1	1.1	1.7	5.1
>\$50M to \$100M	9.3	3.0	10.1	1.8	3.6	1.1	1.2	1.1	1.8	6.4
>\$100M to \$250M	8.9	2.8	10.4	1.7	3.5	1.1	1.2	1.1	1.9	6.6
>\$250M to \$500M	8.4	2.8	10.6	1.5	3.5	1.1	1.2	1.2	2.1	7.5
>\$500M to \$1B	8.1	2.7	10.9	1.5	3.7	1.1	1.3	1.3	2.1	8.2
More than \$1B	7.1	2.9	10.6	1.5	4.5	1.4	1.5	2.2	3.1	9.4
All plans	10.3	3.3	9.0	2.5	3.8	1.1	1.1	1.1	1.7	5.4

<sup>1</sup> A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

<sup>2</sup> Other includes commodity funds, real estate funds, and individual stocks (including company stock) and bonds, but each separate option is counted as a unique investment option.

Note: The sample is 29,958 plans with \$3.4 trillion in assets. Participant loans are excluded. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis.

Source: BrightScope Defined Contribution Plan Database

## EXHIBIT A.5

**Detailed Distribution of Mutual Fund Expense Ratios Paid by 401(k) Plan Participants**

10th percentile, median, and 90th percentile asset-weighted mutual fund expense ratios as a percentage of plan assets among plans with audited 401(k) filings in the BrightScope database by mutual fund investment objective and plan assets, 2014

**10th percentile**

Plan assets	Equity mutual funds			Balanced mutual funds			Bond mutual funds			Money market mutual funds	Other	Memo: index mutual funds
	All	Domestic	International	All	Target date mutual funds*	Non-target date balanced mutual funds	All	Domestic	International			
\$1M to \$10M	0.21	0.17	0.53	0.18	0.18	0.25	0.27	0.22	0.27	0.07	0.24	0.05
>\$10M to \$50M	0.09	0.08	0.45	0.17	0.17	0.18	0.17	0.12	0.27	0.07	0.18	0.05
>\$50M to \$100M	0.05	0.05	0.34	0.17	0.17	0.18	0.07	0.07	0.50	0.07	0.10	0.04
>\$100M to \$250M	0.05	0.04	0.33	0.17	0.17	0.18	0.07	0.07	0.50	0.10	0.10	0.04
>\$250M to \$500M	0.04	0.04	0.14	0.17	0.17	0.17	0.06	0.06	0.50	0.09	0.08	0.04
>\$500M to \$1B	0.04	0.04	0.12	0.16	0.16	0.17	0.06	0.06	0.51	0.10	0.08	0.04
More than \$1B	0.02	0.02	0.10	0.17	0.16	0.18	0.05	0.05	0.51	0.09	0.08	0.02
All plans	0.04	0.04	0.12	0.17	0.17	0.18	0.06	0.06	0.50	0.09	0.08	0.04

**Median**

Plan assets	Equity mutual funds			Balanced mutual funds			Bond mutual funds			Money market mutual funds	Other	Memo: index mutual funds
	All	Domestic	International	All	Target date mutual funds*	Non-target date balanced mutual funds	All	Domestic	International			
\$1M to \$10M	0.93	0.90	1.07	0.81	0.79	0.82	0.81	0.80	0.89	0.19	1.14	0.17
>\$10M to \$50M	0.76	0.73	0.86	0.72	0.73	0.64	0.61	0.60	0.89	0.19	0.97	0.16
>\$50M to \$100M	0.66	0.65	0.78	0.64	0.64	0.55	0.46	0.46	0.64	0.18	0.89	0.12
>\$100M to \$250M	0.64	0.64	0.73	0.63	0.64	0.46	0.46	0.46	0.64	0.17	0.89	0.09
>\$250M to \$500M	0.63	0.58	0.70	0.60	0.63	0.46	0.46	0.46	0.64	0.14	0.88	0.08
>\$500M to \$1B	0.54	0.54	0.64	0.57	0.63	0.46	0.46	0.46	0.74	0.12	0.79	0.07
More than \$1B	0.41	0.35	0.54	0.42	0.52	0.26	0.45	0.44	0.70	0.10	0.63	0.06
All plans	0.54	0.52	0.64	0.59	0.63	0.46	0.46	0.46	0.70	0.11	0.80	0.07

Continued on next page

EXHIBIT A.5 CONTINUED

**Detailed Distribution of Mutual Fund Expense Ratios Paid by 401(k) Plan Participants**

10th percentile, median, and 90th percentile asset-weighted mutual fund expense ratios as a percentage of plan assets among plans with audited 401(k) filings in the BrightScope database by mutual fund investment objective and plan assets, 2014

**90th percentile**

Plan assets	Equity mutual funds			Balanced mutual funds			Bond mutual funds			Money market mutual funds	Other	Memo: index mutual funds
	All	Domestic	International	All	Target date mutual funds*	Non-target date balanced mutual funds	All	Domestic	International			
\$1M to \$10M	1.33	1.29	1.41	1.23	1.20	1.32	1.08	1.07	1.16	0.24	1.39	0.59
>\$10M to \$50M	1.20	1.18	1.31	1.03	1.03	1.09	0.93	0.92	1.02	0.24	1.32	0.45
>\$50M to \$100M	1.05	1.03	1.14	0.83	0.79	0.94	0.82	0.80	0.98	0.24	1.25	0.31
>\$100M to \$250M	0.98	0.97	1.05	0.76	0.76	0.75	0.71	0.71	0.93	0.24	1.07	0.20
>\$250M to \$500M	0.96	0.95	1.03	0.75	0.76	0.75	0.71	0.69	0.90	0.24	1.08	0.18
>\$500M to \$1B	0.92	0.89	0.96	0.75	0.75	0.75	0.64	0.61	0.90	0.24	1.04	0.18
More than \$1B	0.88	0.85	0.92	0.70	0.73	0.58	0.55	0.51	0.85	0.21	1.05	0.17
All plans	0.98	0.96	1.09	0.78	0.78	0.79	0.71	0.71	0.93	0.24	1.15	0.18

\* A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.

Note: The sample is 22,584 plans with \$1.4 trillion in mutual fund assets. BrightScope audited 401(k) filings generally include plans with 100 participants or more. Plans with fewer than four investment options, more than 100 investment options, or less than \$1 million in plan assets are excluded from BrightScope audited 401(k) filings for this analysis. See the callout box on page 48 for a description of the fee analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper



# Notes

- <sup>1</sup> Though the Form 5500 is a joint form with the Pension Benefit Guaranty Corporation (PBGC) and Internal Revenue Service (IRS), the Department of Labor (DOL) gathers and processes the information from the regulatory reports. See US Department of Labor, Employee Benefits Security Administration, “Forms and Filing Instructions.”
- <sup>2</sup> The US Department of Labor Form 5500 Research Files are available at [www.dol.gov/ebsa/publications/form5500dataresearch.html](http://www.dol.gov/ebsa/publications/form5500dataresearch.html).
- <sup>3</sup> The figures presented in Exhibit I.2 (and Exhibits I.3 and I.5) are slightly lower than the 401(k)-type plan figures published in US Department of Labor, Employee Benefits Security Administration 2016a, because 403(b) plans that also reported 401(k) features have been excluded from this analysis. The 401(k) asset value reported in Exhibits I.2, I.3, and I.4 also is lower than reported in Exhibit I.1 because ICI makes a calendar-year adjustment to the data.
- <sup>4</sup> As used in this report, *participants* are workers eligible to participate in their employer’s 401(k) plan, whether or not they have enrolled in the plan. Before 2005, the US Department of Labor private pension plan bulletins reported a count of active 401(k) plan participants that had been adjusted from the number of active participants actually reported in the Form 5500 filings to exclude: (1) individuals eligible to participate in a 401(k) plan who had not elected to have their employers make contributions; and (2) nonvested former employees who had not (at the time the Form 5500 filings were submitted) incurred the break-in service period established by their plan (see US Department of Labor, Employee Benefits Security Administration 2012a for further detail). This change in methodology results in a dramatic increase in the number of individuals reported as active participants in 401(k) plans; in 2004, the number of active participants increased to 53.1 million (new method) from 44.4 million (old method; see US Department of Labor, Employee Benefits Security Administration 2016b). As the US Department of Labor notes: “In a purely economic sense, and for research purposes, individuals in these groups should not be included in the count of active participants.” However, the form schedule needed to make the adjustment is no longer required.
- <sup>5</sup> For more information on filing requirements, see US Department of Labor, Employee Benefits Security Administration 2012e.
- <sup>6</sup> See US Department of Labor, Employee Benefits Security Administration 2016a.
- <sup>7</sup> Although there are more than 31,000 401(k) plans in the BrightScope Defined Contribution Plan Database, this report excludes plans with less than \$1 million in assets.

- <sup>8</sup> Plans with fewer than four investment options or more than 100 investment options are excluded from BrightScope audited 401(k) filings for this analysis.
- <sup>9</sup> ICI conducts the Annual Mutual Fund Shareholder Tracking Survey each year to gather information on the demographic and financial characteristics of US households. The most recent survey was conducted from May to July 2016 and was based on a dual frame sample of 5,500 US households. Of these, 2,750 households were from a landline random digit dial (RDD) frame and 2,750 households were from a cell phone RDD frame. Of the households contacted, 2,170 (39.4 percent) had 401(k) plans. All interviews were conducted over the telephone with the member of the household who was the sole or co-decisionmaker most knowledgeable about the household's savings and investments. The standard error for the 2016 sample of households is  $\pm 1.3$  percentage points at the 95 percent confidence level. For the 2016 survey results, see Holden, Schrass, and Bogdan 2016. In addition, ICI conducts an annual survey to gather information about respondents' views on DC account saving and their confidence in 401(k) and other DC plan accounts. The most recent survey consists of answers to questions included in a series of national surveys that the GfK Group fielded using the KnowledgePanel<sup>®</sup> from mid-November 2015 through mid-December 2015, covering a total sample of 3,076 American adults. For the 2015 survey results, see Holden et al. 2016.
- <sup>10</sup> One of the frequently analyzed household surveys is the Survey of Consumer Finances (SCF), which is administered by the Federal Reserve Board. The SCF is a triennial interview survey of US families sponsored by the Board of Governors of the Federal Reserve System and the US Department of Treasury. The sample design of the survey aims to measure a broad range of financial characteristics. The sample has two parts: a standard geographically based random sample and a specially constructed oversampling of wealthy families. Weights are used to combine the two samples to represent the full population of US families. The 2013 SCF interviewed 6,026 families, representing 122.5 million families. Data available on the Federal Reserve Board's website are altered to protect the privacy of individual respondents and include weights. For an overview of the 2013 SCF results, see Bricker et al. 2014. For a full description of the SCF and recent SCF data, see US Federal Reserve Board 2014. For a special panel analysis that resurveyed households from the 2007 SCF in 2009, see Bricker et al. 2011. For an overview of the 2010 SCF results, see Bricker et al. 2012. For analysis of the impact of the financial market crisis and recession on household balance sheets, see Devlin-Foltz, Henriques, and Sabelhaus 2015. Researchers interested in the behavior of older households use another publicly available household survey, the Health and Retirement Study (HRS), which is administered by the University of Michigan. For an extensive bibliography of papers using HRS data, see [www.umich.edu/~hrswww/pubs/biblio.html](http://www.umich.edu/~hrswww/pubs/biblio.html). The Survey of Income and Program Participation (SIPP), which is administered by the US Census Bureau, is another commonly used household survey. For a complete description, see [www.census.gov/sipp](http://www.census.gov/sipp).
- <sup>11</sup> Deloitte Consulting LLP and ICI have conducted surveys of DC plan sponsors, focusing on fees paid to provide the plan. The most recent survey, conducted in 2013, found that DC plan "all-in" fees tended to be lower for larger plans and higher for plans with larger allocation to diversified equity holdings. For more information, see Deloitte Consulting LLP and Investment Company Institute 2014. Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists conduct an annual survey of DC plan sponsors. For results from the most recent survey, see Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists 2015. Plan Sponsor Council of America also conducts an annual survey of profit sharing and 401(k) plans. For results from the most recent survey, see Plan Sponsor Council of America 2015.
- <sup>12</sup> See Collins et al. 2016.
- <sup>13</sup> ICI conducts a quarterly survey of DC plan recordkeepers, collecting information on changes in contributions and asset allocation, loans, and distributions. For results from the most recent survey, see Holden and Schrass 2016. The Employee Benefit Research Institute and ICI keep a database of active 401(k) participants, including information on asset allocation, account balances, and loan activity. The EBRI/ICI 401(k) database has data on 401(k) participants from 1996 to 2014. The year-end 2014 database covered 24.9 million participants in 81,139 plans with \$1.9 trillion in assets; see Holden et al. 2016a. For the most recent set of results, exploring consistent participants who were in the database every year between 2007 and 2014, see Holden et al. 2016b.
- <sup>14</sup> For information on employer contribution structures, see Exhibits 1.6 and 1.7 and the discussion on page 22.
- <sup>15</sup> 401(k) plan participants may also have access to account assets through withdrawals. The Form 5500 filings do not have information on the plan design features surrounding withdrawal activity. There are two possible types of in-service withdrawals from DC plans: nonhardship and hardship. Generally, participants withdrawing after age 59½ are categorized as nonhardship withdrawals. A participant seeking a hardship withdrawal must demonstrate financial hardship and generally faces a 10 percent penalty on the taxable portion of the withdrawal. If a plan allows loans, participants are generally required to first take a loan before they are permitted to take a hardship withdrawal. For DC plan participants' withdrawal activity, see Holden and Schrass 2016.

- <sup>16</sup> The plan sponsor also generally selects the default investment option. Plan Sponsor Council of America 2015 reports the different default investment options selected among their member plans with automatic enrollment.
- <sup>17</sup> For example, see Plan Sponsor Council of America 2015; Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists 2015; and Holden et al. 2016a. The Vanguard Group also releases an annual report focusing on defined contribution plans in its recordkeeping system. For the most recent report, focusing on 2015 plan data, see Utkus and Young 2016.
- <sup>18</sup> The Form 5500 is an annual disclosure submitted to the US Department of Labor by ERISA-covered employer-sponsored retirement plans, including 401(k) plans. The filings include information on plan assets, covered employees, contributions, withdrawals, loans, and automatic enrollment. For tabulations from the most recent release of Form 5500 data, see US Department of Labor, Employee Benefits Security Administration 2016a.
- <sup>19</sup> A plan was determined to have automatic enrollment if it was specified on the 2014 Form 5500 or if it was indicated in the 2012 audited Form 5500 filing; this may undercount the number of plans with automatic enrollment. At year-end 2015, 41 percent of plans in Vanguard's recordkeeping system had an automatic enrollment feature (see Utkus and Young 2016). Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists 2015 reports that 62 percent of plans in the survey automatically enrolled participants. Plan Sponsor Council of America 2015 reports that 52.4 percent of plans in their survey automatically enrolled workers. The lower incidence of automatic enrollment in the Form 5500 data results not only from the higher share of small plans (which have lower adoption of automatic enrollment) in the DOL data, but also even among larger plans, the DOL data report lower incidence compared to these other data sources.
- <sup>20</sup> In 2015, 95 percent of DC plans in Vanguard's recordkeeping system had employer contributions (see Utkus and Young 2016). Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists 2015 reports that 94 percent of plans in their survey offered employer contributions. Plan Sponsor Council of America 2015 reports that 95.6 percent of plans in their survey offered employer contributions in 2014.
- <sup>21</sup> Plans with employer matches but missing descriptions of the employer match may be included in this category.
- <sup>22</sup> Plans may also allow withdrawals (see note 15).
- <sup>23</sup> Participant loans generally must be paid back within five years; however, loans for the purchase of a principal residence may qualify for a longer repayment period. Participants who separate from employment with an outstanding loan generally must repay the loan shortly after separation. Otherwise, the outstanding balance is deemed distributed and potentially subject to taxation and penalties. For more information, see US Department of the Treasury, Internal Revenue Service 2015.
- <sup>24</sup> Although the Form 5500 data do not allow quantification of the amount of loans defaulted in any given year, in plan year 2014, outstanding participant loans made up only 1.5 percent (\$65.4 billion) of the \$4.4 trillion in 401(k) plan assets. See Table D6 in US Department of Labor, Employee Benefits Security Administration 2016a. Additionally, Lu et al. 2015 estimates that \$6 billion on average annually flows out of 401(k) plans as a result of loan defaults, which is small compared with the asset base and other distribution activity at job change or retirement.
- <sup>25</sup> Research on the impact of the availability of a loan feature on 401(k) plan participation and contributions has found either positive effects or no discernable impact, depending on the study. For example, Beshears et al. 2010 finds that adding a loan option increases 401(k) plan participation, but does not find a conclusive impact on contributions. Mitchell, Utkus, and Yang 2007 finds no impact of loans on participation rates, but concludes that the loan option increases the contribution rate by 10 percent among non-highly paid participants. Regression analysis in US Government Accountability Office 1997 finds that, controlling for firm size, the employer match rate, and the presence of another pension plan, a loan provision was associated with a participation rate that was about 6 percentage points higher, and a 36.8 percent higher average employee deferral rate. Holden and VanDerhei 2001 and Munnell, Sundén, and Taylor 2000 find that the presence of a loan provision increases 401(k) participant contribution rates.
- <sup>26</sup> Plans are classified as having a loan provision if any participant in the plan has an outstanding loan balance. This may understate the number of plans offering loans because some plans may have offered a loan option, but no participant had taken out a loan. It is likely that this omission is small, as US Government Accountability Office 1997 found that more than 95 percent of 401(k) plans that offer loans had at least one plan participant with an outstanding loan.

- <sup>27</sup> Holden et al. 2016a found that 54 percent of plans had a loan provision, and 87 percent of participants were in plans offering loans at year-end 2014. Utkus and Young 2016 found that “78 [percent] of Vanguard 401(k) plans permitted participants to borrow from their plan and 89 [percent] of active participants had access to a loan feature.” Plan Sponsor Council of America 2015 reports that 89.1 percent of 401(k) plans in their survey allowed loans.
- <sup>28</sup> US Department of Labor, Employee Benefits Security Administration 2016a reports \$65.4 billion of participant loan balances outstanding from 401(k) plans in plan year 2014, which is 1.5 percent of the \$4.4 trillion in 401(k) plan assets.
- <sup>29</sup> For example, see Holden and Schrass 2016 and Holden et al. 2016a.
- <sup>30</sup> See Collins et al. 2016 for a discussion of the services and expenses associated with offering 401(k) plans.
- <sup>31</sup> Data for 2008 were not provided to BrightScope; therefore, consistent plans are those in the database in 2006, 2007, 2009, 2010, 2011, 2012, 2013, and 2014.
- <sup>32</sup> In cross sections of all 401(k) plans in the BrightScope Defined Contribution Plan Database, the average number of investment options offered rose from 21 in 2006 to 28 in 2014. Adjusted to count target date fund suites as one investment option, the average number of investment options for all plans rose from 20 to 21 over the same period. This represents the net change in the number of investment options offered, and does not represent all changes to fund lineups. Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists 2015 finds that 52 percent of plans had replaced a fund because of poor performance within the last year; 19 percent had replaced a fund one year to less than two years ago; 16 percent had replaced a fund two years to less than five years ago; 6 percent had last replaced a fund five or more years ago; and 7 percent had never replaced a fund (data are for 2015).
- <sup>33</sup> Plans may offer multiple target date fund suites; however, the vast majority of plans that offered a target date fund suite offered one. In 2014, 97 percent of 401(k) plans in the BrightScope database that offered a target date fund suite offered one suite, while 2 percent offered two suites, and less than one-half of 1 percent offered more than two suites.
- <sup>34</sup> Other investments include company stock, which cannot consistently be identified in the BrightScope database. Research from the EBRI/ICI 401(k) database finds that “2 percent of participants in small plans (100 participants or fewer) were offered company stock as an investment option, while 51 percent of participants in plans with more than 5,000 participants were offered company stock as an investment option in 2014.” See Holden et al. 2016a.
- <sup>35</sup> Other investments include company stock, which cannot consistently be identified in the BrightScope database. The EBRI/ICI 401(k) database finds that at year-end 2014, company stock was 10.8 percent of 401(k) assets in plans with more than 5,000 participants, compared with less than one-half of one percent of 401(k) plan assets in plans with fewer than 500 participants. See Holden et al. 2016a.
- <sup>36</sup> Participants in 89 percent of 401(k) plans direct all of their 401(k) investments. See US Department of Labor, Employee Benefits Security Administration 2016a.
- <sup>37</sup> Asset allocation in the BrightScope Defined Contribution Plan Database is broadly similar to the EBRI/ICI 401(k) database. At year-end 2014, the EBRI/ICI 401(k) database shows that equity funds held 43.2 percent of assets, balanced funds held 24.9 percent, bond funds held 8.4 percent, money funds held 3.8 percent, GICs and other stable value funds held 6.3 percent, and company stock, other, and unknown assets accounted for the remaining 13.4 percent of assets. See Holden et al. 2016a.
- <sup>38</sup> See notes 34 and 35.
- <sup>39</sup> Investment Company Institute 2016b reports target date mutual fund assets from 1996 through the second quarter of 2016. Target date mutual fund assets have grown from \$1 billion at year-end 1996 to \$114 billion at year-end 2006 to \$823 billion at the end of the second quarter of 2016. At the end of the second quarter of 2016, DC plans held 68 percent of target date mutual fund assets, individual retirement accounts (IRAs) held 20 percent, and other investors held 12 percent.
- <sup>40</sup> The EBRI/ICI 401(k) database reports 72 percent of 401(k) plans in 2014 offered target date funds, compared with 57 percent in 2006. See Holden et al. 2016a and Investment Company Institute 2016a.

- <sup>41</sup> Similarly, research from the EBRI/ICI 401(k) database finds that target date fund assets accounted for 18 percent of total assets at year-end 2014, compared with 5 percent at year-end 2006. See Holden et al. 2016a and Investment Company Institute 2016a.
- <sup>42</sup> Investment Company Institute 2016b reports index mutual fund assets from 1996 through the second quarter of 2016. Index mutual fund assets have grown from \$98 billion at year-end 1996 to \$747 billion at year-end 2006 to \$2,386 billion at the end of the second quarter of 2016.
- <sup>43</sup> Because recordkeepers can be engaged in one or more of these business categories, they were classified according to their primary business line.
- <sup>44</sup> The top 40 recordkeepers among BrightScope 401(k) plans were classified according to their primary business, and only plans recordkept by those recordkeepers are included in this analysis.
- <sup>45</sup> The 2013 Deloitte/ICI 401(k) Fee Study found that investment fees accounted for 82 percent of total fees (on a participant-weighted basis). See Deloitte Consulting LLP and Investment Company Institute 2014.
- <sup>46</sup> See chapter 5 in Investment Company Institute 2016a.
- <sup>47</sup> See Collins et al. 2016.
- <sup>48</sup> Deloitte Consulting LLP and Investment Company Institute 2014 finds that larger plans tend to have lower fees as a percentage of assets, and the majority of plan costs are related to investment expenses.
- <sup>49</sup> Funds for which fee data were not available have been excluded. In addition, the audited Form 5500 reports contain share class data for approximately 60 percent of funds in the BrightScope database. For the remainder, if a plan's investment in a fund was less than \$1 million in assets, it was assumed that the plan was invested in retail-type shares (A shares or their equivalents), while a plan's investment of \$1 million or more in a fund was assumed to be invested in institutional-type shares (institutional shares or their equivalents). The impact of this assumption was tested by assigning to each fund the simple average expense ratio of all of its share classes. This tends to increase the average expense ratios presented, but does not significantly alter the remaining analysis (whether comparing across asset categories or across number of plan participants).
- <sup>50</sup> At year-end 2015, 67 percent of index mutual fund assets were invested in domestic equity indexes, 14 percent were in world equity indexes, and the remaining 19 percent were in bond and hybrid indexes. See Investment Company Institute 2016a.
- <sup>51</sup> The patterns of 401(k) expenses are similar to industrywide mutual fund expense patterns. See chapter 5 in Investment Company Institute 2016a and Collins et al. 2016.
- <sup>52</sup> In 2013, money market mutual funds waived \$5.8 billion in expenses, up from \$3.6 billion in 2009 and \$1.8 billion in 2008. For more information, see Gallagher 2014.
- <sup>53</sup> For more information about the services offered in 401(k) plans and fees charged for these services, see Collins et al. 2016 and Deloitte Consulting LLP and Investment Company Institute 2014.
- <sup>54</sup> For a discussion of the range of services offered in S&P 500 index funds, see Collins 2005.



# Glossary

## **automatic enrollment**

The practice of enrolling eligible employees in a plan and initiating participant deferrals unless the employee opts out.

## **automatic increase**

A provision found in some 401(k) plans in which an employee's contribution rate is automatically increased at a preestablished point in time, unless the employee chooses otherwise.

## **collective investment trust**

An investment vehicle in which assets are combined from several sources (such as various retirement plans) and managed under a common strategy.

## **defined contribution (DC) plan**

An employer-sponsored retirement plan, such as a 401(k) plan or a 403(b) plan, in which contributions are made to individual participant accounts. Depending on the type of DC plan, contributions may be made by the employee, the employer, or both. The employee's benefits at retirement or termination of employment are based on the employee and employer contributions, as well as earnings and losses on those contributions. See also **401(k) plan**.

## **eligible plan participant**

Any employee who is eligible to participate in and receive benefits from a plan.

## **employer contribution**

A contribution made by the company to the account of the participant (often in the form of a company match based on a ratio to contributions made by the participant).

## **expense ratio**

A measure of what it costs to operate a fund expressed as a percentage of its assets. In the case of mutual funds, the fund's expense ratio is disclosed in the prospectus and shareholder reports.

## **Form 5500**

An annual disclosure jointly required by the US Department of Labor, Pension Benefit Guaranty Corporation, and Internal Revenue Service, which is submitted by ERISA-covered employer-sponsored retirement plans, including 401(k) plans.

## **Form 5500 audited filing**

An independently audited report generally required by federal law for plans with 100 participants or more.

## **401(k) plan**

An employer-sponsored retirement plan that enables employees to make tax-deferred contributions from their salaries to the plan. See also **defined contribution (DC) plan**.

## **403(b) plan**

An employer-sponsored retirement plan that enables employees of colleges and universities, public schools, and certain nonprofit organizations to make tax-deferred contributions from their salaries to the plan.

## **fund**

A pooled investment product. Funds include mutual funds, collective investment trusts, separate accounts, and other pooled investment products.

## **guaranteed investment contract (GIC)**

Accounts with an insurance company that guarantee a fixed rate of interest over the length of the contract.

## **index fund**

A fund designed to track the performance of a market index. The fund's portfolio of securities is either a replicate or a representative sample of the designated market index. Often referred to as *passively managed portfolios*.



**mutual fund**

An investment company registered with the SEC that buys a portfolio of securities selected by a professional investment adviser to meet a specified financial goal (investment objective). Mutual funds can have actively managed portfolios, in which a professional investment adviser creates a unique mix of investments to meet a particular investment objective, or passively managed portfolios, in which the adviser seeks to track the performance of a selected benchmark or index. One hallmark of mutual funds is that they issue redeemable securities, meaning that the fund stands ready to buy back its shares at their current net asset value (NAV).

**plan assets**

The total assets held among all participants within the plan.

**proprietary fund**

Fund of a plan's recordkeeper. For example, for plans using XYZ asset manager as a recordkeeper, XYZ mutual funds, XYZ collective investment trusts, or XYZ separate accounts would be proprietary funds.

**recordkeeper**

A recordkeeper maintains plan records; processes employee enrollment; processes participants' investment elections, contributions, and distributions; and issues account statements to participants.

**separate account**

An insurance company account that is segregated or separate from the insurance company's general assets. Also refers to a fund managed by an investment adviser for a single plan.

**stable value fund**

An investment fund that seeks to preserve principal and to provide consistent returns and liquidity. Stable value funds include collective investment funds sponsored by banks or trust companies or contracts issued by insurance companies. See also **guaranteed investment contract (GIC)**.

**target date fund**

A balanced fund that follows a predetermined reallocation of risk over a working career and into retirement for a person expecting to retire at the target date of the fund (which is usually included in the fund's name). These funds invest in a mix of asset classes and typically rebalance their portfolios over time to become less focused on growth and more focused on income as the fund approaches and passes the target date. Also known as a *lifecycle fund*.

**total plan cost**

BrightScope's measure of the total cost of operating the 401(k) plan, which includes asset-based investment management fees, asset-based administrative and advice fees, and other fees (including insurance charges) from the Form 5500 and audited financial statements of ERISA-covered 401(k) plans.



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