2015 Trends & Experience in Defined Contribution Plans

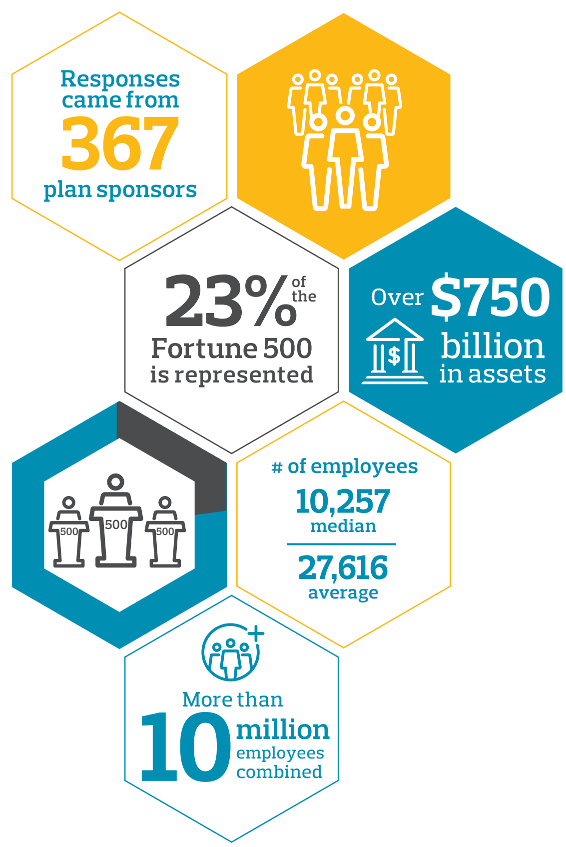
Executive Summary

The Evolution of Defined Contribution Plans

With a vested interest in helping workers accumulate sufficient retirement savings, employers have been busy bolstering their defined contribution (DC) plan provisions and investment offerings. This report finds that DC plans are changing in rapid ways as employers undertake rigorous reviews to promote more participation, encourage greater savings, and improve investment funds.

Among the highlights:

1. Automatic features are becoming more powerful
2. Plan match formulas are changing
3. Plan fees remain a focus
4. Roth availability is growing
5. Employers are enhancing their target-date funds
6. Help tools are expanding
7. Communication is more personalized than ever before



Automatic features are becoming more powerful

Provisions that automate the savings process are quite effective at enrolling workers in the plan. However, until recently, the default contribution levels were relatively low and newly hired workers often missed out on matching contributions. That trend is changing.

- In 2015, 52% of employers with automatic enrollment set the initial savings rate at 4% or more—an increase from 39% in 2013. More than half of all plans with automatic enrollment (51%) default workers at or above the match threshold.
- The percentage of employers using a back-sweep to enroll nonparticipants into the plan doubled from 8% in 2013 to 16% in 2015.
- The automatic contribution escalation ceiling is also increasing. Nearly two-thirds (64%) of employers set the threshold at 10% or more. In 2013, this fraction was 50%.

More than **1/2** of all plans with automatic enrollment (51%) default workers at or above the match threshold

42% **of companies** have a dollar-for-dollar company match formula, up from 25% in 2011

Plan match formulas are changing

Employers are concentrating their contributions on matching formulas—a move that often encourages workers to save more.

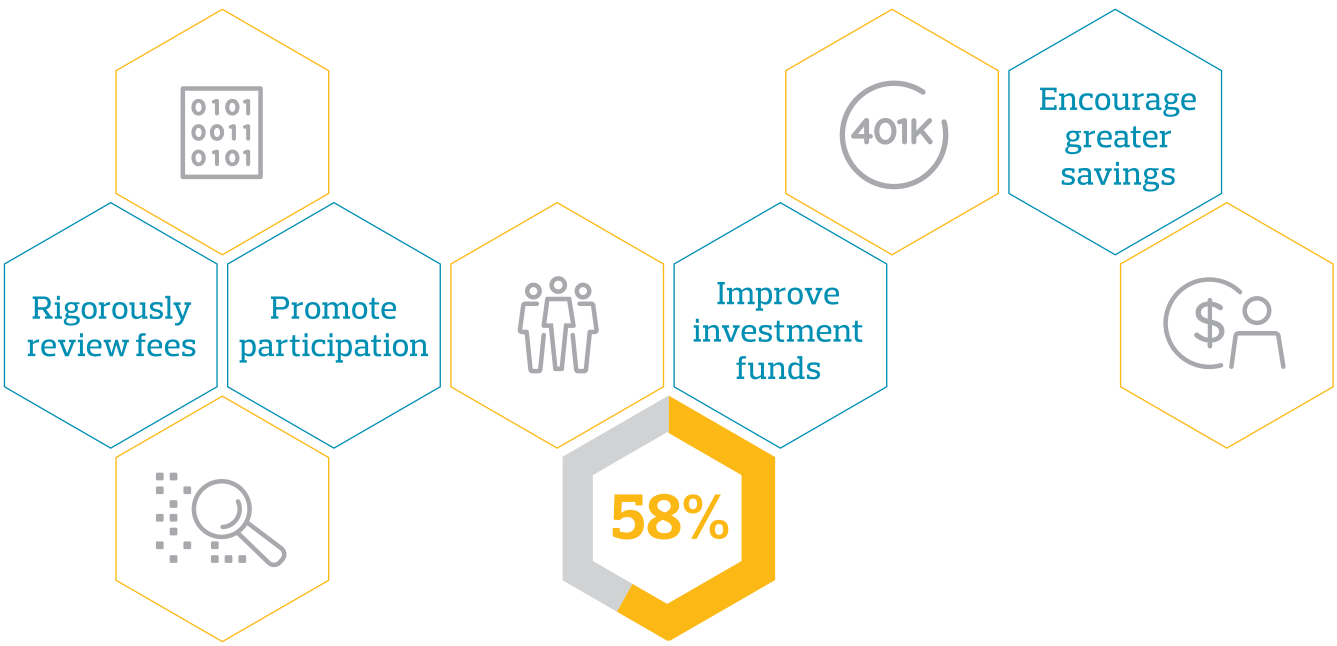
- The most popular employer match rate is $1.00 for $1.00. Now, 42% of employers have this formula, up from 25% in 2011.
- The majority of plans (57%) require workers to save 6% or more in order to receive the full employer-matching contribution.

Plan fees remain a focus

Employers are taking actions to make fees more transparent and equitable across worker populations.

- In 2011, 83% of employers charged workers administrative fees by using mutual funds with revenue sharing. In 2015, that percentage dropped to 40%.
- Conversely, the percentage of plans that allocate administrative fees as a periodic dollar charge to workers increased from 14% in 2011 to 39% in 2015.

39% of plans now charge administrative fees on a flat dollar basis



of plans now allow for Roth contributions

Roth availability is growing

Since Roth 401(k) features were first introduced in 2006, they have steadily become more prevalent. Now, close to two out of every three plans allow workers to make Roth contributions.

- Six out of ten employers (58%) offer Roth contributions—up from 50% in 2013 and 11% in 2007.
- When Roth contributions are available, one-third of employers (33%) allow for in-plan Roth conversions. In 2013, the ratio was closer to one out of four (27%).

17% of plans have customized target-date funds

Employers are enhancing their target-date funds

Target-date funds receive the majority of new plan contributions, so employers are looking for ways to provide funds that maximize value to both workers and the plan.

- 17% of plans use customized target-date funds built from their core funds as opposed to a pre-packaged, off-the-shelf product.
- One out of ten plan employers has recently re-enrolled participants into target-date funds or is considering doing so in the next 12 months.

Help tools are expanding

While target-date funds remain a staple in defined contribution plans, they are not for everyone. To meet the needs of a more financially diverse workforce, employers are offering tools and services designed to provide professional investment help to workers.

60%
of plans have online guidance, up from 55% in 2013

55%
of plans have managed accounts, up from 52% in 2013

53%
of plans have online advice, up from 46% in 2013

Help tools like online advice, managed accounts, and online guidance **are now offered by a majority of plans**

Communication is more personalized than ever before

Employers are increasingly providing workers with customized, targeted, effective information about the benefits of investing in the plan.

- Eight out of ten employers now use personalized communication—an increase from 54% a decade ago.
- The most effective medium is on-site workshops, with nearly two-thirds of employers (63%) rating them as very effective.

About This Survey

The *Trends & Experience in Defined Contribution Plans* survey has been conducted every two years since 1991. The 2015 survey was completed by 367 employers across a variety of plan types, sizes, and industries. For the purposes of this survey, the term "defined contribution plans" includes 401(k), profit sharing, 403(b), 401(a), and 457(b). The survey was fielded in the first quarter of 2015 to gain a better understanding of employer trends related to retirement plan offerings, design, and investments.

Contact Information

Rob Austin, FSA, EA
Director of Retirement Research
rob.austin@aonhewitt.com
+1.704.343.4100

Winfield Evens, CFA
Partner, Director of HRO Investment Strategy
winfield.evens@aonhewitt.com
+1.847.295.5000

Amy Atchison
Research Consultant
amy.atchison@aonhewitt.com
+1.847.295.5000

MacKenzie Lucas
Public Relations
mackenzie.lucas@aonhewitt.com
+1.847.295.5000

Additionally, Aon Hewitt acknowledges the many contributions of others in writing this report, including:
Tomeka Hill, PhD, Senior Research Manager
Jim Mihos, CFA, Investment Consultant
Holli Thoren, Research Assistant
Shelly Vallejo, Research Analyst

About Aon Hewitt
Aon Hewitt empowers organizations and individuals to secure a better future through innovative talent, retirement, and health solutions. We advise, design, and execute a wide range of solutions that enable clients to cultivate talent to drive organizational and personal performance and growth, navigate retirement risk while providing new levels of financial security, and redefine health solutions for greater choice, affordability, and wellness. Aon Hewitt is the global leader in human resource solutions, with over 30,000 professionals in 90 countries serving more than 20,000 clients worldwide. For more information on Aon Hewitt, please visit aonhewitt.com.

About Aon
Aon plc (NYSE:AON) is a leading global provider of risk management, insurance brokerage and reinsurance brokerage, and human resources solutions and outsourcing services. Through its more than 69,000 colleagues worldwide, Aon unites to empower results for clients in over 120 countries via innovative risk and people solutions. For further information on our capabilities and to learn how we empower results for clients, please visit: http://aon.mediaroom.com.