

403(b) Target-Date Fund Survey July 2009

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Introduction

PSCA's *403(b) Target-Date Survey* reflects the current plan practices of 144 not-for-profit organizations that currently sponsor a 403(b) plan. Data in this survey is often categorized by plan size, and in some instances, by industry. Plan size is determined by the number of active participants in the organization's plan. The industry breakouts include the following categories: higher education (public and private institutions), hospitals and hospital systems, healthcare (other than hospitals), social services, and other. The other category includes k-12 education, foundations, associations, museums, religious institutions, and more. Please note that the figures in the survey do not always add up to 100.0 percent due to rounding. Please direct questions or comments to research@psca.org or 312.419.1863x203.

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Overview of Results

In May 2009, PSCA surveyed 403(b) plan sponsors on the use of target-date funds in their plans. 144 organizations of various sizes and industries across the country responded to the survey. 29.2 percent of respondents have 1-49 active plan participants, 28.5 percent have 50-199 active plan participants, and 18.1 percent have 1,000 or more active plan participants. 86.1 percent of respondent plans are covered by ERISA. 44.5 percent of organizations have been with their current plan provider for five years or less, while 31.1 percent have been with their provider for 11 or more years.

More than half (51.2 percent) of respondents offer a target-date fund in their plans. 27.3 percent of plans have an automatic enrollment feature. Of these plans, 36.8 percent have a target-date fund as the default investment option. This is more than double the number of plans that used a target-date fund as the default investment option in PSCA's 2008 403(b) Plan Survey. 21.8 percent of organizations that do not currently offer target-date funds in their plan are considering adding them. 24.2 percent of organizations that state that they do not currently offer target-date funds are unsure of what they are. 21.2 percent state that they these funds are not available from their provider or not recommended by their provider.

Mutual funds are the most common structure for target-date funds (80.7 percent of organizations). Mutual funds are more common with larger organizations - 95.5 percent of organizations with 1,000 or more active participants have their target-date funds in mutual funds. 15.1 percent of all organizations use managed accounts with their target-date funds.

The majority (90.5 percent) of organizations use a packaged target-date product rather than customizing their own. Larger organizations are more likely to customize their target-date funds than smaller organizations. 12.2 percent of organizations are considering switching from a packaged product to customizing their own within the next three years.

58.4 percent of organizations reported being either satisfied or very satisfied with their target-date funds. 48.8 percent of organizations will not make any changes to their target-date funds over the next three years. 23.2 percent would consider changing the underlying managers or provider, and 22.0 percent would consider adding new asset classes within the next three years. Organizations ranked diverse asset allocation, quality of underlying managers, liability risk minimization, and cost control as the most important characteristics in developing successful target-date funds.

Demographic Information

Table 1: Respondents by Plan Size (Number of Active Participants)

	1-49	50-199	200-999	1,000+	All Plans
Number of Plans	42	41	35	26	144
Percent of Plans	29.2%	28.5%	24.3%	18.1%	100.1%

Graph 1 - Respondents By Plan Size

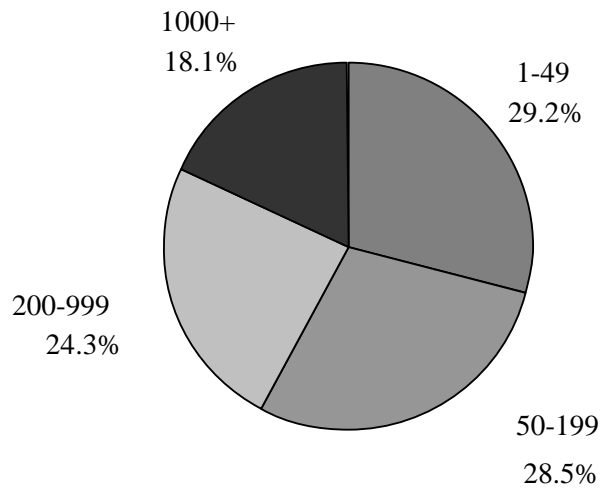


Table 2: Respondents by Industry Type

Industry	1-49	50-199	200-999	1,000+	All Plans
Religious Institutions (i.e. Churches) (2 Organizations)	0.0%	0.0%	0.0%	7.7%	1.4%
Higher Education (11 Organizations)	0.0%	4.9%	20.0%	7.7%	7.6%
Hospitals and Hospitals Systems (Including Faith-Based) (22 Organizations)	0.0%	0.0%	20.0%	57.7%	15.3%
Healthcare (Other than Hospitals) (21 Organizations)	14.3%	9.8%	20.0%	15.4%	14.6%
K-12 Education (6 Organizations)	2.4%	9.8%	0.0%	3.8%	4.2%
Social Services (44 Organizations)	40.5%	48.8%	20.0%	0.0%	30.6%
Foundation (8 Organizations)	14.3%	2.4%	0.0%	3.8%	5.6%
Association (7 Organizations)	9.5%	4.9%	2.9%	0.0%	4.9%
Museum (7 Organizations)	2.4%	9.8%	5.7%	0.0%	4.9%
Other (16 Organizations)	16.7%	9.8%	11.4%	3.8%	11.1%
Total (144 Organizations)	100.1%	100.2%	100.0%	99.9%	100.2%

Graph 2 - Respondents by Industry Type

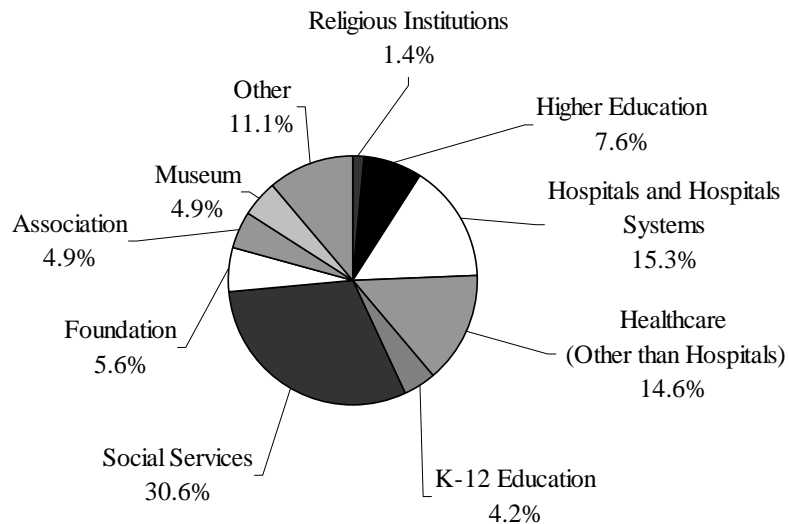


Table 3: ERISA Status of Plans

Status	1-49	50-199	200-999	1,000+	All Plans
ERISA	85.7%	82.9%	97.1%	76.9%	86.1%
Non-ERISA	0.0%	7.3%	2.9%	23.1%	6.9%
Unsure	14.3%	9.8%	0.0%	0.0%	6.9%
Total	100.0%	100.0%	100.0%	100.0%	99.9%

Table 4: Length of Time Organization Has Been with Their Current Plan Provider

Length of Time	All Plans
Less Than 1 Year	6.7%
1-5 Years	37.8%
6-10 Years	24.4%
11-20 Years	17.8%
21 Years or More	13.3%
Total	100.0%

*If more than one provider is used, length of time with the longest is used.

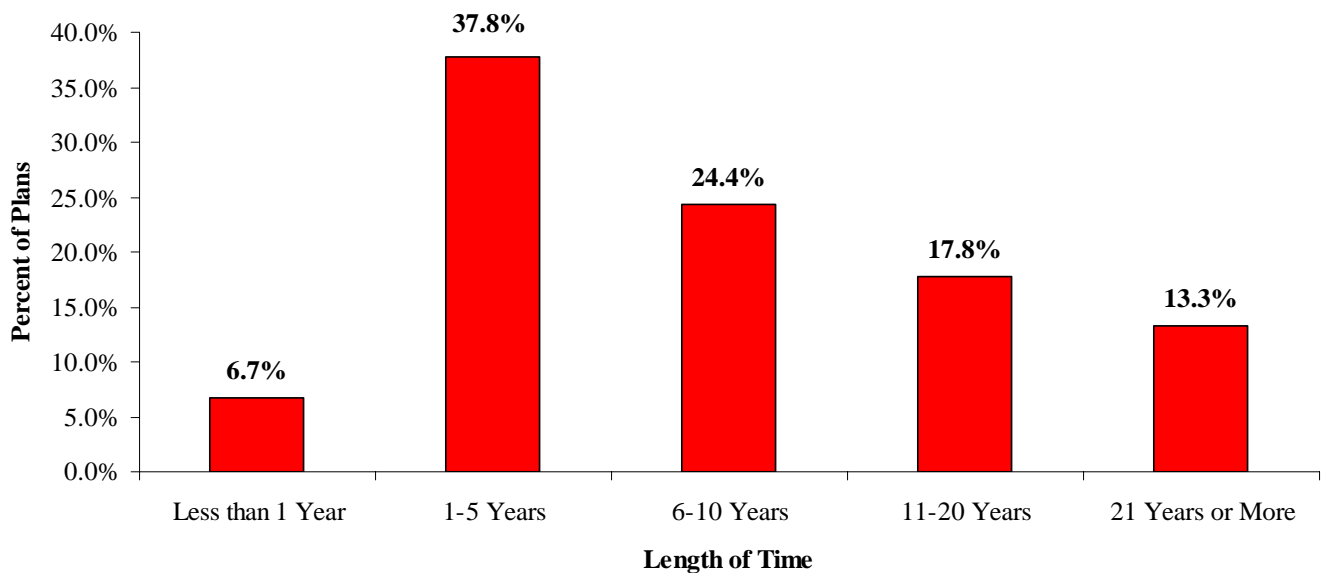
Other Statistics for All Plans:

Average = 10.7 years

Median = 7 years

Mode = 10 years

Graph 3 - Length of Time with Current Plan Provider



Automatic Enrollment

Table 5: Percent of Plans with Automatic Enrollment by Plan Size

	1-49	50-199	200-999	1,000+	All Plans
Percent of Plans	26.8%	22.0%	34.3%	26.9%	27.3%

Graph 4 - Percent of All Plans with Automatic Enrollment

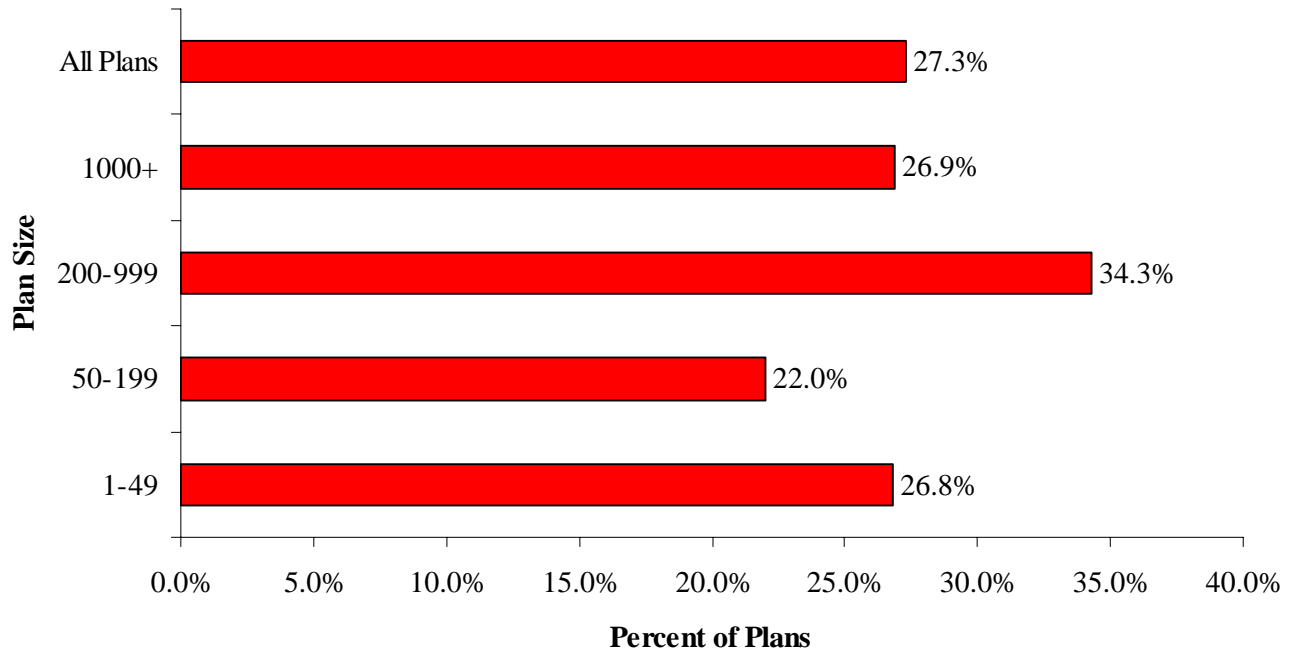


Table 6: Participants Automatically Enrolled by Organizations with Automatic Enrollment by Plan Size

	1-49	50-199	200-999	1,000+	All Plans
All New Hires Only	100.0%	44.5%	66.8%	85.9%	74.4%
All Non-Participants	0.0%	55.5%	33.2%	14.1%	25.6%

Table 7: Percent of Plans with Automatic Enrollment by Industry Type

Industry	Percent of Plans
Higher Education	18.2%
Hospitals and Hospitals Systems (Including Faith-Based)	27.3%
Healthcare (Other than Hospitals)	23.8%
Social Services	25.0%
Other*	33.3%

*Other includes the industries K-12 education, foundations, associations, museums, and religious institutions from Table 2.

Table 8: Participants Automatically Enrolled by Organizations with Automatic Enrollment by Industry Type

Industry	All New Hires Only	All Non-Participants
Higher Education	50.0%	50.0%
Hospitals and Hospitals Systems (Including Faith-Based)	100.0%	0.0%
Healthcare (Other than Hospitals)	79.8%	20.2%
Social Services	72.8%	27.2%
Other*	53.3%	46.7%

*Other includes the industries K-12 education, foundations, associations, museums, and religious institutions from Table 2.

Graph 5 - Percent of All Plans That Automatically Enroll Participants by Industry Type

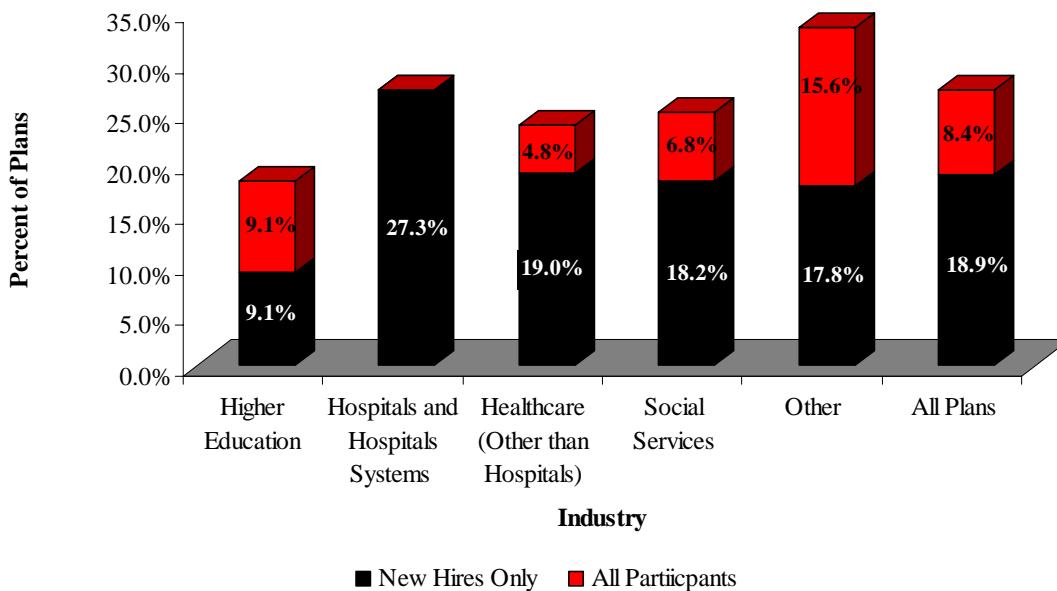
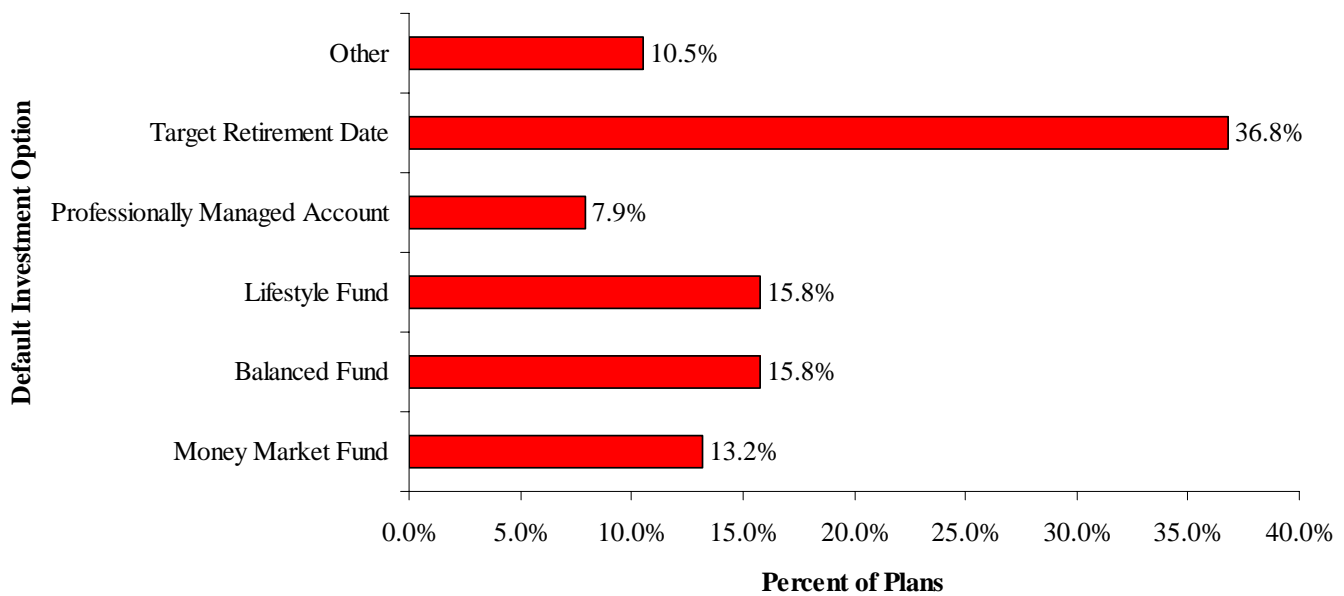


Table 9: Default Investment Option for Automatic Deferrals

Default Investment Option	Percent of Plans
Stable Value Fund	0.0%
Money Market Fund	13.2%
Balanced Fund	15.8%
Lifestyle Fund	15.8%
Professionally Managed Account	7.9%
Target Retirement Date	36.8%
Other	10.5%
Total	100.0%

Graph 6 - Default Investment Option for Automatic Deferrals



Target-Date Fund Offerings

Table 10: By Plan Size, Percent of Plans That Do Not Have Target-Date Funds as the Default Option but Do Offer Them to Participants

	1-49	50-199	200-999	1,000+	All Plans
Percent of Plans	35.9%	50.0%	69.0%	81.8%	55.5%

Graph 7 - Percent of All Plans That Offer Target-Date Funds (As the Default Option or as a Stand-Alone Fund)

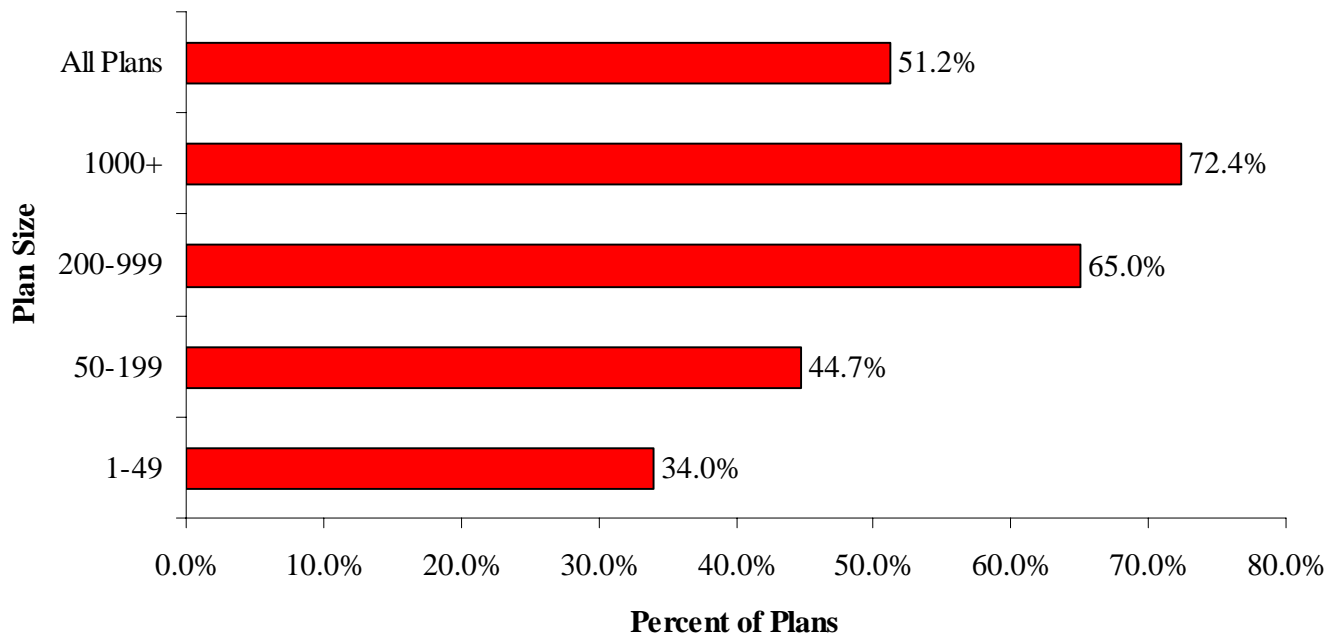


Table 11: By Industry Type, Percent of Plans That Do Not Have Target-Date Funds as the Default Option but Do Offer Them to Participants

Industry	Percent of All Plans
Higher Education	66.7%
Hospitals and Hospitals Systems (Including Faith-Based)	72.2%
Healthcare (Other than Hospitals)	71.4%
Social Services	50.0%
Other	42.5%

**Other includes the industries K-12 education, foundations, associations, museums, and religious institutions from Table 2.*

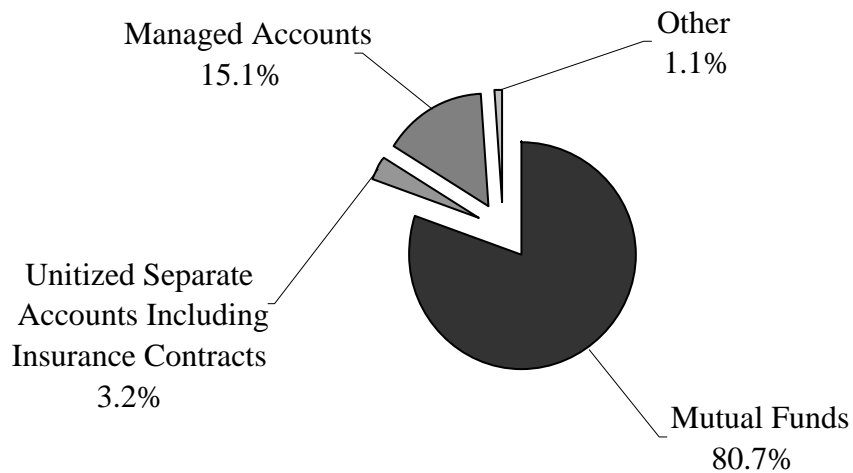
Table 12: Percent of Plans That Do Not Currently Offer Target-Date Funds That Are Considering Adding Them by Plan Size

	1-49	50-199	200-999	1,000+	All Plans
Percent of Plans	12.5%	15.8%	62.5%	25.0%	21.8%

Table 13: Structure of Target-Date Funds by Plan Size

Structure	1-49	50-199	200-999	1,000+	All Plans
Mutual Funds	75.0%	80.0%	73.1%	95.5%	80.7%
Unitized Separate Accounts Including Insurance Contracts	0.0%	0.0%	7.7%	0.0%	3.2%
Managed Accounts	18.8%	20.0%	19.3%	4.5%	15.1%
Other	6.3%	0.0%	0.0%	0.0%	1.1%
Total	100.1%	100.0%	100.0%	100.0%	100.1%

Graph 8 - Structure of Target-Date Funds

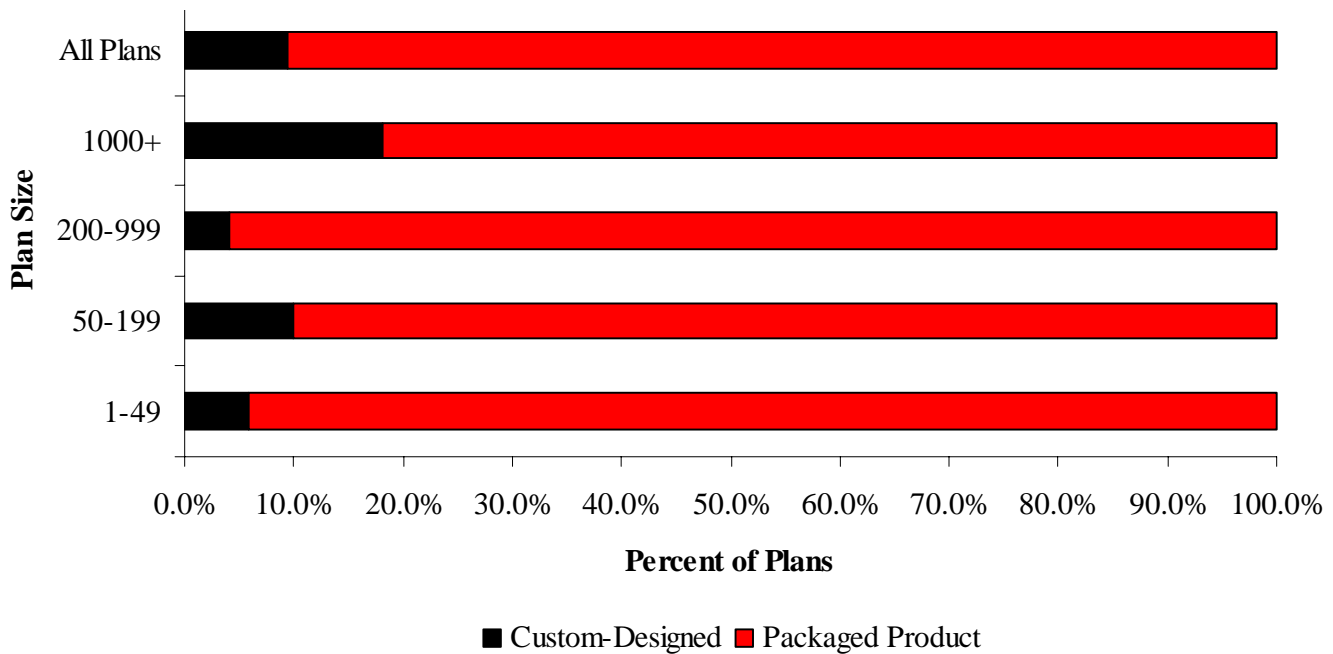


Custom-Design vs. Off-the-Shelf

Table 14: Percent of Organizations Choosing Packaged Products or Customizing Their Own by Plan Size

	1-49	50-199	200-999	1,000+	All Plans
Custom-Designed	5.9%	10.0%	4.0%	18.2%	9.5%
Packaged Product	94.1%	90.0%	96.0%	81.8%	90.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Graph 9 - Percent of Organizations Choosing Packaged Products vs. Custom Designed Funds



Off-the-Shelf Target-Date Products

Table 15: Source of Funds for Packaged Products

Source	All Plans
Investment manager affiliated with our recordkeeper	60.0%
Investment manager not affiliated with our recordkeeper	20.0%
Third-party provider	20.0%
Total	100.0%

Table 16: Reasons That Organizations Chose Someone Other Than the Investment Manager Affiliated with Their Recordkeeper

Reason	All Plans
Independence of the provider	60.0%
Provider expertise in developing target date funds	50.0%
Quality of underlying managers	50.0%
Cost consideration	33.3%
Liability concerns	26.7%
Other	16.7%

Sponsor Perspective

Table 17: Importance of Characteristics in Developing Successful Target-Date Funds

Characteristic	Average	Median
Glidepath design addresses plan demographics (target-date only)	2.8	2
Quality of underlying managers	1.9	1
Open architecture manager selection	3.0	3
Diverse asset allocation	1.8	1
Use of a third party advisor (consultants, DC specialists, etc.)	2.7	3
Annuity offerings within or alongside target date funds	3.4	3
Minimize liability risk	1.9	1
Controlling costs	2.0	2

On a scale of 1-5; 1 being extremely important, 5 being not important at all.

Table 18: Changes That Organizations May Consider Making to Their Target-Date Funds Over the Next Three Years by Plan Size

Change	1-49	50-199	200-999	1,000+	All Plans
Switching from off-the-shelf to custom-designed funds	6.7%	0.0%	15.4%	25.0%	12.2%
Change underlying managers or provider	13.3%	19.0%	30.8%	25.0%	23.2%
Change glide path construction (target date only)	6.7%	9.5%	11.5%	20.0%	12.2%
Change model or approach to customized glide path (target date only)	6.7%	19.0%	11.5%	10.0%	12.2%
Add or change annuity/payout features (target date only)	13.3%	4.8%	7.7%	15.0%	9.8%
Adding new asset classes	6.7%	33.3%	26.9%	15.0%	22.0%
None	80.0%	57.1%	34.6%	35.0%	48.8%

Table 19: Satisfaction with Current Target-Date Funds by Plan Size

Satisfaction Level	1-49	50-199	200-999	1,000+	All Plans
Very Satisfied	12.5%	10.0%	11.5%	22.7%	14.3%
Satisfied	50.0%	40.0%	42.3%	45.5%	44.1%
Neutral	37.5%	45.0%	38.5%	27.3%	36.9%
Dissatisfied	0.0%	5.0%	7.7%	0.0%	3.6%
Very Dissatisfied	0.0%	0.0%	0.0%	4.5%	1.2%
Total	100.0%	100.0%	99.9%	100.0%	100.1%

Graph 10 - Satisfaction with Current Target-Date Funds

