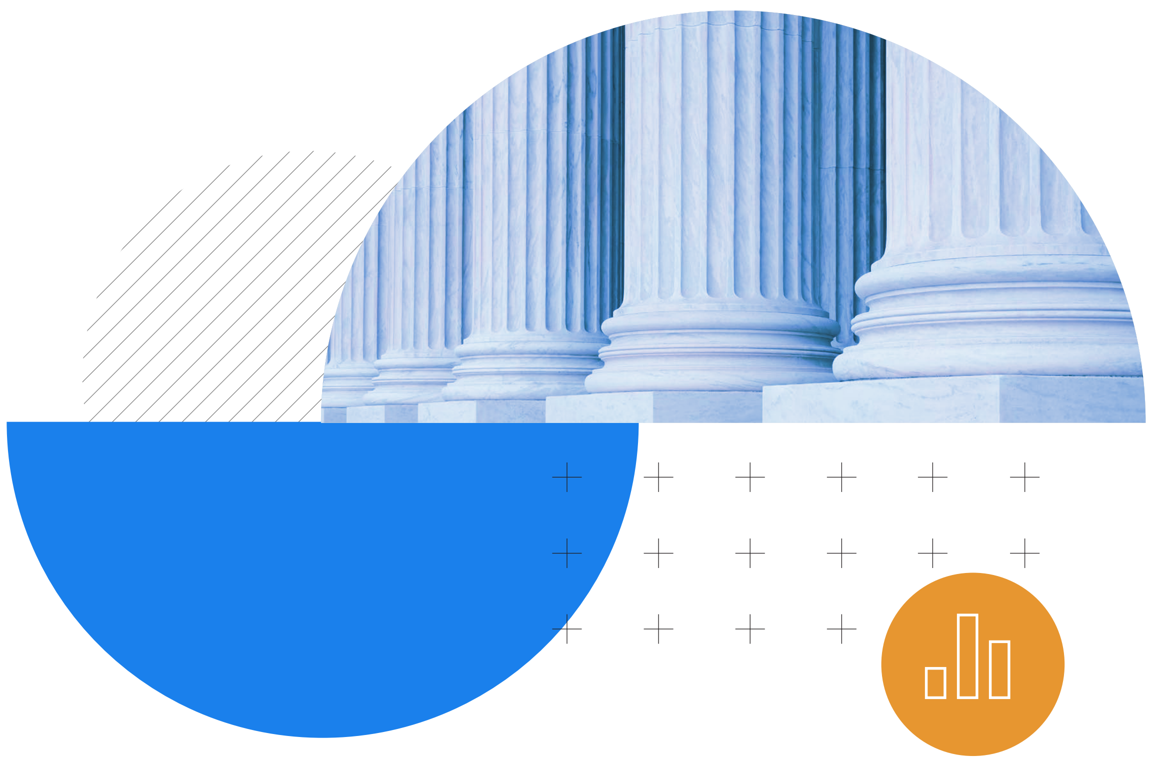
Center for Retirement & Policy Studies

2023 Retirement Plan Landscape Report

An In-Depth Look at the Trends and Forces Reshaping U.S. Retirement Plans

April 2023



Introduction

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This annual report explores four aspects of the U.S. retirement system. Each year we will look to spotlight emerging trends alongside consistent metrics that track long-term change. The report is organized into four sections aligning with each area of interest. First, we examine major trends in the U.S. defined-contribution, or DC, system in terms of coverage, assets, and the number of plans. Second, we take a deep dive into the costs to workers and retirees of these plans and their investments. Third, we look at the kind of investments these plans offer. Although this report is mostly focused on DC plans, we conclude by examining defined-benefit, or DB, plans, which continue to contribute to the retirement security of millions of Americans.

Note that this report is limited to plans that are covered by Title I of the Employee Retirement Income Security Act of 1974, or ERISA, as these plans file the Form 5500 annually, providing a starting point for analysis. Plans included in this analysis are sometimes referred to as private plans, in contrast to public plans, such as those offered by state and local governments. The Methodology, Data, and Scope section at the end of the report provides additional details on how we conducted our analyses.

Executive Summary

From a distance, the U.S. retirement system looks to be a large, steadily growing, and untouchable surety, but the economic shocks of the recent pandemic have highlighted its vulnerabilities.

Every year, the DC system depends on new employers offering retirement plans to replace the tens of thousands of plans that close. In 2020, the onset of the pandemic resulted in the first year-over-year decline in plans added to the system going back at least a decade. The overall coverage of the system ultimately did not contract and has rebounded to pre-pandemic trends in 2021, but a more protracted or extended shock in the future could result in more workers falling behind in saving for retirement. Additionally, any changes that significantly impact the 2,090 employers whose plans cover 50% of participants could be disastrous. These plans, and larger employers in general, mitigated the effects the pandemic could have had on the system.

Workers pay less than ever to save for retirement, except for those at small plans, where significant structural change may be the only way to close the gap.

Individuals working for smaller employers and participating in small plans continue to pay around double to invest for retirement as those at larger plans. While costs have declined on average year over year, they have done so at roughly the same rate across plans of all sizes. This leaves workers at smaller employers potentially having 9% less saved at retirement due simply to higher fees. There are reasonable explanations for why small plans cannot be as cost-effective as larger ones, meaning that structural changes may be the only way to truly address this discrepancy. One attempt at such a change was the creation of pooled employer plans. However, because they were introduced in 2021, there is not yet a complete set of annual data that can be used to evaluate their effectiveness.

Broader adoption of Collective Investment Trusts could aid in lowering costs, and the spread to smaller plans may be picking up speed.

Collective Investment Trusts, or CITs, have become a standard part of the largest plans in the U.S. for over a decade, but inroads to plans with less than $500 million in assets have been marginal, as these plans have only 12% of total CIT assets in the system. However, from 2019 to 2021, these smaller plans grew their CIT assets by over 10% each year, ending 2021 with CITs representing more than 11% of all their assets and significantly outpacing growth in mutual fund assets over the same period. As these investments generally cost less than their mutual fund counterparts, growth in the CIT assets can be an indicator of changes to come in terms of overall plan costs.

The coronavirus pandemic had a lasting impact on the DB system as many plans were frozen.

The DB system has been slowly shrinking as employers have moved to offering DC plans, but the pandemic accelerated that transition as active participant numbers declined 20% since many employers closed their DB plans to new employees. This is not to say that DB plans and their relevance will go away immediately; 33 million people are already receiving or will receive benefits from these plans in the future. Rather, it highlights the large population of individuals for whom retirement funds will come from both the DB and the DC systems. Employers managing a transition from DB to DC will clearly be part of helping these workers plan for a successful retirement, but even employers with just a DC plan are likely to have members of their workforce with some level of defined benefits from previous jobs. Policymakers can help participants facing the complex challenge of planning for retirement when needing to use a mix of DB and DC by encouraging personalized investment recommendations.

SECTION ONE

Defined-Contribution Market Overview

Key Findings

Long-term consistent growth continues to make the U.S. retirement system look stable, but these numbers mask underlying turnover of thousands of plans and outflow of billions of dollars. The U.S. DC system relies on new employers to create, on average, 44,000 plans a year to compensate for the more than 377,000 plans that closed from 2012 to 2021. Similarly, the system depends on new contributions and strong returns to obscure outflows of more than $400 billion a year since 2015, as reported by plans in their annual filings. This dependency is apparent in the fact that plan assets shrink in years without strong investment returns. A series of poor returns would reduce many plans' assets, which provides their market power, and thus may inhibit their capacity to offer institutionally priced investment options. Due to the timing of the data, we cannot yet assess how dismal market returns in 2022 impacted the retirement system. Previous market downturns provide some insight, and we will look at how 2022 stressed the system in next year's report. The COVID-19 pandemic did not dramatically throw off this delicately balanced system, but it did provide a warning for policymakers and plan sponsors of how future economic disruptions could cause the system to stop adding plans at a fast enough rate to replace the tens of thousands that close every year. As the retirement system continues to only cover about two-thirds of workers, such headwinds could increase the number of workers falling behind in saving for a secure retirement. Furthermore, additional attention is needed for economic shocks that might negatively affect even a small percentage of the 2,090 employers who fully cover half of workers with retirement plans in the U.S., as such shocks might result in dramatically fewer workers with access to retirement savings plans.

377,000 plans
closed from 2012 to 2021

$400 billion
has left plans
annually since 2015

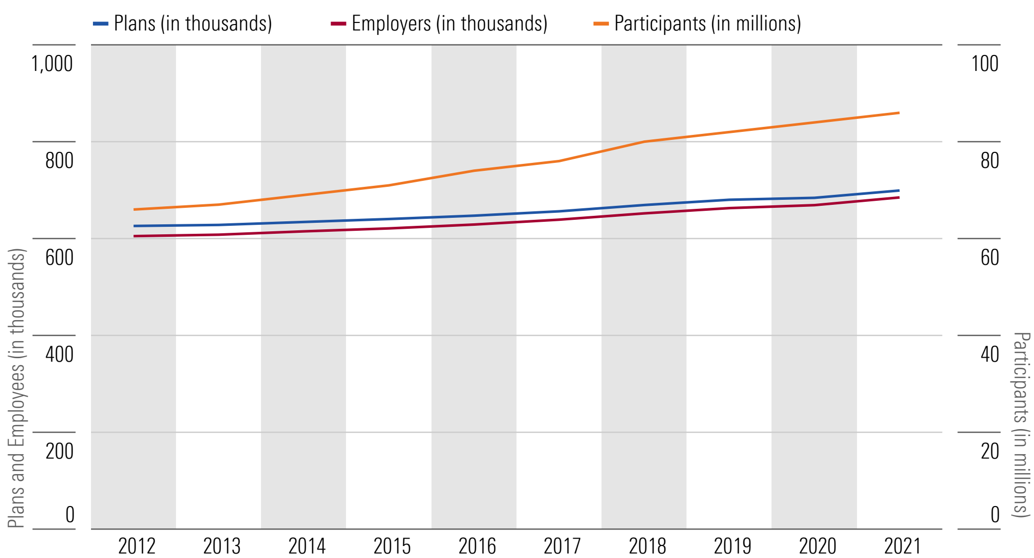
2,090 employers
cover 50% of workers
with retirement plans

COVID-19 Pandemic Slowed, But Did Not Stop, Growth in the Defined-Contribution System

The U.S. retirement system continues to grow and demonstrate top-level stability, despite the onset of the COVID-19 pandemic in 2020. The system has covered approximately two-thirds of workers in the private sector for decades, in either a DB or DC plan, according to data from the Bureau of Labor Statistics, and it has largely kept up with labor force participation.[1] The total number of private-sector DC plans grew steadily from 2012 through 2019 at an average year-over-year rate of 1.2%. The number of employers offering DC plans follows a nearly identical trajectory, with slightly fewer employers than plans, as some employers maintain multiple retirement plans. The system also added around 2 million new DC participants each year, rising from 65.6 million participants in 2012 to 82.5 million in 2019.[2]

The rate of growth in plans, employers offering plans, and participants slowed significantly from 2019 to 2020 when the pandemic began, but none of the numbers saw net declines despite the significant economic shock. Additionally, the number of plans and employers offering plans both grew by over 2% year over year from 2020 to 2021, demonstrating the strong and relatively quick rebound in the economy. The system also added more than 2.1 million participants in 2021. In comparison, 2020 was the first time since 2013 that total participation increased by fewer than 1.4 million workers.

Exhibit 1 Total Plans, Participants, and Employers in Defined-Contribution Plans, 2012 to 2021



Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings.

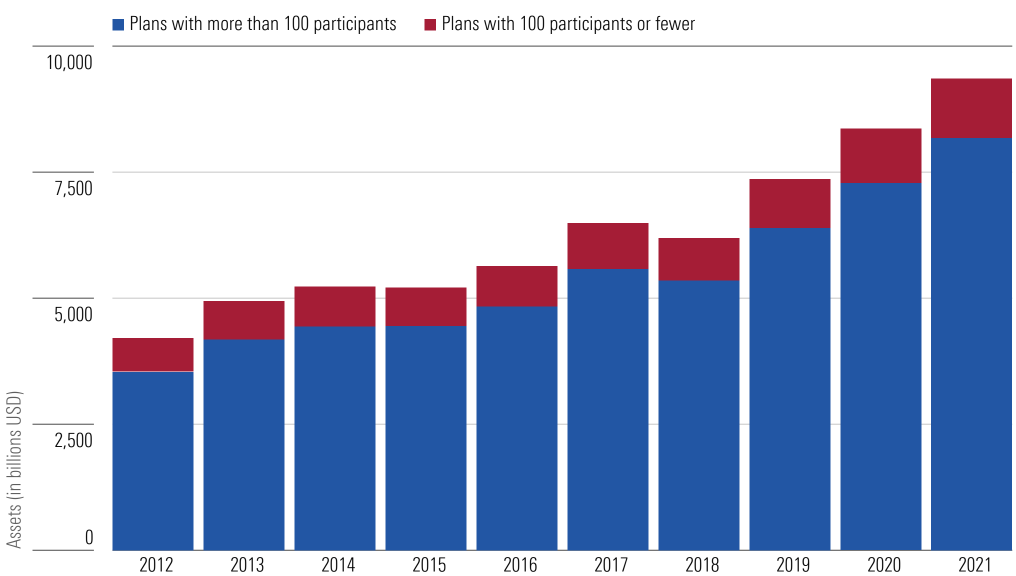
[1] Bureau of Labor Statistics, U.S. Department of Labor. 2022. "National Compensation Survey: Employee Benefits in the United States." https://www.bls.gov/news.release/pdf/ebs2.pdf. Please note that the plan-level data comes from the Form 5500, as described in the methodology.

[2] When counting participants in DC plans, we only consider those with assets in the plan. This excludes workers who may be eligible but do not participate and includes individuals who may no longer work for the sponsoring employer but have maintained an account balance.

Variation in the growth of plan assets is more noticeable, but not driven by the same factors as the number of plans, employers, and workers participating in the system as the numbers in 2020 and 2021 demonstrate. DC plan assets have grown from $4.21 trillion in 2012 to $9.36 trillion in 2021, increasing by more than $500 billion a year, on average. Significantly, these summary numbers encapsulate money flowing into plans from contributions, money moving out of plans through distributions and IRA rollovers, and money being generated by investments in the plans. The balance of these three elements results in reasonably steady growth, and fluctuations in any can have significant effects. For example, in 2015 and 2018, slightly down markets (negative 1.79% and negative 4.76% in 2015 and 2018, respectively, for a 60% equity, 40% bonds portfolio[3]) resulted in aggregate plan assets falling because participant contributions could not compensate for the flow of assets out of the system that plans experienced. While the onset of the COVID-19 pandemic in 2020 resulted in slower growth of plans and participants, assets grew steadily as strong markets compensated for greater withdrawals and no commensurate uptick in contributions. Markets took a sharp downturn in 2022, but we cannot assess the impact of the recent poor returns on the system as plans have not yet filed their data from this year.

While the onset of the COVID-19 pandemic in 2020 resulted in slower growth of plans and participants, assets grew steadily as strong markets compensated for greater withdrawals and no commensurate uptick in contributions.

Exhibit 2 Total Assets Held in Defined-Contribution Plans, 2012 to 2021



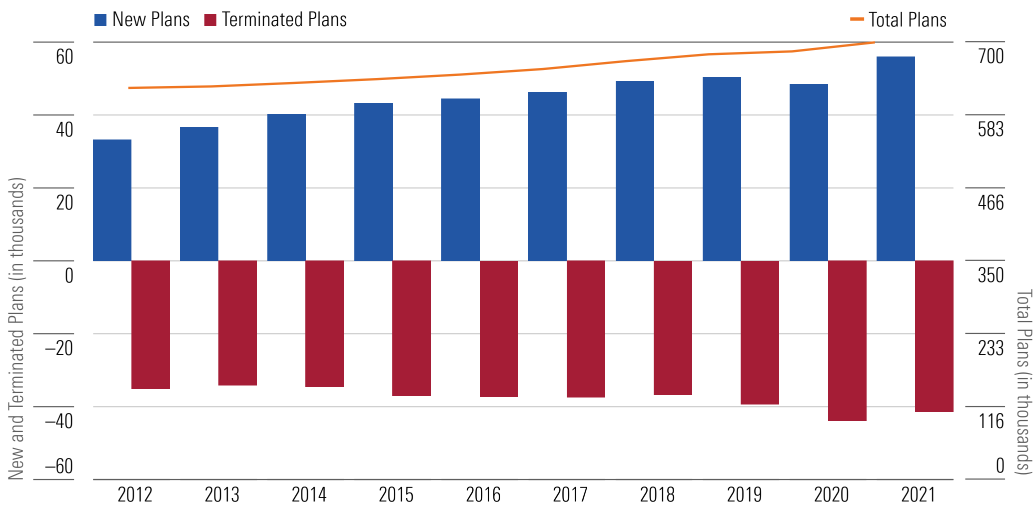
Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings.
Notes: We highlight plans with fewer than 100 participants because these plans do not file nearly as much information with the DOL as their larger counterparts. See methodology section for additional information on this distinction. In later sections of this report, we will not always be able to discuss the characteristics of the assets in plans with fewer than 100 participants, but they represent a small portion of DC plan assets.

[3] Based on the Morningstar Moderate Target Risk Index.

The Pandemic Accelerated Plan Closings and Dampened Plan Creation

Asset levels are driven by three factors, but plans are driven by only two: plans created and plans terminated. The system relies on new plans continually entering the system to maintain coverage levels. The stability of the top-line total number of plans masks the fact that between 2012 and 2021, nearly 450,000 new plans were created and more than 377,000 were terminated.

Exhibit 3 New, Terminated, and Total Defined-Contribution Plans, 2012 to 2021



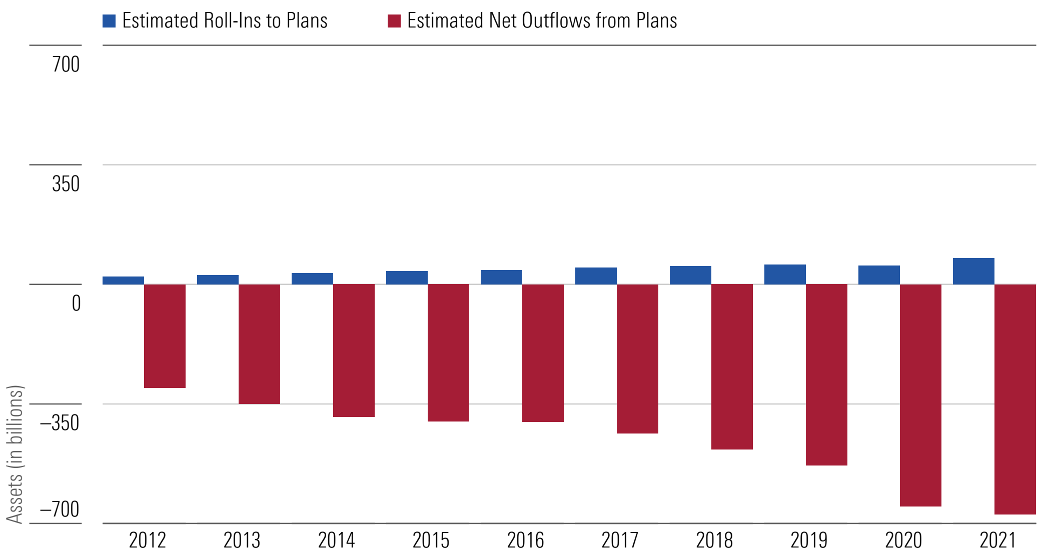
Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings.
Notes: We recognize terminated plans in the year following their termination filing.

The beginning of the pandemic caused the number of plans closing to spike and saw the only year-over-year decline in plans added in the 10-year period. Based on our projections for the 2021 plan year, these were blips on the radar rather than long-term shifts in the market. We estimate that more than 56,000 plans were created and fewer than 41,500 plans were closed in 2021, which would mean plan creations grew at more than twice the rate as closures compared with 2019 levels, at 11.3% and 5.5%, respectively.

COVID-19 Pandemic Withdrawals Temporarily Increased Plan Outflows

Growth of plan assets is severely hampered by participants removing money from the system. Most of these withdrawals happen when workers switch employers or retire. We estimate that almost $5.07 trillion flowed out of DC plans from 2012 to 2021 in the form of rollovers and cash-outs, including some benefit payments. We estimate the employer-sponsored retirement system was able to retain just $455 billion of these outflows, when participants shifted money into another DC plan through a roll-in. DC plans therefore lost, on net, around $4.62 trillion from these outflows. Exhibit 4 shows how small roll-ins are relative to net outflows from the DC system around $4.62 trillion from these outflows. Exhibit 4 shows how small roll-ins are relative to net outflows from the DC system.

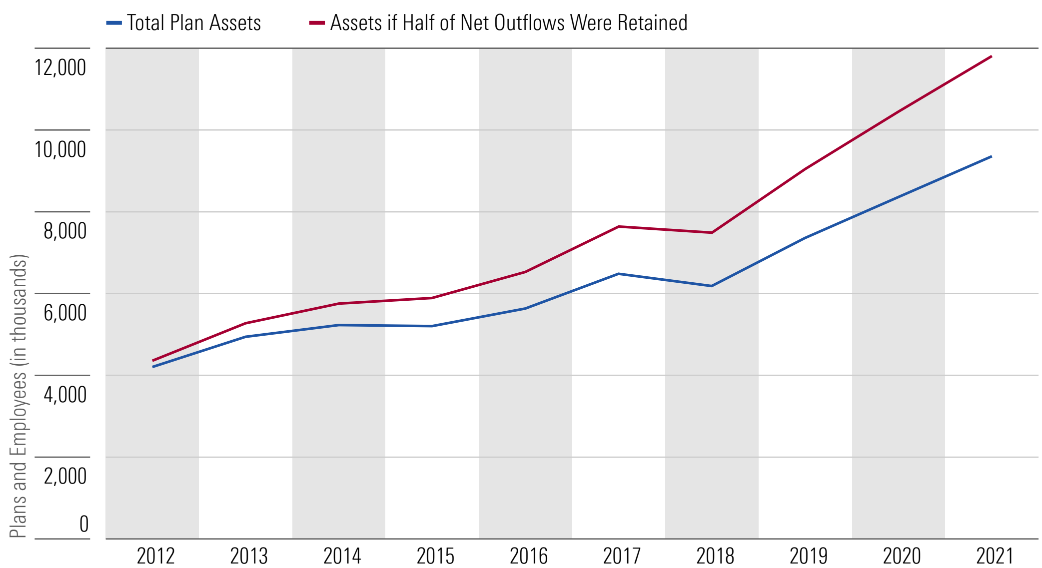
Exhibit 4 Estimated Net Outflows From and Roll-Ins to Defined-Contribution Plans, 2012 to 2021



Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings.
Notes: See methodology section for details on this calculation. Net outflows include cash-outs, rollovers, and direct payments to beneficiaries, less roll-ins captured by the DC system when participants shift money into a DC plan. Net outflows do not include other plan distributions, such as payments for insurance contracts.

These constant outflows greatly reduce plan assets, even if the top-line asset numbers appear steady. If these outflows were reduced by half over the 2012 to 2021 time period, we estimate plans would have approximately $2.5 trillion more in them today.[4] Such a shift would represent a 26% increase in assets. More assets in the DC system would help more sponsors gain the leverage to demand lower fees from asset managers. Further, it would mean more people could drawdown their assets during retirement through an employer-sponsored plan and potentially enjoy institutionally priced lifetime-income options that a plan fiduciary has vetted.

Exhibit 5 Estimated Assets if Defined-Contribution Plans Captured Half of Net Outflows, 2012 to 2021



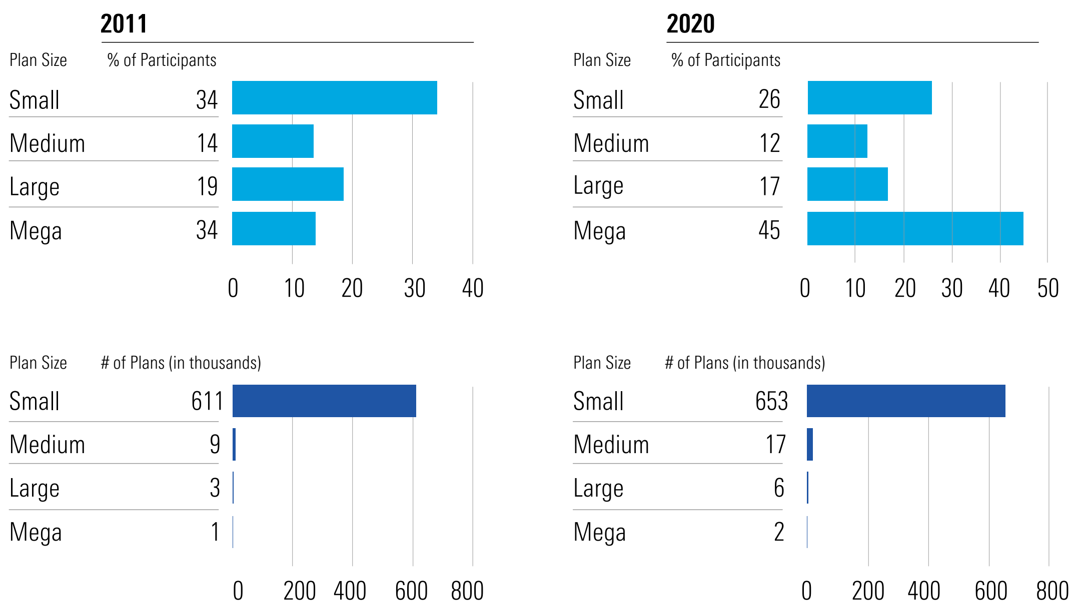
Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings; Morningstar historical returns data.
Notes: See methodology section for description of methods, data, and calculations.

[4] As discussed in the methodology, we assume 4% of assets are withdrawn every year and we applied returns using the U.S. Active Fund Target-Date Retirement Morningstar Category averages.

Large Plans Mitigated the Pandemic's Overall Impact

While depending on a steady stream of new employers and contributions to balance closing plans and outflowing dollars in growing the overall size of the retirement system, the bulk of U.S. retirement security relies on a small group of employers. Plans with more than $500 million in assets—which we term mega plans[5]—have become increasingly important to the retirement system. In 2011, these mega plans covered just 34% of participants, but by 2020 they had added more than 15.8 million more people and covered 45% of DC plan participants. Meanwhile, small and medium plans with $100 million or less in assets added fewer than 1.5 million participants in the same span, with their market share shrinking from 48% in 2011 to 38% by 2020.

Exhibit 6 Percentage of Defined-Contribution Participants Covered by Small, Medium, Large, and Mega Plans



Source: Morningstar analysis of Form 5500 data.
Notes: Mega plans have more than $500 million in assets; large plans have $500 million or less in assets, but more than $100 million; medium plans have $100 million or less in assets, but more than $25 million; and small plans have $25 million or less in assets.

[5] Other studies use a different breakpoint for the largest plans, but we believe this threshold distinguishes a relatively homogenous cohort of plans with enough members to allow for meaningful analysis.

To be more specific, as of 2020, the U.S. retirement system relied on just 2,332 plans offered by 2,090 employers to cover half of all DC participants. These numbers have shrunk slightly from 2,451 plans and 2,122 employers in 2011, to the point that less than 0.4% of plans are covering 50% of participants. After these largest 2,332 plans, the next 16,412 largest cover half as many people, for a total of under 19,000 plans having 75% of participants but making up just 2.7% of DC plans. Under 15% of plans cover 90% of participants.

Less than 0.4% of plans are covering 50% of participants.

Exhibit 7: The Number of Plans That Cover the Majority of Defined-Contribution Participants

This percentage of all DC plan participants…	…were covered by this many plans in 2020.	Which means this many people (in millions) were covered by a small fraction of plans.
50%	2,332	42
75%	18,744	63
90%	101,483	75

Source: Morningstar analysis of Form 5500 data.

Implications

Large Plan Concentration has Economic and Policy Implications

The concentration of participants in the largest plans creates a cohort with outsize influence over the system.

A small group of large plans accounts for a significant portion of the retirement system. This concentration is relevant when considering policy changes that may impact incentives motivating these employers to sponsor plans, or when considering economic conditions that could disrupt the system. While there is clear evidence of the COVID-19 pandemic impacting the retirement system in 2020, the effects were moderated in part due to the highly concentrated nature of the system. Larger companies were less likely to close their retirement plans than smaller ones during the pandemic, and plans with at least $25 million in assets cover almost three-quarters of participants. Future economic shocks that affect larger companies directly could be extremely disruptive to the retirement system rather than one-year deviations, potentially resulting in notable portions of the workforce losing access to a DC plan and increasing the portion of Americans struggling to plan for retirement.

Policy changes addressing new entrants will struggle to make an impact.

Almost all of the plan-level churn in the retirement system is among smaller plans, which has significant policy implications. Plans with fewer than 100 participants accounted for 93% of plan terminations and 97% of newly created plans from 2012 to 2021. The high concentration of small plans, particularly among plans added to the system, can provide a guideline for the limitations of policy enacted only on newly created plans. For example, legislation passed in December 2022 included a change to ERISA[6], requiring newly created 401(k) and 403(b) plans to have automatic enrollment in place starting in 2025. The intentions here are good (automatic enrollment can increase participation in retirement plans as inertia keeps some employees contributing who would not have even started participating if required to actively enroll), but there will be limitations to the effectiveness due to the makeup of newly created plans. With the vast majority of new plans having fewer than 100 participants, this will only reach a small segment of the workforce. Further, the law allows exceptions to the automatic enrollment for new companies in existence for less than three years and small companies with fewer than 10 employees. The Form 5500 does not have a field collecting company founding date, so we cannot assess the new businesses part of the exception. Over the 10-year period from 2012 to 2021, on average, 96% of newly created plans reported 10 or fewer eligible employees at the end of the first year, meeting the small-business exception.

[6] Consolidated Appropriations Act, 2023. H.R. 2617, 117th Cong. (2022). https://www.congress.gov/bill/117th-congress/house-bill/2617

SECTION TWO

Defined-Contribution Plan Costs

Key Findings

The cost plan participants pay to invest in their DC plans continues to depend significantly on their employer. People who work for smaller employers and participate in small plans pay around double the cost to invest as participants at larger plans—around 84 basis points in total compared with 40 basis points, respectively. Small plans also feature a much wider range of fees among plans, with 35% of plans costing participants more than 100 basis points in total. Further, many plans are still outliers, with unusually high fees relative to their peers, particularly outside of the largest thousand or so plans in the U.S. In short, the U.S. system does not work nearly as well for people who are not fortunate enough to work for larger, established employers, the general sponsor profile for larger plans. The creation of pooled employer plans in 2021 cannot yet be fully studied, but they could help close this gap if there is sufficient and smart uptake.

84 basis points
the median total cost
for participants in small plans

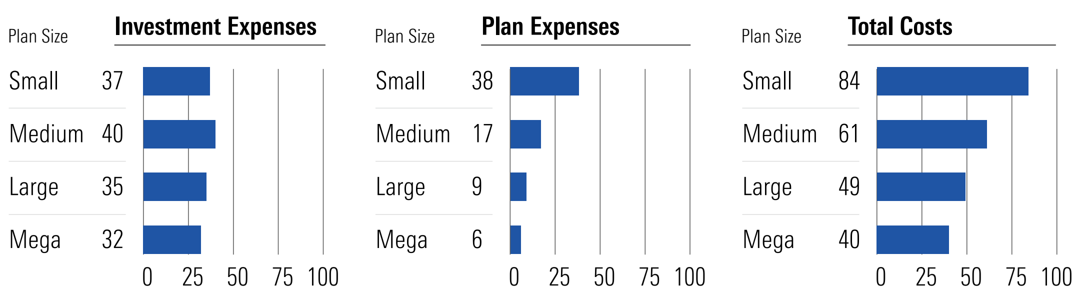
40 basis points
the median total cost
for participants in mega plans

35% of small plans
cost participants more than
100 basis points in total

Costs Are Coming Down, But Small Plans Are Still Twice as Expensive

Despite investors paying less to invest than they ever have,[7] even compared with just one year prior, the basis points saved are not shared equally by all DC plan participants. The larger the plan, the less expensive it is likely to be for participants to invest for retirement. We examine the asset-weighted expenses associated with the plan, overall plan administration expenses, and the total cost, which is the sum of both these number on a plan-by-plan basis. As is clear, in both regards, scale is an enormous advantage. While the median costs have dropped across all plan sizes, small plans remain on average more than twice as expensive as mega plans. The median small plan moved the needle slightly faster, dropping 4 basis points in 2020 compared with 2019, while medium, large, and mega plan total costs fell by 2, 3, and 1 basis points, respectively.

Exhibit 8 Median 2020 Defined-Contribution Plan Costs by Plan Size (in Basis Points)



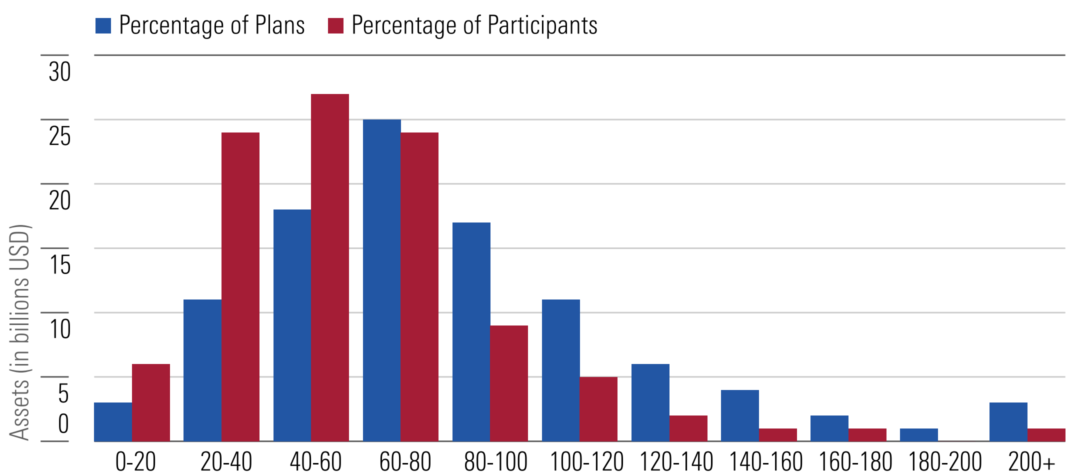
Source: Morningstar analysis of Form 5500 data for 2020.
Notes: Mega plans have more than $500 million in assets; large plans have $500 million or less in assets, but more than $100 million; medium plans have $100 million or less in assets, but more than $25 million; and small plans have $25 million or less. The median total cost is not the sum of the medians for investment expenses and plan expenses. Rather, we start with the sum of the investment expenses and plan expenses for each plan and then take the median.

[7] Armour, B., Evens, Z., & Johnson, B. 2022. "2021 U.S. Fund Fee Study." https://www.morningstar.com/lp/annual-us-fund-fee-study

The wide range of total fees—summing the asset-weighted investment fees and the administrative costs—which participants pay to save for retirement through a DC plan, persists when considering all plans. Fortunately, the majority of DC plan participants are in larger plans and benefit from the lower costs of these plans, with 80% of participants in plans charging less than 80 basis points, despite these plans only making up just 57% of the market.

The majority of DC plan participants are in larger plans and benefit from the lower costs of these plans, with 80% of participants in plans charging less than 80 basis points.

Exhibit 9 Total Costs Participants Pay to Invest in Defined-Contribution Plans by Percentage of Plans and Percentage of Participants

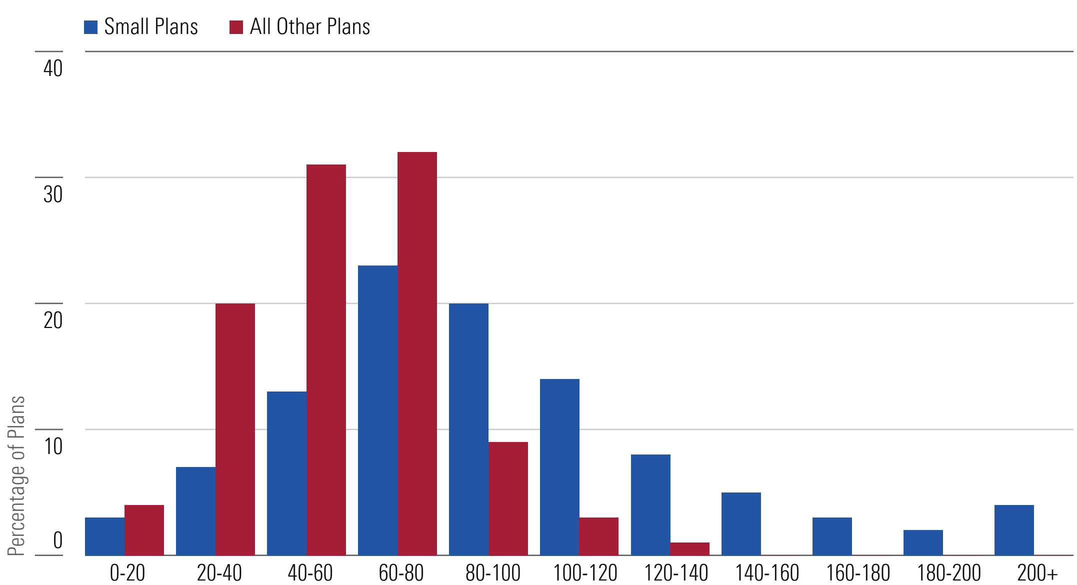


Source: Morningstar investment data matched with Form 5500 data for 2020.

Greater Dispersion of Costs Persists Among Small Plans

The estimated 20% of participants in plans costing more than 80 basis points are disproportionately in small plans, where the variation in cost remains the greatest. The distribution of total costs for small plans is much wider than for larger ones, meaning any given worker is much more likely to be in an expensive plan if she works for an employer with a small plan. There are logical reasons for some of this dispersion, including the propensity for new plans—which have little to no bargaining power—to be small and investment minimums to potentially limit the ability to cut investment costs. Over time, new plans may be able to reduce costs through cheaper investment options, restructuring administrative fees, or both, but by then the plan may have more than $25 million in assets and move out of the small plan range. While investment minimums have come down, plans with fewer assets can still struggle to meet these, particularly if assets are spread across the full investment lineup, which can create a barrier to offering cheaper share classes. Nonetheless, not all small plans are expensive. Some employers with small plans report total costs that are competitive with larger plans. In fact, 24% of small plans cost participants less than the median cost for medium plans of 61 basis points.

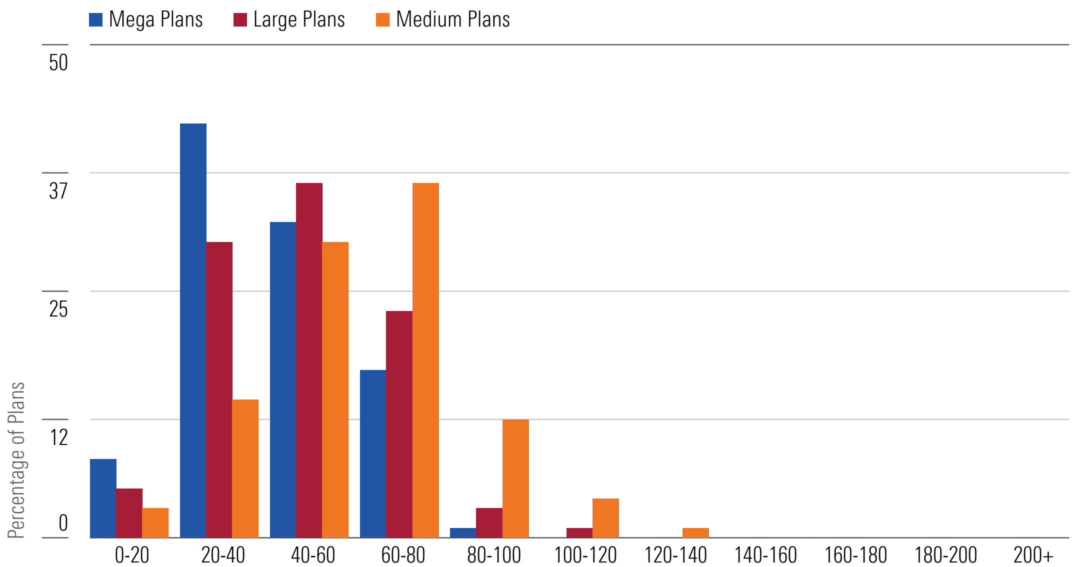
Exhibit 10 Total Costs Participants Pay to Invest in Defined-Contribution Plans, Small Plans and All Other Plans



Source: Morningstar investment data matched with Form 5500 data for 2020.
Notes: Small plans have $25 million or less in assets, and all other plans have more than $25 million.

In sharp contrast, medium, large, and mega plans feature much smaller ranges of total costs. In other words, a participant would be more likely to pay fairly similar fees to invest in a DC plan no matter which company she worked for among those employers offering plans of these sizes. Still, medium plans are less likely to consistently cost less for their participants than larger ones. More than 24% of medium plan participants pay total costs of more than 80 basis points, compared with just 1% of mega plan participants.

Exhibit 11 Total Costs Participants Pay to Invest in Medium, Large, and Mega Defined-Contribution Plans (in Basis Points)



Source: Morningstar investment data matched with Form 5500 data for 2020.
Notes: Mega plans have more than $500 million in assets; large plans have $500 million or less in assets, but more than $100 million; and medium plans have $100 million or less in assets, but more than $25 million.

Implications

Pooled Employer Plans Could Accelerate the Closing of the Cost Gap for Smaller Employers

Workers at employers with smaller plans who are saving just as much as those at employers with larger plans could have around 9% less in assets at retirement due to higher fees.[8]

The fact that smaller plans struggle to offer low-fee investments compared with larger plans partially motivated Congress to create pooled employer plans, or PEPs, with the idea that PEPs would allow more small employers to pool their assets and achieve the scale of large employers. As we discussed in detail in a 2020 paper,[9] PEPs have the potential to reduce fees for participants as these new plans grow. However, there will be challenges due to the complex structure of allowing multiple employers to operate in one plan. If there is a proliferation of PEPs without significant enough asset concentration to provide the benefits of scale larger single-employer plans enjoy, the benefits to workers could be muted. As a complete set of data on PEPs becomes available, we look forward to assessing how PEPs may be aiding the system in reducing the total costs, and the variation within these, among smaller plans.

[8] We use the difference between 88 basis points and 41 basis points, assume constant contributions over 35 years, and steady 7% returns for this simple example.
[9] Mitchell, L. & Szapiro, A. 2020. "Paperwork or Panacea." https://www.morningstar.com/lp/paperwork_or_panacea

SECTION THREE

Defined-Contribution Plan Investments

Key Findings

Plans of all sizes offer similar investment strategies, but the largest plans provide insights into trends that may eventually percolate down the market. There are two major trends in this year's analysis—one of which involves the investment vehicles that plans use, and the other the investment strategies available to workers. The largest plans in the U.S. started to abandon mutual funds 10 years ago and today hold nearly 88% of all the collective investment trust, or CIT, assets—pooled vehicles that often offer similar strategies but are less regulated and can be much less expensive for participants. CITs have doubled their share of the pie among the largest plans from 17% of assets in 2012 to 36% in 2021. The second trend that emerged in this year's analysis is around sustainable investment strategies. We see evidence that retirement plan participants are exposed to an average amount of environmental, social, or governance, or ESG, risks, although some plans have investment options that account for these risks. Once again, the largest plans are most likely to offer investments with a sustainable focus or that employ exclusions in their investment process. Given the composition of the DC plan market, not all strategies that the largest plans adopt will work for smaller plans, but they can provide a gauge for where smaller plan sponsors may be looking.

88%

of CIT assets
are in mega plans

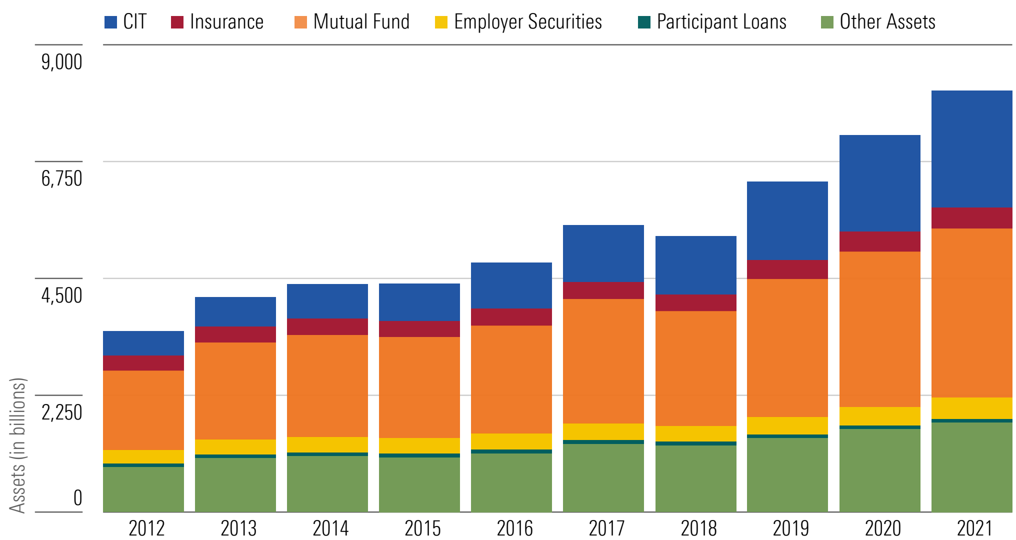
16%

of plans offer a fund employing
exlusions or with a sustainable focus

Collective Investment Trust Usage Grows but Remains Concentrated in Largest Plans

DC retirement plans increasingly offer collective investments trusts, or CITs, instead of traditional open-end mutual funds to their participants. CITs are pooled-investment vehicles organized as trusts, maintained by a bank or trust company and are managed in accordance with a common investment strategy.[10] Since 2012, CITs have grown from 13% of assets in DC plans, up to 28% of assets in 2021.[11] Over that time, DC plan CIT assets more than quadrupled from $463 billion to $2.25 trillion, while DC plan mutual fund assets merely doubled from $1.52 trillion to $3.25 trillion.

Exhibit 12 Defined-Contribution Plan Assets by Investment Type, 2012 to 2021



Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings.
Notes: These numbers only cover plans with at least 100 participants. Insurance assets include investments in pooled separate accounts and those in insurance general accounts. The other assets category includes separate accounts, brokerage window assets, and master trusts where the underlying holdings could not be aggregated up to the participating plans. See methodology section for additional information on the other assets category and our improved calculation method for plans utilizing master trusts.

[10] The data in this section is from Morningstar, Inc.'s database. Morningstar has an indirect financial interest in the growth of CITs because its subsidiary provides advisory services to CITs.
[11] The market share numbers are lower than reported last year due to an update in our methodology. This change ensures assets held through master trusts are aggregated to the participating plans and that any discrepancies in reporting are accounted for. See the methodology section for additional details.

CITs can offer a significant benefit to workers saving for retirement through reduced expenses, as they typically charge participants less than mutual funds. This difference in costs is mostly because CITs are not marketed nor regulated in the way that mutual funds are. When comparing the net expense ratio of CIT tiers and mutual fund share classes of the same strategy, CITs are cheaper 88% of the time; and considering only the least-expensive CIT tier and mutual fund share class, CITs are cheaper 92% of the time.[12] The asset-weighted average expense ratios of both active and passive CITs are less than half those of their mutual fund counterparts. Across all investment strategies, as of year-end 2020, the average passive CIT costs less than the average passive mutual fund. Similarly, the average active CIT costs 60% less than the average active mutual fund.

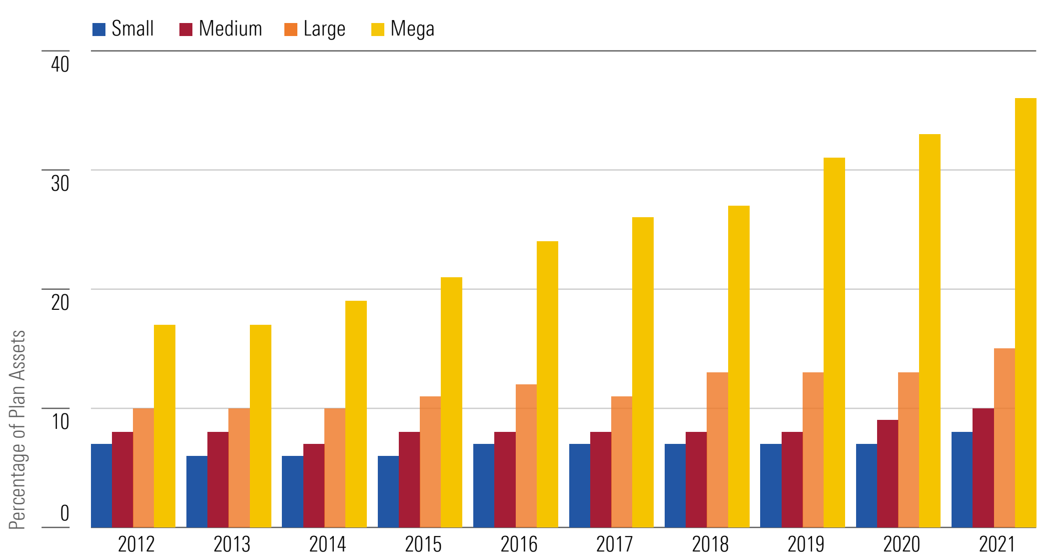
Exhibit 13: Average Asset-Weighted Expense Ratio by Investment Vehicle and Management Style (in Basis Points)

	Active	Passive
Mutual Fund	60.1	7.4
Collective Investment Trust	23.9	3.1

Source: Morningstar investment database, based on assets as of Dec. 31, 2020.

Despite these cost savings, the percentages of assets in CITs among all but the mega plans have been largely stable over the past decade, but an uptick in the growth the past few years could be a sign of change to come. From 2012 to 2019, looking at all but mega plans, assets in CITs and mutual funds both grew at roughly the same average year-over-year rates—7.3% and 7.9%, respectively. In the following two years, among the same cohort of plans, CIT assets grew markedly quicker—10.8% compared with 8.7% for mutual funds. Much of this growth occurred in the plans with fewer than $500 million but more than $100 million in assets; but even plans smaller than this increased their CIT assets by more than $15 billion in this two-year period.

Exhibit 14 Percentage of Defined-Contribution Plan Assets in Collective Investment Trusts by Plan Size, 2012 to 2021



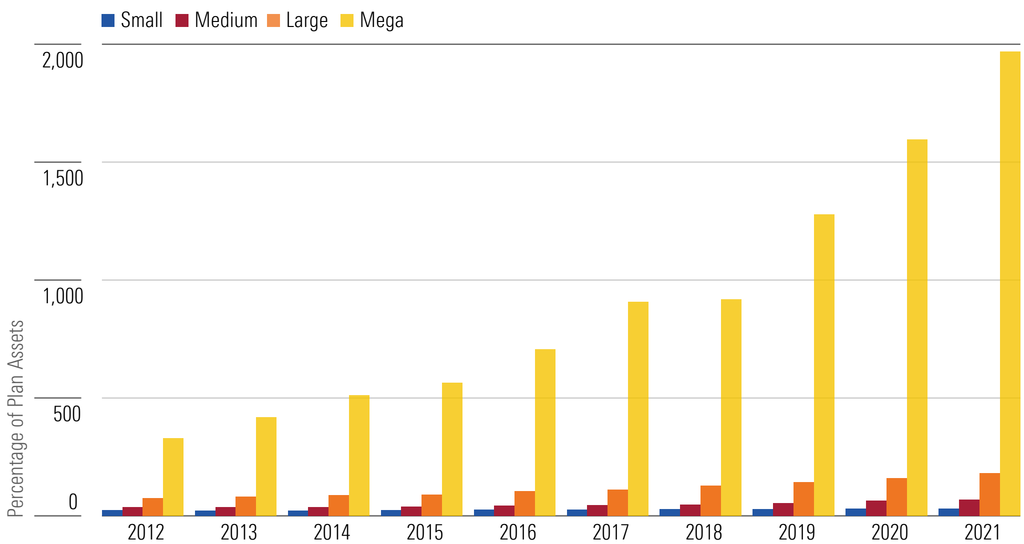
Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings.
Notes: Mega plans have more than $500 million in assets; large plans have $500 million or less in assets, but more than $100 million; medium plans have $100 million or less in assets, but more than $25 million; and small plans have $25 million or less. These numbers only cover plans with at least 100 participants.

[12] We use year-end 2020 data to align with the most recent available plan data.

Market returns are undoubtedly a contributing factor in the greater growth of CIT assets recently, but even small inroads into smaller plans are worth considering given the barriers that can limit their usage. One aspect of CITs that can prevent smaller plans from using them is that CIT minimums are often higher than their mutual fund counterparts. Additionally, employers sponsoring smaller plans may not know about the advantages of this structure, may also feel less comfortable with CITs, or they may work with plan consultants, advisors, or providers that have less incentive to recommend CITs.

> Even small inroads by CITs into smaller plans are worth considering given the barriers that can limit their usage.

Exhibit 15 Defined-Contribution Plan Assets in Collective Investment Trusts by Plan Size, 2012 to 2021

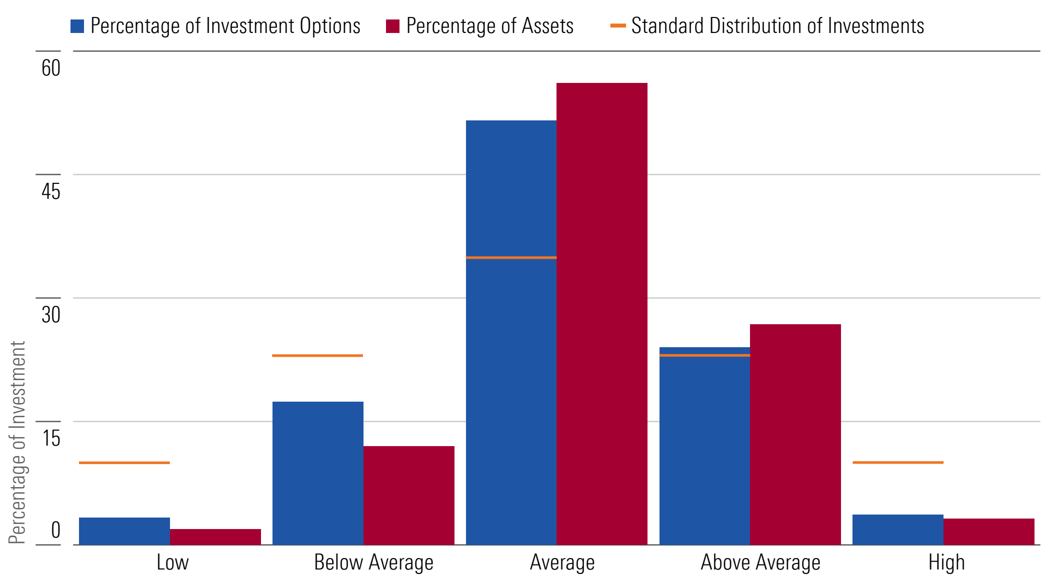


Source: Morningstar analysis of Form 5500 data and 2021 projections based on available filings.
Notes: Mega plans have more than $500 million in assets; large plans have $500 million or less in assets, but more than $100 million; medium plans have $100 million or less in assets, but more than $25 million; and small plans have $25 million or less. These numbers only cover plans with at least 100 participants.

Retirement Plans Take on an Average Amount of ESG Risk

DC plans are often not helping their participants avoid ESG risks. ESG Risk Rating is a measure developed by Morningstar's Sustainalytics division and the measure seeks to capture the degree to which companies fail to manage environmental, social, and governance risks, potentially imperiling their long-term economic value.[13] U.S. retirement plans offer investment options that are more likely to have higher ESG risk compared with the overall distribution of ESG risk in investments we rate. Put another way, the companies that participants' assets are invested in are less likely to be addressing ESG issues, leaving them more exposed to ESG risks. Exhibit 16 measures the percentage of assets that are in the various categories of ESG risk assigned by the Morningstar® Sustainability Rating™ for funds, sometimes called the globe rating.[14] Additionally, on an asset-weighted basis, participants generally do not invest in strategies with low levels of ESG risk. For example, just 3.3% of investment options and 1.9% of assets are in strategies with the lowest levels of ESG risk, but 10% of all strategies rated by Morningstar are in this category.

Exhibit 16 Percentage of Investment Options and Assets in Defined-Contribution Plans by ESG Risk



Source: Morningstar investment data matched with Form 5500 data for 2020 and the Morningstar® Sustainability Rating™.

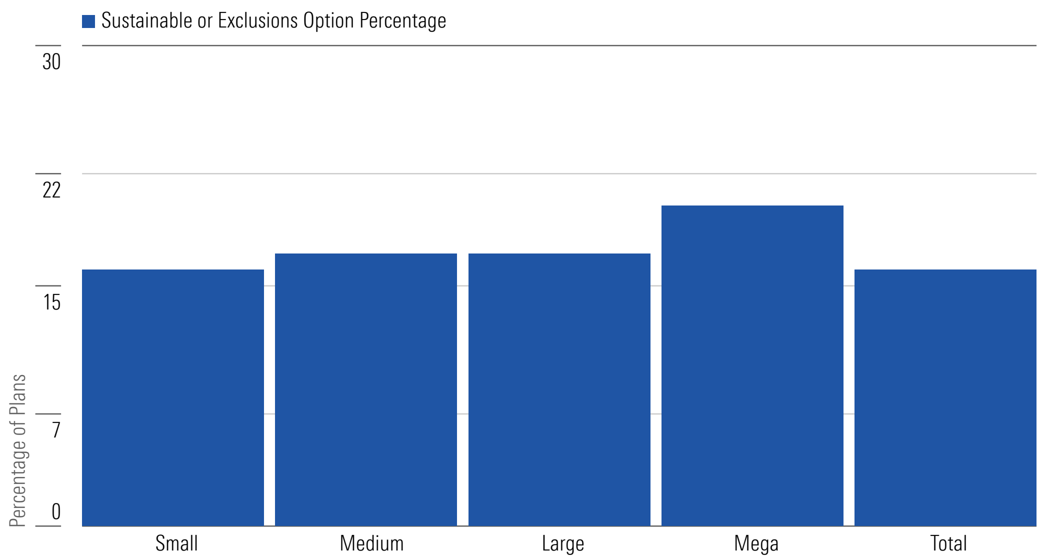
The year-over-year change is neither great nor terrible, as shifts out of high ESG risk investments have been matched by a reduction in low ESG risk investments, pushing those with average risk even higher than the expected distribution. Compared with 2019, assets in high ESG risk funds in 2020 dropped by almost half, from 6.3% to 3.5%, but assets in low ESG risk funds also fell, shrinking by 13%. Assets have been redistributed to funds with average and above-average ESG risk, growing by 5% and 11%, respectively. Consequently, there are almost 50% more investment options and assets in funds with average ESG risk than expected by the distribution curve.

[13] Sustainalytics. 2021. "ESG Risk Ratings – Methodology Abstract, Version 2.1." https://connect.sustainalytics.com/esg-risk-ratings-methodology
[14] Morningstar Research & Sustainalytics Methodology & Portfolio Research. 2021. "Morningstar Sustainability Rating." https://www.morningstar.com/content/dam/marketing/shared/research/methodology/744156_Morningstar_Sustainability_Rating_for_Funds_Methodology.pdf

Plans Have Taken Baby Steps to Offering Sustainable Strategies

Distinct from the question of managing ESG risk, plans are beginning to offer investments that incorporate sustainability into their investment strategy, either through having a general sustainability mandate or by employing exclusionary screens on specific industries or products. As of 2020, 16% of all plans offered at least one investment employing one, or both, of these approaches. As with other trends in the DC system, the largest plans are leading the way, with nearly 20% offering a such an investment. These investments have the potential to increase participation if they can engage employees who would otherwise not save in their workplace plan by allowing them to invest in line with their values. A recent survey found that 79% of investors overall and 99% of millennial investors were interested in sustainable investing.[15] Sustainable strategies are more likely to be offered as single-asset investment than an all-in-one TDF, meaning that assets in these investments will likely increase more slowly than overall DC assets, but increasing engagement and participation in the system can create long-term impact.

Exhibit 17 Percentage of Plans Offering Sustainable Funds or Funds Employing Exclusions by Plan Size



Source: Morningstar investment data matched with Form 5500 data for 2020.
Notes: The sets of sustainable funds and funds employing exclusions are not mutually exclusive. This considers funds that meet both definitions and those that meet only one or the other.

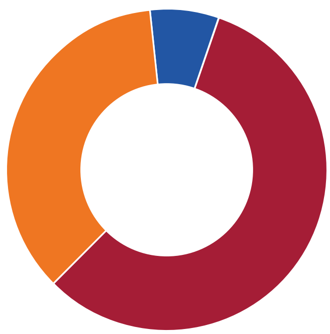
Assets in sustainable strategies will likely increase more slowly than overall DC assets based on how they are deployed in the plan lineup, but increasing engagement and participation in the system can create long-term impact.

[15] https://www.morganstanley.com/ideas/sustainable-investing-sentiment-covid-19

Our Sustainable-Investing Framework tracks sustainable funds and funds employing exclusions independently, with the categories not being mutually exclusive.[16] Of the investments aligning with at least one aspect of framework that plans are offering, the vast majority utilize exclusions in their strategy, while nearly two-thirds have an intentional sustainable mandate. The assets are similarly distributed, with just 5% in sustainable funds that do not employ exclusion and half invested in sustainable funds using exclusionary screens.

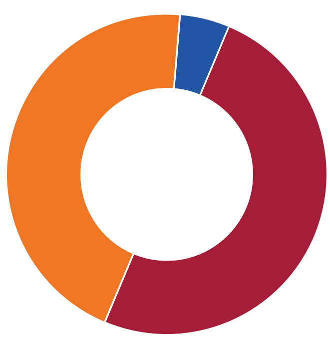
Exhibit 18 Breakdown of Sustainable-Investing Framework Funds by Approach

Investments (%)



Sustainable Fund Without Exclusions	7
Sustainable Fund and Employs Exclusions	57
Employs Exclusions Without Sustainable Mandate	36

Assets (%)



Sustainable Fund Without Exclusions	5
Sustainable Fund and Employs Exclusions	50
Employs Exclusions Without Sustainable Mandate	45

Source: Morningstar investment data matched with Form 5500 data for 2020.

[16] Our Sustainable-Investment Framework tracks each of these approaches independently. For more detail, see Jon Hale's article outlining the framework, https://www.morningstar.com/articles/1058990/the-morningstar-sustainable-investing-framework

Implications
As CITs and Sustainable Strategies Grow, Participants Will Reap the Benefits

CITs have the potential to grow in breadth and depth.

Usage among plans with fewer than $500 million in assets grew by more than 10% in 2020 and 2021, suggesting CITs may finally break the smaller plan barrier soon. Reaching a broader range of plans has been a struggle for CITs, but the most recent data shows the tide could be turning as CIT assets in smaller plans are growing not just in raw terms, which can always be partially attributed to market returns, but also in terms of percentage of total assets.

The plurality of CIT assets are invested in off-the-shelf target-date funds, a strong indicator for their future per-plan market share. TDFs are often the default investment for plans that automatically enroll participants, and even outside of automatic-enrollment, they are a popular choice for participants who want a one-and-done investment choice. Just over 50% of assets that plans with 100 or more participants hold in CITs are in TDFs, which should ensure they continue to grow as new plans and participants join the DC system.

Regulatory uncertainty has kept growth of sustainable assets in plans small, but these strategies may be key to engaging additional participants.

We estimate just over $50 billion within DC plans with 100 or more participants is invested in investments with a sustainable mandate or employing exclusions, not an insignificant amount, but less than 0.8% of the total assets in these plans. This is in large part because plans have been hesitant to even make these investments available in the ever-changing regulatory environment. However, strong interest among young investors who will be the future bulk of DC plan participants suggests sustainable investments could be an avenue that plans should be exploring to encourage greater participation in the system.

SECTION FOUR

Defined-Benefit Market Overview

Key Findings

This report has focused on DC plans, but more than 33 million people are or will receive benefits from defined-benefit, or DB, plans as of 2020, which is the most recent year with current data. As discussed in the methodology and in alignment with the DC section, we do not cover public plans, such as DBs offered by state and local government, nor other kinds of non-ERISA DB plans. DB plans accounted for more than 27% of distributions paid to participants in 2020, despite distributions from DC plans growing by 22% from 2019 in reaction to the COVID-19 pandemic. In fact, 12.7 million people are collecting these traditional pension benefits today, between family beneficiaries and retired participants, and this number will continue to grow. Approximately 8.8 million people who are no longer working are still entitled to future benefits, and 11.1 million people who are still working will eventually be due benefits, paid either to themselves, spouses, or designated beneficiaries. Employers need to provide investment options in their DC plans that can also help the millions of people with some traditional pension benefits attain a secure retirement through a mix of their own savings and these traditional pension benefits. The significant jump in the number of participants covered by soft-frozen plans following the onset of the pandemic highlights the growing need for service providers that can help sponsors who have split demographics in terms of DB coverage. Policymakers should not lose focus on the DB system and should help participants transition by encouraging personalized investment recommendations.

33 million

people currently or will receive benefits from DB plans

11.1 million

working people are currently covered by hard-frozen, soft-frozen, or active DB plans

27%

of distributions paid to participants or beneficiaries came from DB plans in 2020

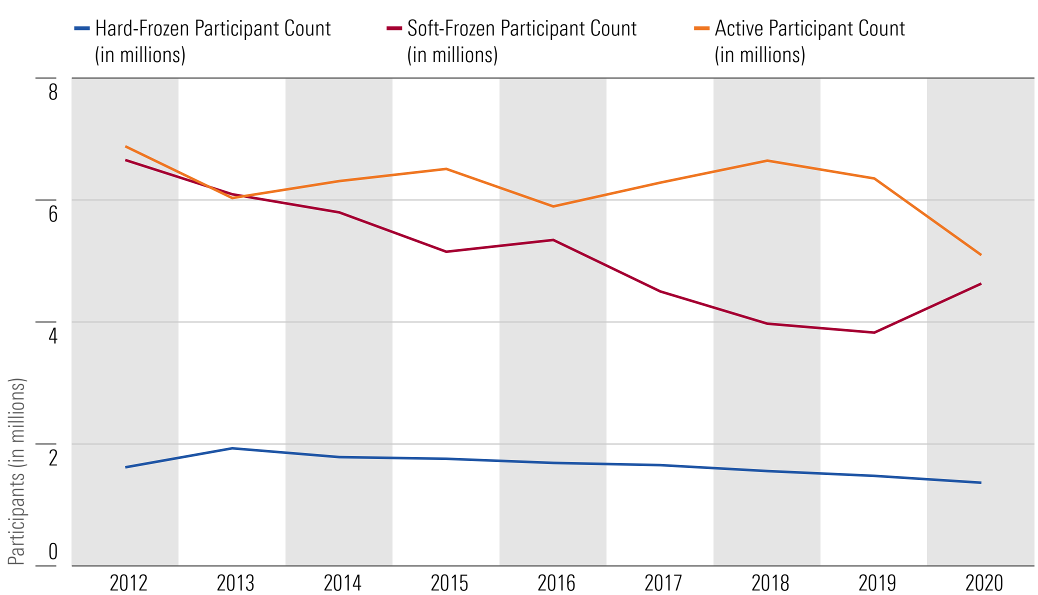
MORNINGSTAR®

COVID-19 Pandemic Pushed Employers to Close DB Plans to New Employees

Over the past few decades, employers have steadily but slowly shifted from DB plans to DC plans, until the onset of the pandemic accelerated the process. When making this transition, employers can take one of two approaches: soft- or hard-freezing their DB plan. When soft-freezing a plan, new employees can no longer participate, however employees covered before the freeze date will continue to accrue benefits until retirement. The hard-freezing alternative ends the accrual of benefits for all employees, existing and new. Employees who accrued benefits before the freeze date will have those paid out based solely on their service prior to the freeze date. Either approach creates complexity for workers and means that there is a declining share of the working population participating in DB plans.

The 2020 numbers demonstrate that an economic stressor can significantly impact the rate at which active plans freeze. The single-year 20% decline in active DB plan participants from 2019 to 2020 was almost double the previous high of 12% from 2012 to 2013. While previously the commensurate uptick was in hard-frozen plan participants, 2020 instead saw an increase of over 800,000 soft-frozen plan participants. Soft-freezing plans allowed employers to reduce future expenses during uncertain market conditions without severely cutting benefits to existing employees who were also experiencing the unknowns of a modern global pandemic.

Exhibit 19 Working Participants in Defined-Benefit Plans by Plan Status, 2012 to 2020

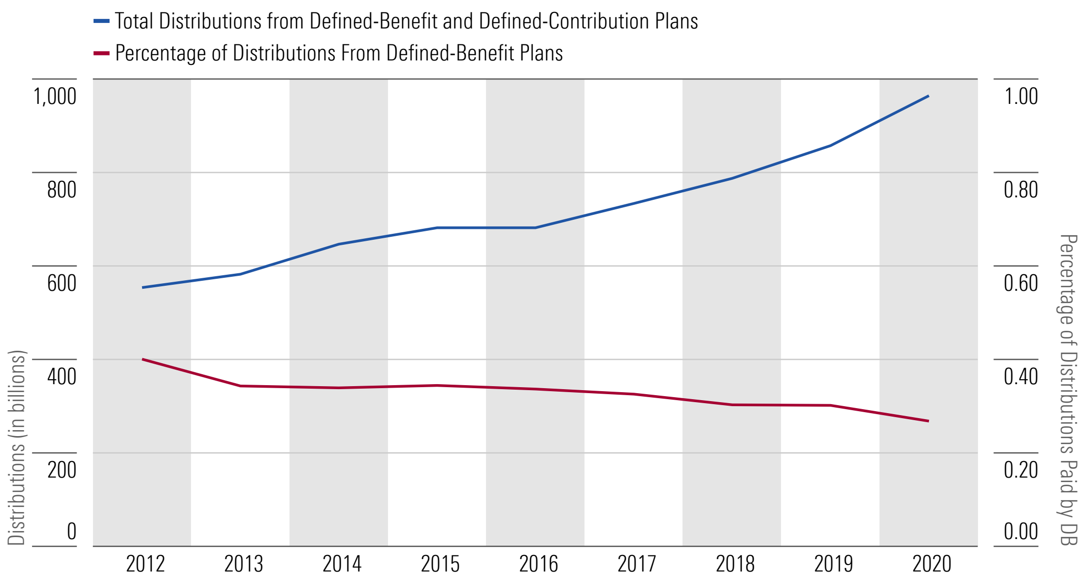


Source: Morningstar analysis of Form 5500 data.

Despite Increased Distributions From DC Plans During the Pandemic, DB Distributions Are Still Significant

DB plans contribute meaningfully to retirement security in the U.S, with total dollars paid out continuing to grow annually. DB plans accounted for more than 27% of distributions paid to participants in 2020, making them an important source of retirement money. This is slightly down from 30% in 2019, however the COVID-19 pandemic saw a spike in DC withdrawals that, due to the nature of DB plans, was not matched. In addition to economic need and uncertain markets, legislation that allowed for short-term, easier withdrawal from the DC system to address both of these concerns drove a more than 20% year-over-year increase in money flowing out of DC plans. The percentage of total distributions coming from DB plans is likely to rebound slightly in 2021, where we already have data on DC plan withdrawals that suggests these grew by only 3.5% in 2021. Further, DB plan distributions do not appear to have peaked, as total distributions continue to rise as more people reach retirement age and either collect a stream of payments at retirement or take lump sums. This does not include the approximately 14.2 million participants in state and local government DB plans, nor those covered by other kinds of non-ERISA DB plans.[17]

Exhibit 20 Total Distributions from Defined-Benefit and Defined-Contribution Plans and Distributions from Defined-Benefit Plans as a Percentage of Total Distributions, 2012 to 2020



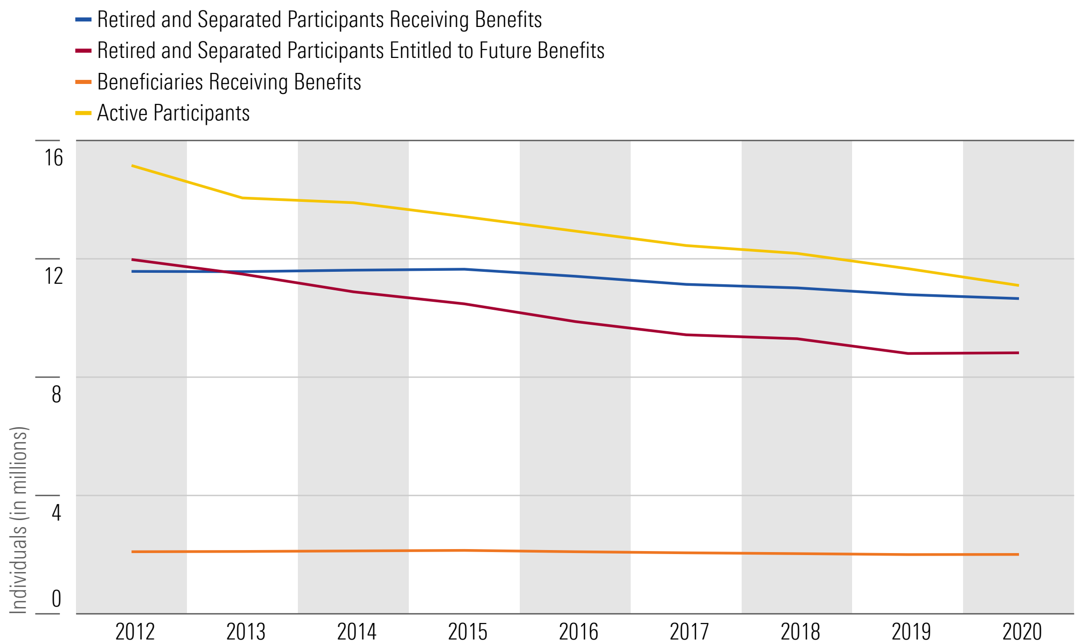
Source: Morningstar analysis of Form 5500 data.

[17] Calculated based on participant rates and employment numbers from: 1) U.S. Bureau of Labor Statistics, U.S. Department of Labor. 2021. "National Compensation Survey: Employee Benefits in the United States." March 2021. https://www.bls.gov/news.release/archives/ebs2_09232021.pdf
2) U.S. Bureau of Labor Statistics. 2021. "Graphics for Economic News Releases: Employment by Industry." https://www.bls.gov/charts/employment-situation/employment-levels-by-industry.htm

Private Sector DB System Will Not Disappear Overnight

The distributions from DB plans highlighted in this section will continue to play an important role in U.S. retirement income for years to come. Almost 12.7 million people—between beneficiaries and retired participants—are collecting DB benefits today, but this number will continue to grow. Approximately 8.8 million people are no longer active participants but still entitled to future benefits. As shown in Exhibit 19, there are also nearly 11.1 million people still working and who will also eventually receive benefits. Additionally, beneficiaries will continue to collect benefits in some cases well after the plan participant passes away.

Exhibit 21 Defined-Benefit Plan Participants and Beneficiaries by Benefit Status, 2012 to 2020



Source: Morningstar analysis of Form 5500 data.

An estimated 17.6 million people will be receiving or expecting in the future to receive DB benefits in 2050.

The slow wind-down of the DB system is just that—slow. Using the average rate of change in each of these numbers from 2012 through 2020 to project out 30 years, an estimated 17.6 million people will be receiving or expecting in the future to receive DB benefits in 2050. Of these individuals, 62% would be receiving benefits but 38%, or 6.7 million individuals, would still be planning their future retirements around some level of future DB benefit.

Implications

The Pandemic Increased the Number of Workforces With Mixed DB and DC Coverage, Growing the Need for Personalization

Retirement planning on an individual and employer level is more complex when traditional DB plans are involved, which is the case for millions of Americans.

Workers at companies that are transitioning from a DB to a DC system could benefit from more-personalized advice because of the increased complexity these transitions create for individual workers and for assessing the needs of a company's workforce as a whole. In the case of soft-frozen plans, employers must address the needs of two sets of employees: newer workers with access to just the DC plan and existing workers who continue to accrue benefits in the DB plan. In the case of hard-frozen plans, the workforce is more fragmented, as the level of benefit each worker can expect in retirement will vary based on their service before the freeze date, impacting how they should approach saving in the replacement DC plan. The COVID-19 pandemic saw hundreds of thousands of participants transitioned from active to frozen plans, accelerating the need for individualized advice.

Methodology, Data, and Scope

Scope

This report is limited to plans that are covered by Title I of the Employee Retirement Income Security Act of 1974, or ERISA, as these plans file the Form 5500 annually, providing a starting point for analysis. Mostly, we focus on defined-contribution, or DC, plans (often just called 401(k) plans by many Americans), but we also include information on defined-benefit, or DB, plans, which continue to contribute to Americans' retirement security. We refer to DC and DB plans throughout the rest of this report, covering single-employer, multiemployer, and multiple-employer plans; we do not cover non-ERISA plans such as those offered by the state and local governments.

Plans with fewer than 100 participants in general file much less information than larger plans.[18] To that end, there are analyses we cannot perform on plans with fewer than 100 participants, and we try to note that throughout the report. For nomenclature, we generally refer to these as plans "with fewer than 100 participants" rather than distinguishing them by referring to relative size. We do this because a plan with 150 participants is not large in the same sense as a plan with 150,000 participants. Additionally, we aim to remove any potential confusion as we frequently refer to the size of plans based on their assets.

Projections for 2020 Plan Year

The most complete dataset only goes until 2020, and therefore we typically examine 2020 plan-year data. However, for certain DC trends, we have at least 95% of plan filings already in hand for the 2021 plan year, as of Jan. 25, 2023. For these trends, we estimate the plan trends for 2021 based on the number of plans we believe are outstanding. More specifically, we identify the plans with plan years that do not run from Jan. 1 to Dec. 31, which means their filing would be due later than normal, and we check how many of these plans that filed in 2020 have not yet filed in 2021. Our 2021 numbers are then scaled based on the portion of the corresponding 2020 data they represent. We do not do these projections for DB plans because filings from nearly 10% of plans and a quarter of plans with at least 100 participants—which would provide investment information—were still missing at the time we performed the analysis.

[18] The exemption from filing a Form 5500 in favor of a Form 5500-SF or Form 5500-EZ with less information is more nuanced than this alone. While we will refer to these plans as "those with fewer than 100 participants" for simplicity, the exact requirements are as follows: 1) plan covered fewer than 100 participants at the beginning of the plan year OR plan covered fewer than 120 participants at the beginning of the plan year and filed a Form 5500-SF/Form 5500-EZ last year; AND 2) plan did not hold any employer securities; AND 3) throughout the year the plan was 100% invested in easy-to-value assets (for example, mutual fund shares, investment contracts with insurance companies and banks, publicly traded securities, cash); AND 4) plan is eligible for the waiver of the annual examination and report of an independent qualified public accountant; AND 5) the plan is not a multiemployer plan; AND 6) the plan is not required to file a Form M-1. For more information, see the "Who May File Form 5500-SF" in the Form 5500-SF Instructions, available here: https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/reporting-and-filing/form-5500.

Data Source, Cleaning, and Limitations

We used the data filed by U.S. retirement plans on the Form 5500 and collected by the U.S. Department of Labor Employee Benefits Security Administration, or EBSA. Although EBSA makes data available in both its raw form and in its research file, we use our own cleaning methods for this data, which vary at times from those that EBSA uses.

First, for the DC plans, we include nearly all filers that indicate they are DC plans, including unusual plan designs, such as DB(k) plans, which have elements of both DB and DC plans. We exclude cash balance plans that indicate they have DC features, as we believe cash balance plans are fundamentally DB plans.

Second, we use the file year rather than plan year for this analysis. This captures slightly more temporal diversity of plans, as some plans with unusual plan years (any plan year other than Jan. 1 to Dec. 31) will not be captured for the most recent filings. To provide this timelier information, we adjust numbers for the most recent year to account for the missing filings, as discussed earlier.

Third, we take the additional step of ensuring that the filed data is relevant to the file year (the plan year is indicated as starting sometime between Jan. 1 and Dec. 31 of that year), as some retroactive filings utilize the wrong year's Form 5500. For example, if a plan filed a 2018 Form 5500 but indicated the plan year covered was Mar. 1, 2015, through Feb. 29, 2016, we would include this data in the 2015 file year analyses.

Methods and Assumptions

Plan Terminations and Creation

Although we examine filings in which plans indicate they are terminating, we believe these numbers alone do not fully capture plan terminations given the prevalence of plans that never file a final Form 5500 but appear to stop operating. Instead, we impute the number of plan terminations by looking at the total number of plans that file anything other than a final Form 5500 and the number of plans that file an initial Form 5500 every year. We report these terminations as happening in the year we believe they would have submitted a final filing.

In general, when determining the number of plans, participants, and assets for a given year, we exclude plans indicating they are terminating within that year. The only exception is when discussing the outflows from DC plans. In this case, we include contributions and distributions reported by these plans, as they would have been made throughout the year and contribute to the net flow in and out of DC plans.

Outflows from DC Plans

Plans do not report direct rollovers from DC plans to IRAs or other plans but rather they report most distributions on a single line of the Form 5500 Schedule H. Further, plans with fewer than 100 participants also generally do not report their distributions. To estimate total flows out of plans, we made an adjustment to account for the assets in small plans by assuming the same rate of distributions from these plans. Specifically, we divide the distributions reported by plans filing the Schedule H by the percent of total assets in these plans out of total assets in all DC plans.

These plans also report the contributions made to the plan separately from those made by employers and employees. As we expect the bulk of these contributions come in the form of rollovers from other DC plans, we account for these assets when calculating net flows. Additionally, we adjust these contributions in the same manner that we adjust the distributions to account for the assets in small plans.

We believe our estimates are conservative, and any errors understate the massive detectable flow of money out of DC plans. That said, while it is clear from Internal Revenue Service data that most flows out of plans are for rollovers rather than cash-outs, it is not possible to distinguish between cash-outs and rollovers with the Form 5500 data.

When we simulate retention of assets, we assume the assets belong to retired participants to make conservative estimates on how long the plan might retain these assets as well as the investment returns of the assets. In line with this, we assume the participants are withdrawing 4% of their assets annually, therefore we utilize the average annual return of funds in the U.S. Active Fund Target-Date Retirement Morningstar Category to assign a return to the assets that are retained. Additionally, we dollar-weight the returns to account for the distributions being withdrawn monthly.

Plan Costs

To estimate plan costs, we rely on a sample of approximately 17,000 plans, for which we can accurately match at least 80% of the investments and 80% of assets from the 2020 plan-year data. We also remove Form 5500 filings with obvious mistakes or inconsistencies. We then calculate the median cost participants pay based on the asset-weighted fees and based on the administrative expenses reported on the Schedule H.

Collective Investment Trusts Data

To provide as comprehensive an analysis as possible, we match both SEC-registered investments, such as mutual funds and exchange-traded funds, as well as those not registered with the SEC, such as CITs, to investments in the Morningstar managed investment databases whenever possible. Our CIT data is collected from CIT providers and covers more than 7,500 tiers of CITs. Some of the tiers reported to our database are "gross of fee" share classes, meaning they do not report net-of-fee performance, as the fee is negotiable and/or the tier is only available to a restricted group of investors. When we compare CIT and mutual fund costs, we exclude these share classes so as not to distort the data.

DC Investment Type Breakdown

To improve the accuracy of our analysis into the investment types that DC plans are using, we made two improvements to our calculation from the 2022 report. The first addressed data-quality issues that could lead to filings being excluded from the calculation, as they reported a mix of zeros and nulls for investment types that the plan did not use. The second addressed the master trust assets that were previously aggregated into "Other." To better understand how plans using master trusts are investing, we look through to the master trusts' filings and the investment types reported there, then roll up those exposures proportionately with the exposure the DC plan has to the master trust. In some cases, there are multiple layers of master trusts. For example, a DC plan invests in master trust A, which has some assets in master trust B, which has some assets in master trust C, which has all assets in distinguishable investment types. To address this, our methodology starts at the lowest layer, master trust C in the previous example, and rolls up one layer at a time to ensure the proper exposures are represented in the DC plan's breakdown. Our analysis of the data found that three layers of master trusts was the maximum in the dataset at this time. In future years we will check this and update the calculation to incorporate more layers as needed.

DB Plan Freeze Status

Over the past few decades, employers have taken two approaches to shifting from DB plans to DC plans. To analyze these different approaches and to capture the unique challenges facing employers and participants in each case, we classify DB plans into three types: hard-frozen, soft-frozen, and active. Hard-frozen plans are where employers made a switch to a DC plan and participants could not accrue DB benefits after the freeze date. This type of plan is indicated on the Form 5500 and Form 5500-SF by a specific code in one field. Soft-frozen plans are where employers maintain a DB plan for participants in the plan before the freeze date, but newer employees are offered a DC plan instead. In this case, employees who participated in the DB plan before the freeze date will continue to accrue DB benefits. There is not a unique code or field to indicate this type of plan in the Form 5500; instead, we identify these by comparing the number of total participants (active, retired, separated, and receiving benefits) year over year, and those where the number stays the same or declines are considered soft-frozen. All the remaining plans are considered active DC plans, as they have an increasing number of participants and must be adding new employees to the plans.

Disclosures