401(k) Plans: How Plan Sponsors See the Marketplace

INVESTMENT COMPANY INSTITUTE

ICI Research Report

Winter 1995

401(k) Plans: How Plan Sponsors See the Marketplace

INVESTMENT
COMPANY
INSTITUTE

Research Department
Winter 1995

Table of Contents

List of Figures

Introduction to ICI Survey of 401(k) Plan Sponsors

The business of providing products and services to 401(k) plans has become extremely competitive in recent years. Plan sponsors have become more sophisticated and are demanding greater flexibility, selection, performance, and quality service delivery—all at more competitive prices. Switching of 401(k) service providers by plan sponsors is becoming more common. In recent years, mutual fund organizations and third-party administrators have gained market share from banks, insurance companies, and inhouse administration. However, it is likely some of the competitive advantages that mutual fund organizations offer with regard to distribution, product, technology, and service delivery have narrowed as other market competitors have evolved or upgraded their services. Furthermore, the impact on the mutual fund industry of the Department of Labor's new rules governing defined contribution plans (Section 404(c) of ERISA), that become effective in 1994 and are expected to further the growth of 401(k) plans, is uncertain.[1]

The greatest growth opportunities in the 401(k) market appear to be with the smaller company plans, particularly those with fewer than 100 participants. New technology and creative alliances with other service providers have driven down the administrative costs for mutual fund companies that had previously hindered them from tapping into this market. Many mutual fund companies are scrambling to create affordable, yet profitable small and mid-size plans and capture a share of this growing market. Flexible products and fee schedules, as well as efficient and economical recordkeeping systems are some of the key ingredients necessary for designing competitive small and mid-size 401(k) plan packages. More research needs to be done, however, to assess what plan sponsors really want and the cost-service tradeoffs involved.

It was in light of these facts that the Investment Company Institute and its Research Committee, with the assistance of Access Research Incorporated, undertook a study of the 401(k) marketplace and the needs and preferences of 401(k) plan sponsors.

Study Objectives

The objectives of the study were to provide mutual fund managers with an understanding of 401(k) plan sponsor needs and important trends in the areas of:

- investment manager utilization and satisfaction,
- investment product utilization and future demand,
- purchasing behavior and preferences,
- provider selection criteria,
- demand for service features,
- plan sponsor views of the effectiveness of various participant communications strategies,
- company contributions and plan expenses,
- ERISA 404(c) utilization, and
- plan size and characteristics.

[1]See Appendix B for more information on ERISA 404(c).

Research Methodology

With the above-mentioned research objectives in mind, a telephone survey was designed and interviews were conducted in the fall of 1993 with randomly selected key personnel responsible for 401(k) plans at 919 companies. The sample was stratified to ensure representation of plan sponsors in all size segments. Access Research estimates that the distribution of 401(k) plans by company size—number of employees—as of the end of 1993 is as shown in Figure 1.

Figure 1

Distribution of 401(k) Plans by Number of Employees, 1993

Number of Employees	Number of Companies*	Number with 401(k) Plan	% with 401(k) Plan
5-99	1,775,000	178,000	10
100-249	58,000	16,300	28
250-999	22,000	11,450	52
1,000-3,999	2,500	1,875	75
4,000 or more	1,900	1,775	94

**Estimated number of entities making independent benefit purchase decisions.*
Source: Access Research

Two sources were used to compile the sample. A list of 3,000 companies drawn from the Dun & Bradstreet database was used for the small segment (i.e., plans with fewer than 100 participants). For plans with over 100 participants, separate lists for each segment based on Internal Revenue Service 5500 reports were purchased from Judy Diamond Associates™.

The findings of this study were analyzed on the basis of several important segments in addition to the broadsize segments used to develop the sample (e.g., type of investment manager). The development of these additional segments was based on responses to questions in the survey. Response percentages do not always sum to 100 due to nonresponse. Except where indicated, nonresponse, or "don't knows," were included in the analysis.

For other questions, total respondents indicated may be greater than the total in the sample where multiple responses are possible. Data provided for distribution of 401(k) assets is weighted according to distribution of assets in the sample, and typical account balances are weighted according to the distribution of plans by number of participants in the market (see Appendix C for further discussion of weighting schemes). All other findings are presented on an unweighted basis. The key variables in the analysis are:

1. **Number of Participants**. This was the basis for developing the sample. Results are reported for the five different size categories, or segments, shown in Figure 2:

Figure 2

Number of Respondents by Plan Size

Number of Participants:	
Less than 100	236
100-249	159
250-999	221
1,000-3,999	184
4,000 or more	119
Base =	919

2. **Type of Investment Manager**. Investment managers are classified as banks, insurance companies, independent investment firms, mutual fund companies, or "other." In this context, mutual fund companies, sometimes referred to in this report as "mutual funds," mean the investment advisory companies that sponsor mutual funds. The "other" category includes stock brokerage firms, trust companies, inhouse management, and other unspecified mentions. Some respondents use multiple investment managers in their plans. Their responses were analyzed in all appropriate segments. The number of respondents by type of investment manager segment is indicated in Figure 3.

Figure 3

Number of Respondents by Type of Investment Manager*

Bank	235
Insurance Company	247
Independent Investment Firm	164
Mutual Fund	247
Other	181
Base =	919

** Multiple responses included*

Figure 4

Number of Respondents by Plan Assets

Less than $1 million	121
$1-$9.9 million	197
$10-$49.9 million	149
$50 million or more	114
Not reported	338
Base =	919

Figure 5

Number of Respondents by Purchasing Preference

Full-service	688
Unbundled	217
Base =	919

Figure 6

Number of Respondents by Number of Investment Managers

One Manager	630
Two or more	277
Base =	919

Figure 7

Number of Respondents by Type of Plan

Primary	550
Supplemental	361
Base =	919

3. **Plan Assets.** Plan assets, like number of participants, is a measure of plan size. Generally, the level of plan assets is correlated with the age of the plan and number of participants. Results are reported in four plan asset categories, as shown in Figure 4.

4. **Purchasing Behavior.** Respondents who indicate that they purchase investment management, recordkeeping, and plan administrative services from a single full-service provider are categorized as “full-service” purchasers. Those respondents indicating use of two or more providers for these services are categorized as “unbundled” purchasers. The number of respondents in each of these segments is shown in Figure 5.

5. **Number of Investment Managers**. The distribution of respondents who use a single investment manager as opposed to those who use multiple managers is shown in Figure 6.

6. **Plan Purpose**. All respondents were asked whether the 401(k) plan is the primary retirement benefit for employees or a supplemental plan. The number in each segment is shown in Figure 7.

Executive Summary

Overview

The U.S. qualified retirement plan market is currently undergoing dramatic changes, driven by such diverse factors as changes in workforce demographics, advances in technology, and changes in the legislative/ regulatory environment. The most fundamental change has been a shift from defined benefit (DB) to defined contribution (DC) plans in the corporate sector of the retirement plan market. According to the Employee Benefit Research Institute (EBRI), assets of private sector DC plans totalled $1,085 billion in 1993, or 43 percent of all private pension assets. This is up from $575 billion and 39 percent of total assets in 1988.[2]

Assets held in plans with a Section 401(k) salary reduction feature have been the fastest-growing type of DC plan in the private sector. From 1984 through 1993, 401(k) assets grew from $55 billion to $475 billion, an annual compound rate of increase of 27 percent. Participation in 401(k) plans by eligible employees is now high (75 percent) with close to 18 million active participants out of 24 million eligible employees, so growth rates of the type expressed in the recent past (27 percent) may be more difficult to achieve in the future. Nevertheless, as tax-deferred savings accounts, particularly 401(k) plans, become an increasingly significant channel for targeted personal saving, 401(k) assets are projected to continue growing at a rate of about 15percent per year for the next several years. At that rate, they should top the $1 trillion mark before the year 2000.[3]

401(k) plans have become one of the most popular employee benefits. An estimated 210,000 corporations now sponsor these plans. The incidence of 401(k) plans increases as company size increases. In many cases, large companies had previously offered a DB plan as their primary retirement benefit for employees and the profit-sharing or thrift plan, now converted to a 401(k), was a supplemental benefit. Sixty-four per-cent of 401(k) plans with 1,000 or more participants remain supplemental benefits.

Most new 401(k) plan formation is occurring among smaller companies. Almost half of the plans with fewer than 100 participants were installed since 1990. Among larger plans—with 100 or more participants—the percentage formed since 1990 is just over 10 percent.

Smaller companies tend to use the 401(k) plan as the primary retirement benefit for employees. Almost 86 percent of plans with fewer than 100 participants, and over 64 percent of those with 100-999 participants, are the primary retirement benefit for employees.

Plan Participation and Contributions

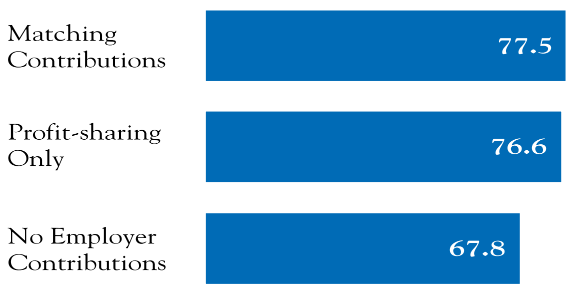
Seventy-five percent of all eligible employees participate in a 401(k) plan, up from 62 percent in 1986 and 70 percent in 1989. The participation rate is related to size of plan with participation lowest, 68 percent, among very small plans (fewer than 100 participants) and highest, 81 percent, among very large plans (with 4,000 or more participants).

[2]EBRI *Quarterly Pension Investment Report*, 3rd Quarter 1994
[3]Projections were estimated by Access Research.

Figure 8

Participation Rate by Contribution Status

(percent of eligible employees)



Over 84 percent of all 401(k) plan sponsors contribute employer money to the plan. Of the contributing sponsors, 7 percent make nonmatching contributions; the others match all or a portion of employee contributions. As might be expected, participation rates are higher in plans where the employer matches contributions.

The most common matching level is 50 cents on the dollar. Over three quarters of plan sponsors that match employee contributions set a limit on the amount the company will contribute. The most frequently-used approach to establishing this limit is to specify a maximum percentage of the employee's compensation that will be matched. The most frequent maximum is 6 percent, used by one third of sponsors setting a maximum percentage.

The median annual employer contribution to a 401(k) plan is $800 per participant, and employer contributions represent 35 percent of total annual plan contributions. There is little variation in either of these figures across the various plan size segments.

Plan Expenses

There is a considerable range in the expense of providing a 401(k) plan. Over 6 percent of plans report that annual per-participant charges are less than $20, while over 17 percent pay $100 or more (the median is $66). It is interesting to note that 54 percent of respondents either did not know per-participant charges or did not answer the question. On a per-participant basis, plan expenses tend to decrease with plan size. When compared by type of investment manager, plans managed by mutual fund and insurance companies pay less, on average, than do plans managed by other investment managers.

Close to 63 percent of plan sponsors report that the company pays all plan expenses. The remaining sponsors are divided almost equally between those that charge expenses to the plan (i.e., the participants) and those that split expenses among the plan and the company. Smaller companies are somewhat less likely to pass expenses along to participants than are larger companies.

Investment Management Services

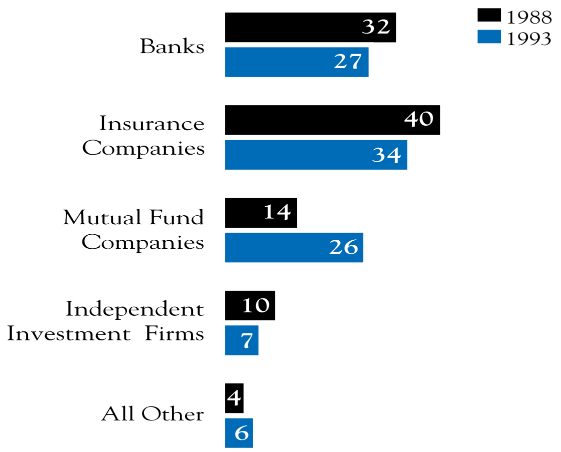
The shift to defined contribution, and particularly 401(k) plans, has resulted in the need for investment product and service providers to factor the individual participant into their marketing efforts. Participants control all investment decisions in 80 percent of plans, and the investment of their own contributions, or partial decision-making for the plan, in another 6 percent. Sponsors are generally eager to pass decision-making control to participants and thereby achieve fiduciary relief as indicated by the 83 percent of plan sponsors who intend to qualify their plan under Section 404(c) of the Employee Retirement Income Security Act (ERISA).

The evolution of the individual participant as a major decision-maker in directing investments has meant that investment performance and specialization have become less important factors for plan providers in gaining market share, while distribution, including retail marketing skills, educating and communicating with participants, as well as a broad product line (i.e., fund choices), and improved service delivery (i.e., state-of-the-art recordkeeping systems and administrative capabilities) have become more important. These changes played to the strengths of the mutual fund industry. As Figure 9 shows, mutual fund companies have been quite successful in gaining market share of 401(k) assets over the past five years. In this context, mutual fund companies, (sometimes referred to in this report as "mutual funds"), refers to the investment advisory companies which sponsor mutual funds.

Figure 9

401(k) Market Share by Investment Manager Type

(percent of assets)



Mutual fund companies are the leading provider of investment management services to 401(k) plans of larger corporations. Their overall market share, and their penetration into the smaller company plans, has been growing steadily for several years. However, further gains will be more difficult to achieve. Banks, insurance companies, and independent investment firms have been building, buying, or teaming up with other providers to achieve the essential ingredients they lacked to offer a full-service package containing: investment management good enough to attract assets in volume; a broad product line; state-of-the-art administration and recordkeeping; and first-rate employee education and communication.

Insurance companies have capitalized on a strong distribution network to establish a leading position among small 401(k) plan sponsors. The popularity of guaranteed investment contracts (GICs), which are still the single most widely-used investment option across all 401(k) plans, is the major factor in their continued leadership in assets under management.

Banks rank second in the number of plans managed across most segments. While their share has not changed over the past two years, it is down from five years ago. Banks have built their market presence by leveraging deposit and credit relationships to cross-sell 401(k) plans to existing customers.

Independent investment firms are used by 14 to 27 percent of plans across all plan size segments in terms of assets and participants. "Other" investment managers (i.e., stockbrokers, trust companies, in-house management, and others) rank second to insurance companies at the small end of the market.

Plan Investment Vehicles

The majority—three fourths—of plan sponsors use, and are quite satisfied with, commingled accounts for their 401(k) plan investments. Only about one quarter use separately managed accounts. The usage of, and stated preference for, separate account management is somewhat higher among the largest plans and those that purchase services on an unbundled basis.

Variable annuity contracts are used most frequently by plans with 250 or fewer participants. Annuities generally offer a higher rate of compensation to brokers than some of the other investment products. This differential compensation is needed to encourage brokers to reach small plans but also contributes to the higher average level of per-participant plan expenses among small plans.

Investment Options

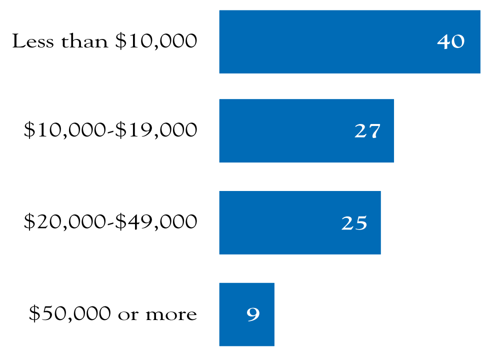
The number of investment choices available to plan participants has increased to an average of 5, up from 3.2 in 1990. Access Research suggests a number of factors for this increase in the number of investment choices.

- The steep decline in interest rates and the strong stock market of the past few years have prompted plan sponsors to add more equity-related choices.
- Average account balances have increased considerably in recent years. The degree of attention paid to plan investments by participants has also increased as a result of the larger balances. The typical participant now has $16,000 in his 401(k) account and nearly 10 percent have balances over $50,000.
- New plan formation is occurring primarily in the small company segment where the 401(k) plan is often the only retirement benefit offered employees. While this study did not measure participant attitudes, focus group research conducted by Access

Figure 10

Breakdown of Typical Account Balances*

(percent of all participants)



Weighted by distribution of participants by segment.

Research among plan participants indicates that employees whose 401(k) plans are the primary source of retirement income pay more attention to the details of their plans than do those with other resources. In particular, these participants are increasingly concerned about the safety of their money (i.e., avoiding losses) and with earning a "good" return.

- Many plan sponsors and providers have devoted considerable effort recently to developing new and better investment education programs and materials for plan participants. Focus group research suggests that participants are interested in receiving this information and becoming more knowledgeable about investing their money.
- Some plan sponsors may have added investment options in anticipation of meeting the requirements of ERISA Section 404(c), thus reducing their potential liability exposure.

Figure 11

Frequency Rank of All Investment Options Mentioned

Increasing Risk	Currently Offered	Added Last 12 Months	Planning to Add
Aggressive Growth	7	3	2
International/Global Equity	12	4	1
Growth	2	2	6
Company Stock	10	12	10
Equity Index	9	6	7
Equity Income	4	10	9
Balanced	5	1	3
International/Global Fixed Income	13	13	4
Corporate Bond	8	9	5
Fixed Income Index	11	11	11-13
Government Bond	6	5	8
Guaranteed Investment Contract (GIC)	1	7	11-13
Money Market	3	8	11-13

Decreasing Risk

Figure 11 illustrates how the recent decisions of plan sponsors are moving in the direction of offering participants a broad range of choices representing the full spectrum of risk/return alternatives. The investment options are listed, from bottom to top, in the approximate order of increasing investment risk.

The movement of assets in 401(k) plans away from fixed income investments and into equities has been significant over the past three years. On average, assets held in fixed income funds declined to 45 percent in 1993 from 57 percent in 1990. This decline was largely centered in GICs and money market funds, which suggests that the major driving force was the steep decline in interest rates over this same period. The assets and contributions shifted from fixed income funds were redirected into equity and to a lesser extent, balanced funds.

Purchasing Preferences

The majority—75 percent—of plan sponsors buy investment, recordkeeping, and plan administration services from a single provider. The usage of, and the stated preference for, full-service purchasing decreases as plan size increases from over 80 percent among the smallest plans to under 60 percent among the largest. The ease of administrative control is the most frequently-mentioned reason for use of a single source. Various convenience considerations were more frequently-mentioned than were service or cost considerations. Insurance companies are the most frequently-used providers of full-service plans, followed closely by banks and mutual fund companies.

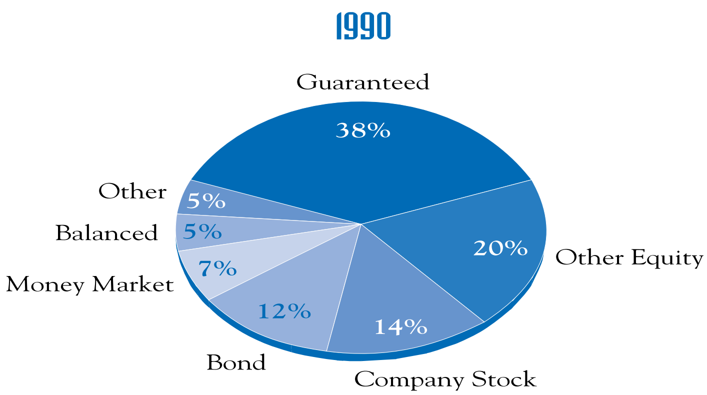
Those sponsors that prefer to purchase services on an unbundled basis say that they feel service is better when obtained from a variety of firms, each of which specializes in a particular service. Benefit consultants or third-party administrators are the primary suppliers of recordkeeping and plan administrative services to unbundled purchasers, used by approximately 70 percent of these firms. Independent investment firms are the most frequently-used investment managers, followed by mutual fund companies.

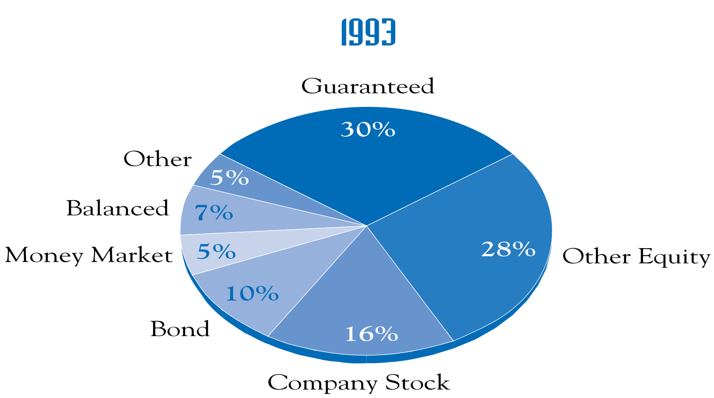
About one third of plan sponsors say they would be interested in purchasing plan services through an Alliance Program (defined as an arrangement among a group of service providers to offer a "full-service" product). Interest in Alliance Programs is greatest among small plans.

Figure 12

Distribution of 401(k) Assets by Type of Investment 1990, 1993

(percent)





Customer Satisfaction

Satisfaction with investment management services is high across all segments and types of managers. Over 84 percent of sponsors say they are satisfied or very satisfied with their current manager. Satisfaction is highest among customers of mutual fund and independent investment management firms.

About 10 percent of plan sponsors say they are likely to switch investment managers in the next 12 months. The likelihood of switching is highest among customers of insurance companies and independent investment firms with unbundled plans. Their reasons, in the order of frequency of mention, are:

- service (more investment options, poor administration/management, inadequate information),
- investment performance,
- cost, and
- convenience.

Almost 85 percent of full-service purchasers say they are highly satisfied with the recordkeeping and administrative services they receive. Satisfaction among unbundled purchasers is somewhat lower; nonetheless, 78 percent say they are highly satisfied.

About 8 percent of full-service purchasers and 14 percent of unbundled purchasers say they are likely to switch recordkeeping providers over the next 12 months. The most frequently-cited reasons for this intention are poor customer service, untimely provision of participant statements, and inaccurate record-keeping.

Provider Selection Criteria

Recordkeeping capabilities, investment performance, quality of participant statements, compliance issues, and discrimination testing are ranked most important in the selection of a 401(k) provider across all segments. Large plan sponsors also emphasize services directed to the plan sponsor, such as monthly reconciliation of financial statements and on-line account inquiry. Smaller plan sponsors want to avoid additional administrative burdens and save money so they also emphasize criteria such as preparation of government reports and plan expenses.

Frequency of Transactions

Seventy-three percent of plans issue participant statements quarterly. Four percent issue statements monthly, and the remainder semiannually or annually. Large plans and mutual fund customers issue quarterly statements more often than other frequencies. Small plans and bank customers issue statements less frequently.

There is a similar pattern in the frequency by which participants are allowed to change future contribution allocation and transfer funds among investment options. Daily changes and transfers are allowed more often in larger plans and those with mutual fund or insurance company investment managers.

Figure 13

Frequency of Allowed Contribution Reallocation and Transfers Between Investment Alternatives

(percent of plans)

	Contribution Changes	Transfers
Daily	21	23
Weekly or Monthly	12	11
Quarterly	42	40
Semiannually or Annually	20	18

About 9 percent of sponsors are considering a change in the frequency of issuing participant statements. Bank customers and smaller plans are more likely to be considering this change.

About 16 percent of the sponsors from each segment are considering changing the frequency by which contribution changes or investment fund transfers are allowed. Bank customers and unbundled purchasers are most likely to be considering such changes while small plans are less likely to be considering such changes.

Participant Communications

Group meetings are ranked first in effectiveness for enrollment communications among all but the smallest plans. Individual statements, individual meetings, and brochures rank next. Toll-free access to a service representative ranks fifth and is seen as more effective than toll-free access to a voice response system among all but the largest plans. Larger plans also consider video more effective than slide presentations. Smaller plans rate video and slide presentations about equally effective. Interactive PC illustrations, prospectuses, posters, and toll-free access to an automated response system rank lowest in effectiveness for enrollment communications.

The individual account statement is considered the most effective vehicle for ongoing participant communications by a wide margin. Toll-free access to a service representative and group meetings rank next. Among the largest plans, toll-free access to a voice response system is again ranked higher than access to a service representative. Investment and company newsletters are seen as more effective for ongoing communications than for enrollment.

Background

Shift in Pension Coverage

Since the passage of the Employee Retirement Income Security Act (ERISA) in 1974, there has been a trend away from pension coverage under defined benefit plans (DB) and toward defined contribution plans (DC), particularly toward relatively new types of DC plans such as 401(k) and Employee Stock Ownership Plans (ESOPs). Defined benefit plans are designed to provide an employee with a specified benefit upon retirement. That benefit is specifically identified in the plan and typically constitutes a fixed percentage of the employee's salary, determined by the employee's age at retirement and his number of years of service with the employer. Because the employer is contractually bound to provide the defined benefit upon retirement, the employer bears all risk flowing from the investment performance of any investment vehicle used to fund the plan. To the extent that the plan's assets produce a positive investment return, the employer's exposure under the defined benefit plan is reduced. On the other hand, to the extent the plan's assets produce a poor investment return, the employer's exposure under the defined benefit plan increases.

Defined contribution plans, in contrast, do not promise employees a specified benefit upon retirement. Rather, under such plans, employers typically contribute a defined percentage of payroll (money purchase plan) or a defined percentage of profit (profit-sharing plan) to a retirement account established for each employee. Since the employee's retirement benefit is the value of his account at retirement, the employee bears the entire risk of plan investment performance. Favorable investment performance will increase the benefit, while poor performance will reduce it.

The growth in DC plans relative to DB plans is evident when examining trends over the last few decades in number of plans and participants. Between 1975 and 1991, the number of active participants[4] in DB plans decreased slightly, from 27.2 million to 26.1 million, while the proportion of eligible employees that were active participants in these plans declined from 87 percent to 62 percent. The total number of private DB plans increased from 103,000 in 1975 to a peak of 175,000 in 1983, then dropped to 113,000 in 1990. Preliminary figures for 1991 indicate a further decline in the number of DB plans to 99,000. By way of contrast, the total number of DC plans (including those that are the primary benefit and those which are supplementary) increased almost three times between 1975 and 1991, from 208,000 to 609,000. Active participants in DC plans rose from 11.2 million to 36.3 million during the 1975 to 1991 period.[5]

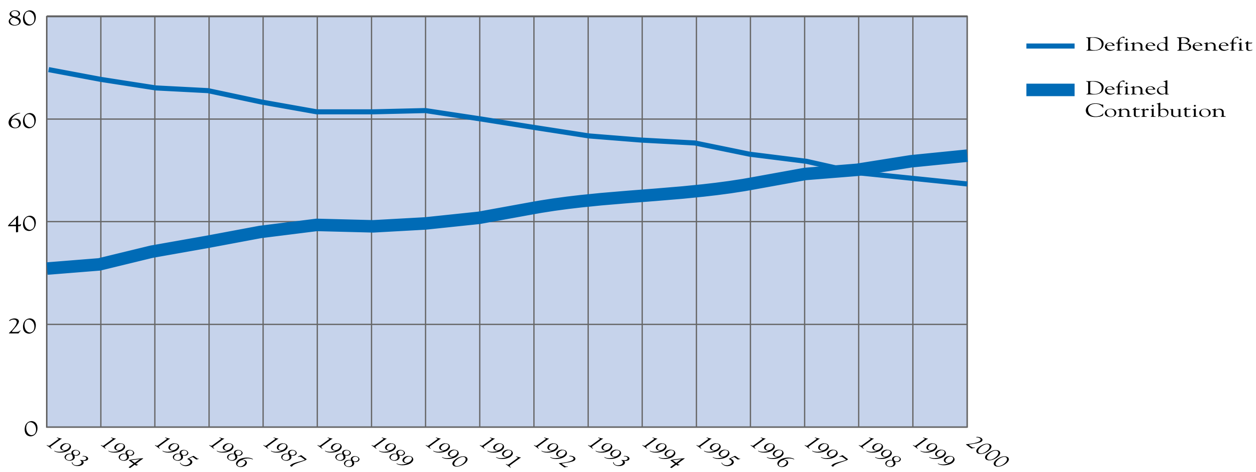
The growth of defined contribution corporate retirement plans during the last decade has been dramatic. In 1983, DC plan assets accounted for 30.6 percent of total private pension assets. By 1993, they had grown to 43.3 percent of the total. By the year 2000, DC assets are projected to grow to 52.8 percent of private pension assets.

[4]Active participants of a pension plan are those who are currently contributing to the plan or have a positive balance in their account.
[5]See U.S. Department of Labor, *Private Pension Plan Bulletin,* 1993 and 1994

Figure 14

Distribution of Private Pension Assets by Type of Plan, 1983 to 2000

(percent)



	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Defined Benefit	69.4	67.7	66.0	65.5	63.1	61.4	61.0	61.3	60.0	57.9	56.7	55.4	54.0	52.6	51.3	49.9	48.6	47.2
Defined Contribution	30.6	32.3	34.0	34.5	36.9	38.6	39.0	38.7	40.0	42.1	43.3	44.6	46.0	47.4	48.7	50.1	51.4	52.8

Source: Employee Benefit Research Institute, 1983-1993; ICI projections, 1994-2000

The disparity between the contributions to DB and DC plans is even more dramatic than that between the number of participants and the number of plans. DC plan contributions increased from $23.5 billion in 1980 to $82.1 billion in 1991, with $52.5 billion of the 1991 total accounted for by 401(k)-type plan contributions. The growth in contributions to DC plans is largely due to the growth of 401(k) plans. Without them, contributions to DC plans would have been only $29.6 billion in 1991.[6]

Among explanations for the growth in DC plans is the shift in employment from large unionized firms in manufacturing, which traditionally have provided DB plans, to smaller nonunion firms in the service sector, where DC plans are more common.[7] Another reason for the growth of DC plans relative to the growth of DB plans is that workers tend to change jobs more frequently than in the past, thus increasing the need for portable benefit plans. DC plans are deemed to be more portable than DB plans because DC plan participants are generally allowed to take distribution of benefits in one lump sum when they retire or terminate employment for other reasons.

In addition, tax laws and federal legislation, beginning with ERISA, have added to the cost and complexity of maintaining DB plans and decreased the benefit to employers. Prior to the enactment of ERISA, the employer's obligation to fund a retirement plan was largely a moral commitment rather than a legal requirement. Then ERISA imposed a mandatory funding requirement upon many types of plans, including defined benefit plans. As a result of this mandatory funding requirement, employers began to offer defined contribution plans which enabled them to satisfy their

[6] *Id.*
[7] See Employee Benefit Research Institute, *Pensions in A Changing Economy* (1993)

pension obligation simply by making a specified contribution on behalf of each employee. These DC plans also enabled employers to transfer to their employees the risk that the employer's contributions would not grow sufficiently to provide the employees with adequate retirement income.

In addition to the mandatory funding requirements imposed by ERISA in 1974, the growth of corporate DC retirement plans received further impetus from the tax law changes adopted in the Revenue Act of 1978. The Revenue Act of 1978 authorized employers to establish a new type of defined contribution profit-sharing plan commonly known as a 401(k) plan. This type of plan permits an employee to reduce his taxable income by electing each year to contribute a percentage of salary to the retirement plan. The contributions to the plan are not currently taxed as income of the employee, but are held in the employee's individual account until retirement, separation from service, or other specified events.

Because the contribution to 401(k) plans are wages deferred upon the employees' voluntary election, these plans also often offer employees the right to select the investment medium for their account from a range of choices. It is the individual employee, rather than the employer, who not only bears the risk of the investment performance of his account under a 401(k) plan, but in many cases who also selects the investment medium used to fund the account.

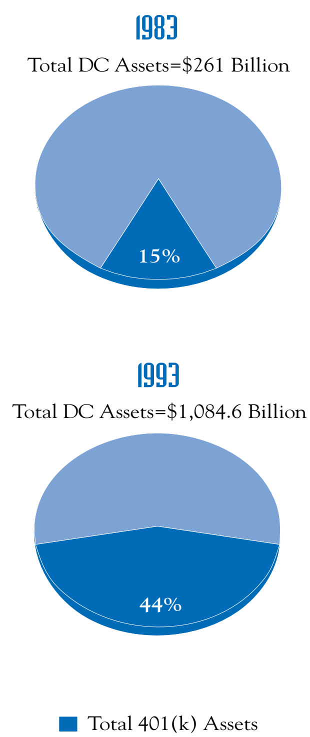
An additional advantage offered by 401(k) plans is they are more flexible than many other pension arrangements. Since each eligible employee can determine the amount of saving he does through the 401(k) plan, these plans are likely to be more attractive at firms with heterogenous work forces. Finally, from the firm's perspective, 401(k) plans may cost less for a given level of employer contribution per participating employee than other DC plans. With other defined contribution plans, the employer must contribute on behalf of all eligible workers. Even though participation in 401(k) plans is high, not all eligible employees participate, thereby reducing the employer's overall contributions.[8]

Growth of 401(k) Plans

The growth of 401(k) plans has been phenomenal. Although there were no 401(k) plans in existence prior to 1978, by 1985 10.3 million participants had accumulated $105 billion. In the mid-1980s, 401(k) plans became increasingly popular and the trend away from DB plans toward DC plans accelerated. This shift can now be characterized as a shift from both defined benefit and non-401(k) defined contribution plans toward 401(k) plans. In 1983, only 3 percent of full-time workers received coverage under a 401(k) plan compared with 47 percent under other types of plans. By 1993, the coverage rate for full-time workers under 401(k) plans had increased to 27 percent, while coverage under other types

Figure 15

Ratio of 401(k) Assets to Defined Contribution Plan Assets, 1983 and 1993



[8]See NBER, *Working Paper No. 4501*, L. Papke, M. Petersen, J. Poterba, *Do 401(k) Plans Replace Other Employer Provided Pensions?*, October 1993

of plans had fallen to 33 percent, with about 10 percent having coverage under both a 401(k) and another type of plan. The ratio of active 401(k) participants to DC plan participants increased from 16 percent in 1983 to a third in 1986, and to close to 50 percent in 1993. Similarly, the ratio of 401(k) assets to DC plan assets almost tripled during the 10-year period, from 15 percent in 1983, to 44 percent in 1993.[9]

Among plans providing retirement benefits, 401(k) plans are a fairly recent innovation. The Revenue Act of 1978 added Section 401(k) to the IRS Code, effective for taxable years beginning after December 31, 1979, but this program was not widely used until the IRS issued clarifying regulations in 1981. 401(k) plans are available only to employees of firms that offer such plans. Under this type of plan, participants can elect to defer part of their income on a pre-tax basis and have it held on their behalf in a trust until retirement. Taxes are also deferred until distribution. Because the saving is tax-favored, IRS rules restrict participant access to the funds. Elective deferrals may be withdrawn without penalty before age 59 1/2 only upon retirement, plan termination, separation from service, financial hardship, or disability. Otherwise, a 10 percent tax is imposed on lump-sum distributions paid to individuals before age 59 1/2 (in addition to income tax owed). The Tax Reform Act of 1986 (TRA-86) permits one-time election of five-year forward averaging for a lump-sum distribution received from a 401(k) plan after age 59 1/2.

Employers may contribute a matching percentage of employee contributions, make discretionary/profit-sharing contributions, or make no contributions at all. The TRA-86 set the employee deferral (or employee contribution) limit at $7,000 and indexed this limit for inflation in subsequent years. The contribution limit was $9,240 for the 1994 tax year. The TRA-86 also established new, tighter antidiscrimination requirements for 401(k) plans. (See Appendix A for more technical information on 401(k) plan features.)

Much research has been done by Poterba, Venti, and Wise on the effect of 401(k) and IRA programs on household savings.[10] They concluded that contributions to both types of plans represent net additions to, and not substitutes for, other types of personal saving. This does not mean that IRAs and 401(k) plans are not used for personal saving, but they are generally used as vehicles for additional, targeted saving. In 1980, IRAs and 401(k)s accounted for less than 5 percent of targeted retirement saving, and employer-provided defined benefit pension plans accounted for 59 percent. By 1988, however, 401(k)s and IRAs accounted for 47 percent of retirement saving. Contributions to 401(k) plans eclipsed contributions to IRAs as the leading form of tax-deferred individual retirement saving after the TRA-86 limited the tax benefits of IRAs for middle and high-income taxpayers. IRA contributions fell precipitously after 1986 and continued to decline through 1993, while contributions to 401(k) plans have continued their steady ascent reaching $52.5 billion in 1991. (See Figure 16.) The research by Poterba, Venti, and Wise indicated 401(k) saving did not displace IRA saving, but IRA contributions were curtailed as a result of the 1986 tax reform. For many households, assets held through 401(k)s represent more than half of their financial wealth. The high participation rate for those eligible for 401(k)s, coupled with the tendency for most households to reach retirement age with few financial assets other than Social Security and employer-provided pension benefits, suggests that these accounts will play a very important part in the economic security of retirees in coming decades.

The rapid growth in defined contribution plans seems to have slowed recently, however, as the number of new DC plans increased by less than 2 percent between 1989 and 1991. While the number of 401(k) type plans continued to increase rapidly from 1989 to 1991, the rates of growth in 401(k) plan participants and assets were below the rates for all types of pension plans between 1990 and 1991. Much of the rapid growth in 401(k) plan participants and assets during the mid and late 1980s occurred among medium and large firms.

[9]See U.S. Department of Labor, Pension and Health Benefits of American Workers—New Findings from the April 1993 Current Population Survey, 1994

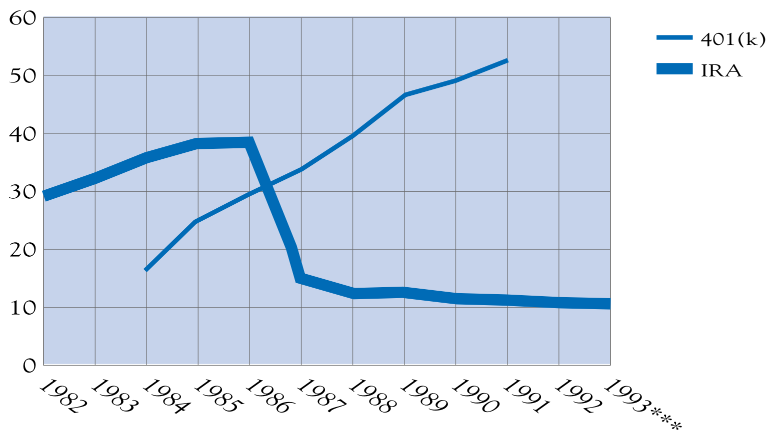
[10]See NBER, *Working Paper No. 4391*, J. Poterba, S. Venti, D. Wise, *Do 401(k) Contributions Crowd Out Other Personal Savings?*, June 1993

Figure 16

401(k)* and IRA** Contributions, 1982 to 1993

(billions of dollars)

Source: Department of Labor, IRS



	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993***
401(k)			16.3	24.3	29.2	33.2	39.4	46.1	49.0	52.5		
IRA	28.3	32.1	35.4	38.2	38.3	14.9	12.4	12.5	11.6	11.0	10.6	10.5

**401(k) type plans (all plans with cash or deferred arrangements which file the 5500 form)*
***SEP contribution totals were included prior to 1987.*
****The IRA Reporter estimate*

During the 1990s, the expansion rate among the medium and large firms leveled off, indicating that a level of maturity, or potential for high growth, in the 401(k) market may have been reached for those segments.

In larger companies, 401(k) plans were often established by modifying an existing profit-sharing or thrift plan, presumably because 401(k)s provided more attractive opportunities for employees to defer taxable income. In most cases, these large companies offered a defined benefit plan as their primary retirement benefit, and the 401(k) was a supplemental plan.[11] Nearly two thirds (64 percent) of plans with 1,000 or more participants are supplemental plans.

New 401(k) plan formation is still strong, although most activity is occurring among small companies. Almost half of the very small plans with fewer than 100 participants were installed since 1990. Smaller companies tend to use the 401(k) plan as the primary benefit for employees.

An estimated 210,000 corporations now sponsor 401(k) plans, with 18 million active participants out of 24 million eligible employees. The fact that these plans allow employees to defer income, to take advantage of employer-matching provisions where available, and to accumulate assets at the pre-tax rate of return are some of the factors that have made them the fastest-growing vehicle for retirement saving during the last decade. Assets have grown at a compound annual rate of 27 percent since 1984 to reach $475 billion in 1993 and are expected to grow by close to 15 percent per year to reach $1 trillion in 1999. Growth in assets has slowed

[11]Ibid, NBER *Working Paper No. 4501*, Papke, Petersen, Poterba

somewhat since 1990, not only because of a slowdown in investment returns but also because of high penetration among eligible employees, and the resulting slowdown in the growth of contributions among new participants. There is an overall participation rate of 75 percent, up from 62 percent in 1986. Participation is highly correlated with size in that it is lowest for very small plans (those with fewer than 100 participants) and highest among very large plans with 4,000 or more participants.

Adding to the prospect for further growth in 401(k) plans, as well as profit-sharing and other DC plans, are the new rules issued by the Department of Labor in October 1992. Under the ERISA Section 404(c), plan sponsors can achieve fiduciary relief, and therefore a measure of relief from liability in maintaining DC plans, by allowing participants to control the investment of assets in their 401(k) accounts. As long as the 404(c) regulations are satisfied, no fiduciary liability will arise for the plan sponsor by reason of the participants' investment decisions.[12]

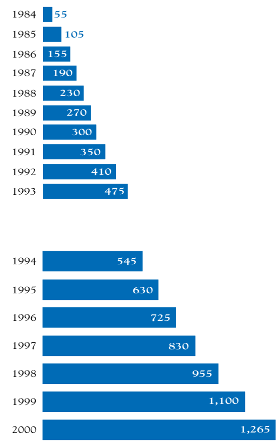
Mutual Funds Become Active in 401(k) Market

The increasing use of 401(k) plans is shifting some of the burden of retirement planning from employer to worker. In this context, it's vital that workers contribute to their plans and thoughtfully select the investment choices for the money they set aside. Because employees take responsibility for investment decisions in many of these plans, it is important that they feel comfortable with their ability to access information about their investments. Participants want a full range of options under their individual account plans, the ability to transfer more frequently, and current and full information. Increasingly, plan sponsors have come to appreciate the advantages mutual funds can offer. They provide access to top professional portfolio managers, portfolio diversification, liquidity, portfolios managed according to a well-defined policy, well-documented track records, the diversified options necessary for compliance with ERISA Section 404(c), ease of administra-

Figure 17a

Total 401(k) Plan Assets, 1984 to 1993

(billions of dollars)

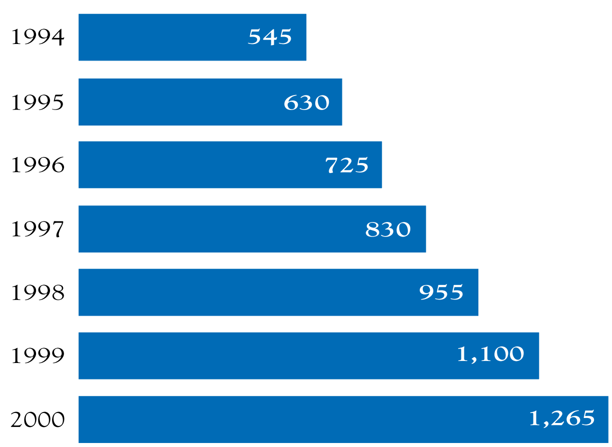


Source: Access Research

Figure 17b

Projected Total 401(k) Plan Assets, 1994 to 2000

(billions of dollars)



Source: Access Research

[12]An ERISA section 404(c) regulation was promulgated by the Department of Labor and became effective for most plans on January 1, 1994. The regulation's major provisions call for plan sponsors to offer employees at least three investments with wide-ranging risk and return characteristics, the opportunity to shift from one investment to another at least once every three months, and to give participants sufficient information to allow them to make informed investment decisions. (See Appendix B for more information on ERISA Section 404(c).)

tion, and the necessary recordkeeping and compliance-consulting services, and systems and procedures for communicating with, and educating, participants.

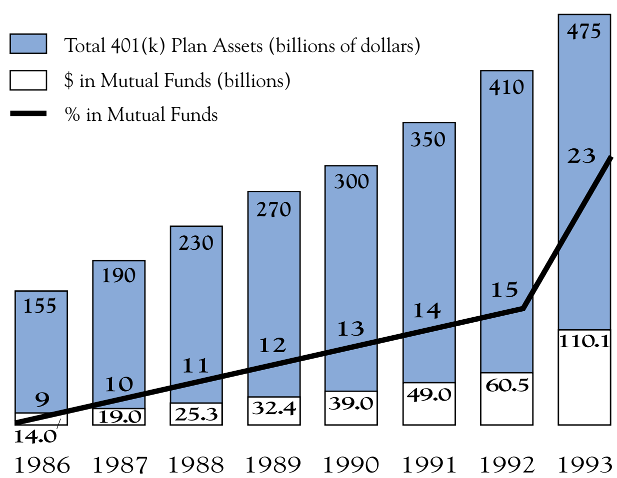
Mutual funds are particularly well-suited as investment vehicles for participant-directed defined contribution plans. For years mutual funds have been building a solid reputation and earning the trust of investors. They have developed the necessary technology (including 800 numbers) and shareholder communications to become very accessible to investors. Mutual fund complexes provide a range of investment alternatives and allow daily redemptions and purchases without restriction, often by telephone. In addition, fund companies have the refined marketing skills that are necessary for educating and communicating with participants.

As a result, demand by participants and plan sponsors for mutual fund options has increased substantially in the last several years. The amount of 401(k) assets invested in mutual funds and their share of the total market have grown steadily each year since 1986. In 1993, 401(k) assets invested in mutual funds jumped to over $110 billion, or 23 percent of the total 401(k) market. This is an 80 percent increase over the $61 billion, and an 8 percentage point increase over the 15 percent of market share one year earlier. An investigation of major 401(k) market players revealed the steep increase in 401(k) assets invested in mutual funds in 1993 reflected not only greater marketing efforts by mutual fund companies, but also the conversion of some 401(k) separate accounts at insurance companies to institutional mutual funds, as well as some conversions of 401(k) commingled accounts at commercial banks to mutual funds.

The importance of the retirement market to the mutual fund industry is increasing and may even be the key to sustainable future growth in assets and earnings. As a result, the ownership structure of the industry and product demand have shifted a bit more toward retirement-oriented programs. Assets held in retail and institutional retirement accounts, of which 401(k) plans are a major segment, have grown to nearly one third of total mutual fund assets. In 1993, 401(k) assets accounted for 5.3 percent of total mutual fund assets and 17.3 percent of all the retirement assets invested in mutual funds, up from 3.7 percent and 13.8 percent, respectively, the previous year. Cash flows[13] attributed to 401(k) plans also represented a substantial 15 percent of total industry cash flows in 1993.

Figure 18

Trendline Estimates of 401(k) Plan Assets Invested in Mutual Funds



[13]Cash flows or net flows = net sales plus net exchanges.

I. Description of Companies Surveyed and Characteristics of Their Plans

Plan Formation

The formation of new 401(k) plans has been concentrated among very small companies with fewer than 100 employees during the 1990s. Among firms with 100 or more employees that responded to the survey, 86 percent had established their plans during the 1980s or earlier. Among small companies, 47 percent of their plans were established in the past three years.

Plans established in the past three years are more likely than older plans to be the primary retirement benefit offered employees. In addition, they tend to be purchased on a full-service basis and use a single investment manager. Figure 19 shows the type of investment manager currently used by all plans established in the 1990s compared with those used by all plans, regardless of when they were established.

Figure 19

Type of Investment Manager Used*

(percent of respondents)

	All Plans	Plans Established in the 1990s	Plans Established before 1990
Bank	26	15	28
Insurance Company	27	30	26
Independent Investment Firm	18	16	18
Mutual Fund Company	27	24	28
Other**	20	24	19
Base =	919	181	706

** Multiple responses included*
*** Other investment managers include stockbrokers, trust companies, inhouse managers, and all others.*

Plan Size

On average, plan size in terms of assets varies from about $3.5 million among companies with fewer than 100 participants to $126.5 million among plans with 4,000 or more participants. Mean plan size for the five segments is shown in Figure 20.

Mean plan size is considerably larger among those plans that use multiple investment managers, those that purchase investment management and plan services on an unbundled basis, and for plans which are a supplemental rather than a primary retirement benefit. All of these factors are correlated with the number of plan participants. In addition, plans utilizing mutual fund companies and independent investment firms to manage plan assets are larger on average than those utilizing banks or insurance companies.

Figure 20

Asset Size of Plan by Number of Participants

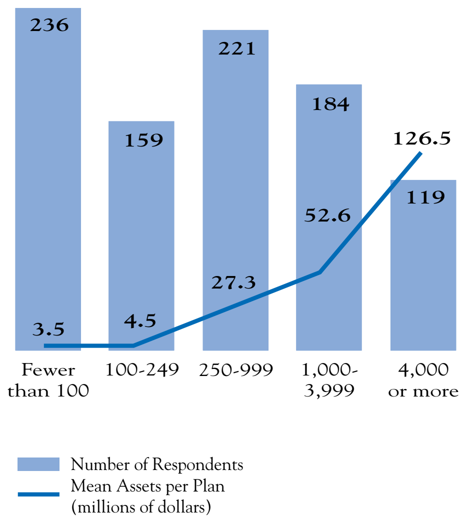


Figure 21

Plan Participant Rate by Industry

(percent)

Agriculture/Forestry/ Fisheries	74.7
Construction	78.3
Transportation	63.1
Manufacturing/Mining	77.4
Wholesale/Retail	70.5
Finance/Insurance/Real Estate	77.5
Services	70.3
Communications	70.2
Public Utilities	81.4
Healthcare	74.8
Engineering	80.2
Aerospace	85.4
Other	75.8

401(k) Plan Eligibility and Participation

Access Research estimates that approximately 24 million employees are eligible to participate in 401(k) plans. That number equates to one fifth of all employed workers. Most 401(k) plans are open to all employees. Less than 4 percent of plans are designated exclusively for management or bargaining unit employees.

The average overall participation rate among those eligible is 74.5 percent, ranging from 68 percent among employees in firms with fewer than 100 employees to 81 percent in companies with 4,000 or more employees. Participation is highly correlated by size in terms of participants, but when compared by plan asset size, the average participation rate ranged only from 71 percent to 78 percent as asset size increased. The difference in average participation rates by type of investment manager is insignificant, with rates of 74 percent for banks, 73 percent for independent investment firms, and 75 percent for insurance and mutual fund companies.

Participation is also higher for plans sponsored by construction, utilities, engineering, and aerospace firms. Figure 21 shows participation by industry.

Primary vs. Supplemental Plans

Approximately 60 percent of plan sponsors say that the 401(k) plan is their primary retirement plan for employees. The smaller the plan, the more likely it is to be the primary retirement benefit. This is the case whether plan size is measured in terms of the number of participants or plan assets (see Figure 22). Companies using the 401(k) plan as the primary retirement benefit have average sales of $176.5 million compared with $1.1 billion among firms offering the 401(k) plan as a supplemental benefit. The pivotal size where plans become supplemental rather than primary is between 1,000 and 4,000 participants and between $10 and $50 million in plan assets.

The 401(k) plan is also more often the primary retirement plan for firms in the construction, wholesale/retail, communications, and services sectors. It is more often a supplemental plan for firms in the manufacturing, public utility, or financial sectors. These differences likely reflect differences in firm size.

Figure 22

Type of Retirement Plan by Size Segment

(percent of total respondents)

Number of Participants	Primary	Supple-mental	Number of Respon-dents
Less than 100	86	14	236
100-249	69	31	159
250-999	61	39	221
1,000-3,999	38	60	184
4,000 or more	29	70	119
Plan Assets			
Less than $1 million	78	22	121
$1-$9.9 million	64	36	197
$10-$49.9 million	44	54	149
$50 million or more	33	64	114

Figure 23

Distribution of U.S. Corporations and 401(k) Plans by Industry*

(percent)

	All Corp-orations	401(k) Plans
Agriculture/Forestry/Fisheries	3.4	2.1
Construction	10.9	3.7
Transportation/ Communications/ Public Utilities	4.3	11.0
Manufacturing/Mining	9.5	35.5
Wholesale/Retail	28.1	16.7
Finance/Insurance/ Real Estate	16.4	12.4
Services	27.4	18.6
	100.0	100.0

** The number of corporations and plans not allocable to listed categories was not statistically significant.*

401(k) Plans by Industry

Figure 23 shows the distribution of all corporations in the United States and of the 401(k) plan respondents by industry.

Industries that tend to have large companies and many employees, such as manufacturing and transportation, account for a larger proportion of 401(k) plans than do other industries. Those, like retail or construction, where small firms proliferate, account for a lesser proportion. In the financial and services sectors, smaller firms with higher-than-average salary levels are also likely to have established a 401(k) plan.

Contributions and Expenses

A. Contributions

Over 84 percent of all plan sponsors make matching or nonmatching contributions other than employee deferrals (employee contributions) to their 401(k) plans. The incidence of companies contributing to the plan increases as plan size increases. Figure 24 shows how companies contribute to the plan.

1. Matching Contributions

Over 90 percent of plan sponsors that make employer contributions to the plan match all or a portion of employee contributions. The most common matching level, used by more than 40 percent of sponsors that match, is 50 cents on the dollar. The next most widely used matching levels are 25 percent and 100 percent of the employee’s contribution. Overall, about one quarter of plans which match all or a portion of employee contributions match at the 25

Figure 24

Contribution Behavior by Segment

	Employee Contributes Only	Company Contributes: Matches 100%	Company Contributes: Matches <100%	Company Contributes: No Match	Number of Respondents
Type of Investment Manager					
Bank	12	15	66	6	235
Insurance Company	16	25	51	8	247
Independent Investment Firm	12	18	61	8	164
Mutual Fund	16	17	62	5	247
Other	16	25	54	4	181
Number of Participants					
Less than 100	21	57	16	6	236
100-249	21	11	61	6	159
250-999	11	7	74	7	221
1,000-3,999	15	7	72	5	184
4,000 or more	4	11	79	5	119
Plan Assets					
Less than $1 million	22	47	23	7	121
$1-$9.9 million	13	18	61	7	197
$10-$49.9 million	13	7	73	6	149
$50 million or more	6	10	76	8	114
Purchasing Behavior					
Full-service	15	23	55	6	688
Unbundled	17	15	62	6	217
Number of Investment Managers					
One	17	25	52	6	630
Two or more	11	11	71	6	277
Plan is:					
Primary	14	34	57	7	550
Supplemental	17	11	84	4	361
Overall Number	141	193	526	54	919
Overall Percent	15	21	57	6	919

percent level, and close to 20 percent match the employee's contribution dollar for dollar. Small plans match at the 25 percent level about as frequently as at the 50 percent level, and somewhat less frequently at the 100 percent level. Other segments are most likely to match at the 50 percent level.

When compared across segments, plans which match most frequently at the 25 percent level include:

- those with 100 or fewer participants,
- those with plan assets less than $1 million,
- full-service purchasers,
- primary plans, and
- insurance company customers.

When compared across segments, plans which match more frequently at the 50 percent level include:

- those with 1,000-3,999 participants,
- those with plan assets of $10-$49.9 million,
- those using multiple investment managers, and
- supplemental plans.

Customers of insurance companies match employee contributions at the 100 percent level more frequently than customers of other types of investment managers.

2. Limits on Matching Contributions

Over three fourths of plans that match all or a portion of employee contributions have set a limit on the amount they will contribute as matching contributions. The range across all segments analyzed for plans that set limits on the amount they will match is 74 percent of respondents for the smallest plans to 79 percent for the largest.

The most frequently-used method of establishing the maximum matching contribution is to limit matching to a designated percentage of the employee's compensation contributed to the plan. The most frequently used limit is 6 percent of employee compensation, with limits lower than this being more common than those set higher. The median maximum amount is 5.3 percent. Figure 25 shows the maximum proportion of the employee's compensation that is matched for all of the segments analyzed. The percentages refer to plans that responded that their maximum match level is a percent of employee compensation.

3. Amount Contributed to the Plan

The overall median total plan contribution is about $360,300 annually. This figure represents both employer and employee contributions. However, this typical contribution amount varies considerably among plans. The median total contribution for very large plans with over 4,000 participants is over $15 million, while for very small plans with fewer than 100 participants, it is slightly over $38,000. Median contributions are considerably higher for plans that are supplemental retirement benefits rather than primary benefits. The fact that supplemental plans are concentrated among larger companies accounts for this.

Other segments that are characterized by larger plans also have higher median total contributions, i.e., those with multiple investment managers, those that purchase on an unbundled basis, and those that use an independent investment firm to manage assets.

On average, employer contributions account for about 35 percent of the total contributions made to 401(k) plans. The proportion contributed by the employer is higher among those plans that do not offer a matching contribution (such as in profit-sharing plans) and among those that purchase services on an unbundled basis. The proportion contributed by the employer is also higher among customers of banks or independent investment firms than among customers of mutual fund or insurance companies.

On a per-participant basis, the median company contribution is between $600 and $900 across all segments analyzed with two exceptions. Very large plans with assets of $50 million or more and customers of independent investment managers contribute $1,200 per participant. The median contribution overall is $800. As one would expect, per-participant contributions are higher for plans that match than for those which do not, and for those segments which are characterized by, or concentrated among, larger companies.

4. Typical Account Balances

The median overall plan assets per employee, or typical account balance, from this survey is $15,900. (The mean is $36,000.) The typical balance varies by segment. Very large plans with assets of $50 million or more tend to have the highest median account balances of $35,300. In contrast, plans with many participants (4,000 or more)

Figure 25

Maximum Match Level of Employer Contributions by Segment

(percent)

	1-3%	4-5%	6%	7%+	Number of Respondents
Type of Investment Manager					
Bank	21	25	38	16	131
Insurance Company	22	31	30	16	135
Independent Investment Firm	26	30	33	11	84
Mutual Fund	23	25	39	10	121
Other	28	29	30	13	104
Number of Participants					
Less than 100	30	24	24	20	115
100-249	21	36	33	10	77
250-999	32	26	25	13	119
1000-3999	11	34	42	12	98
4000 or more	17	23	47	13	75
Plan Assets					
Less than $1 million	22	32	29	15	59
$1-$9.9 million	26	28	30	16	108
$10-$49.9 million	18	36	36	11	84
$50 million or more	19	18	52	11	65
Plan is:					
Primary	28	30	25	14	290
Supplemental	15	25	45	15	190
Purchasing Behavior					
Full-service	24	28	30	16	359
Unbundled	20	28	41	10	117
Number of Investment Managers					
One	23	30	30	15	319
Two or more	23	25	39	13	160
All Companies with Matching Contributions Determined by Maximum Percentage	23	28	33	14	484
with Matching Contributions					
Determined by					

Figure 26

Employer Contributions per Participant by Segment

(percent of respondents where company contributes to plan, median in dollars)

	Less than $500	$500 to $999	$1,000 to $4,999	More than $5,000	Median	Number of Respondents
Type of Investment Manager						
Bank	17	11	12	5	800	205
Insurance Company	18	11	13	5	700	208
Independent Investment Firm	11	8	18	7	1200	143
Mutual Fund	15	11	16	4	900	208
Other	18	12	15	5	700	152
Number of Participants						
Less than 100	16	14	11	5	700	185
100-249	15	7	14	3	800	126
250-999	17	8	9	4	600	196
1,000-3,999	15	10	17	6	900	155
4,000 or more	15	14	19	7	900	114
Plan Assets						
Less than $1 million	26	20	12	3	600	94
$1-$9.9 million	24	16	20	4	800	172
$10-$49.9 million	25	13	19	12	800	129
$50 million or more	11	14	24	11	1200	107
Purchasing Behavior						
Full Service	14	11	11	9	800	583
Unbundled	20	9	20	6	800	180
Number of Investment Managers						
One	15	11	11	5	700	521
Two or more	17	10	18	5	900	246
Plan is:						
Primary	16	8	13	4	700	471
Supplemental	15	14	14	6	800	299
All Companies who Contribute to Plan	16	11	13	5	800	776
who Contribute						
to Plan	16	11	13	5	800	776

have the smallest median balances of only $11,900. One possible reason for this is that some very large plans (in terms of participants), such as those for certain types of manufacturing companies, have more low-salary employees than high-salary employees.

When compared by attributes other than size, customers of insurance companies who have typical account balances of $13,300, and plans using a single investment manager and have balances of $14,800 have the lowest median account balances. This is not surprising because these attributes are generally representative of small companies. Independent investment firm clients with typical account balances of $19,200, and plans with multiple investment managers and balances of $18,600 have the highest. Conversely, these attributes are common among large companies.

B. Plan Expenses

A large number (47 percent) of the 401(k) plan respondents did not indicate what their total plan expenses are. Among those who did, total plan expenses range from an average of less than $5,000 for very small plans with fewer than 100 participants[14] to an average of over $400,000 for very large plans with 4,000 or more participants. As was the case for plan contributions, segments that are characterized by larger plans also have higher median plan expenses, i.e., those with multiple investment managers, those that purchase on an unbundled basis, and those that use an independent investment firm. Total plan expenses are also higher for customers of mutual funds (most often larger companies) and for those plans that match employee contributions.

Findings for per-participant expenses are somewhat different, however. Across most segments analyzed, median per-participant plan expenses cluster in the $50-$75 range. They are lower for plans with:

- 1,000 or more participants, and
- mutual fund investment managers.

The segments in which median per-participant plan expenses are $75 or more are plans with:

- fewer than 250 participants,
- assets of $1-$9.9 million,
- services purchased on an unbundled basis, and
- "other" investment managers.

Figure 27

Plan Assets per Employee by Segment

(median in dollars)

Overall	15,900
Type of Investment Manager	
Bank	17,200
Insurance Company	13,300
Independent Investment Firm	19,200
Mutual Fund	15,500
Other	17,400
Number of Participants	
Less than 100	15,300
100-249	16,500
250-999	17,800
1,000-3,999	16,600
4,000 or more	11,900
Plan Assets	
Less than $1 million	N/A
$1-$9.9 million	14,100
$10-$49.9 million	17,800
$50 million or more	35,300
Number of Investment Managers	
One	14,800
Two or more	18,600
Plan is:	
Primary	16,000
Supplemental	15,800

[14]Excludes a small portion of high-asset small plans

Figure 28

Plan Expenses per Participant by Segment

(percent of all respondents, median in dollars)

	<$20	$20-$49	$50-$74	$75-$99	$100+	Median	Number of Respondents
Type of Investment Manager							
Bank	5	7	8	3	18	77.40	235
Insurance Company	9	12	12	5	15	60.20	247
Independent Investment Firm	6	13	4	3	18	68.60	164
Mutual Fund	8	15	5	4	13	47.40	247
Other	5	12	7	6	22	82.00	181
Number of Participants							
Less than 100	4	9	9	4	23	89.00	236
100-249	6	8	8	5	20	83.40	159
250-999	5	13	6	4	15	60.60	221
1,000-3,999	9	18	5	5	12	46.50	184
4,000 or more	10	12	7	3	13	49.00	119
Plan Assets							
Less than $1 million	5	15	12	6	24	72.20	121
$1-$9.9 million	6	13	10	8	28	85.70	197
$10-$49.9 million	10	23	7	6	22	52.80	149
$50 million or more	12	13	11	4	17	56.70	114
Purchasing Behavior							
Full-service	6	12	7	3	16	64.40	688
Unbundled	6	13	8	7	20	74.80	217
Number of Investment Managers							
One	6	12	8	3	16	63.80	630
Two or more	7	13	5	7	19	75.40	277
Plan is:							
Primary	6	11	7	5	16	70.10	550
Supplemental	7	14	8	3	17	61.10	361
All Respondents	6	12	7	4	17	66.40	919

Figure 29

Payor of Plan Expenses by Segment

(percent of all respondents)

Type of Investment Manager	Company	Plan	Both
Bank	55	22	20
Insurance Company	67	11	22
Independent Investment Firm	59	18	23
Mutual Fund	61	16	23
Other	60	19	20
Number of Participants			
Less than 100	73	13	14
100-249	70	10	18
250-999	58	20	20
1,000-3,999	54	19	26
4,000 or more	55	20	24
Plan Assets			
Less than $1 million	70	17	12
$1-$9.9 million	61	16	22
$10-$49.9 million	57	22	22
$50 million or more	58	20	22
Purchasing Behavior			
Full-service	65	15	18
Unbundled	54	20	26
Number of Investment Managers			
One	67	15	17
Two or more	53	20	26
Plan is:			
Primary	64	16	19
Supplemental	61	16	22
All Respondents	63	16	20

Close to 63 percent of plan sponsors pay all plan expenses, while less than 20 percent charge all expenses to the plan (participants). The remainder share expenses between the plan sponsor and participants. Employers with plans having fewer than 250 participants and with assets less than $1 million more frequently pay all expenses. Full-service plans, those using a single investment manager, and customers of insurance companies also pay all plan expenses more frequently than other segments. These attributes are normally representative of small plans.

II. Investment Management Service and Investment Preferences

Type of Provider Used

Market share for investment management services varies by plan size. Results are basically the same whether size is measured by number of participants or level of assets. Insurance companies are most frequently used as investment managers among very small firms with fewer than 100 participants. Banks and insurers have about equal shares and are used most often in the 100-249 participant segment. Among plans with 250-999 participants, mutual fund companies are used by close to 30 percent of plans, followed by banks and insurance companies, each used by one quarter of plans. Independent investment firms are used less often than the other types of major providers, particularly among smaller plans. Mutual fund companies are the leading providers among mid- to large-sized plans (those with 250 or more participants). Banks are the second leading provider in the largest of plan segments (those with 1,000 or more participants), used by one third of plan respondents, followed by independent investment counselors.

On the basis of plan assets, insurance companies have the largest share among very small plans with less than $1 million (36 percent). Insurance companies and banks lead in the $1-$9.9 million segment used by 31 percent and 29 percent of plans, respectively. Mutual fund companies and banks lead in the $10-$49.9 million segment. Mutual fund companies also have the leading share among very large plans with over $50 million in assets. Trust companies also provide significant plan investments in the largest plan segment as evidenced by 16 percent of respondents with assets exceeding $50 million. Also significant in the smallest segment are brokerage firms, providing investment management to 11 percent of respondents.

Among plans that purchase on a full-service basis, banks, insurance companies, and mutual funds have approximately equal shares. Companies that purchase on an unbundled basis split their business among banks (27 percent), mutual fund companies (30 percent), and independent investment counselors (33 percent). Among plans that use multiple investment managers, mutual fund companies have the largest share (38 percent), followed by independent investment counselors (32 percent).

Companies that use the 401(k) plan as the primary retirement benefit are more likely to use insurance companies (32 percent) as the investment manager than other types of firms. Conversely, among those companies using the 401(k) as a supplemental benefit, mutual fund companies and banks have the largest share. Figure 30 shows the type of investment manager used by each segment.

Satisfaction with Investment Manager

Over 80 percent of respondents in all size segments say they are "very" or "somewhat" satisfied with the service and performance delivered by their investment managers. Only 4 percent of respondents express dissatisfaction with their investment managers.

The degree of satisfaction expressed did not differ significantly by plan size. However, a slightly higher incidence of small plans (those with $1-$9.9 million in assets)

Figure 30

Type of Investment Manager Used by Segment*

(percent of all respondents)

	Bank	Insurance Company	Indepen-dent Investment Counselor	Mutual Fund Company	In-house	Trust Company	Stock-broker	Other**	Number of Respondents
Number of Participants									
Less than 100	17	34	14	18	1	6	11	6	236
100-249	31	32	16	13	1	6	6	1	159
250-999	24	25	14	29	2	11	7	2	221
1,000-3,999	33	21	27	39	1	11	4	2	184
4,000 or more	33	17	21	41	2	14	3	2	119
Plan Assets									
Less than $1 million	17	36	14	19	1	6	11	4	121
$1-$9.9 million	29	31	15	19	2	7	8	2	197
$10-$49.9 million	33	26	22	40	1	7	6	3	149
$50 million or more	26	15	25	44	2	16	4	2	114
Plan is:									
Primary	23	32	16	21	2	9	9	4	550
Supplemental	31	20	19	36	1	10	3	1	361
Purchasing Behavior									
Full-service	26	29	13	26	1	8	6	3	688
Unbundled	27	20	33	30	3	14	10	3	217
Number of Investment Managers									
One	26	27	12	22	1	7	6	2	630
Two or more	27	26	32	38	2	14	8	3	277
All Respondents	26	27	18	27	2	9	7	3	919

** Multiple responses included*
*** In this table, "Other" does not include Trust Company, Stockbroker, and Inhouse manager categories, but represents all others unspecified mentions.*

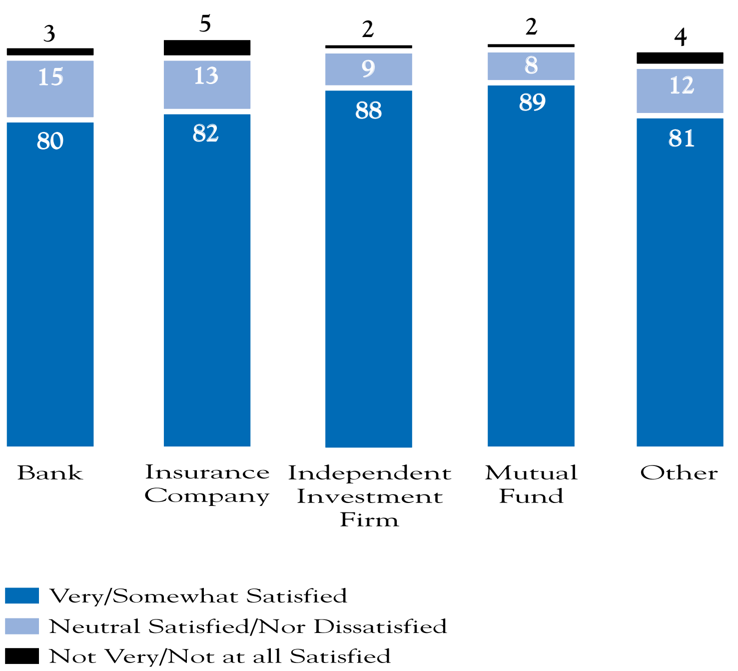
expressed dissatisfaction (8 percent) than did very large plans (those with over 4,000 participants or plan assets of $50 million), where no respondents expressed dissatisfaction.

About 89 percent of plans using mutual fund companies or independent investment firms said they were very or somewhat satisfied with their investment manager. This did not differ significantly from those using banks, insurance companies, or "other" types of managers. Figure 31 summarizes the satisfaction responses by type of investment manager.

Figure 31

Satisfaction Level with Investment Manager by Type

(percent of all respondents)



Likelihood of Switching Investment Manager

When asked the likelihood that they would switch investment managers in the next 12 months, about 10 percent of respondents answer in the affirmative. Those plans that purchase services on an unbundled basis and those using multiple investment managers are more likely than those using full-service plans and one investment manager to switch investment managers. There is no significant difference in the likelihood of switching expressed based on the type of investment manager used. At 17 percent, those plans with assets of $10 to $49.9 million indicate a stronger likelihood of switching than the smallest and largest plans do.

Service issues are mentioned more frequently than other factors as the reason for switching. Just over half of those indicating a likelihood of switching cite these as the reason. The desire for more investment options is the most frequently cited service issue prompting participants to change investment providers. Among the different types of investment providers, plans that use insurance companies, independent investment firms, and "other" types of investment managers have the largest share of respondents wanting more options. Other service issues mentioned include poor administration (14 percent), inadequate information, and untimely service (9 percent each). Investment return is the reason mentioned by 28 percent of those likely to switch. Cost (8 percent), convenience and change (6 percent each), and a desire to switch to a full-service approach (5 percent) are also reasons mentioned for switching.

Plans with fewer than 1,000 participants or less than $10 million in assets mention service issues more frequently, and cost less frequently, than do larger plans. There are no other significant differences in the reasons given for a desire to switch across segments.

Types of Investment Vehicles Used

Commingled accounts, or accounts holding funds from more than one plan, are the most frequently offered type of investment account in 401(k) plans. About three quarters of all sponsors include commingled accounts in their investment line-up. Mid-and large-sized plans, with 250-3,999 participants or assets of $10-$49.9 million, are the heaviest users of commingled accounts. Eighty to ninety percent of bank, insurance company, and mutual fund customers offer commingled funds to their participants. Customers of independent investment firms and “other” investment managers offer commingled funds to their participants less frequently than those who use different types of managers.

Separately-managed accounts, or funds holding only the assets of one plan, are offered by a range of 20 to 25 percent of plans in segments having fewer than 1,000 participants or less than $50 million in assets. Among the largest plans (i.e., over 4,000 participants or $50 million in assets), about 40 percent of plans in each segment use separately-managed accounts. Unbundled purchasers, plans using two or more investment managers, and customers of independent investment firms are the heaviest users of separately-managed accounts.

Variable annuity contracts are used most frequently by smaller plans, particularly those with up to 250 participants.[15] Company stock is used most frequently by very large plans with more than 4,000 participants and $50 million in assets.

Three quarters of total respondents say they feel it is important to offer a choice among the types of investment vehicles in the plan. The affirmative response increases with plan size from close to 60 percent in the smallest segment to 86 percent in the largest. This opinion is most widespread among unbundled purchasers, those using multiple investment managers, supplemental plans, and mutual fund customers.

Interestingly, the proportion of respondents that feel variable annuity contracts should be offered exceeds the proportion that currently use this vehicle. The proportion that feels other types of vehicles should be offered is approximately equal to the current usage of each type.

Number of Investment Options Offered

The median number of investment options offered to 401(k) plan participants is four in all plan size segments. The average number is five. Bank customers offer the fewest number of investment options, with a median of three. Clients of insurance companies and investment firms offer a median of four options. This compares with five offered by plans that use mutual fund companies to manage their investments.

The proportion of plan sponsors having only a single investment option is greatest for small plans with less than 250 participants and those with assets less than $10 million. Single-investment-option plans are more likely to be full-service plans and to use a bank or “other” type of investment manager. Plans with only one option are less likely to have a matching contribution or to use a mutual fund or insurance company as investment manager.

Plans offering seven or more investment options represent 16 percent of all plans. Those most likely to offer seven or more options are the largest plans (i.e., over 4,000 participants or $50 million in assets), and use mutual funds or insurance companies as investment managers. Unbundled purchasers and plans using banks as investment managers are least likely to offer seven or more investment options. Figure 32 summarizes the number of investment options offered by segment.

ERISA Section 404(c) Qualification

ERISA Section 404(c) establishes provisions that allow a plan sponsor to be relieved of fiduciary responsibility for participant investment decisions. To qualify, the plan must meet a variety of requirements including offering participants at least three diversified investment alternatives with different return/risk characteristics and sufficient information to make informed investment decisions. Eighty-three percent of all plan sponsors say they intend that their plan pass investment control to participants and qualify under this provision. Moreover, a range of 76 percent to 90 percent of all types of investment management customers intend to seek plan qualification under Section 404(c). Specifically, more mutual fund and insurance

[15] Variable annuity contracts are popular among small plans for several reasons. They are used frequently by brokers who sell prototype plans to small companies, particularly independent brokers, insurance agents, and financial planners. The annuity wrap on this type of product provides a marketing allowance to compensate brokers, and asset-based administrative fees to pay the service provider. These commissions and fees on variable annuities enable the provider to sell the plan less expensively than with other types of vehicles and to make a profit on administering and managing assets for small plans. The asset-based fees which are charged to the plan (participants) also make plan expenses more manageable for small companies.

Figure 32

Number of Investment Options Offered by Segment

(percent of all respondents)

	0 - 1	2 - 3	4 - 5	6+	Number of Respondents
Type of Investment Manager					
Bank	11	32	43	13	235
Insurance Company	3	22	38	37	247
Independent Investment Firm	6	28	47	19	164
Mutual Fund	2	13	46	39	247
Other	8	24	43	23	181
Number of Participants					
Less than 100	9	22	41	26	236
100-249	11	25	37	25	159
250-999	3	26	47	23	221
1,000-3,999	2	24	42	32	184
4,000 or more	3	17	48	33	119
Plan Assets					
Less than $1 million	6	22	46	27	121
$1-$9.9 million	7	27	43	23	197
$10-$49.9 million	3	28	41	28	149
$50 million or more	5	18	42	34	114
Plan is:					
Primary	7	24	43	25	550
Supplemental	4	22	43	31	361
Purchasing Behavior					
Full-service	7	22	40	30	688
Unbundled	3	28	50	18	217
Number of Investment Managers					
One	7	23	42	27	630
Two or more	2	24	46	29	277
All Plans	6	23	43	27	919

company customers indicate they intend to seek qualification than plans managed by other types of investment managers.

The segments least interested in qualifying are very small plans with fewer than 100 participants and very large plans with over 4,000 participants. Seventeen percent of the smallest size plans and 15 percent of the largest size plans do not intend to qualify.

Investment Direction

Participants direct the investment of their own contributions in about 80 percent of 401(k) plans. Directing the investment means that the participant decides which options to invest his contributions and account balance within the choices selected by the plan sponsor. The plan sponsor retains investment control in about 14 percent of plans, and both participants and the plan sponsor control some investments in the remaining 6 percent.

Across size segments, plans with fewer than 250 participants are less apt (75 percent), and plans with 1,000-3,999 participants are more apt (88 percent), to give participants investment control than are other segments. The highest incidence of split investment control is among very large plans with 4,000 or more participants (14 percent) and $50 million or more in assets (11 percent).

Plan sponsors more often retain investment control in plans that are the primary retirement benefit for employees. Mutual fund and insurance company customers give participants investment control more frequently than do plans using other types of investment managers.

Types of Investment Options Offered

Growth funds and guaranteed investment contracts (GICs) are the most commonly-offered investment options. Over half of all respondents listed growth funds and GICs as investment options offered by their plans. Ranking second in usage are equity income, balanced, and money market funds. Each of these is available in close to half of all plans.

The third tier is composed of aggressive growth and government bond funds which are offered in about 36 percent of plans. Over a quarter of plans offer equity

Figure 33

Types of Available Investment Options by Segment

*(percent of total responses in each segment)**

	Equity	Balanced	Fixed Income	Other**	Number of Responses
Overall* **	39	9	42	10	4,280
Type of Investment Manager					
Bank	35	11	43	11	976
Insurance Company	38	9	44	9	1,216
Independent Investment Firm	38	10	41	11	721
Mutual Fund	44	9	39	8	1,285
Other	37	10	41	12	808
Number of Participants					
Less than 100	34	8	45	13	1,001
100-249	42	9	44	6	717
250-999	40	10	41	7	1,008
1,000-3,999	42	10	39	9	931
4,000 or more	37	9	40	14	623
Plan Assets					
Less than $1 million	36	9	42	12	536
$1-$9.9 million	40	10	44	6	909
$10-$49.9 million	41	11	40	8	732
$50 million or more	41	9	38	12	584
Plan is:					
Primary	37	9	43	10	2,464
Supplemental	40	10	40	10	1,781
Purchasing Behavior					
Full-service	38	9	43	10	3,251
Unbundled	39	11	40	10	970
Number of Investment Managers					
One	38	9	42	10	2,902
Two or more	40	10	41	9	1,314

** Excludes "none" and "don't know" responses*
***Other investment options include annuities, real estate, company stock, unspecified types of stock and bond funds, and all others.*
****Overall figures in this table are not weighted.*

Figure 34

Available Investment Options Added in the Past Year by Segment

*(percent of responses in each segment)**

	Equity	Balanced	Fixed Income	Other**	Number of Responses
Overall***	47	14	32	7	684
Type of Investment Manager					
Bank	40	20	32	8	119
Insurance Company	50	14	31	6	177
Independent Investment Firm	44	17	32	7	124
Mutual Fund	50	14	31	4	229
Other	47	10	33	10	143
Number of Participants					
Less than 100	39	11	38	12	217
100-249	52	14	30	4	83
250-999	52	15	31	2	154
1,000-3,999	55	16	24	5	132
4,000 or more	44	16	34	5	97
Plan Assets					
Less than $1 million	39	12	37	12	130
$1-$9.9 million	53	13	32	2	139
$10-$49.9 million	60	15	21	4	106
$50 million or more	46	19	34	1	74
Purchasing Behavior					
Full-service	47	13	34	6	528
Unbundled	47	18	28	8	152
Number of Investment Managers					
One	46	13	34	6	517
Two or more	50	16	28	7	167
Plan is:					
Primary	45	12	35	8	413
Supplemental	50	17	28	5	265

**Excludes "none" and "don't know" responses*
***Other investment options include annuities, real estate, company stock, unspecified types of stock and bond funds, and all others.*
****Overall figures in this table are not weighted.*

index and corporate bond funds. International/global equity and fixed income index funds are offered by 18 percent of plan sponsors compared with one in five sponsors offering company stock. Least used are international/global fixed income funds, offered by only 4 percent of plans.

Equity options or investments (excluding company stock) represent 39 percent of the total responses regarding investment choices available to plan participants. Fixed income funds account for 42 percent, and balanced funds represent 9 percent. Company stock, annuities, real estate, unspecified types of stock and/or bond funds, and other investments make up 5 percent of responses given, and plans answering “don’t know” or “none” account for the rest. Figure 33 shows the categories of investment options available by segment. Information on specific types of investments follows.

Types of Options Added in the Past 12 Months

Approximately 30 percent of plan sponsors added investment options over the past 12 months. At about one quarter of respondents, fewer bank customers added options than customers of mutual fund companies (36 percent), insurance companies (33 percent), or independent investment firms (34 percent). The incidence of having added new options was about equal across all other segments analyzed.

Almost half of the investment options added by plan sponsors over the past 12 months were equity funds. Growth and aggressive growth funds were added most frequently (12 percent), followed by international/ global equity funds (10 percent), and equity index funds (7 percent). Equity income funds were the type of equity option added least frequently. Balanced funds represented 14 percent of the options added, fixed income funds 32 percent, and company stock 2 percent.

About one third of plan sponsors that added options added either a balanced fund, growth fund, or aggressive growth fund. Government bond and international/global equity funds were added by over 20 percent of respondents. Fixed income index funds, international/global fixed income, and company stock options were added by fewer than 7 percent of plan sponsors.

Types of Options Sponsors Are Planning to Add

Sixteen percent of plan sponsors say they are planning to add options over the next 12-18 months. Sponsors of larger-sized plans expressed greater interest in adding options. One in ten very small plan sponsors (with under 100 participants) intend to add funds, compared with close to one third of very large plan sponsors (with 4,000 or more participants). Also more likely to add funds are plans with over $10 million in assets (25-30 percent), those which purchase services on an unbundled basis (23 percent), those using two or more investment managers, and supplemental plans (20 percent). There is no variation by type of investment manager currently used.

One quarter of plan sponsors that intend to add investment options say they are planning to add international/global equity funds. About one fifth say they plan to add aggressive growth or balanced funds. Growth, equity index, corporate bond, and international/global fixed income funds are mentioned by over 10 percent of sponsors planning to add a fund. Six percent or fewer say they are planning to add company stock, money market, international/global fixed income, or GICs.

Equity funds represent 43 percent of the options sponsors say they intend to add, with international/global equity and aggressive growth funds each accounting for about one third of this total. Balanced funds represent 11 percent of the options sponsors say they will add, fixed income funds, 27 percent, and company stock, 3 percent. The “other” mentions (mostly “not sure”) represent 16 percent of all options sponsors say they plan to add.

Distribution of Assets by Type of Investment

Assets were weighted according to the distribution of assets by plan size in the sample (see Appendix C) with results showing total market asset distribution by type of investment as follows. GICs account for 30 percent of all assets in 401(k) plans, almost three times the amount in growth funds. Company stock ranks second to GICs with about 16 percent of assets, and growth funds are third with 11 percent. These three are the only types of investment options with over 10 percent of assets.

Figure 35

Availability of Additional Investment Options in the Next 12 to 18 Months by Segment

(

	Investment Options Planning to Add				
	Equity	**Balanced**	**Fixed Income**	**Other****	**Number of Responses**
Overall***	43	11	27	19	270
Type of Investment Manager					
Bank	48	13	24	15	71
Insurance Company	45	10	31	14	84
Independent Investment Firm	49	11	19	21	53
Mutual fund	50	9	23	18	66
Other	41	14	27	18	51
Number of Participants					
Less than 100	43	8	33	18	40
100-249	41	9	28	22	32
250-999	37	11	35	18	57
1,000-3,999	41	13	25	21	68
4,000 or more	52	11	19	18	73
Plan Assets					
Less than $1 million	42	4	42	12	26
$1-$9.9 million	49	12	25	14	65
$10-$49.9 million	39	13	32	17	72
$50 million or more	46	12	20	22	59
Purchasing Behavior					
Full-service	38	8	31	23	170
Unbundled	52	15	21	12	100
Number of Investment Managers					
One	41	8	31	20	165
Two or more	49	14	21	16	100
Plan is:					
Primary	41	7	32	20	127
Supplemental	45	13	23	18	141

*Excludes “none” and “don’t know” responses

**Excludes “none”and “don’t know” responses*
***Other investment options include annuities, real estate, company stock, unspecified types of stock and bond funds, and all others.*
**** Overall figures in this table are not weighted.*

Figure 36

Difference in Distribution of Plan Investment over Three Years by Segment

(percent of assets)

	3-Year Change in % of Assets by Fund Category			
	Equity	**Balanced**	**Fixed Income**	**Other***
Overall**	8	2	-12	2
Type of Investment Manager				
Bank	4	2	-2	0
Insurance Company	7	1	-5	-1
Independent Investment Firm	7	0	-9	-1
Mutual Fund	10	0	-8	1
Other	13	0	-5	0
Number of Participants				
Less than 100	7	-1	-3	-1
100-249	8	1	-7	0
250-999	7	-1	-5	-2
1,000-3,999	9	1	-5	-2
4,000 or more	10	3	-9	5
Plan Assets				
Less than $1 million	6	-1	1	-1
$1-$9.9 million	10	2	-6	2
$10-$49.9 million	11	-2	-4	-2
$50 million or more	8	1	-5	1
Purchasing Behavior				
Full-service	9	1	-5	-1
Unbundled	5	-1	-7	3
Number of Investment Managers				
One	8	0	-6	0
Two or more	9	1	-6	-1
Plan is:				
Primary	7	0	-5	-1
Supplemental	10	1	-7	1

*Other investment options include annui-
ties, real estate, company stock,,

**Other investment options include annuities, real estate, company stock, unspecified types of stock and bond funds, and all others.*
***Overall distribution of asset figures and differences are weighted; segment distribution differences are not weighted.*

Figure 37a

Distribution of 401(k) Assets By Type of Investment Manager, 1990

(percent)

	Banks	Insurance Companies	Investment Firms	Mutual Fund Companies	Other
Growth	5.2	3.7	8.5	5.7	3.4
Aggressive Growth	5.3	5.2	4.2	3.8	4.0
Equity Income	5.1	4.7	5.5	8.7	7.1
Equity Index Fund	4.0	2.5	3.0	4.0	3.8
International Global Equity	0.3	0.2	0.0	0.0	0.7
GICs	24.2	53.1	32.3	46.0	38.1
Corporate Bonds	4.5	0.6	3.6	1.6	2.9
Government Bonds	5.6	2.6	5.1	3.1	6.3
International Global FI	0.6	0.0	0.0	0.1	0.6
FI Index Funds	3.9	7.5	4.3	3.9	2.4
Money Market	9.8	1.6	8.8	6.3	2.9
Balance Funds	4.6	4.1	5.6	4.5	4.2
Company Stock	21.3	7.3	15.3	10.9	21.1
Other	5.8	6.9	3.8	1.4	2.5
Total	100.0	100.0	100.0	100.0	100.0

In total, fixed income funds, a category which includes bond and income funds, money market funds, and guaranteed funds (such as GICs), account for 45 percent of assets, equity funds (excluding company stock), 28 percent, and balanced funds, 7 percent. Over the past three years, these figures represent a considerable shift in investment from fixed income to equity funds. In 1990, fixed income funds accounted for over half of all assets, and equity funds less than 20 percent. Lower interest rates, and perhaps better education of plan participants concerning the benefit of long-term investing in equities caused investment in GICs to drop by more than 8 percentage points. Fixed income index funds' share of assets decreased by nearly 2 percentage points. This shift in investing from fixed income funds to equities is good news for income-adequacy concerns because of the historically higher returns earned by equity investments over time. Investment in growth funds jumped nearly 5 percentage points while the proportion of balanced funds and company stock investments grew by almost 2 percentage points each. Equity income funds' share of the pie increased more than 1 percentage point as money market funds' share declined by the same amount. Other types of investment options have remained relatively constant. Figure 36 shows the change in distribution of assets by investment type over the past three years.

The trend toward more equity investment options is true across all types of investment managers between 1990 and 1993, however, the distribution of assets and the magnitude of the shift varies among managers. See Figure 37 for the distribution of 401(k) assets by type of investment manager during the two periods.

Figure 37b

Distribution of 401(k) Assets By Type of Investment Manager, 1993

(percent)

	Banks	Insurance Companies	Investment Firms	Mutual Fund Companies	Other
Growth	7.1	12.7	10.3	13.8	9.1
Aggressive Growth	4.4	4.7	5.1	4.8	5.0
Equity Income	4.8	4.8	6.3	10.2	7.9
Equity Index Fund	5.4	5.0	3.3	4.4	4.6
International Global Equity	0.7	0.3	0.4	1.7	1.2
GICs	26.7	41.9	27.6	31.8	30.4
Corporate Bonds	3.7	1.7	3.2	1.6	2.6
Government Bonds	4.3	5.1	4.2	2.4	6.6
International Global Fixed Income	0.4	0.0	0.2	0.3	0.7
Fixed Income Index Funds	3.2	3.2	2.1	1.7	1.6
Money Market	6.4	2.8	4.9	5.9	3.5
Balance Funds	5.3	6.2	9.2	6.1	6.9
Company Stock	23.0	5.0	17.0	13.3	17.3
Other	4.6	6.6	6.3	1.9	2.6
Total	100.0	100.0	100.0	100.0	100.0

Analysis by Each Type of Investment Option

Plan sponsors were asked what investment options are offered in their company's plan, whether any of the options were added in the past 12 months, and whether they are planning to add any additional options in the next 12-18 months. They were also asked approximately what percent of total plan assets are currently invested in each of the investment options available in the plan and for the investment breakdown three years ago. The following is an analysis of responses by type of option.

A. Guaranteed Investment Contracts (GICs)

1. Current GIC Offerings

GICs are offered by 58 percent of 401(k) plans, more than any other type of investment option. GIC usage increases with plan size, both in terms of number of participants and plan assets (see Figure 38). More customers of insurance companies, plans with over 4,000 participants, and those using multiple investment managers offer a GIC than do other respective segment counterparts. Bank customers and plans with fewer than 100 participants or less than $1 million in assets offer GICs less often than other plans. GICs are represented nearly equally in primary and supplemental retirement plans and among full-service and unbundled purchasers.

Figure 38

Availability of GICs by Segment

	Guaranteed Investment Contracts			
	Sponsors Offering 1993	**Sponsors Added in Past Year***	**Sponsors Planning to Add**	**Number of Respondents**
Overall	58	5	1	919
Type of Investment Manager				
Bank	47	2	0	235
Insurance Company	81	5	0	247
Independent Investment Firm	52	6	1	164
Mutual Fund	58	6	1	247
Other	51	6	1	181
Number of Participants				
Less than 100	47	7	0	236
100-249	57	3	1	159
250-999	60	5	1	221
1,000-3,999	61	4	2	184
4,000 or more	71	3	1	119
Plan Assets				
Less than $1 million	47	7	0	121
$1-$9.9 million	59	5	1	197
$10-$49.9 million	60	3	2	149
$50 million or more	65	3	1	114
Purchasing Behavior				
Full-service	58	6	1	688
Unbundled	58	3	1	217
Number of Investment Managers				
One	54	6	1	630
Two or more	66	3	1	277
Plan is:				
Primary	56	6	0	550
Supplemental	61	3	1	361
* Would include additions going				

back to Fall of 1992.

**Would include additions going back to Fall of 1992*

2. GIC Additions in the Past 12 Months

Over the past year, GICs were added as an investment option by 5 percent of plan sponsors. Plans adding a GIC in the past year were concentrated in the following: plans with fewer than 100 participants or less than $1 million in assets, a single investment manager, and those which are the primary retirement benefit for employees. Independent investment firm and mutual fund customers were most inclined to add GICs at 6 percent, compared with bank customers at 2 percent.

3. GIC Additions in the Next 12-18 Months

Almost 1 percent of plan sponsors who intend to add options over the next 12-18 months say they will add a GIC. This figure is relatively consistent across all segments.

4. GIC Assets

GICs account for 30 percent of all assets invested in 401(k) plans. In terms of participants, mid- and large-sized plans have 26 percent or more of their current assets invested in GICs, whereas very small plans invest less, 18 percent, of their assets in this option. Similarly, plans with assets valued at $1 million or more have between 28 and 33 percent of assets invested in GICs, compared with 19 percent for small companies with less than $1 million.

These figures represent a decline from three years ago when GIC assets accounted for about 38 percent of 401(k) assets. Mid- to large-sized plans had a range of 30 to over 38 percent of assets in GICs three years ago. The decline in the proportion of assets held in GICs was greatest among mutual fund customers, which decreased from 42 to 30 percent, and least among bank customers, which increased from 22 to 27 percent.

Figure 39

Growth Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	55	10	2
Type of Investment Manager			
Bank	40	4	3
Insurance Company	56	9	2
Independent Investment Firm	54	12	3
Mutual Fund	68	12	2
Other	54	8	2
Number of Participants			
Less than 100	45	11	1
100-249	58	7	1
250-999	58	13	1
1,000-3,999	64	6	1
4,000 or more	51	9	7
Plan Assets			
Less than $1 million	52	14	0
$1-$9.9 million	57	10	2
$10-$49.9 million	61	9	1
$50 million or more	59	8	5
Purchasing Behavior			
Full-service	55	10	1
Unbundled	54	9	4
Number of Investment Managers			
One	55	12	1
Two or more	55	5	4
Plan is:			
Primary	53	11	1
Supplemental	58	8	3

**Would include additions going back to Fall of 1992*

Other research by Access Research indicates the steady drop in interest rates over the past few years and loss of confidence by participants in the stability of certain
insurance companies are major factors that drove this
decline.

The proportion of assets held in GICs is highest among
insurance company customers (42 percent), very large plans with 4,000 or more participants or over $50 million in assets (32-33 percent), and those with multiple investment managers (34 percent). GICs account for a smaller proportion of assets among very small plans with fewer than 100 participants or less than $1 million in assets.

B. Growth Funds

1. Current Growth Fund Offerings

Growth funds are offered by approximately 55 percent of 401(k) plans. The smallest and largest plans offer a growth fund option slightly less often than plans with 100-3,999 participants. In terms of assets, plans with at least $10 million offer a growth fund option more often than smaller plans. Mutual fund customers offer growth funds with more frequency and bank customers with less frequency than customers of other types of investment managers.

2. Growth Fund Additions in the Past 12 Months

About one third of plan sponsors who added an option over the past year added a growth fund. At 11 percent each, more plans with 250-999 participants, with a single investment manager, and which are the primary retirement benefit for employees added a growth fund than their respective segment counterparts. When compared by type of investment manager, fewer bank customers than others added a growth fund. At 12 percent each, more customers of investment firms and mutual funds added this type of fund. Fourteen percent of small plans with assets below $1 million added a growth fund in the past year. This was higher than larger plans with assets equaling $1 million or more.

Figure 40

Money Market Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	48	5	1
Type of Investment Manager			
Bank	43	5	1
Insurance Company	44	3	0
Independent Investment Firm	46	2	0
Mutual Fund	51	7	0
Other	43	4	1
Number of Participants			
Less than 100	50	7	0
100-249	50	3	1
250-999	43	4	1
1,000-3,999	49	5	1
4,000 or more	45	4	1
Plan Assets			
Less than $1 million	47	7	1
$1-$9.9 million	51	4	0
$10-$49.9 million	46	2	2
$50 million or more	48	7	0
Purchasing Behavior			
Full-service	50	5	1
Unbundled	43	3	1
Number of Investment Managers			
One	50	6	1
Two or more	44	2	1
Plan is:			
Primary	47	5	1
Supplemental	48	4	1

* Would include additions going

**Would include additions going back to Fall of 1992*

3. Planning to Add a Growth Fund in the Next 12-18 Months

Eleven percent of plan sponsors who intend to add one or more investment choices say they will add a growth fund in the next year or so. The largest plans with over 4,000 participants (7 percent), or more than $50 million in assets (5 percent), and those that use multiple investment managers or purchase services on an unbundled basis (4 percent each), are the most likely to add a growth fund. Only one percent of plans with fewer than 4,000 participants and two percent or less of those with plan assets less than $50 million are likely to offer growth funds.

4. Growth Fund Assets

Growth funds account for 11 percent of 401(k) assets, up from about 7 percent three years ago. The increase in the proportion of assets held in growth funds was realized across all types of investment managers.

With 15 percent each, the proportion of assets held in growth funds is highest among mid-size plans with 250-999 participants or $10-$49.9 million in assets. This amount represents an increase for these mid-size plans from 13 percent and 7 percent, respectively, three years ago. Mutual fund company customers have a larger proportion of assets in growth funds (13 percent) than do either bank, independent investment firm, or "other" investment manager customers (between 7 and 9 percent), and about the same as insurance company clients.

C. Money Market Funds

1. Current Money Market Fund Offerings

Nearly one half of all plans offer money market funds. Fifty-one percent of mutual fund customers offer money market funds compared with a range of 43 to 46 percent of bank, insurance company, independent investment firm, and "other" investment manager customers. Representing nearly half of all respondents, full-service plans are slightly more apt than unbundled plans to offer these funds. Fewer mid-size plans, with 250 to 999 participants and $10 million to $49.9 million in assets, offer money market funds than other size segments.

Figure 41

Equity Income Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	44	4	1
Type of Investment Manager			
Bank	39	2	3
Insurance Company	42	4	0
Independent Investment Firm	46	6	2
Mutual Fund	53	6	2
Other	41	5	1
Number of Participants			
Less than 100	34	5	0
100-249	47	4	3
250-999	45	3	1
1,000-3,999	51	5	2
4,000 or more	49	4	3
Plan Assets			
Less than $1 million	37	5	3
$1-$9.9 million	48	5	2
$10-$49.9 million	50	7	1
$50 million or more	53	2	3
Purchasing Behavior			
Full-service	44	4	1
Unbundled	46	5	3
Number of Investment Managers			
One	42	4	1
Two or more	48	5	3
Plan is:			
Primary	39	4	1
Supplemental	52	4	3
* Would include additions going			
back to Fall of 1992.			

Would include additions going back to Fall of 1992

2. Money Market Fund Additions in the Past 12 Months

About one in six plan sponsors who added an investment option over the past year added a money market fund. More of the smallest plans, with fewer than 100 participants and assets of less than $1 million, and the largest plans, with assets of $50 million or more (7 percent) added a money market fund than mid-sized plans, with assets of $10-$49.9 million (2 percent). More plans using a single investment manager added a money market fund than plans using multiple managers. A larger proportion of bank and mutual fund customers added money market funds than insurance company or independent investment firm customers.

3. Money Market Fund Additions in the Next 12-18 Months

Only 4 percent of plan sponsors that intend to add an option over the next 12-18 months say they will add a money market fund. This proportion is not significantly different across the segments analyzed.

4. Money Market Fund Assets

Money market fund assets account for just over 5 percent of all 401(k) assets, down from just unde r 7 percent three years ago. Mid-sized plans with 100-249 participants hold the highest proportion of assets in money market funds compared with other size segments. When compared by size in terms of assets, the proportion of assets held in money market funds is highest for mid- to large-sized plans with assets between $10-$49.9 million. Assets held in money market funds are also higher among plans which use a single investment manager than among plans which use multiple managers. Insurance company customers have a lower proportion of assets held in money market funds than do the customers of other investment manager types.

D. Equity Income Funds

1. Current Equity Income Fund Offerings

Equity income funds are offered by 44 percent of 401(k) plans. These funds are second only to growth funds in their prevalence as an equity option. Only about one third of small plans (i.e.,

Figure 42

Balanced Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	43	10	3
Type of Investment Manager			
Bank	44	10	4
Insurance Company	45	10	3
Independent Investment Firm	46	13	4
Mutual Fund	49	13	2
Other	43	8	4
Number of Participants			
Less than 100	34	10	1
100-249	40	8	2
250-999	48	10	3
1,000-3,999	53	11	5
4,000 or more	45	13	7
Plan Assets			
Less than $1 million	41	12	1
$1-$9.9 million	46	9	4
$10-$49.9 million	53	11	6
$50 million or more	47	12	6
Purchasing Behavior			
Full-service	42	10	2
Unbundled	48	12	7
Number of Investment Managers			
One	41	11	2
Two or more	49	10	5
Plan is:			
Primary	41	9	2
Supplemental	48	13	5
* Would include additions going			
back to Fall of 1992.			

Would include additions going back to Fall of 1992

fewer than 100 participants or less than $1 million in assets) offer equity income funds, compared with 50 percent or more among larger plans. Over half of mutual fund customers offer equity income funds compared with a range of 39 to 46 percent for clients of other type investment managers. At 52 percent, more supplemental plans offer equity income funds than do primary plans (39 percent).

2. Equity Income Fund Additions in the Past 12 Months

About 14 percent of plan sponsors that added an option over the past year added an equity income fund. Fewer very large plans, with assets of $50 million or more (2 percent), added an equity income fund than smaller plans. More mid-size plans, with assets of $10-$49.9 million, added this option (7 percent) than any other size category. More mutual fund customers than bank customers or insurance company customers added an equity income fund.

3. Planning to Add an Equity Income Fund in the Next 12-18 Months

About 9 percent of plan sponsors that intend to add an option say they will add an equity income fund. Supplemental plans and those with 100-249 and 4,000 or more participants are more likely than primary or smaller plans to add an equity income fund. No insurance company customers plan to add equity income funds, whereas 3 percent of bank customers, and 2 percent of independent investment firm and mutual fund customers say they will add this option.

4. Equity Income Fund Assets

On average, equity income fund assets account for about 7 percent of all 401(k) assets, up from 6 percent three years ago. Very small plans with fewer than 100 participants hold nearly twice as many assets in equity income funds as do very large plans with 4,000 or more participants. Insurance company and bank customers hold a lower proportion of plan assets in equity income funds compared with customers of independent investment firms, mutual funds, and "other" investment manager types.

Figure 43

Government Bond Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	37	7	2
Type of Investment Manager			
Bank	34	4	1
Insurance Company	35	7	3
Independent Investment Firm	36	8	1
Mutual Fund	40	8	0
Other	35	6	1
Number of Participants			
Less than 100	34	9	2
100-249	37	6	1
250-999	34	5	2
1,000-3,999	39	5	1
4,000 or more	44	9	1
Plan Assets			
Less than $1 million	39	10	3
$1-$9.9 million	36	7	2
$10-$49.9 million	38	5	3
$50 million or more	36	7	2
Purchasing Behavior			
Full-service	37	7	2
Unbundled	37	7	1
Number of Investment Managers			
One	38	8	2
Two or more	34	4	1
Plan is:			
Primary	35	6	2
Supplemental	39	7	1
* Would include additions going			
back to Fall of 1992.			

**Would include additions going back to Fall of 1992*

E. Balanced Funds

1. Current Balanced Fund Offerings

Balanced funds are offered by 43 percent of 401(k) plans. More than half of plans with 1,000 to 3,999 participants or plans with $10 to $49.9 million in assets offer balanced funds. More supplemental plans and those using multiple investment managers offer balanced funds than do primary plans or those using a single investment manager.

2. Balanced Fund Additions in the Past 12 Months

About one third of plan sponsors that added an investment option over the past year added a balanced fund, more than any other type of option. The interest in adding balanced funds appears to be related to the attempt to help make asset allocation easier for plan participants. Fewer small- to mid-size plans, with 100 to 249 participants and assets of $1-$9.9 million, primary plans, and customers of "other" investment managers (i.e., stockbrokers, trust companies, and inhouse managers) added a balanced fund than other respective counterparts.

3. Balanced Fund Additions in the Next 12-18 Months

Just under 20 percent of plan sponsors that intend to add an option say they will add a balanced fund. Only international/global equity and aggressive growth funds are mentioned more often as likely additional funds. Multiple investment manager and unbundled purchasers are more than twice as likely as single investment manager and full-service purchasers to add a balanced fund in the near future. Supplemental plans are less likely than primary plans to add a balanced fund.

4. Balanced Fund Assets

Balanced fund assets account for about 7 percent of 401(k) assets, up from close to 5 percent three years ago. The percentage of assets invested in balanced funds is lowest among the largest plans, those with at least 4,000 participants and $50 million in assets. Balanced funds also account for a higher proportion of assets among independent investment firm customers and a lower proportion among bank and mutual fund customers.

F. Government Bond Funds

1. Current Government Bond Fund Offerings

Government bond funds are offered by 37 percent of 401(k) plans. Forty percent of mutual fund company customers offered government bond funds compared with 34 percent for bank, and 35 percent for insurance company and "other" investment manager customers. At 38 percent, more plans with single investment managers offer a government bond fund than plans with multiple investment managers.

2. Government Bond Fund Additions in the Past 12 Months

About 22 percent of plan sponsors that added an investment option over the past year added a government bond fund. More of the largest and smallest plans (i.e., those with over 4,000 and fewer than 100 participants) and those which use a single investment manager added a government bond fund. When compared by asset size category, 10 percent of small plans with less than $1 million added government bond funds compared with 5 to 7 percent of larger plans. Customers of mutual funds and independent investment firms were twice as likely as bank customers to have added a government bond fund.

3. Government Bond Fund Additions in the Next 12-18 Months

Nine percent of plan sponsors that intend to add an option say they will add a government bond fund. There are no significant differences across plan size segments. Insurance company customers are three times as likely to add a government bond fund than are bank, independent investment firm, mutual fund, and "other" investment manager customers.

4. Government Bond Fund Assets

Government bond fund assets account for 5 percent of 401(k) assets, essentially unchanged from three years ago. While government bond funds account for between 4 and 5 percent of plan assets among bank, independent investment firm, and insurance company customers, they make up more than 6 percent of plan assets among customers of "other" investment managers. Mutual fund customers invest the least with 2 percent of assets. Government bond funds make up 6

Figure 44

Aggressive Growth Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	35	9	4
Type of Investment Manager			
Bank	25	4	5
Insurance Company	40	12	5
Independent Investment Firm	29	7	3
Mutual Fund	47	13	3
Other	33	8	3
Number of Participants			
Less than 100	32	9	2
100-249	37	7	3
250-999	38	11	2
1,000-3,999	38	9	6
4,000 or more	30	8	8
Plan Assets			
Less than $1 million	35	12	3
$1-$9.9 million	35	10	6
$10-$49.9 million	38	11	6
$50 million or more	33	9	7
Purchasing Behavior			
Full-service	36	9	3
Unbundled	31	7	6
Number of Investment Managers			
One	35	10	4
Two or more	35	8	4
Plan is:			
Primary	34	8	4
Supplemental	36	10	4
* Would include additions going			
back to Fall of 1992.			

**Would include additions going back to Fall of 1992*

percent of plan assets for small plans with less than $1 million in assets compared with 3-5 percent for larger-size segments.

G. Aggressive Growth Funds

1. Current Aggressive Growth Fund Offerings

Aggressive growth funds are offered in 35 percent of 401(k) plans. More customers of mutual funds and in-
surance companies offer aggressive growth funds than
do customers of the other types of investment managers. There is no significant variation in the use of aggressive growth funds among full-service and unbundled purchasers and across plan assets. More mid- and large-size plans of 100 to 3,999 partici-
pants
offer an aggressive growth fund than do the very large plans with at least 4,000 participants, or the very small plans with fewer than 100 participants.

2. Aggressive Growth Fund Additions in the Past 12 Months

About 30 percent of plan sponsors that added an investment option over the past year added an aggressive growth fund. Only growth and balanced funds were
added more frequently. More mid-size plans with 250-999 participants added an aggressive growth fund than either larger or smaller segments. However, across asset-based size segments, there was no significant
variation among plans in the addition of an aggressive growth fund. At approximately 12 percent of to-
tal
respondents each, the percentage of mutual fund and insurance company customers adding an aggressive growth fund was more than the percentage of independent investment firm and "other" investment manager customers, and three times the percentage of bank customers.

3. Aggressive Growth Fund Additions in the Next 12-18 Months

Almost one quarter of plan sponsors who intend to add
an investment option over the next year say they will add an aggressive growth fund. Only international/ global equity funds are mentioned more often. Bank

Figure 45

Corporate Bond Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	30	5	2
Type of Investment Manager			
Bank	26	3	3
Insurance Company	33	5	4
Independent Investment Firm	26	4	2
Mutual Fund	34	6	2
Other	28	4	1
Number of Participants			
Less than 100	34	6	1
100-249	28	3	1
250-999	32	5	2
1,000-3,999	24	2	3
4,000 or more	29	7	4
Plan Assets			
Less than $1 million	30	9	3
$1-$9.9 million	36	4	3
$10-$49.9 million	32	5	4
$50 million or more	27	4	4
Purchasing Behavior			
Full-service	32	5	2
Unbundled	24	3	3
Number of Investment Managers			
One	31	5	2
Two or more	28	4	2
Plan is:			
Primary	32	5	2
Supplemental	27	3	3
* Would include additions going			

back to Fall of 1992.

Would include additions going back to Fall of 1992

and insurance company customers are more likely than other investment manager-type customers to add an
aggressive growth fund. Similarly, unbundled purch-asers were twice as likely as full-service purchasers to
add this fund type.

4. Aggressive Growth Fund Assets

Aggressive growth fund assets account for 4 percent of 401(k) assets, up from about 3 percent three years ago. The proportion of assets held in aggressive growth funds is higher among smaller plans. There is no significant variation for the average across other segments.

Figure 46

Equity Index Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	28	5	2
Type of Investment Manager			
Bank	31	5	2
Insurance Company	30	5	2
Independent Investment Firm	23	4	3
Mutual Fund	37	8	2
Other	18	6	2
Number of Participants			
Less than 100	15	3	0
100-249	24	4	1
250-999	28	5	1
1,000-3,999	36	10	2
4,000 or more	46	7	6
Plan Assets			
Less than $1 million	17	3	0
$1-$9.9 million	25	6	2
$10-$49.9 million	32	7	3
$50 million or more	46	6	4
Purchasing Behavior			
Full-service	27	5	1
Unbundled	30	6	4
Number of Investment Managers			
One	26	5	1
Two or more	33	5	3
Plan is:			
Primary	24	4	1
Supplemental	34	8	3
* Would include additions going			
back to Fall of 1992.			

**Would include additions going back to Fall of 1992*

H. Corporate Bond Funds

1. Current Corporate Bond Fund Offerings

Corporate bond funds are offered in about 30 percent of 401(k) plans. Full-service purchasers, very small plans with fewer than 100 participants, and those with assets of $1-$9.9 million are the most apt to offer these funds compared with their segment counterparts. At one third of respondents each, more mutual fund and insurance company customers offer corporate bond funds than bank or independent investment firm customers.

2. Corporate Bond Fund Additions in the Past 12 Months

About 15 percent of plan sponsors that added an option over the past year added a corporate bond fund. More full-service purchasers than unbundled purchasers added this type of fund. More plans with less than $1 million in assets added a corporate bond fund than did other segments. In terms of number of participants, more very small- and large-size plans than mid-size plans added this fund type.

3. Corporate Bond Fund Additions in the Next 12-18 Months

About 13 percent of plan sponsors that intend to add an option say they will add a corporate bond fund. At 4 percent of total respondents, insurance company customers are more likely than all other investment manager-type customers to add a corporate bond fund. Very large plans with at least 4,000 participants are the most inclined, and small plans with less than 250 participants are the least inclined to add corporate bond funds. Across other segments, there is no significant variation from the average.

4. Corporate Bond Fund Assets

Corporate bond fund assets account for about 2 percent of 401(k) assets, down from close to 3 percent three years ago. Assets of this type investment represent a slightly higher proportion among primary plans and small plans with assets of $1-$9.9 million. The proportion is slightly lower among supplemental plans and very large plans with over 4,000 participants and more than $50 million in assets. The share of assets in corporate bond funds is also slightly lower among mutual fund and insurance company customers.

I. Equity Index Funds

1. Current Equity Index Fund Offerings

Equity index funds are offered in about 28 percent of 401(k) plans. The use of this type of option increases with plan size as measured by both number of participants and plan assets. Usage is higher among supplemental plans, those using multiple investment managers, and plans with a matching contribution. Use is lower among primary plans, those with a single investment manager, and plans without a match. More mutual fund customers offer an equity index fund than customers of independent investment firms and "other" managers.

2. Equity Index Fund Additions in the Past 12 Months

About 18 percent of plan sponsors that added an option over the past year added an equity index fund. More large plans with 1,000 or more participants and mid-size plans with at least $1 million in assets added an equity index fund last year than did smaller plans. The equity index fund option was added by more supplemental plans than primary ones.

3. Equity Index Fund Additions in the Next 12-18 Months

About 10 percent of plan sponsors that intend to add an investment choice in the next year or so say they will add an equity index fund. No sponsors of very small plans with assets less than $1 million and fewer than 100 participants say they are planning to add this type fund. Among larger companies, those very large plans with 4,000 or more participants are most inclined to add an equity index fund. Unbundled purchasers are four times as likely as full-service purchasers to add an equity index fund. Supplemental plans and multiple-investment-manager plans are more likely to add an index fund in the near future (by a multiple of three to one) than are primary and single-investment-manager plans.

Figure 47

Company Stock Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	21	2	1
Type of Investment Manager			
Bank	26	3	1
Insurance Company	11	0	1
Independent Investment Firm	25	4	1
Mutual Fund	25	2	1
Other	26	2	1
Number of Participants			
Less than 100	10	1	1
100-249	11	2	1
250-999	15	1	1
1,000-3,999	28	3	2
4,000 or more	55	3	1
Plan Assets			
Less than $1 million	7	2	1
$1-$9.9 million	12	1	1
$10-$49.9 million	27	3	3
$50 million or more	49	1	0
Purchasing Behavior			
Full-service	19	2	1
Unbundled	28	2	1
Number of Investment Managers			
One	17	1	1
Two or more	28	3	0
Plan is:			
Primary	14	2	1
Supplemental	31	2	1
* Would include additions going			
back to Fall of 1992.			

**Would include additions going back to Fall of 1992*

4. Equity Index Fund Assets

Equity index fund assets account for 4 percent of 401(k) assets, only slightly changed from three years ago (less than one half of 1 percentage point). The proportion of equity index fund assets increases substantially from smaller plans of fewer than 100 participants to larger plans with more than 1000 participants.

J. Company Stock

1. Current Company Stock Offerings

Company stock is offered in about 21 percent of 401(k) plans. The percentage of plans offering company stock grows substantially as plan size increases in terms of both participants and assets. Supplemental plans are twice as likely as primary plans to offer company stock. At 11 percent of respondents, insurance company customers offer company stock less than half as frequently as the customers of any other type of investment manager. Unbundled purchasers and multiple-investment-manager plans offer company stock more often than counterparts in their respective segments.

2. Company Stock Additions in the Past 12 Months

About 6 percent of plan sponsors adding new investment options over the past year added company stock. More large plans with 1,000 or more participants and customers of banks and independent investment firms added company stock than other segments.

3. Company Stock Additions in the Next 12-18 Months

About 6 percent of plan sponsors that intend to add a fund say they will add company stock. Mid- and large-size plans, those with 1,000 to 3,999 participants and $10 to $49.9 million in assets, are more apt to add company stock in the future than are the other size segments.

4. Company Stock Assets

Company stock accounts for 16 percent of 401(k) assets, up from 14 percent three years ago. The proportion is upwardly skewed for very large plans and is over 21 percent among plans with 4,000 or more participants and over $50 million in assets,

Figure 48

International/Global Equity Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	18	7	4
Type of Investment Manager			
Bank	11	4	3
Insurance Company	17	6	6
Independent Investment Firm	13	6	5
Mutual Fund	25	9	5
Other	20	10	4
Number of Participants			
Less than 100	17	7	4
100-249	21	6	1
250-999	16	5	5
1,000-3,999	21	10	4
4,000 or more	17	8	8
Plan Assets			
Less than $1 million	20	8	4
$1-$9.9 million	18	8	5
$10-$49.9 million	18	8	7
$50 million or more	18	5	5
Purchasing Behavior			
Full-service	19	8	3
Unbundled	15	5	7
Number of Investment Managers			
One	18	8	4
Two or more	18	7	4
Plan is:			
Primary	18	6	4
Supplemental	18	8	5
* Would include additions going			
back to Fall of 1992.			

**Would include additions going back to Fall of 1992*

compared with between 1 and 7 percent for smaller plans. Many of the 401(k) plans in these segments were established by adding a salary reduction feature to a long-standing thrift or profit-sharing plan. Company stock was, and continues to be, a common medium for company contributions to the plan. The proportion of assets in company stock varies substantially among investment manager-type customers. Bank customers have the greatest proportion with 23 percent, "other" and independent investment firm clients have 16-17 percent, and mutual fund users, 13 percent. Insurance company customers have the smallest proportion of assets in company stock with only 5 percent.

K. International/Global Equity Funds

1. Current International/Global Equity Fund Offerings

International/global equity funds are offered in 18 percent of 401(k) plans. This option is offered twice as often by mutual fund customers as by bank or independent investment firm customers. There is no significant variation among other segments.

2. International/Global Equity Fund Additions in the Past 12 Months

Almost one quarter of plan sponsors adding an option over the past year added an international/global equity fund. Ten percent of large plans with 1,000 to 3,999 participants added this fund type, compared with just 5 to 6 percent of small- to mid-size plans with 100 to 999 participants. At 9 percent of respondents, twice as many mutual fund customers added this fund type as bank customers. Six percent of plans which use insurance companies and independent investment firms and 10 percent of "other" investment manager-type customers added this type of option.

3. International/Global Equity Fund Additions in the Next 12-18 Months

Over one quarter of plans that intend to add an investment option say they will add an international/global equity fund. This type of option is the most frequently-mentioned fund that plan sponsors say they intend to add. Large-size plans of at least 4,000 participants are twice as likely as

Figure 49

Fixed Income Index Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	19	2	1
Type of Investment Manager			
Bank	22	2	0
Insurance Company	19	1	1
Independent Investment Firm	17	2	1
Mutual Fund	13	2	1
Other	20	3	1
Number of Participants			
Less than 100	20	3	0
100-249	17	0	1
250-999	18	3	1
1,000-3,999	20	1	1
4,000 or more	17	3	1
Plan Assets			
Less than $1 million	17	3	1
$1-$9.9 million	18	1	1
$10-$49.9 million	17	1	1
$50 million or more	15	2	1
Purchasing Behavior			
Full-service	20	2	0
Unbundled	15	3	1
Number of Investment Managers			
One	19	2	1
Two or more	18	2	1
Plan is:			
Primary	18	2	1
Supplemental	19	2	1
* Would include additions going			
back to Fall of 1992.			

Would include additions going back to Fall of 1992

plans with fewer participants to add this fund type. Large plans with $10-$49.9 million in assets are also more likely to add this type of fund than plans in other size segments. Unbundled purchasers are twice as apt to add this fund type as are full-service purchasers.

4. International/Global Equity Fund Assets

International/global equity funds account for about 1 percent of 401(k) assets, up from less than one quarter of 1 percent three years ago. The share of assets held in this type fund by customers of mutual funds and "other" investment managers is substantially greater than the proportion among customers of banks, insurance companies, or independent investment firms. Insurance company customers show the smallest proportion compared to all other segments.

L. Fixed Income Index Funds

1. Current Fixed Income Index Fund Offerings

Fixed income index funds are offered in 19 percent of 401(k) plans. Twenty percent of full-service purchasers and 22 percent of bank customers offer this option, compared with 15 percent of unbundled purchasers and 13 percent of mutual fund customers.

2. Fixed Income Index Fund Additions in the Past 12 Months

About 7 percent of plan sponsors adding an option over the past year added a fixed income index fund. No small plans with 100-249 participants added this option, whereas 3 percent each of plans with fewer than 100 participants, with 250-999 participants, and with 4,000 or more participants added this type of fund. When compared by asset size, 3 percent of plans with under $1 million added this fund compared with just 1-2 percent of larger plans. More customers of "other" type investment managers added a fixed income index fund than the remaining investment manager-type customers, and more than three times as many as customers of insurance companies.

Figure 50

International/Global Fixed Income Fund Availability by Segment

(percent of total respondents)

	Sponsors Offering 1993	Sponsors Added in Past Year*	Sponsors Planning to Add
Overall	4	1	2
Type of Investment Manager			
Bank	3	1	1
Insurance Company	3	1	2
Independent Investment Firm	2	1	2
Mutual Fund	5	2	2
Other	7	2	4
Number of Participants			
Less than 100	6	3	2
100-249	6	1	1
250-999	3	1	3
1,000-3,999	3	0	2
4,000 or more	4	1	4
Plan Assets			
Less than $1 million	5	3	3
$1-$9.9 million	5	2	2
$10-$49.9 million	3	0	3
$50 million or more	4	0	3
Purchasing Behavior			
Full-service	5	2	2
Unbundled	2	1	3
Number of Investment Managers			
One	4	1	2
Two or more	4	1	3
Plan is:			
Primary	5	2	2
Supplemental	3	1	3
* Would include additions going			
back to Fall of 1992.			

Would include additions going back to Fall of 1992

3. Fixed Income Index Fund Additions in the Next 12-18 Months

Just 4 percent of plan sponsors that intend to add a fund over the next year say they will add a fixed income index fund. There is no significant variation from this across the segments analyzed.

4. Fixed Income Index Fund Assets

Fixed income index fund assets account for over 2 percent of 401(k) assets, down from 4 percent three years ago. For very large plans with at least 4,000 participants, just 1 percent of plan assets are invested in this fund type, whereas the smaller funds have between 4 and 5 percent invested. Similarly, very large plans with assets of $50 million or more have only 1 percent of plan assets in this kind of fund compared with higher levels for smaller segments.

M. International/Global Fixed Income Funds

1. Current International/Global Fixed Income Fund Offerings

Only 4 percent of 401(k) plans offer an international/global fixed income fund. More small- to mid-size plans, with fewer than 250 participants and assets below $10 million, than larger plans offer this type of option. Five percent of full-service purchasers and primary plans offer this fund type compared with 3 percent of supplemental plans and 2 percent of unbundled purchasers. More customers of "other" types of investment managers offer this type of fund than clients of banks and insurance companies. The percentage of all respondents that are mutual fund customers offering an international/global fixed income fund, 5 percent, is greater than all the investment manager-type customers except the "other" segment.

2. International/Global Fixed Income Fund Additions in the Past 12 Months

Just 4 percent of plan sponsors that added a fund over the past year added an international/global fixed income fund. At 3 percent of all respondents, more very small plans with fewer than 100 participants and less than $1 million in assets added this fund choice in the past year than did any other size segments. No large plans with over $10 million in assets added an international/global fixed income fund.

3. International/Global Fixed Income Fund Additions in the Next 12-18 Months

About 14 percent of plan sponsors that intend to add a fund over the next year say they will add an international/global fixed income fund. At 4 percent each, very large plans with at least 4,000 participants and those employing "other" investment managers are twice as likely as smaller funds and traditional investment managers to add this fund type in the future.

4. International/Global Fixed Income Fund Assets

International/global fixed income fund assets account for one quarter of 1 percent of 401(k) plan assets, unchanged from three years ago.

N. Other Fund Types

1. Current Offerings of Other Fund Types

"Other" types of investment options offered include annuities, real estate, and various unidentified types of bond and stock funds. One quarter of plans offer at least one of these options. More very small plans with fewer than 100 participants or assets less than $1 million offer these type options than larger plans. More full-service purchasers and single-investment-manager plans offer "other" types of funds than unbundled purchasers and multiple-investment-manager plans.

2. Other Fund Type Additions in the Past 12 Months

About 10 percent of plan sponsors adding a fund over the past year added another type of fund than discussed previously. More very small plans with fewer than 100 participants and less than $1 million and more customers of "other" investment managers added these options.

3. Other Fund Type Additions in the Next 12-18 Months

About 28 percent of plan sponsors that intend to add an investment choice over the next year mentioned a type other than those just examined. The number of plans intending to add other options grew as plan size increased. There was no significant difference in these mentions across other segments analyzed.

4. Assets in Other Types of Funds

Assets in "other" types of funds account for about 5 percent of 401(k) assets, unchanged from three years ago. They account for a much higher proportion (over 15 percent) in very small plans, those with fewer than 100 participants and assets less than $1 million. The percentage of "other" fund assets in primary plans, single-investment-manager plans, and full-service plans are substantially higher than their respective segment counterparts. These characteristics are also typical of small plans.

III. Purchasing Behavior and Preferences

Plan sponsors were asked whether their plan obtains investment management, recordkeeping, and other administrative services from a single full-service provider or from two or more companies selected to provide specific services (unbundled approach). They were further asked which of these approaches would be their preference and why, and whether they would consider obtaining all plan services through an "Alliance Program." An "Alliance Program" is an arrangement among a group of service providers including an investment firm to jointly offer a "full-service" package. Sponsors were also asked if they would be more likely to consider an Alliance Program if it meant they could make funds available from a variety of investment managers to plan participants.

Distribution Between Bundled and Unbundled Services

A. Full-service Buyers

About 80 percent of small- and mid-size plans with fewer than 1,000 participants or less than $10 million in assets purchase investment management, plan recordkeeping, and other administrative services on a full-service basis. As plan size increases, this percentage drops. Of very large plans with at least 4,000 participants and $50 million in assets, 60 percent purchase on a full-service basis. Full-service purchasing is also more prevalent among primary plans, single-investment-manager plans, and insurance company customers. Fewer clients of independent investment firms purchase on a full-service basis than do customers of any other type investment manager.

Over 90 percent of plans that currently purchase on a full-service basis say that their approach is preferred. Less than 2 percent of full-service purchasers indicate a preference for using an unbundled approach. Conversely, over 20 percent of those using two or more providers would prefer full service, while just 60 percent of unbundled purchasers prefer two or more providers. Over 18 percent of unbundled purchasers and 6 percent of full-service purchasers indicate no preference.

The primary reason full-service purchasers give for their preference is convenience, which is cited by over 80 percent of full-service purchasers. The most frequently-mentioned convenience factor across all segments is the ease of administrative control. Seventeen percent of full-service purchasers cite service factors (number of investment options, quality of administration/management, access to information) as the reason they prefer that approach, and 5 percent cite cost factors. More of the larger plans (i.e., those with 1,000 or more participants and $50 million or more in assets) mentioned service and cost factors than did smaller plans. Mutual fund customers mentioned cost more than the patrons of other investment manager types, and clients of insurance companies mentioned it the least.

Plans that currently purchase services on an unbundled basis but would prefer a full-service approach mentioned convenience issues less often, and cost more often, as the key reason for their preference.

B. Unbundled Buyers

Unbundled purchasing is used by 18 percent of small- and mid-sized plans with fewer than 1,000 participants, and by 25 percent of plans with assets less than $50 million. Over 35 percent of larger plans use this approach.

Only 60 percent of unbundled purchasers prefer their current approach compared with 92 percent of full-service buyers whose preferred purchasing method is full service. The proportion who say they prefer an unbundled approach is consistently lower than the proportion who currently purchase on that basis. For full-service purchasers, these proportions are relatively equal. Twenty-one percent of plan sponsors that currently use an unbundled approach indicate they would prefer to purchase from a full-service provider.

Better service is the factor most frequently mentioned by unbundled purchasers for their preference, cited by 75 percent of unbundled purchasers preferring two or more providers. Within the service category, the most frequently-mentioned reason is that service is better when obtained from a variety of providers, with each firm being an expert in its own area of specialization. Other factors mentioned include convenience (about 21 percent) and cost (about 8 percent). Small plans with 100-249 participants mentioned cost at least twice as often as other plan size segments, and the largest plans with more than $50 million in assets mentioned it the least. Small plans with assets of $1 -$9.9 million mentioned service less often than other plan segments.

Plans that currently purchase services on a full-service basis but would prefer an unbundled approach, mentioned service equally as often as they men-

Figure 51

Purchasing Behavior and Preferred Purchasing Method by Segment

(percent of total respondents)

	Purchasing Method		
	Full Service	**Unbundled**	**# of Respondents**
Overall	75	24	919
Type of Investment Manager			
Bank	75	24	235
Insurance Company	80	18	247
Independent Investment Firm	55	44	164
Mutual Fund	72	26	247
Other	66	34	181
Number of Participants			
Less than 100	85	15	236
100-249	84	15	159
250-999	75	23	221
1,000-3,999	65	32	184
4,000 or more	59	40	119
Plan Assets			
Less than $1 million	78	22	121
$1-$9.9 million	77	22	197
$10-$49.9 million	65	34	149
$50 million or more	60	37	114
Number of Investment Managers			
One	84	14	630
Two or more	54	44	277
Plan is:			
Primary	80	19	550
Supplemental	69	29	361
Preferred Purchasing Behavior			
	Full Service	Unbundled	No Preference

Preferred Purchasing Method	**Full-service**	**Unbundled**	**No Preference**	**# of Respondents**
Overall	74	15	10	919

tioned convenience issues as a reason to switch. Figure 51 profiles plan sponsors by purchasing behavior.

Number of Investment Managers Used

The incidence of using multiple investment managers is correlated with plan size, purchasing behavior, and the type of manager used. Usage of multiple managers increases from about 13 percent among very small plans with fewer than 100 participants to over 50 percent among very large plans with 4,000 or more participants. Conversely, the use of single investment providers drops from 86 percent for very small plans with fewer than 100 participants to almost half that amount (47 percent) for very large plans with 4,000 or more participants. This pattern is similar across size segments.

Less than one quarter of full-service purchasers use multiple investment managers compared with 57 percent of unbundled purchasers. Plans using multiple managers more often use mutual fund companies, independent investment firms, or "other" managers, and use banks or insurance companies less often.

Almost 90 percent of plans currently using a single investment manager say they prefer to continue with a single manager. Only 8 percent express interest in having two or more investment managers. Interest in moving to multiple investment managers from a single investment provider grows as plan size increases.

Interest in "Alliance Programs"

Respondents were asked whether they currently obtain or would consider obtaining all plan services through an "Alliance Program." An Alliance Program is defined as an arrangement among a group of service providers to jointly offer a "full-service" product. At least one third of plan sponsors answered in the affirmative for all plan sizes, investment manager types, and purchasing behavior. Among sponsors of very small plans with fewer than 100 participants and assets less than $1 million and unbundled purchasers, almost half expressed interest in buying from an Alliance Program.

Close to one quarter of respondents indicated they would be more interested in an Alliance Program if it meant they could make funds available from a variety of investment managers. Interest in this approach or possibility declined with size of plan, indicating more interest among large plans.

IV. Source of and Satisfaction with Recordkeeping and Administrative Services

Type of Provider Used

When asked the type of company that provides their current recordkeeping and plan administrative services, about 60 percent of plans say they purchase recordkeeping and plan administrative services from the same type of firm they use for investment management. Among companies utilizing different providers for these services, over 60 percent use benefit consultants or third-party administrators. Inhouse recordkeeping is used by 14 percent of plans that purchase on an unbundled basis, and by 22 percent of plans that use different firms for recordkeeping than their investment manager. No other provider has a share over 10 percent.

About one quarter of plans that purchase recordkeeping and investment management on a full-service basis say they also use a benefit consultant or third-party administrator for some plan administrative services. Sixty-nine percent of unbundled purchasers use a benefit consultant or third-party administrator.

Satisfaction with Providers

As was the case for investment management services, over 80 percent of all respondents say they are satisfied or very satisfied with the recordkeeping and administrative services they receive. Only 6 percent of respondents express dissatisfaction with recordkeeping and administrative services.

Plans that use a full-service provider express a slightly higher level of satisfaction, 84 percent, than those that purchase services on an unbundled basis, 78 percent.

Very small plans with fewer than 100 participants and small- and mid-size plans with less than $10 million in assets are more likely to express dissatisfaction than are the largest plans, those with over 4,000 participants or $50 million in assets. Fewer mutual fund customers expressed dissatisfaction than did customers of insurance companies or independent investment firms.

Likelihood of Switching

About 10 percent of respondents indicate they are likely to switch plan recordkeepers over the next 12 months. Plans that purchase service on an unbundled basis are nearly twice as apt to switch than are full-service plans. Dissatisfaction with service is cited by over 60 percent of sponsors as the reason for an intention to switch providers. Other issues mentioned include convenience (by 17 percent), cost (by 10 percent), and the desire to move recordkeeping services to the investment provider or a full-service provider (both by about 5 percent). The specific service issues mentioned include:

- poor customer service (by 23 percent),
- slow/untimely provision of participant statements (20 percent), and

- inaccurate recordkeeping (15 percent).

Very small plans with fewer than 100 participants cited timely statement delivery as the basis for their desire to switch recordkeepers more often than other size segments. More large plans with 1,000-3,999 participants mentioned poor customer service. Mid-size plans cited poor recordkeeping.

More supplemental plans than primary plans say cost is the reason for their desire to switch. More primary plans list poor customer service and slow statements. Clients of insurance companies give poor customer service as a reason for dissatisfaction; customers of independent investment firms cite poor recordkeeping and slow statements; bank patrons want more convenience; and mutual fund customers are dissatisfied with cost.

V. Provider Selection Criteria

Plan sponsors were asked to rate a number of factors that might affect their choice of service provider by the level of importance on a scale of one (not at all important) to five (very important). The relative importance of selection criteria varies considerably across the segments analyzed. The overall ratings for selection criteria are shown in Figure 52. The variations by segments are discussed in the following sections.

Type of Investment Manager

Mutual fund customers place greater importance on the factors listed below than do clients of the other types of investment managers:

- recordkeeping capabilities,
- frequency of participant statements,
- wide range of investment alternatives,
- daily valuation and transfer frequency,
- availability of a loan provision,
- monthly reconciliation of financial statements,
- toll-free number for participant use, and
- telephone transfer of funds capability.

Plans using banks, insurance companies, independent investment firms, mutual fund companies, and other investment manager types all ranked the following factors as very important in affecting their choice of a service provider: recordkeeping capabilities, compliance monitoring, discrimination testing, and investment performance. On the other hand, bilingual communications, local investment manager, plan design consulting, and local recordkeeper were the least important factors used to select a service provider.

Size Segments

Very large plans with 4,000 or more participants and assets of $50 million or greater rate the following factors more important than do smaller plans:

- daily valuation and transfer frequency,
- monthly reconciliation of financial statements,
- plan sponsor on-line account inquiry,
- availability of a loan provision,
- telephone transfer of funds capability, and
- toll-free numbers for participant use.

The largest plans place less importance than do the smallest plans on:

- plan expenses,
- preparation of government reports, discrimination testing, and plan monitoring,
- a local servicing representative, recordkeeper, or investment manager,
- assistance with employee enrollment, and
- plan design consulting.

Purchasing Behavior Segments

Full-service purchasers and plans using a single investment manager place greater importance on the factors listed below than do unbundled purchasers or multiple-manager plans:

- preparation of government reports,
- toll-free numbers for plan sponsor and participant use,
- frequency of participant statements,
- plan design consulting,
- having a local investment manager, and

Figure 52

Factors Considered in Selecting a Service Provider by Level of Importance

(mean score)*

Recordkeeping capabilities	4.6
Investment performance	4.6
Quality of participant statements	4.5
Plan monitoring to maintain compliance	4.5
Discrimination testing	4.4
Range of investment alternatives	4.2
Plan expenses	4.2
Preparation of government reports	4.1
Plan design flexibility	3.9
Monthly reconciliation of financial statements	3.9
Toll-free number for plan sponsor use	3.8
Toll-free number for participant use	3.8
Frequency of participant statements	3.8
Availability of a loan provision	3.8
Plan sponsor on-line account inquiry	3.6
Full-loan administration	3.6
Customized employee communications material	3.6
Telephone transfer of funds capability	3.4
Plan design consulting	3.4
Local service representative	3.5
Assistance with employee enrollment	3.3
Daily valuation and transfer frequency	3.2
Local recordkeeper	3.1
Local investment manager	2.8
Bilingual communications	2.3

**Mean score, with 5 equaling very important and 1 equaling not important*

- daily valuation and transfer frequency.

Plans purchasing services on an unbundled basis and those using multiple investment managers place greater importance on the following:

- monthly reconciliation of financial statements,
- availability of loan provision,
- quality of participant statements, and
- plan design flexibility.

Primary vs. Supplemental Plans

Plans that are the primary retirement benefit for employees place great importance on:

- quality and frequency of participant statements,
- preparation of government reports, discrimination testing, and maintaining compliance,
- plan expenses,
- assistance with employee enrollment, and
- local service representative, recordkeeper, and investment manager.

Supplemental plans place great importance on:

- monthly reconciliation of financial statements,
- availability of a loan provision,
- plan sponsor on-line inquiry,
- telephone funds transfer capability,
- daily valuation and transfer frequency, and
- plan design flexibility.

VI. Plan Services

Frequency of Participant Statements

Participant statements are issued quarterly by nearly three quarters of all 401(k) plans. Among mid- and large-size plans, with 250 or more participants and with assets of $10 million or more, the proportion issuing statements quarterly is about 80 percent or higher. Twenty-three percent of all plans issue statements only semiannually or annually. Smaller plans are more likely to issue statements only semiannually or annually than are larger plans.

The percent of respondents issuing statements quarterly or more frequently is highest among mutual fund and insurance company customers and lowest among bank customers. Plans using multiple investment managers and supplemental retirement plans also have a higher proportion issuing statements quarterly or more frequently. Plans using a single investment manager and primary plans also issue statements quarterly but have a higher percentage sending them less frequently (semiannually or annually) than do other segments.

Comparison of the respondents' preferred frequency of issuing statements with current practice indicates the likelihood of about a 5 percentage point net increase in the proportion of plan sponsors issuing monthly statements, and a corresponding 2 percentage point decrease in the proportion issuing statements semiannually or annually. There was no change in the proportion of plans issuing statements quarterly.

Overall, 9 percent of plan sponsors say they are considering a change in how often statements are issued. Small plans with fewer than 100 participants or with assets of under $10 million, are more likely than larger plans to say they are considering a change. Figure 53 shows the proportion of plan sponsors considering a change by segment.

Frequency of Reallocation of Participant Contributions

Over 97 percent of 401(k) plans allow participants to periodically change the allocation of future contributions among investment options. The frequency with which the plan allows reallocation is highly correlated with plan size. Overall, 21 percent of plans offer daily reallocation of participant contributions. The proportion is over 30 percent among very large plans with 4,000 or more participants and assets of $50 million or more and among mutual fund customers. It is less than 10 percent among bank customers. Another 54 percent of plans allow reallocation of contributions on a weekly, monthly, or quarterly basis, and 21 percent allow this activity only semiannually or less frequently. Smaller plans generally allow reallocation less frequently than do larger plans.

A higher proportion of full-service plans and those using a single investment manager allow reallocation daily (24 percent) than do unbundled plans or those using multiple managers (11 percent and 14 percent, respectively). However, more full-service and single-manager plans also said that they allow reallocation of contributions semiannually or less frequently than other respective segment counterparts. Almost a third of mutual fund company customers offer daily reallocation, the highest of all investment managers. Mutual fund company customers are also the least likely to re-

Figure 53

Frequency of Account Statement Issuance by Segment

	Issuing Statements Monthly or Quarterly	Considering Changing Frequency	Preferred Frequency		
			Monthly	Quarterly	Semiannually
Overall	76	9	9	72	11
Type of Investment Manager					
Bank	69	11	7	65	16
Insurance Company	78	7	9	73	13
Independent Investment Firm	76	9	9	71	12
Mutual Fund	88	7	7	83	5
Other	77	9	12	71	11
Number of Participants					
Less than 100	64	13	13	60	14
100-249	65	11	8	67	20
250-999	81	6	5	78	10
1,000-3,999	91	7	8	84	4
4,000 or more	86	8	7	76	8
Plan Assets					
Less than $1 million	69	10	15	59	12
$1-$9.9 million	70	13	7	73	14
$10-$49.9 million	87	7	5	83	9
$50 million or more	88	7	5	81	5
Purchasing Behavior					
Full-service	75	9	7	73	12
Unbundled	81	11	12	70	9
Number of Investment Managers					
One	74	10	8	72	13
Two or more	82	8	10	74	8
Plan is:					
Primary	74	10	10	69	13
Supplemental	81	8	7	77	8
Overall base =	919				

Overall base=919

strict reallocation of contributions to a semiannual or

less frequent basis. For semiannual or annual reallocation, banks and other investment manager types have the highest response.

Comparison of the respondents' preferred frequency of allowing reallocation of contributions with current practice indicates a net increase of about 4 percentage points in the use of daily valuation, an increase of about 4 percentage points in those permitting monthly reallocation, and a corresponding decrease in the proportion allowing reallocation quarterly and semi-annually.

Overall, 16 percent of plan sponsors say they are considering a change in how often participants are allowed to reallocate contributions. Among very small plans with fewer than 100 participants or assets of less than $1 million, only about 10 percent are considering a change. Among larger plans, the proportion considering a change is closer to 20 percent.

The proportion considering a change is also higher among supplemental plans, unbundled purchasers, plans using multiple investment managers, and bank customers than among other segment counterparts. Figure 54 shows the proportion of respondents considering a change in the frequency participants are allowed to change the allocation of future contributions.

Frequency of Investment Transfers

Ninety-five percent of 401(k) plans allow participants to transfer money among the investment options. The proportion drops to about 92 percent of very small plans with fewer than 100 participants, 87 percent of plans which lack employer matching contributions, and 91 percent of plans with a bank as investment manager. The proportion increases to 99 percent for mutual fund and insurance company customers, and 98 percent for plans with multiple managers.

About one quarter of plans allow transfers on a daily basis. The proportion is lower (16-18 percent) among small plans with 100-249 participants and assets of $1-$9.9 million. At 36 percent of respondents, more mutual fund customers offer daily transfers, and fewer bank customers offer them (10 percent), than clients of other investment managers. Larger plans permit transfers on a semiannual or annual basis less often than they permit them on a more frequent basis.

Comparison of the respondents' preferred frequency of permitting transfers among investment options with current practice indicates a net increase of about 4 percentage points each in the use of daily valuation and in those permitting monthly transfers. There is a corresponding decrease in the proportion allowing transfers quarterly and semiannually.

Overall, 17 percent of plan sponsors say they are considering a change in how often participants are permitted to transfer among investment options. Among very small plans with fewer than 100 participants or assets of less than $1 million, only about 10 percent are considering a change. Among larger plans, the proportion considering a change is closer to 20 percent. The proportion considering a change is higher among supplemental plans, unbundled purchasers, plans using multiple investment managers, and bank customers than among their segment counterparts.

Figure 54

Frequency of Contribution Reallocation by Segment

(percent of total respondents)

Overall base=919	Allowing Reallocation				Preferred Frequency			
	Daily/ Weekly / Monthly	**Qtrly**	**Semi-annually/ Annually/ Other**	**Considering Changing Frequency**	**Daily**	**Monthly**	**Qtrly**	**Semi annually**
Overall	33	42	21	16	24	15	37	14
Type of Investment Manager								
Bank	23	42	27	24	18	15	36	18
Insurance Company	36	41	21	15	24	17	38	12
Independent Investment Firm	23	52	21	20	20	13	43	13
Mutual Fund	49	40	9	14	37	17	32	6
Other	26	45	23	14	16	20	40	13
Number of Participants								
Less than 100	28	29	36	9	17	11	29	28
100-249	22	43	30	15	16	9	43	20
250-999	30	50	17	18	22	17	43	9
1,000-3,999	39	50	10	23	33	17	39	4
4,000 or more	56	37	3	18	40	24	28	1
Plan Assets								
Less than $1 million	31	31	34	12	18	14	31	26
$1-$9.9 million	31	43	21	20	21	16	39	12
$10-$49.9 million	36	50	12	25	35	14	38	6
$50 million or more	44	44	8	23	40	16	33	4
Purchasing Behavior								
Full-service	35	38	23	13	26	13	36	16
Unbundled	27	53	17	27	21	22	40	7
Number of Investment Managers								
One	33	38	24	13	26	12	34	16
Two or more	33	51	16	27	21	23	43	8
Plan is:								
Primary	28	41	26	12	20	12	39	18
Supplemental	41	42	15	22	32	19	33	8
Overall base =	919							

Figure 55

Frequency of Investment Transfers by Segment

(percent of total respondents)

Overall base: 910

	Permitting Transfers				Preferred Frequency			
	Daily/ Weekly/ Monthly	Qtrly	Semi-annually	Considering Changing Frequency	Daily	Monthly	Qtrly	Semi-annually
Overall	34	40	19	17	26	15	36	11
Type of Investment Manager								
Bank	23	39	26	25	18	16	36	15
Insurance Company	36	43	17	17	28	14	38	11
Independent Inv. Firm	21	52	18	18	17	13	46	7
Mutual Fund	51	38	9	14	41	16	32	5
Other	29	42	19	17	20	17	38	12
Number of Participants								
Less than 100	35	26	28	10	25	12	27	20
100-249	24	38	28	13	18	11	37	19
250-999	27	52	16	21	23	15	44	9
1,000-3,999	40	48	9	22	33	17	39	2
4,000 or more	50	38	9	19	38	19	33	2
Plan Assets								
Less than $1 million	33	33	25	12	23	15	31	17
$1-$9.9 million	30	42	21	23	22	14	39	11
$10-$49.9 million	37	50	10	24	36	15	36	6
$50 million or more	44	40	11	23	37	15	35	4
Purchasing Behavior								
Full-service	37	36	19	13	29	13	34	13
Unbundled	25	52	19	30	21	20	42	6
Number of Investment Managers								
One	35	35	21	14	29	12	32	14
Two or more	31	53	13	25	22	20	46	5
Plan is:								
Primary	31	38	19	12	23	13	37	15
Supplemental	39	42	10	23	32	17	34	6

VII. Participant Communications

Respondents to this survey were asked to rate 14 different participant communications methods as "very effective," "somewhat effective," or "not effective" for enrollment communications and for ongoing communications. A summary of the overall ratings is shown in Figures 56 and 59. The following is a discussion of each method. Ratings for the size (number of participants) and investment manager segments are shown in Figures 57 and 60 and Figures 58 and 61.

Enrollment Communication Methods

A. Group Meetings

Group meetings were rated "very effective" by 64 percent of plan sponsors. Very small plans with fewer than 100 participants rated group meetings second to individual account statements. Across plan asset size, investment manager type, and purchasing behavior segments, group meetings were rated highest in effectiveness for enrollment communications. Small- to mid-size plans with 100-999 participants and assets of $10-$49.9 million rated the approach higher, while very small plans with fewer than 100 participants, and very large plans with more than 4,000 participants rated group meetings somewhat lower. There was no significant variation across other segments.

B. Individual Account Statements

Individual account statements were ranked second across most segments and first among very small plans with fewer than 100 participants. Very large plans with 4,000 or more participants rated statements less effec-

Figure 56

Enrollment Communication Methods by Level of Effectiveness*

(percent of total respondents)

	Very Effective	Somewhat Effective	Not Effective
Group meetings	64	23	11
Individual account statements	59	23	14
Individual meetings	51	30	16
Brochures	49	43	6
Toll-free access to a service representative	39	34	22
Video presentations	34	40	21
Company newsletter	30	46	19
Slide presentations	30	43	22
Investment newsletter	29	50	16
Payroll stuffers	29	45	23
Prospectus	24	36	36
Toll-free access to an automated voice response system	22	36	36
Posters	19	43	33
Interactive PC illustrations	17	33	39

Overall base = 919
** Levels do not add to 100 because of nonresponse.*

tive than brochures or toll-free access to an automated response system. Customers of insurance companies and "other" investment managers rated individual account statements higher than did customers of banks, mutual funds, or independent investment managers.

C. Individual Meetings

Individual meetings were rated "very effective" by about half of the plan sponsors. Insurance company customers rated individual meetings higher than customers of the other investment manager types, while "other" investment manager clients rated them lower than the rest. Small-to mid-size plans with 100-999 participants and $1-$49.9 million in assets also rated individual meetings higher than average.

D. Brochures

Brochures were rated "very effective" by almost half of plan sponsors. Full-service purchasers, plans using a single investment manager, and customers of insurance and mutual fund companies rated brochures higher than did other segments.

E. Toll-free Access to a Service Representative

Just under 40 percent of plan sponsors rated toll-free access to a service representative as "very effective." This approach was rated highest by very large plans with 4,000 or more participants and lowest by mid-size plans with 250-999 participants. Very small plans with assets of less than $1 million and very large plans with more than $50 million in assets rated toll-free access to a service representative higher than did small- to mid-size plans with assets of $1-$49.9 million. At more than 40 percent of respondents each, full-service purchasers, plans using a single investment manager, and customers of independent investment firms also rated this approach higher than average. Bank customers rated it lower (33 percent) than average.

All segments except very large plans with over 4,000 participants rated toll-free access to a service representative higher than access to an automated voice response system.

F. Video Presentations

Video presentations were ranked sixth in effectiveness, with 34 percent of plan sponsors rating them "very effective." Among mid-size and large plans with 250 or more participants and assets of $10 million or more, over 40 percent of the sponsors rated them "very effective." Supplemental plans, unbundled purchasers, and plans using multiple investment managers rated video presentations more effective than did primary plans, full-service purchasers, or plans using a single investment manager. Moreover, 40 percent of mutual fund customers rated video presentations "very effective," compared with 30 percent of clients of independent investment firms.

Large plans with 1,000 or more participants or assets of more than $10 million rated video presentations more effective than slide presentations. Smaller plans rated the two equally effective.

G. Slide Presentations

Overall, slide presentations were rated less effective than video. However, this is due to the ratings of large plans with at least 1,000 participants and more than $10 million in assets, and plans that use multiple investment managers. In other segments, the proportions rating slide and video presentations "very effective" were relatively similar.

H. Company Newsletter

The company newsletter was ranked eighth among the communications approaches with 30 percent of plan sponsors rating it "very effective." It was rated highest by very large plans with over 4,000 participants, by large plans with $10-$49.9 million in assets, by plans with multiple investment managers, and by bank customers. It was rated lowest by small plans with 100-249 participants, by plans that use single investment managers, and by customers of mutual fund companies.

I. Investment Newsletter

Investment newsletters were rated "very effective" by 29 percent of plan sponsors, with small plans rating them lower and large plans rating them higher. Twenty-three percent of bank customers considered investment newsletters to be very effective compared with about 30 percent of other investment manager segments.

J. Payroll Stuffers

Twenty-nine percent of plan sponsors rated payroll stuffers as "very effective." Small plans with fewer than 250 participants or assets less than $10 million rated them higher than did larger plans. Payroll stuffers were also rated higher by full-service purchasers, plans using a single investment manager, and primary plans than by unbundled purchasers, multiple-manager, or supplemental plans.

K. Prospectus

Fewer than one quarter of plan sponsors rated prospectuses "very effective." They were rated highest among very small plans with fewer than 100 participants and assets less than $1 million and by customers of independent investment firms. They were rated very effective by fewer respondents than all of the other approaches in the very large plan segment (with 4,000 or more participants and assets over $50 million).

L. Toll-free Access to an Automated Voice Response System (VRS)

Overall, 22 percent of plan sponsors rated toll-free access to an automated VRS "very effective." However, almost half of very large plans with over 4,000 participants rated this approach "very effective." Very large plans with assets over $50 million and supplemental plans also rated toll-free access to an automated VRS higher than did smaller and primary plan segments.

Figure 57

Enrollment Communication Methods by Plan Size

(percent of total respondents answering "very effective")

	Number of Participants				
	Less than 100	100-249	250-999	1,000-3,999	4,000 or more
Group meetings	56	72	70	65	56
Individual account statements	60	62	65	55	48
Individual meetings	46	60	55	47	48
Brochures	51	48	50	46	52
Toll-free access to a service representative	42	39	31	38	45
Video presentations	22	29	41	40	44
Company newsletter	28	22	31	32	39
Slide presentations	24	30	40	27	27
Investment newsletter	27	26	27	36	30
Payroll stuffers	33	35	29	24	24
Prospectus	29	22	28	20	19
Toll-free access to an automated voice response system	18	13	17	22	50
Posters	23	18	17	17	19
Interactive PC illustrations	11	15	22	18	25
Base =	236	159	221	184	119

Figure 58

Enrollment Communication Methods by Type of Investment Manager

(percent of total respondents answering "very effective")

	Bank	Insurance Company	Independent Investment Firm	Mutual Fund Company	Other
Group meetings	63	65	60	67	66
Individual account statements	53	63	58	54	61
Individual meetings	52	61	51	51	46
Brochures	43	53	46	50	43
Toll-free access to a service representative	33	40	43	38	40
Video presentations	36	34	30	40	34
Company newsletter	32	31	31	29	25
Slide presentations	31	28	23	34	30
Investment newsletter	23	28	30	31	32
Payroll stuffers	29	28	29	26	29
Prospectus	22	20	30	24	25
Toll-free access to an automated voice response system	20	20	21	24	24
Posters	23	22	13	15	14
Interactive PC illustrations	15	19	25	20	13
Base =	235	247	164	247	181

With 24 percent of respondents, mutual fund customers rated this system higher than plans using other investment manager types.

M. Posters

Nineteen percent of plan sponsors rated posters as a "very effective" approach for participant communications. Full-service purchasers, plans using a single investment manager, and bank and insurance company customers rated posters higher than did unbundled purchasers, multiple-manager plans, customers of mutual funds, independent investment firms, and "other" investment managers. Small plans rated posters higher than did large plans.

N. Interactive PC Illustrations

Seventeen percent of plan sponsors rated interactive PC illustrations as "very effective." Among very small plans with fewer than 100 participants and assets less than $1 million, this figure drops to about 10 percent. Supplemental and multiple-manager plans rated PC illustrations higher than did primary or single-manager plans. Customers of independent investment managers rated this approach 10 percentage points higher than did customers of banks and "other" investment manager types.

Figure 59

Ongoing Communication Methods by Level of Effectiveness*

(percent of total respondents)

	Very Effective	Somewhat Effective	Not Effective
Group meetings	43	39	16
Individual account statements	70	22	5
Individual meetings	41	37	20
Brochures	42	48	8
Toll-free access to a service representative	44	33	18
Video presentations	26	43	27
Company newsletter	31	46	19
Slide presentations	20	47	29
Investment newsletter	34	49	13
Payroll stuffers	28	46	23
Prospectus	20	38	38
Toll-free access to an automated voice response system	27	37	29
Posters	15	47	34
Interactive PC illustrations	16	35	38
Overall base = 919			

* *Levels do not add to 100 because of nonresponse.*

Ongoing Communications Methods

A. Individual Account Statements

Individual account statements are seen as the most effective ongoing communications tool by a wide margin across all segments except very large plans with 4,000 or more participants. Even though these very large plans rate individual account statements as the number one choice in effectiveness, they also consider toll-free access to an automated voice response system nearly as effective.

B. Toll-free Access to a Service Representative

Forty-four percent of plan sponsors rate toll-free access to a service representative as “very effective.” Very small plans with fewer than 100 participants and assets less than $1 million rate the effectiveness of this approach higher than do plans of larger sizes. Plans using a single investment manager rate toll-free access to a service representative higher than do multiple-investment manager plans. Bank customers rate this approach lower than do other investment manager segments.

All segments, except very large plans with over 4,000 participants, rate toll-free access to a service representative higher than access to an automated voice response system. A slightly higher proportion of the very large plan respondents prefer the toll-free access to an automated voice response system.

C. Brochures

Forty-two percent of plan sponsors rate brochures “very effective” for ongoing communications. This rating is inconsistent across all size segments. Full-service purchasers and plans using a single investment manager rate brochures higher, while bank customers rate them lower, than do other respective segments.

D. Group Meetings

Overall, 43 percent of plan sponsors rate group meetings as a “very effective” method of ongoing communications. Small- to mid-size plans with 100-999 participants and assets of $1-$49.9 million rate this approach higher than do the smallest or largest plans. Among these small- to mid-size plans, group meetings rank second only to individual account statements as an effective ongoing communications approach. Unbundled purchasers rate group meetings higher, and insurance company customers rate this approach lower, than do other segment counterparts. At 46 percent of respondents in their respective segments, banks and independent investment firm customers rated this method higher than did plans which use the remaining investment-manager types.

E. Individual Meetings

Overall, 41 percent of plan sponsors rate individual meetings "very effective" for ongoing communications. Small- to mid-size plans with 100-999 participants and assets of $1-$49.9 million rate this approach higher, and very small plans rate it lower, than other size segments. Fewer customers of "other" investment managers rate individual meetings as a "very effective" method compared with clients of the remaining investment manager types (35 percent). Bank, insurance company, and independent investment firm customers rate them higher, with 43 percent of respondents in each segment saying they are "very effective." Forty percent of mutual fund company-managed plans give individual meetings the superior rating for effectiveness.

F. Investment Newsletter

About one third of plan sponsors rate investment newsletters as a "very effective" method of ongoing communications. The rating of this approach is lower among small- and mid-size plans with less than 1,000 participants or $10 million in assets. Larger plans rate investment newsletters higher. Thirty-eight percent of unbundled purchasers rate them "very effective," compared with slightly less (32 percent) for full-service purchasers. There is no significant variation in ratings across other segments.

G. Company Newsletter

About 30 percent of plan sponsors rate company newsletters as "very effective" for ongoing communications. Among small plans with fewer than 250 participants or assets less than $1 million, the rating drops to less than 25 percent. About 40 percent of very large plans, with 4,000 or more participants and large plans with assets of $10-$49.9 million rate this approach "very effective." Supplemental plans rate company newsletters higher than primary plans; customers of "other" investment managers rate this approach lower than do other investment-manager segments.

H. Payroll Stuffers

Twenty-eight percent of plan sponsors rate payroll stuffers "very effective" for ongoing communications. Small plans with 100-249 participants and assets of $1-$9.9 million rate payroll stuffers higher, while very large plans (more than 4,000 participants and $50 million in assets) rate them lower than other size segments. Primary plans, full-service purchasers, and plans with a single investment manager rate payroll stuffers higher than do supplemental plans, unbundled purchasers, or those using multiple managers. There is no significant variation among customers of the different investment managers.

I. Toll-free Access to an Automated Voice Response System (VRS)

Twenty-seven percent of plan sponsors rate toll-free access to an automated VRS as "very effective" for ongoing communications. Very large plans with 4,000 or more participants and assets of $50 million or more rate it much higher than do small plans with 100-249 participants and assets under $1 million. Supplemental plans rate this approach higher than do primary plans. Twenty-nine percent of mutual fund customers and "other" investment firm customers rank access to this system "very effective." At 23 percent of respondents, bank patrons rank it the lowest among investment manager types.

J. Video Presentations

Just over one quarter of plan sponsors say video presentations are "very effective" for ongoing communications. Small plans with fewer than 250 participants or assets less than $1 million rate videos lower than do larger plans. Unbundled purchasers and plans using multiple investment managers rate video presentations more effective than do full-service purchasers and plans with a single investment manager. More bank customers rate them "very effective" (31 percent), while fewer insurance company customers rate them in this manner (23 percent) than other investment-manager types.

Large plans with 1,000 or more participants and assets of more than $10 million rate video presentations higher than slide presentations. Smaller plans rate the two as about equally effective.

K. Slide Presentations

About 20 percent of plan sponsors rate slide presentations "very effective" for ongoing communications. Mid-size plans with 250-999 participants rate slide presentations higher than do smaller or larger plans. Very small plans with assets less than $1 million rate

Figure 60

Ongoing Communication Methods by Plan Size

(percent of total respondents answering "very effective0)

	Number of Participants				
	Less than 100	**100-249**	**250-999**	**1,000-3,999**	**4,000 or more**
Group meetings	34	50	48	43	38
Individual account statements	72	70	72	75	58
Individual meetings	35	48	44	39	38
Brochures	41	40	45	41	38
Toll-free access to a service representative	49	42	39	46	46
Video presentations	17	21	31	31	34
Company newsletter	24	23	34	35	40
Slide presentations	16	21	28	17	17
Investment newsletter	29	30	31	42	40
Payroll stuffers	30	34	27	23	22
Prospectus	21	22	22	16	18
Toll-free access to an automated voice response system	22	17	24	30	53
Posters	16	15	16	15	13
Interactive PC illustrations	8	13	19	21	27
Base =	236	159	221	184	119

Page 1

slide presentations lower, and those with assets of $10-$49.9 million rate them higher, than other asset-based segments. There is no significant variation across other segments.

L. Prospectus

About 20 percent of plan sponsors rate the prospectus "very effective" for ongoing communications. Very small plans with assets less than $1 million rate the prospectus higher than do larger plans. Customers of independent investment firms rate the prospectus highest among investment manager types. Supplemental plans and those using a single investment manager rate it higher than do primary plans or users of multiple managers.

M. Interactive PC Illustrations

About 16 percent of plan sponsors say interactive PC illustrations are "very effective" for ongoing communications. The perceived effectiveness of this approach is highly correlated with plan size. Among very small plans with fewer than 100 participants and assets less than $1 million, less than 10 percent rate this approach in a superior manner compared with about one quarter of very large plans with 4,000 or more participants and assets of $50 million or more. In addition, unbundled purchasers (22 percent) and customers of independent investment firms (26 percent) rate interactive PC illustrations higher than do full-service purchasers and customers of other type investment managers. With 13 percent of respondents, fewer customers of "other" investment managers (i.e., stockbrokers, trust companies, and inhouse managers) rate this approach "very effective" than any of the other investment manager types.

N. Posters

Only 15 percent of plan sponsors rate posters "very effective" for ongoing communications. Full-service purchasers and single-investment-manager plans rank posters higher than do unbundled purchasers or multiple-investment-manager plans. Bank customers rate posters higher, while clients of independent investment firms rate them lower, than customers of the remaining investment manager types.

Figure 61

Ongoing Communications Methods by Type of Investment Manager

(percent of total respondents answering "very effective")

	Bank	Insurance Company	Independent Investment Firm	Mutual Fund Company	Other
Group meetings	46	39	46	43	44
Individual account statements	65	72	70	70	71
Individual meetings	45	43	43	40	35
Brochures	34	43	41	44	39
Toll-free access to a service representative	37	46	48	45	44
Video presentations	31	23	24	29	28
Company newsletter	32	32	32	35	25
Slide presentations	23	17	16	22	21
Investment newsletter	30	35	37	35	34
Payroll stuffers	26	27	27	26	28
Prospectus	17	17	25	21	19
Toll-free access to an automated voice response system	23	26	29	29	30
Posters	18	15	10	14	12
Interactive PC illustrations	16	17	26	18	13
Base =	235	247	164	247	181

Appendices

Appendix A: Basic Features of a 401(k) Plan[16]

Overview

Section 401(k) is the section of the Internal Revenue Code (IRC) that governs "cash or deferred arrangements" (CODAs) that are part of qualified profit-sharing or stock bonus plans.[17] Although retirement plans with cash or deferred arrangements were available prior to the enactment of Section 401(k) in the Revenue Act of 1978, the real growth in CODAs occurred after that time, and especially after the IRS regulations governing 401(k) plans were originally issued in 1981-1982.

The feature of 401(k) CODAs that distinguishes them from most other retirement plans is that eligible employees can elect to have certain payments either paid directly to them in cash or contributed on a tax-deferred basis on their behalf to a qualified profit-sharing or stock bonus plan. Thus the name "cash or deferred arrangements." The payments may be a portion of normal salary—the employee may agree to reduce his or her normal salary and have the amount of the reduction applied as a contribution to the trust. The payments may also be bonuses or other amounts in addition to normal salary.

Regulation

A. Contributions

As noted, Section 401(k) plans allow employees to make elective contributions to a retirement plan on a tax-deferred basis. While 401(k) plans can be funded exclusively with employee deferrals (or contributions), employers can contribute as well. Employers may make discretionary profit-sharing contributions to 401(k) plans regardless of whether the employee elects to make deferral contributions, they may match employee deferral contributions on a dollar-for-dollar, percentage, or fixed amount basis, or they may make both discretionary and matching contributions. Some plans also allow employees to make after-tax contributions.

Specific contribution formulas vary from plan to plan, but in all cases total employee pre-tax deferrals, employer contributions, and employee after-tax contributions are subject to limits set forth in the Internal Revenue Code.

For example, the maximum limit for pre-tax employee deferrals to a 401(k) plan was set in the Tax Reform Act of 1986 at $7,000, which, when indexed for inflation, is equal to $9,240 in 1994.

[16] This is not intended to be an exhaustive discussion of the legal requirements for 401(k) plans. Please consult legal counsel with legal questions on 401(k) requirements.

[17] Other types of plans can include CODAs. For example, cash or deferred arrangements can be included in IRC Section 457 government plans and IRC Section 403(b) plans maintained by public educational institutions and certain tax-exempt organizations. Different IRS requirements apply to those plans, and they are not included in this study.

B. Income Tax Deferral

Income taxes on employee contributions are generally deferred until the funds are withdrawn from the plan at, or before, retirement. Not all taxes are deferred, however. The employer must pay FICA (Federal Insurance Contribution Act) and FUTA (Federal Unemployment Tax Act) taxes with respect to the employee's pre-tax elective contributions and the employee will continue to pay FICA tax on those amounts. The taxation of employee deferrals by state and local governments rests with those jurisdictions.

C. Nondiscrimination

Retirement plans must satisfy certain nondiscrimination, coverage, and eligibility requirements, among others, to qualify for tax advantages under the Internal Revenue Code. Those requirements are designed in part to ensure that plans that discriminate in favor of highly compensated employees do not receive the tax advantages of "qualified" plans. In addition to those general tax qualification requirements, 401(k) plans must also satisfy a special nondiscrimination test called an "actual deferral percentage" (ADP) test. The ADP test strictly limits the total contributions that can be made by highly compensated employees compared to all other employees covered under the plan. "Highly compensated employees" are defined in the Internal Revenue Code as 5 percent owners of the employer, employees with compensation over specified limits, and officers who receive compensation in excess of 50 percent of the limit set forth in Section 415(b)(1)(A).

D. Distributions

Various technical rules govern when distributions may be made from a 401(k) plan. An amount attributable to elective contributions may not, in general, be distributed before the employee's death, disability, separation from service, or attainment of age 59 1/2, except upon plan termination or sale of the business or subsidiary employing the employer. In appropriate cases, such distributions can be rolled over into an IRA or another qualified plan. In addition, participants may make withdrawals from these plans based on "hardship," and in some cases, depending on the provisions of the plan, may borrow from the plan.

Vesting

All employee contributions in 401(k) plans are immediately vested by law. Employer matching contributions and other employer contributions are subject to the same type of vesting schedule as applicable to other tax-qualified retirement plans.

Expenses

While there are a variety of ways 401(k) service providers structure the fees they charge plan sponsors, the following breakdown is a fairly common approach for out-of-pocket costs. Investment management fees, charged as a percentage of assets, are not regarded as "plan expenses." However, those providers with relatively high sales/marketing charges will often offer reduced fees in the categories listed below. In effect, they are using less visible asset charges to stabilize the cost of services. In many cases, the investment manager will pay a subsidy to the recordkeeper. There may also be inhouse costs (i.e., legal expenses and so forth) which are not included in any of these charges.

1. **Start-up Fees:** Ranging from $1,000-$3,000 on average, these fees cover the cost of enrollment activities (e.g., group or individual meetings, written information, transferring assets, and so forth).

2. **Annual Per-participant Charges:** This fee typically ranges from $15-$40 per participant per year. The services covered include participant accounting and reporting, plan sponsor reporting, and ongoing employee communications (e.g., newsletters, telephone inquiries to a customer service representative or a voice response unit, and so forth).

3. **Loan Fees:** These include origination and administrative fees and are often charged through to the participant. A typical fee might be $75 to set up the loan and $25 per year outstanding.

4. **Transaction Charges:** These might be levied if the sponsor wants to make deposits more frequently than monthly or in a nonstandard format (e.g., a direct feed from the plan sponsor's payroll system).

5. **Trustee Charges:** A trustee charge of five to ten basis points might be charged for 1099 preparation and other trustee services.

Appendix B: ERISA Section 404(c) Regulations

ERISA Section 404(c) provides that if participants exercise "control" over their plan assets, the plan sponsor will not be held liable for any losses incurred by the participant as a result of the participant's control of those assets. The Department of Labor in 1992 exercised its authority to issue regulations on the requirements plan sponsors must satisfy for participants to be deemed to have "control" over their plan assets. Compliance with the ERISA Section 404(c) regulations is optional, and failure to comply will not subject the plan sponsor to any adverse action by the Department of Labor or participants. However, fiduciaries of plans that do not comply will not be relieved from liability for the results of their participants' investment decisions. Section 404(c) regulation applies to virtually all participant-directed retirement plans established by employers for their employees, including 401(k) and profit-sharing plans. The regulations became effective for most plans beginning on January 1, 1994. State and local plans with grandfathered 401(k) plans are not subject to ERISA Title I and, hence, these regulations are not applicable to them.

To comply with the ERISA Section 404(c) regulations, plans must offer a diversity of investment vehicles and must permit changes in investments at least quarterly. At least three investment options with different risk/return characteristics must be offered by the plan. And, the retirement plan must offer diversification within and among such alternatives. Participants must also be given adequate information to make informed investment decisions. Even if plan sponsors comply with ERISA Section 404(c), they will continue to be responsible as ERISA fiduciaries for selecting and hereafter monitoring the investment vehicles that they offer to plan participants. And, of course, fiduciaries remain liable for losses that result from failure to carry out participants' investment instructions in a prudent manner.

Appendix C: Research Methodology
Weighting Schemes

Typical Account Balances

The typical account balances were estimated by Access Research using the distribution of participants by plan size as weights according to the following scheme:

Number of Participants	Percent
Less than 100	15
100-249	8
250-999	13
1,000-3,999	7
4,000 or more	57

Using these weightings, the survey gives the following breakdown of typical account balances:

Account Size	Percent
Less than $10,000	40
$10,000-$19,999	27
$20,000-$49,999	25
$50,000 or more	9

Distribution of Assets by Type of Option

Total market asset distribution by fund type was estimated using the distribution of assets by plan size as follows:

Number of Participants	Total Assets	Percent
	(billions)	
4,000 or more	$316	67
1,000-3,999	34	7
250-999	52	11
100-249	24	5
less than 100	48	10

Appendix D: 401(k) Questionnaire

Questionnaire ID No.:______________________________

DATE:______________________________

INTERVIEWER: ______________________________

RESPONDENT INFORMATION

TELEPHONE NO: ______________________________

NAME: ______________________________

COMPANY: ______________________________

TITLE: ______________________________

CITY/STATE/ZIP: ______________________________

NOTE: VERIFY THAT NAME ON LIST IS THE PERSON RESPONSIBLE FOR DAY-TO-DAY ADMINISTRATION OF THE COMPANY'S 401(K) PLAN.

Hello, my name is ______________________________ . I'm calling on behalf of the Investment Company Institute, a national industry association of investment companies. The purpose of this call is to learn what is important to you in making decisions about your 401(k) plan. With this information we can help investment companies provide better products and services to companies like yours. This interview will take about 10 minutes. Can you do it now?

Yes/Now: ______________________________

Reschedule: Date/Time______________________________

No: Reason for Refusal: ______________________________

1. Does your company offer a retirement plan that is a 401(k) plan; that is, a qualified plan that allows participants to reduce their taxable earnings by contributing a portion of their salary to the plan?

a. ______ Yes—Continue

b. ______ No—Terminate Interview

2. In what year was this plan adopted?

______ 1993

______ 1992

______ 1990-1991

______ 1986-1989

______ 1985 or Earlier

3. Is this plan available to all company employees who meet eligibility criteria or is it a plan for only management or union employees?

a. ______ Open to all employees

b. ______ Management plan

c. ______ Union employees' plan

4. Is this plan the primary retirement plan for employees, or is it a secondary or supplementary plan?

a. ______ Primary

b. ______ Secondary/supplemental

5. How many employees are eligible to participate in the plan?

______ (Fill in number)

5a. How many employees do participate in the plan?
______ (Fill in number *or* Participation Rate %)

6. What is the approximate total value of the assets in the plan?
______ $ (Fill in number)

7. Does the company make any contributions to the plan?
a. ______ Yes—Ask question 7a
b. ______ No—Skip to question 8

7a. Does the company match all or a portion of the employee contributions?
a. ______ Yes—all
Ask question 7b & 7c
b. ______ Yes—a portion
c. ______ No—Skip to question 7d

7b. How is the matching amount determined?
______ % of employee contributions
Other: ____

7c. Is there a maximum on the amount of the company matching contribution?
a. ______ Yes—Ask question 7c(1)
b. ______ No—Skip to question 7d

7c(1). How is the maximum matching contribution determined?
a. Match applies only to the first $______________ of employee contribution.
b. Match applies only to the first ______________ % of the employee's compensation contributed to the plan.
c. Maximum matching amount is $ per ___________.
Ask question 7d

7d. Does the company make any other contributions to the plan?

(Interviewer Note: An example of another type contribution would be an annual profit-sharing contribution.)
a. ______ Yes
Ask question 7e
b. ______ No

7e. What was the approximate dollar amount of the company's total contribution to the plan in the most recent plan year?
______ $ (Fill in number) Ask question 7f

7f. Approximately what proportion of the total dollar contribution is company, not employee, money.
______ % (Fill in percent)

8. What was the approximate dollar amount of plan expenses in the most recent plan year?
$ _____ (Fill in number)

9. Who pays the plan expenses: the company, the plan itself, or both?
a. ______ Company
b. ______ Plan
c. ______ Both

10. Now I would like to learn about the investment options available to participants in your plan. How many different investment options are available in your plan?
______ (Fill in number)

11. Are all of these options provided through the same investment manager or do you use multiple investment providers?
a. ______ One investment provider—Ask question 11a
b. ______ Two or more investment providers—Skip to question 12

11a. Would you prefer to offer investment options from just one investment manager or to offer funds from two or more managers?

a. ______ One

b. ______ Two or more

12. Which of the following best describes the structure of the investment vehicles available in your plan?

(Mark all that apply below)

13. Do you feel it is important to offer participants a choice among these types of investment vehicles?

a. ______ Yes—Please specify
(Mark all that apply below)

b. ______ No

Question 12/Question 13

Commingled accounts (that is, accounts holding funds from your plan as well as from other depositors) offered by a:

a. ______ a. _______ Bank,

b. ______ b. _______ Insurance Company, or

c. ______ c. _______ Mutual Fund

d. ______ d. _______ Separately managed accounts (that is, funds holding *only* the assets of your company's plan)

e. ______ e. _______ Variable Annuity Contracts

f. ______ f. _______ Other (Please specify)

14. Who directs how contributions to the plan will be invested, the participant or the company?

a. ______ Participants

b. ______ Company

c. ______ Both

15. Do you intend that your plan qualify under ERISA Section 404(c)?

(Interviewer Note**:** Section 404(c) allows retirement plan fiduciaries to limit their investment responsibilities by allowing plan participants to direct the investment of their individual accounts, providing the plan offers them at least three diversified investment alternatives and sufficient information to make informed investment decisions.)

a. ______ Yes

b. ______ No

16. Which of the following investment options are offered in your company's plan?

17. Were any of these options added within the past 12 months? (specify)

18. Are you planning to add any additional investment options within the next 12-18 months?
(specify)

19. Approximately what percent of total plan assets are invested in each of the investment options currently available in your plan?

19a. Approximately what percentage of total plan assets were invested in each of the investment options available three years ago?

Interviewer Note: Refer to question 10 for number of investment options offered to participants

Question	16.	17.	18.	19.	19a.
a. Growth	__	__	__	__ %	_ %
b. Aggressive Growth	__	__	__	__ %	__%
c. Equity Income	__	__	__	__ %	_ %
d. Equity Index Fund	__	__	__	__ %	__%
e. International/ Global Equity	__	__	__	__ %	__%
f. Guaranteed Fund or GIC	__	__	__	__ %	__%
g. Corporate Bond	__	__	__	__ %	_ %
h. Government Bond	__	__	__	__ %	_ %

i. International/ Global Fixed Income	__	__	__	__ %	__ %
j. Fixed Income Index Fund	__	__	__	__ %	__ %
k. Money Market	__	__	__	___%	_ %
l. Balanced Fund	__	__	__	___%	_ %
m. Company Stock	__	__	__	___%	_ %
Other (please specify)					
n.	__	__	__	___%	_ %
o.	__	__	__	___%	_ %
p.	__	__	__	___%	_ %
q. No/None	N/A	__	__	N/A	N/A

20. What type of company provides your current plan investments?

a. ______ Commercial Bank—Local

b. ______ Commercial Bank—National or Regional

c. ______ Insurance Company

d. ______ Independent Investment Counselor

e. ______ Mutual Fund Company

f. ______ Stockbrokerage Firm

g. ______ Trust Company

h. ______ Other (Please specify)

21. Using a 5 point rating scale where 5 means "very satisfied" and 1 means "not satisfied at all", how satisfied are you with the performance and service you receive from your current investment provider?

5 4 3 2 1

22. Again, using a 5 point rating scale, where 5 means "very likely" and 1 means "not likely at all", how likely is it that you will change investment providers over the next 12 months?

5 4 3 2 1

If response 5 or 4—Ask question 23

If response 3, 2 or 1—Skip to question 24

23. What are the reasons for your desire to switch investment providers?

____

____

24. How frequently does your plan permit a participant to re-allocate his or her future contribution among the investment options?

24a. What would be your preferred frequency for allowing re-allocation of future contributions?

24. Current 24a. Preferred

a. ______	a. _______	Daily
b. ______	b. _______	Weekly
c. ______	c. _______	Monthly
d. ______	d. _______	Quarterly
e. ______	e. _______	Semi-annually
f. ______	f. _______	Annually
g. ______	g. _______	Other

24b. Are you considering a change in how often participants can re-allocate contributions?

a. ______ Yes

b. ______ No

25. How frequently does your plan permit transfers between investment alternatives?

25a. What would be your preferred frequency for transfers between investment alternatives?

25. Current 25a. Preferred

a. ______	a. _______	Daily
b. ______	b. _______	Weekly
c. ______	c. _______	Monthly

d. ______ d. _______ Quarterly

e. ______ e. _______ Semiannually

f. ______ f. _______ Annually

g. ______ g. _______ Transfers are not allowed

h. ______ h. _______ Other _______________

26. Are you considering a change in the frequency that transfers are permitted?

a. ______ Yes

b. ______ No

27. How frequently do participants receive account statements?

28. What would be your preferred frequency for issuing account statements?

27. Current 28. Preferred

a. ______ a. _______ Monthly

b. ______ b. _______ Quarterly

c. ______ c. _______ Semiannually

d. ______ d. _______ Annually

29. Are you considering a change in the frequency that statements are issued?

a. ______ Yes

b. ______ No

30. Does your plan obtain investment management, recordkeeping, and other administrative services from a single full-service provider, or from two or more companies selected to provide specific services?

a. ______ One full-service provider

b. ______ Two or more providers

31. Which of these approaches would you prefer?

a. ______ One full-service provider

b. ______ Two or more providers

c. ______ No preference

32. Why is that?

____

____

33. Do you, or would you consider, obtaining all plan services, as well as investment management, through an "Alliance Program;" that is, an arrangement among a group of service providers and an investment firm to jointly offer a "full service" package.

a. ______ Yes

b. ______ No

34. Would you be more likely to consider an Alliance Program if it meant you could make funds from a variety of investment managers available to plan participants?

a. ______ Yes

b. ______ No

35. What type of company provides your current recordkeeping and plan administrative services?

a. ______ Commercial Bank—Local

b. ______ Commercial Bank—National or Regional

c. ______ Insurance Company

d. ______ Benefit Consultant or Third-Party Administrator

e. ______ Mutual Fund Company

f. ______ Stockbrokerage Firm

g. ______ Trust Company

h. ______ Your Own Company/In-house

i. ______ Other (Please specify)

36. Using a 5 point rating scale where 5 means "very satisfied" and 1 means "not satisfied at all", how satisfied are you with the performance and service you receive from your recordkeeping provider?

5 4 3 2 1

37. Again, using a 5 point rating scale, where 5 means "very likely" and 1 means "not likely at all", how likely is it that you will change recordkeeping providers over the next 12 months?

5 4 3 2 1

If response 5 or 4—Ask question 38

If response 3, 2, or 1—Skip to question 39

38. What are the reasons for your desire to switch record-keeping providers?

____

____

39. Now I would like to read you a list of factors that might affect your choice of a service provider. Please tell me how important each is to you using a 5 point scale where 5 means "very important" and 1 means "not important at all."

Read list—Rotate and mark starting point

	Very Important				Not At All Important
a. Plan design consulting	5	4	3	2	1
b. Plan design flexibility	5	4	3	2	1
c. Range of investment alternatives	5	4	3	2	1
d. Assistance with employee enrollment	5	4	3	2	1
e. Customized employee communications materials	5	4	3	2	1
f. Recordkeeping capabilities	5	4	3	2	1
g. Plan expenses	5	4	3	2	1
h. Local service rep.	5	4	3	2	1
i. Local recordkeeper	5	4	3	2	1
j. Local investment manager	5	4	3	2	1
k. Daily valuation and transfer frequency	5	4	3	2	1
l. Availability of a loan provision	5	4	3	2	1
m. Plan sponsor on-line account inquiry	5	4	3	2	1
n. Toll-free number for plan sponsor use	5	4	3	2	1
o. Monthly reconciliation of financial statements	5	4	3	2	1
p. Full-loan administration	5	4	3	2	1
q. Plan monitoring to maintain compliance	5	4	3	2	1
r. Discrimination testing	5	4	3	2	1
s. Preparation of government reports	5	4	3	2	1
t. Investment performance	5	4	3	2	1
u. Frequency of participant statements	5	4	3	2	1
v. Quality of participant statements	5	4	3	2	1
w. Toll-free number for participant use	5	4	3	2	1
x. Telephone transfer of funds capability	5	4	3	2	1
y. Bilingual communications	5	4	3	2	1

40. I am going to read you a list of methods for communicating with employees. Please tell me whether you think each is very effective, somewhat effective or not at all effective for communicating with employees about the plan.

This question has two parts. How effective do you consider each item for communicating enrollment information to employees and how effective do you consider each for ongoing communications.

Read list—Rotate and mark starting point

How effective is this method:
for enrollment communications?,
for ongoing communications?

	Enrollment			Ongoing		
	Very	Somewhat	Not	Very	Somewhat	Not
a. Group meetings	__	__	__	__	__	__
b. Individual meetings	__	__	__	__	__	__
c. Slide presentations	__	__	__	__	__	__
d. Video presentations	__	__	__	__	__	__
e. Interactive PC illustrations	__	__	__	__	__	__
f. Brochures	__	__	__	__	__	__
g. Posters	__	__	__	__	__	__
h. Payroll stuffers	__	__	__	__	__	__
i. Company newsletter	__	__	__	__	__	__
j. Prospectus	__	__	__	__	__	__
k. Individual account statements	__	__	__	__	__	__
l. Toll-free access to a service representative	__	__	__	__	__	
m. Toll-free access to an automated voice response system	__	__	__	__	__	__
n. Investment newsletter	__	__	__	__	__	__

41. How many total employees does your company have?
______ (Fill in number)

42. What is the total annual sales of your company?
$ _____ (Fill in number)

43. What is the principal industry in which your company does business?

a. ______ Agriculture, Forestry, or Fisheries

b. ______ Construction

c. ______ Transportation

d. ______ Communications

e. ______ Manufacturing or Mining

f. ______ Wholesale or Retail

g. ______ Finance, Insurance, or Real Estate

h. ______ Services

i. ______ Public Utility

j. ______ Other (Please specify)

THANK YOU FOR YOUR COOPERATION

INVESTMENT
COMPANY
INSTITUTE
1401 H Street, NW, Suite 1200
Washington, DC 20005
202/326/5800