

VIDEO

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Focus on Funds: Collaborative Research Highlights Three Key Features of 401(k) Plan Design

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This annual collaboration between ICI and retirement plan ratings provider BrightScope breaks down the most common elements of employer 401(k) plans. In the August 21, 2020, edition of *Focus on Funds*, ICI Senior Director of Retirement and Investment Research Sarah Holden summarizes the latest findings.

Transcript

Stephanie Ortballs-Tibbs, ICI director of media relations: Sarah, the latest ICI/BrightScope report is out. What are some of the key findings in this latest study of 401(k)s?

Sarah Holden, ICI senior director of retirement and investor research: The BrightScope/ICI research effort gives us insight into plan design. And we take a look at, “how do plan sponsors design their plans to attract and retain qualified workers?”

There are three key measures we look at in terms of plan design: automatic enrollment, employer contributions, and plan loans. And that is whether the plan allows participants to take out loans. And what we see is the most broadly offered feature is, indeed, employer contributions.

So nearly nine in 10 large 401(k) plans have employer contributions, and this means that more than nine in 10 participants have these contributions available to them. So this is very important as a feature because it incentivizes workers to contribute money to be sure to get that full match.

We find that the most common combination of features is to have those employer contributions and also to offer a loan. And that happens in 46 percent of large 401(k) plans.

Ortballs-Tibbs: The other thing that this report looks at is investment choice. There’s a lot

of insight there. What do you see?

Holden: The plan sponsor offers a range of investment options. On average, there are 21 options in a large 401(k) plan. And they are designed to cover a range of risk and return because the workers participating in the plan are at different stages of their careers.

In terms of what the plan sponsor offers in the end, nearly every large 401(k) plan has domestic equity funds, international equity funds, and domestic bond funds. In addition, we see that more than eight in 10 of these plans offer what are called target date funds. And with a target date fund, you basically hand over the investment allocation to an investment professional. The fund is diversified, and it rebalances over time. These are a great option for folks. And then we see that the typical plan has some kind of a money market option, and that's for the folks who maybe want a little bit of a cash element in their portfolio.

Additional Resources

- [The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401\(k\) Plans, 2017](#)
- [ICI Research Perspective: The Economics of Providing 401\(k\) Plans: Services, Fees, and Expenses, 2019](#)
- [401\(k\) Resource Center](#)
- [ICI Research Report: Defined Contribution Plan Participant's Activities, First Half 2020](#)
- [ICI Research Report: American Views on Defined Contribution Plan Saving, 2019](#)