Too Many Choices: How Many Investment Options Should You Offer?

Many plan providers struggle with deciding how many investment options to offer in their retirement plans. While people generally like to have lots of options when making other decisions, having too many plan options can potentially lead to poor investment decisions by plan participants. In addition, increasing plan options can also increase plan costs, as well as the administration associated with the plan.

Choice Overload

In a study on retirement plan options, researchers concluded that it is possible to present plan participants with too many options. The researchers began by offering people selections of jams and chocolates. Some were offered a wide variety, while others received fewer choices. The wide variety of jams got more attention from people, but more people purchased jams when the choices were limited. When sampling chocolates, people enjoyed choosing from...
the larger selection more, but also expressed more dissatisfied with the choices. Those who sampled from a smaller selection were more satisfied and more likely to buy chocolates again. The study showed that as the number of options increased, people became concerned with the possibility of making the wrong choice, and were increasingly uncertain that they had made the best choice possible.

Looking at Plan Options

Chocolates and jams aren't big decisions but the researchers found that these same behaviors carried over to retirement plans. They examined participation rates for 647 plans offered by the Vanguard Group, a large investment management company, covering more than 900,000 participants. They found that as plans increased the number of options, employee participation decreased. In fact, for every 10 options added to the plan, participation dropped by 1.5-2 percent. Plans offering fewer than 10 options had significantly higher employee participation rates.

Rising Costs

In addition, more plan options can increase costs both for participants, in the form of fees, and for plan sponsors, who may face additional administrative charges from third-party administrators for additional options. Further, auditing and other costs may increase, since the number of options could increase the time necessary to conduct audits.

It’s important to balance choice overload against the requirements of ERISA Section 404(c) which requires plan sponsors to have at least three diversified investment options with different risk and return characteristics.

For more information on plan options, consult your plan advisor.

Use Plan Analytics to Evaluate Your Retirement Plan

Your retirement plan is a valuable resource for your employees and serves as a vehicle to attract and retain top talent. Ensuring plan success is crucial. Examining plan analytics can help evaluate its success.

Plan analytics you should explore:

- **Median age, tenure and savings rates of plan participants**
  These analytics can be helpful to determine which age groups are not strongly participating and may be encouraged to do so via on-site meetings, focused mailings and other communication and education.

- **Participants not contributing sufficiently to receive all eligible employer match**
  Participants “leaving money on the table” can be studied to explain why contributing to the employer match maximum is so advantageous (e.g., with a 50 percent match, participants automatically earn 50 percent “return” on their contribution before any investment gains occur).

- **Participants, by age, in each target date fund**
  Another demographic that can be helped by focused participant communications.

- **Participants taking loans**
  It is important for plan fiduciaries to determine if the plan loan provision is being abused. This can result in significant asset leakage with participants and oversight concerns for plan fiduciaries.

- **Loan default rates**
  Loan defaults also create problems for participants (taxation & penalties for premature distributions) and plan fiduciaries (loan defaults at 90 days arrear are a fiduciary breach).

- **Dollar amounts of employee contributions by type and source**
  These analytics allow for a deep dive into appropriateness of participant behavior potentially impacting plan menu design decisions, employee investment assistance, Roth utilization, TDF utilization and more.

Many factors impact the success of your plan. Studying your plan’s analytics helps you improve your plan and ensures your employees reach their retirement goals.

*For assistance in analyzing your plan analytics, please contact your plan advisor.*
Target Date Funds and Fiduciary Obligations

Target date funds (TDFs) — which rebalance investments to become more conservative as a fixed date approaches — are a convenient way for plan participants to diversify their portfolios and reduce volatility and risk as they approach retirement, making them an increasingly popular choice. However not all TDFs are created equal, and selecting and monitoring them can pose unique challenges for plan sponsors and fiduciary advisors.

TDFs were first introduced in 1994. A little over ten years ago, just 13% retirement plan participants were invested in TDFs. Today, that number has risen to more than 50%, according to a new report from Vanguard, which also estimates that 77% of Vanguard participants will be invested in a single TDF by 2022.

However, the “automatic” rebalancing feature of TDFs doesn’t supplant the obligation to monitor funds and educate participants. The Department of Labor (DOL) provides guidance on TDFs in the form of tips for ERISA plan fiduciaries. A fiduciary advisor can help plan sponsors understand the rules and assist with compliance.

**TDF Tip Highlights**

- **Establish an objective process for comparing and selecting TDFs.** Some of the things DOL suggests you consider include: fund performance, fund fees and expenses and how well the fund’s characteristics align with your employees’ ages, retirement dates and salaries.
- **Establish a process for periodic review of your plan’s TDFs.** If there are significant changes in any of the criteria you considered when you added the TDF - management staff of the fund, performance, objectives - consider replacing it.
- **Understand the fund’s investments and how these will change over time.** Aside from the primary strategy and underlying risk, another important aspect to consider is the fund’s “glide path.” Some TDFs reach their most conservative state closer to the target date, while others continue to become more conservative as participants move through their retirement years, with the assumption that funds will be withdrawn over a longer period of time.
- Review the fund’s fees and expenses. Even small differences in fees can have a large impact on the growth of participants’ savings over time. In addition to fees and expenses charged by the component funds held by the TDF, are there additional charges for rebalancing or other services?

- Ask whether a customized TDF that includes component investments not managed by the TDF vendor would be better for your plan. There may be additional costs associated with a custom TDF, but it may be worth it and you should ask the question.

- Develop effective communications about TDFs for your plan participants, especially disclosures required by law. Check EBSA’s website for updates on regulatory disclosure requirements.

- Use available sources of information, such as commercially available resources and services, to evaluate and review TDFs as well as any recommendations received concerning their selection.

- Document your process for choosing and reviewing TDFs, including the decision-making process regarding individual investment options.


The trend toward TDFs has changed the landscape for retirement plan investors, and it’s a trend that shows no signs of slowing down anytime in the near future. For assistance navigating this relatively recent evolution in retirement planning and investing contact your plan advisor.


The target date is the approximate date when investors plan to start withdrawing their money. Generally, the asset allocation of each fund will change on an annual basis with the asset allocation becoming more conservative as the fund nears the target retirement date.

Participant Memo: Take Advantage of Your Company’s Retirement Plan Matching Program
Over 40 percent of employers now offer at least a small retirement plan match to employees, who can help manage their financial wellness by taking advantage of this offer. Even if your employer only matches a small percentage, you’re losing money by not participating. But before you sign up for your company’s retirement plan, it’s important to know how to make the most of it. Here are a few tips that can help.

Get the Details

If you haven’t already clarified the details of your business’s retirement plan offerings, it’s never too late to find out. Ask your HR representative to list the benefits and find out how you can maximize your savings. Some employers offer a 50 percent match for each dollar you put in, while others match a dollar for every dollar. Find out what your company’s maximum match contribution is and decide whether you want to save only to that point or more.

Don’t Be Afraid to Contribute More

If your employer only matches up to a certain amount, don’t feel you have to only save that up to that point. Every dollar you save will grow tax-free over the years, providing a healthy cushion for your retirement years. The IRS does impose contribution limits, but those are fairly high, so it’s likely you won’t need to worry about it.

Don’t Assume You’re Enrolled

New employees often assume they were automatically enrolled in a business’s retirement, especially if the employer match was a selling point during the pre-hiring process. Make sure to ask if there’s something you need to do to enroll in the retirement plan program and take advantage of the match. Ask for program details and pay particular attention to any vesting schedule. If your employer-sponsored program has vesting requirements, you may find that you only receive the full benefits after a set time of employment.

An important part of financial wellness is getting every benefit possible out of your work-sponsored retirement program. This often comes in the form of an employer match to your retirement plan, which will help you get a big head start on saving for your future!

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