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Public Retirement Research Lab
A collaborative effort of EBRI and NAGDCA

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Public Sector DC Plan Participants Primarily Invest in Target-Date, Stable Value, and Large Cap Domestic Equity Funds, According to New PRRL Study

Female Participants Opt for Target-Date Funds; Males Favor Equities

LEXINGTON, KY, May 20, 2021—The Public Retirement Research Lab (PRRL) today announced release of "A Deeper Look at Asset Allocation," a new study revealing that the majority of participants in public defined contribution retirement plans favor three investment funds, despite access to a myriad of choices. The PRRL collects and analyses public sector defined contribution data to provide unbiased, actionable findings to better inform public plan design, management, innovation, and legislation.

"A Deeper Look at Asset Allocation" includes analysis and graphic representation of public sector defined contribution (DC) allocation for asset classes by age, tenure, plan type, salary, gender, and plan structure; i.e., whether the DC plan is primary or supplemental, voluntary or mandatory.

Key findings include:

Allocations are concentrated in a few asset classes

- On a dollar-weighted basis, the largest allocations are to Large-Cap Domestic Equity (32.2%), Stable Value/Fixed Account (16.6%), and Target-Date Fund (Off-the-Shelf) (10.3%).
- On a participant-weighted basis, Target-Date Fund (Off-the-Shelf) receives the largest allocation (20.2%), followed by Stable Value/Fixed Account (17.6%), and Large-Cap Domestic Equity (17.1%). Target-Date (Custom) has an allocation of 15.4%, although this asset class has an allocation of just 4.6% on a dollar-weighted basis.

Allocation to equity correlates with target-date fund exposure, especially for those under age 50

- The total equity proportion for participants with at least some target-date fund exposure is 88.7% for the youngest cohort (20-24); 50.0 percent for those aged 65 and older.
- For those with no target-date fund exposure, the total equity proportion is 16.8% for the youngest cohort (20-24); 51.3% for those aged 30 to 34; 57.3% for those aged 45 to 49; and less than 40.0% for those aged 65 and older.
- Regardless of age, the average total equity proportion is larger for participants with at least some target-date fund exposure.

Young participants in supplemental DC plans have lower allocation to equities

- For participants under age 60, the total equity proportion is significantly larger for primary plans than it is for supplemental plans. There is a 47.0 percentage point differential for participants aged 20 to 24, and percentage points for participants aged 25 to 29.
- The differential in total equity proportion between supplemental and primary plans decreases with age and is only 1.0 percentage point for those participants aged 60 to 64. It turns negative for participants aged 65 and older.

Females are more heavily weighted in target-date funds, males in equities

- For Target-Date Fund (Off-the-Shelf), females in their 20s have allocations averaging 53.2%, compared with 37.6% for their male counterparts; a difference on average of 15.6 percentage points. This differential decreases with age and is less than 2.0 percentage points for participants aged 55 and older.
- For Target-Date Fund (Custom), females in their 20s have allocations averaging 19.5%, compared with 13.0% for their male counterparts; a difference on average of 6.5 percentage points. This differential decreases with age and averages roughly 2.0 percentage points for participants aged 45 and older.

- For Large-Cap Domestic Equity, males in their 20s have allocations averaging 16.5%, compared with 8.1% for their female counterparts; a difference on average of 8.4 percentage points. This differential decreases with age and is less than 3.0 percentage points for participants aged 55 and older.
- For Broad International Equity, males in their 20s have allocations averaging 10.6%, compared with 4.4% for their female counterparts; a difference on average of 6.2 percentage points. This differential decreases with age and is less than 2.0 percentage points for participants aged 40 and older.

Commenting on the key findings, Matt Petersen, NAGDCA Executive Director, said, “The concentration of public sector DC assets in a few investment options—especially stable value and equities—requires further investigation. However, given the variety of retirement system structures in the public sector, any one cause is unlikely to have a universal application.”

Petersen continued, “There are two views on the difference in equity proportions between participants in supplemental DC plans and those in primary or mandated DC plans. One states that those with a primary DB plan might be in a position to assume *more* risk in their DC plan; the DB plan be seen as a fixed-income holding, allowing greater ownership of equities in the DC plan, especially for younger participants. Another view states that those with supplemental DC plans may feel little need to take on additional risk for potentially enhanced returns given their possession of a DB plan.”

Lori Lucas, EBRI President and CEO, noted, “The gender findings in this study are particularly noteworthy. Females are more likely to invest in target-date funds in public sector plans, and when they do, their asset allocation is very similar to their male counterparts’. However, for those with no target-date fund exposure, equity exposure is much greater for males than females, especially at the younger ages. This shows what a great equalizer target-date funds can be when it comes from a diversification and risk-taking perspective.”

“While we do not yet have the data to support definitive explanations for these findings, it’s safe to conclude that demography and DC plan structure—primary/supplemental, mandatory/voluntary—are key determinants of effective plan design. We anticipate future analysis focused on identifying the underlying reasons for these and future findings, and remain confident that better understanding of public sector DC plan utilization through analysis of PRRL data will enhance public DC plan design, delivery, and communication solutions,” Petersen concluded.

“A Deeper Look at Asset Allocation” may be accessed **here**.

About the PRRL Database
The PRRL Database is the repository for the plan- and participant-level retirement plan data collected by the PRRL from public plan sponsors from their record keepers. Currently, the PRRL Database contains year-end 2019 data for nearly 200 457(b), 401(a), 403(b), 401(k), and other public sector DC plans; nearly 2.3 million state, county, city, and subdivision government employees; and $113 billion in assets. Of note: State plans commonly serve as the primary DC vehicle for lower-level governments within their respective states. PRRL-participating single state-level plans represent as many as 1,800 employers.

About the PRRL
The Public Retirement Research Lab is a retirement industry-sponsored collaborative effort of the National Association of Government Defined Contribution Administrators (NAGDCA) and the Employee Benefit Research Institute (EBRI). The PRRL mines data from the PRRL Database, the first-ever database specific to public sector plan- and participant-level defined contribution data, to produce research aimed at enhancing understanding of the design and utilization of public sector defined contribution retirement plans. To learn more, visit www.prrl.org.

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