Defined contribution plans, such as 401(k) plans, are the most popular employer-sponsored retirement plan in the United States.

According to the most recent statistics provided by the U.S. Department of Labor, there are 638,390 defined contribution retirement plans in the U.S. (513,000 of which are 401(k) plans), covering more than 88 million total participants (more than 73 million active). (DOL Employee Benefits Security Administration, Private Pension Plan Bulletin: Abstract of 2011 Form 5500 Annual Reports, June 2013)

Most full-time American workers and employees of large companies have access to, and participate in, defined contribution plans. Nearly 80 percent of full-time workers have access to employer-sponsored retirement plans, and more than 80 percent of these workers participate in a plan. At companies with 500 workers or more, 89 percent have access to employer-sponsored retirement plans, and 90 percent of those employees participate. (DOL Bureau of Labor Statistics, Employee Benefits in the United States, Table 1, “Civilian Population,” July 17, 2013)

Participation in these plans is as strong as it has ever been.

One survey finds that the average percentage of eligible employees with a balance in a defined contribution plan is 87.6%. In addition, 95.3% of plans made a matching contribution in 2012. (Plan Sponsor Council of America, 56th Annual Profit Sharing and 401(k) Survey, October 17, 2013)

One survey of major U.S. employers indicates that, on average, participants are saving 6.8 percent of pay. Employer contribution averages 4.5 percent of pay, up from 3.7 in 2010. (Plan Sponsor Council of America, 56th Annual Profit Sharing and 401(k) Survey, October 17, 2013)

401(k) and other defined contribution plans provide substantial investment capital to the U.S. economy.

As of the fourth quarter of 2013, the financial assets in defined contribution plans exceeded $4.89 trillion, with IRA assets (including rollover funds) comprising another $6.16 trillion – collectively larger than the GDP of China. (Federal Reserve Board, Flow of Funds Accounts of the United States, Table L.117.c, March 6, 2014)
Employers remain committed to the voluntary defined contribution plan system. Despite anecdotal reports of companies suspending or eliminating their 401(k) matching to cut costs during the depths of the recession, 88% of respondents said their company maintained matching contributions during the previous five years. And for more than three-quarters of surveyed companies, there has been no change in the 401(k) matching formula during the past 12 months, nor are they currently considering a change in the near future. (American Benefits Institute & WorldatWork, 2013 Trends in 401(k) Plans and Retirement Rewards, March 13, 2013)

401(k) and other defined contribution plans constitute a significant element of employees’ retirement savings. Defined contribution plan assets represent 25 percent of the total retirement market and almost one-tenth of U.S. households’ aggregate financial assets as of the end of the third quarter of 2013. (Investment Company Institute, Defined Contribution Plan Participants’ Activities, First Three Quarters of 2013, February 2014)

Plan balances remain robust and stable, continuing growth trends and setting new record highs. One provider reported an average 401(k) balance at a new record high of $89,300 (which includes early savers as well as longtime savers) as of the fourth quarter of 2013, a 15.5 percent increase over the previous year and nearly double what is traditionally considered the market low of March 2009 when it was $46,200. The combined average balance for investors with both a 401(k) and IRA with the firm was 261,400, up 16 percent from the end of the fourth quarter in 2012 when it was $225,600. (Fidelity Investments, Fidelity® Average 401(k) Balance Nearly Doubles Since Downturn, February 13, 2014)

Retirement savings incentives are tax deferrals, not tax exclusions, deductions, expenditures or loopholes. Taxation of 401(k) plans today reduces future tax collections. In one example, for a worker in a 25% tax bracket, a $1,000 contribution to a 401(k) plan over 20 years will generate $2,405 in distributions and $802 in federal taxes. The same $1,000 contribution to a taxable account over 20 years will generate $1,809 in distributions and $603 in federal taxes. Even if a cap on deferrals were enacted on higher income tax brackets, the federal government would still sacrifice revenue over the long term. (Investment Company Institute, The Tax Benefits and Revenue Costs of Tax Deferral, September 11, 2012)

American workers love their 401(k) plans. The vast majority of households strongly oppose changes to the defined contribution plan system and its tax benefits. In a survey of U.S. households, 92% of those with an opinion had favorable impressions of 401(k) plans, with 46% saying that they had a “very favorable” impression, and 76% of households with plans expressed confidence that defined contribution plan accounts could help participants reach their retirement savings goals. A whopping 86% of households opposed the idea of taking away the tax advantages of defined contribution accounts. (Investment Company Institute, Americans’ Views on Defined Contribution Plan Saving, January 2014)

401(k) plans are well-suited to a workforce that is highly mobile. The portability of defined contribution plans allows workers who change jobs to readily take their savings with them. Median job tenure (the number of years with a workers’ current employer) was 4.6 in 2012 – and is even less for women, minorities and service workers. The percentage of employed wage and salary workers age 25+ with 10 years or more of tenure with their current employer was only 29.2%. (DOL Bureau of Labor Statistics, Tenure of American Workers, September 2013).

For more information, see Our Strong Retirement System: An American Success Story, a research paper developed by the American Benefits Council, the American Council of Life Insurers and Investment Company Institute. (December 2013)