

The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans, 2013

MAY 2016



THE BRIGHTSCOPE/ICI DEFINED CONTRIBUTION PLAN PROFILE

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

This report in the *BrightScope/ICI Defined Contribution Plan Profile* series focuses on ERISA 403(b) plans in 2013. It first analyzes 403(b) plans in the Department of Labor 2013 Form 5500 Research File. Focus then shifts to more than 4,000 audited 403(b) plans in the BrightScope Defined Contribution Plan Database, which have at least \$1 million in plan assets and typically 100 participants or more. For analysis of private-sector 401(k) plans, see *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2013* (December 2015), available at www.ici.org/pdf/ppr_15_dcplan_profile_401k.pdf.

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Key Findings

- » **403(b) plans are tax-advantaged retirement savings plans offered by public educational institutions, nonprofit employers (e.g., research foundations, hospitals, private educational institutions), and church organizations.** The study of 403(b) plans is complicated because plan sponsors span public and private sectors; in addition, some plans are subject to the Employee Retirement Income Security Act of 1974 (ERISA) and some are not. ERISA 403(b) plan assets account for more than 40 percent of estimated total 403(b) plan assets. This report analyzes 403(b) plans covered by ERISA that also file audited Form 5500 reports (typically plans with 100 participants or more).
- » **Most large 403(b) plans offer employer contributions.** In 2013, four-fifths of the nearly 6,000 large ERISA 403(b) plans (those with \$1 million or more in plan assets and at least 100 participants) covering about seven out of 10 large ERISA 403(b) plan participants had employer contributions. Among larger ERISA 403(b) plans, employer contribution rates did not vary much by plan size.
- » **Larger 403(b) plans tended to be more likely to report participant loans outstanding.** Analysis of a sample of nearly 6,000 large ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets in 2013 finds that about half of ERISA 403(b) plans in the sample with \$1 million to \$100 million in plan assets had participant loans outstanding, rising to 71 percent of ERISA 403(b) plans with more than \$500 million to \$1 billion in plan assets, and falling to 54 percent of plans with more than \$1 billion in plan assets. Overall, about half of ERISA 403(b) plans in the sample had participant loans outstanding and nearly three-quarters of participants were in those plans in 2013.
- » **Larger 403(b) plans tend to be more likely to have employer contributions, participant loans outstanding, and automatic enrollment.** Analysis of a sample of nearly 6,000 ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets in 2013 finds that nearly one-fifth of plans in the sample with 5,000 participants or more had employer contributions, participant loans outstanding, and automatic enrollment, compared with fewer than 5 percent of plans in the sample with 100 to 499 participants. Overall, about 6 percent of ERISA 403(b) plans in the sample had reported evidence of all three activities.
- » **403(b) plans with automatic enrollment are more likely to have both employer contributions and participant loans outstanding than plans without automatic enrollment.** In 2013, more than half of ERISA 403(b) plans—in a sample of nearly 6,000 ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets—with automatic enrollment also had both employer contributions and participant loans outstanding, compared with fewer than two-fifths of plans in the sample without automatic enrollment.

- » **403(b) plans offer employees a wide variety of investment options.** In 2013, the average ERISA 403(b) plan offered 25 core investment options—of those, about 11 were equity funds, three were bond funds, and eight were target date funds. Nearly all plans offered at least one equity and bond fund, about 70 percent of plans offered a suite of target date funds, and 88 percent offered fixed annuities. Historically, 403(b) plans had few restrictions in their provider- and investment-option lineups, and if all investments (no matter how small) in ERISA 403(b) plans are counted, ERISA 403(b) plans have an average of 40 investment options. Investment options include mutual funds, variable annuities, and fixed annuities.
- » **Mutual funds were the most common investment vehicle in ERISA 403(b) plans.** Mutual funds held 49 percent of large ERISA 403(b) plan assets in 2013. Variable annuities held 28 percent of assets, and fixed annuities held 23 percent.
- » **Equity funds accounted for the largest share of assets in ERISA 403(b) plans.** In 2013, 46 percent of large ERISA 403(b) plan assets were held in equity funds, 18 percent was held in balanced funds (with most of that being held in target date funds), and 7 percent was held in bond funds. Fixed annuities accounted for 23 percent of ERISA 403(b) plan assets.
- » **Target date funds have become more common in ERISA 403(b) plans since 2009.** In 2009, about half of ERISA 403(b) plans included target date funds in their core investment lineups; this had risen to more than two-thirds of plans by 2013. Similarly, the percentage of participants who were offered core target date funds increased from 71 percent of participants to 79 percent between 2009 and 2013, and over the same period, the percentage of assets invested in target date funds increased from 7 percent to 15 percent.
- » **Index funds are widely available in ERISA 403(b) plans and represented about 17 percent of ERISA 403(b) plan assets in 2013.** Index funds held the greatest share of assets in the largest ERISA 403(b) plans: about one-fifth of the assets of ERISA 403(b) plans with more than \$500 million in plan assets were invested in index funds. Index funds, which tend to be equity index funds, generally have lower expense ratios than actively managed equity funds.
- » **The BrightScope measure of ERISA 403(b) total plan costs has decreased since 2009, looking at snapshots of 403(b) plan fees.** In 2013, the average total plan cost was 0.73 percent of assets, down from 0.82 percent in 2009. The average participant was in a lower-cost plan, with a total plan cost of 0.63 percent of assets in 2013 (down from 0.68 percent in 2009), while the average dollar was invested in a plan with a total plan cost of 0.53 percent in 2013 (down from 0.59 percent in 2009). BrightScope's measure of total plan cost includes administrative, advice, and other fees from Form 5500 filings, as well as asset-based investment management fees.
- » **Mutual fund expenses in ERISA 403(b) plans tend to be lower in larger plans and have trended down over time.** For example, the average asset-weighted expense ratio for domestic equity mutual funds was 0.67 percent for ERISA 403(b) plans with \$1 million to \$10 million in plan assets, compared with 0.45 percent for plans with more than \$1 billion in plan assets. Mutual fund expense ratios also have tended to decrease in ERISA 403(b) plans between 2009 and 2013. Mutual fund fees are the total expense ratio as a percentage of assets.

Introduction

The Role of 403(b) Plans in U.S. Retirement Planning

A 403(b) plan is an employer-sponsored defined contribution (DC) retirement plan that enables employees of public schools and universities, nonprofit employers, and church organizations to make tax-deferred contributions from their salaries to the plan.¹ Individual accounts in 403(b) plans can be set up as annuity contracts through insurance companies; custodial accounts, which can invest in mutual funds; or “retirement income accounts” set up for church employees, which can invest in annuities or mutual funds, among other things.² Employers also may make contributions into employee accounts. With \$0.9 trillion in assets at year-end 2015, 403(b) plans have grown to be a significant component of the U.S. retirement system (Exhibit I.1).

Section 403(b) was added to the Internal Revenue Code in 1958, and the original regulations governing the plans were issued in 1964.³ It was not until 2007 that a comprehensive revision of the regulations effectively began to transform 403(b) plans from primarily employee-controlled individual-focused tax-deferred accounts to more formally developed plans, clarifying and expanding plan sponsors’ responsibilities. The 2007 regulations, which were generally effective after January 1, 2009, required all 403(b) plans to have a written plan for the first time.⁴ The new

regulations imposed more stringent requirements for monitoring employee loans, hardship withdrawals, transfers, and other distributions.

These changes have made it more difficult for employers to maintain multi-vendor plans and have resulted in some plan sponsors doing comprehensive reviews of vendors and investment lineups with the aim of streamlining and monitoring their plans more closely.⁵ The new regulations also expanded the reporting requirements of 403(b) plans covered by the Employee Retirement Income Security Act of 1974 (ERISA).⁶

Typically, 403(b) plan participants direct the investment of their accounts. In a formal plan arrangement, the employer selects service providers and investment options, and participants choose from the lineup of options offered in the plan. If the plan falls under ERISA, the plan sponsor files a Form 5500 report with the U.S. Department of Labor (DOL), typically annually. In other cases, the employer acts more as a conduit to allowing service providers to offer their investment choices to employees, and the employee selects a service provider and the funds or annuities offered in that provider’s lineup.⁷ As an example of this latter approach, data for 2009 for the 403(b) plans for K-12 school employees in California and Texas indicate that each plan had more than 50 service providers and more than 3,000 investment options.⁸

ERISA 403(b) PLAN

In this report, the term *ERISA 403(b) plan* refers to 403(b) plans filing Form 5500 with the Department of Labor (DOL).

Generally, 403(b) plans are offered by 501(c)(3) nonprofit employers; public school systems and universities; public hospitals; and church organizations. Private-sector, nonchurch nonprofits that are covered by ERISA must file the Form 5500 with the DOL. The BrightScope Defined Contribution Plan Database contains information from the audited Form 5500 reports for these ERISA 403(b) plans, and this report presents analysis of those data.

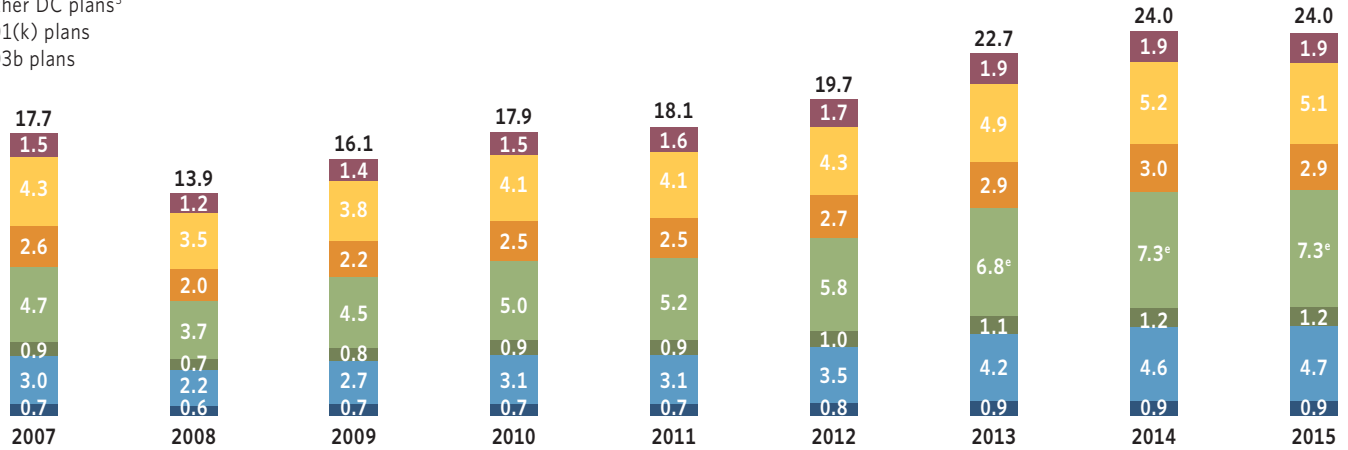
The ERISA 403(b) plan universe holds more than 40 percent of all 403(b) plan assets, and the large ERISA 403(b) plans analyzed in this report represent more than 90 percent of ERISA 403(b) plan universe assets.

EXHIBIT I.1

403(b) Plans Hold \$0.9 Trillion in Assets

Trillions of dollars; year-end, selected years

- Annuities¹
- Federal, state, and local government pension plans²
- Private defined benefit plans
- IRAs
- Other DC plans³
- 401(k) plans
- 403b plans



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

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

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

^e Data are estimated.

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

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

The study of 403(b) plans is complicated because there is not comprehensive reporting across the wide array of plan sponsors. Plan sponsors span public and private sectors; in addition, some plans are subject to ERISA—for which there is comprehensive Form 5500 reporting—and some are not. ERISA 403(b) plan assets account for more than 40 percent of estimated total 403(b) plan assets (Exhibit I.2).⁹

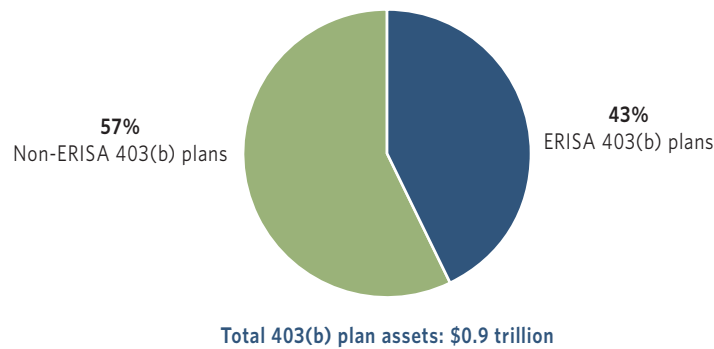
403(b) plan sponsors cover a wide range of business endeavors. ERISA 403(b) plan sponsors hail from 501(c)(3) nonprofit

organizations including educational services (e.g., private schools and private universities); hospitals; other healthcare; social assistance organizations; religious, grantmaking, civic, professional, and similar organizations; arts, entertainment, and recreation; and other (e.g., research institutions) (Exhibit I.3). Educational services account for 23 percent of ERISA 403(b) plans and 49 percent of assets, but hospitals account for 47 percent of ERISA 403(b) plan participants.

EXHIBIT I.2

ERISA 403(b) Plans Cover More Than 40 Percent of Total 403(b) Plan Assets

Percentage of total, 2013



Note: ERISA 403(b) plans are those that file Form 5500 with the Department of Labor.

Sources: Investment Company Institute, Federal Reserve Board, and BrightScope Defined Contribution Plan Database

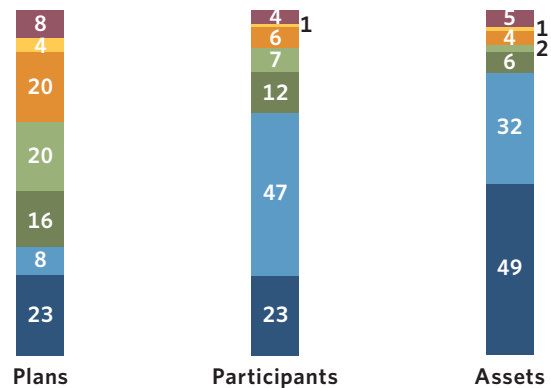
EXHIBIT I.3

ERISA 403(b) Plans Cover Many Different Nonprofits

Percentage of 403(b) plans, participants, or assets (2013)

Business activity

- Other
- Arts, entertainment, and recreation
- Religious, grantmaking, civic, professional, and similar organizations
- Social assistance
- Other healthcare
- Hospitals
- Educational services



Note: Business activity is based on Form 5500 codes for principal business activity. The exhibit includes the full Department of Labor 403(b) universe: 22,145 plans, 6.3 million participants, and \$373.9 billion in assets (see Exhibit I.4).

Source: BrightScope Defined Contribution Plan Database

The Department of Labor Form 5500 Research File

ERISA 403(b) plans are required to file Form 5500 with the DOL¹⁰ and those filings contain information including the number of plan participants, assets held in the plan, and other plan features. The DOL makes available not only individual Form 5500 reports, but also a comprehensive database for the universe of ERISA 403(b) plans, which researchers can analyze.¹¹ Small, medium, and large employers covering diverse workforces sponsor these plans, and they choose to design their plans to meet their unique circumstances. Chapter 1 of this report will discuss plan design with respect to automatic enrollment, employer contributions, and loan use across 403(b) plans.

The BrightScope Defined Contribution Plan Database

In order to better understand DC retirement plans, BrightScope has created the BrightScope Defined Contribution Plan Database, which is compiled by extracting information from audited reports filed annually by larger private-sector DC plans

with the DOL. Generally, plans with 100 participants or more are required to file an audited report with the DOL.¹² These reports generally contain information on the investments offered by the plan, assets in these investments, employer contribution structures, and design of automatic enrollment features. BrightScope also has included existing information from the Form 5500, which employer-sponsored pension plans falling under ERISA are required to file with the DOL annually.¹³ These filings contain important information about the plans, including the number of participants covered, total plan assets, and total contributions to and distributions from the plan. In addition, BrightScope has combined the audited data with outside data sources to incorporate the fees paid by 403(b), 401(k), and other DC plan participants associated with the investments in their plans. For chapters 2, 3, and 4 of this report, the additional detailed data from audited Form 5500 filings for more than 4,000 ERISA 403(b) plans are analyzed (Exhibit I.4). For 2013, the BrightScope Defined Contribution Plan Database contains audited information on nearly 19 percent of ERISA 403(b) plans, covering 82 percent of ERISA 403(b) plan participants and 92 percent of ERISA 403(b) plan assets (Exhibit I.5).

EXHIBIT I.4

Audited ERISA 403(b) Plans and the Universe of ERISA 403(b) Plans by Plan Assets

Distribution of 403(b) plans, participants, and assets by plan assets (2013)

Plan assets	BrightScope audited 403(b) filings			Department of Labor 403(b) universe		
	Plans	Participants Thousands	Assets Billions of dollars	Plans	Participants Thousands	Assets Billions of dollars
Less than \$1M	22	5.2	(*)	11,239	325.1	\$3.5
\$1M to \$10M	1,175	361.1	\$7.9	7,769	1,083.8	25.4
>\$10M to \$50M	1,855	1,017.6	42.7	2,041	1,049.8	45.7
>\$50M to \$100M	441	550.2	31.1	452	573.9	31.9
>\$100M to \$250M	372	946.0	57.6	375	947.2	58.0
>\$250M to \$500M	149	788.1	53.1	151	789.4	53.7
>\$500M to \$1B	63	553.6	44.7	64	555.7	45.3
More than \$1B	53	957.4	107.7	54	970.2	110.3
All plans	4,130	5,179.1	344.9	22,145	6,295.2	373.9

(*) = less than \$50 million

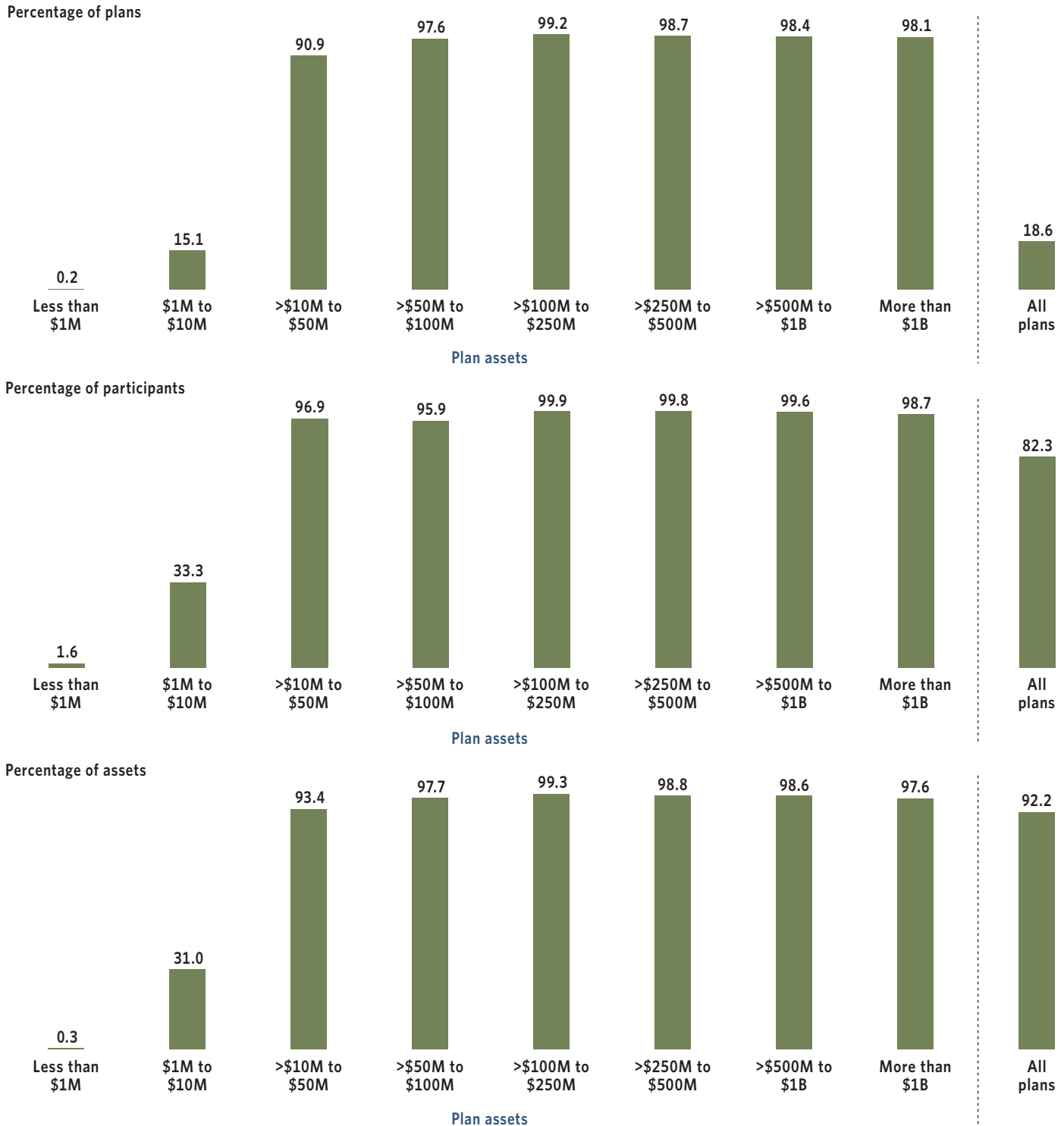
Note: Audited 403(b) filings generally include plans with 100 participants or more. Components may not add to the total because of rounding. Assets are fair market value at the year-end of the plan and include loans.

Source: BrightScope Defined Contribution Plan Database

EXHIBIT I.5

Audited ERISA 403(b) Plans' Share of the ERISA 403(b) Universe by Plan Assets

Share of Department of Labor 403(b) universe in audited 403(b) filings in the BrightScope database by plan assets, 2013



Note: The sample is 4,130 plans with 5.2 million participants and \$344.9 billion in assets, compared with the Department of Labor 403(b) universe of 22,145 plans with 6.3 million participants and \$373.9 billion in assets. Audited 403(b) filings generally include plans with 100 participants or more.

Source: BrightScope Defined Contribution Plan Database

Because 403(b) plans with fewer than 100 participants are generally not required to file the audited reports required of larger plans, the BrightScope Defined Contribution Plan Database does not contain many small plans. Though most ERISA 403(b) plans are small plans, most participants and assets are in larger plans. For example, although the sample analyzed contains information on more than 4,000, or nearly 19 percent, of the more than 22,000 plans in the DOL 403(b) universe, it contains \$344.9 billion, or 92 percent, of the \$373.9 billion in ERISA 403(b) plan assets (Exhibit I.4). Coverage rates in the database are higher for larger plans. Though the database contains audited information on only very few plans with less than \$1 million in plan assets, more than 90 percent of plans with more than \$10 million are included (Exhibit I.5). Coverage rates of ERISA 403(b) plans in the database grouped by number of plan participants tell a similar story, with larger plans much more likely to be included than smaller plans (Exhibit I.6).

Other detailed research on 403(b) plans has tended to focus on one provider¹⁴ or a particular specific group of plans,¹⁵ but the BrightScope database provides detailed insight into the wide cross section of ERISA 403(b) plans filing audited Form 5500 reports with the DOL. The BrightScope database also allows for analysis of the variation in mutual fund fees across different 403(b) plan sizes. In addition, by combining mutual fund expense data with expenses on other assets as well as other fees and expenses paid for the operation of 403(b) plans, BrightScope builds a total plan cost measure for many plans. This provides a comprehensive description of the range of fees and expenses incurred in 403(b) plans.

Research Agenda for This Report

This report focuses on plan year 2013, presenting data on how ERISA 403(b) plans are structured and the fees and expenses paid by 403(b) participants for these services. Chapter 1 reports information about automatic enrollment, employer contributions, and plan loans outstanding, primarily relying on the DOL 2013 Form 5500 Research File. In designing their 403(b) plans, employers may choose to automatically enroll participants.

The employer decides if and how much they will contribute to participants' 403(b) accounts. In addition, they may include a loan feature in the 403(b) plan. This chapter explores the combinations of these activities and how they vary across ERISA 403(b) plans.

Chapter 2 focuses on the structure of the 403(b) plans, analyzing the number and types of investment options that participants have to choose from, as well as the investment options that the participants do choose. 403(b) plan design has been trending toward selecting a "core" investment lineup—reducing redundancies by limiting the number of providers and streamlining investment offerings. This core investment lineup also improves plan sponsors' ability to monitor the plans. Thus, the main focus of this chapter is on investments likely reflecting current plan design—core investments, although plan participants may still be holding investments offered in the plan in the past. Because target date funds have continued to become more prevalent in 403(b) plans over the past several years, this chapter explores how often they are offered in plans, what portion of plan assets are dedicated to these funds, and how these measures have changed in recent years. This chapter also explores the role of index funds in ERISA 403(b) plan investing.

Chapter 3 analyzes fees paid to operate ERISA 403(b) plans. BrightScope has built a total plan cost measure for plans with sufficiently complete information. Because participants and assets tend to be concentrated in larger plans, BrightScope's total plan cost measure is analyzed for the average participant and the average dollar, as well as for the average plan. Then, because investment fees tend to be a significant portion of plan expenses and extensive information on mutual fund fees is available, the expense ratios of mutual funds in ERISA 403(b) plans are presented, with a special focus on the variation in mutual fund fees across plan size and different investment objectives (e.g., equity funds, balanced funds, bond funds, money market funds, and other funds).

EXHIBIT I.6

Audited ERISA 403(b) Plans and the Universe of ERISA 403(b) Plans by Number of Plan Participants*Distribution of 403(b) plans, participants, and assets by number of plan participants (2013)*

BrightScope audited 403(b) filings			
Number of plan participants	Plans	Participants Thousands	Assets Billions of dollars
Fewer than 100	210	14.8	\$2.3
100 to 499	2,301	585.7	49.6
500 to 999	697	488.2	33.3
1,000 to 4,999	706	1,512.7	100.5
5,000 to 9,999	126	877.5	57.3
10,000 or more	90	1,700.1	101.9
All plans	4,130	5,179.1	344.9

Department of Labor 403(b) universe			
Number of plan participants	Plans	Participants Thousands	Assets Billions of dollars
Fewer than 100	15,477	466.8	\$18.5
100 to 499	4,877	1,055.0	57.8
500 to 999	816	566.1	33.8
1,000 to 4,999	755	1,592.6	101.8
5,000 to 9,999	128	889.8	57.4
10,000 or more	92	1,724.9	104.6
All plans	22,145	6,295.2	373.9

Share of Department of Labor 403(b) universe in BrightScope audited 403(b) filings			
Number of plan participants	Plans Percent	Participants Percent	Assets Percent
Fewer than 100	1.4%	3.2%	12.3%
100 to 499	47.2	55.5	85.9
500 to 999	85.4	86.2	98.5
1,000 to 4,999	93.5	95.0	98.7
5,000 to 9,999	98.4	98.6	99.9
10,000 or more	97.8	98.6	97.4
All plans	18.6	82.3	92.2

Note: Audited 403(b) filings generally include plans with 100 participants or more. Components may not add to the total because of rounding.

Source: BrightScope Defined Contribution Plan Database

CHAPTER 1

ERISA 403(b) Plan Enrollment, Employer Contributions, and Use of Loans

When designing their 403(b) plans, employers make decisions regarding elements of plan design, including these key features: (1) automatic enrollment of employees into the plan at a given contribution rate to encourage participation; (2) provision of employer contributions (perhaps designing those contributions to encourage contribution of at least a certain percentage of salary from participants),¹⁶ eligibility for employer contributions, and vesting time frame; and (3) access to plan assets through participant loans.¹⁷ These plan design features have an impact on employee experience with 403(b) plans, and the thinking on plan design has evolved. In addition to these plan design features, plan sponsors also select the lineup of investment options¹⁸ offered in the plan (which will be discussed in chapter 2).

Employer Plan Design Choices

Although participants generally choose whether and how much to contribute to 403(b) plans and what assets to invest in, employers are responsible for the plan architecture in which those decisions are made. For example, employers pick the investment choices to offer in the plan, whether to automatically enroll employees in the plan, whether to encourage participant contributions through an employer match, and whether to allow access to account assets before retirement. This chapter focuses on three such plan design features: automatic enrollment, employer contributions, and loans. Prior work has tended to focus on the availability of individual plan design features in isolation.¹⁹ However, plans are designed by selecting a package of features in order to attract and retain qualified workers. In order to understand the choices that employers make, this chapter extends earlier research by using data primarily from the DOL Form 5500 Research File to focus on the plan feature combinations that employers choose when designing their ERISA 403(b) plans.²⁰

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

This chapter's analysis relies primarily on data from the Department of Labor 2013 Form 5500 Research File for plans with 100 participants or more and at least \$1 million in plan assets. However, due to incomplete reporting, the use of automatic enrollment by a plan is confirmed by either or both of two reports: (1) the reported plan feature on the 2013 Form 5500, and (2) the information on automatic enrollment collected from the 2012 audited filings in the BrightScope Defined Contribution Plan Database. Determining the presence and amount of employer contributions relies on Form 5500 reports of the income statement of the ERISA 403(b) plans. The availability of a loan feature is not reported, but it is possible to determine whether any participants have loans using the balance sheet item on the Form 5500 for participant loans outstanding. Although technically, the loan analysis captures loan use rather than loan offering, because the analysis was narrowed to plans with 100 participants or more and at least \$1 million in plan assets, it is likely that at least one participant in such plans offering loans would have a loan outstanding.

The Role of Automatic Enrollment

The adoption of automatic enrollment by many plan sponsors marks a significant innovation and change to ERISA 403(b) plan design. Employers can choose to automatically enroll employees in ERISA 403(b) plans, choosing a default initial contribution rate and a default investment, unless the employee indicates otherwise. The employee can then choose to opt out of the plan entirely, adjust the contribution rate or investment allocation, or leave the default options unchanged. Larger plans are more likely to report an automatic enrollment feature. The presence of automatic enrollment was determined if the plan sponsor indicated on their 2013 Form 5500 that the plan had automatic enrollment, or if the audited Form 5500 filing for 2012 indicated the plan had automatic enrollment.

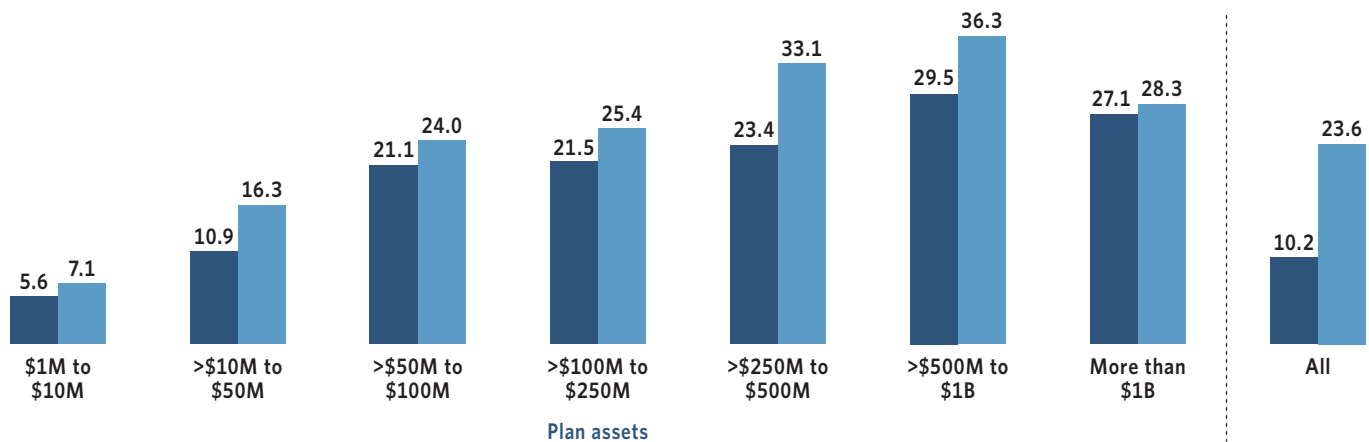
It was necessary to supplement the Form 5500 data with the BrightScope audited Form 5500 data because of incomplete reporting,²¹ and thus, analysis of automatic enrollment is limited to ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets. In 2013, about one-quarter of ERISA 403(b) plans in the sample with more than \$250 million in plan assets had automatic enrollment (Exhibit 1.1). Overall, 10 percent of ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets reported they automatically enrolled participants. Because larger plans are more likely to have automatic enrollment, overall, 24 percent of ERISA 403(b) plan participants in plans with 100 participants or more and at least \$1 million in plan assets were in plans with an automatic enrollment feature.

EXHIBIT 1.1

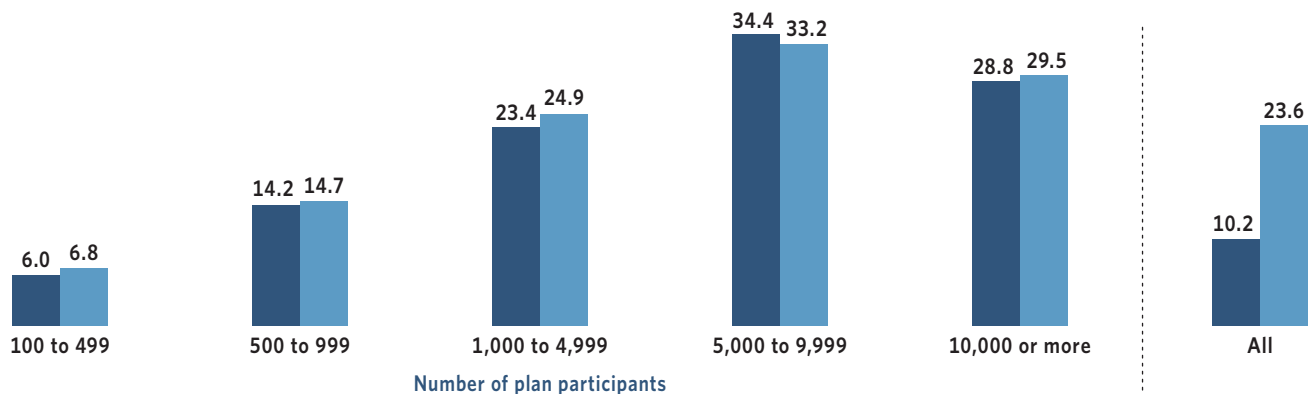
Larger ERISA 403(b) Plans Are More Likely to Automatically Enroll Participants

■ Plans
■ Participants

Percentage of ERISA 403(b) plans and percentage of participants in ERISA 403(b) plans with automatic enrollment by plan assets, 2013



Percentage of ERISA 403(b) plans and percentage of participants in ERISA 403(b) plans with automatic enrollment by number of plan participants, 2013



Note: The sample is 5,796 plans with \$342.1 billion in assets. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

The Role of Employer Contributions

Employers choose whether, how, and how much to contribute to their employees' 403(b) accounts. Employers can choose to make contributions to their employees' 403(b) plans, either by matching employee contributions or by making automatic

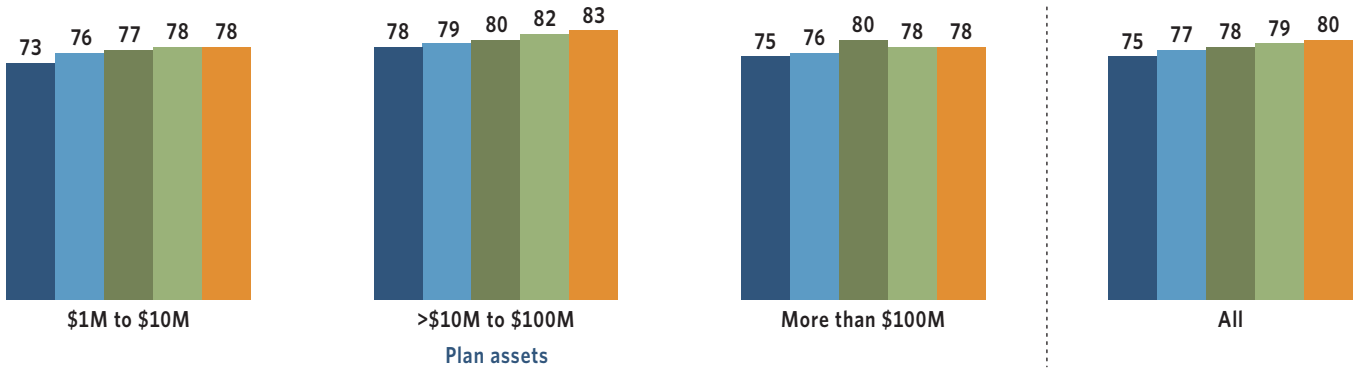
contributions without regard to employee contribution behavior. The DOL Form 5500 Research File data for ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets indicate that employers made contributions in 80 percent of these plans in 2013,²² which has increased from 75 percent in 2009 (Exhibit 1.2).

EXHIBIT 1.2

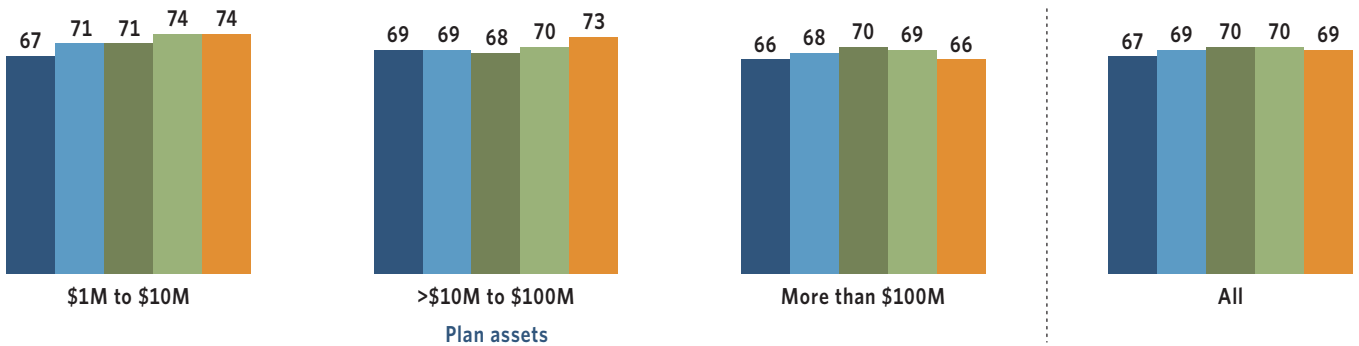
Employers Make Contributions in a Majority of ERISA 403(b) Plans



Percentage of ERISA 403(b) plans with employer contributions (by plan assets, plan year 2009-2013)



Percentage of participants in ERISA 403(b) plans with employer contributions (by plan assets, plan year 2009-2013)



Note: See Exhibit A.3 in the appendix for additional detail. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets.

Source: Investment Company Institute tabulations of U.S. Department of Labor Form 5500 Research File

Larger ERISA 403(b) plans were slightly less likely than smaller plans to provide employer contributions. For example, in 2013, more than 80 percent of ERISA 403(b) plans with 100 to 499 participants had employer contributions, compared with

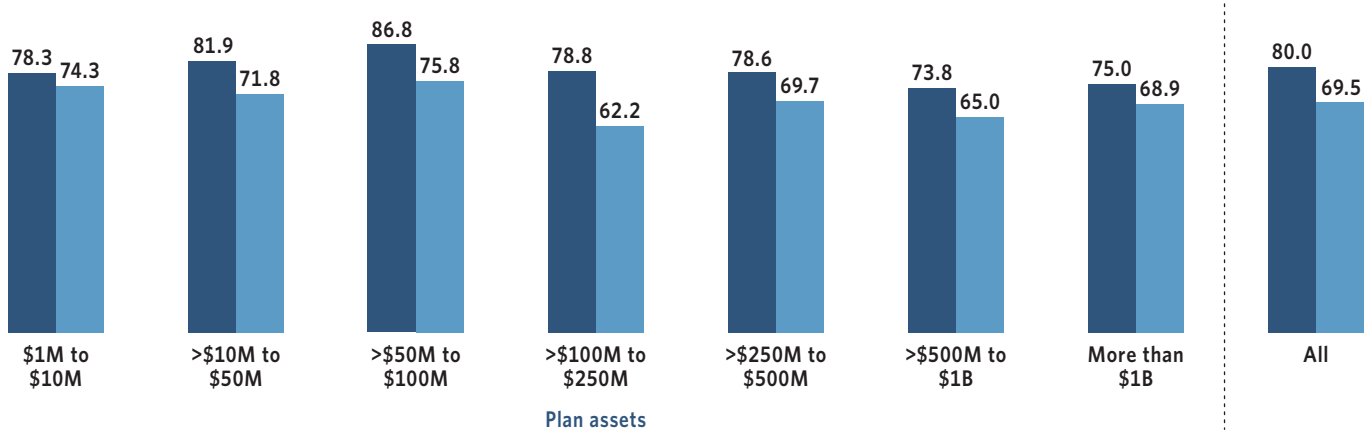
57 percent of ERISA 403(b) plans with 10,000 participants or more (Exhibit 1.3, lower panel). A broadly similar pattern is evident across ERISA 403(b) plans analyzed by plan assets (Exhibit 1.3, upper panel).

EXHIBIT 1.3

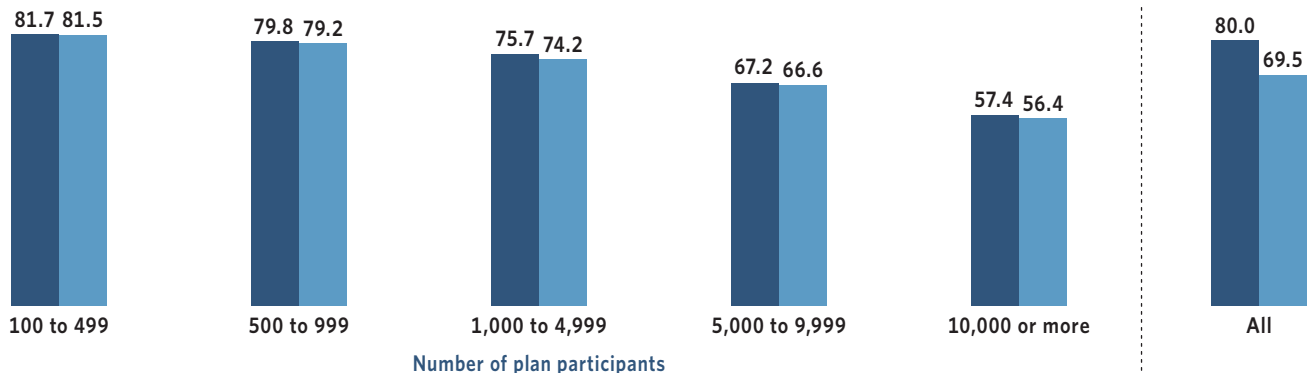
Many ERISA 403(b) Plans Offer Employer Contributions

■ Plans
■ Participants

Percentage of ERISA 403(b) plans and percentage of participants in ERISA 403(b) plans with employer contributions by plan assets, 2013



Percentage of ERISA 403(b) plans and percentage of participants in ERISA 403(b) plans with employer contributions by number of plan participants, 2013



Note: The sample is 5,796 plans with \$342.1 billion in assets. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets.

Source: Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

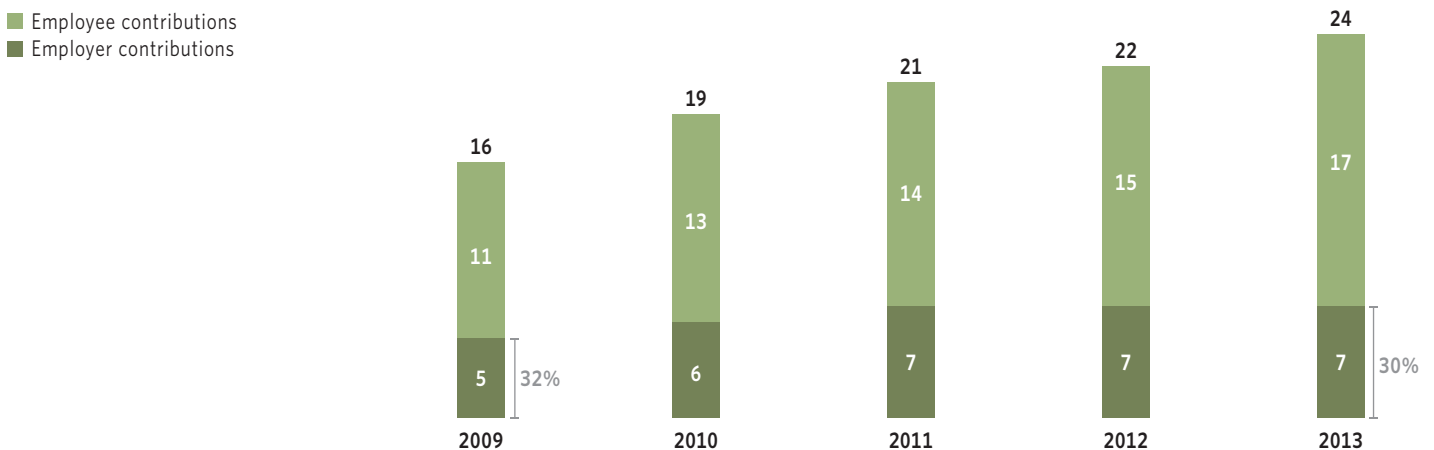
Employer contributions represent a significant portion of contributions flowing into ERISA 403(b) plans. In 2013, \$7 billion, or 30 percent of total contributions into ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets, were employer contributions (Exhibit 1.4). Employer contributions have represented a relatively steady share of contributions over the past several years; in 2009, 32 percent of contributions were employer contributions.

There is only slight variation in the share of employer contributions in total plan contributions by ERISA 403(b) plan size. Among ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets, the share of employer contributions in total plan contributions ranged from 26 percent for plans with more than \$500 million to \$1 billion in plan assets to 33 percent for plans with more than \$1 billion (Exhibit 1.5).

EXHIBIT 1.4

Employers Make Significant Contributions to ERISA 403(b) Plans

Billions of dollars, plan year 2009-2013



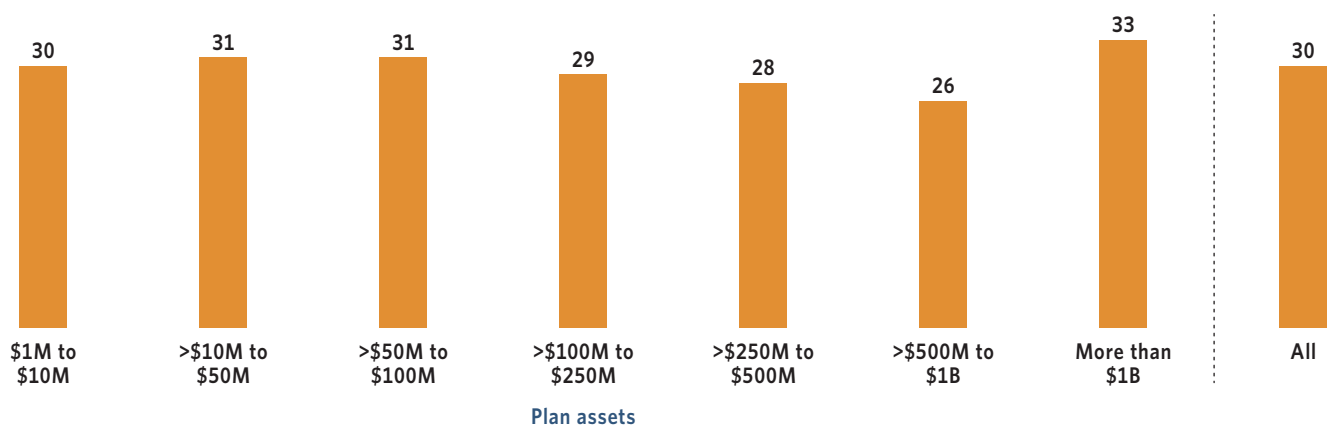
Note: The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets. Employee contributions contain a small amount of contributions from others, which includes rollovers into 403(b) plans. Employer contributions include a de minimis amount of noncash contributions.

Source: Investment Company Institute tabulations of U.S. Department of Labor Form 5500 Research File

EXHIBIT 1.5

Employer Contributions' Share of Total Contributions in ERISA 403(b) Plans

Percentage of total ERISA 403(b) plan contributions by plan assets, 2013



Note: The sample is 5,796 plans with \$342.1 billion in assets. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets. Employee contributions contain a small amount of contributions from others, which includes rollovers into 403(b) plans. Employer contributions include a de minimis amount of noncash contributions.

Source: Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

Timing of Employer Contributions

If employers offer contributions to employees, they can choose to impose a minimum service requirement before employees are eligible to receive the contributions. Employers also can choose to implement a vesting schedule, where employees forfeit some or all of the employer contributions in their accounts if they leave the employer before a specified length of time. (Employees are always 100 percent vested in their own contributions.) The most common combination of contribution eligibility and vesting for plans with employer contributions was for employees to receive matching contributions after a year of eligibility, but to be immediately vested in those contributions: 36 percent of ERISA 403(b) plans in the sample of plans providing this information (Exhibit 1.6). Overall, employees in 63 percent of ERISA 403(b) plans were immediately vested, and 62 percent of plans made employees eligible for employer contributions after one year.

The Use of Participant Loans

Employers also may consider whether to allow access to 403(b) account assets before retirement through a loan feature.²³ In plans that offer loans, participants can take a loan from their own accounts, subject to plan limits. Participants must then repay their loans, plus interest, into their accounts within a set period of time.²⁴ Although participants typically must pay any loans back shortly after leaving their employers, which can lead to defaults,²⁵ the existence of a loan feature may encourage workers to sign up for the plan in the first place, or to defer more of their salary into the plan.²⁶

It is possible to determine if a participant has taken out a loan by gathering data on participant loans outstanding, which are part of the balance sheet reporting on the Form 5500. Because it is more likely that at least one participant has a loan outstanding in larger plans than in smaller plans, the loan-use analysis is limited to ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets.²⁷

EXHIBIT 1.6

Eligibility and Vesting in ERISA 403(b) Plans

Years until fully vested by months until eligible for employer contribution among plans with audited 403(b) filings in the BrightScope database, percentage of plans (2013)

Months until eligible for employer contribution	Years until fully vested							Total
	Zero	One	Two	Three	Four	Five	Six	
Immediate	6.0	0.3	0.5	1.5	0.2	0.4	0.5	9.4
>0 to <12	6.7	0.2	0.0	2.5	0.7	1.6	1.3	13.0
12	35.5	0.3	1.1	8.7	1.8	10.0	4.8	62.2
More than 12	14.9	0.0	0.2	0.4	0.0	0.0	0.0	15.5
Total	63.2	0.8	1.9	13.0	2.6	12.0	6.6	100.0

Note: The sample is 1,298 plans with information on eligibility and vesting. Audited 403(b) filings generally include plans with 100 participants or more. Row and column percentages may not add to the totals because of rounding.

Source: BrightScope Defined Contribution Plan Database

Larger ERISA 403(b) plans are more likely to have loans outstanding than smaller ERISA 403(b) plans. In 2013, about half of ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets had participant loans outstanding (Exhibit 1.7). More than 75 percent of ERISA 403(b) plans in the sample with 1,000 participants or more had participant loans outstanding, compared with about 42 percent of ERISA 403(b) plans with 100 to 499 participants. Because larger ERISA 403(b) plans in the sample were more likely to have participant loans outstanding, nearly three-quarters of ERISA 403(b)

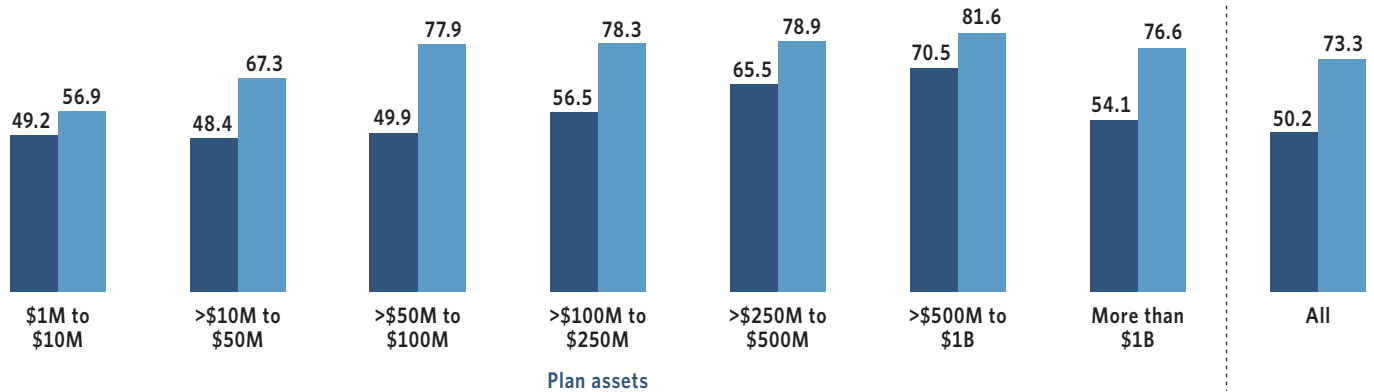
plan participants in the sample were in plans that had loans outstanding.²⁸ Similarly, larger ERISA 403(b) plans as measured by plan assets tended to be more likely to have participant loans outstanding, rising from 49 percent of plans with \$1 million to \$10 million in plan assets to 71 percent of plans with more than \$500 million to \$1 billion, and falling to 54 percent of plans with more than \$1 billion. Even though loans are widely available, the amounts borrowed represent less than 1 percent of ERISA 403(b) plan assets.²⁹

EXHIBIT 1.7

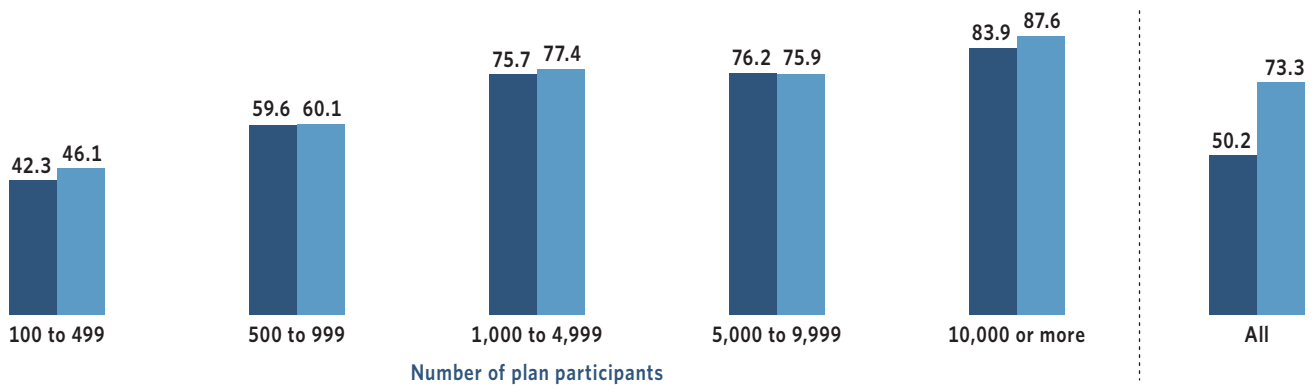
Many ERISA 403(b) Plans Have Participant Loans Outstanding

■ Plans
■ Participants

Percentage of ERISA 403(b) plans and percentage of participants in ERISA 403(b) plans with participant loans outstanding by plan assets, 2013



Percentage of ERISA 403(b) plans and percentage of participants in ERISA 403(b) plans with participant loans outstanding by number of plan participants, 2013



Note: The sample is 5,796 plans with \$342.1 billion in assets. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2013. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets.

Source: Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

ERISA 403(b) Plan Activity Combinations

When designing their compensation structures, employers choose a combination of wages and benefits to attract qualified workers. Similarly, employers design 403(b) plans by selecting a combination of features that their employees are likely to value. Most of the sample of nearly 6,000 ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets included at least one of the three activities explored in this research. Across the sample of ERISA 403(b) plans in 2013, only 9 percent did not offer employer contributions, did not automatically enroll employees, and did not have participant loans outstanding (Exhibit 1.8). The most prevalent configuration of plan activities was employer contributions only, which was observed in 37 percent of ERISA 403(b) plans

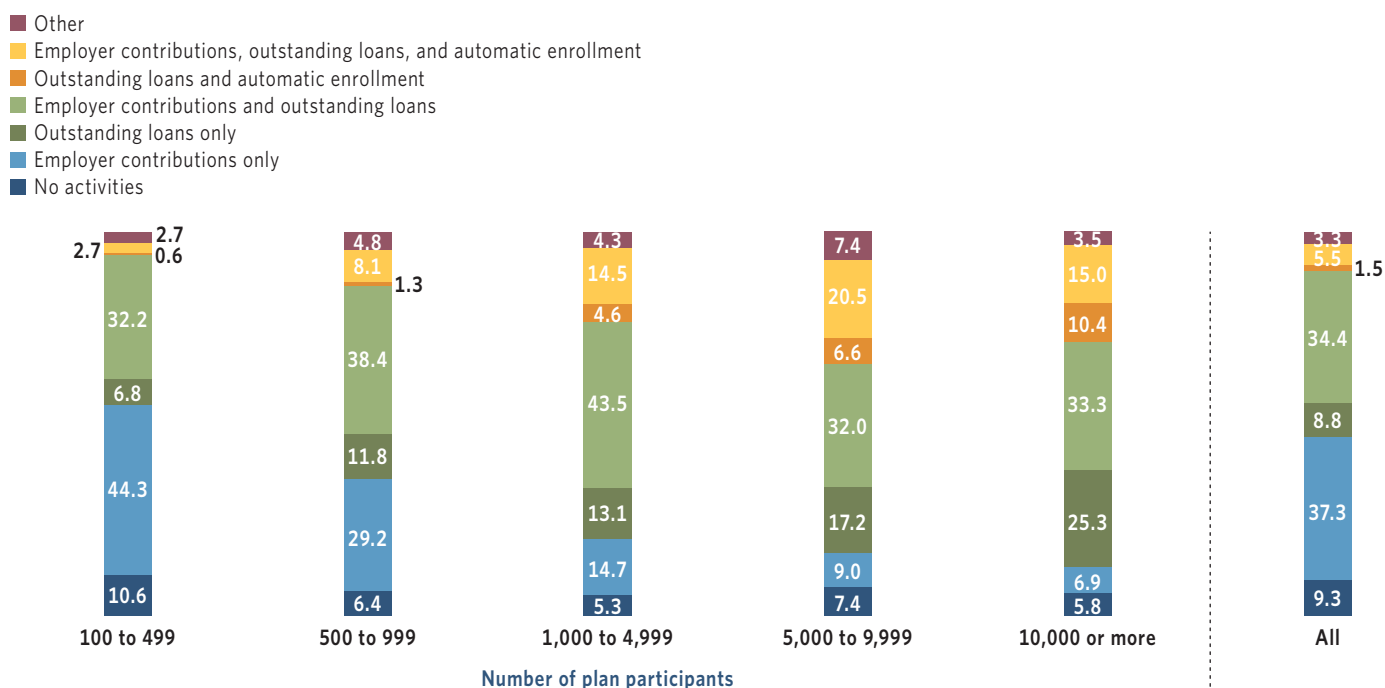
in the sample. Another 34 percent of ERISA 403(b) plans had employer contributions along with participant loans outstanding, and 9 percent had outstanding loans only. The remaining ERISA 403(b) plans in the sample had other configurations of the three features.

Larger ERISA 403(b) plans tend to be more likely to have employer contributions, participant loans outstanding, and automatic enrollment. Fifteen percent of ERISA 403(b) plans in the sample with 10,000 participants or more had employer contributions, participant loans outstanding, and automatic enrollment, compared with about 3 percent of plans in the sample with 100 to 499 participants. Overall, about 6 percent of ERISA 403(b) plans in the sample had reported evidence of all three activities.

EXHIBIT 1.8

ERISA 403(b) Plans with Selected Plan Activity Combinations

Percentage of ERISA 403(b) plans with selected plan activity combinations by number of plan participants, 2013



Note: The sample is 5,796 plans with \$342.1 billion in assets. Plan activities include employer contributions, automatic enrollment, and participant loans outstanding. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2013. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets. Components may not add to 100 percent because of rounding. For additional detail and analysis by plan assets, see Exhibit A.1 in the appendix.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

ERISA 403(b) Plan Activities by Presence of Automatic Enrollment

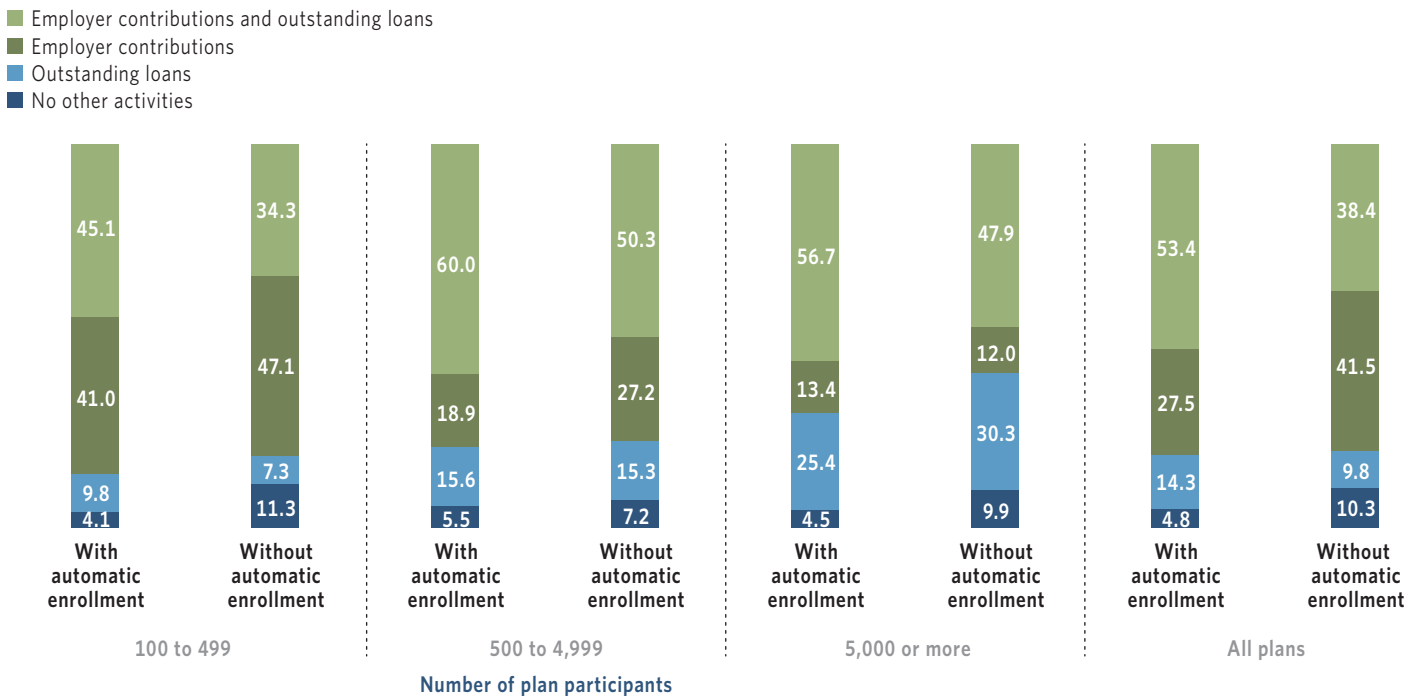
Another way to analyze the plan design combinations that employers choose is to look at how remaining plan design features vary while controlling for one feature. This section discusses employer contributions and outstanding participant loans, comparing their incidence in ERISA 403(b) plans with and without automatic enrollment. The data are explored this way because, for example, the participation results achieved with automatic enrollment may also be reflecting the influence of other plan features. The sample analyzed is nearly 6,000 ERISA 403(b) plans with 100 participants or more and at least \$1 million in plan assets.

Plans with automatic enrollment are more likely to have both employer contributions and participant loans outstanding than plans without automatic enrollment. In 2013, 53 percent of ERISA 403(b) plans in the sample with automatic enrollment had employer contributions and outstanding participant loans, compared with 38 percent of plans in the sample without automatic enrollment (Exhibit 1.9). Nevertheless, employer contributions are similarly likely in ERISA 403(b) plans with automatic enrollment: in 2013, 81 percent of ERISA 403(b) plans in the sample with automatic enrollment had employer contributions, compared with 80 percent of plans without automatic enrollment. A similar pattern is observed across plan sizes, although plans with more participants tend to be more likely to have employer contributions and outstanding participant loans whether or not they also automatically enroll participants.

EXHIBIT 1.9

ERISA 403(b) Plans with Automatic Enrollment Are More Likely to Have Outstanding Loans

Percentage of ERISA 403(b) plans with selected plan activity combinations by automatic enrollment and number of plan participants, 2013



Note: The sample is 5,796 plans with \$342.1 billion in assets. Plan activities include employer contributions and participant loans outstanding. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2013. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets. Components may not add to 100 percent because of rounding.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

CHAPTER 2

ERISA 403(b) Plan Investment Menu Design

Employers in the nonprofit sector choose whether or not to offer 403(b) plans to their employees, and if so, how to design their plans to attract and retain qualified workers.³⁰ These design choices include the number and types of investment options in the plan, whether to contribute to the plan and whether to incentivize employees to contribute by matching their contributions, and whether and how to automatically enroll new employees into the plan. This chapter explores the investment menus that employers have chosen for 403(b) plans and how investments vary by plan size in the BrightScope Defined Contribution Plan Database. The BrightScope Defined Contribution Plan Database contains detailed information from audited Form 5500 reports for ERISA 403(b) plans with \$1 million or more in plan assets and typically 100 participants or more.

Number and Types of Investment Options

Historically, the investment menus of 403(b) plans have included multiple providers, each offering their full complements of mutual funds or annuity products. As regulations have changed to impose a stronger plan structure and to encourage plan sponsors to take more responsibility in selecting an appropriate investment lineup,³¹ the number of investment options on the core menu has declined. Brokerage windows providing access to mutual funds and annuity products may still be offered, in some cases to keep legacy investment options available while providing a simpler choice structure for participants. To reflect this evolution, this chapter will primarily focus on what appear to be core offerings in ERISA 403(b) plans.

Analysis of all investments held in ERISA 403(b) plans with \$1 million or more in plan assets and typically 100 participants or more in the BrightScope Defined Contribution Plan Database finds that participants had 40 investment options, on average, in 2013 (Exhibit 2.1). Larger ERISA 403(b) plans tended to offer more investment options, on average, than smaller plans. For example, among plans with \$1 million to \$10 million in plan assets, the average number of investments offered was 32; that rose to 136 investment options for plans with more than \$1 billion in plan assets. Because plans may offer suites of target date funds with options tailored to multiple anticipated retirement dates, this report also includes an adjusted number that counts a suite of target date funds as one investment option. On average, ERISA 403(b) plans offered 33 options according to this target date fund-adjusted number, ranging from 27 investment options for plans with \$1 million to \$10 million in plan assets to 118 investment options for plans with more than \$1 billion in plan assets. Many of these investment options in ERISA 403(b) plans hold a small share of total plan assets.

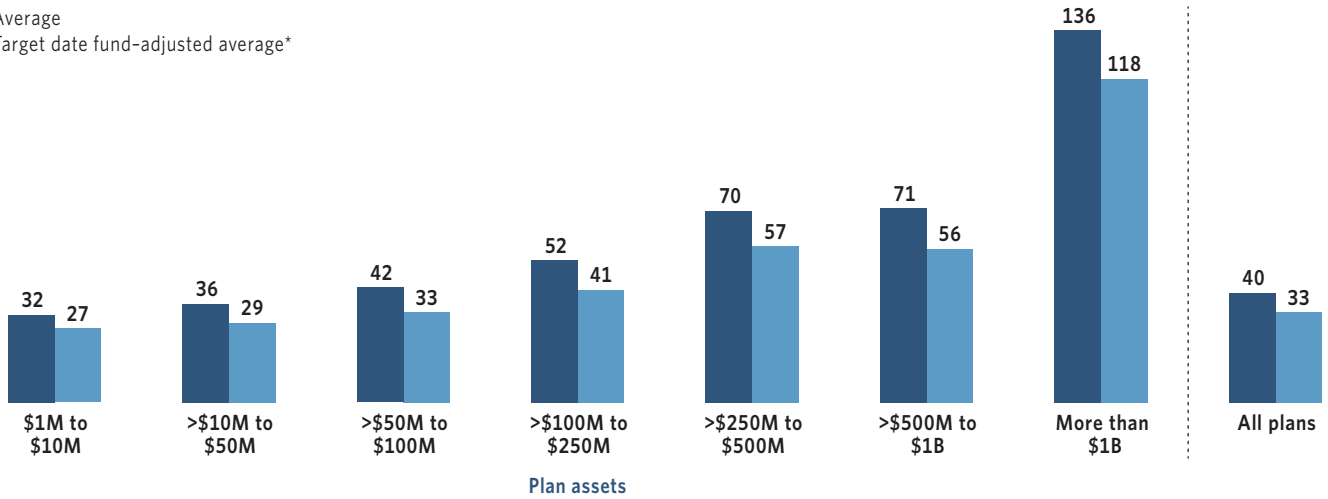
EXHIBIT 2.1

Number of Investment Options in ERISA 403(b) Plans

Average number of investment options among plans with audited 403(b) filings in the BrightScope database by plan assets, 2013

Number of investment options

■ Average
■ Target date fund-adjusted average*



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

Note: The sample is 4,108 plans with \$344.9 billion in assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Investment options include mutual fund, variable annuity, and fixed annuity options. In this exhibit, all investments held in a plan are counted.

Source: BrightScope Defined Contribution Plan Database

Historically, 403(b) plans have tended to have large lists of investment options, often including multiple providers' platforms. As regulations governing 403(b) plans changed, curated lists of investment options have become more common. Legacy options may present a skewed picture of the investment options that participants have to choose from. This report primarily focuses on core investment options—those that hold at least 0.5 percent of total plan assets—to correct for this. The average number of core investment options was 25 among ERISA 403(b) plans with \$1 million or more in plan assets

and typically 100 participants or more in 2013 (Exhibit 2.2). Just as with all investment options, larger ERISA 403(b) plans tended to offer more core investment options. For example, the average number of core investment options offered by plans with \$1 million to \$10 million in plan assets was 23, compared with 41 core investment options among plans with more than \$1 billion. Counting a suite of target date funds as one investment option, ERISA 403(b) plans offered 18 core investment options, on average, in 2013.

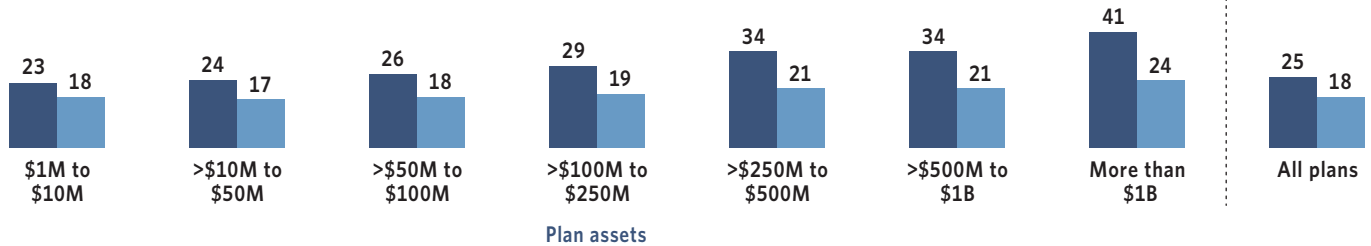
EXHIBIT 2.2

Number of Core Investment Options in ERISA 403(b) Plans

Average number of core investment options among plans with audited 403(b) filings in the BrightScope database by plan assets, 2013

Number of core investment options

- Average
- Target date fund-adjusted average*



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

Note: The sample is 4,108 plans with \$344.9 billion in assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Investment options include mutual fund, variable annuity, and fixed annuity options. Core investment options are those that have at least 0.5 percent of plan assets. The funds in a target date fund suite are included if at least 0.5 percent of plan assets are invested in that suite.

Source: BrightScope Defined Contribution Plan Database

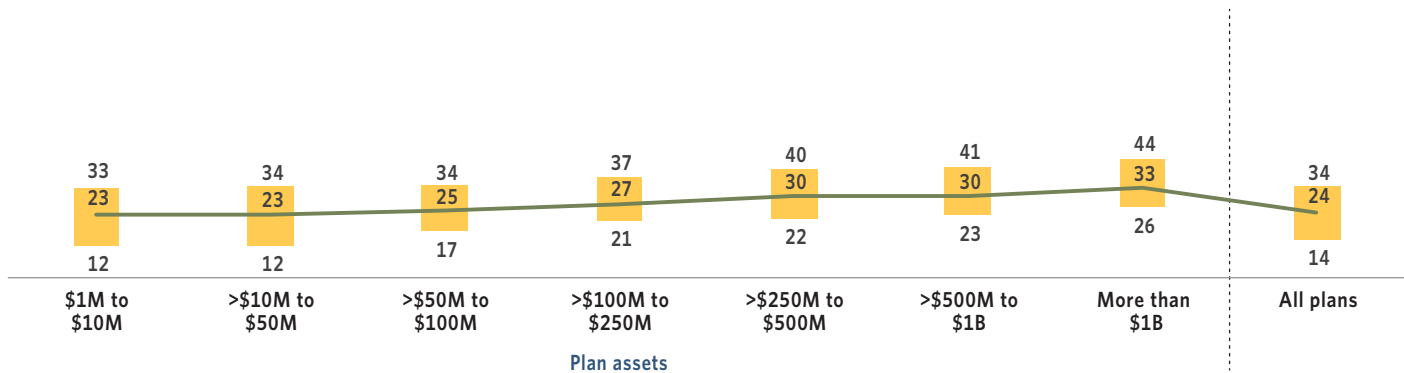
In addition to the variation in number of core investments offered by plan size, there is considerable variation between plans. For example, 10 percent of ERISA 403(b) plans offer 14 or fewer core investment options and plans at the 90th percentile offer 34 core options (Exhibit 2.3, upper panel).

Plans show considerable variability even with a target date fund-adjusted measure, ranging from 11 core options to 28 core options at the 10th and 90th percentiles (Exhibit 2.3, lower panel).

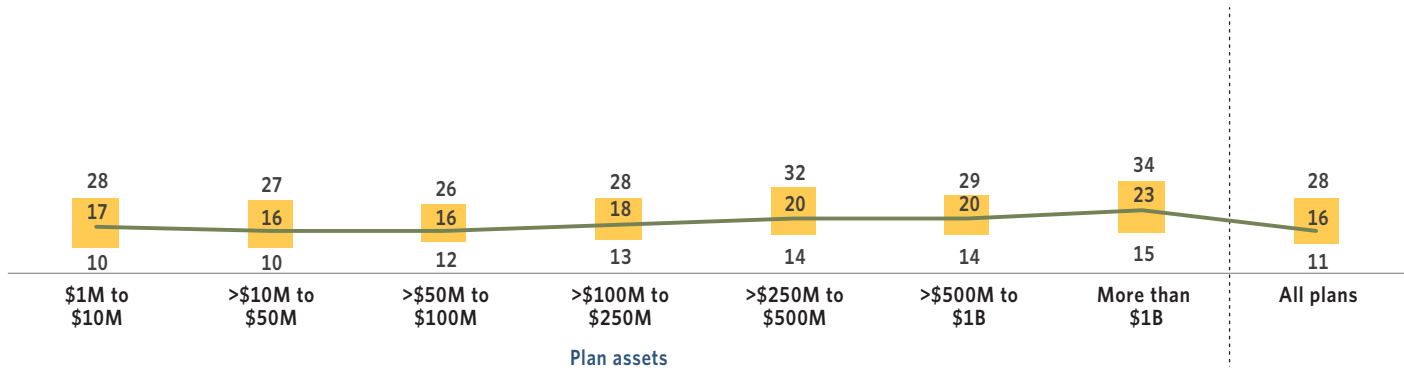
EXHIBIT 2.3

Distribution of Core Investment Options in ERISA 403(b) Plans

10th percentile, median, and 90th percentile number of core investment options among plans with audited 403(b) filings in the BrightScope database by plan assets (2013)



10th percentile, median, and 90th percentile number of target date fund-adjusted* core investment options among plans with audited 403(b) filings in the BrightScope database by plan assets (2013)



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

Note: The sample is 4,108 plans with \$344.9 billion in assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Investment options include mutual fund, variable annuity, and fixed annuity options. Core investment options are those that have at least 0.5 percent of plan assets. The funds in a target date suite are included if at least 0.5 percent of plan assets are invested in that suite.

Source: BrightScope Defined Contribution Plan Database

Domestic equity funds, international equity funds, and domestic bond funds were the most likely core investment options to be offered in ERISA 403(b) plans in 2013. Nearly all plans offered these types of funds, which can be mutual funds or variable annuities (Exhibit 2.4). In addition, nearly seven in 10 plans offered money funds in their core investment lineups. Forty-six percent of plans offered non-target date balanced funds, and more than two-thirds of plans offered target date funds in their core investment lineups. Eighty-eight percent of plans offered fixed annuities, and 63 percent of ERISA 403(b) plans had other core investments. About 10 percent of ERISA 403(b) plans had international bond funds in their core investment lineups.

Most core investment types showed little variation in their availability by plan size. However, larger ERISA 403(b) plans were more likely to offer other investments, fixed annuities, or target date funds in their core investment lineups. For example, 47 percent of the ERISA 403(b) plans with \$1 million to \$10 million in plan assets offered other investments in their core investment lineups, compared with 74 percent of plans with more than \$1 billion (Exhibit 2.4). Similarly, 81 percent of plans with \$1 million to \$10 million in plan assets offered fixed annuities in 2013, compared with more than 90 percent of plans with more than \$50 million.

EXHIBIT 2.4

Equity and Bond Funds Are the Most Common Core Investment Options in ERISA 403(b) Plans

Percentage of plans with audited 403(b) filings in the BrightScope database offering the specified core investment option by plan assets, 2013

Plan assets	Equity funds		Balanced funds		Bond funds			Money funds	Fixed annuities	Other ²	Memo: index funds
	Domestic	International	Target date funds ¹	Non-target date balanced funds	Domestic	International					
\$1M to \$10M	98.8	95.2	64.4	59.8	94.0	12.1	57.1	81.4	47.0	88.6	
>\$10M to \$50M	99.6	98.4	65.2	41.3	97.7	9.6	70.3	88.6	68.6	96.4	
>\$50M to \$100M	99.8	98.2	73.5	33.3	98.9	9.8	72.8	92.7	71.2	97.7	
>\$100M to \$250M	99.7	99.2	82.3	43.8	99.5	5.6	75.0	94.1	69.1	99.7	
>\$250M to \$500M	99.3	99.3	85.9	41.6	98.7	6.0	83.2	91.9	72.5	98.7	
>\$500M to \$1B	100.0	98.4	87.3	47.6	98.4	6.3	85.7	92.1	66.7	100.0	
More than \$1B	100.0	98.1	96.2	64.2	98.1	7.5	88.7	94.3	73.6	98.1	
All plans	99.4	97.6	68.9	46.4	97.0	9.8	68.2	87.7	62.9	94.8	

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

² Other includes commodity funds, real estate funds, and brokerage accounts.

Note: The sample is 4,108 plans with \$344.9 billion in assets. Participant loans are excluded. Funds include mutual funds and variable annuities. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Investment options include mutual fund, variable annuity, and fixed annuity options. Core investment options are those that have at least 0.5 percent of plan assets. The funds in a target date fund suite are included if at least 0.5 percent of plan assets are invested in that suite.

Source: BrightScope Defined Contribution Plan Database

Equity funds were the most common core investment option in 2013, with ERISA 403(b) plans offering 11 funds on average, of which nine were domestic equity funds and two were international equity funds (Exhibit 2.5). Larger plans tended to offer more core equity funds—plans with \$1 million to \$10 million in plan assets offered 11 core equity funds compared with 14 offered by plans with more than \$1 billion in plan assets.

The next most common category in ERISA 403(b) core investment lineups in 2013 was balanced funds, with nine funds offered on average, most of which (eight funds) were target date funds (Exhibit 2.5). Larger 403(b) plans tended to have more core target date funds for two reasons. First, larger plans tended to be more likely to offer core target date funds (Exhibit 2.4). Second, larger plans offered more funds as part of their core target date fund suites on average. For example, among ERISA 403(b) plans with more than \$1 billion in plan assets, the

average core target date fund suite included around 15 funds (19.0 target date funds divided by 1.3 target date fund suites) (Exhibit 2.5). For plans with \$1 million to \$10 million in plan assets, the average core target date fund suite included around eight funds (5.4 target date funds divided by 0.7 target date fund suites). On average, there were about 11 target date funds (7.6 target date funds divided by 0.7 target date fund suites) in a core suite across all plans in the sample.

In 2013, ERISA 403(b) plans included about three bond funds (mostly domestic) in their core investment lineups, on average (Exhibit 2.5). Plans also offered core money funds, fixed annuities, and other options. These investments were often included as the single choice in that investment type. Larger plans tended to be somewhat more likely to offer these options in their core lineups (Exhibit 2.4).

EXHIBIT 2.5

Average Number of Core Investment Options by Type of Investment in ERISA 403(b) Plans

Average number of core investment options among plans with audited 403(b) filings in the BrightScope database by plan assets, 2013

Plan assets	Average number of core investment options									Memo:		
	Equity funds		Balanced funds		Bond funds			Money funds	Fixed annuities	Other ²	Index funds	Adjusted target date fund ³
	Domestic	International	Target date funds ¹	Non-target date balanced funds	Domestic	International						
\$1M to \$10M	8.6	2.2	5.4	1.6	2.3	0.1	0.6	1.1	0.6	2.9	0.7	
>\$10M to \$50M	8.3	2.2	7.1	0.9	2.4	0.1	0.8	1.2	0.9	3.5	0.7	
>\$50M to \$100M	8.8	2.3	9.1	0.6	2.4	0.1	0.8	1.3	0.9	3.7	0.8	
>\$100M to \$250M	9.3	2.5	11.0	0.8	2.5	0.1	0.9	1.3	1.0	4.8	0.9	
>\$250M to \$500M	10.5	2.6	13.5	0.8	2.7	0.1	1.1	1.4	1.2	6.2	1.0	
>\$500M to \$1B	10.0	2.4	14.5	0.9	2.8	0.1	1.2	1.2	1.2	8.0	1.0	
More than \$1B	11.3	2.7	19.0	1.1	3.0	0.1	1.5	1.3	1.3	8.5	1.3	
All plans	8.7	2.3	7.6	1.0	2.4	0.1	0.8	1.2	0.9	3.7	0.7	

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

² Other includes commodity funds, real estate funds, and brokerage accounts, but each separate option is counted as a unique investment option.

³ This measure counts an entire suite of target date funds as one investment option for plans offering target date funds.

Note: The sample is 4,108 plans with \$344.9 billion in assets. Participant loans are excluded. Funds include mutual funds and variable annuities. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Investment options include mutual fund, variable annuity, and fixed annuity options. Core investment options are those that have at least 0.5 percent of plan assets. The funds in a target date fund suite are included if at least 0.5 percent of plan assets are invested in that suite. Exhibit A.4 in the appendix shows the average number of a given core investment option offered by plans that have at least one of that investment option.

Source: BrightScope Defined Contribution Plan Database

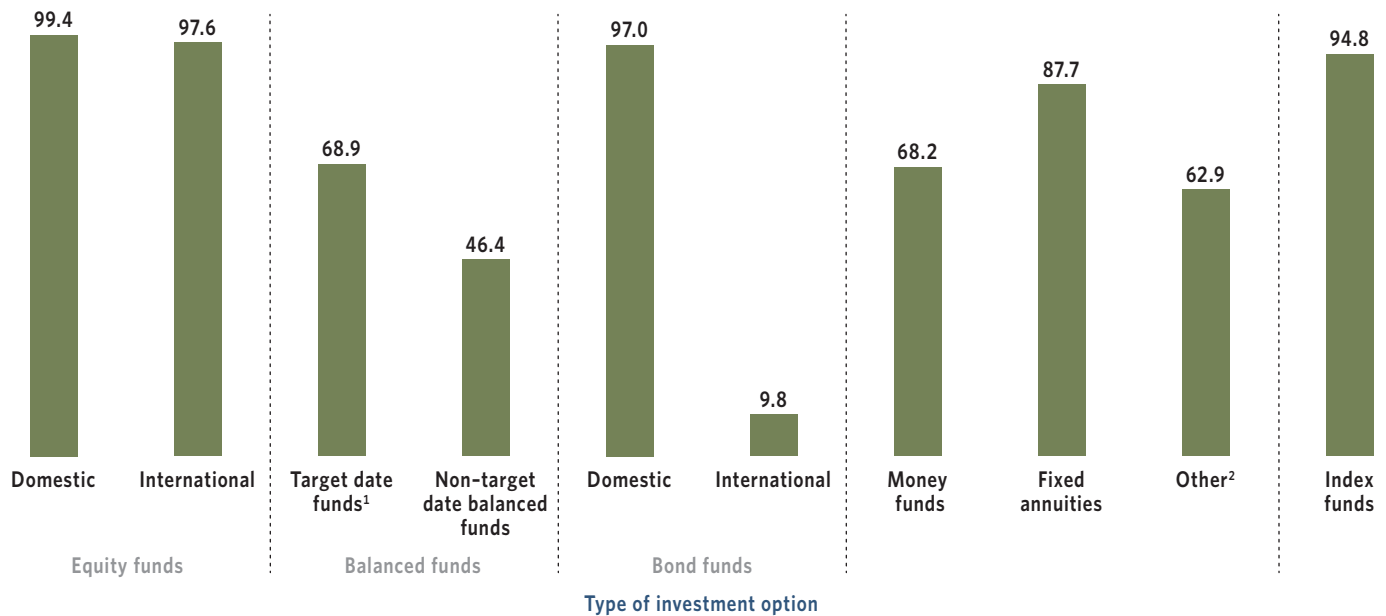
It is instructive to consider availability and then the number of core investment options by investment category contingent on that investment category being offered in the 403(b) plan's core lineup. For example, domestic equity funds are not only widely available, with 99 percent of ERISA 403(b) plans including them

in their core investment lineups in 2013 (Exhibit 2.6, upper panel), but also, when they are an option, multiple domestic equity funds—nine on average—are offered (Exhibit 2.6, lower panel).

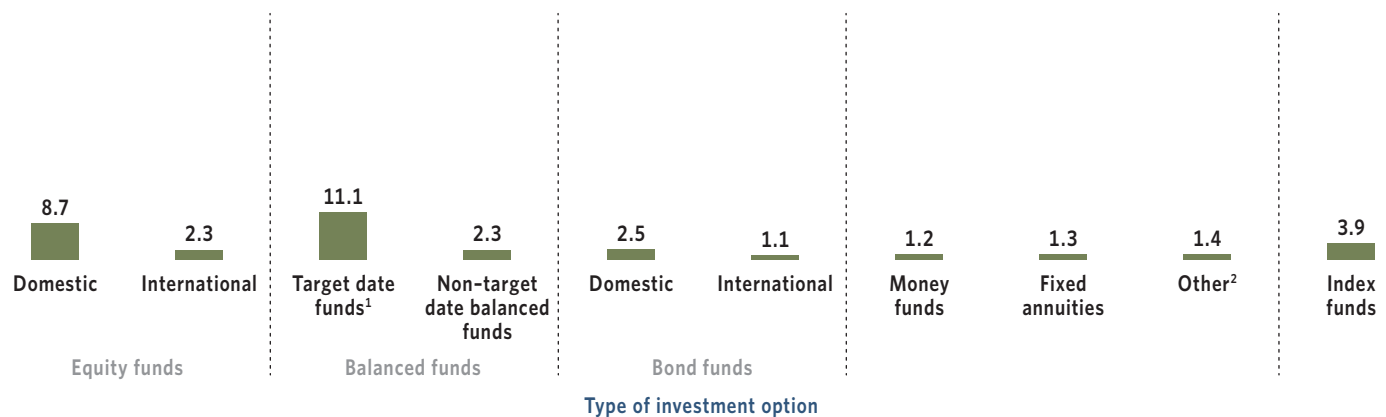
EXHIBIT 2.6

Incidence and Number of Core Investment Options Offered by Type of Investment in ERISA 403(b) Plans

Percentage of plans with audited 403(b) filings in the BrightScope database offering the specified core investment option, 2013



Average number of core investment options among plans with audited 403(b) filings in the BrightScope database offering a given investment option, 2013



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

² Other includes commodity funds, real estate funds, and brokerage accounts, but each separate option is counted as a unique investment option.

Note: The sample is 4,108 plans with \$344.9 billion in assets. Participant loans are excluded. Funds include mutual funds and variable annuities. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Investment options include mutual fund, variable annuity, and fixed annuity options. Core investment options are those that have at least 0.5 percent of plan assets. The funds in a target date fund suite are included if at least 0.5 percent of plan assets are invested in that suite. Exhibit A.4 in the appendix shows the average number of a given core investment option offered by plans that have at least one of that investment option.

Source: BrightScope Defined Contribution Plan Database

International equity funds also are widely available, offered in 98 percent of ERISA 403(b) plan core lineups in 2013; but on average, two international equity funds are offered in ERISA 403(b) plans including that investment type (Exhibit 2.6). Similarly, domestic bond funds are widely available, offered in 97 percent of ERISA 403(b) plan core lineups in 2013; but on average, three domestic bond funds are offered in ERISA 403(b) plans including that investment type. Nearly 70 percent of ERISA 403(b) plans offer one core money fund on average, and 88 percent of ERISA 403(b) plans offer one core fixed annuity on average. About 95 percent of ERISA 403(b) plans in 2013 had index funds in their core investment lineups, offering four funds on average.

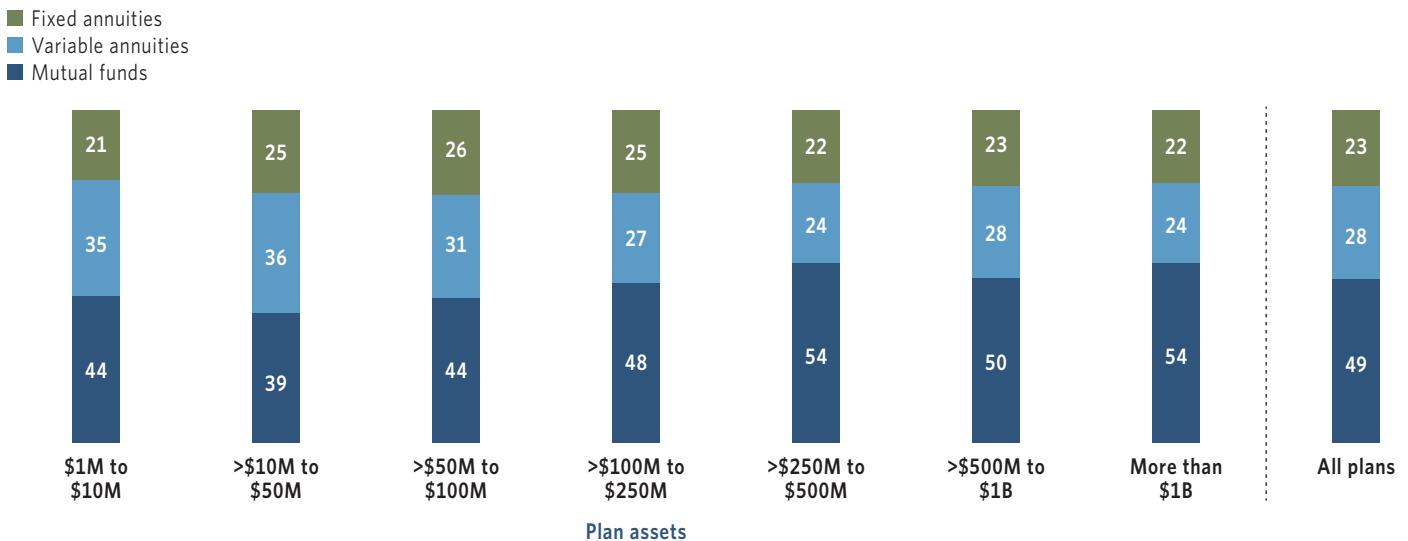
Investment Vehicles

When choosing which investment options to offer, employers also choose the investment vehicles (for example, mutual funds, variable annuities, or fixed annuities) for these options. Mutual funds were the most common investment vehicle in ERISA 403(b) plans in the BrightScope database, representing 49 percent of assets in 2013 (Exhibit 2.7). Mutual funds were a slightly larger share of assets in the largest ERISA 403(b) plans, accounting for 54 percent of assets in plans with more than \$1 billion in plan assets. Overall, variable annuities held an additional 28 percent of assets, followed by fixed annuities with 23 percent.

EXHIBIT 2.7

Types of Investment Vehicles in ERISA 403(b) Plans

Percentage of total assets among plans with audited 403(b) filings in the BrightScope database by plan assets, 2013



Note: The sample is 4,108 plans with \$344.9 billion in assets. Participant loans are excluded. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Variable annuities include variable annuity mutual funds. Components may not add to 100 percent because of rounding.

Source: BrightScope Defined Contribution Plan Database

Aggregate Asset Allocation

Although employers choose the investment options offered in 403(b) plans, participants generally choose where to allocate the money in their accounts among such options. In 2013, equity funds held the largest share (46 percent) of ERISA 403(b) assets in the BrightScope database, with the bulk invested in domestic equity funds (Exhibit 2.8). Fixed annuities held the next largest share with 23 percent of ERISA 403(b) plan assets. Bonded funds followed, with 18 percent of assets—which were divided between target date funds (15 percent of assets) and non-target

date balanced funds (3 percent of assets). Bond funds (mostly domestic) held 7 percent of assets, and money funds held 3 percent. Participants in larger plans (as measured by plan assets) tended to have less of their assets invested in non-target date balanced funds. For example, participants in ERISA 403(b) plans with \$1 million to \$10 million in plan assets had 6 percent of their assets invested in non-target date balanced funds, compared with 3 percent for participants in plans with more than \$1 billion in plan assets. Average asset allocation tended not to vary much by plan size for other asset classes.

EXHIBIT 2.8

The Largest Share of ERISA 403(b) Assets Is Invested in Equity Funds

Percentage of total assets among plans with audited 403(b) filings in the BrightScope database by plan assets or number of plan participants, 2013

Plan assets	Equity funds		Balanced funds		Bond funds			Money funds	Fixed annuities	Other ²	Memo: index funds
	Domestic	International	Target date funds ¹	Non-target date balanced funds	Domestic	International	International				
\$1M to \$10M	36.7	7.9	13.9	6.2	7.7	0.3	2.9	21.2	3.2	12.3	
>\$10M to \$50M	39.5	7.4	11.4	3.3	7.0	0.2	2.5	24.8	3.8	12.5	
>\$50M to \$100M	39.4	7.2	11.8	2.2	7.2	0.2	2.1	25.5	4.4	11.8	
>\$100M to \$250M	38.8	6.9	14.2	2.6	6.8	0.2	2.1	24.6	3.8	14.7	
>\$250M to \$500M	40.2	6.7	16.1	2.0	6.6	0.1	2.3	21.9	4.1	16.4	
>\$500M to \$1B	38.1	5.9	17.2	2.6	6.4	0.1	2.7	22.7	4.2	19.5	
More than \$1B	40.6	5.8	15.5	3.2	6.0	0.1	2.8	22.0	4.0	20.8	
All plans	39.6	6.5	14.7	2.8	6.5	0.2	2.5	23.2	4.0	16.9	

Number of plan participants	Equity funds		Balanced funds		Bond funds			Money funds	Fixed annuities	Other ²	Memo: index funds
	Domestic	International	Target date funds ¹	Non-target date balanced funds	Domestic	International	International				
Fewer than 100	42.1	7.5	7.6	2.2	6.6	0.1	2.6	26.0	5.3	11.7	
100 to 499	41.4	7.0	8.2	2.1	6.4	0.1	2.6	27.8	4.3	10.6	
500 to 999	39.5	6.6	10.4	2.2	6.1	0.2	2.2	28.5	4.4	11.7	
1,000 to 4,999	37.9	6.5	13.8	2.6	6.7	0.2	2.3	25.3	4.8	15.4	
5,000 to 9,999	40.0	6.4	17.2	3.0	6.4	0.1	2.7	20.5	3.6	18.4	
10,000 or more	40.0	6.3	19.1	3.5	6.6	0.2	2.7	18.5	3.2	22.4	
All plans	39.6	6.5	14.7	2.8	6.5	0.2	2.5	23.2	4.0	16.9	

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

² Other includes commodity funds, real estate funds, and brokerage accounts.

Note: The sample is 4,108 plans with \$344.9 billion in assets. Participant loans are excluded. Funds include mutual funds and variable annuities. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Row percentages may not add to 100 percent because of rounding.

Source: BrightScope Defined Contribution Plan Database

Over time, ERISA 403(b) plans have become more likely to offer target date funds. In 2013, 69 percent of large ERISA 403(b) plans offered target date funds in their core investment lineups, compared with 51 percent in 2009 (Exhibit 2.9, upper panel). The share of participants who were offered target date funds increased to 79 percent in 2013, from 71 percent in 2009 (Exhibit 2.9, middle panel). The share of plan assets invested in these funds also increased, rising to 15 percent in 2013 from 7 percent in 2009 (Exhibit 2.9, lower panel).

Index Funds

Index funds, which are funds that track a market index (e.g., S&P 500 funds), generally claimed a greater share of assets in larger ERISA 403(b) plans than in smaller plans. On average, 17 percent of 403(b) assets in the BrightScope database

were invested in index funds in 2013, but this fraction ranged from about 12 percent of assets in plans with \$1 million to \$100 million in plan assets to about 20 percent in plans with more than \$500 million (Exhibit 2.8, upper panel). Similarly, 12 percent of assets in ERISA 403(b) plans with fewer than 100 participants were invested in index funds, compared with 22 percent of assets in plans with 10,000 participants or more (Exhibit 2.8, lower panel).

The share of ERISA 403(b) plan assets invested in index funds has risen since 2009, when 10 percent of 403(b) plan assets in the BrightScope database were invested in index funds (Exhibit 2.10, lower panel). This rose to 17 percent in 2013. Index funds were offered nearly universally in ERISA 403(b) plans with more than \$10 million in assets in 2013 (Exhibit 2.10, upper panel).

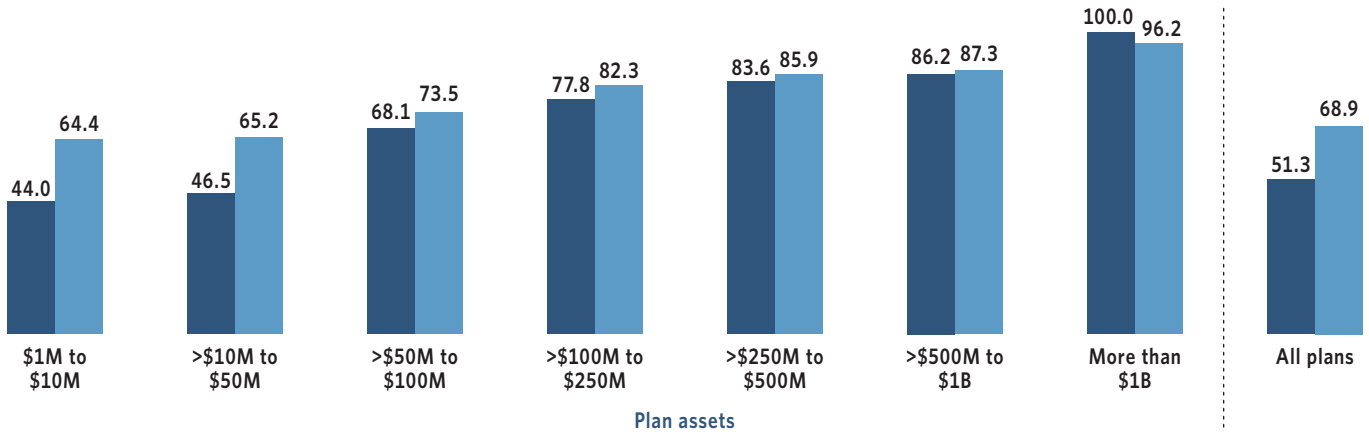
EXHIBIT 2.9

Core Target Date Fund Use Generally Has Risen over Time in ERISA 403(b) Plans

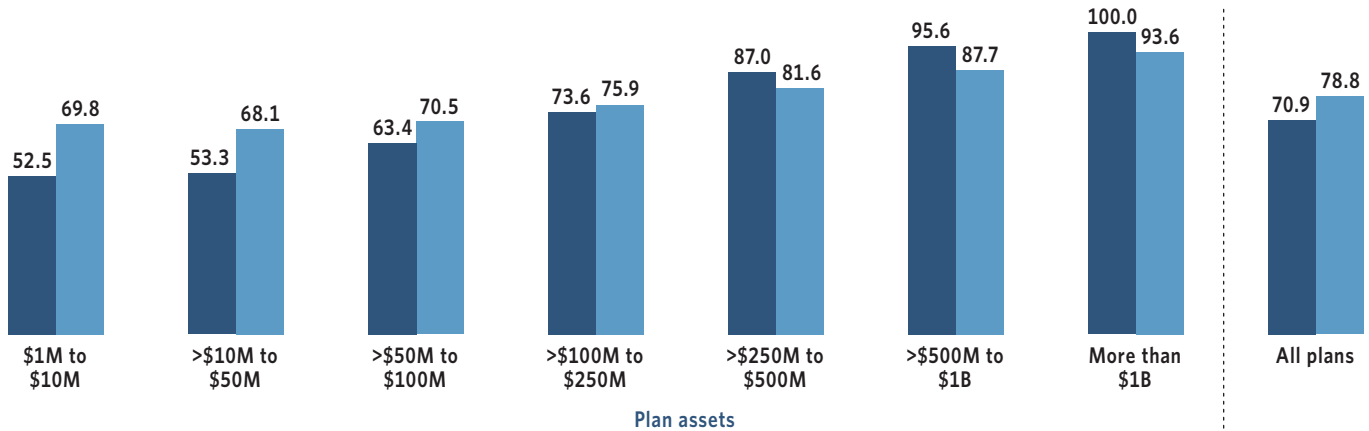
Percentage of plans offering, participants offered, and plan assets in target date funds among plans with audited 403(b) filings in the BrightScope database by plan assets (2009 and 2013)

■ 2009
■ 2013

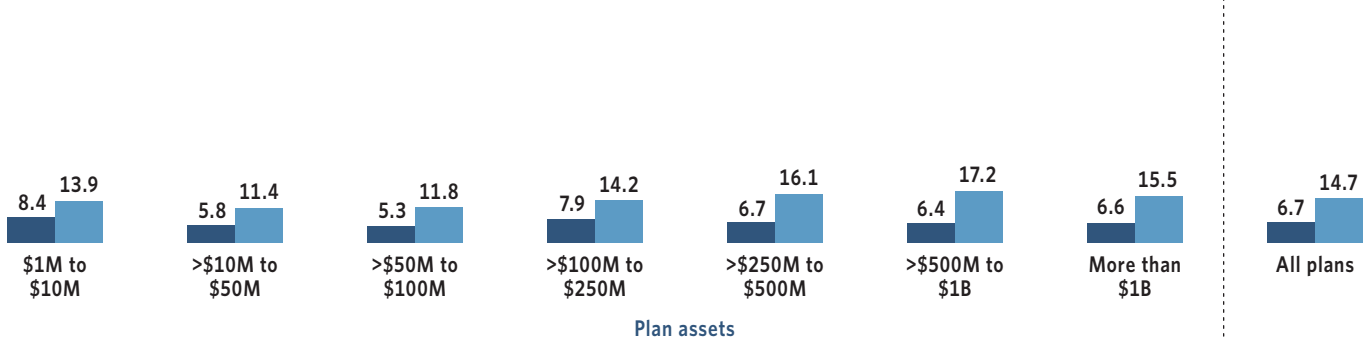
Percentage of plans offering core¹ target date funds



Percentage of participants offered core¹ target date funds



Percentage of plan assets in target date funds²



¹ Core target date funds are target date funds included in a suite of funds which holds at least 0.5 percent of plan assets.

² In the calculation of target date fund assets, all target date funds in the plan are counted.

Note: Samples are 3,697 plans in 2009 and 4,108 plans in 2013. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name. Funds include mutual funds and variable annuities.

Source: BrightScope Defined Contribution Plan Database

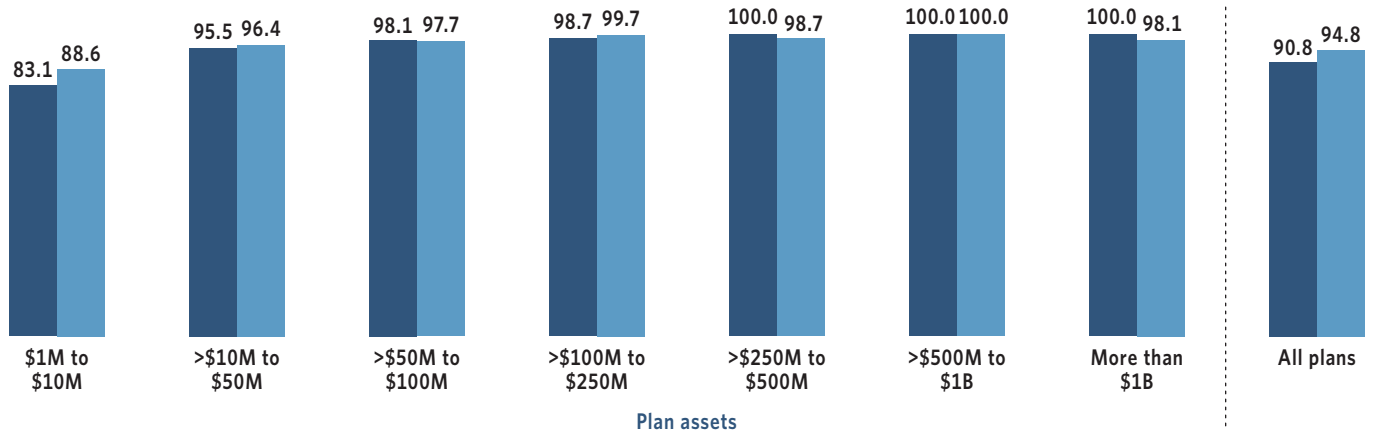
EXHIBIT 2.10

Core Index Fund Use Is Nearly Universal in Large ERISA 403(b) Plans

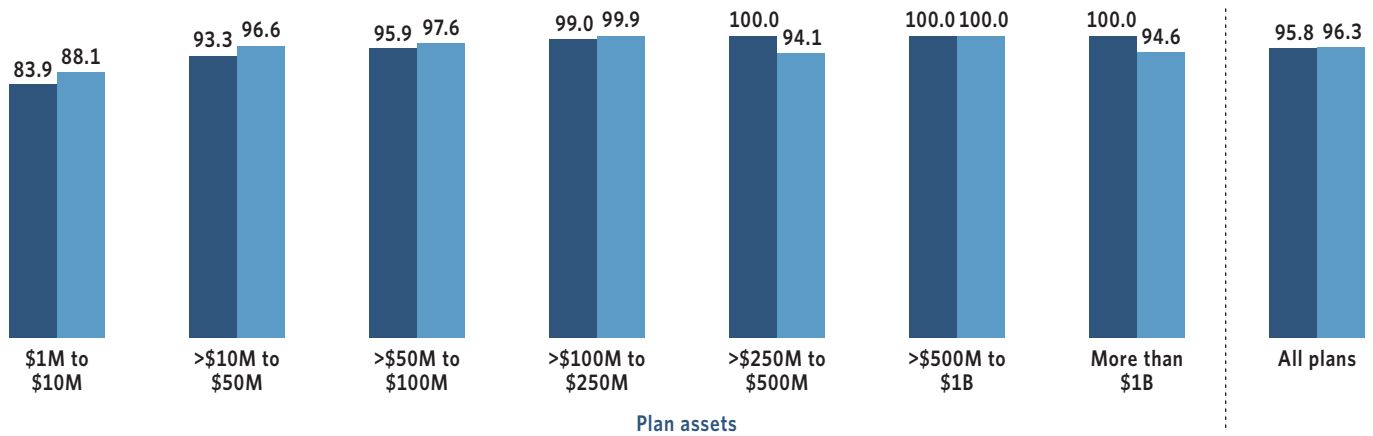
Percentage of plans offering, participants offered, and plan assets in index funds among plans with audited 403(b) filings in the BrightScope database by plan assets (2009 and 2013)

■ 2009
■ 2013

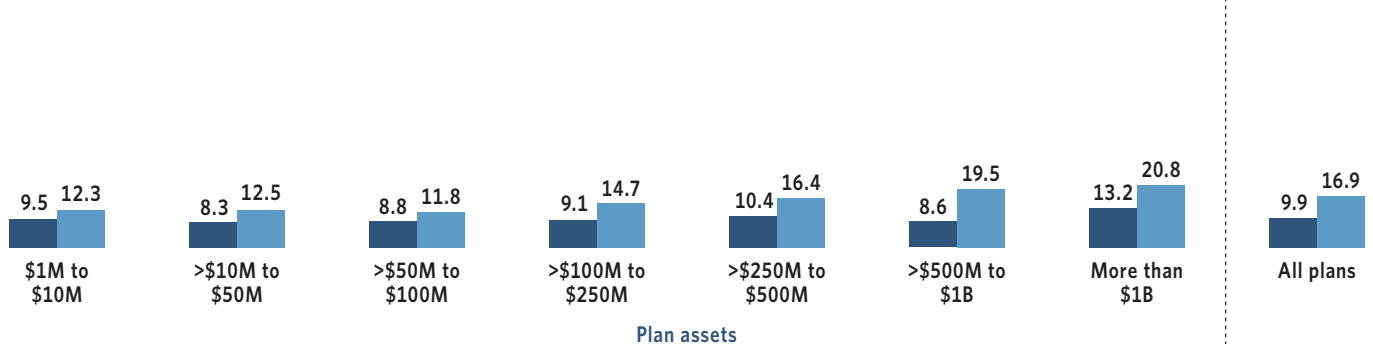
Percentage of plans offering core¹ index funds



Percentage of participants offered core¹ index funds



Percentage of plan assets in index funds²



¹ Core index funds are index funds that have at least 0.5 percent of plan assets.

² In the calculation of index fund assets, all index funds in the plan are counted.

Note: Samples are 3,697 plans in 2009 and 4,108 plans in 2013. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. An index fund is designed to track the performance of a market index. The fund's portfolio of securities is either a replicate or a representative sample of the designated market index.

Source: BrightScope Defined Contribution Plan Database

CHAPTER 3

ERISA 403(b) Plan Fees

Employers offering 403(b) plans typically hire service providers to assist in operating the plans, and those service providers charge fees for their services. Many types of services are required to operate a 403(b) plan, including administrative services (e.g., recordkeeping and transaction processing), participant-focused services (e.g., participant communication, education, or advice), regulatory and compliance services (e.g., plan document services; consulting, accounting, and audit services; legal advice), annuity processing, and investment management. As with any other employee benefit, the employer typically decides how the costs will be shared. In order to cover the expenses of providing a 403(b) plan, fees are paid by the plan itself, the employer, and/or the plan participants. These fees can be levied based on the number of participants, the amount of assets, or as a fixed dollar amount for the plan as a whole.³² In order to better understand the impact of fees, BrightScope has developed a total plan cost measure that includes all fees on the audited Form 5500 reports as well as fees paid through investment expense ratios (see the box below).

Total Plan Cost

When looking at overall 403(b) plan fees, it is important to consider the sample to be analyzed. Fees can be calculated at the plan level (where each plan is treated equally), at the participant level (where each participant is treated equally), or at the asset level (where each dollar is treated equally). Because the average plan tends to be small, and the average participant and average dollar are in larger plans, the particular focus of the fee analysis can produce different answers. For this reason, total plan cost is presented on a plan-weighted, participant-weighted, and asset-weighted basis.

In 2013, the average ERISA 403(b) plan in the BrightScope sample had a total plan cost of 0.73 percent of assets, while the average participant was in a plan with a total plan cost of 0.63 percent of assets, and the average dollar was in a plan with a total plan cost of 0.53 percent of assets (Exhibit 3.1). This pattern occurs for a couple of reasons. First, participants and assets tend to be concentrated in larger plans. For example, although only 1 percent of audited ERISA 403(b) plans in the BrightScope Defined Contribution Plan Database have more than \$1 billion in plan assets, nearly one-fifth of participants are in these plans, and they hold more than 30 percent of all 403(b) assets (see Exhibit I.4). A similar pattern occurs in the DOL 403(b) universe.

ABOUT BRIGHTSCOPE'S TOTAL PLAN COST

Total plan cost includes asset-based investment management fees, asset-based administrative and advice fees, and other fees (including insurance charges) from the Form 5500 and audited financial statements of 403(b) plans covered by ERISA. When plans use products registered under the Investment Company Act of 1940—such as mutual funds—expense data from Lipper are used to calculate fees.

Another reason that participant-weighted and asset-weighted total plan costs are lower than plan-weighted total plan cost is because larger plans tend to have a lower total plan cost when measured as a percentage of plan assets. For example, ERISA 403(b) plans with \$1 million to \$10 million in plan assets had an average total plan cost of 0.91 percent of plan assets in 2013, compared with 0.54 percent of plan assets for plans with more than \$100 million to \$250 million and 0.46 percent of plan assets for plans with more than \$1 billion (Exhibit 3.1, upper panel). Similar patterns occur for both the participant-weighted and asset-weighted numbers. One reason that larger plans tend to have lower fees is related to the greater share of their assets invested in index funds (Exhibit 2.10), which tend to have lower expenses than other types of investments (Exhibit 3.3). In addition, there are fixed costs associated with offering a 403(b) plan. As a plan grows in size, those fixed costs can be spread over more participants and a larger asset base, lowering the total plan cost as a percentage of assets.

Since 2009, ERISA 403(b) total plan cost has decreased on average by between 5 and 10 basis points whether measured on a plan, participant, or asset-weighted basis (Exhibit 3.1).

For example, total plan cost decreased from 0.82 percent in 2009 to 0.73 percent in 2013 on a plan-weighted basis, from 0.68 percent to 0.63 percent on a participant-weighted basis, and from 0.59 percent to 0.53 percent on an asset-weighted basis. Most plan size groups saw declines in total plan cost between 2009 and 2013.

ERISA 403(b) total plan costs varied around the plan-weighted average of 0.73 percent in 2013. For example, 10 percent of plans had a total plan cost of 0.48 percent or less, while another 10 percent had a total plan cost of 1.17 percent or more (Exhibit 3.2). Although there is significant diversity in total plan cost, the difference between the 10th percentile and 90th percentile plans tends to decrease as plan size increases. For example, in ERISA 403(b) plans with \$1 million to \$10 million in plan assets, total plan cost for 80 percent of plans ranged between 0.49 percent and 1.48 percent of assets. For plans with more than \$1 billion in plan assets, that range was significantly narrower, varying from 0.34 percent of assets to 0.58 percent.

FEES PAID ON MUTUAL FUNDS HELD IN 403(b) PLANS

BrightScope's database of ERISA 403(b) audited Form 5500 filings contains reporting of mutual fund holdings by share class in DC plans for about 50 percent of the plans in the database. In the remaining cases where the mutual fund is known, but not the specific share class, BrightScope assigns a share class to the mutual fund holdings in a given plan based on the size of the plan's investment in the mutual fund. If the plan has less than \$1 million invested in the mutual fund, a retail-type share class is assigned to the holding. If the plan has \$1 million or more invested in the mutual fund, then an institutional-type share class is assigned. BrightScope matches Lipper fee information by mutual fund share class to estimate the fees paid by plan participants on their mutual fund holdings in their DC plans. Morningstar fee data were used for the underlying total expense ratios of variable annuity mutual funds. Because BrightScope has plan-level information, it is possible to report how mutual fund fees vary across plan size and in aggregate.

EXHIBIT 3.1

ERISA 403(b) Total Plan Cost by Plan Assets

Total plan cost* as a percentage of assets by plan assets among plans with audited 403(b) filings in the BrightScope database, 2009 and 2013

2009
2013

Plan-weighted



Participant-weighted



Asset-weighted



* Total plan cost is BrightScope's measure of the total cost of operating the 403(b) plan and includes asset-based investment management fees, asset-based administrative and advice fees, and other fees (including insurance charges) from the Form 5500 and audited financial statements of ERISA-compliant 403(b) plans. Total plan cost is computed only for plans with sufficiently complete information.

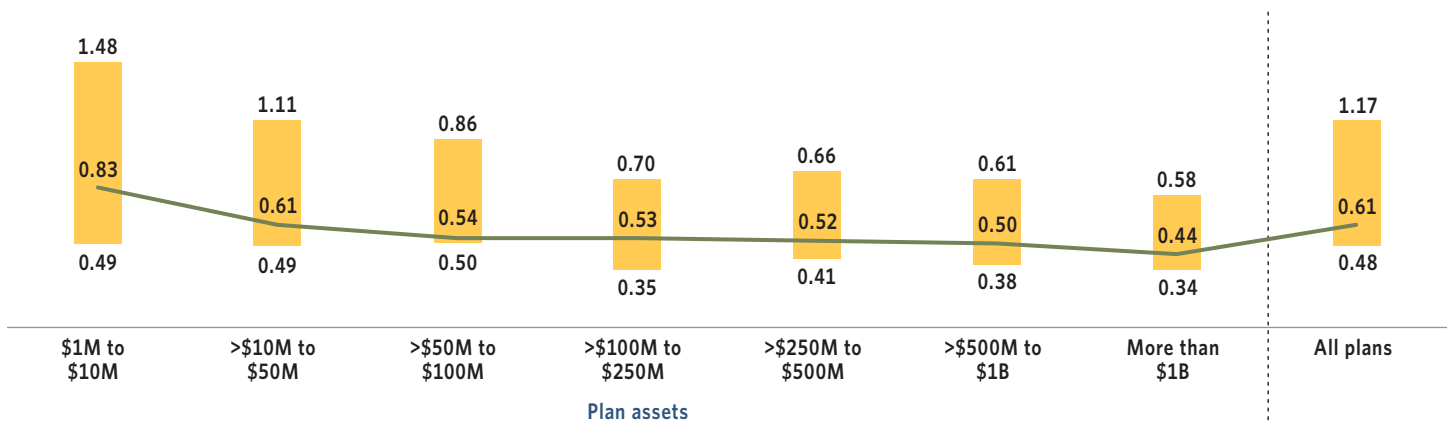
Note: The samples are 1,587 plans with \$146.6 billion in assets in 2009 and 3,979 plans with \$338.6 billion in assets in 2013. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper

EXHIBIT 3.2

Distribution of ERISA 403(b) Total Plan Cost by Plan Assets

10th percentile, median, and 90th percentile plan-weighted total plan cost* as a percentage of assets among plans with audited 403(b) filings in the BrightScope database by plan assets (2013)



* Total plan cost is BrightScope's measure of the total cost of operating the 403(b) plan and includes asset-based investment management fees, asset-based administrative and advice fees, and other fees (including insurance charges) from the Form 5500 and audited financial statements of ERISA-compliant 403(b) plans. Total plan cost is computed only for plans with sufficiently complete information.

Note: The sample is 3,979 plans with \$338.6 billion in assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis.

Sources: BrightScope Defined Contribution Plan Database and Lipper

Mutual Fund Expenses in ERISA 403(b) Plans

Some of the main costs of a 403(b) plan are the expenses associated with the investments in the plan. Therefore, it is important to understand factors associated with these expenses (such as plan size or investment objective).

Mutual Fund Expenses by 403(b) Plan Size

In 2013, the asset-weighted average expense ratios of mutual funds in ERISA 403(b) plans in the BrightScope Defined Contribution Plan Database varied both with the size of the plan (with larger plans, measured by assets, tending to have concentrated assets in mutual funds with lower expense ratios) and the type of investment (with domestic mutual funds tending to have lower expense ratios than international mutual funds, and money market mutual funds tending to have lower expense ratios than equity or bond mutual funds) (Exhibit 3.3).

The asset-weighted average expense ratio for domestic equity mutual funds held in large ERISA 403(b) plans in 2013 was 0.50 percent of assets, ranging from 0.67 percent in 403(b) plans with \$1 million to \$10 million in plan assets to 0.45 percent in plans with more than \$1 billion (Exhibit 3.3, upper panel).³³

Expense ratios for international equity mutual funds held in ERISA 403(b) plans were higher compared with domestic equity mutual funds, with an asset-weighted average of 0.63 percent of assets, ranging from 0.88 percent of assets in 403(b) plans with \$1 million to \$10 million in plan assets to 0.56 percent in plans with more than \$1 billion. Expense ratios for mutual funds tended not to vary as much for plans with different numbers of participants (Exhibit 3.3, lower panel).

In ERISA 403(b) plans, the average expense ratios for domestic bond mutual funds were lower than domestic equity mutual fund expense ratios (0.45 percent of assets for domestic bond mutual funds, compared with 0.50 percent of assets for domestic equity mutual funds), but expense ratios for international bond mutual funds were significantly higher than for international equity mutual funds (0.77 percent of assets for international bond and 0.63 percent of assets for international equity mutual funds) (Exhibit 3.3). Money market mutual funds had the lowest expense ratio of any of the asset classes, with an asset-weighted average expense ratio of 0.16 percent of assets in 2013 for money market mutual funds in ERISA 403(b) plans.

EXHIBIT 3.3

Average Expense Ratios of Mutual Funds in ERISA 403(b) Plans, 2013

Asset-weighted average expense ratio as a percentage of mutual fund assets among plans with audited 403(b) filings in the BrightScope database by mutual fund investment objective, percent

Plan assets	Equity mutual funds		Balanced mutual funds		Bond mutual funds		Money market mutual funds	Other mutual funds	Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International			
\$1M to \$10M	0.67	0.88	0.80	0.79	0.65	0.84	0.17	1.00	0.32
>\$10M to \$50M	0.57	0.71	0.72	0.73	0.54	0.82	0.16	0.96	0.32
>\$50M to \$100M	0.54	0.69	0.67	0.65	0.50	0.81	0.17	0.94	0.25
>\$100M to \$250M	0.53	0.66	0.55	0.58	0.48	0.75	0.16	0.82	0.24
>\$250M to \$500M	0.51	0.63	0.54	0.46	0.45	0.70	0.17	0.75	0.20
>\$500M to \$1B	0.48	0.59	0.44	0.45	0.42	0.81	0.17	0.69	0.18
More than \$1B	0.45	0.56	0.39	0.34	0.37	0.74	0.15	0.61	0.17
All plans	0.50	0.63	0.50	0.49	0.45	0.77	0.16	0.76	0.21

Number of plan participants	Equity mutual funds		Balanced mutual funds		Bond mutual funds		Money market mutual funds	Other mutual funds	Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International			
Fewer than 100	0.55	0.72	0.68	0.59	0.52	0.92	0.15	0.88	0.33
100 to 499	0.52	0.65	0.72	0.68	0.51	0.80	0.15	0.89	0.35
500 to 999	0.53	0.64	0.66	0.72	0.50	0.84	0.17	0.88	0.31
1,000 to 4,999	0.52	0.66	0.53	0.56	0.48	0.77	0.16	0.81	0.22
5,000 to 9,999	0.49	0.61	0.50	0.45	0.43	0.73	0.17	0.68	0.18
10,000 or more	0.47	0.60	0.42	0.37	0.40	0.75	0.16	0.67	0.16
All plans	0.50	0.63	0.50	0.49	0.45	0.77	0.16	0.76	0.21

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

Note: The sample is 3,699 plans with \$233.4 billion in mutual fund assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. See the callout box on page 40 for a description of the fee analysis. The underlying expense ratios of variable annuity mutual funds are included.

Sources: BrightScope Defined Contribution Plan Database, Lipper, and Morningstar

Index mutual funds, which tend to be domestic equity index mutual funds,³⁴ tended to have lower expense ratios than other fund types. For example, the asset-weighted average expense ratio for index mutual funds in ERISA 403(b) plans was 0.21 percent of assets in 2013, compared with 0.50 percent of assets for domestic equity mutual funds (including both index and actively managed funds) (Exhibit 3.3). Like other mutual fund types, index mutual funds also tend to have lower expense ratios in larger plans. For example, index mutual funds in plans with \$1 million to \$50 million in plan assets had an average expense ratio of 0.32 percent of assets, compared with 0.17 percent in plans with more than \$1 billion in plan assets. Similarly, index mutual funds in plans with fewer than 1,000 participants had an asset-weighted average expense ratio of more than 0.30 percent of assets, compared with 0.16 percent in plans with 10,000 participants or more.

Mutual fund expenses decreased between 2009 and 2013 in ERISA 403(b) plans across all asset classes, according to the cross-sectional data. For example, domestic equity mutual funds had an asset-weighted average expense ratio of 0.50 percent in 2013, down from 0.56 percent in 2009 (Exhibits 3.3 and 3.4). Money market mutual funds experienced the largest decline in expenses, falling from 0.38 percent of assets in 2009 to 0.16 percent in 2013. This decline in money market mutual fund expenses was slightly larger for smaller 403(b) plans, which tended to have higher expenses to begin with. For example, in 403(b) plans with \$1 million to \$10 million in plan assets, expenses on money market mutual funds decreased by 26 basis points between 2009 and 2013, falling from 0.43 percent to 0.17 percent of assets. However, plans in all size categories experienced decreases in their money market mutual fund expenses on average. For example, in 403(b) plans with more than \$1 billion in plan assets, money market mutual fund expenses declined by 20 basis points between 2009 and 2013, falling from 0.35 percent of assets to 0.15 percent. Some of the decline in money market mutual fund asset-weighted average expenses may be attributable to fee waivers, which increased substantially in money market funds due to the low interest rate environment following the market turmoil of 2008.³⁵

Variation in Mutual Fund Expenses

In addition to the average expense ratio, it is important to examine different points in the distribution of expenses to understand the range of mutual fund expenses paid in 403(b) plans. For example, while the asset-weighted average expense ratio on domestic equity mutual funds held in ERISA 403(b) plans was 0.50 percent in 2013 (Exhibit 3.3), 10 percent of assets were invested in funds with expense ratios of 0.09 percent or less, and 10 percent of assets were invested in funds with expense ratios of 0.83 percent or more (see Exhibits 3.5 and A.5). Similar patterns were observed for international equity mutual funds.

Although 403(b) equity mutual fund expenses tend to decrease as total assets in a 403(b) plan increase, mutual fund expenses vary in plans of all sizes. For example, expenses for equity mutual funds ranged from 0.37 percent at the asset-weighted 10th percentile to 1.25 percent at the asset-weighted 90th percentile in 403(b) plans with \$1 million to \$10 million in plan assets (see Exhibits 3.5 and A.5). Similarly, equity mutual fund expenses in ERISA 403(b) plans with more than \$1 billion in plan assets ranged between 0.07 percent of assets at the asset-weighted 10th percentile to 0.78 percent at the asset-weighted 90th percentile.

The range in expenses is at least partly attributable to differences in the portion of the expense ratio that is used for shareholder services. For example, though some or all costs associated with plan recordkeeping can be paid by fees associated with the mutual fund investment, other costs may be paid as a per-participant charge by participants or the employer. Expenses also may be paid through a combination of these methods. In addition, the expense ratios applicable to funds vary within a given investment category.³⁶ For example, actively managed mutual funds can offer investors the chance to earn superior returns, access specialized sectors, or take advantage of alternative investment strategies, all of which can make a fund more expensive to manage. Similarly, equity mutual funds may be priced differently depending on the extent to which they invest in small-cap, mid-cap, or emerging market stocks (which tend to be more expensive to manage) instead of large-cap or developed market stocks (which tend to be less expensive to manage).

EXHIBIT 3.4

Average Expense Ratios of Mutual Funds in ERISA 403(b) Plans, 2009

Asset-weighted average expense ratio as a percentage of mutual fund assets among plans with audited 403(b) filings in the BrightScope database by mutual fund investment objective, percent

Plan assets	Equity mutual funds		Balanced mutual funds		Bond mutual funds		Money market mutual funds	Other mutual funds	Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International			
\$1M to \$10M	0.67	0.85	0.86	0.82	0.62	0.88	0.43	0.85	0.35
>\$10M to \$50M	0.60	0.75	0.81	0.79	0.55	0.89	0.41	0.88	0.35
>\$50M to \$100M	0.57	0.71	0.62	0.75	0.50	0.80	0.39	0.88	0.30
>\$100M to \$250M	0.59	0.74	0.69	0.65	0.49	0.80	0.38	0.84	0.27
>\$250M to \$500M	0.56	0.69	0.62	0.61	0.45	0.91	0.39	0.79	0.24
>\$500M to \$1B	0.52	0.67	0.72	0.50	0.42	0.91	0.36	0.79	0.24
More than \$1B	0.50	0.63	0.45	0.39	0.37	0.91	0.35	0.68	0.20
All plans	0.56	0.70	0.65	0.61	0.47	0.88	0.38	0.82	0.26

Number of plan participants	Equity mutual funds		Balanced mutual funds		Bond mutual funds		Money market mutual funds	Other mutual funds	Memo: index mutual funds
	Domestic	International	Target date mutual funds*	Non-target date balanced mutual funds	Domestic	International			
Fewer than 100	0.62	0.79	0.77	0.80	0.56	0.92	0.42	0.82	0.32
100 to 499	0.54	0.69	0.79	0.77	0.51	0.86	0.41	0.80	0.36
500 to 999	0.56	0.70	0.81	0.78	0.51	0.97	0.41	0.89	0.37
1,000 to 4,999	0.57	0.72	0.70	0.68	0.50	0.87	0.38	0.83	0.30
5,000 to 9,999	0.58	0.74	0.70	0.59	0.45	0.83	0.38	0.88	0.25
10,000 or more	0.53	0.66	0.54	0.46	0.40	0.91	0.35	0.74	0.18
All plans	0.56	0.70	0.65	0.61	0.47	0.88	0.38	0.82	0.26

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

Note: The sample is 2,816 plans with \$98.9 billion in mutual fund assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. See the callout box on page 40 for a description of the fee analysis. The underlying expense ratios of variable annuity mutual funds are included.

Sources: BrightScope Defined Contribution Plan Database, Lipper, and Morningstar

EXHIBIT 3.5

Distribution of Mutual Fund Expense Ratios Paid by ERISA 403(b) Plan Participants

10th percentile, median, and 90th percentile asset-weighted mutual fund expense ratios as a percentage of plan assets among plans with audited 403(b) filings in the BrightScope database by investment objective and plan assets, percent (2013)



Note: The sample is 3,699 plans with \$233.4 billion in mutual fund assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. For detailed expense information, see Exhibit A.5 in the appendix. See the callout box on page 40 for a description of the fee analysis. The underlying expense ratios of variable annuity mutual funds are included.

Sources: BrightScope Defined Contribution Plan Database, Lipper, and Morningstar

Appendix

EXHIBIT A.1

ERISA 403(b) Plan Activity Combinations

Percentage of plans with selected plan activity combinations by plan assets and number of plan participants, 2013

Plan assets	No activities	Employer contributions only	Outstanding loans only	Automatic enrollment only	Employer contributions and outstanding loans	Employer contributions and automatic enrollment	Outstanding loans and automatic enrollment	Employer contributions, outstanding loans, and automatic enrollment
\$1M to \$10M	11.6	37.1	8.9	0.4	36.8	1.7	0.7	2.7
>\$10M to \$50M	8.2	40.5	7.9	0.4	32.5	2.6	1.6	6.4
>\$50M to \$100M	3.2	38.3	7.0	0.2	30.4	8.4	2.8	9.7
>\$100M to \$250M	4.6	31.8	12.5	1.4	29.6	5.7	2.7	11.7
>\$250M to \$500M	6.2	24.8	9.7	1.4	35.9	2.1	4.1	15.9
>\$500M to \$1B	6.6	18.0	11.5	1.6	34.4	3.3	6.6	18.0
More than \$1B	6.3	27.1	12.5	0.0	27.0	12.5	6.3	8.3
All	9.3	37.3	8.8	0.5	34.4	2.8	1.5	5.5

Number of plan participants	No activities	Employer contributions only	Outstanding loans only	Automatic enrollment only	Employer contributions and outstanding loans	Employer contributions and automatic enrollment	Outstanding loans and automatic enrollment	Employer contributions, outstanding loans, and automatic enrollment
100 to 499	10.6	44.3	6.8	0.2	32.2	2.5	0.6	2.7
500 to 999	6.4	29.2	11.8	0.7	38.4	4.1	1.3	8.1
1,000 to 4,999	5.3	14.7	13.1	1.4	43.5	2.9	4.6	14.5
5,000 to 9,999	7.4	9.0	17.2	1.6	32.0	5.7	6.6	20.5
10,000 or more	5.8	6.9	25.3	1.2	33.3	2.3	10.4	15.0
All	9.3	37.3	8.8	0.5	34.4	2.8	1.5	5.5

Note: The sample is 5,796 plans with \$342.1 billion in assets. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2013. Row percentages may not add to 100 percent because of rounding.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

EXHIBIT A.2

Distribution of Participants by ERISA 403(b) Plan Activity Combinations

Percentage of participants in plans with selected plan activity combinations by plan assets and number of plan participants, 2013

Plan assets	No activities	Employer contributions only	Outstanding loans only	Automatic enrollment only	Employer contributions and outstanding loans	Employer contributions and automatic enrollment	Outstanding loans and automatic enrollment	Employer contributions, outstanding loans, and automatic enrollment
\$1M to \$10M	11.2	29.6	12.5	0.7	39.6	1.7	1.3	3.4
>\$10M to \$50M	7.6	22.3	16.7	0.5	37.2	2.3	3.4	10.0
>\$50M to \$100M	2.3	14.4	16.2	0.8	43.1	4.6	4.9	13.7
>\$100M to \$250M	5.1	12.0	26.9	1.6	30.6	3.0	4.2	16.6
>\$250M to \$500M	4.4	12.6	14.8	1.9	35.0	2.1	9.2	19.9
>\$500M to \$1B	7.1	7.9	12.6	1.2	36.1	2.2	14.1	18.8
More than \$1B	4.9	11.9	21.0	0.0	34.0	6.7	5.1	16.4
All	6.2	16.3	17.8	0.9	36.1	3.2	5.5	13.8

Number of plan participants	No activities	Employer contributions only	Outstanding loans only	Automatic enrollment only	Employer contributions and outstanding loans	Employer contributions and automatic enrollment	Outstanding loans and automatic enrollment	Employer contributions, outstanding loans, and automatic enrollment
100 to 499	9.8	41.2	7.8	0.2	34.3	2.6	0.7	3.3
500 to 999	6.5	28.6	12.1	0.6	38.1	4.2	1.5	8.3
1,000 to 4,999	5.2	13.2	14.9	1.3	41.9	3.0	4.5	16.1
5,000 to 9,999	6.9	9.6	18.4	1.7	31.8	5.9	6.3	19.3
10,000 or more	4.8	4.8	27.9	0.7	33.0	2.2	10.2	16.5
All	6.2	16.3	17.8	0.9	36.1	3.2	5.5	13.8

Note: The sample is 5,796 plans with \$342.1 billion in assets. The results exclude plans with fewer than 100 participants or less than \$1 million in plan assets. A plan was determined to allow participant loans if any participant had a loan outstanding at the end of plan year 2013. Row percentages may not add to 100 percent because of rounding.

Sources: BrightScope Defined Contribution Plan Database and Investment Company Institute tabulations of U.S. Department of Labor 2013 Form 5500 Research File

FIGURE A.3

Employer Contribution Activity in ERISA 403(b) Plans*Percentage of 403(b) plans with employer contributions (by plan assets, plan year 2009–2013)*

Plan assets	2009	2010	2011	2012	2013
\$1M to \$10M	73	76	77	78	78
>\$10M to \$50M	78	79	80	81	82
>\$50M to \$100M	78	79	81	83	87
>\$100M to \$250M	74	75	80	78	79
>\$250M to \$500M	72	77	80	80	79
>\$500M to \$1B	75	69	73	70	74
More than \$1B	91	86	84	83	75
All	75	77	78	79	80

Note: The sample includes 403(b) plans with 100 participants or more and at least \$1 million in plan assets.

Source: Investment Company Institute tabulations of U.S. Department of Labor Form 5500 Research File

EXHIBIT A.4

Conditional Average Number of Core Investment Options by Type of Investment in ERISA 403(b) Plans*Average number of core investment options among plans with audited 403(b) filings in the BrightScope database offering a given core investment option by plan assets (2013)*

Plan assets	Equity funds		Balanced funds		Bond funds			Money funds	Fixed annuities	Other ²	Memo: index funds
	Domestic	International	Target date funds ¹	Non-target date balanced funds	Domestic	International					
\$1M to \$10M	8.7	2.4	8.4	2.6	2.4	1.1	1.1	1.3	1.4	3.3	
>\$10M to \$50M	8.3	2.2	10.8	2.2	2.5	1.1	1.1	1.3	1.3	3.6	
>\$50M to \$100M	8.8	2.4	12.4	1.8	2.4	1.0	1.1	1.4	1.3	3.8	
>\$100M to \$250M	9.3	2.5	13.3	1.7	2.5	1.0	1.2	1.4	1.5	4.8	
>\$250M to \$500M	10.6	2.6	15.7	1.8	2.7	1.0	1.4	1.5	1.6	6.3	
>\$500M to \$1B	10.0	2.4	16.6	1.9	2.9	1.0	1.4	1.3	1.8	8.0	
More than \$1B	11.3	2.7	19.7	1.8	3.1	1.0	1.7	1.4	1.7	8.7	
All plans	8.7	2.3	11.1	2.3	2.5	1.1	1.2	1.3	1.4	3.9	

¹ A target date fund typically rebalances its portfolio to become less focused on growth and more focused on income as it approaches and passes the target date of the fund, which is usually included in the fund's name.² Other includes commodity funds, real estate funds, and brokerage accounts, but each separate option is counted as a unique investment option.

Note: The sample is 4,108 plans with \$344.9 billion in assets. Participant loans are excluded. Funds include mutual funds and variable annuities. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. Investment options include mutual fund, variable annuity, and fixed annuity options. Core investment options are those that have at least 0.5 percent of plan assets. The funds in a target date fund suite are included if at least 0.5 percent of plan assets are invested in that suite.

Source: BrightScope Defined Contribution Plan Database

FIGURE A.5

Detailed Distribution of Mutual Fund Expense Ratios in ERISA 403(b) Plans

10th percentile, median, and 90th percentile asset-weighted mutual fund expense ratios as a percentage of plan assets among plans with audited 403(b) filings in the BrightScope database by investment objective and plan assets, percent (2013)

10th percentile	Equity mutual funds			Balanced mutual funds			Bond mutual funds			Money market mutual funds	Other mutual funds	Memo: index mutual funds
	All	Domestic	International	All	Target date mutual funds*	Non-target date balanced mutual funds	All	Domestic	International			
\$1M to \$10M	0.37	0.31	0.52	0.17	0.17	0.25	0.40	0.40	0.28	0.10	0.24	0.09
>\$10M to \$50M	0.42	0.34	0.50	0.17	0.17	0.18	0.40	0.39	0.55	0.14	0.24	0.06
>\$50M to \$100M	0.30	0.25	0.50	0.18	0.18	0.26	0.21	0.20	0.61	0.10	0.66	0.05
>\$100M to \$250M	0.21	0.17	0.45	0.17	0.17	0.18	0.20	0.20	0.61	0.10	0.18	0.04
>\$250M to \$500M	0.08	0.08	0.36	0.17	0.17	0.18	0.10	0.10	0.55	0.10	0.24	0.04
>\$500M to \$1B	0.08	0.08	0.12	0.16	0.16	0.18	0.07	0.07	0.61	0.10	0.24	0.04
More than \$1B	0.07	0.07	0.12	0.16	0.16	0.16	0.07	0.07	0.61	0.10	0.24	0.04
All plans	0.12	0.09	0.26	0.16	0.16	0.17	0.10	0.08	0.58	0.10	0.24	0.04

Median	Equity mutual funds			Balanced mutual funds			Bond mutual funds			Money market mutual funds	Other mutual funds	Memo: index mutual funds
	All	Domestic	International	All	Target date mutual funds*	Non-target date balanced mutual funds	All	Domestic	International			
\$1M to \$10M	0.52	0.48	0.86	0.77	0.78	0.77	0.61	0.61	0.86	0.14	1.12	0.24
>\$10M to \$50M	0.48	0.48	0.52	0.72	0.73	0.71	0.45	0.45	0.86	0.14	1.03	0.42
>\$50M to \$100M	0.48	0.48	0.52	0.70	0.70	0.67	0.45	0.45	0.86	0.14	0.97	0.19
>\$100M to \$250M	0.48	0.48	0.52	0.64	0.65	0.57	0.45	0.45	0.75	0.14	0.87	0.18
>\$250M to \$500M	0.48	0.48	0.52	0.62	0.62	0.46	0.45	0.45	0.61	0.14	0.79	0.17
>\$500M to \$1B	0.48	0.48	0.52	0.52	0.52	0.45	0.45	0.45	0.84	0.14	0.78	0.17
More than \$1B	0.48	0.48	0.52	0.18	0.18	0.25	0.45	0.45	0.84	0.14	0.78	0.17
All plans	0.48	0.48	0.52	0.55	0.60	0.45	0.45	0.45	0.84	0.14	0.80	0.17

Continued on next page

FIGURE A.5 CONTINUED

Detailed Distribution of Mutual Fund Expense Ratios in ERISA 403(b) Plans

10th percentile, median, and 90th percentile asset-weighted mutual fund expense ratios as a percentage of plan assets among plans with audited 403(b) filings in the BrightScope database by investment objective and plan assets, percent (2013)

90th percentile	Equity mutual funds			Balanced mutual funds			Bond mutual funds			Money market mutual funds	Other mutual funds	Memo: index mutual funds
	All	Domestic	International	All	Target date mutual funds*	Non-target date balanced mutual funds	All	Domestic	International			
\$1M to \$10M	1.25	1.21	1.36	1.33	1.31	1.40	1.01	0.99	1.11	0.29	1.44	0.50
>\$10M to \$50M	1.05	1.00	1.14	1.19	1.15	1.27	0.85	0.85	1.10	0.26	1.40	0.50
>\$50M to \$100M	0.98	0.93	1.14	1.00	1.00	1.02	0.83	0.76	1.01	0.29	1.25	0.45
>\$100M to \$250M	0.93	0.90	1.06	0.79	0.79	1.04	0.71	0.71	0.88	0.31	1.25	0.45
>\$250M to \$500M	0.87	0.85	0.98	0.79	0.79	0.72	0.71	0.71	0.86	0.31	1.00	0.45
>\$500M to \$1B	0.83	0.79	1.00	0.74	0.74	0.77	0.71	0.71	0.86	0.31	1.12	0.42
More than \$1B	0.78	0.73	0.98	0.70	0.69	0.77	0.69	0.69	0.86	0.28	1.00	0.42
All plans	0.88	0.83	1.05	0.80	0.79	0.92	0.71	0.71	0.90	0.29	1.21	0.45

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

Note: The sample is 3,699 plans with \$233.4 billion in mutual fund assets. Audited 403(b) filings generally include plans with 100 participants or more. Plans with less than \$1 million in plan assets are excluded from this analysis. See the callout box on page 40 for a description of the fee analysis. The underlying expense ratios of variable annuity mutual funds are included.

Sources: BrightScope Defined Contribution Plan Database, Lipper, and Morningstar

Notes

- ¹ See Internal Revenue Service 2016; Giller 2009; and Hallsten and Architect 1994.
- ² See Internal Revenue Service 2016.
- ³ See Giller 2009 and Richardson and Gallagher 2010.
- ⁴ See Giller 2009 and Richardson and Gallagher 2010.
- ⁵ See Richardson and Gallagher 2010. Keim and Mitchell 2016, studying the defined contribution plan at a large nonprofit institution, explores the benefits of streamlining defined contribution plan investment lineups.
- ⁶ As of 2009, 403(b) plans falling under ERISA were required to file participation and financial information. This new reporting requirement led to a jump in the number of 403(b) plan participants and assets reported. ERISA 403(b) plan assets jumped from \$1.5 billion in 2008 to \$203.2 billion in 2009 (see U.S. Department of Labor, Employee Benefits Security Administration 2012c and 2015b).
- ⁷ For example, see Clark and Richardson 2010; Yakoboski and Conley 2013; and Clark and Hanson 2013.
- ⁸ See Clark and Richardson 2010.
- ⁹ This exhibit reports total 403(b) plan assets estimated by ICI (see Investment Company Institute 2016b) and total ERISA 403(b) plan assets estimated from the BrightScope Defined Contribution Plan Database in 2013 (see Exhibit I.4). The total ERISA 403(b) plan estimates from the BrightScope Defined Contribution Plan Database are slightly higher than the totals published by the Department of Labor (see U.S. Department of Labor, Employee Benefits Security Administration 2015c) because of late filers and other data amendments that may have occurred since the publication of the Department of Labor results.
- ¹⁰ Though the Form 5500 is a joint form with the Pension Benefit Guaranty Corporation (PBGC) and Internal Revenue Service (IRS), the Department of Labor (DOL) gathers and processes the information from the regulatory reports. See U.S. Department of Labor, Employee Benefits Security Administration, "Forms and Filing Instructions."
- ¹¹ The U.S. Department of Labor Form 5500 Research Files are available at www.dol.gov/ebsa/publications/form5500dataresearch.html.
- ¹² For more information on filing requirements, see U.S. Department of Labor, Employee Benefits Security Administration 2012d.
- ¹³ See U.S. Department of Labor, Employee Benefits Security Administration 2015c.
- ¹⁴ For example, see Richardson and Bisette 2014 and Goodman and Richardson 2014.
- ¹⁵ For example, see Clark and Richardson 2010.
- ¹⁶ Data on employer contribution formulas were not analyzed for 2013. See BrightScope and Investment Company Institute 2015 for analysis of employer contribution formulas in 2012.
- ¹⁷ 403(b) plan participants also may have access to account assets through withdrawals. The Form 5500 filings do not have information on the plan design features surrounding withdrawal activity. There are two possible types of in-service withdrawals from DC plans: nonhardship and hardship. Generally, participants withdrawing after age 59½ are categorized as nonhardship withdrawals. A participant seeking a hardship withdrawal must demonstrate financial hardship and generally faces a 10 percent penalty on the taxable portion of the withdrawal. If a plan allows loans, participants are generally required to first take a loan before they are permitted to take a hardship withdrawal. For DC plan participants' withdrawal activity, see Holden and Schrass 2016.
- ¹⁸ The plan sponsor also generally selects the default investment option. Plan Sponsor Council of America 2015 reports the different default investment options selected among their member plans with automatic enrollment.

¹⁹ For example, see Plan Sponsor Council of America 2015. For similar analysis of 401(k) plans, see Deloitte Consulting LLP, the International Foundation of Employee Benefit Plans, and the International Society of Certified Employee Benefit Specialists 2015; and Holden et al. 2016.

The Vanguard Group also releases an annual report focusing on defined contribution plans in its recordkeeping system. For the most recent report, focusing on 2014 plan data, see Utkus and Young 2015.

²⁰ The Form 5500 is an annual disclosure submitted to the U.S. Department of Labor by ERISA-covered employer-sponsored retirement plans, including ERISA 403(b) plans. The filings include information on plan assets, covered employees, contributions, withdrawals, loans, and automatic enrollment. For tabulations from the most recent release of Form 5500 data, see U.S. Department of Labor, Employee Benefits Security Administration 2015c.

²¹ A plan was determined to have automatic enrollment if it was specified on the 2013 Form 5500 or if it was indicated in the 2012 audited Form 5500 filing; this may undercount the number of plans with automatic enrollment. Plan Sponsor Council of America 2015 reports that 16.2 percent of 403(b) plans in their survey automatically enrolled workers.

²² Plan Sponsor Council of America 2015 reports that 96.6 percent of 403(b) plans in their survey offered employer contributions in 2014.

²³ Plans also may allow withdrawals (see note 17).

²⁴ Participant loans generally must be paid back within five years; however, loans for the purchase of a principal residence may qualify for a longer repayment period. Participants who separate from employment with an outstanding loan may be required to repay the loan shortly after separation. Otherwise, the outstanding balance is deemed distributed and potentially subject to taxation and penalties. For more information, see Internal Revenue Service 2016.

²⁵ Although the Form 5500 data do not contain the amount of loans defaulted in any given year, in plan year 2013, outstanding participant loans made up only 0.6 percent (\$2.2 billion) of the \$357.8 billion in ERISA 403(b) plan assets.

²⁶ Research on the impact of the availability of a loan feature on 401(k) plan participation and contributions has found either positive effects or no discernable impact, depending on the study. For example, Beshears et al. 2015 finds that adding a loan option increases 401(k) plan participation, but does not find a conclusive impact on contributions. Mitchell, Utkus, and Yang 2007 finds no impact of loans on participation rates, but concludes that the loan option increases the contribution rate by 10 percent among non-highly paid participants. Regression analysis in U.S. Government Accountability Office 1997 finds that—controlling for firm size, the employer match rate, and the presence of

another pension plan—a loan provision was associated with a participation rate that was about 6 percentage points higher, and a 36.8 percent higher average employee deferral rate. Holden and VanDerhei 2001 and Munnell, Sundén, and Taylor 2000 find that the presence of a loan provision increases 401(k) participant contribution rates.

²⁷ Plans are classified as having a loan provision if any participant in the plan has an outstanding loan balance. This may understate the number of plans offering loans because some plans may have offered a loan option, but no participant had taken out a loan.

²⁸ Plan Sponsor Council of America 2015 reports that 73.3 percent of 403(b) plans in their survey allowed loans.

²⁹ Participant loan balances outstanding from ERISA 403(b) plans in plan year 2013 totaled \$2.2 billion, which is less than 1 percent of ERISA 403(b) plan assets (see note 25).

³⁰ Defined contribution retirement plans are one of many employee benefits an employer may choose to offer.

³¹ See Richardson and Gallagher 2010; Clark and Richardson 2010; and Yakoboski and Conley 2013.

³² For a discussion of the economics, services, and fees in 401(k) plans, see Collins et al. 2015.

³³ Funds for which fee data were not available have been excluded. In addition, the audited Form 5500 reports contain share class data for approximately half of funds in the BrightScope database. For the remainder, if a plan's investment in a fund was less than \$1 million in assets, it was assumed that the plan was invested in retail-type shares (A shares or their equivalents), while a plan's investment of \$1 million or more in a fund was assumed to be invested in institutional-type shares (institutional shares or their equivalents). The impact of this assumption was tested by assigning to each fund the simple average expense ratio of all of its share classes. This tends to increase the average expense ratios presented, but does not significantly alter the remaining analysis (whether comparing across asset categories or across number of plan participants).

³⁴ At year-end 2015, 67 percent of index mutual fund assets were invested in domestic equity indexes, 14 percent were in world equity indexes, and the remaining 19 percent were in bond and hybrid indexes. See Investment Company Institute 2016c.

³⁵ In 2012, money market funds waived \$4.8 billion in expenses, up from \$3.6 billion in 2009 and \$1.8 billion in 2008. For more information, see Gallagher 2014. For mutual fund fees and expenses through 2015, see Investment Company Institute 2016a and for a discussion of the factors contributing to falling fees, see Collins and Duvall 2016.

³⁶ For example, for a discussion of the range of services offered in S&P 500 index funds, see Collins 2005.

Glossary

automatic enrollment

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

automatic increase

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

defined contribution (DC) plan

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

eligible plan participant

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

employer contribution

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

ERISA

The Employee Retirement Income Security Act of 1974 is a federal law governing private-sector employee benefit plans.

expense ratio

A measure of what it costs to operate a fund—disclosed in the prospectus and shareholder reports—expressed as a percentage of its assets.

fixed annuity

An investment contract sold by an insurance company. Capital is accumulated at a specified rate of interest with the option to convert to an income stream in retirement.

Form 5500

An annual disclosure submitted to the U.S. Department of Labor by ERISA-covered employer-sponsored retirement plans, including 401(k) and certain 403(b) plans.

Form 5500 audited filing

An independently audited report generally required by federal law for ERISA-covered employer-sponsored retirement plans with 100 participants or more.

401(k) plan

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

403(b) plan

An employer-sponsored retirement plan that enables employees of universities, public schools, and nonprofit organizations to make tax-deferred contributions from their salaries to the plan. See also **defined contribution (DC) plan**.

fund

A pooled investment product. In this report, funds include mutual funds and variable annuities.

index fund

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

mutual fund

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

plan assets

The total assets held among all participants within the plan.

recordkeeper

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

target date fund

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

total plan cost

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

variable annuity

An investment contract sold by an insurance company. Capital is accumulated, often through mutual fund investments, with the option to convert to an income stream in retirement.

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