The higher education industry is undergoing a massive transformation. Payroll and benefits costs continue to increase, talent acquisition has become more difficult, and some elements of the higher education operating model have come into question.

As benefits managers look to streamline costs, one area has come under increased scrutiny—retirement benefits. With overall employer contributions that are substantially larger than in other industries, higher education plan sponsors are seeking ways to cut costs and increase the effectiveness of their retirement benefits.

In this brief we share the findings of our analysis of the workplace savings plan designs of higher education and corporate institutions recordkept by Fidelity Investments. The goal is to help plan sponsors optimize their retirement programs to be both cost-efficient and effective at delivering retirement readiness.

The Employee Contribution Gap

As some private and some public higher education plan sponsors reduced or terminated their defined benefits (DB) plans over the last few decades, they replaced them with defined contribution (DC) plans. The thought was to make the new DC benefit look like the old DB/cash balance benefit by creating a large nondiscretionary/core contribution.

At the same time, many higher education employers implemented mandatory retirement plans, which have helped to ensure that all benefits-eligible employees are participating, again similarly to a DB plan. But more than half of higher education institutions do not mandate employee contributions—leaving a participation and contributions hole.¹

More than 50% of higher education institutions do not mandate employee contributions.¹
THE CASE FOR EMPLOYER MATCH

As we analyzed data from our higher education clients, we began to notice a pattern: Plans with a large core contribution and no mandatory employee contribution significantly underperformed compared with plans that do not have a core contribution, especially in driving employees to contribute their own funds.

Employee Voluntary Contribution Rate Percentages for Various Contribution Designs

Match design was significantly more effective at driving higher voluntary contribution rates

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<th>All Clients</th>
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<tbody>
<tr>
<td>Only Core</td>
<td>Only Core</td>
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<tr>
<td>Match Only</td>
<td>Match Only</td>
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<tr>
<td>59%</td>
<td>64%</td>
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<td>72%</td>
<td>76%</td>
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<td>85%</td>
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Our data strongly suggests that the addition and especially the sole use of a match is significantly more effective at driving voluntary contributions than a core employer contribution alone. **Voluntary contribution rates were 23%–26% higher in match-only versus core-only plans.**

These results held true whether we looked across our full dataset or limited the analysis to plan sponsors with whom we have an exclusive or a master recordkeeper arrangement.¹

KEY TAKEAWAY:

Employer match can be more effective than core contribution and hybrid core/match in driving higher employee voluntary contribution rates.
We next looked at the efficiency of employer contribution designs—asking the question “Are they efficient at driving higher employee dollar contributions for every $1 an employer contributes?” We saw once again that match-only configurations are 25%–50% more efficient than other plan designs at driving employee contributions for every dollar an employer contributes. The results held true for the full set of 128 higher education clients we analyzed and when we evaluated those same clients with whom we are exclusive or in a master recordkeeper arrangement.

**Employee Contribution per $1 of Employer Contribution**

*Match design was significantly more efficient at driving higher employee dollar contributions per dollar spent by employer*

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<th>All Clients</th>
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<tbody>
<tr>
<td>Only Core</td>
<td>$0.87</td>
<td>$0.95</td>
</tr>
<tr>
<td>Both Match &amp; Core</td>
<td>$0.99</td>
<td>$0.88</td>
</tr>
<tr>
<td>Only Match</td>
<td>$1.66</td>
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**KEY TAKEAWAY:**

Employer match programs are effective and efficient at increasing the ratio of employee to employer dollars contributed to the plan.
EFFICIENCY OF STRETCH MATCH DESIGNS

As higher education plan sponsors consider changing their employer contribution designs to include a match, they need to decide between a 1:1 (100%) match or a 1:2 (50%) stretch match. We analyzed more than 600 retirement plans (that did not have auto enrollment enabled as a plan feature) sponsored by corporate and not-for-profit employers and the findings suggest that a 50% on the dollar up to 6% of salary match design outperforms a 100% up to 3% match design by driving higher deferral rates at every age range. Furthermore, a 50% up to 6% match may be less expensive than a 100% up to 3% design.5

Average Deferral Rates for Two Different Match Formulas

50% up to 6% outperformed 100% up to 3% at every age range

KEY TAKEAWAY:

Consider a stretch match of 6% or higher. For greater efficiency, use a 50% on the dollar formula rather than 100% on the dollar set at a lower maximum. Employer contribution design should incent employees to consider a total savings rate (employee plus employer contributions) of 15%.
Momentum for Change in Higher Education

An increasing number of higher education plan sponsors have been re-evaluating their pension and defined contribution plans in order to make them both more cost-efficient and more effective at driving increased savings rates. Since 2012, we have seen a greater number of higher education plan sponsors adopt automatic enrollment coupled with match designs but there is still opportunity for further improvement. Today only 14% of plans without mandatory contributions are using automatic enrollment as a plan participation tool.\(^6\)

Higher education is beginning to modernize its designs...

...But there is more work to be done across plan and employer contribution designs

**Employer Contribution Design**

- Only Core
- Both Match & Core
- Only Match

**Usage of Automatic Enrollment**

(in plans without mandatory eligible-employee contributions)

- Use AE
- No AE

**KEY TAKEAWAY:**

Plans that do not have a mandatory employee contribution would greatly benefit from automatic enrollment.
Considerations for Plan Sponsors

Plan design plays an important role in employees’ retirement readiness. Key questions for plan sponsors include:

- Have you completed an analytical assessment of your plan to understand overall participation, savings and asset allocation behaviors?
- Do you believe your plan design and employer contribution design are appropriate to create an efficient and effective retirement program?
- Is your retirement program designed to deliver retirement readiness for your employees?

Let Fidelity help you analyze your retirement program. Contact your Fidelity representative to learn more about our plan design, income replacement and retirement readiness analytics capabilities.

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