RETIREMENT PLAN TRENDS IN HIGHER EDUCATION

INTRODUCTION

Workforce challenges facing institutions of higher education in 2023 were, in many ways, similar to those other employers face. The COVID-19 pandemic impacted how employees view their jobs, their employers, their workplace, and their benefits packages — including their retirement plans. And it spurred legislation designed to deal with these issues, namely the SECURE 2.0 Act.

Economic fallout continues, in part due to governmental and societal reactions intended to deal with this once-in-a-lifetime event. Difficulties finding qualified talent to fill open positions, providing benefits that meet the needs of employees at all levels within an organization, and encouraging adequate retirement savings remain challenging.

In our survey of higher education institutions, we asked questions designed to learn more about retirement plans offered among these institutions and how service providers are helping meet the challenges.

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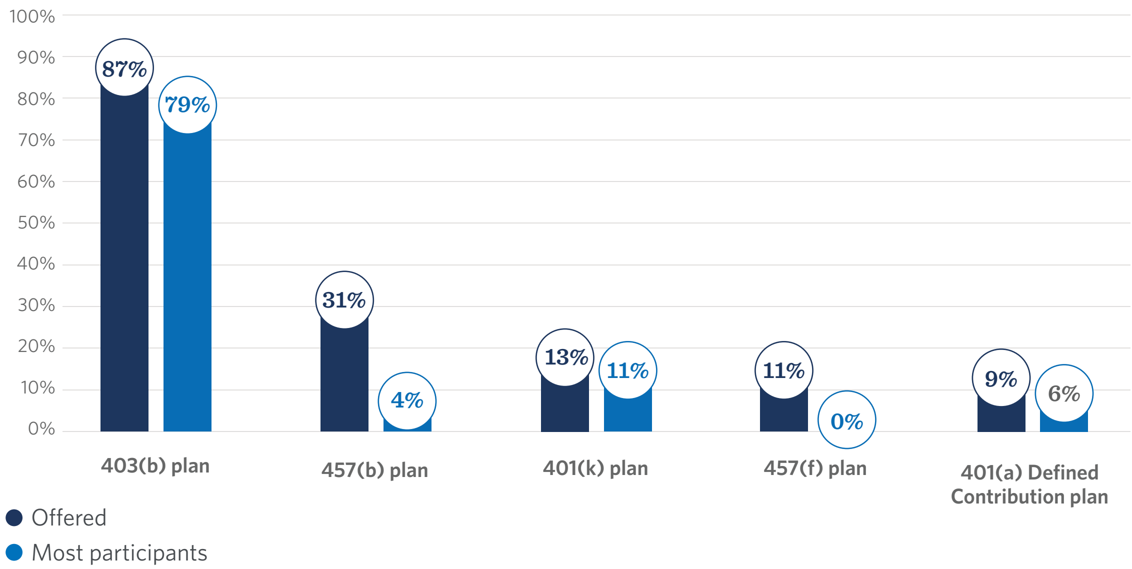
PLAN DESIGN

TYPES OF RETIREMENT PLANS OFFERED



Consistent with the industry's history, 403(b) plans are by far the most common type of plan offered among higher education institutions (87%) and are also the plan type with the greatest number of participants at 79% of respondents. Seventy-six percent of these 403(b) plans are covered by the Employee Retirement Income Security Act of 1974 (ERISA).

PARTICIPATION

Roughly half of survey respondents allow part-time and adjunct faculty (49%) and part-time staff (50%) to participate in the plan. Participants are immediately eligible to contribute to the plan at 75% of the institutions surveyed, not surprising considering the near-universal use of 403(b) plans. Twelve percent require employees to wait until after the first year of employment.

Just over half of the surveyed schools say they do not automatically enroll faculty and staff in their retirement plans. Thirty-nine percent use auto-enrollment, and 9% plan to offer it in the next 12 months.

PLEASE NOTE: Some percentages will not add to 100% due to rounding, multiple response options, or respondents indicating they are unsure.

PLANS OFFERING AUTOMATIC ENROLLMENT BY INSTITUTION TYPE

	TOTAL	PUBLIC	PRIVATE	NOT-FOR-PROFIT
Offer	**39%**	37%	39%	37%
No, but plan to offer within the next 12 months	**9%**	5%	10%	11%
No, and no plans to offer	**52%**	58%	51%	53%

Respondents using auto-enrollment generally take a conservative approach, with 57% reporting they automatically enroll employees at 1% to 3% of pay. Twenty-one percent automatically enroll at 5% of pay, and 18% are more aggressive, enrolling employees at 6% or more.

AUTOMATIC ENROLLMENT DEFAULT CONTRIBUTION

	TOTAL	PUBLIC	PRIVATE	NOT-FOR-PROFIT
Less than 3%	**24%**	0%	29%	22%
3%	**33%**	0%	39%	39%
4%	**3%**	0%	4%	6%
5%	**21%**	20%	21%	28%
6%	**3%**	0%	4%	0
More than 6%	**15%**	80%	4%	6%

Overall, institutions don't re-enroll employees who have opted out of the plan. Seventy-two percent take that approach, while 25% re-enroll opt-outs annually.

CONTRIBUTIONS

Only 20% of respondents say they have implemented automatic deferral increases, and 7% say they plan to in the next year. The majority, 73%, do not have automatic deferral increases and have no plans to.

Most of the surveyed institutions (68%) say faculty and staff make contributions of between 1% and 5% of their salaries.

Schools that contribute to their retirement plans on behalf of faculty and staff do so primarily based on a fixed contribution rate; 73% use this strategy. Twenty percent contribute a discretionary amount, and 8% do not make contributions for their participants.

The institutions that contribute to participant accounts are evenly split, at 42% each, between those contributing immediately and those requiring a year of service before the employer contributions begin. The remaining respondents contribute after 3-to-12 months of service.

Of schools that contribute on behalf of participants, 36% make matching contributions. Most respondents that match participant deferrals contribute dollar-for-dollar (65%), and 22% contribute more. The data suggests some institutions make both matching and profit sharing contributions.

Of the schools making contributions to participant accounts based on a percentage of pay, the most common percentages were 5% and 10%, at 23% of respondents in each case. Fifteen percent said they contribute 7% of pay, and 10% said their contribution is 6%.

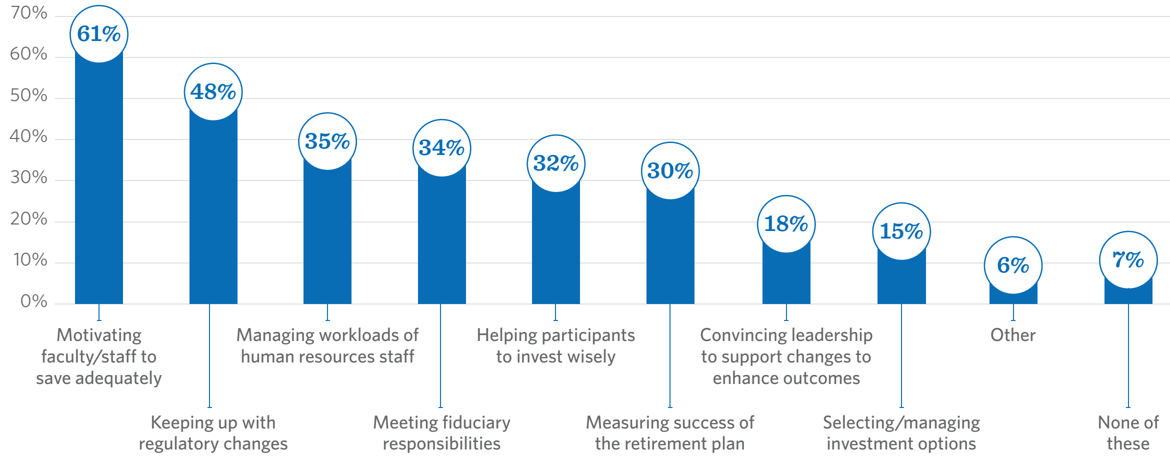
VESTING

Plan participants are immediately vested in their employer's contribution at 68% of the institutions surveyed. Twenty-one percent apply cliff vesting, where participants are not vested until a set number of years expire. Another 11% use a graded vesting schedule, with vesting earned gradually over several years.

CHALLENGES, PERCEPTIONS, AND EXPECTATIONS

Plan sponsors share a variety of challenges when managing their retirement plans.

PLAN MANAGEMENT CHALLENGES



One of the primary challenges of managing a retirement plan, according to 61% of all survey participants, is motivating faculty and staff to save enough for retirement. This concern was cited as a top challenge by:

- 64% of private institutions
- 60% of not-for profit institutions
- 47% of public schools

When broken down by plan type, 68% of institutions whose largest plan is a 403(b) say motivating savings is a top concern, compared to 36% for 401(k) plans, 33% for 401(a) plans, and 25% for 457 plans.

Other top challenges include:

Measuring the success of the plan. This is considered a “greatest challenge” by 29% of not-for-profit institutions and 40% of for-profit institutions.

Keeping up with regulatory changes. Identified as a top concern for only 5% of public colleges and universities, but listed by 58% of private institutions and 53% of not-for-profits.

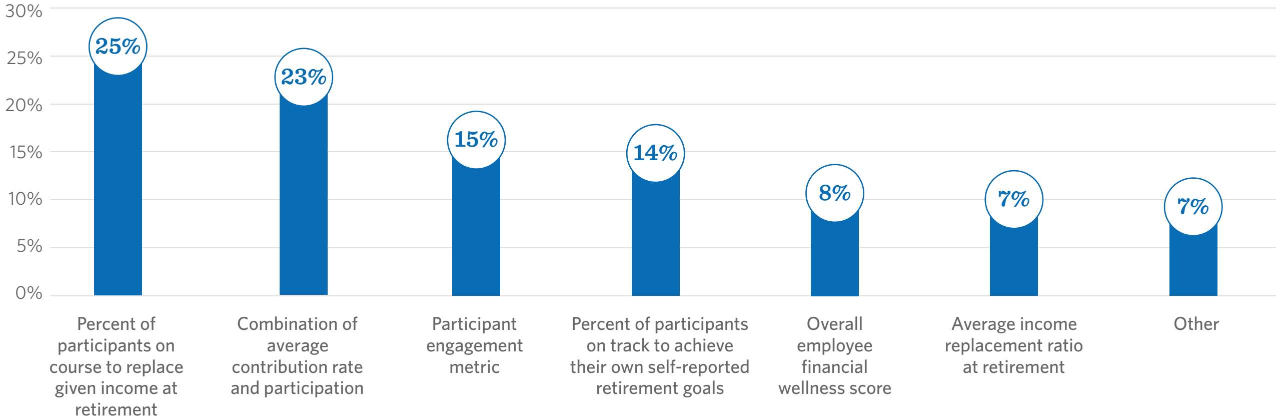
Managing workloads of human resources staff. For 35% of respondents, this is a primary concern. The percentage remains fairly consistent across all types of institutions, with 32% of public institutions, 36% of private institutions, and 41% of faith-based schools mentioning it. Those who sponsor a 401(a) plan are most concerned about the HR workload, at 50%.

Survey participants were asked, “Do you quantify how prepared for retirement your faculty and staff will be?” Sixty-two percent answered “No.” When ranking their top concerns, only 30% pointed to measuring the plan’s success.

A question arises here: If institutions are not measuring results, how do they know whether the plan is successful, and whether participants are prepared? Since many of the survey’s questions rely on perception, it is possible plans are more effective than responses indicate. Many institutions believe their faculty and staff to be underprepared for retirement, but are they?

Institutions that measure the success of their retirement plans look to a variety of indicators.

PREFERRED INDICATOR OF PLAN SUCCESS



The greatest percentage of respondents (25%) examine whether participants are on course to replace a given percentage of their income. Twenty-three percent look at a combination of participation rate and average contribution levels, and 15% employ participant engagement metrics — often measured by usage of online retirement readiness tools, webinar participation, and other online activities.

When asked how many faculty and staff they believe are on course to achieve their retirement income goals

23% of respondents put the number at 76% or more

50% estimate between 51% and 75% of faculty and staff are on course

83% of **private** institutions say more than 50% of faculty and staff are in position to meet their income replacement goals.

80% of **not-for-profit** institutions say they believe that more than 50% of their faculty and staff are on course to achieve their income replacement goal.

25% of **public** schools say they believe that more than 50% of their faculty and staff are on course to achieve their income replacement goal.

PERCENTAGE OF FACULTY AND STAFF THAT RESPONDENTS BELIEVE ARE ON COURSE TO ACHIEVE THEIR RETIREMENT INCOME GOAL

	TOTAL	PUBLIC	PRIVATE	NOT-FOR-PROFIT
76%-100%	**23%**	25%	22%	27%
51%-75%	**50%**	0%	61%	53%
26%-50%	**18%**	50%	11%	13%
1%-25%	**9%**	25%	6%	7%

RETIREMENT READINESS

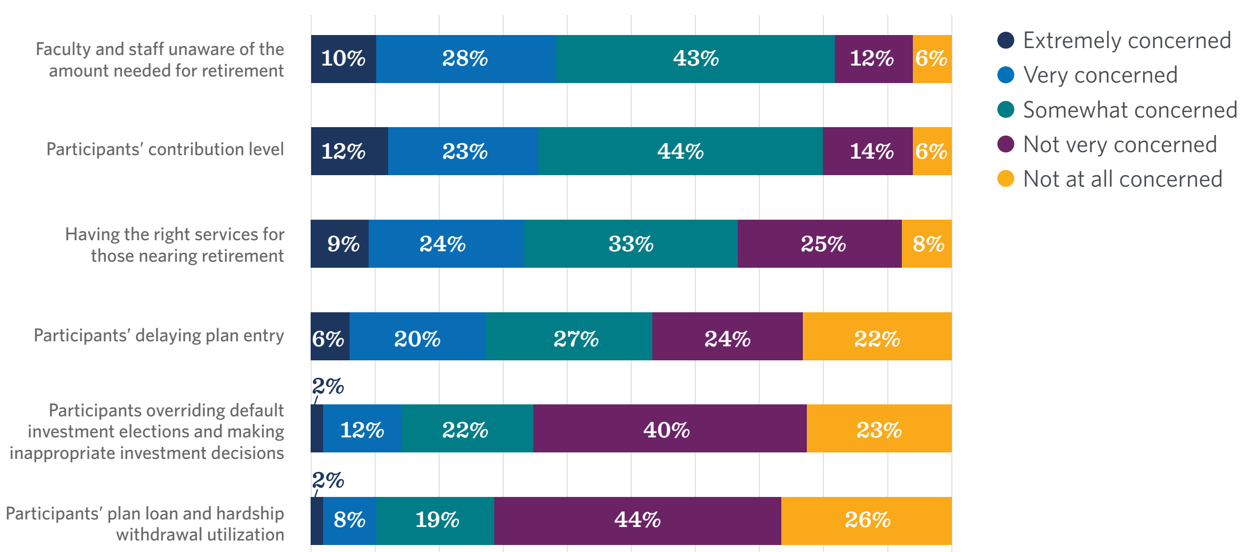
Respondents were asked to weigh in on specific areas of concern regarding aspects of faculty and staff retirement readiness. By and large, levels of concern expressed by the institutions hovered in the “somewhat concerned” range.

For example, 43% said they are somewhat concerned that faculty and staff may be unaware of how much money they will need in retirement. Thirty-eight percent are either “very concerned” or “extremely concerned.”

At public institutions, 47% report they are not at all concerned about participants overriding default investment elections and making inappropriate investing decisions, compared to 21% of not-for-profit respondents. When asked whether they are concerned about participants delaying plan entry, 63% of public institutions are not at all concerned. But concerns are higher at not-for-profit institutions, where just 14% report being not at all concerned about delayed plan entries.

Faith-based institutions are highly concerned about having the right services for those nearing retirement (53% very or extremely concerned) and about participants’ contribution levels (53% very or extremely concerned).

FACTORS OF CONCERN REGARDING RETIREMENT READINESS



LOANS AND WITHDRAWALS

One way to gauge the success of a retirement plan is to examine participant loans and withdrawals, yet surveyed institutions don't seem overly concerned about them. Just 19% said they are somewhat concerned and 71% said loans and withdrawals are not very or not at all concerning to them.

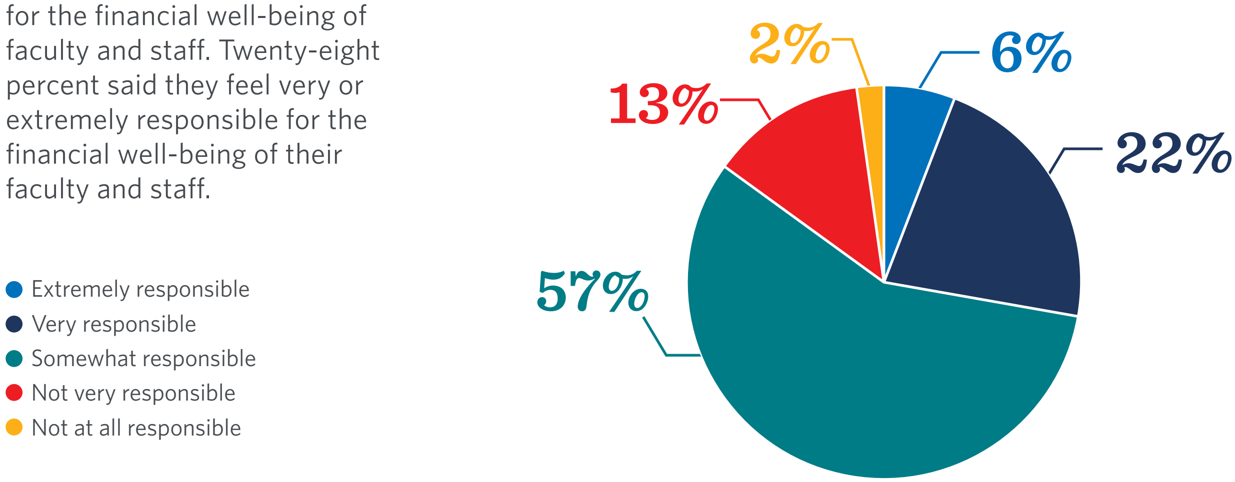
Nearly all (97%) of the responding institutions said their plan allows participants to borrow from their account. While many respondents (48%) are unsure of the outstanding loan amounts at the time of the survey, 13% put the figure between $5,000 and $6,999. Eleven percent said it was between $1,000 and $2,999. A few (8%) said the average outstanding loan balance per participant was over $10,000.

Most plans (88%) allow hardship withdrawals. Of those, 10% said the approximate average dollar amount of the withdrawal was between $3,000 and $4,999. Sixteen percent averaged between $5,000 and $9,999, and 8% were above $10,000.

FINANCIAL WELLNESS

In general, there is a sense of concern among institutions for the financial well-being of faculty and staff. Twenty-eight percent said they feel very or extremely responsible for the financial well-being of their faculty and staff.

FEELING RESPONSIBLE FOR HELPING FACULTY AND STAFF ACHIEVE A SENSE OF FINANCIAL WELL-BEING

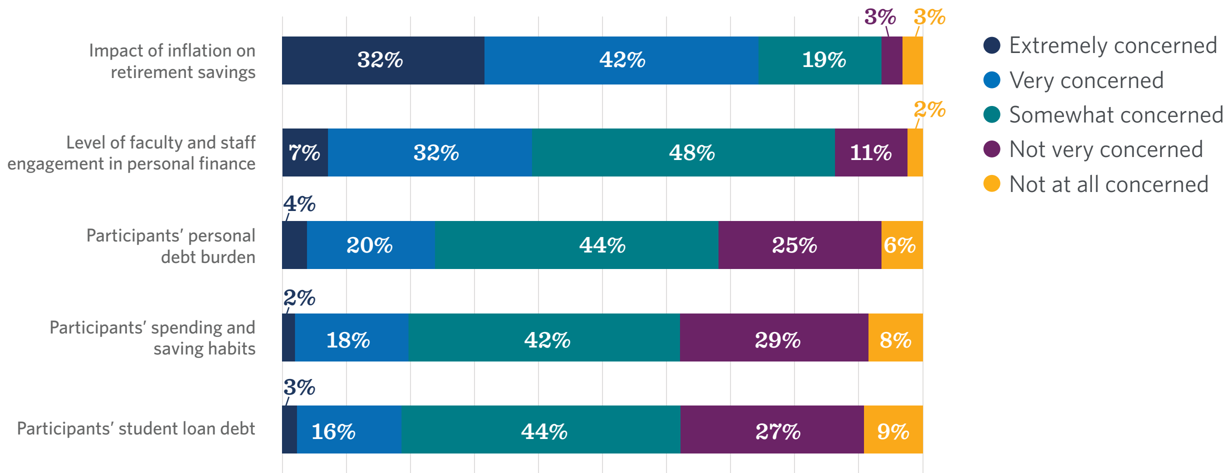


But there are mixed feelings. In fact, 37% of public higher education institutions report feeling "not very responsible" for the financial well-being of their faculty or staff, while 63% feel at least somewhat responsible. In contrast, 90% of private institutions and 88% of not-for-profit institutions feel at least somewhat responsible for the financial wellness of their employees.

RETIREMENT READINESS METRICS

About one-third of not-for-profit institutions rated retirement readiness metrics as "very important" among the services of providers, compared with 20% at for-profit institutions.

LEVEL OF PLAN SPONSOR CONCERN REGARDING FACULTY AND STAFF FINANCIAL WELLNESS

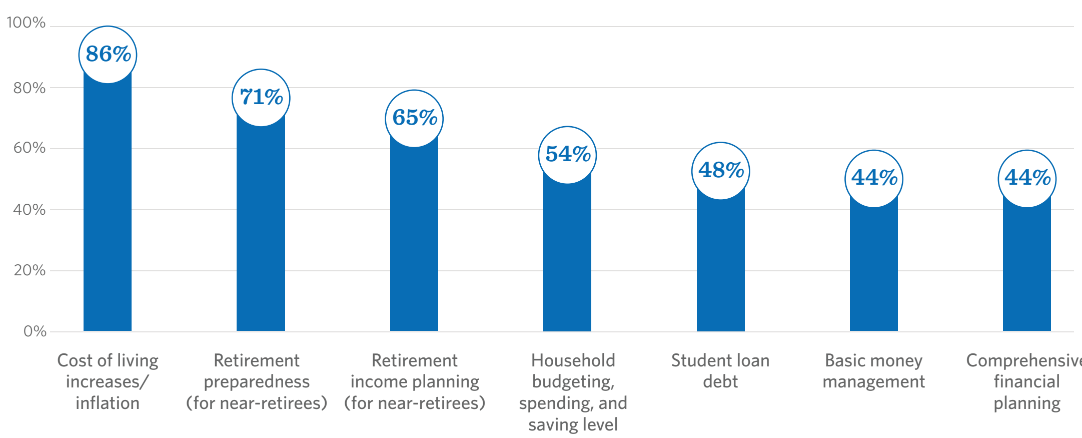


PARTICIPANT PERSPECTIVE

The institutions in our survey had similar views about which financial wellness issues are the most pressing for their participants. According to respondents, retirement preparedness is near the top of the list, with 71% pointing to it. However, the cost of living and inflation topped the list for 86%, followed by retirement income planning (65%). Forty-two percent said saving for healthcare in retirement is another area of concern.

Other pressing issues mentioned were household budgeting and saving (54%), basic money management (44%), comprehensive financial planning (44%), child and elder care (36%), and saving for children's education (35%).

MOST PRESSING FINANCIAL WELLNESS ISSUES FOR PARTICIPANTS

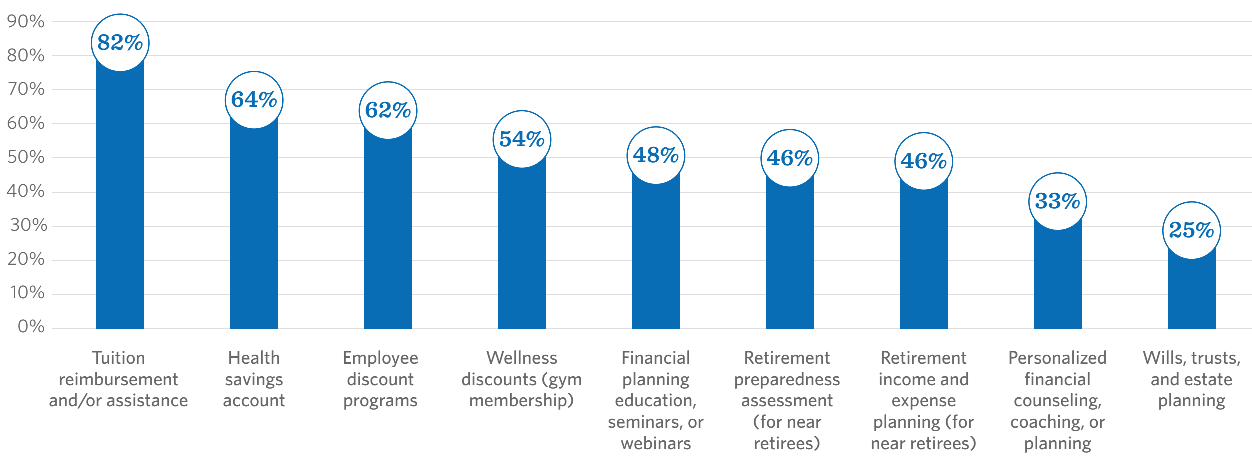


THE RESPONSE: FINANCIAL WELLNESS OFFERINGS

Responses to concerns about financial well-being varied among sectors. The survey found that public institutions are more likely than private schools to respond by offering wellness discounts such as gym membership (68% vs. 50%), student debt assistance (21% vs. 10%), and basic money management tools (26% vs. 20%), but private institutions are more likely to offer financial planning education, seminars, or webinars (52% vs. 26%), health savings accounts (69% vs. 42%), and employee discount programs (66% vs. 42%).

Among not-for-profit institutions, tuition reimbursement or assistance programs are popular, with 86% saying they offer one. Other popular choices among not-for profits are employee discount programs (72%), health savings accounts (66%), and financial planning education (57%).

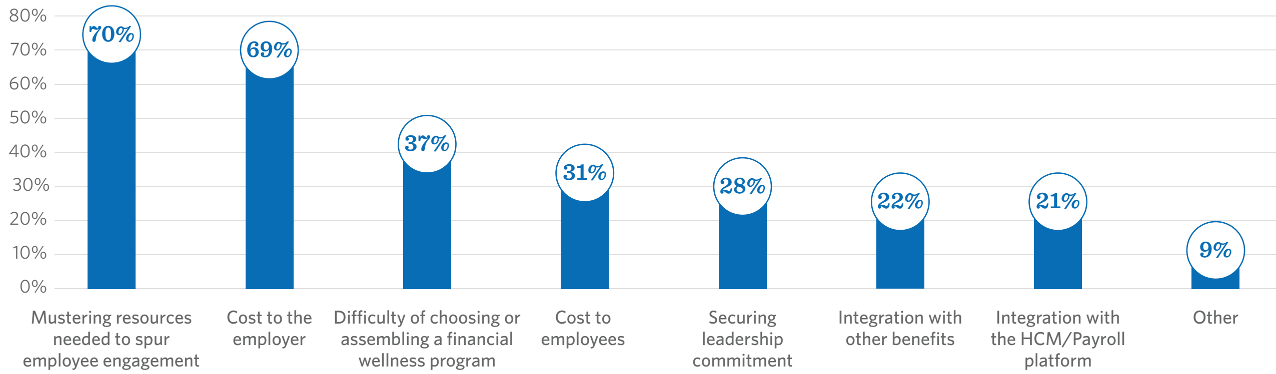
FINANCIAL WELLNESS BENEFITS OFFERED



A few programs that have gained popularity in recent years have not found footing in higher education institutions. For example, emergency savings programs are offered in just 3% of surveyed institutions, and lifestyle savings accounts in only 2%.

Offering a financial wellness program presents its own challenges. Public institutions are more likely than private institutions to identify the cost to the employer as a challenge of offering a program (79% compared to 67%). On the other hand, private institutions are more likely to identify "mustering resources needed to spur employee engagement" as a challenge (75% vs. 53%).

CHALLENGES OF OFFERING A FINANCIAL WELLNESS PROGRAM



Institutions that offer a financial wellness program use a variety of factors to measure its success. The most common measure chosen in the survey was employee satisfaction, selected by 72% of respondents. Employee engagement with the financial wellness program was cited by 46%. And 44% pointed to retirement plan participation and contribution rates as a useful measure of program success.

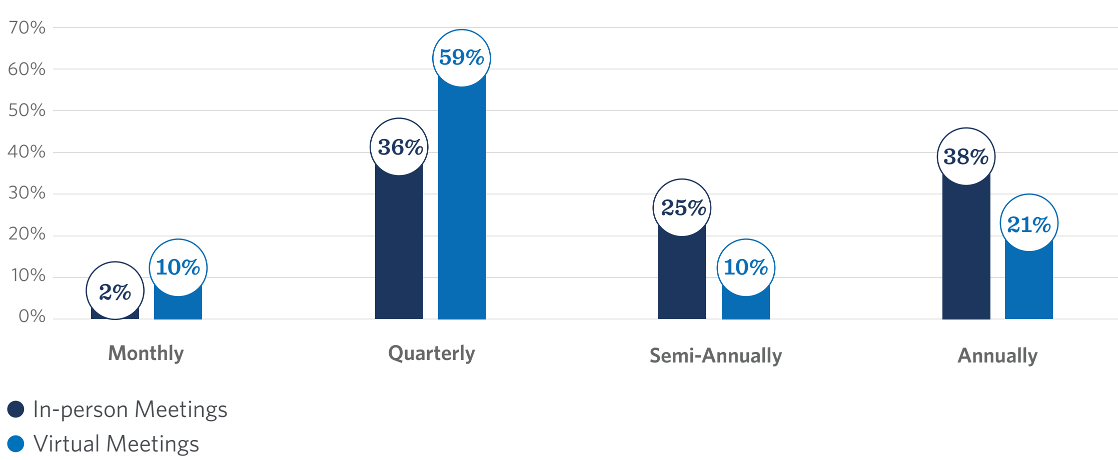
ADVISOR AND PROVIDER RELATIONSHIPS

ADVISORS AND CONSULTANTS

Retirement plan advisors and consultants play important roles for higher education institutions, with 89% of respondents reporting they have such a relationship. The figure was higher among not-for-profit institutions, where 92% indicate they have a plan advisor or consultant.

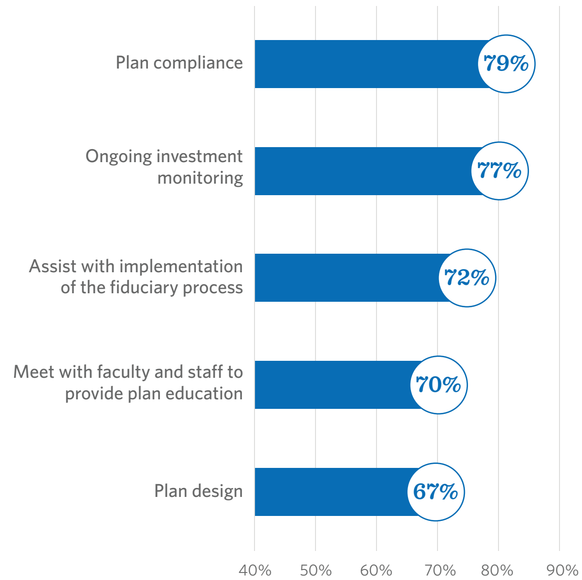
Schools most often meet in-person with their advisor or consultant quarterly (36%) or annually (38%). Many (59%) say they meet virtually each quarter. Services provided by advisors or consultants range from vendor selection and oversight (44%) to meeting with faculty and staff to educate them about the plan (70%) and plan compliance (79%).

FREQUENCY OF MEETINGS WITH RETIREMENT PLAN ADVISOR OR CONSULTANT



Private institutions are more likely than public institutions to use an advisor or consultant, with 68% of public institutions and 94% of private institutions reporting they have a plan advisor or consultant. All for-profit and faith-based plans indicate they use the services of an advisor or consultant.

RESPONSIBILITIES OF RETIREMENT PLAN ADVISOR OR CONSULTANT



70% of higher education institutions rely on retirement plan advisors or consultants to meet with faculty and staff for plan education

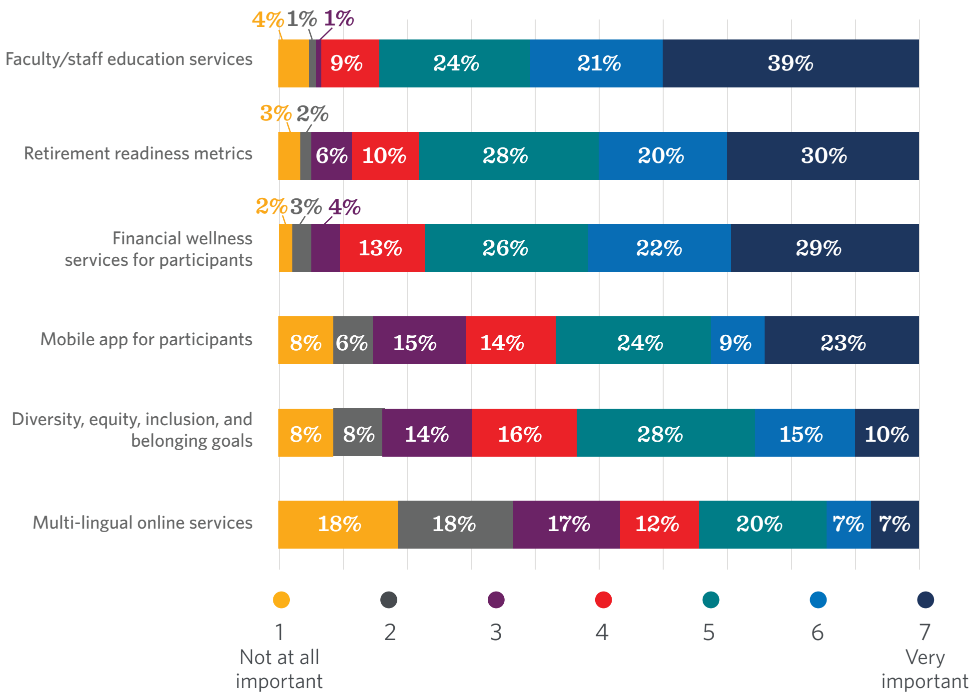
Advisors provide fiduciary services for many of the surveyed institutions. Fifty-seven percent report using their advisor or consultant as an ERISA 3(21) investment advisor and 43% use their advisor as an ERISA 3(38) investment manager.

Higher education plans typically pay their advisors based on a percentage of plan assets (51%) or a specified, periodic dollar amount (46%). In 64% of plans, the fee is less than five basis points (bps), and between five and 10 bps for 27% of respondents.

RECORDKEEPERS

Recordkeepers and other providers offer a variety of services that are important to faculty and staff, including education services and retirement readiness measurements, among others.

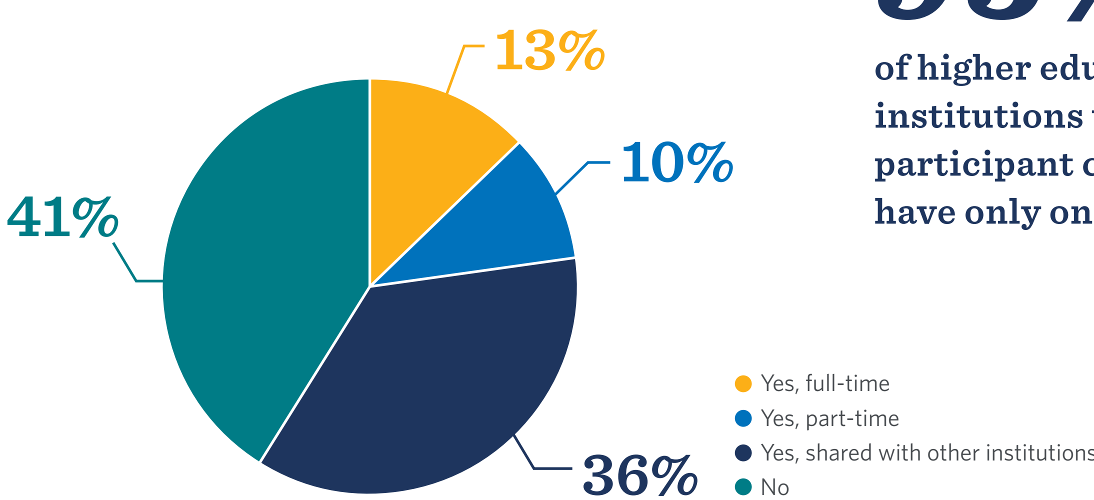
IMPORTANCE OF PLAN PROVIDER SERVICES



A minority (27%) of surveyed institutions use multiple providers to administer their retirement plans, including 22% of not-for-profit institutions. Of not-for-profit institutions that have multiple providers, 82% have two and 9% have either three or four. For 403(b) sponsors with more than one provider, 74% say they have two.

Fifty-nine percent of surveyed institutions say their recordkeeper provides a dedicated participant counselor, full-time (13%), part-time (10%), or shared with other institutions (36%). At 95% of schools, there is one participant counselor provided by the recordkeeper, and 5% have more than one.

DEDICATED PARTICIPANT COUNSELOR FROM THE RECORDKEEPER



95%

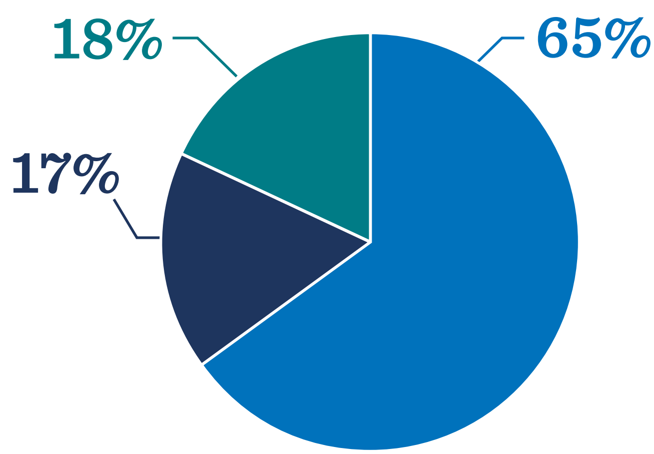
of higher education institutions with participant counselors have only one

INVESTMENTS

INVESTMENT POLICY STATEMENT

An investment policy statement (IPS) is an important part of maintaining compliance for any retirement plan. It can help guide processes and, when those processes are followed, provides a defense against legal action. The survey shows most (65%) institutions in our survey have one. Still, 18% are unsure.

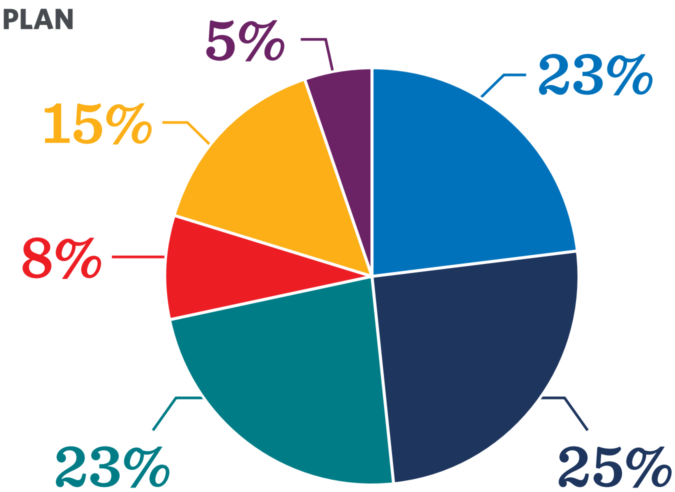
- Yes
- No
- Not sure



NUMBER OF INVESTMENT OPTIONS IN THE PLAN

Most often, our surveyed institutions offer between 11 and 20 investment options. Twenty-three percent offer between 21 and 30, and 23% limit their offerings to 10 or fewer. A surprising 5% offer more than 50 different investments in their plan.

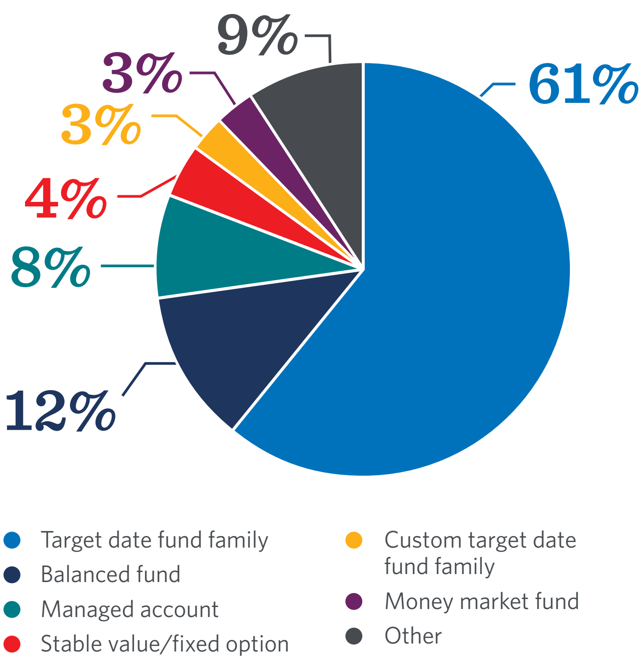
- Fewer than 10
- 11 to 20
- 21 to 30
- 31 to 40
- 41 to 50
- More than 50



PROPRIETARY FUNDS

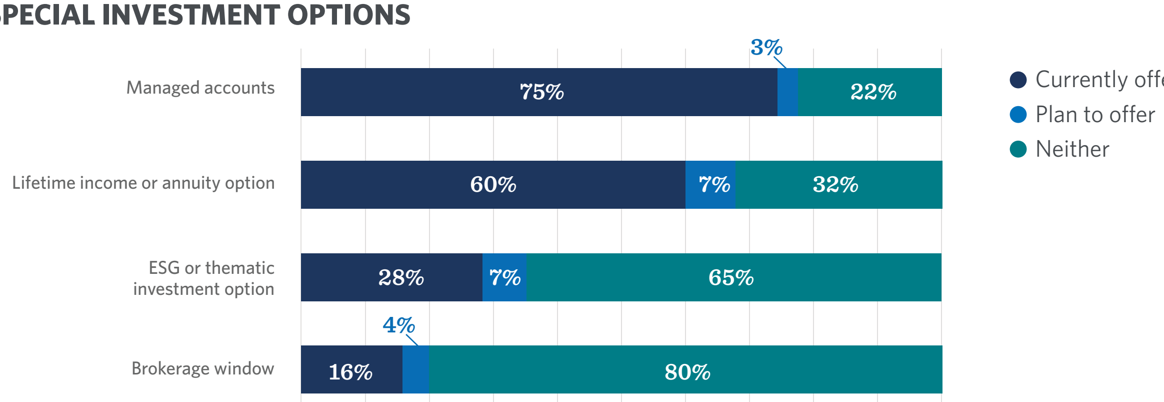
The survey also looked at the use of proprietary funds in retirement plans. Overall, 17% are required to use **only** proprietary funds in their lineup. The number is much higher (50%) among for-profit schools.

DEFAULT INVESTMENT ELECTION



The most common qualified default investment alternative (QDIA) used by survey respondents is a target date fund (TDF). Overall, 61% of plans use a TDF as their default election. However, only 32% of public schools have chosen a TDF as their default, and 16% use either a stable value fund or a balanced fund. Forty percent of for-profit schools use a custom TDF, and 8% of not-for-profit institutions use a managed account for their default option.

SPECIAL INVESTMENT OPTIONS



ESG funds are investments that are graded using environmental, social, and governance principles. Overall, they and other thematic investment options are offered by 28% of responding institutions, with 7% planning to add one or more. Among our respondents, ESG funds are most popular at not-for-profit schools, with 35% currently offering them.

Managed accounts are popular, with 75% of schools now including them on the investment menu and 3% planning to. The numbers are consistently high, especially among 403(b) plans, with 75% of ERISA-covered 403(b) plans and 100% of non-ERISA 403(b) plans including them on the investment menu. Not-for-profit schools are similarly enthusiastic, with 71% offering or planning to offer managed accounts.

Lifetime income or annuity options have gained popularity for retirement plans, with 60% currently offering one, and another 7% planning to add one. These options are most popular at not-for-profit schools (73%) and less popular at public schools (42%).

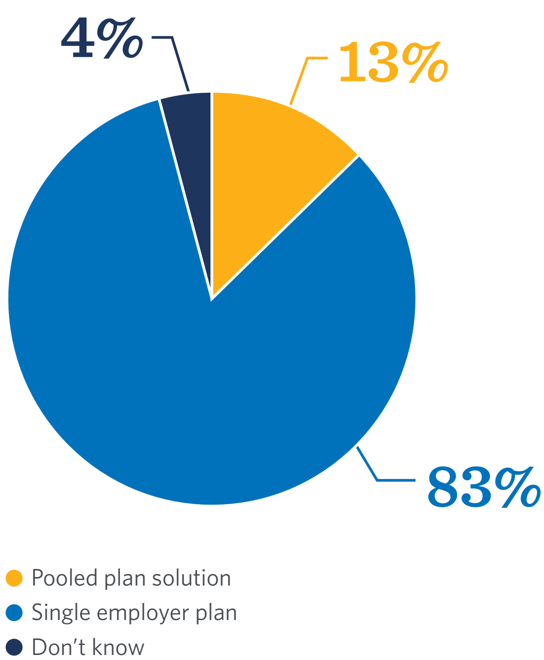
OTHER PLANS

POOLED PLAN ARRANGEMENTS[1]

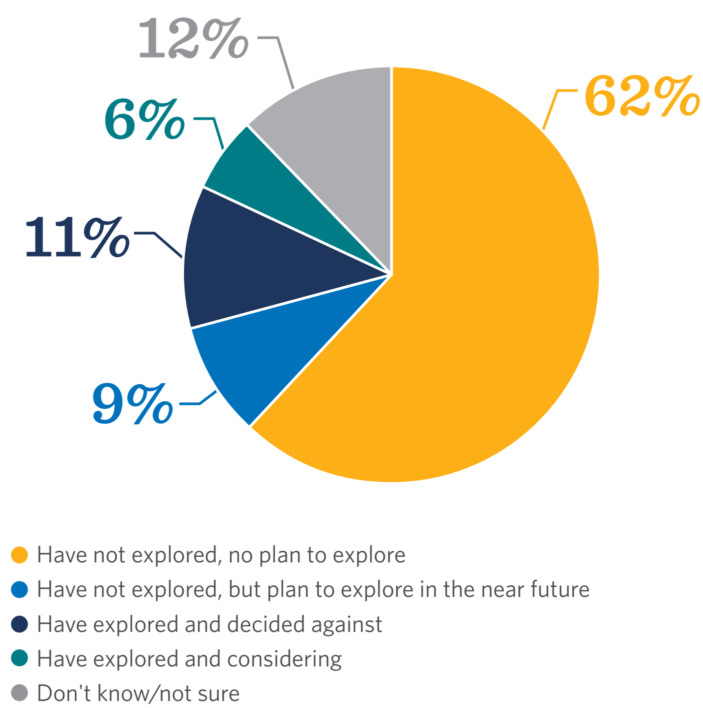
Pooled plan arrangements, including multiple employer plans (MEPs), pooled employer plans (PEPs), and groups of plans (GoPs) are complete retirement plan solutions that assume many of the administrative tasks and much of the fiduciary responsibility of offering a plan. This can make them ideal solutions for employers of all sizes and sectors, including higher education institutions.

The number of institutions participating in our survey that have taken advantage of pooled arrangements is low, with only 13% indicating their plan with the highest number of participants is a pooled arrangement. Because the most well-known pooled plan solutions have only been available for 403(b) plans on par with 401(k) plans since the SECURE 2.0 Act was enacted in 2022, this should not be surprising. In fact, 6% have explored pooled solutions and are considering one, and 9% have not explored them but plan to.

POOLED SOLUTIONS IN HIGHER EDUCATION
Plan with the highest number of participants is:



SINGLE EMPLOYER PLAN SPONSORS EXPLORATION OF POOLED PLAN ARRANGEMENTS



Institutions that opted for a pooled arrangement did so primarily to reduce cost (47%), offload administrative responsibilities (47%), and to reduce fiduciary liability (41%). Twenty-nine percent said they moved to a pooled arrangement to receive better service.

Nine percent of private schools report they plan to explore the possibility of adopting a pooled arrangement in the near future, as do 7% of public institutions. Interest is similar at not-for-profit schools, with 7% planning to consider a pooled arrangement. For-profit organizations are the most likely to have explored the option of a pooled arrangement and decided against it (40%).

[1] There are different types of pooled plan arrangements — pooled employer plans (PEPs), groups of plans (GoPs) and multiple employer plans (MEPs) — and all share the same objective: to provide access to quality retirement plans, regardless of employer size. For purposes of this report, we are referring to all types as pooled solutions.

DEFINED BENEFIT PLANS

Defined benefit (DB) plans are not as common as they once were among institutions. However, 24% of responding institutions report an active DB plan for all faculty and staff, 4% an active DB plan for some faculty and staff, and 3% a frozen DB plan. This is still significantly higher than nonunion, private industry employers — only 10% of which offer a DB plan.[2]

KEY TAKEAWAYS

Higher education institutions share many of the same challenges faced by other types of institutions. They also share a unique legacy of helping faculty and staff achieve retirement success.

Thanks to above-average use of defined benefit plans, a greater number of higher education employees are likely to receive consistent monthly income paid entirely by their employer compared to other industries. And a high level of concern about financial wellness may lead to improvements in financial wellness offerings designed to address it.

The results of our 2023 survey lead us to suggest the following considerations:

- Take advantage of the services offered by your plan's advisor, consultant, or recordkeeper. These retirement professionals are already a valued part of the retirement plan team for many institutions. Plans can (and should) look to them for help meeting the challenges they face.
- Look for creative ways to encourage plan participation and overall financial wellness, likely available through your recordkeeper. For example, regular communications using targeted emails and text messages suggesting ways to improve retirement readiness may be effective.
- Increase default contributions to 6% of pay, with automatic annual increases, and annual re-enrollments of participants who opt out.
- Implement measures to determine participant retirement readiness.
- Explore the possibilities of pooled plan arrangements.

[2] "Employee Benefits in the United States," Bureau of Labor Statistics, March 2023

RESPONDENTS

Responses to the 2023 survey came from 99 institutions, including 58 not-for-profit, 19 public, 17 faith-based, and five for-profit institutions. Four-year colleges make up over 72% of the sample. Respondents offer a variety of plan types, including 401(a), 401(k), 403(b), 457, and defined benefit (DB) plans. Defined contribution (DC) plan assets for most respondents were under $75 million. Among public institutions in the study, 44% have $250 million or more in total DC plan assets. By contrast, only 13% of private schools have $250 million or more in plan assets. For-profit institutions that responded to our survey are all under $75 million in DC plan assets, with 60% under $5 million in DC plan assets.

We asked survey participants which plan is their largest, based on number of plan participants. The vast majority (83%) said their largest plan is a single employer plan, and 13% said it's a pooled solution. Four percent don't know or are unsure.

Would you like more information about the survey or how Transamerica can help your plan and participants?

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