



NEWS RELEASE

T. ROWE PRICE STUDY FINDS STRONG CORRELATION BETWEEN FINANCIAL PERFORMANCE OF COMPANIES AND QUALITY OF THEIR 401(K) PLANS

Baltimore: Sept. 17, 2018

NEWS

T. Rowe Price Retirement Plan Services Inc. today announced the findings of its latest research study, “Where 401(k) Design and Corporate Profitability Cross Paths,” which found a strong correlation between corporate financial performance and overall 401(k) plan quality, regardless of a company’s industry or retirement plan size. The study also found significant correlations between four success metrics of a 401(k) plan and four measures of corporate profitability.

The study evaluated 485 401(k) plans with more than \$50 million in assets and a BrightScope® Rating, which served as a proxy for 401(k) plan quality, at 332 U.S. publicly traded companies. The study is available [here](#).

“While correlation isn’t the same as causality, our findings provide strong evidence that there’s a connection between better-designed and higher-quality 401(k) plans and a company’s bottom line,” said Joshua Dietch, head of T. Rowe Price’s retirement and financial education team, which conducted the study with T. Rowe Price’s customer and market insights team and quantitative equities group. “We’ve long believed this was the case but this is the first time we’ve been able to prove the correlation. Our research demonstrates that companies with strong 401(k) plans—using higher BrightScope Ratings as the indicator—have higher margins and revenue per employee. Though there may be higher costs associated with stronger 401(k) plans, such as more generous matching or the immediate ability to participate in the plan, the potential profitability gains may outweigh the potential costs.”

Key findings of the study include:

- 401(k) plans with an Above Average rating are strongly associated with companies that have **between 20 and 80 percent higher profitability measures** than companies with 401(k) plans rated as Average.
- 401(k) plans rated Poor are strongly associated with companies that have **profitability measures up to 80 percent lower** than companies with 401(k) plans rated Average.
- Companies with 401(k) plans rated Great are more likely to have **gross margins that are between 20 and 40 percent higher** than companies with 401(k) plans rated Average.
- Companies with 401(k) plans rated Great are more likely to have **net income per employee that is between 40 and 80 percent higher** than companies with 401(k) plans rated Average.
- **Revenue per employee is between 20 and 60 percent higher** for companies with 401(k) plans rated Great than companies with 401(k) plans rated Average. Companies with 401(k) plans rated Below Average or Poor have **up to 80 percent lower revenue per employee**.

“The cost of benefits continues to increase and chief financial officers are often engaged with their human resources teams to talk about the return on investment of the company’s retirement plan, beyond talent acquisition and retention,” said Aimee DeCamillo, head of T. Rowe Price Retirement Plan Services, Inc. “Our research shows that there may be corollary benefits when companies invest in their 401(k)s—and disadvantages when they don’t. Employees benefit from well-designed 401(k) plans, and the same employees directly affect corporate profitability.”



401(k) Plan Design and Corporate Performance

New research from T. Rowe Price shows significant correlations.

20%–80%

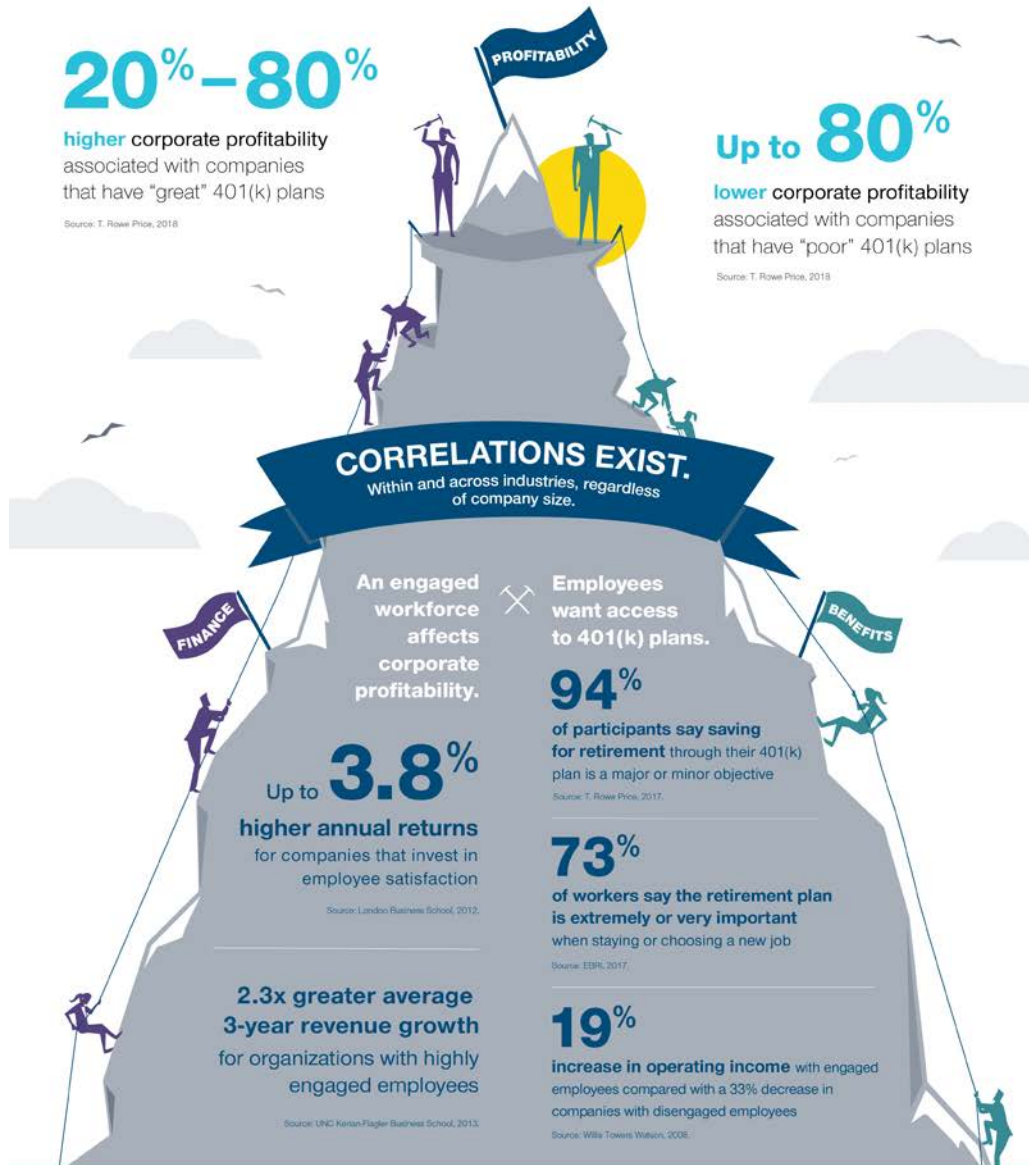
higher corporate profitability associated with companies that have "great" 401(k) plans

Source: T. Rowe Price, 2018

Up to 80%

lower corporate profitability associated with companies that have "poor" 401(k) plans

Source: T. Rowe Price, 2018



401(k) plans may play a role in corporate financial performance.

See what our research found.

troweprice.com/valueof401k

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T. Rowe Price also engaged a third-party firm to interview 22 chief financial officers (CFOs), on a blind basis, about their views on the value of 401(k) plans to corporate financial performance. More than 50 percent of CFOs surveyed believe a well-designed 401(k) plan can influence corporate profitability, while an equal percentage of CFOs are skeptical that its value can be measured. However, three-fourths of respondents are receptive to further research about the potential correlation between 401(k) plan quality and corporate financial performance.

“As both an asset manager and recordkeeper, we were able to tap the rigorous research capabilities of our investments team as well as our insights and expertise on 401(k) plan design to create this study, deriving actionable conclusions that can help guide capital allocation to benefits programs,” DeCamillo said. “Most companies benchmark 401(k) plan metrics and corporate profitability separately. This research suggests that analyzing them jointly could provide greater insight into performance and better inform decision making.”

METHODOLOGY

BrightScope is a Strategic Insight business, providing data and analytics on more than 60,000 defined contribution plans. A BrightScope Rating is a quantitative analysis of a 401(k) retirement plan’s quality, based on five components: fees, company generosity (company match or other employer contribution); deferral rate; participation rate; and account balance. The 401(k) plan ratings and underlying components are expressed as a numerical index score as well as on a five-point scale of Great, Above Average, Average, Below Average, or Poor. T. Rowe Price’s analysis is based on a comparison to 401(k) plans rated as Average.

T. Rowe Price applied a regression analysis to first analyze the relationship between a retirement plan’s BrightScope Rating and key measures of corporate financial performance, including profitability. The second phase then analyzed the relationship between four measures of corporate profitability—gross margin; net income per employee; gross profit per employee; and revenue per employee—and four of the underlying components of the BrightScope Rating: company generosity; deferral rate; participation rate; and account balance. The study controlled for factors such as the size of the company and its sector.

ABOUT T. ROWE PRICE RETIREMENT PLAN SERVICES, INC.

T. Rowe Price Retirement Plan Services, Inc. has been a retirement solutions provider for more than 30 years and as of June 30, 2018, served more than 2.0 million retirement plan participants in more than 4,300 plans.

ABOUT T. ROWE PRICE

Founded in 1937, Baltimore-based T. Rowe Price Group, Inc. is a global investment management organization with \$1.09 trillion in assets under management as of Aug. 31, 2018. The organization provides a broad array of mutual funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. The company also offers sophisticated investment planning and guidance tools. T. Rowe Price’s disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research. For more information, visit troweprice.com, [Twitter](#), [YouTube](#), [LinkedIn](#), [Instagram](#), or [Facebook](#).

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