

2013

Retirement Plans in Institutions of Higher Education



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About the Research

The information that retirement plan fiduciaries of Higher Education institutions need to benchmark their plan simply does not exist at this level of detail. At least, it did not exist until the publication of this report based on interviews with 90 plan sponsors of the sector providing an in-depth view across plans and across providers. With this report in hand, plan fiduciaries have a sector-specific norm for a number of metrics.

Several characteristics make institutions of Higher Education so unique that benchmarks based on large corporate employers are irrelevant: history, status in the community, average age of labor force entry, length of working career, seasonal pattern of recruiting and onboarding, the dichotomy between staff and faculty, ownership and governance, the mix of private and public institutions, the role of unions, the role of church and state, history of retirement benefits, the tradition of multi-provider plans, the dominance by a small cadre of providers with a cult-like following, late adoption of fiduciary practices imbedded in ERISA. This report focuses on institutions that offer a 403(b) or a Roth 403(b) plan. Throughout the report, we will identify differences among subgroups:

- Type of institution—public vs. private
- Retirement plan provider arrangement—single provider vs. multiple provider
- Advisor presence—Have an advisor vs. do not have an advisor
- Number of eligible staff and faculty—Under 5,000 vs. 5,000 or more

The data were collected in December 2012. The sample consisted of 58 public and 32 private institutions—the majority of which are four-year colleges or universities (83% of the sample). Most of these institutions (53) have fewer than 5,000 eligible employees—82% of those with 5,000 or more employees are public. The sample is split almost evenly between those with a single provider (47) and those with multiple providers (43). Respondents have either sole decision-making (48%) or are members of a committee or board responsible for making retirement plan decisions. Of the 90 respondents, 38 partner with a retirement plan advisor or consultant.

Executive Summary

This report offers a unique set of norms for use by plan fiduciaries of Higher Education institutions as they seek to gauge the performance of their own defined contribution retirement program. Most critical is the finding that Higher Education institutions more closely approach contribution levels and practices consistent with successful retirement outcomes than peers in the corporate sector. For instance, on average, staff and faculty defer 13.4% of pay in their defined contribution retirement plan. More than 40% of Higher Education institutions automatically enroll participants and 54% of those enroll participants at a deferral rate 5% or higher. Retirement plans of Higher Education institutions are evolving fast. Three-quarters have implemented some type of change in the last 24 months, and nearly as many intend to implement some type of change in the next 12 months. A majority use a single provider; 44% of those with multiple providers rely on two vendors only. On average, investment arrays include 21 funds, and more than 40% of institutions partner with a retirement plan advisor or consultant. Half of all institutions benefit from onsite visits by a participant educator but many report their assigned educator spends fewer than seven days a year on campus. Half of plan sponsors state their plan is an ERISA plan; however, nearly one-third are unsure. Although important differences remain which set Higher Education institutions apart from other large employers, study findings call everyone to shed preconceived ideas about retirement plans of colleges and universities and to look at the facts.



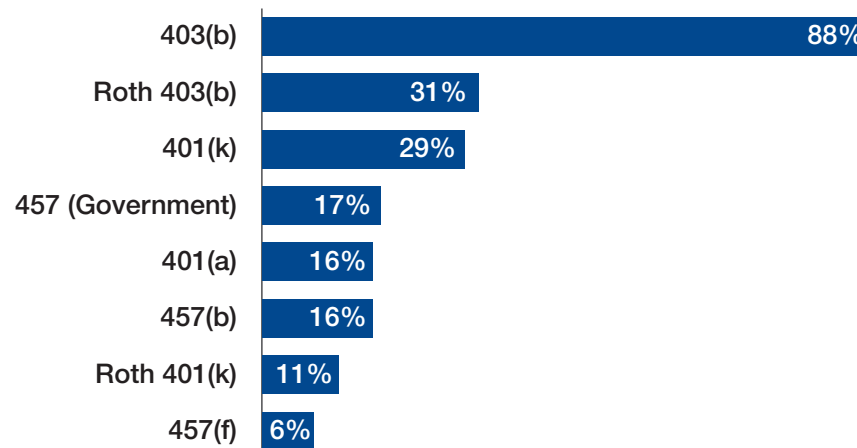
Plan Types

403(b) plans predominate in the Higher Education sector. Other studies report the incidence of 403(b) plans to be around 95%. Of the 90 institutions we surveyed, 88% offer a 403(b) plan. In two-thirds of institutions, the defined contribution retirement plan with the most participants is their 403(b) plan. Institutions that use an advisor are slightly less likely (58%) to say their plan with the largest number of participants is a 403(b) plan.

The breadth and the types of defined contribution plans offered vary with institutional history, ownership, and governance. For instance, many public and quasi-public institutions offer a 401(a) defined contribution plan implemented when a defined benefit plan was frozen. The more dynamic among private universities, with

online campuses, remote locations, research centers, or high-tech labs may have no alternative but to offer a 401(k) plan to attract employees from the corporate sector. Our study found that many institutions offer plans other than 403(b) plans but none is used by more than one-third of institutions. Roth 403(b) plans (31%) are the next most popular. 401(k) plans are slightly more prevalent among institutions that rely on an advisor (37%) than overall (29%). It is not clear which is the cause and which is the effect. As one might expect, larger institutions, disproportionately public, are most likely to offer other types of plans, especially 401(a) defined contribution plans (29%) and 457(b) plans (26%).

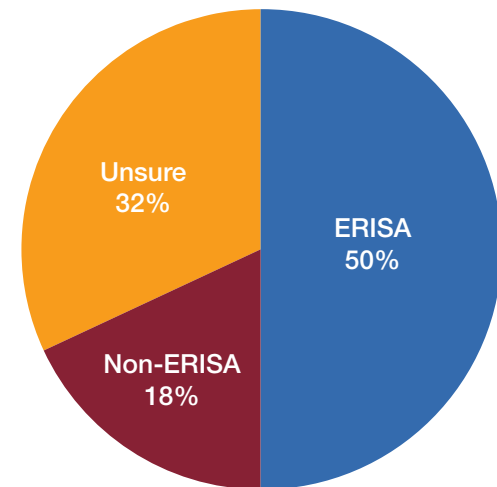
Defined Contribution Retirement Plans Sponsored



Until recent years, many institutions toed the line regarding the status of their plan with respect to ERISA, even among private institutions not considered church entities. In 2009, the Internal Revenue Service made it quite clear which 403(b) plan sponsors are held responsible for the selection and monitoring of investment options, forcing the issue for nearly all private institutions of Higher Education. Half of all institutions of Higher Education today identify their 403(b) plan as an ERISA plan; however, there remain one-third (32%) unsure of whether their plan is subject to ERISA or not.

Study results point to what is possibly a dichotomy among Higher Education institutions using advisors. On the one hand, some institutions rely on a plan-level advisor to make plan-level decisions. On the other hand, some other institutions rely on one or several participant-level advisors to counsel staff and faculty on their plan options. In the survey, both categories of institutions correctly respond they are using an advisor, but the scope of the advisor's engagement may be quite different. In the case of an ERISA plan, if the advisor assumes ERISA fiduciary responsibility for plan-level investment decisions, this same advisor is prohibited from delivering participant-level advice, in many cases. On the other hand, in the case of a non-ERISA plan such as a public university system, the same participant-level advisor may also be the same person who advises the plan sponsor on the selection of investment options.

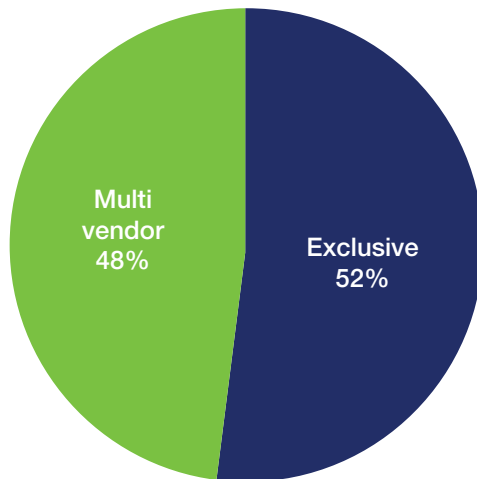
Type of 403(b) Plan



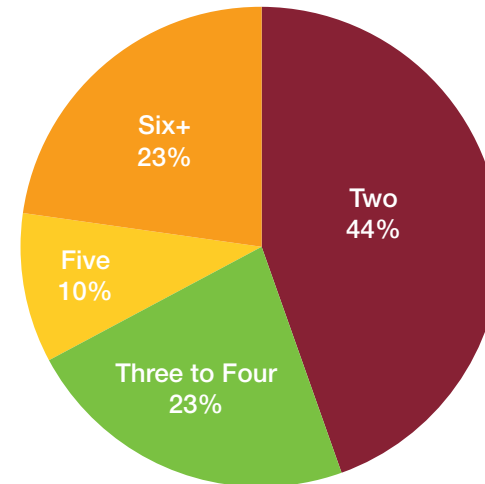
Higher Education institutions are almost evenly split among those using a single recordkeeper and those with multiple provider arrangements. The fact that more (52%) have a single provider is probably a sharp change from five or ten years ago when multi-provider situations were the norm. Some might regard the current provider consolidation trend as a return to the “old days” when one vendor was the norm. However, the reality today is quite different as institutional advisors help colleges and universities sort through the array of first-tier providers geared to serve their workforce. Among those using multiple providers, many (44%) use two providers. Private institutions (71%) and those with fewer than 5,000 participants (50%) are most likely to limit the selection to two providers.

We continue to be fascinated by the high number of institutions (56% of those with multiple providers) offering six or more providers. Situations with three or more providers are exclusively found among public institutions (35%), perhaps located in jurisdictions that once mandated that a public institution allow employees to use any provider legally available in the jurisdiction.

Retirement Plan Provider Arrangement



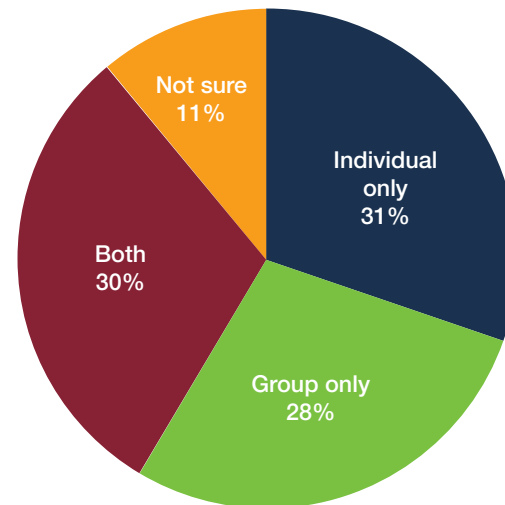
Providers Among Multi-Vendor Plans





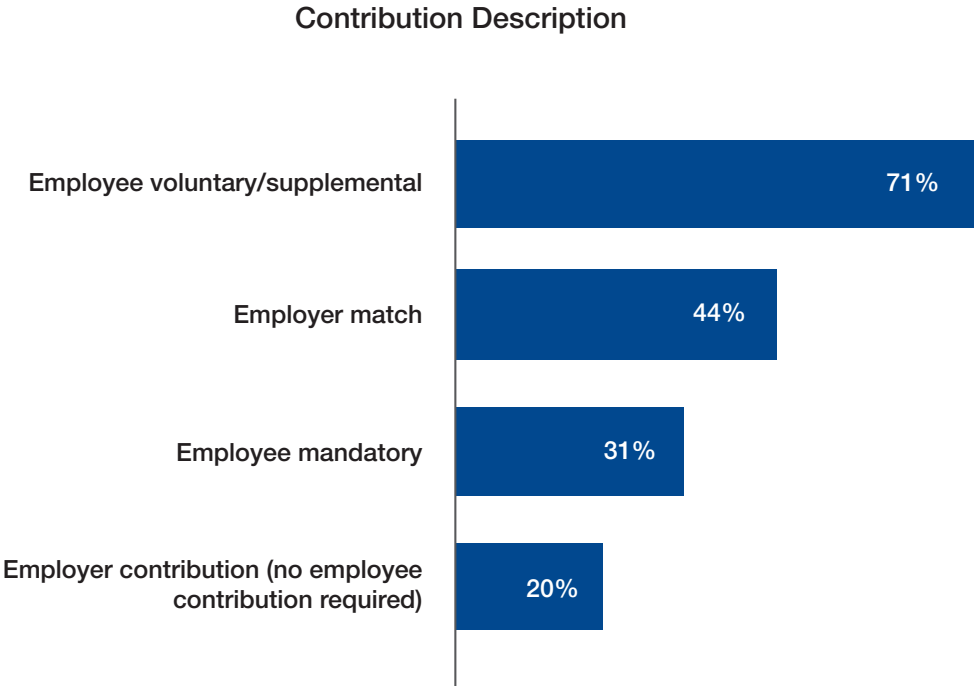
The popularity of institutional solutions has risen to such a point that fewer than one-third of Higher Education institutions offer only individual contracts, and almost as many have completely abandoned individual contracts. Among those institutions with single-vendor plans, more use only a group contract. Exclusive use of individual contracts occurs more often among smaller institutions (43%) and those not using an advisor (37%). Less than one-third of Higher Education contracts are group only, varying greatly from corporate plans, with all having a group contract.

Types of Contracts Offered



Contribution Levels and Practices

Many institutions have structured their defined contribution retirement program to accept multiple types of contributions. Of the institutions surveyed, 20% make non-elective employer contributions to the retirement program. As one might expect, institutions with a plan funded in part with non-elective employer contributions are most likely to use an advisor: 61% of those institutions use a plan advisor.



Participant account balances at Higher Education institutions average \$69,268. Institutions that use an advisor have a slightly lower average account balance, suggesting some institutions may be hiring advisors specifically to address shortfalls. Private institutions and those with larger staff and faculty skew toward higher average account balances. The correlation between staff size and account balance parallels that observed among corporate employers. Larger employers offer more opportunities for internal staff mobility. For this reason, many enjoy lower turnover and longer employee tenure that leads to higher account balance. Naturally, the bias would be reflected in segments correlated with staff and faculty size. Additionally, smaller schools tend to pay less; since contributions are based on a percent of pay, contributions will be lower.

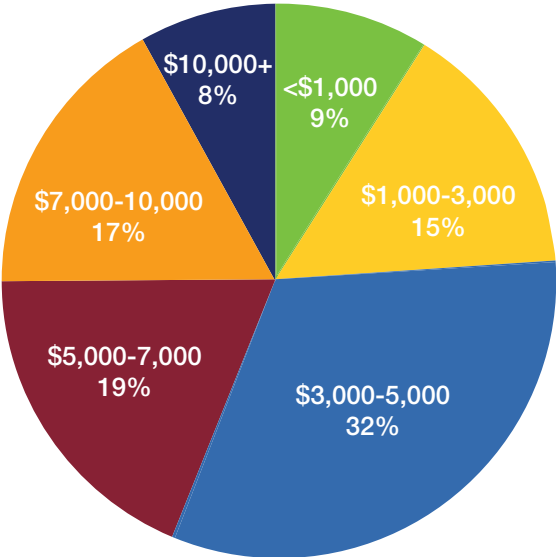
Average Account Balance per Participant

Total Average	Institution Type		Advisor		# of Employees	
	Public	Private	No	Yes	Under 5,000	5,000+
\$69,268	\$63,345	\$81,115	\$75,362	\$61,080	\$51,598	\$105,737

On average, about half (52%) of participant account balances consist of voluntary employee contributions and rollover/transfers. The balance includes employer matching contributions (24%), mandatory employee mandatory contributions (16%), and employer contribution (8%).

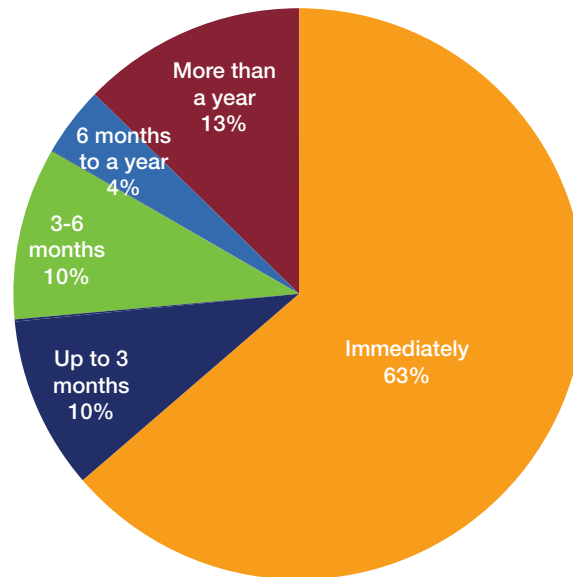
On average, Higher Education institutions report contribution rates higher than is typically observed in the corporate sector. On average, employees defer 13.4% of pay in their defined contribution plan, including 4.8% mandatory contribution and 8.6% voluntary contribution. Although this level of retirement savings is quite high, it may not be sufficient to help the majority achieve successful retirement outcomes. Contribution levels measured in dollars and cents are less glamorous: over half of institutions report average employee contributions under \$5,000. Very few (8%) report average contribution levels of \$10,000 or more.

Average Participant Contribution in dollars



The long tradition of immediate eligibility for employee contribution in Higher Education institutions continues, even as some institutions shift to a 401(k) plan. Almost two-thirds of institutions allow staff and faculty to contribute to their retirement plan immediately upon hire; another 20% allow staff and faculty to contribute within six months of hire. Only 13% require employees to wait one year or longer before contributing.

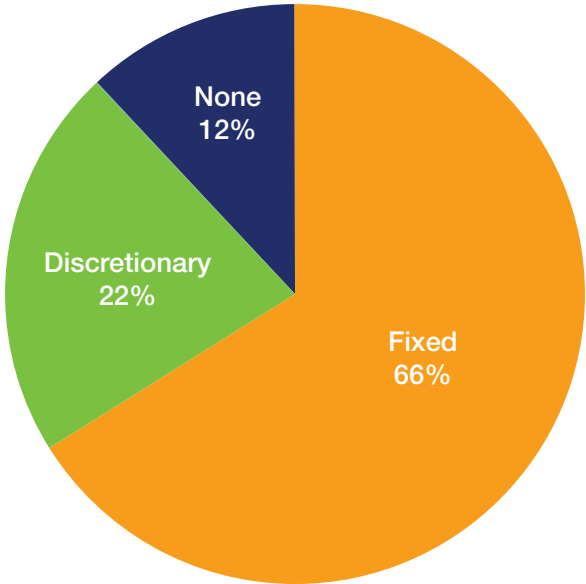
Employee Participation Eligibility



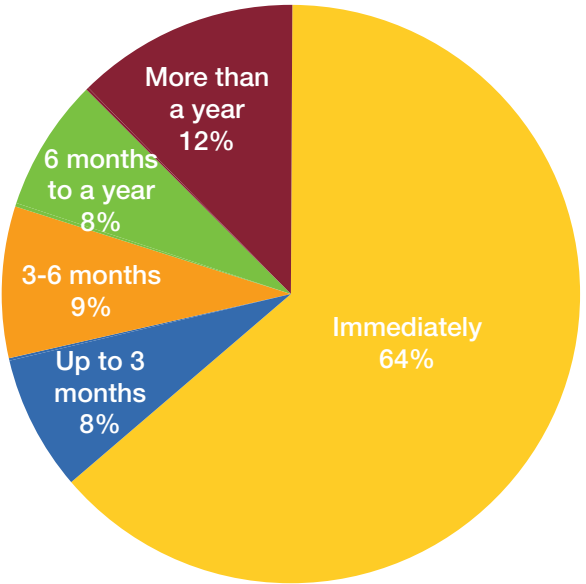
Eighty-eight percent of colleges and universities offer an employer contribution. Two-thirds rely on a fixed contribution formula stated in the plan document; an additional 22% offer a discretionary contribution, and 12% offer no employer contribution. Not surprisingly, public institutions of Higher Education are more apt to offer a fixed contribution stated in the plan document (71%) and private institutions more apt to offer an employee-contribution-only plan (19%). Many Higher Education institutions (56%) define the employer contribution as a stated percent of pay. Large and private university systems are among those most likely to rely on such a formula. The employer contribution rate stated in the plan document is generally in the range of 6% to 10% of pay (54%).

In two-thirds of institutions with an employer contribution, employees are immediately eligible to receive the employer contributions. Immediate eligibility for employer contributions is more widespread among public institutions (72%) than among private colleges and universities (58%). Almost two-thirds of institutions (64%) vest participants in employer contributions immediately. Immediate vesting is especially prevalent among private institutions (81%).

Employer Contribution Type

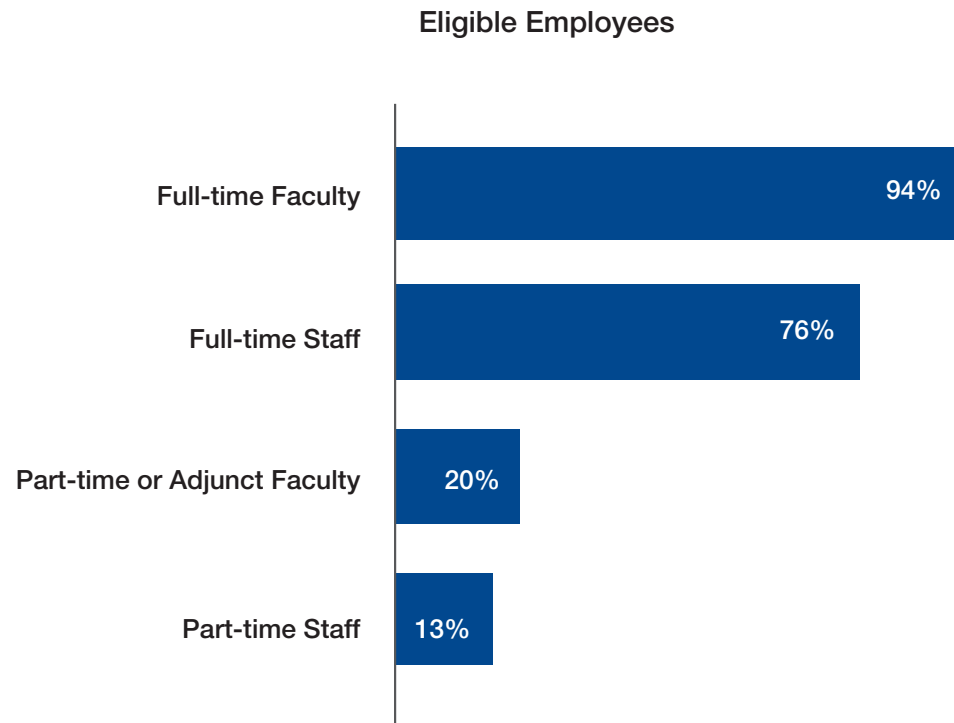


Employer Contribution Eligibility



Plan Design

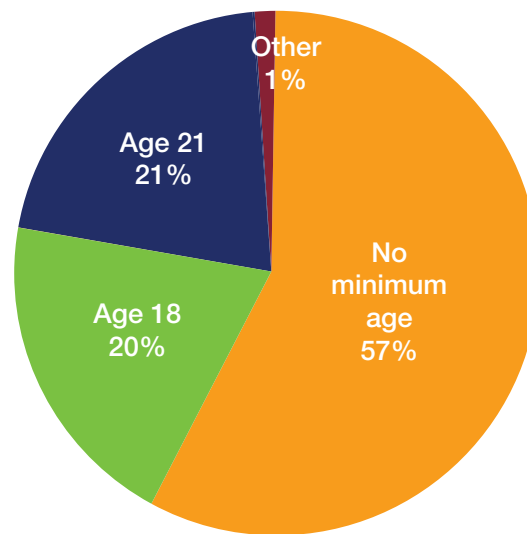
More frequently than employers of the corporate sector, institutions of Higher Education make retirement benefits available to part-time employees as well as full-time employees. Our study finds 20% of university systems allowing part-time or adjunct faculty to join the plan, and 13% allowing part-time staff to join the plan. Larger institutions are particularly apt to extend eligibility to part-time faculty (30%).



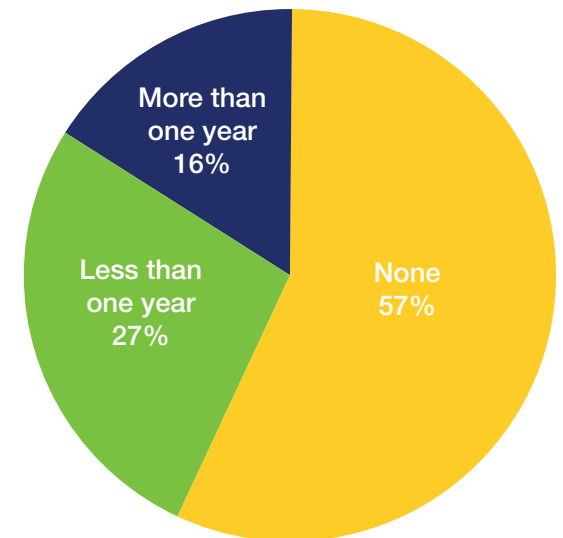


Age and service requirements are most often non-existent. Institutions that do have a minimum age requirement (41%) are split evenly between age 18 and age 21; age 21 eligibility is more prevalent among institutions relying on a single provider (33%).

Age Requirement for Eligibility



Service Requirement for Eligibility



The number of investment options Higher Education institutions offered in defined contribution plans has been an issue of contention. Historically, institutions did not, or could not (due to regulation) exercise due diligence on the investment array; nor did they seek to limit availability. Many staff and faculty could access hundreds of investment elections, none subject to plan sponsor review until final IRS regulations under 403(b) published July 26, 2007 and effective January 1, 2009 established

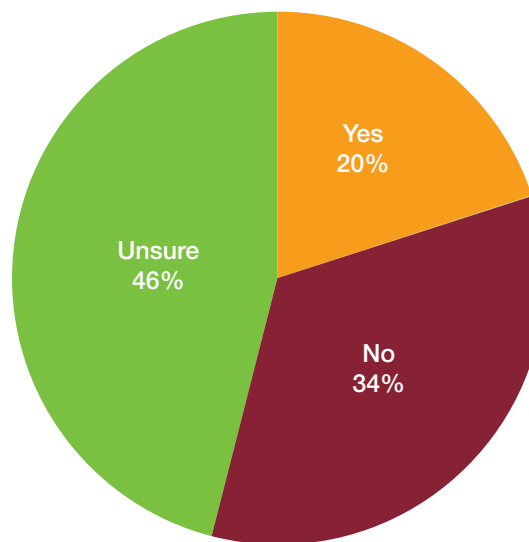
an oversight requirement for ERISA 403(b) plans. This survey established that today, on average, staff and faculty can access 21 investment options, a number slightly higher than that observed in the corporate sector. Institutions with multiple providers and those using an advisor typically offer a larger number of options. Approximately 43% of these investment options are proprietary to the plan provider(s).

Average Investment Options Offered

Total Average	Institution Type		Arrangement		Advisor		# of Participants	
	Public	Private	Exclusive	Multiple	No	Yes	Under 5K	5K+
20.6	19.5	22.4	16.6	25.0	13.8	29.7	18.6	23.9

Offer a Stable Value Option

Although fixed interest contracts are extremely popular among employees of Higher Education institutions, many plan sponsors may not be familiar with the term “stable value.” Indeed, 46% of survey respondents are unsure if their fund lineup includes a stable value option, and an additional 34% claim not to offer a stable value option.

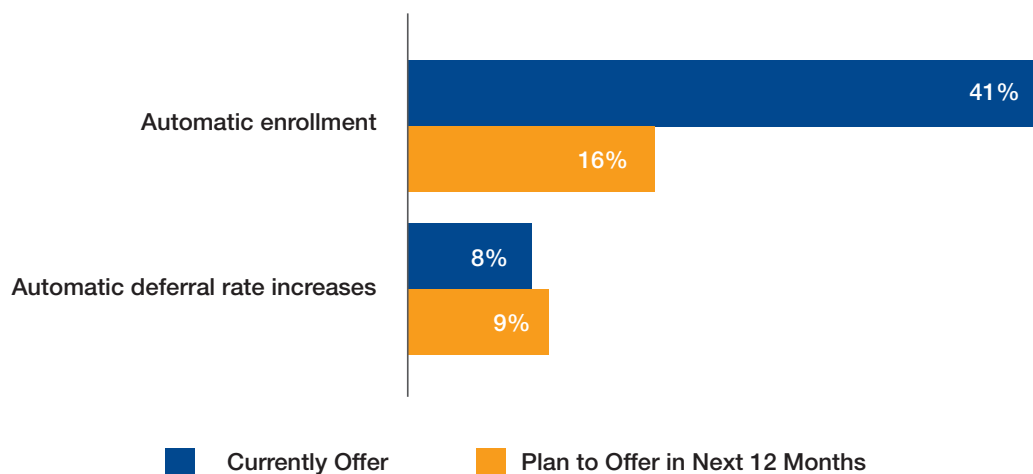


Innovations now pervasive among defined contribution plans of large corporations are making inroads on university campuses as well. For instance, our survey found 41% of Higher Education institutions offering automatic enrollment and 8% offering automatic deferral increases. Automatic enrollment is particularly prevalent among larger institutions (53%). Institutions that offer automatic enrollment appear to be ahead of peers in the corporate sector. Indeed, 41% automatically enroll new and existing staff and faculty. Over half (54%) apply a default contribution rate of 5% or more, higher than the 2% or 3% common in the corporate world. The default deferral rate is generally set at the same rate as the employer contribution rate (68% of plan sponsors using automatic enrollment). Almost all private institutions (91%) set the default employee deferral level at the same level as the employer contribution. On

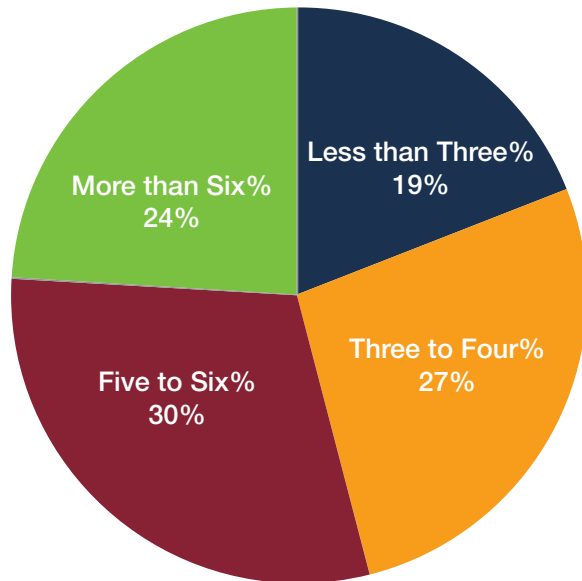
average, 11% of eligible employees opt out when automatically enrolled. Institutions enrolling participants automatically are evenly split among those using an asset allocation (e.g., target date fund or target risk fund) and those using a balanced fund as the default investment election. Money market funds are a less frequent default election, perhaps because they do not enjoy the status of Qualified Default Asset Allocation. Institutions that do not rely on the services of an advisor are more apt to use asset allocation funds as a default investment election (45%). On the other hand, institutions relying on an advisor are more likely to default participants in a balanced fund (50%) or a money market fund (25%).

By year-end 2013, we expect usage of automatic enrollment to increase to 57%, and usage of automatic deferral increase to more than double to 17%.

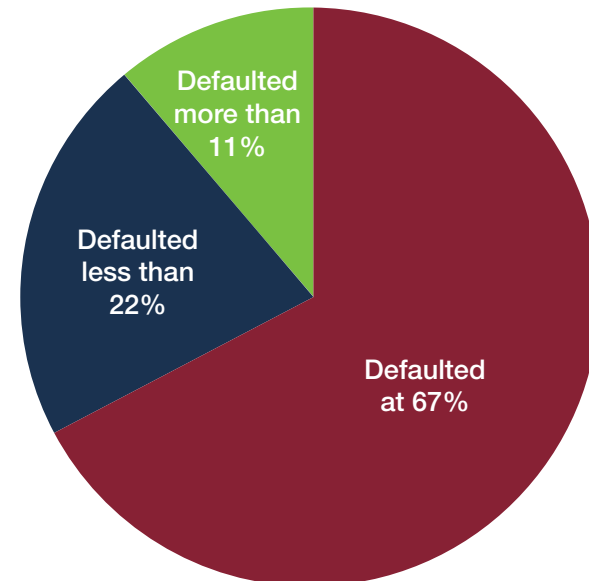
Usage of Automatic Enrollment and Automatic Deferral Increase



Default Contribution Percentage

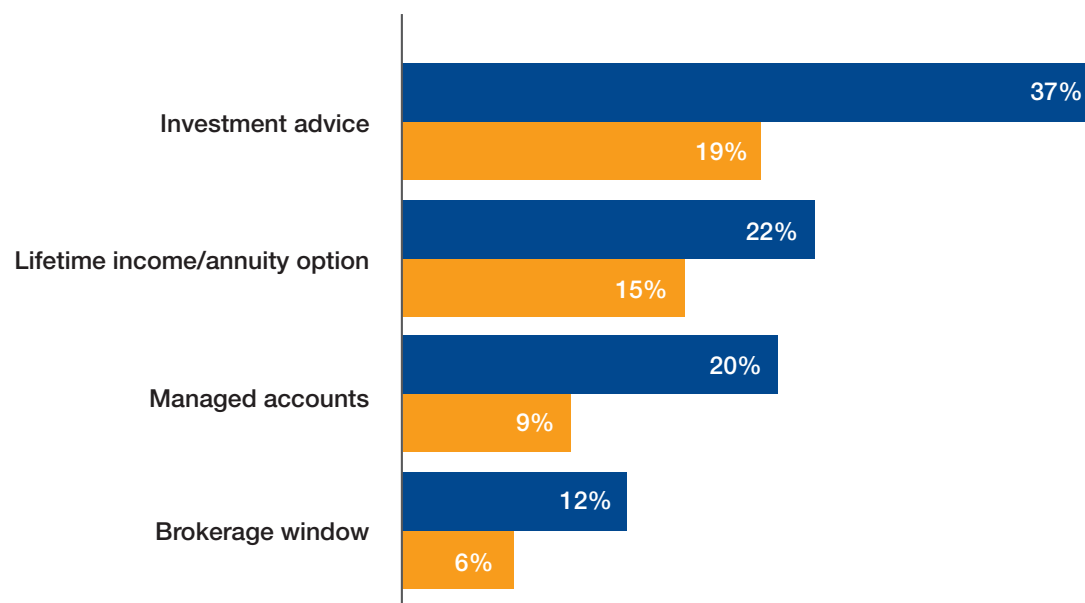


Compared to Employer Contribution



Many Higher Education institutions enhance the value of the plan to participants with extra services not commonly available in plain vanilla plans. Investment advice available at 37% of all institutions is even more prevalent among institutions using multiple vendors (47%) and those partnering with an advisor (50%). A lifetime income/annuity option is available at 22% of plans, managed accounts offered by 20%, and brokerage windows available at 12% of institutions.

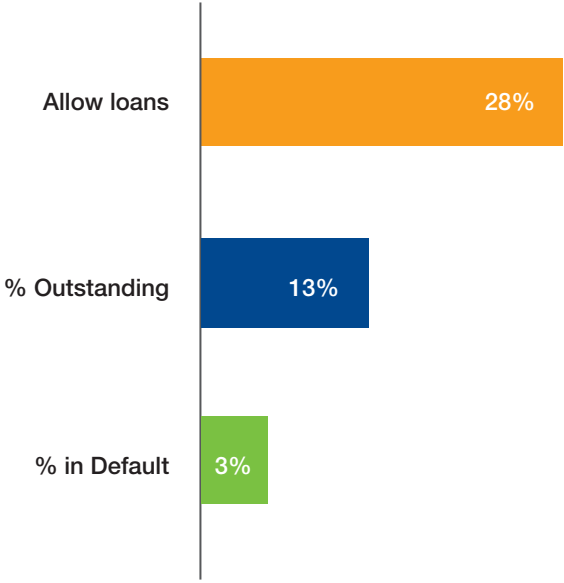
Services Offered/Plan to Offer to Participants



Loans and hardship withdrawals are harder to manage in a multi-vendor situation. For this reason, these plan features have not been as common in the Higher Education sector as they have been in the corporate world. However, universities more exposed to labor market competition from the corporate world (e.g., high-tech academic programs, research centers, and medical schools) have chosen to benefit from offering features commonplace outside academe.

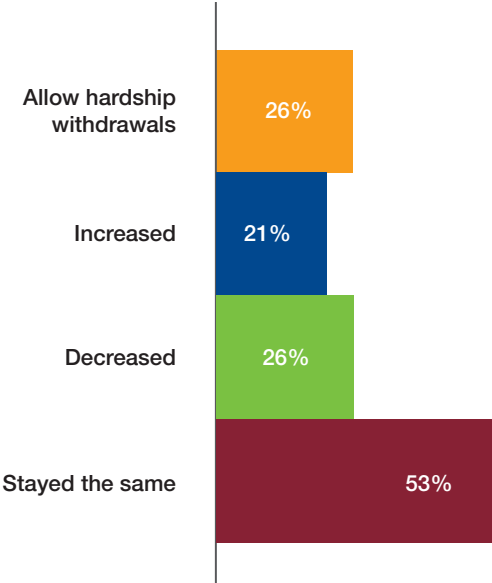
Today, 28% of institutions allow participants to take loans from their defined contribution plan account. Among these institutions, 13% of participants have loans outstanding with an average loan balance near \$6,900. Just over 3% of participants are in default. Only one-quarter of institutions (26%) allow hardship withdrawals. At those institutions, the average hardship withdrawal amounts of about \$13,600. The majority of plan sponsors of the Higher Education sector offering hardship withdrawals report requests for withdrawals have essentially remained stable in the recent past.

Account Loans



Average Balance \$6,900

Hardship Withdrawals



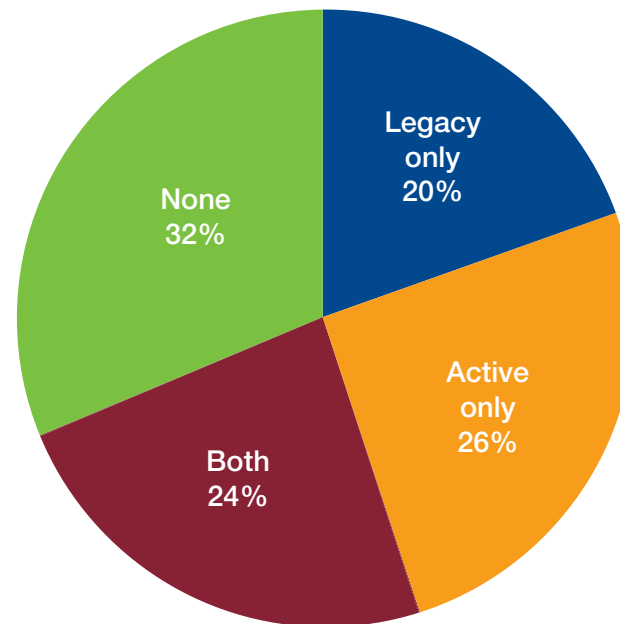
Average Withdrawn \$13,600

Defined Benefit Plans

Defined benefit plans are fast vanishing in the corporate sector. However, among Higher Education institutions, they are still quite prevalent. Indeed, our study found more than two-thirds (68%) offer a defined benefit plan. At most institutions offering a defined benefit plan, at least one of the plans is still active. As one might expect, defined benefit plans are more common among public institutions

(78%) than among private institutions (50%). More than half (55%) of institutions that do not have either a legacy or an active defined benefit plan are private. By contrast, 69% of universities with an active plan (only active plans or a combination of active and frozen plans) are public.

Defined Benefit Plans

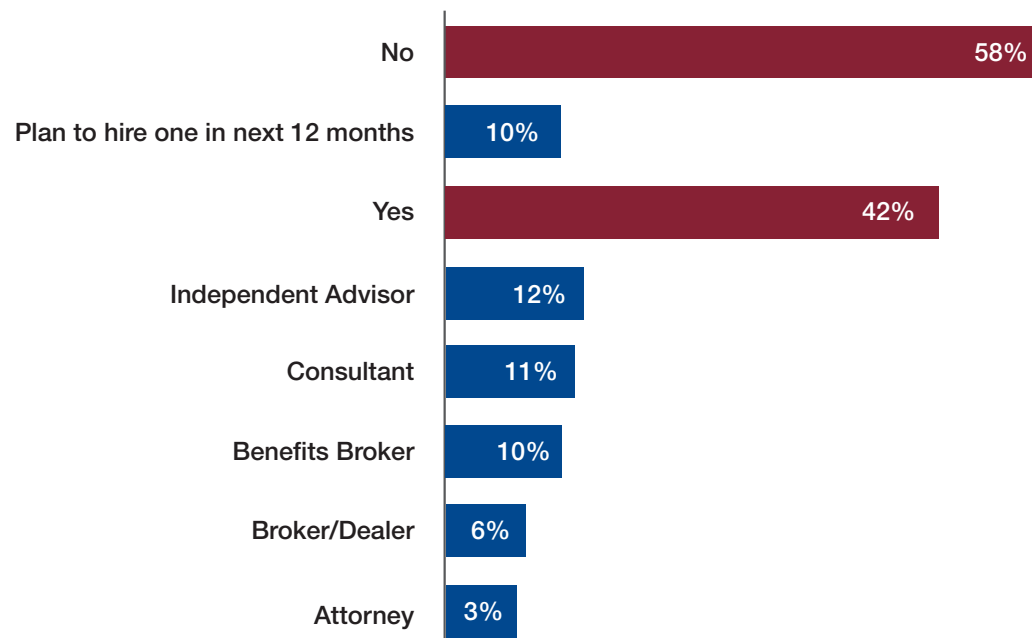


Use of Retirement Plan Advisors/Consultants

Today, 42% of the Higher Education responding institutions rely on the assistance of a retirement plan advisor or consultant, and an additional 10% plan to hire one in the next 12 months. Colleges and universities with more than 1,000 staff and faculty are among those most likely to use an advisor or consultant (54%). Private schools are the group most likely to hire a new advisor in the next 12 months

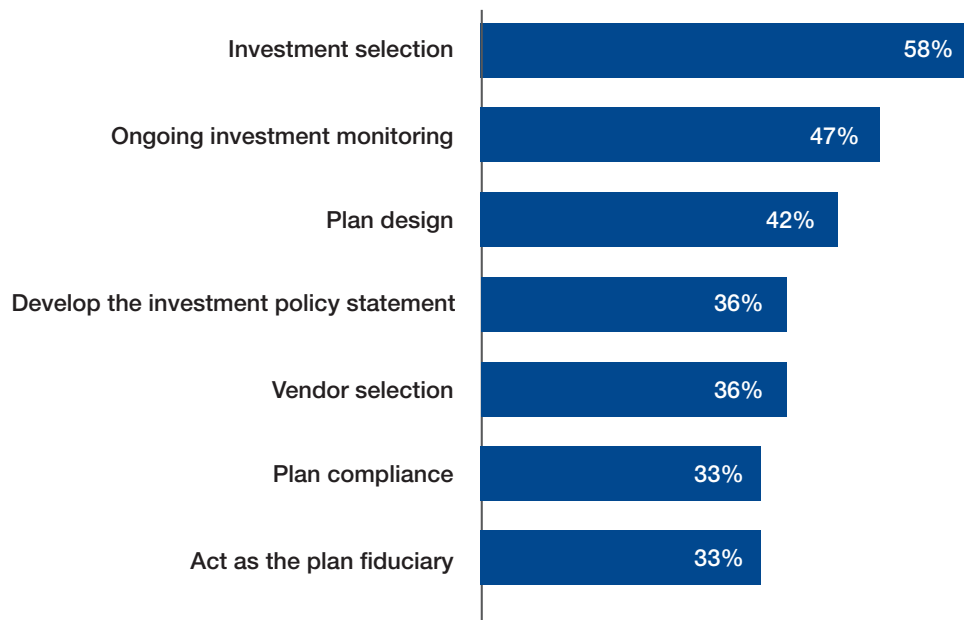
(13%). Distinctions between the various types of advisors are not quite as clear today as they were five or ten years ago, with many being dually registered. Our study found colleges and universities most often rely on an independent advisor (12%), consultant (11%), or benefits broker (10%).

Advisor/Consultant Usage

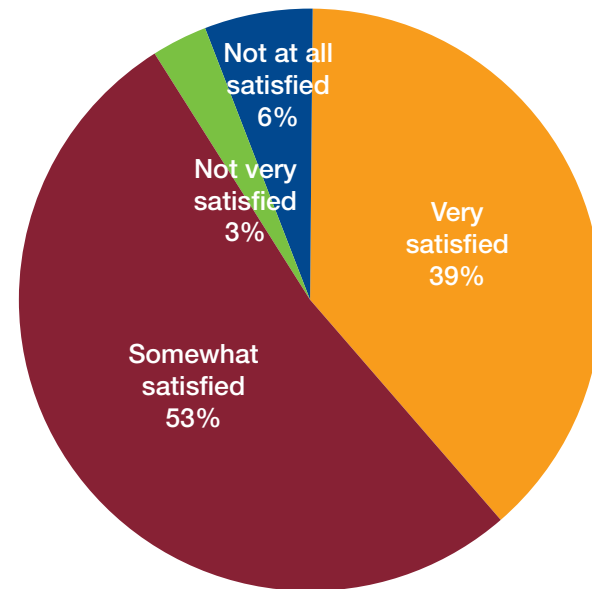


Retirement plan advisors perform a wide range of functions. Most institutions rely on their advisor to select investment options (58%), to monitor investment options (47%), and to help with plan design (42%). One-third of institutions also rely on their advisor to develop the plan's investment policy (36%), to select vendors (36%), or to review plan compliance (33%). One third of plans say their advisor acts as plan fiduciary (33%). Over ninety percent of institutions using an advisor are satisfied or somewhat satisfied with their advisor.

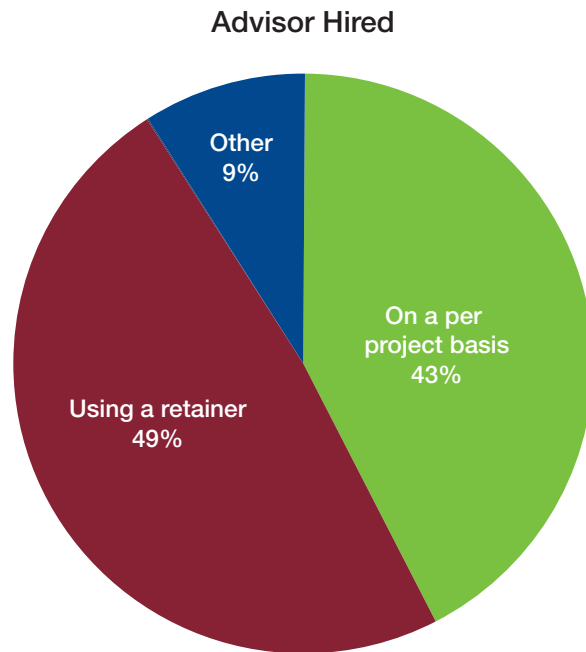
Advisor Responsibilities



Advisor Satisfaction

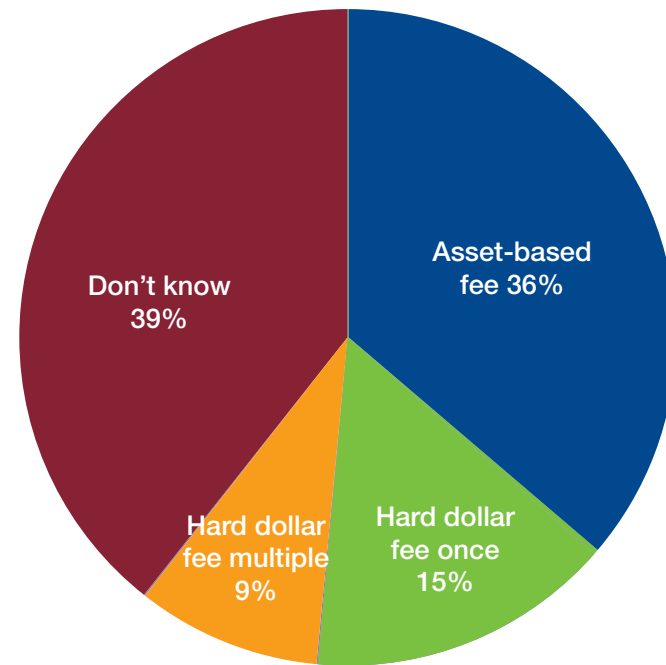


Slightly more institutions compensate their advisor by retainer (49%) than by project fee (43%). Compensation mode differs by type of institution: Over half of private institutions compensate their advisor by the project, but 54% of public institutions compensate their advisor with a retainer. Institutions with multiple vendors tend to pay their advisor on retainer (63%), but institutions with a single recordkeeper seem to rely predominantly on project fees (58%).



Over one-third of institutions (36%) indicate the compensation of their advisor is asset based. Among those, many (42%) claim to pay less than 5 basis points and none claim to pay more than 15 basis points for the services of their advisor. We take these numbers with a grain of salt because almost four in ten institutions surveyed (39%) do not know on what basis their advisor is compensated. Institutions using multiple providers (57%) and public universities (50%) are among those least likely to know how their advisor is compensated. We assume the level of plan sponsors who are unaware of advisor fees will decrease given current regulations regarding fee disclosure.

Type of Fee Paid To Advisor



Plan Administration, Services, and Expenses

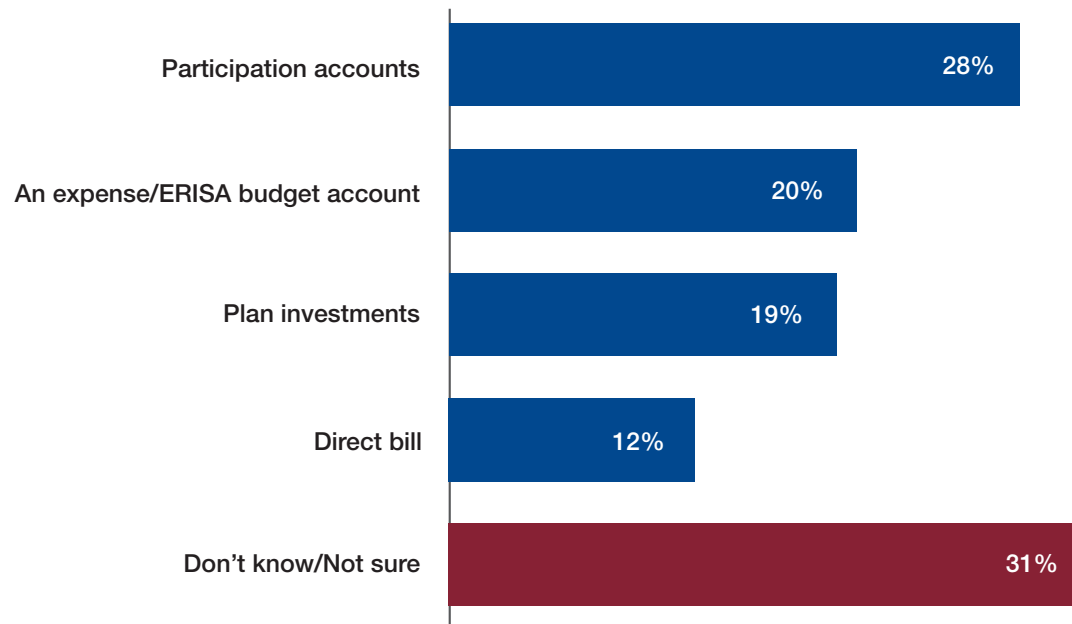
The cost incurred to perform plan functions such as recordkeeping, tax reporting, statement delivery, transaction processing, web access, contact center support, participant counseling, and others can be recovered in a number of ways. Although fiduciaries of ERISA plans are expected to understand how expenses are paid so they can verify the reasonableness of fees, our survey found some (31%) in Higher Education institutions are unsure—top-of-mind—how plan expenses are paid at their institution. Those unsure of how expenses are paid are more commonly found among public universities (40%) who are presumably not subject to ERISA. The incidence is also elevated among institutions partnering with an advisor (38%) that may rely on their advisor to evaluate the reasonableness of fees or to decide the mix of revenue sources needed to cover plan administration expenses. The traditional method for covering expenses is to rely on asset-based charges to participant accounts. More institutions rely on this method (28%) than any other to cover expenses, particularly among private colleges and universities (47%).



Over the years, some have argued that allocating expenses based on plan assets is inherently unfair for several reasons. First, the methodology entails a subsidy to participants with low account balances and new employees at the expense of long-tenured employees. Also, in plans that rely on revenue share to cover expenses, participants using low-expense investment options exclusively (e.g., index funds and money market funds) are subsidized by other participants who properly allocate their account balance across all investment options. To mitigate the drawbacks of the traditional method, many providers offer to maintain an expense budget or ERISA budget account (20%) funded by revenue received from investment managers to cover plan expenses. Using an expense budget or ERISA budget account gives plan sponsors more flexibility over the method

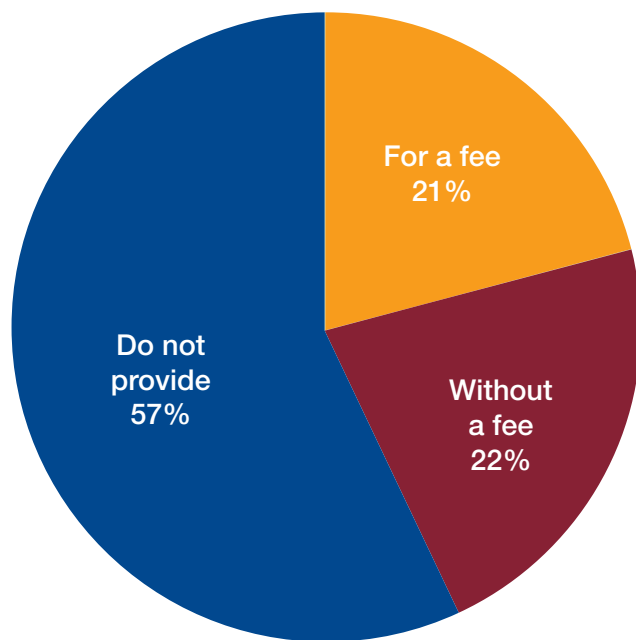
for allocating plan expenses among participants. For instance, some plan sponsors may allocate expenses evenly among all participants based on account balance regardless of investment options used; other plan sponsors may allocate expenses as a flat per-participant charge regardless of account balance. The ERISA budget allocation formula may result in a credit from the account for some participants and a charge for others. ERISA budget accounts are very popular among large corporate employers, and are gaining popularity in the Higher Education segment. Our study found 20% of colleges and universities are using an expense budget or ERISA budget account. Another less popular alternative is to bill participants and/or the institution directly for expenses paid, for instance as a per-account charge.

Plan Expenses Paid



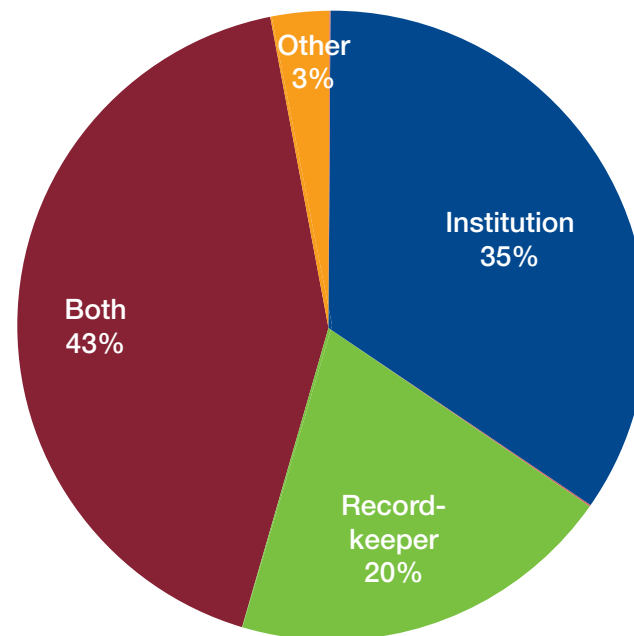
All ERISA plans are required to file IRS form 5500 annually. Compiling the data needed to file IRS form 5500 presents a unique challenge for plans that currently use or used multiple providers at some point in history. Because nearly all institutions of Higher Education have used multiple providers at some point in time, the process for compiling IRS form 5500 is more complex for institutions of Higher Education than it is for a corporate employer. Only a minority of institutions surveyed (43%) receive a signature-ready form 5500 from any provider. Half of these receive the service for free; the other receives the service at a cost. Understandably, private institutions, those with less than 5,000 participants, and particularly those still with multiple vendors today are least likely to receive a signature-ready IRS form 5500 from any one provider.

Provide Signature-Ready Form 5500



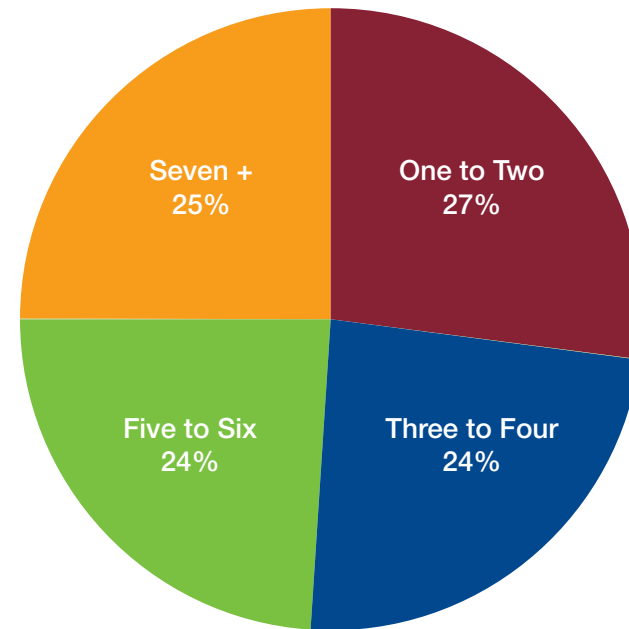
Rich with institutional history, many colleges and universities expect retirement plan materials will project their brand identity. Three-quarters (78%) apply the logo of their institution to retirement plan communications; 43% apply the logo of their service provider as well. Institutions that partner with an advisor are among the most likely to use two logos (institution and service provider) on retirement plan materials.

Logotypes on Participant Communication



Onsite participant counselors are not very well known in the corporate world. However, they are quite common in Higher Education, perhaps reflecting educators' perception of how information is best dispensed. Half of institutions have a participant educator visit their location. Private institutions (59%), those with fewer than 5,000 eligible employees (58%), with multiple vendors (60%), and those partnering with an advisor (58%) are most likely to have an onsite participant counselor. Three-quarters of institutions report their assigned participant educator visits no more than 6 days in a typically year. Most (54%) respondents are unsure about how their participant educator is compensated. One-quarter (27%) indicate their assigned educator is salaried, and 5% believe their onsite representative is paid with a mix of salary and bonus. The balance (15%) indicate their onsite counselor is paid exclusively by commission.

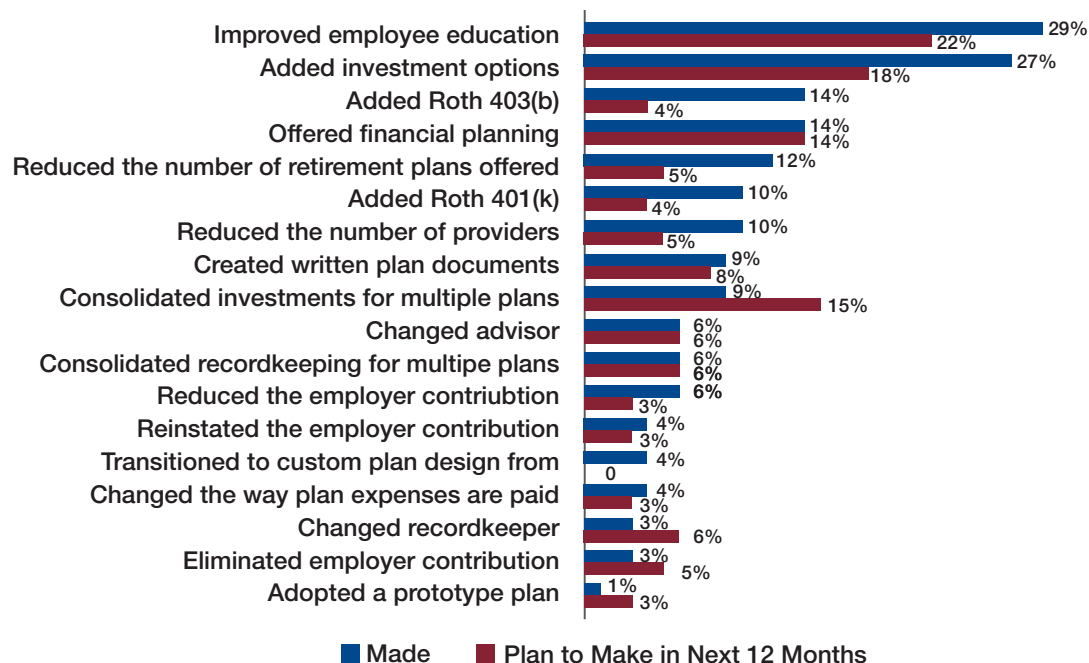
of Participant Educator Visits



A Changing World

Three-quarters (74%) of the Higher Education respondents have made some change to their retirement plan in the last 12 to 24 months. Larger schools (5,000+ staff and faculty) and those partnering with an advisor/consultant are even more likely to have made changes. Ongoing maintenance appears to be the most common reason for change. Indeed, adding investment options (27%) and improving employee education (29%) are the most commonly reported changes over the last two years. However, a number of institutions have gone beyond maintenance, and altered the structure of their retirement program. For instance, 14% have added a Roth 403(b) option, an enhancement particularly popular in public institutions (20%). Looking forward, two-thirds (65%) of institutions are planning to make a change. Again, maintenance changes such as improving employee education (22%) and adding investment options (18%) are most popular. Consolidating investment options for multiple plans (15%) is going to be a major theme, particularly among institutions that currently use a single provider (23%). Offering financial planning (14%), changing recordkeepers (6%), and changing employer contributions (3% to reinstate and 5% to eliminate) are also expected to increase.

Plan Changes Made/Plan to Make





About Transamerica Retirement Solutions

Transamerica Retirement Solutions is a leading provider of customized retirement plan solutions for small- to large-sized organizations. Transamerica partners with financial advisors, third-party administrators, and consultants to cover the entire spectrum of defined benefit and defined contribution plans, including: 401(k) and 403(b) (Traditional and Roth); 457; profit sharing; money purchase; cash balance; Taft-Hartley; multiple employer plans; nonqualified deferred compensation; and rollover and Roth IRAs.

Transamerica helps more than three million retirement plan participants save and invest wisely to secure their retirement dreams. For more information about Transamerica, please visit [trsretire.com](https://www.trsuretirement.com).

Market Intelligence

We are dedicated to:

- Presenting a comprehensive picture of the private retirement plans market.
- Providing retirement plan sponsors and their advisors with comprehensive benchmarking information.
- Analyzing trends to assist with the strategic evaluation of retirement plans.

Drawing on more than 75 years of experience in retirement plans management, we periodically assemble experts from all facets of the retirement plans market to evaluate the current and future impact of trends shaping the industry.

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