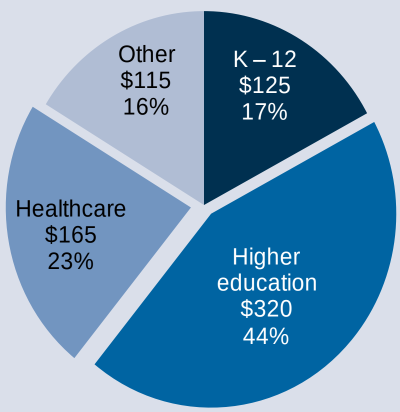
LIMRA Retirement Research

403(b) Plan Sponsor Research

Since the release of the final IRS regulations in 2007, nearly every aspect of 403(b) plan administration has changed. As these plans became more akin to their 401(k) counterparts, they became more attractive to traditional corporate providers, as well as traditional not-for-profit plan providers. Recent research from LIMRA explores two specific ERISA 403(b) markets — healthcare and higher education — from the perspective of plan sponsors. Understanding the trends, needs, and perspectives of these segments will help providers as they look to win share of the $485 billion in this market.

403(b) Market Segments Assets (in billions)

Total 403(b) Assets: $725 billion



Sources: LIMRA, PLANSPONSOR.
Assets as of December 31, 2012. Estimate based on full service and administrative/recordkeeping only assets.

Market Characteristics and Trends

Consolidation: Consolidation eases a plan sponsor's administrative burden and mitigates fiduciary risk. It appears that many plans see the benefit; fewer than 10 percent of plans in the survey use multiple recordkeepers.

Sales: Few plan sponsors (6 percent) are very likely to switch to another recordkeeper in the next two years. Healthcare organizations and plans with $2 million to less than $10 million in assets are somewhat more likely to indicate they might switch than other organizations.

Plan Design: Fewer surveyed 403(b) plans offer automatic enrollment than in the 401(k) space. This could be because many of these plans already have mandatory employer contributions. For the 69 percent of plans that don't offer automatic enrollment, cost is not cited as the main concern, although it may be more of an issue than acknowledged. Most plan sponsors either mention wanting enrollment to be voluntary or they yet haven't gotten around to setting it up

Recordkeeper Satisfaction: Over six in 10 plan sponsors are very satisfied with their current recordkeeper. Organizations that are very satisfied with their recordkeeper are more likely than other plans to be very satisfied with the planning tools and options provided to plan participants as well as the total costs of administering their plan.

Benefit Satisfaction: Overall, about half of plan sponsors (49 percent) are very satisfied with the overall retirement benefits they offer. This suggests that there is still work to be done to help plan sponsors design the best program.

Advisors: Half of healthcare plans (49 percent) and one-third of higher education plans (34 percent) use an advisor or consultant. Most advisors and consultants used by ERISA 403(b) healthcare and higher education plans are fee-based, although one in five are commission-based.

Opportunity for Providers

Understand the Language of Paternalism: 403(b) plan sponsors are more likely than their 401(k) counterparts to think in paternalistic terms, although in practice they are fairly similar. The vast majority of 403(b) plan sponsors in the survey (86 percent) indicate that the primary objective of their plan is to help employees save enough to retire. In contrast, about half of 401(k) plan sponsors reported that the primary objective of their plan is to offer a competitive benefit to attract and retain talent. Conversations with healthcare and higher education prospects should reflect their concern for participant savings as well plan features and services that could result in better outcomes for their employees.

Show How You Can Increase Participant Saving: Despite their stated plan objectives, only a third of organizations believe they have completely met the challenge of motivating employees to save sufficiently. Plan sponsors currently believe only 40 percent of their participants will be well prepared for retirement. This sentiment provides an opportunity for companies who can demonstrate the effectiveness of their communication, education and advice programs. Organizations that are very satisfied with the planning tools and options provided to plan participants are also more likely to be very satisfied with their recordkeeper. Consider promoting new plan success metrics, such as projected monthly retirement income, to demonstrate value and more sophisticated savings philosophies.

Start a Conversation about Outcomes: Despite widespread industry attention to retirement readiness and outcomes, 403(b) plan sponsors in the survey are most likely to look at participation rates and deferral rates as measures of plan success; only about a quarter look at projected monthly income or income replacement. While participation and savings rates are important, they are only a part of the equation. Automation improves accumulation and plan metrics. If these features can be coupled with tools that also plan for and illustrate retirement income, it creates a compelling story for both plan sponsors and participants.

Educate Plan Sponsors on Retirement Income Options: Two in five plan sponsors feel it is very important to offer a guaranteed retirement income option to participants in retirement as an alternative to a lump sum payment. As the offerings in this area increase, it is worth discussing with plan sponsors.

Educate Plan Sponsors on their Fiduciary Responsibility: A little more than a quarter of plan sponsors do not believe they have completely met the challenges of managing their fiduciary responsibility. Plans in the higher education market are slightly less likely to believe they have successfully met this challenge. It's also likely that a number of those who believe they have, may in fact not have, fully understood their fiduciary responsibility. The more certainty a company can bring to a plan sponsor about their roles and responsibilities, the more comfortable, and satisfied, a plan sponsor will be. Two in five plan sponsors feel it is very important to offer a guaranteed retirement income option to participants in retirement as an alternative to a lump sum payment. As the offerings in this area increase, it is worth discussing with plan sponsors.

Clearly Communicate Costs and Value to Plan Sponsors: Recordkeeper costs and understanding of recordkeeper fees are important to plan sponsors and among the key drivers associated with recordkeeper satisfaction. Be sure to communicate your costs clearly and ensure plan sponsors actually understand the valuable services paid for by those fees.

Be Aware of Potential Assets Growth in Shift to DC Plans: Thirty-five percent of surveyed 403(b) plans in these markets currently offer a DB plan and if these organizations freeze or terminate those plans, they would likely want to start offering an employer match in their DC plans. New matching contributions could increase the overall 403(b) assets levels of plans as well as the flows to the plan providers serving them.

Benchmark a Plan to Increase Benefit Satisfaction: Plan sponsors that have benchmarked their plan in the last year, or did a fee review, are more likely to be satisfied with their retirement benefit. These activities allow providers to show their value and make suggestions to improve the plan.

Data for this summary is from the 2013 report ***Exploring 403(b) Plan Practices and Trends: Healthcare and Higher Education.*** A telephone survey of healthcare and higher education organizations with 403(b) plans was fielded from December 2012 to January 2013. Boston Research Group conducted the study in collaboration with LIMRA. The Judy Diamond Associates database was used for the sample.
Qualified organizations:

- Operate in the healthcare or higher education markets
- Currently offer an ERISA 403(b) plan
- Have $2 million or more in plan assets

A total of 209 interviews (138 healthcare and 71 higher education) were completed.

Plan Characteristics by Market Segment

	Healthcare	Higher education
Average participation rate	65%	82%
Average deferral rate	4%	5%
Have a 403(b) match	72%	82%
Multiple recordkeeping providers	5%	17%
Investment types offered		
Annuities	67%	89%
Custodial accounts	67	78
Both	49	73
Offer a defined benefit plan	42%	21%
Plan Design		
Automatic enrollment	32%	30%
Automatic deferral escalation	26	14
Both	11	3