

MEMO# 34121

April 22, 2022

GAO Publishes Report Examining 403(b) Plans

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TO: ICI Members

Pension Committee

Pension Operations Advisory Committee SUBJECTS: Pension RE: GAO Publishes Report Examining 403(b) Plans

The US Government Accountability Office (GAO) published a report on 403(b) plans entitled: "403(b) Investment Options, Fees, and Other Characteristics Varied" (the "Report").^[1] GAO prepared the Report at the request of Rep. Bobby Scott (D-VA), Chairman of the U.S. House Committee on Education and Labor, for the purpose of filling gaps in information about 403(b) plan investment options and fee structures.^[2]

GAO looked at a variety of data and information sources during its examination, conducted from July 2020 through March 2022, including:

- Form 5500 data on ERISA-covered 403(b) plans;
- Individual-level data from the Health and Retirement Study (University of Michigan Institute for Social Research);
- GAO surveys of 403(b) plan sponsors and service providers;
- GAO interviews of stakeholders and experts; and
- Third-party research and publications, including from ICI, the Plan Sponsor Council of America, and the National Tax-Deferred Savings Association.

The Report includes the following findings and observations:

- Total 403(b) plan assets increased from 2010 to 2020, driven by an increase in ERISA plan assets, which are concentrated in the education and health care sectors. The Report cites ICI data showing that total (ERISA and non-ERISA) 403(b) plan assets grew from \$851 billion in 2010 to more than \$1.1 trillion in 2020. The Report attributes this increase to an increase in ERISA-covered 403(b) plan assets, although the total number of ERISA-covered 403(b) plans declined (possibly due to consolidation in the health care sector). Like the total amount of assets, the total number of participants in ERISA-covered 403(b) plans has increased.
- Available data show that non-ERISA 403(b) plans are often supplemental to other

forms of retirement savings and that other plan characteristics, such as contribution rates and participation, vary among 403(b) plans. GAO finds that ERISA-covered 403(b) plans tend to be the sole or primary plan offered by an employer, while non-ERISA plans are mostly supplemental to another retirement plan offered by an employer (such as a defined benefit pension plan). The Report also discusses contribution rates by employers and employees, participation rates, and plan size trends.

- 403(b) plans generally have a greater number of investment options than 401(k) plans. The Report notes that, though 403(b) plans tend to have a greater number of options, several 403(b) plan sponsors reported to GAO that they significantly reduced the number of plan investment options over the last 10 years. The Report also notes that some plan sponsors indicated that they did not know how many investment options the plan offered.
- 403(b) plans' asset allocations to annuities and mutual funds varied by plan. The Report cites ICI data showing that at the end of 2020, 48 percent of total ERISA and non-ERISA 403(b) assets were in life insurance products (excluding mutual funds held inside variable annuities), 24 percent were in variable annuity mutual funds, and 28 percent were in non-variable annuity mutual funds. The Report notes that many plans offer both annuities and mutual funds, with the allocation varying widely across plans.
- Available data show that 403(b) plans had a wide range of fees. GAO's review of various data sources shows wide variation in the fees associated with 403(b) plans, including administrative and recordkeeping fees, other plan-level fees, investment fees, and surrender fees for annuity options.
- Form 5500 data show an increase in administrative fees paid directly by ERISA-covered 403(b) plans. The Report reviews Form 5500 data from 2010 through 2018 and finds that the share of ERISA-covered 403(b) plans paying administrative fees directly from plan assets has increased over time. The available data also indicates that the amount of direct-paid administrative fees reported by ERISA-covered 403(b) plans increased during this time. Various factors could explain this increase, including a shift away from indirect compensation to service providers and more accurate reporting of fees on the Form 5500. Despite this trend, the Report notes that the majority of small plans reported that they paid no direct administrative fees in 2019 (possibly paying through indirect compensation or paying directly by the plan sponsor).
- Available data indicate that the largest 403(b) plans had lower administrative and investment fees than smaller plans. The Report notes that this variation in fees by plan size is consistent with industry data on total administrative and investment fees. Citing ICI research, the Report indicates that in 2017, total plan costs for the largest ERISA 403(b) plans (defined as having over \$1 billion in assets) averaged 0.37 percent, while those for plans with under \$1 million in assets averaged 1.33 percent.[\[3\]](#)
- Certain types of plans (university plans, state-sponsored plans, and plans with assets of at least \$1 billion) reported taking steps to reduce fees. Responding to GAO survey questions, these plans reported taking actions such as requesting bids, using outside consultants, and periodically reviewing fees—actions which were less often reported by smaller plans surveyed. The larger 403(b) plans also more frequently cited low fees as an important factor in hiring service providers.

endnotes

[1] The Report is available here: <https://www.gao.gov/products/gao-22-104439>.

[2] The Report states that little is known about 403(b) plan investment options and fee structures, though 403(b) plans are estimated to hold more than \$1 trillion in assets. See Report p. 1.

[3] See Report p. 46, citing The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans, 2017 (January 2021).

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