

## VIDEO

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# Focus on Funds: 401(k) Plan Designs Help Employees Save for Retirement

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Employers design plans with multiple options to encourage workers to save and invest, according to a new paper from ICI and BrightScope. In the January 20, 2017, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investor Research Sarah Holden explains.

### Transcript

**Stephanie Ortbals-Tibbs, media relations director, ICI:** Millions of workers count on 401(k) plans as an important part of their retirement savings program. That's why plan design is so important, and why ICI and BrightScope regularly team up to study how these plans are put together. Recently, ICI Senior Director for Retirement and Investor Research Sarah Holden shared with me the latest key takeaways from this report.

**Sarah Holden, senior director for retirement and investor research, ICI:** So the BrightScope/ICI report really does a deep dive into the features of 401(k) plans. There are millions of participants, trillions of dollars invested in these plans. The employer spends a lot of time designing the plan.

There are really three key decision points. First you have to decide whether you're going to participate. Then you need to decide how much you're going to contribute and see whether there's an employer contribution. And then you get to the investment decision and decide what kind of choices you're going to make there.

With regard to the participation decision, in many plans, it's actually done automatically for the worker. So if the worker does nothing, they could be automatically enrolled and put on the path to saving. Now whether you're automatically enrolled or you choose to enroll, the next decision is to contribute—how much are you going to contribute? And you'll want to look to see if there's an employer contribution. We find that the majority of participants are in plans that have employer contributions, and when we look at the dollars going into the plans, the employer contributions account for a third of that money.

**Ortbals-Tibbs:** So what's the most common employer-contribution formula?

**Holden:** Employers often put money into the participant's account so there's a few different ways that they can do it. Sometimes they just put a little bit into everybody's accounts, so that everybody has something. But the most common way to do this is actually as a matching contribution—this way, the employee is encouraged to put a certain amount in, and then the employer matches an amount. You want to be sure that you take full advantage of that employer contribution because it's really part of your whole pay package, and if you don't get that full contribution, you basically left money on the table.

**Ortbals-Tibbs:** What about investing? What do the data tell you there?

**Holden:** The typical 401(k) plan has 28 investment options and that often includes a target date fund. So we find this range of choices and you have to, as a participant, decide: "Am I a do-it-yourself investor? Am I going to choose from those 28 options? Or am I someone who might want to hand over the asset allocation to an investment professional and choose the target date fund?" About three-quarters of the plans actually offer target date funds.

**Ortbals-Tibbs:** There's also some good news in this report about 401(k) fees.

**Holden:** BrightScope is able to pull from the Form 5500 data a total plan cost measure. We find that that's about 55 basis points for these large 401(k) plans. We're also able to look at mutual fund investing across the plans and we see that there's some variation by plan size, but also that they've trended down over time.

**Ortbals-Tibbs:** What about other plan design features, like loans?

**Holden:** What we find is that when a plan offers a loan feature, people actually contribute more, because they know if there was an emergency they could get to the money, but they often don't. So, most of the plans actually have a loan feature, most participants are offered a loan feature, but at the end of the day, not too many take advantage of it.

**Ortbals-Tibbs:** Sarah, the other thing the big picture shows us is that 401(k) sponsors put a lot of thought into their plans.

**Holden:** Plan sponsors really spend a lot of time thinking about what features will make their plans attractive to workers, and also ways to make it easier. So we have the target date funds, or we have automatic enrollment, we have the employer contributions—all of these things work together to really encourage folks to save for retirement.

## **Additional Resources**

[Release: Most Employers Make Contributions to Their 401\(k\) Plans, In-Depth BrightScope/ICI Study Finds](#)

[Frequently Asked Questions About 401\(k\) Plans: The Basics](#)

[Focus on Funds: How to Make the Most of 401\(k\) Savings](#)

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