

The brokerage option in DC plans

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- Sixteen percent of Vanguard plans offer a self-directed brokerage option. Larger plans are somewhat more likely to offer the feature. In 2014, 28% of Vanguard plan participants had access to the option.
- Few participants use the self-directed brokerage feature—only 1% of participants whose plans offered it in 2014.

Introduction

In this paper we examine the self-directed brokerage feature in defined contribution plans at Vanguard. In 2014, 16% of Vanguard plans offered a self-directed brokerage option (Figure 1). Larger plans were somewhat more likely to offer the feature and 28% of Vanguard plan participants had access to the option. Twenty-two percent of plans with a brokerage option were law firms—and on average 7% of law firm plan assets were invested in brokerage.

Vanguard directly provides recordkeeping services for more than 3.6 million participants in 1,900 plans.¹ Fewer than 10,000 participants on our proprietary recordkeeping platform use the brokerage option. In fact, 10% of plans offering the brokerage option have no participants using the feature.

Figure 1. Population statistics

Vanguard defined contribution plans

	2014
Number of plans offering self-directed brokerage	298
Percentage of plans offering brokerage	16%
Percentage of participants offered brokerage	28%
Number of participants using brokerage	9,208
Percentage of participants offered brokerage using brokerage	1%

Source: Vanguard 2015.

¹ Through our Vanguard Retirement Plan Access[™] (VRPA) partnership, we provide recordkeeping services for an additional 125,000 participants in 2,600 plans. Fourteen percent of VRPA plans offer brokerage and 2% of participants offered the self-directed brokerage option use it.

Demographics

Participants using brokerage differ from all Vanguard participants on a number of attributes (Figure 2). Brokerage participants are 6 years older, have more than twice the tenure, and are disproportionately male, compared with the Vanguard universe. Brokerage participants contacted Vanguard much more frequently than all participants did—with a median contact rate of 66 times in 2014, compared with only 2 contacts in 2014 for all participants. The most striking difference between brokerage participants and all participants is their account balances. The median brokerage account balance was \$262,000—more than 8 times larger than the median Vanguard account balance of \$30,000.

Brokerage option design

Eight in 10 plans offering participants a brokerage feature permit participants to invest in any investment option (Figure 3). One in 5 plans restricts the brokerage feature to mutual funds only. Half of the plans do not limit or cap the proportion of the participant account balance that can be invested in the brokerage option while half of the plans do impose a limit or cap. The most common cap is 50% of the participant account balance.

Brokerage holdings

On average, brokerage participants invest 45% of their account balance in the brokerage option (Figure 4). The allocation to brokerage varies from 10% or less (18% of brokerage participants) to more than 90% (15% of participants). Larger plans are somewhat more likely to offer the brokerage option. However, smaller firms have a higher proportion of plan assets invested in the brokerage option (Figure 5).

What do brokerage participants invest in? Nearly all brokerage participants (94%) hold some cash in their brokerage account (Figure 6). The most common holding—more than half of brokerage participants and assets—is a mutual fund, followed by stocks. One in 5 brokerage participants holds an exchange-traded fund (ETF). The most commonly held mutual fund is Vanguard Health Care Fund, followed by Vanguard Dividend Growth Fund and Vanguard Short-Term Investment-Grade Fund. The most commonly held individual stock is Apple Inc., followed by Berkshire Hathaway and Bank America Corporation. The most commonly held ETF is Vanguard Dividend Appreciation ETF, followed by Vanguard Total Stock Market ETF and Vanguard S&P 500 ETF. Participants are also able to choose non-Vanguard mutual funds and ETFs.

Figure 2. Participant demographics, 2014

Vanguard defined contribution plan participants

	Brokerage participants	All participants
Median age	52	46
Median tenure	15	7
Percentage male	80%	59%
Median account balance	\$262,446	\$29,603
Median equity allocation	83%	83%
Median brokerage allocation	39%	
Percentage registered for internet account access	78%	71%
Median Vanguard contacts	66	2

Source: Vanguard 2015.

Figure 3. Brokerage option design

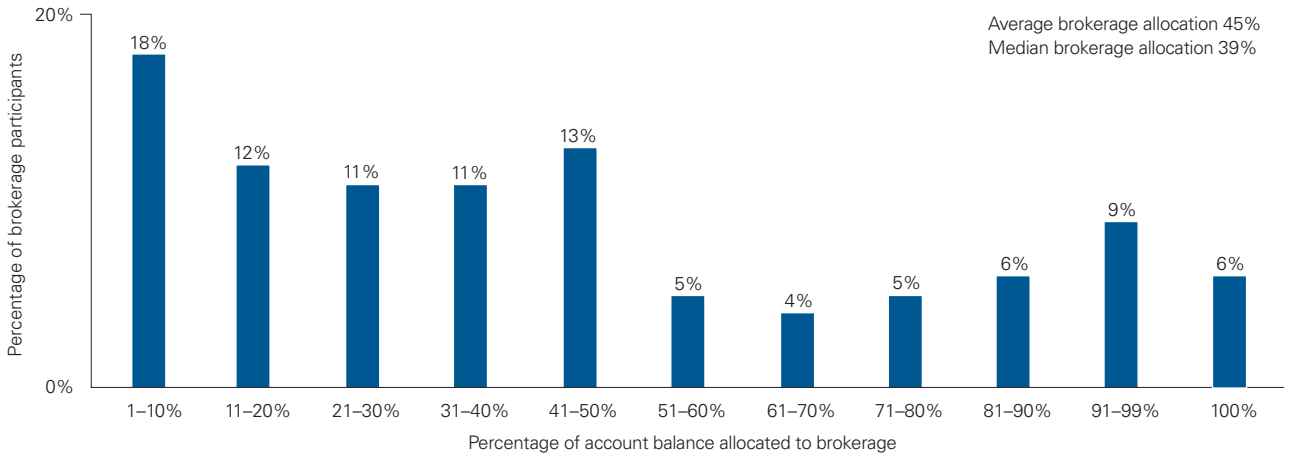
Vanguard defined contribution plans

	2014
Brokerage window design	
Mutual fund only	19%
All options	81%
Cap on participant account balance invested in brokerage	
No cap	50%
10% to 30%	7%
50%	24%
70% to 90%	7%
96% or greater	12%

Source: Vanguard 2015.

Figure 4. Distribution of participant brokerage exposure, 2014

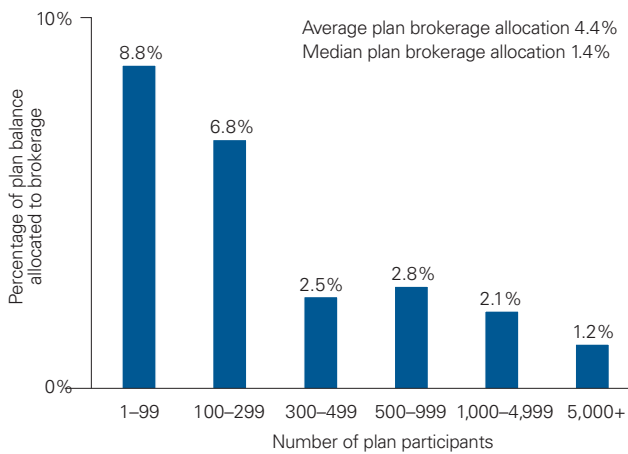
Percentage of Vanguard defined contribution plan brokerage participants



Source: Vanguard, 2015.

Figure 5. Distribution of plan brokerage exposure, 2014

Percentage of Vanguard defined contribution plan brokerage participants



Source: Vanguard, 2015.

Figure 6. Brokerage investment options used, 2014

Vanguard defined contribution plan brokerage participants

	Percentage of brokerage participants	Percentage of brokerage assets
Cash	94%	14%
Individual bonds	1	1
Individual stocks	38	21
Mutual funds	55	53
Exchange traded funds	21	11
Other	5	<0.5

Note: Other includes options, warrants, and miscellaneous assets.

Source: Vanguard 2015.

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