How Does Your 401(k) Match Up?

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The National Compensation Survey (NCS) provides a rich source of data on retirement benefits. This article presents an overview of NCS terms for typical savings and thrift plans in language that is easy to understand.

How can you determine the quality of your employer-provided 401(k) plan? The most common way is to compare your plans provisions--the terms of the plan--with plans provided by other employers. Is the amount that your employer is willing to match generous? Do you have a long or short waiting period before you can enroll and begin accruing benefits? Are you allowed to invest in a variety of asset classes, or are you limited to just a few choices? Estimates from the National Compensation Survey can help you determine whether the plan offered by your employer is better--or worse--than the average private employer defined contribution plan[1] offered in the United States.[2] In order to make comparisons, youll need your Summary Plan Description or some other document that fully explains the details of your current plan. With this information, youll be able to start your investigation.[3]

There are several reasons why you might want to know how your 401(k) plan compares with plans provided by other employers. Plans with a less generous employer contribution will require greater employee contributions to yield the same amount at retirement, all else equal. If you are in an occupation with a high turnover rate, you need to know about the vesting requirements of your plan to ensure that you are entitled to the monies contributed by your current employer when you leave to find work with another employer. If you are starting a new job, you will also want to know about any waiting period before you may start contributing to the plan. If you are a younger employee, you need to consider future tax implications when deciding upon retirement plan investments. A better understanding of your defined contribution plan allows you to make better decisions and can possibly help you achieve your financial retirement goals.

If your employer offers a defined contribution plan--of which 401(k) plans are one type--you are among the 61 percent[4] of private industry employees who have access[5] to such plans. Certain characteristics of your job affect your chances of being offered a defined contribution retirement plan. For example, 83 percent of workers in management, business, and financial occupations[6] have access to these plans, while 41 percent of workers in service occupations have such access. Full-time employees are more likely than part-time employees to have access (70 percent and 34 percent, respectively) as are the highest wage earners (81 percent) compared with the lowest wage earners (33 percent).

Those private industry employees who are offered a defined contribution plan, however, do not always choose to enroll in the plan. If you did enroll, you are among the 43 percent of the private industry workforce who participate[7] in a defined contribution plan. Various factors influence whether a person participates in contributory retirement plans. For example, workers in the top 10 percent of the earnings range are more likely to participate than most workers earning less. Similarly, full-time employees are more likely to participate than part-time workers. Other factors, such as occupation, industry, or the size of the establishment, can also play a role. As these data show, if you have access to a defined contribution plan--and participate--you are among a select group.

The term “401(k),” which comes from the Internal Revenue Code,[8] is commonly used in the media when discussing defined contribution plans that have an employee contribution and an employer match. They have become the cornerstone of employer provided retirement benefits.[9] NCS uses a broader concept to more accurately define this type of benefit: Savings and thrift plans. These plans have certain characteristics:

- Employees may contribute a predetermined portion of earnings--all or part of which the employer matches--to an individual account.

- Employers may match a fixed percentage of employee contributions or a percentage that varies by length of service, the amount of the employee contribution, or other factors.
- Contributions are invested as directed by the employee or employer.
- Although usually designed as a long-term savings vehicle, savings and thrift plans may allow withdrawals for exigent, or emergency, circumstances.
- Similarly, these plans may allow employees to obtain loans before retirement.

All of the NCS estimates that follow in this article are based on data from the 2005 NCS[10] collected from private industry establishments regarding savings and thrift plans.

Automatic enrollment.[11] Were you automatically enrolled (and allowed to participate) in your savings and thrift plan when hired? If so, you are among the few in a plan with an automatic enrollment provision. Nationally, 6 percent of workers are in such plans.[12] In goods-producing industries, 10 percent of workers are offered plans with automatic enrollment, compared with 5 percent in service-producing industries. With this provision, if you do not opt out of the plan, you are automatically enrolled and the employer sets your minimum contribution. The average minimum contribution across all sampled plans is 2.6 percent of earnings.[13]

Eligibility requirements. For those who arent automatically enrolled, the plan may impose an age or service requirement before being allowed to enroll. How long does the average employee have to wait? The majority of workers (78 percent) were in establishments that set certain minimum eligibility requirements. Most common is an age requirement that limits participation to those 21 years of age or older; 37 percent of workers have this requirement. Nearly as common, at 32 percent, is a set service requirement that does not allow employees to participate until they have worked at the establishment for a period of time, most commonly, 1 year. The average service requirement in plans offered by private industry establishments is 9.3 months.

Vesting.[14] How long do you have to stay with your employer before you are able to leave with your employers plan contributions? Twenty-two percent of workers have immediate full vesting, which means they can leave at any time and take the full amount in their savings and thrift plan with them. Most plans require a certain period before employees are entitled to the money contributed by their employer. Forty-seven percent of employees are in plans with graded vesting. These plans increase an employees rights to benefits, as length of service increases, until they are fully, or 100 percent, vested. Twenty-two percent of employees are in plans which have *cliff vesting*. In these plans employees are fully vested once certain requirements are satisfied, most commonly, a specific length of service, 5 years, for example.

Transfer and rollover provisions.[15] Does your plan allow rollover contributions from other retirement plans, such as from a former employers plan? If so, you are among the majority; 80 percent of all workers are allowed to contribute funds from other qualified retirement accounts.

Employee investment choices. Are you allowed to choose how the money in your plan is invested? If you can choose how both your contributions and those of your employer are invested, you are in the majority: 91 percent of workers are allowed to choose investments for their own contributions, while 76 percent are allowed to choose investments for employer contributions. While having control over how your money is invested might allow you to tailor your investments to match your goals and risk tolerance, it also requires greater ongoing knowledge and effort.

Are you allowed, using your own contributions, to pick your investments from a broad set of mutual funds, or are you limited to just a few choices that might include buying your employers stock? Forty-six percent of participants have the option of investing in fixed-interest securities, which include bonds or other non-Federal securities that pay fixed interest rates over time. Another 46 percent are allowed to invest in diversified investments, which are defined as professionally managed funds that are invested in more than one type of equity or debt instrument. Furthermore, 25 percent have the option to invest in company stock, while 43 percent can invest in other common stock funds. Thirteen percent of participants can place their funds in other investments such as U.S. government securities, life insurance, annuities, real estate, mortgages, and deposits in credit unions or savings accounts. One percent of workers have no choice of investment, even with their own funds. (Since some workers are allowed to exercise more than one investment choice, the sum of the totals can exceed 100 percent.)

Maximum employee contributions. One of the key factors influencing the amount of money you will have at retirement is the amount of money you contribute over the course of your career. About half of the workers are in plans that set a maximum employee contribution, commonly based on a percentage of employee earnings. Fifteen percent of all workers are in savings and thrift plans that limit their contributions to 15 percent of earnings. Thirteen percent are in plans that limit employee contributions to 25 percent of earnings. Everyone, however, is subject to the Internal Revenue Code limit, which is set at $16,500 for 2010.[16] For example, a companys retirement plan allows an employee to contribute up to 25 percent of earnings. An employee earning $100,000 at this company in 2010 could invest only up to $16,500, effectively capping the employees contributions at 16.5 percent of earnings.

Employer matching.[17] Another key factor influencing the size of your retirement fund is your employers matching contributions. There are two key questions. The first question is, Up to what percent of your earnings will your employer make matching contributions? For example, if your employer matches up to 6 percent, that means that for every dollar you contribute to the plan up to 6 percent of your earnings, the employer will contribute to the plan as well. Forty-one percent of workers are in savings and thrift plans that employers match employee contributions up to 6 percent of earnings, and 10 percent of workers are in plans that employers match at a level greater than 6 percent.

The second question is, At what *rate* will your employer match those contributions? For each dollar you contribute, how much does your employer put into the plan? If your employer matches each dollar you contribute at a rate of $0.50 or less, you are among the majority. Fifty-three percent of employees are in such plans. Less common are the 9 percent of workers in plans for which the employer contributes $0.51 to $0.99 cents for each dollar the employee contributes, up to a given percent of earnings. The most generous employers match at 100 percent of employee contributions, up to a given percent of earnings. Thirty-six percent of savings and thrift plan participants are in these “Cadillac” plans.

Taking the example of the employee earning $100,000 per year a step further, the employer matches up to 6 percent of the employees earnings, and matches the employees contributions at 50 percent. Six percent of the employees earning equals $6,000; the employers match of 50 percent of contribution on this $6,000 equals $3,000. In 2010, the employee would legally be able to invest $16,500 and would receive a contribution match of $3,000, depositing a total of $19,500 into the retirement plan.

Pre- and post-tax contributions. The term “pretax contributions to a 401(k) plan” means that income taxes are not withheld or due on the amount invested in the plan until the money is accessed, usually in retirement. Post-tax contributions mean that taxes are paid when the money is invested, but grows tax free until it is tapped in retirement. Do you have an option of making either pre- or post-tax contributions to your plan? Forty-two percent of workers in savings and thrift plans can decide whether their contributions are pre- or post-tax, while 56 percent can make only pre-tax contributions. One percent of employees can decide on a pre- or post-tax contribution, but only up to a specified amount. The introduction of Roth 401(k)s is expected to lead to more plans allowing post-tax contributions.[18]

This article was written for the purpose of giving you a better understanding of 401(k) plans--a very important employee benefit. How did your plan stack up against other savings and thrift plans? Is the employer match high enough to meet your retirement goals? Are you pleased with your investment options? The following table provides a useful worksheet for the assessment of your 401(k) plan.

Exhibit. Worksheet For Comparing Plans

Provision	Common plan data	Your plan's information
Automatic enrollment: Were you automatically enrolled in the plan when hired?	Only 6 percent of workers have automatic enrollment.	

Service requirement: How long did you have to wait before you started contributing to your plan?	The average plan requires that employees wait 9.3 months and be at least 21 years of age.	
Vesting: How long do you have to wait before you can leave with your employer matching contributions?	Twenty-two percent of employees can leave with their employers contribution at any time, while 69 percent must wait a period of time, such as one year.	
Rollovers: Can you move money from other retirement plans into your current employers plan?	Eighty percent of all private industry workers are allowed to contribute funds from other qualified retirement accounts.	
Investment choices: Can you invest your contributions and your employers matching contributions?	Ninety-one percent of workers are allowed to select investments for employee contributions, while 76 percent are allowed to choose investments for employer contributions.	
Investment choices: How many and what type of investments are offered by your plan?	The majority of plans offer multiple investment options including bonds, stock mutual funds, and other financial instruments. One percent of workers have no choice of investments using their own contributions.	
Maximum employee contributions: Is the amount you contribute to the plan limited by the employer?	Fifty-three percent of employees have employer-based limits on their contributions, while 45 percent are only limited by the Internal Revenue Code.	
Employer matching contributions: Up to what percent of your earnings will your employer make matching contributions?	Forty-one percent of workers get a matching contribution on the first six percent of their earnings contributed to the plan. Ten percent are matched at an amount exceeding 6 percent of their earnings, while the remaining workers are matched on an amount less than 6 percent.	
Employer matching contributions: For each dollar you contribute, how much does your employer put into the plan?	Thirty-nine percent of workers are in plans with a 50-percent employer match, 14 percent are in plans with less than a 50-percent match, and 36 percent are in plans with a 100-percent employer match.	
Pre- and post-tax contributions: Do you have an option of making either pre- or post-tax contributions to your plan?	Forty-two percent of workers in savings and thrift plans can decide whether their contributions are pre- or post-tax, while 56 percent can only make pre-tax contributions.	

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Notes

1 Defined contribution plans are retirement plans that specify the level of employer contributions and place those contributions into individual employee accounts.

2 The National Compensation Survey (NCS) provides comprehensive measures of occupational earnings, compensation cost trends, as well as incidence and detailed provisions of employee benefit plans. The NCS presents estimates of the incidence and key provisions of selected employee benefit plans. Estimates presented are on benefits for civilian workers--workers in private industry and in State and local government--by various employee and employer characteristics. For the purposes of the NCS, Federal government, agricultural, and household workers, as well as the self-employed, are excluded.

Questions regarding these data and recent and historical NCS benefits data can be addressed by calling the information line at (202) 691-6199 or by e-mailing NCSInfo@bls.gov. Information is available to sensory-impaired individuals upon request, telephone: (202) 691-5200; Federal Relay Service: (800) 877-8339. Data requests may also be sent by mail to the U.S. Bureau of Labor Statistics, Division of Compensation Data Analysis and Planning, 2 Massachusetts Avenue, NE., Room 4175, Washington, DC 20212. The NCS page of the BLS Web site is located at http://www.bls.gov/ncs/.

3 For more information, see "What You Should Know About Your Retirement Plan," on the Department of Labor, Employee Benefits Security Administration Web site at http://www.dol.gov/ebsa/publications/wyskapr.html. Your employers retirement savings plan is an essential part of your future financial security. It is important to understand how your plan works and what benefits you will receive. Just as you would keep track of money that you put in a bank or other financial institution, it is in your best interest to keep track of your retirement benefits.

4 This figure is based on the results of the March 2009 National Compensation Survey. For more information, see *National Compensation Survey: Employee Benefits in the United States, March 2009*, Bulletin 2731 (Bureau of Labor Statistics, September 2009), on the Internet at http://www.bls.gov/ncs/ebs/benefits/2009/ebbl0044.pdf.

5 Employees are considered to have access to a plan if it is available for their use. Access is expressed in terms of percent of all workers.

6 For information on the Standardized Occupational Classification (SOC) system, see the SOC page of the BLS Web site at http://www.bls.gov/soc/home.htm.

7 Participation in defined contribution plans is measured as the percent of employees who actually enroll in a plan. A plan may require employees to contribute to its cost in order to participate, or it may be a noncontributory plan where the employer pays 100 percent of the cost of the benefit.

8 For more information on 401(k) plans, see the Internal Revenue Service Web site, "Topic 424 - 401(k) Plans," on the Internet at http://www.irs.gov/taxtopics/tc424.html.

9 Data show that the percent of workers covered by defined benefit plans has declined in recent decades, while the percent of workers covered by defined contribution plans has increased. For example, in 1985, data from the Employee Benefits Survey--a predecessor to the NCS--showed that 80 percent of full-time employees in medium and large private establishments participated in defined benefit plans, and 41 percent participated in defined contribution plans. March 2009 estimates from the NCS showed that 24 percent of full time, private employees (across all establishment size classes) participated in defined benefit plans and 51 percent participated in defined contribution plans. For more information, see Ann C. Foster, "Defined Contribution Retirement Plans Become More Prevalent," *Compensation and Working Conditions*, on the Internet at http://www.bls.gov/opub/cwc/archive/summer1996brief2.pdf.

10 For more information on these data, see *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2005*, Bulletin 2589 (Bureau of Labor Statistics, May 2007), on the Internet at http://www.bls.gov/ncs/ebs/sp/ebbl0022.pdf. The next survey of defined contribution plan provisions--which will update the data presented in this article--is scheduled to be released in the summer of 2010. Plan "provisions" are the terms of the plan agreement.

11 As soon as eligibility requirements are met, employees become automatically covered under a plan but have the right to decline coverage at any time. A minimum default employee contribution is usually set, but employees may choose to contribute a different percentage.

12 These estimates are from the *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2005*, table 64, p. 74. The Employee Retirement Income Security Act of 1974 (ERISA), as amended, defines and sets certain standards for employee benefit plans, including 401(k) plans. In September 2009, the Department of the Treasury announced Internal Revenue Service actions designed to further promote automatic enrollment and the use of automatic escalation policies. For more information, see "401 (K) Plans: Several Factors Can Diminish Retirement Savings, but Automatic Enrollment Shows Promise for Increasing Participation and Savings," Report GAO-10-153T (Government Accountability Office, October 28, 2009), on the Internet at http://www.gao.gov/htext/d10153t.html.

13 These estimates are from National Compensation Survey: Employee Benefits in Private Industry in the United States, 2005, Table 74, page 83.

14 Vesting refers to the amount of time a participant must work before earning a non-forfeitable right to a retirement benefit. Once vested, the worker retains the accrued benefit even if he or she leaves the employer before reaching retirement age. Under ERISA, defined contribution plans are subject to the same vesting rules as defined benefit plans, but vesting schedules vary. Vesting schedules apply only to employer contributions; employee contributions (including pretax contributions) are always 100-percent vested. See "How soon do you have a right to your accumulated benefits?" at http://www.dol.gov/ebsa/publications/wyskapr.html.

15 A rollover, as it applies to defined contribution plans, is a direct payment of plan benefits from a defined contribution plan into an IRA or another employers plan. In a direct rollover, the employee is not taxed on the payment until it is later withdrawn or distributed.

16 For more information on contribution limits on traditional 401(k) and other retirement plans, see "IRC 401(k) Plans - Operating a 401(k) Plan," on the Internal Revenue Service Web site at http://www.irs.gov/retirement/article/0,,id=119625,00.html.

17 Employer matching is common in savings and thrift plans. The employer matches a specified percentage of employee contributions. The matching percentage can vary by length of service, amount of employee contribution, and other factors. These estimates are from the *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2005*, table 70, p. 79.

18 See John E. Buckley, “Another Retirement Savings Option: Roth 401(k) Plan,” *Compensation and Working Conditions Online* (February 22, 2006), on the Internet at http://www.bls.gov/opub/cwc/cm20060221ar01p1.htm.

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