

Callan DC Trends Survey Highlights Plans' Focus for 2020

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Defined contribution (DC) plan sponsors continue to make fees a main priority, according to Callan's *2020 Defined Contribution Trends Survey*, but they are also focused on communicating with participants and plan to highlight the topic of financial wellness in 2020.

(Estimated reading time: 3 min 54 sec)

In addition, the already high share of sponsors acting to prevent plan leakage sharply rose, from three-quarters in 2018 to nearly 9 in 10 in 2019. In 2020, nearly two-thirds anticipate taking additional steps to prevent plan leakage—most notably, by making the fund lineup more attractive to retirees, by restructuring loan provisions for the plan (e.g., by reducing the number of loans allowed), by encouraging rollovers, or by supporting the retention of assets.

Callan's annual *DC Trends Survey* is designed to provide a benchmark for sponsors to evaluate their plans compared to peers, and to offer insights to help sponsors improve their plans and the outcomes for their participants.

Callan has published the *DC Trends Survey* since 2007. This year's survey includes responses from 114 plan sponsors, both Callan clients and other organizations, with 86% of them offering a 401(k) as their primary DC plan and 65% having more than \$1 billion in assets. This year's survey does not include government plans, which will be the focus of a separate survey later this year. Responses were collected in September and October of 2019.

Other highlights from this year's survey:

FEES: In addition to the overall attention on plan fees, the *DC Survey* highlighted some specific areas of focus:

- Two-thirds of plan sponsors are either somewhat or very likely to switch to lower-fee share classes in 2020.
- Roughly 4 in 10 intend to switch to more institutional vehicles such as collective trusts or separate accounts.
- Nearly 9 in 10 sponsors benchmarked plan fees as part of their fee review process, up from last year.
- More than half of plan sponsors are likely to conduct a fee study in 2020.

COMMUNICATION: Participant communication closely followed plan fees as the top area

of focus for 2020. And for the third year in a row, financial wellness ranked as the No. 1 upcoming area of communication focus. But plan participation jumped significantly in importance, taking the No. 2 spot after being ranked No. 5 in last year's survey.

INVESTMENT MENU: The vast majority of DC plans had a mix of active and passive investment funds. More than three-quarters did not change the proportion of active versus passive funds in their plan in 2019, and of those that did make changes, more increased the proportion of passive funds than active funds.

FUND CHANGES: In 2019, more than one-third of plan sponsors reported replacing funds in the past year because of performance-related reasons. This was a large increase from the 25% that replaced a fund in 2018. While a majority of plans did not change the number of funds in 2019, more plans decreased rather than increased the number of funds.

TARGET DATE FUNDS: Nearly every DC plan offered target date funds. The prevalence of custom target date solutions witnessed a modest increase (from 13% to 17%) during the past year, while 21% of plans expect to use a custom approach in the coming year. More than three-quarters have a target date fund that is at least partially indexed.

INVESTMENT ADVISORY SERVICES: The vast majority of DC plan sponsors offered some form of investment guidance or advisory service to participants, up noticeably compared to recent years. Online advice was the most commonly offered service.

CONSULTANTS: Nearly 9 in 10 plan sponsors said they engage an investment consultant, the highest level in survey history. More than 1 in 5 use a discretionary 3(38) consultant.

RETAINING ASSETS: The share of sponsors with a policy for retaining retiree/terminated participant assets, at 63%, was comparable to the level in previous years but has jumped noticeably from 44% in 2015. Of sponsors that have a policy, more seek to retain assets.

ROTH FEATURES: The percentage of plans offering a Roth account hit an all-time high of 87%. The prevalence of Roths in DC plans has increased notably over the past few years, rising from 62% in 2015.

PLAN SUCCESS: For the fourth straight year, plan participation was the highest-rated metric for measuring the success of plans.

COMPANY MATCH: In 2019, 14% of plan sponsors made a change to their company match policy, down from last year's figure. Additionally, nearly a third anticipate making a change in 2020.

AUTO FEATURES: Automatic enrollment has seemingly reached saturation, remaining at around 7 in 10 plans for the past four years. Of those that do not automatically enroll employees, 5.6% report that they are very likely to implement this feature in 2020.

Along with the data in our quarterly [Callan DC Index™](#) and [Target Date Index™](#), this survey paints a detailed picture of the challenges and opportunities that are top of mind for DC plan sponsors this year.