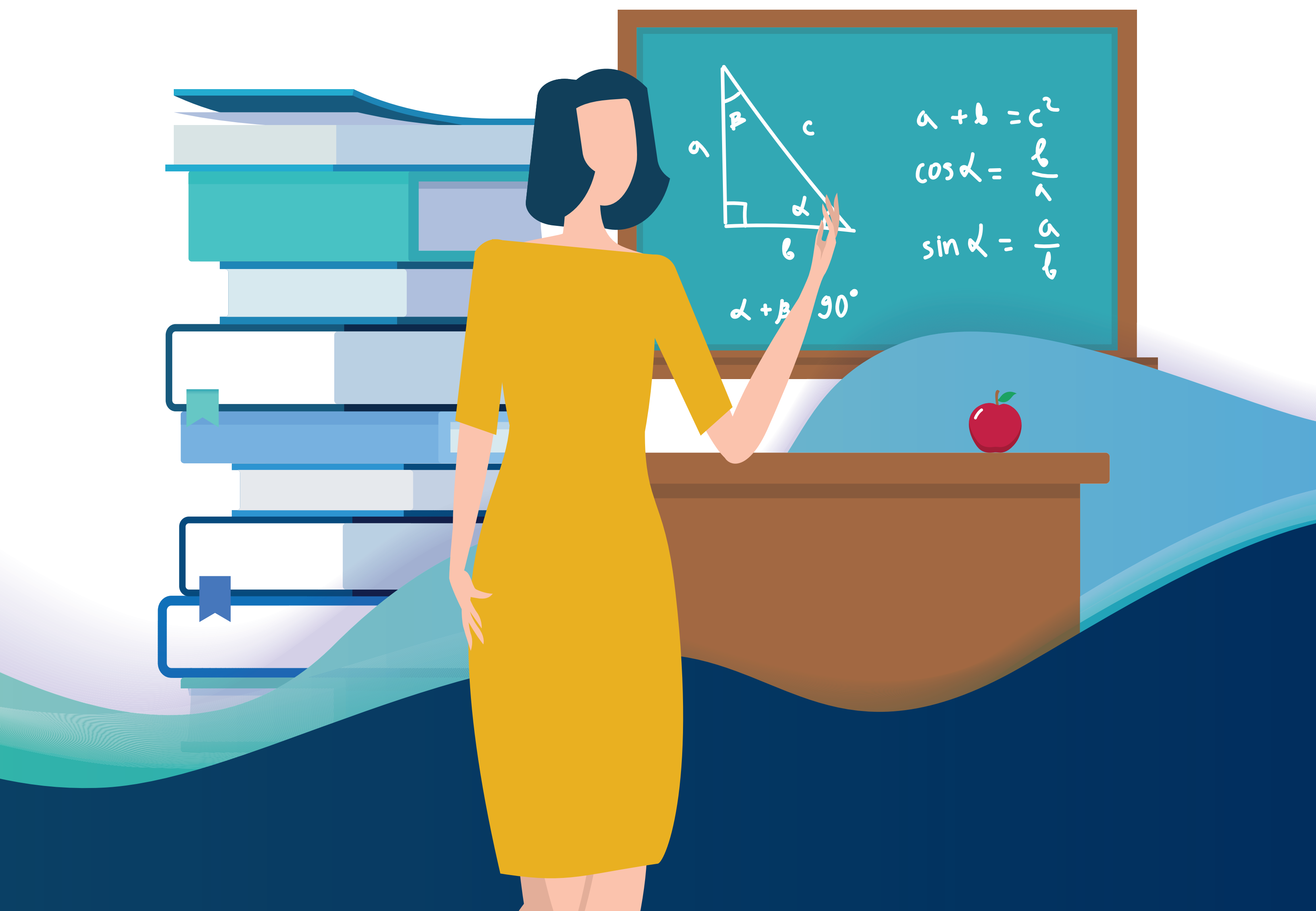
NTSA
National Tax-Deferred Savings Association
Part of the American Retirement Association

IMPROVING RETIREMENT SAVINGS FOR AMERICA'S PUBLIC EDUCATORS

A COMPREHENSIVE SURVEY OF PUBLIC EDUCATION 403(B) RETIREMENT PLANS

2018



Executive Summary

403(b) plans provide school district employees with an important way to save for retirement. These plans allow employees to make independent decisions about how much they want contributed to the plan through paycheck withholding. In many states, educators do not have access to Social Security, and reforms in public state retirement systems are reducing retirement benefits substantially. Therefore, for school district employees, the importance of personal savings in 403(b) plans is more critical to their retirement security than ever.

Research conducted by the National Tax-Deferred Savings Association (NTSA) in partnership with the Plan Sponsor Council of America examined the savings rates of public education employees in more than 4,400 school districts across the country. The research examines the impact of participant choice of investment providers in 403(b) plans. The research further looks at the extent to which school district employees want choices in their 403(b) plans and the positive impact choice has on participation and savings rates. The data shows a decrease in the participation rates for 403(b) plans when the number of choices are reduced. While investment provider options may create more administrative complexity for the district, this paper suggests other alternatives to alleviating this burden, such as using an independent third party administrator (TPA) to administer the plan and providing transparent disclosure of investment fees and other expenses to workers.

The research finds that public employees who have access to retirement education resources at the workplace and the assistance of financial professionals are saving earlier and contributing more to their 403(b) plans, and have greater confidence in being able to achieve their retirement goals.

The report is being made available to school districts nationally to assist them in understanding how to improve 403(b) participation and savings rates to help employees achieve a comfortable and timely retirement.

The National Tax-Deferred Savings Association (NTSA)

The NTSA is a national organization of retirement plan professionals who provide consulting and administrative services for 403(b) plans covering millions of American workers. Members of NTSA are retirement professionals of all disciplines, including consultants, administrators, actuaries, accountants, advisors, attorneys and more. The NTSA is part of the American Retirement Association (ARA), whose total membership of more than 24,000 retirement plan professionals is diverse but united by a common dedication to the employer-based retirement plan system.

The History of 403(b) Plans

403(b) programs were first made available to public education employers in 1961, with investments limited to annuities. Mutual funds held in custodial accounts were added in 1974. The program was intended to be a relatively simple way for employees to supplement retirement savings using their own voluntary pre-tax dollars. Supplementing retirement savings has become increasingly important with widening state pension funding gaps and widespread reductions in benefits being made to the state retirement system plans for those employees.[1]

Employees were generally permitted to choose their own investment/product, and the history of multiple investment/product providers began. The vast majority of the roughly $1 trillion in assets are held in individual accounts – either in annuities or in mutual funds held in custodial accounts.

Through the years, employers began to require more and more compliance support from product providers as new legislation applied additional requirements to 403(b) plans, and those employers required agreements from product providers outlining the support necessary to operate the program.

The requirement for non-ERISA employers to adopt a 403(b) written plan document was effective on Dec. 31, 2009 in the final 403(b) regulations. Thus, for the first time in the history of 403(b) plans, K-12 employers were required to adopt and follow the terms of a plan document. This created some confusion that the new regulations created fiduciary exposure for those employers – something that is untrue. There is no fiduciary obligation language contained in the final 403(b) regulations. In addition, K-12 employers were being incorrectly advised that they needed to eliminate their multiple providers and settle on only one provider to reduce that fiduciary exposure. In fact, a move from multiple providers to a single provider is likely to increase fiduciary responsibility (see "Fiduciary Issues and the Final 403(b) Regulations" at www.asbointl.org, under "403(b) resources"). Our research suggests that limiting choice of providers is directly correlated to decreased participation in the plan.

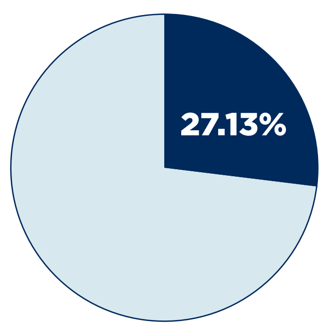
The Importance of 403(b) Savings

Increases in longevity coupled with the increasing cost of health care in retirement are making retirement substantially more expensive today than for prior generations.[2] State retirement system plans are reducing benefits and eliminating cost of living adjustments. Additionally, in 15 states, teachers do not participate in Social Security. In those states, 403(b) savings plans permit employees to bridge the retirement income gap created by reduced pensions and no Social Security benefits. Individuals who save in 403(b) plans are better prepared to retire at normal retirement ages, instead of remaining in the workforce long past those ages.

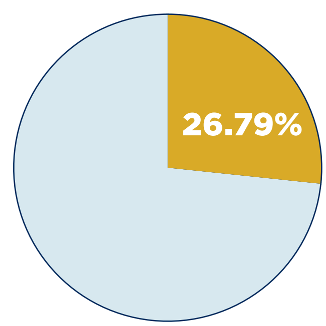
National 403(b) Savings Rates

Summary Statistics

Average Participation Rate

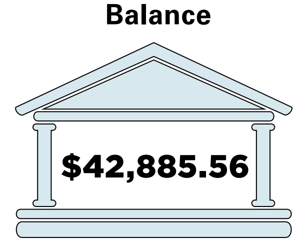


Average District Participation



Average Monthly Contribution

Average Account Balance



Savings rates in 403(b) plans nationally average 27.13% and are low relative to corporate 401(k) plans for four main reasons: (1) in the corporate market,

[1]Mennis, Greg. "The State Pension Funding Gap: 2016," The Pew Charitable Trusts, 12 April 2018. <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2018/04/the-state-pension-funding-gap-2016>

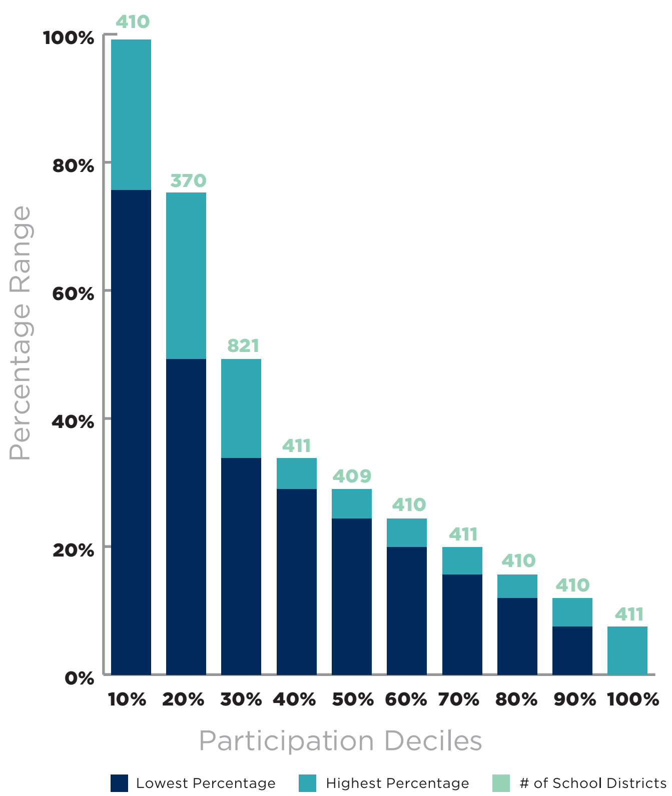
[2]Fichtner, Jason. "How Will the Changing Demographic Profile of America Affect Retirement Saving?," The Brookings Institute. 8 August 2018. <https://www.pgpf.org/press-release/2018/08/peterson-foundation-and-ford-foundation-announce-grants-for-us-2050-initiative>

401(k) plans are the primary retirement savings plan and usually with no accompanying defined benefit savings program; (2) only 6% of school districts match participant contributions versus roughly 50% of corporate 401(k) plans; (3) very few school districts auto-enroll employees into 403(b) programs; and (4) two-thirds (66%) of school districts also offer employees a 457(b) savings plan alternative.

Based on our research, monthly contributions into 403(b) plans average $322 monthly, or $3,864 per year (assuming contributions continue throughout the summer months). Using the average teacher salary of $55,919, the contributions to 403(b) plans are roughly 6.9% of salary on average. As with corporate programs, the research did reveal that participation and contribution rates are positively correlated with salaries. States that have the highest average teacher salaries, such as New York, New Jersey and Connecticut, also had the highest participation and contribution rates.

The range of participation rates in America's public school districts is dramatic, suggesting that the choices that each school district makes available to employees and the resources that they provide to help employees understand the benefits of participation are key differences in driving participation rates. As the chart below indicates, the participation rates for the 4,473 school districts in the survey ranges from less than 7.53% to more than 99.14%.

Participation Rate Deciles



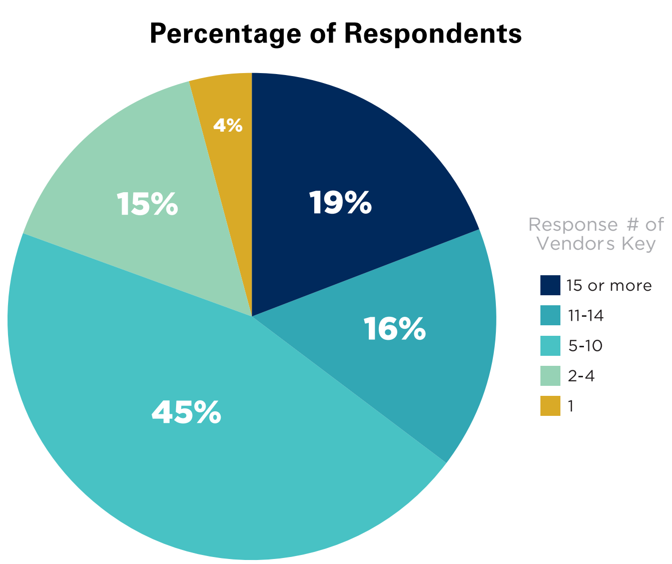
The Benefits of Choice

The research revealed that the number one factor driving participation and savings rates in school districts is participant choice. An essential element in the broader array of provider choice is the breadth of education in the form of affiliated advisors who educate, encourage, and advise these workers on-site. Consider that:

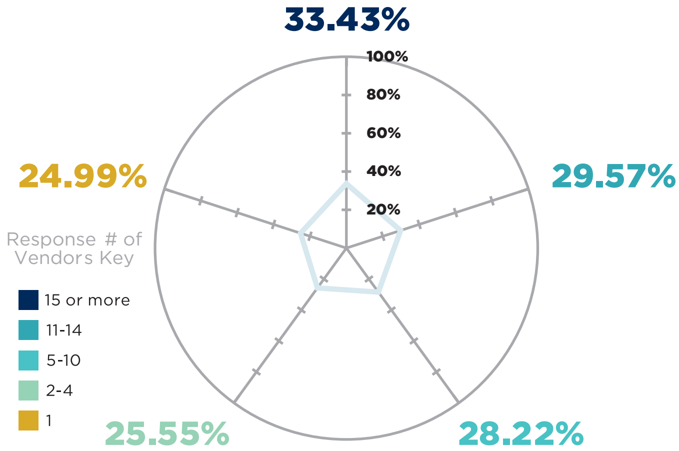
- There is 25% greater participation in plans with 15 or more investment providers compared to plans with only one provider.
- On average, account balances are 73% higher among plans with 15 or more providers compared to single provider arrangements.
- There is a 203% increase in average contribution rates among plans providing access to 15 or more providers compared to plans with only one provider.
- Single provider arrangements have the lowest participation rate; 8% below the national average.

Simply stated, the data reveals a positive and significant correlation between the number of choices/advisors and participation. While there is obviously a point of diminishing returns, in general, as access to these resources increase, participation and savings increase too.

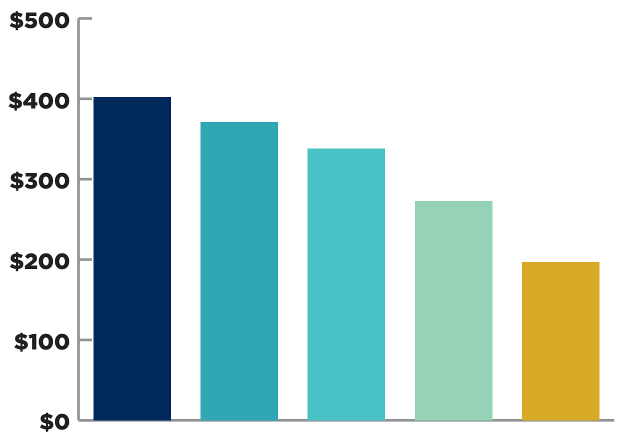
Survey Results – Number of Investment Providers?



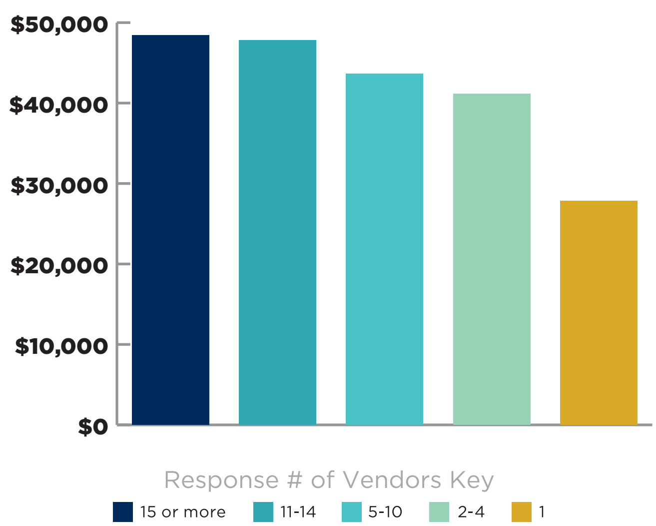
Average Participation Rate



Average Contribution



Average Account Balance



Additionally, recent research[3] by AXA Equitable Life regarding provider choice, shows where districts offer a choice of providers, participants are significantly more satisfied and confident in their 403(b) plans than participants in single provider districts.

- Three in five participants with choice of provider are more satisfied with the performance of their 403(b) account.
- Where provider choice is offered, participants are more confident in the quality of their investment choices (61% vs. 43%) and in their ability to meet their retirement goals (66% vs. 55%).

The Impact of Reducing Choice

While further research would assist in validating the results, the data reveals a correlation between limiting advisors and investment providers and a decrease in the level of participation by employees in 403(b) plans. This does not appear to be caused by alternate factors. Thus, the data suggests that fewer employees participate in 403(b) plans when the number of available investment providers and access to trusted advisor resources is limited. Further, the research shows that a disruption of the advisor-client relationship can have a drastic effect on participation rates. When public educators no longer have access to the option in which they chose to save, as well as the professional assistance of a trusted advisor, they stop saving in the plan. For example:

- A Pennsylvania school district experienced a 40% drop in participation after reducing investment provider options.
- A Maryland school district went from 10 investment providers to one, and saw the number of active participants drop from 1,000 to 775. In 2016, the district increased to four investment providers and has since seen an increase in participation.
- A Florida school district went from 12 to 5 investment providers and lost more than 1,000 active contributors, all of whom had not resumed participation since the change at the time of the survey.
- 262 school districts in Michigan went from 16 to 5 investment providers in 2009. Participation went from 23,000 to fewer than 17,000 active contributors. Today, after adding back several investment providers, they are finally back to 23,000 participants.
- In 2009, Iowa transitioned from a competitive, open 403(b) marketplace model to a narrow number of five options, only to see participation

[3] "Multiple vs. Single Provider Topline Report," Zeldis Research Associates. 25 September 2018.

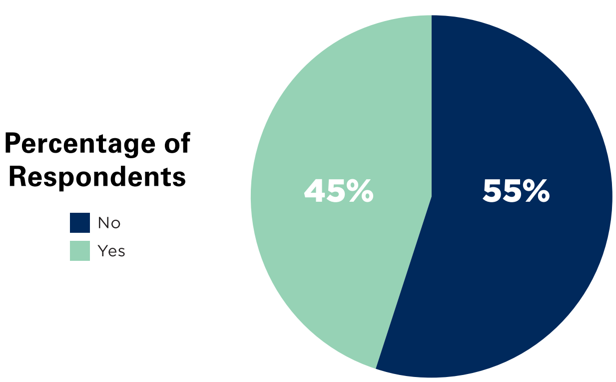
rates in the program plummet dramatically – with some counties showing enrollment reductions of up to 50%. The number of investment choices was recently expanded to 30 approved companies with the hope that the workers will once again save for retirement in the 403(b) plan.

Employees Need the Right Information to Make the Best Choice

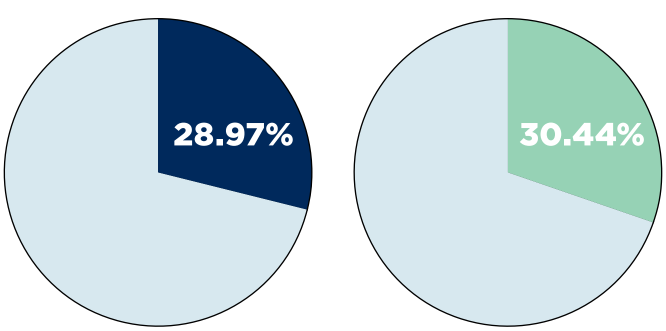
School district employees need to be given adequate information to make informed decisions about their 403(b) plans. This information should include the services associated with the various offerings so participants can choose the option that best suits their needs. For example, some participants want a very low-cost option with limited personal service, while others want to work closely with an advisor on a one-on-one basis and are willing to pay for that level of service. In general, a key factor to increasing participation rates is to offer employees more choice, not less.

Our research showed that there is a 5% increase in participation where employees have access to retirement education often provided by advisors at work.

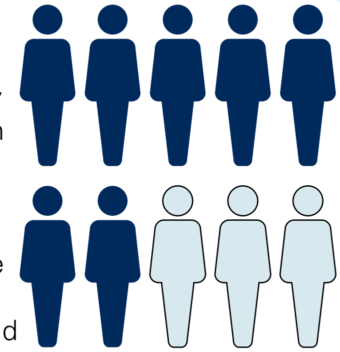
Survey Results – Do Employees Have Access to Retirement Education at work?



Average Participation Rate



Furthermore, 7 out of 10 workers[4] who have zero retirement savings do not have access to any retirement education from their employers.



Employers that do not provide access to retirement education have employees who report higher levels of anxiety and fear about retirement.

Employees Want Retirement Plan Advice

Numerous studies have indicated that employees want help with their retirement plans. Using an advisor has measurable financial benefits to the 403(b) participant. Recent research conducted by AXA Equitable Life regarding the value of an advisor in K-12 participant preparedness and 403(b) account performance showed that:

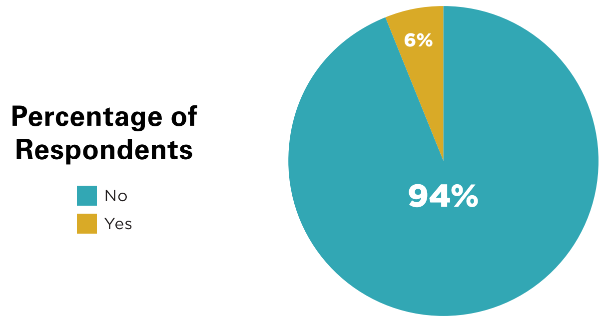
- Participants who use an advisor have nearly double the median account balance than those who do not.
- Participants who work with an advisor have 15% greater diversification of assets.
- More than half of participants in the AXA Equitable Life study attribute an early start in saving to the influence of a trusted advisor.
- Participants who use an advisor contribute 49% more annually on average.
- Participants who work with an advisor are significantly more likely to have increased their contributions 24% more often since opening their account.
- Participants report higher satisfaction (72% vs. 54%) with their 403(b) plan overall and higher confidence (64% vs. 56%) in meeting their retirement goals when working with an advisor than those who do not.

Matching Contributions Improves 403(b) Participation

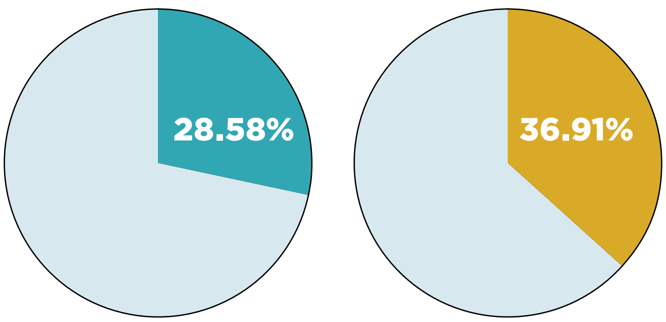
Matching contributions are a key driver of retirement savings. The research found a 23% increase in participation where employers match contributions. However, only 6% of school districts currently do so.

[4]Hogan, Chris. "Retirement Education: The Correlation Between Retirement Readiness and Employer Involvement," Ramsey Solutions. 2016

Survey Results – Do you Match Employee Contributions?



Average Participation Rate



The Value of Using a TPA

Using a third party administrator assures the employer that compliance procedures are in place to comply with Internal Revenue Service (IRS) regulations, and further assists employers with the ability to comply with the universal availability requirements through educational programs for employees and frequent in-depth notices to employees about the right to participate in the plan.

The Internal Revenue Service has made it clear in audits of 403(b) plans that opportunities to participate should be frequent and diverse. In public webcasts, the IRS has mentioned the need to provide written in-depth notices, employee education programs and face to face assistance from financial advisors. Notably, the IRS also has stated that they are selecting and auditing employers with low plan participation rates (i.e., participation rates of 18-20% or less).

With the various TPA options available, employers are encouraged to carefully screen available TPAs to ensure the TPA they select is experienced in providing administration services to K-12 non-ERISA 403(b) plans.

Conclusion

Many school district employees want the option to receive professional assistance and benefit from multiple avenues, both in terms of their preparation for retirement and participation levels. The survey results show a strong positive correlation between the amount of choice, the corresponding support of trusted advisors, and participation and savings rates. Further evidence of this impact is found in the repeated examples of a decrease in the participation rates of 403(b) plans when the number of investment providers and the accompanying support of advisors are reduced. As a result, school districts need to be aware of the unintended consequences of reducing choice and should consider alternatives to reducing these options. These alternatives include using an independent third party administrator to administer the plan and providing transparent disclosure of investment fees and other expenses to workers. With service providers, TPAs, and policymakers all working together, school district employees can continue to have the options they prefer, all while accomplishing their objective of reducing cost and administrative complexity.

About the Author

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The American Retirement Association (ARA) and National Tax-Deferred Association (NTSA) would like to thank the members of the NTSA research committee as well as the Plan Sponsor Council of America (PSCA) for their contributions in producing this report.

[5] "Tens of Millions of Americans Lack Protected Lifetime Income for Retirement: New Research Reveals Looming Retirement Income Crisis," The Alliance for Lifetime Income, 4 October 2018. <https://globenewswire.com/news-release/2018/10/04/1601231/0/en/Tens-of-Millions-of-Americans-Lack-Protected-Lifetime-Income-for-Retirement-New-Research-Reveals-Looming-Retirement-Income-Crisis.html>

Appendix

Methodology

1.1 Data Sources

Data is from confidential third-party administrators (TPA), that provided participation data, and publicly-available K12 education statistics. Our four participating TPAs provided data on their school district clients that included the (1) number of participants; (2) Average Monthly Contribution; and (3) Average Account Balance as of February 2018.

Additional data provided by the National Center for Education Statistics (NCES) through the Elementary/Secondary Information System (ElSi)[6] - an NCES web application that allows users to quickly view public and private school data and create custom tables and charts using data from the Common Core of Data (CCD) and Private School Survey (PSS).

We generated a table of public school data using the following search parameters:

Table Row	'District'
Years	2015-2016 (most recent data available)
Table Columns	All available information under 'Information', 'Characteristics' and 'Teacher & Staff' headers
Filters (Refinements)	State – All 50 States + DC

The NCES table produced by the ELSi generator contained a total of 18,678 school districts.

We then created a new table by merging the TPA-provided participant data with NCES-sourced school district dataset using the Fuzzy Lookup Add-In for Excel[7] – a Microsoft Research developed software program that performs fuzzy matching of textual data in Microsoft Excel. Microsoft explains that the matching is robust to a wide variety of errors including spelling mistakes, abbreviations, synonyms and added/missing data.

Next, we excluded charter schools to produce a non-charter (public) school dataset. Under 'Agency Type,' we excluded 'independent charter districts.' 'Agency Type' specifies the classifications within the geographical boundaries of a state according to the level of administrative and operational control. We then excluded districts listed under 'Agency Charter Status' as having all associated schools designated non-charter. 'Agency Charter Status' indicates charter schools served within an agency, including active, future, and closed charter schools.

We were left with a dataset of 4,473 schools.

The dataset was subject to an individual audit by each participating TPA firm prior to proceeding with the analysis.

1.2 Data Analysis

In the absence of reliable data on the number of eligible participants per school district, we used NCES-produced data for 'Total Staff' defined as the Full-Time Equivalent (FTE) count of staff as reported by the school district. The FTE count is not the same as the total of staff from individual schools and includes staff not assigned to specific schools. We then calculated district participation rates by dividing the TPA-provided participants figure by the NCES-produced staff total figure. Our subsequent analysis utilized conditional formatting and PivotTables to sort, aggregate and review trends in participation rates.

1.3 Survey Data

We supplemented our analysis of participation data with a survey distributed through our participating TPAs to their school district client base. The 10 question survey was designed to take no more than 5 minutes and covered general information regarding school district 403(b) programs. Participation in the survey was made voluntary and confidential. Survey participants were free to decline to answer any question(s). All survey responses were de-identified and aggregated before publication in this research report.

[6] "ELSI - Elementary and Secondary Information System," Institute of Education Sciences: National Center for Education Statistics 2015-2016. <https://nces.ed.gov/ccd/elsi/tableGenerator.aspx>

[7] "Fuzzy Lookup Add-In for Excel," Microsoft <https://www.microsoft.com/en-us/download/details.aspx?id=15011>