

# Trends in 401(k) Plans

A Survey of WorldatWork Members and  
American Benefits Council Members  
March 2009

 research

  
**WorldatWork**<sup>®</sup>  
The Total Rewards Association

## Introduction and Methodology

This report summarizes the findings from a WorldatWork survey in partnership with the American Benefits Council about the most prevalent vehicle for retirement savings today, the 401(k) plan. This survey was conducted at a time when many eyes are on declining 401(k) balances, stock market declines, overall retirement plan governance, and the flurry of Congressional activity relative to 401(k) fee transparency and disclosure.

In December 2008, surveys were sent electronically to WorldatWork members who participated in the 2002 “401(k) Plans and Company Stock” survey and a random representative sample of 4,938 WorldatWork members in the United States. The survey was also sent to 138 American Benefits Council members. A total of 505 members participated in this survey during a two-week period.

The respondents to this survey are representative of the memberships of WorldatWork and American Benefits Council. Members of WorldatWork and the American Benefits Council tend to work in large, North American-based companies. As such, the data included here are not representative of all employers in the United States, but they do provide a good snapshot of large companies operating today. Because of the sample size and skew toward larger companies, this report does not suggest a confidence interval or margin of error associated with these data. More detail regarding respondent demographics can be found in the Demographics section at the end of this report. (See Figures 20-22.)

## Summary of Key Findings

### Participation

- More than 90 percent of participating organizations offer a 401k plan to employees. (See Figure 2.)
- Despite the widely reported drop in account balances, two-thirds (66 percent) of organizations indicated that at least 70 percent of their eligible employees participated in a 401(k) plan in 2008. (See Figure 3.)

### Effect of Recent Financial Crisis

- In an open-ended format, approximately three-fifths of respondents stated that the financial crisis had not caused any changes to their companies' 401(k) plans.

### Employee and Employer Contributions

- Almost half of participating organizations (49 percent) reported that more than 10 percent of eligible employees elected a maximum contribution to their plan in 2008, while 17 percent reported that more than 50 percent of employees elected the maximum contribution. (See Figure 4.) With the passage of the Pension Protection Act (PPA), these percentages may increase as more employers adopt automatic enrollment and automatic escalation plan provisions.
- Fifty-two percent of participating employees contribute 5 percent to 7 percent of their pay per paycheck. (See Figure 5.)
- Half of employers offer a 3 percent to 4 percent (of the employee's compensation) matching contribution to employees' 401(k) plans based on the employee's contribution. (See Figure 6a.)
- Cash continues to be the preferred form of employer 401(k) match, increasing by 17 percent since 2003 to 91 percent. A significant shift has also occurred toward the removal of the holding requirement on company stock since 2002. While the majority of organizations had a specific time limit in 2002 and 2003, 77 percent of organizations reported that they do not have a requirement in 2008. These results do not come as a surprise considering the Enron bankruptcy, the employer stock diversification requirements in the PPA and the passage of Sarbanes-Oxley. (See Figures 7 and 7a.)
- A very small percentage of companies (11 percent) have more than 20 percent of their employees' aggregated 401(k) plan money in company stock. (See Figure 8.) This aligns with the significant shift that has occurred since 2003.
- Only 5 percent of participating organizations have either eliminated or decreased their 401(k) match in the 12 months prior to data collection in December 2008. (See Figure 9.) Similarly, plan activities such as participation rates and employee contribution rates have stayed about the same for the majority of companies. However, participants reported that the number of hardship distributions and loans taken out of 401(k) plans has increased in nearly half of the companies, which is expected considering the contracting economy. (See Figure 10.)

### Investment

- Figure 11 indicates that nearly half of companies (47 percent) provide investment advice through a third-party adviser.
- The employee investment portfolio indicates diversification among plan respondents. Domestic equity was most commonly rated among the top three investment choices in terms of popularity among participating employees. Target retirement date/lifecycle funds are also among the vehicles ranked with the highest participation, indicating that more employers are offering these plans to their workforce and more employees are taking advantage of them. (See Figure 13.)
- Upon the last investment menu review at participating companies, fees were ranked among the two most important consideration factors by 28 percent of companies, compared to investment returns (51 percent), risk characteristics (34 percent) and diversification (33 percent). (See Figure 14.)

### Automatic Enrollment

- Forty-four percent of participating organizations offer automatic enrollment in 401(k) plans. The trend toward automatic enrollment is not surprising as more companies have attempted to increase the enrollment of their employees, especially for those on the lower end of the compensation structure. The passage of the PPA, which supports and encourages the use of automatic enrollment with guidelines on default percentages and funds, has further provided momentum. (See Figure 16.)
- For organizations with an automatic escalation clause, the majority (69 percent) apply a 3 percent initial default employee contribution. The escalation rate after initial default contribution level is 1 percent to 1.99 percent per year for more than 90 percent of organizations. (See Figures 17 and 18.)
- Organizations that automatically enroll employees in the 401(k) plan, but do not have an automatic escalation clause, typically default the employee contribution to 3 percent. (See Figure 19.)

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Detailed Survey Results

Participation

Figure 1: Type of Organization

Is your organization:

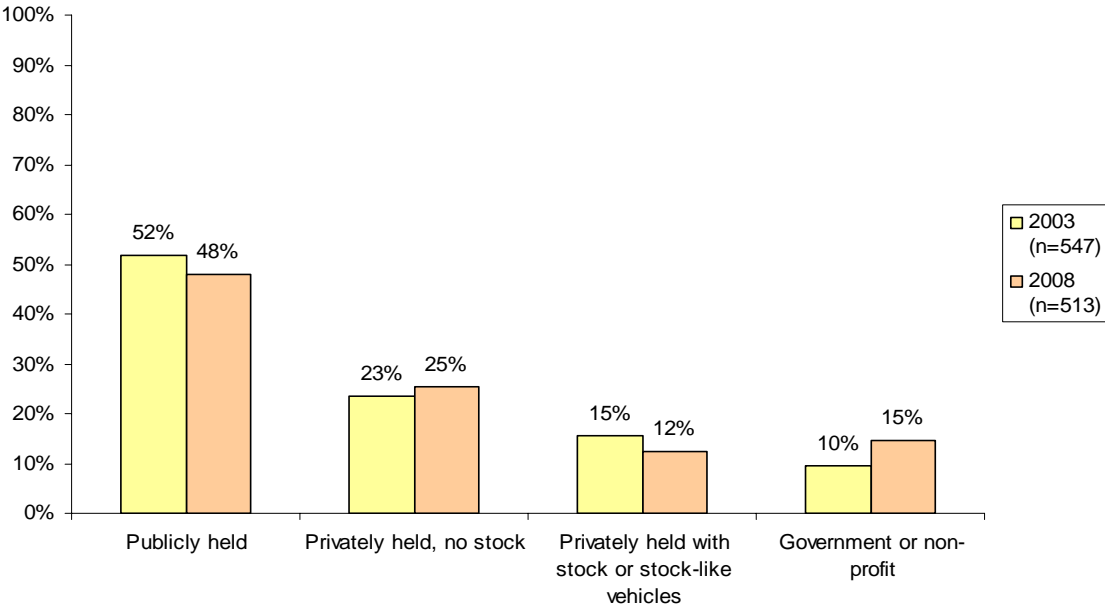
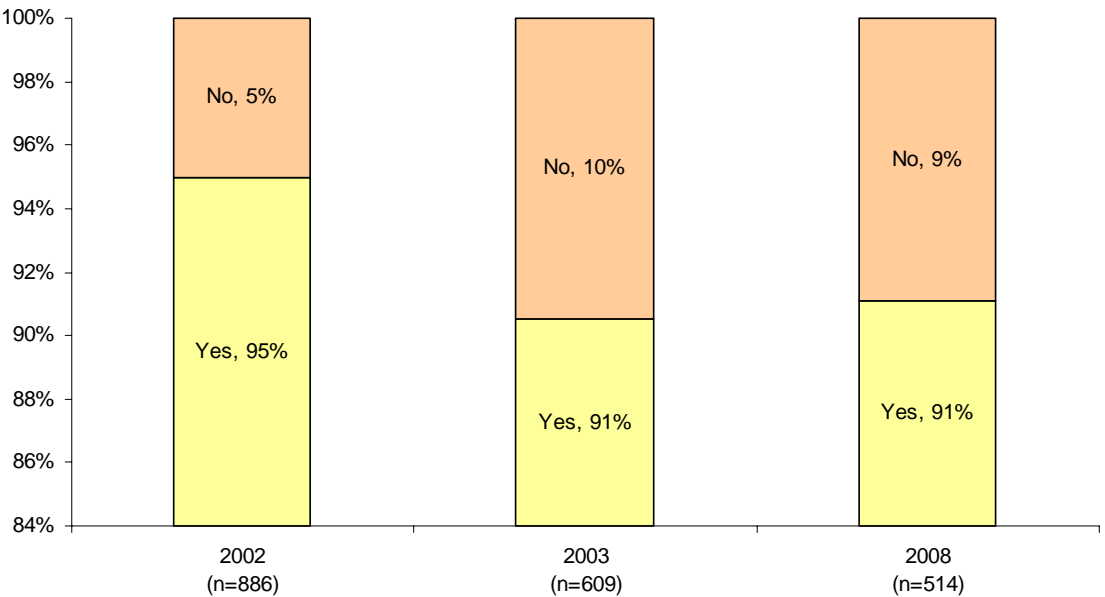


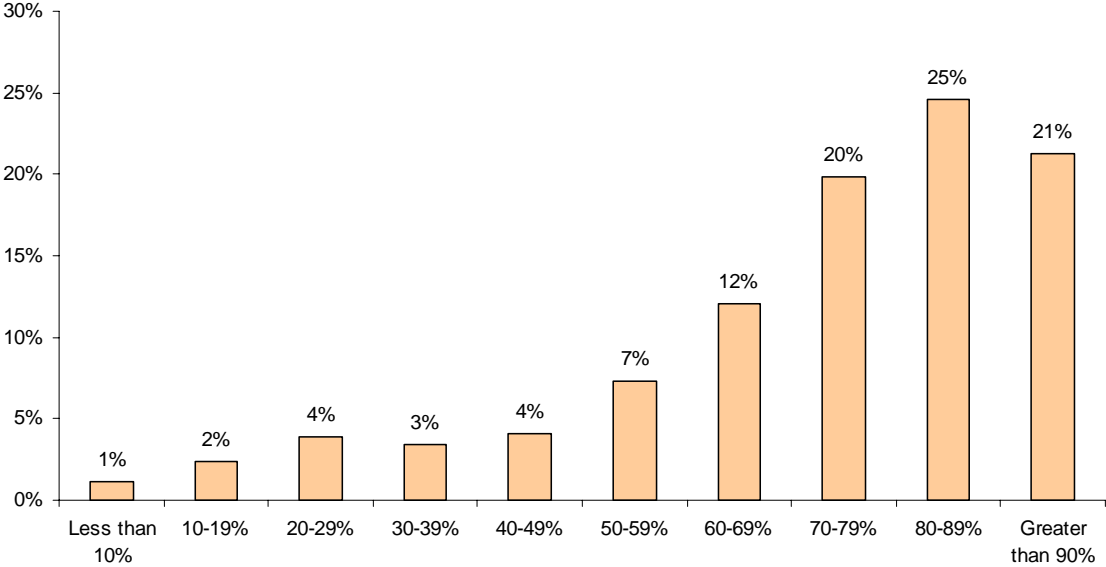
Figure 2: Organizations Offering a 401(k) Plan

Does your organization offer a 401(k) plan to employees?



**Figure 3: Percentage of Employees Participating in a Plan**

What percentage of your organization's U.S. eligible employees participated in the 401(k) plan during 2008? (n=464)



### Effect of Recent Financial Crisis

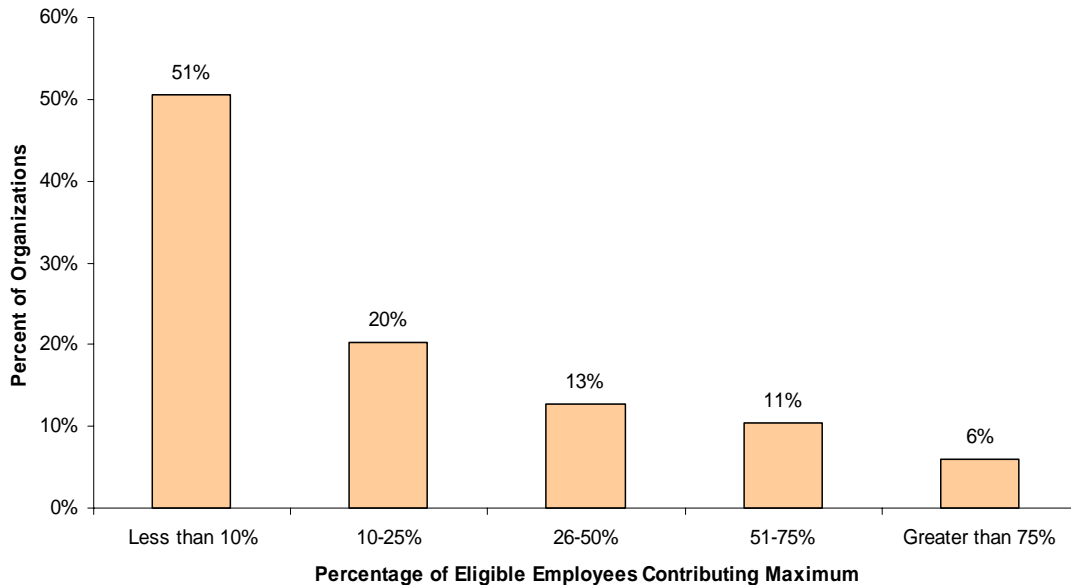
Participants were asked in an open-ended format if they had experienced other changes resulting from the financial crisis. Approximately three-fifths of the 226 who responded to this question stated that the crisis had not yet caused any changes to their companies' 401 (k) plans. The remainder stated their plan had been affected by the financial crisis, with 80 percent of those citing one of the changes below (n=92):

- Ramp-up of education and communication to plan participants
- Actual or considered suspension, elimination or reduction in the employer match
- Change in investment options/funds
- Employee changes to investments and/or canceling participation in plan
- Employers conducting vigilant reviews of investments and plan advisers
- More loans and hardship withdrawals issued to employees

### Employee and Employer Contributions

#### Figure 4: Maximum Employee Contribution

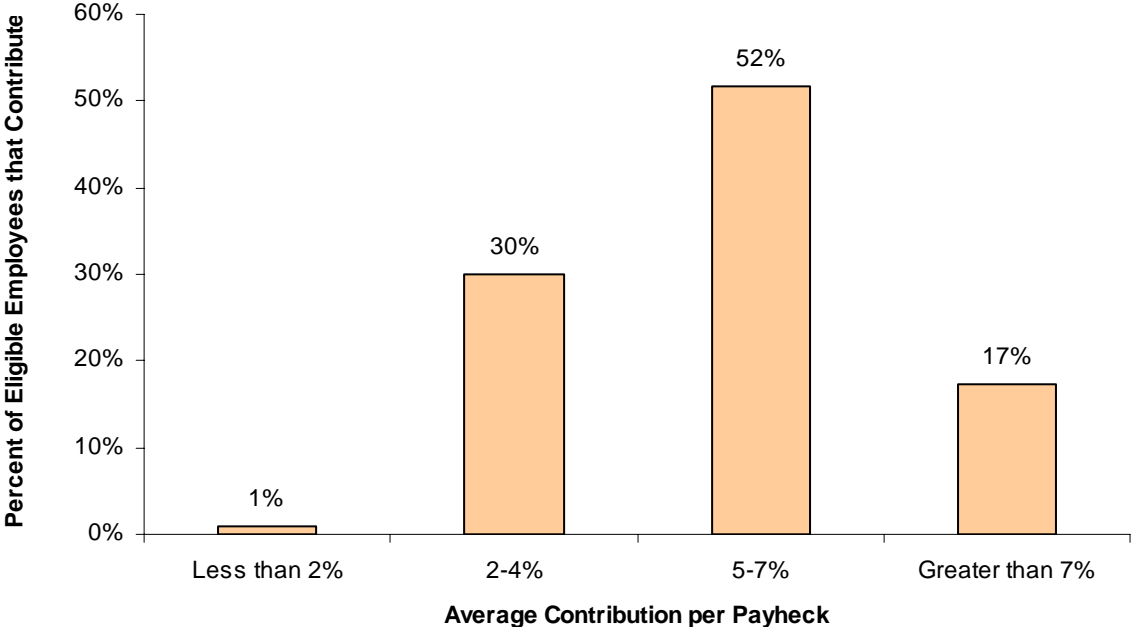
What percentage of eligible employees elected to contribute the maximum employee contribution allowed under your plan in 2008? (n=409)





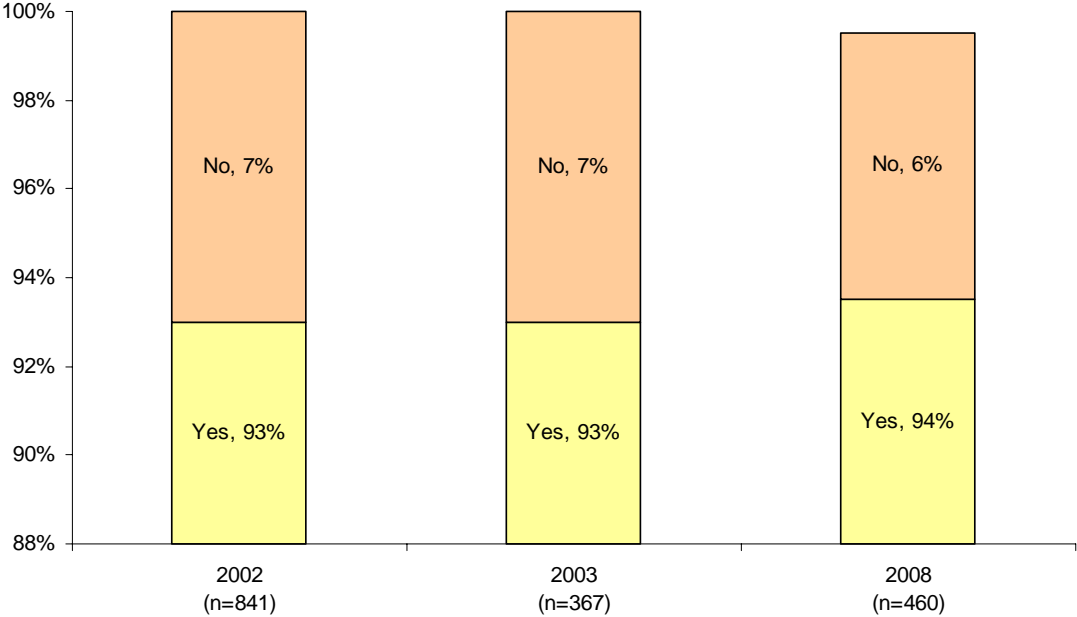
**Figure 5: Average Employee Contribution**

What is the average employee contribution per paycheck? (n=462)



**Figure 6: Company Contribution or Match**

Does your company provide a contribution or some type of employer match to the employee's individual 401(k) contribution?



**Figure 6a: Maximum Employer Match to Employee Individual 401(k) Contribution (%)**  
(n = 408)

Mean = 10%

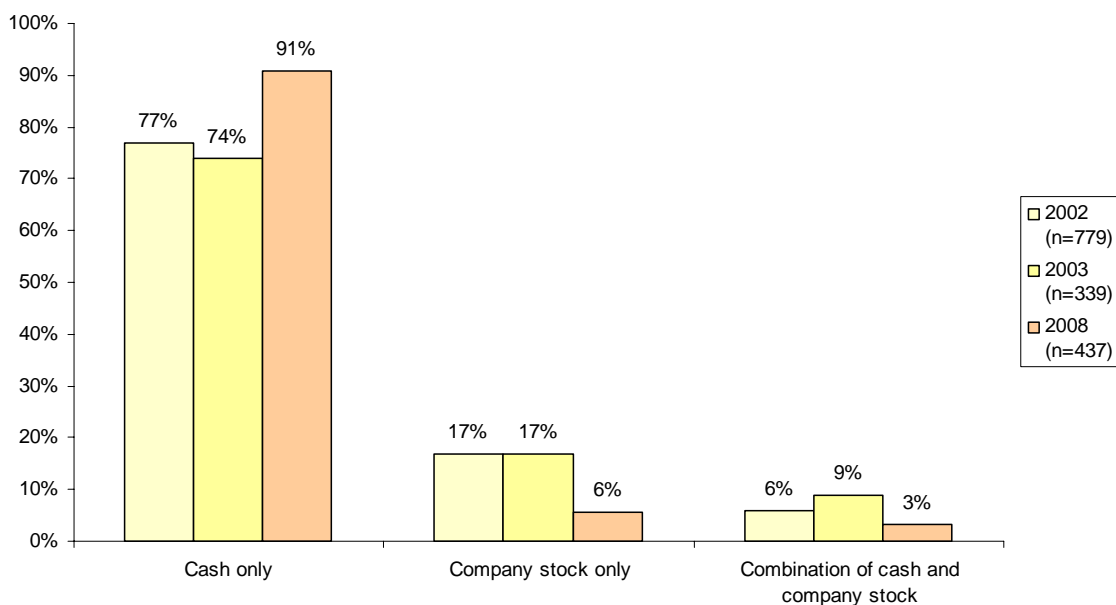
Frequency of Responses	
1%	2%
2%	6%
3%	26%
4%	23%
5%	12%
6%	14%
Greater than 7%	17%
<b>Total</b>	<b>100%</b>

Although the data does not indicate whether respondents answered the question in terms of a matching contribution based on a participant's pay or as a percentage of payroll contribution, the data seems to be aligned based on results from studies that show the most common match to be in the range of 3 percent to 6 percent of a participant's 401(k) payroll contribution.

Since 17 percent of respondents reported a matching contribution greater than 7 percent, one can assume that this data does not represent a dollar-for-dollar match for all reported cases, but rather, it represents a combination of dollar-for-dollar matches as well as tiered levels of matching formulas based on a plan participant's contribution.

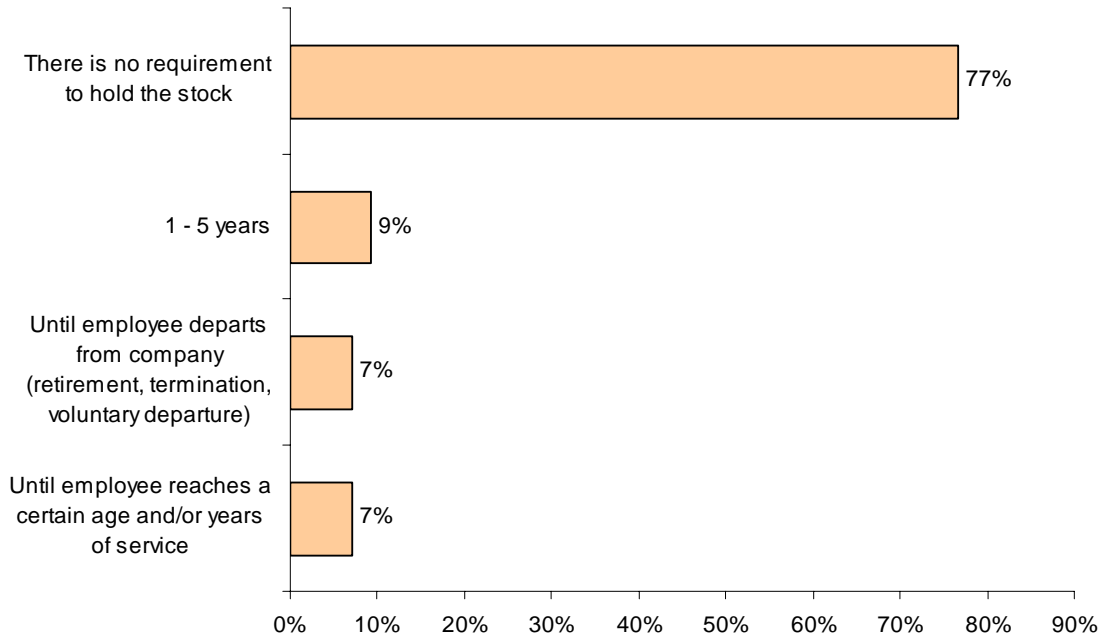
**Figure 7: Type of Company Match or Contribution**

What does the company match or contribution consist of?



**Figure 7a: Length of Service Required before Employer Match**

How long must employees hold the company stock received in the 401(k) through employer matching contributions? (n=43)



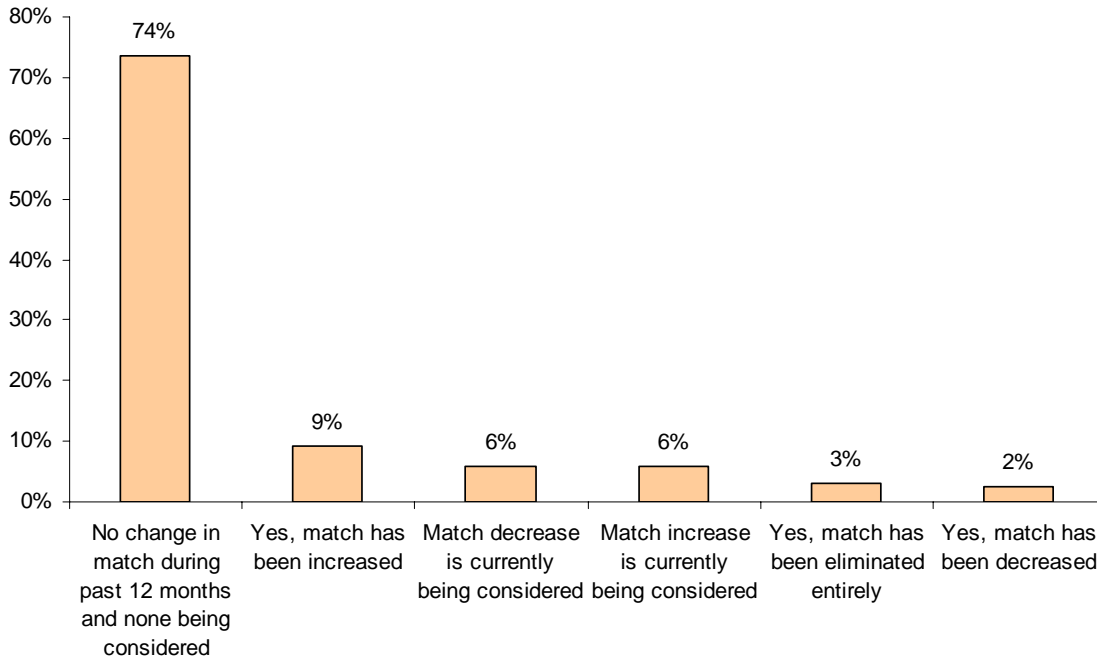
**Figure 8: Percent of Plan in Company Stock**

Approximately what percentage of all money in your company's 401(k) plan is in your company's stock?

	2002 (n=433)	2003 (n=146)	2008 (n=272)
<b>Less than 20%</b>	64%	<b>Less than 5%</b> 23%	71%
<b>20 - 39%</b>	19%	<b>6-10%</b> 12%	7%
<b>40 - 59%</b>	11%	<b>11-19%</b> 28%	11%
<b>60 - 79%</b>	3%	<b>20 - 39%</b> 21%	8%
<b>More than 80%</b>	2%	<b>40 - 59%</b> 11%	3%
		<b>60 - 79%</b> 3%	0%
		<b>More than 80%</b> 2%	0%

**Figure 9: Matching Contribution Change or Plan for Change**

Has your employer match changed in the last 12 months or are you currently considering a change to your employer matching contribution? (n=457)

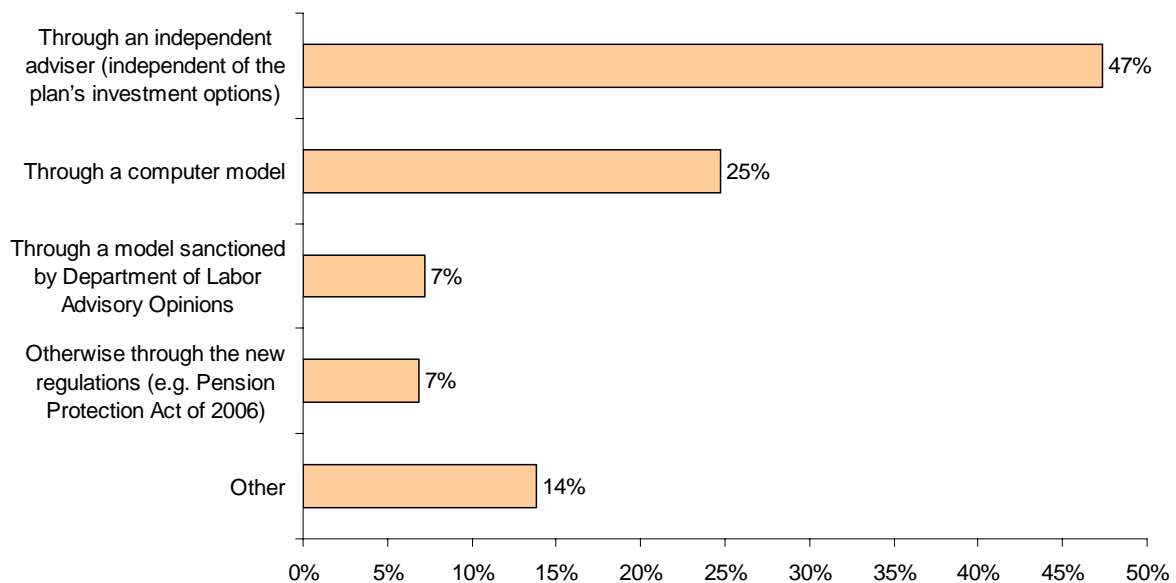
**Figure 10: Changes in Plan Activities**

Please indicate the changes in plan activities, if any, of 401(k) participants in your organization during the past 12 months:

	Increased	Stayed About the Same	Decreased
Employee participation rates (n=459)	24%	63%	13%
Employee contribution percentages (n=453)	13%	65%	22%
Investment in company stock (n=126)	9%	55%	37%
Employee withdrawals from plan (n=432)	32%	66%	2%
Employees taking hardship distributions (n=426)	43%	56%	1%
Employees taking out loans (n=425)	49%	49%	2%

**Investment****Figure 11: How Investment Advice Is Provided**

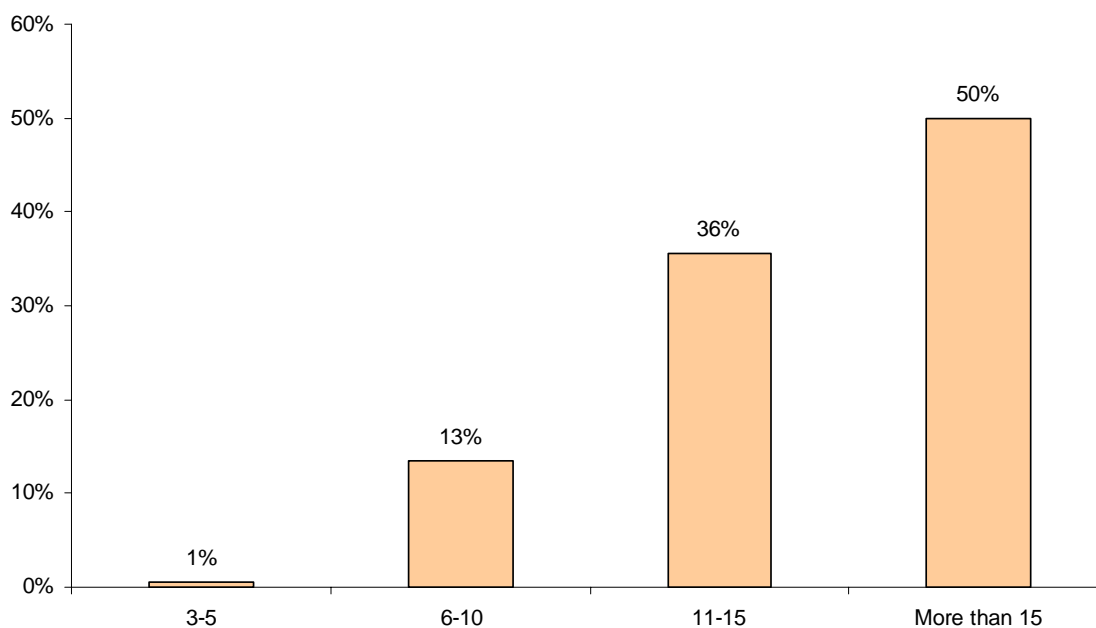
If your company provides investment advice, please indicate how the advice is provided below (n=304)



The respondents who chose “other” noted a variety of means for providing this advice, from naming individual advisers to identifying multiple methods. It should be noted that respondents were forced to choose only one option in the question. But per the open-ended responses provided for those who selected “other,” it is possible that multiple methods are being used and respondents chose the most common method in their organization. In addition, respondents were not given an option to indicate that they do not provide investment advice.

**Figure 12: Employee Investment Choices**

How many investment choices do your employees currently have? (n=464)

**Figure 13: Ranking of Investment Choices**

Please rank the three investment choices estimated to be the most frequently used by employees (in terms of the percentage of employees participating) with 1 being the most popular choice: (n=418)

	Percent of Respondents who Ranked Choice Within Their Top Three
Domestic equity	75%
Fixed income	53%
Target retirement	44%
Money market	37%
International	34%
Lifestyle	17%
Managed account	15%
Company stock	11%
Real estate	1%
Brokerage window	1%
Other	8%

Figure 13 indicates the combined popularity of investment choices in participating organizations. Historically, lifestyle funds, which are based on the risk/reward comfort level of plan participants, were very popular largely because employees did not have to worry about choosing individual mutual funds to arrive at their risk tolerance level. However, as employees aged, many did not revisit their selection, causing their selected portfolio to shift to an investment selection misaligned with their age and expected number of years to retirement.

Target retirement date/lifecycle funds automatically rebalance the individual's portfolio based on the years to retirement. Hence, as employees get closer to retirement, these funds adjust portfolios to reflect the most appropriate asset mix. Some research shows employers migrating away from offering lifestyle funds and toward more target-age based funds. However, responses indicate that although few respondents offer this option, when lifestyle funds are made available to plan participants, they are widely used by employees.

#### Figure 14: Ranking of Company's Investment Menu

Upon your company's last investment menu review, how would you rate the importance of each factor to your organization with 1 being the most important? Please only rate those factors that were considered in your organization's most recent investment menu review. (n=432)

	Percent of Respondents who Ranked Choice Within Their Top Three	Percent of Respondents who Ranked Choice Within Their Top Two
Expected Returns	73%	51%
Diversification	61%	33%
Risk characteristics	58%	34%
Fees	54%	28%
Reputation of company providing investment alternatives	26%	21%
Investment plan services	22%	13%
Other	3%	1%

Results reflect that the expected/historical return on investment is the primary factor of importance in the selection of the plan's investment menu. It was interesting to note that fees placed fourth. However, upon further review of the data, one could argue that fees are often viewed as part of the expected net returns of assets, and therefore, were included by respondents in the "returns" line item.

### Figure 15: Company's Prior and Current Default

If your company changed the default investment option during the past 12 months, please indicate your prior default with a 1 and your current default with a 2:

	Prior Default (1)	Current Default (2)
Money market (n=73)	89%	11%
Stable value (n=77)	92%	8%
Balanced (n=33)	39%	61%
Managed account (n=10)	60%	40%
Target retirement date/lifecycle (n=137)	7%	93%

This data indicates that target retirement date/lifecycle funds have become a common default investment option, and this may be due to their increasing popularity and their acceptance as a Qualified Default Investment Option (QDIA) under the PPA.

### Effect of Government Mandated Investment

Participants were asked in an open-ended format if a government-mandated investment option, such as an index fund, would likely result in a significant shift in employee investment behavior and/or would pose concerns for employers. More than half answered no and a quarter were unsure while the remainder indicated that a significant change would occur. Two over-arching themes were evident for those who said yes: 1) a mandate could create communications and education challenges to employers and 2) a mandate could remove the element of personal responsibility such as an individual's control over investment selection.

Most respondents reported offering a diverse array of investment funds already, including index funds and managed accounts. Respondents also shared some of the following observations about their plans:

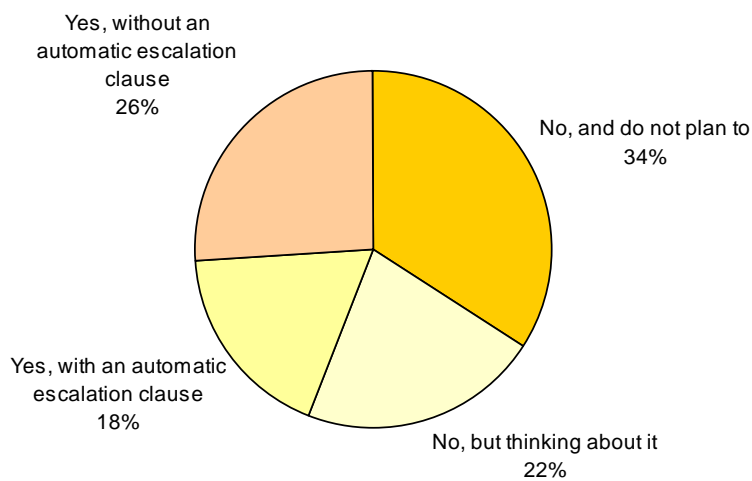
- Most participants do not select index funds
- A government mandate could lead to less diversification and greater long-term risk
  - Active funds typically result in higher long-term gains, so offering a government-mandated fund might lead to poor selection choice on the part of participants
  - Participants who are less experienced or educated might select these funds even though they may not be the best choices for them.



**Automatic Enrollment**

**Figure 16: Availability of Automatic Enrollment**

Does your company offer automatic enrollment, either with or without an automatic escalation clause (default increase of the employee contribution each year)? (n=465)



**Figure 17: Initial Default Employee Contribution**

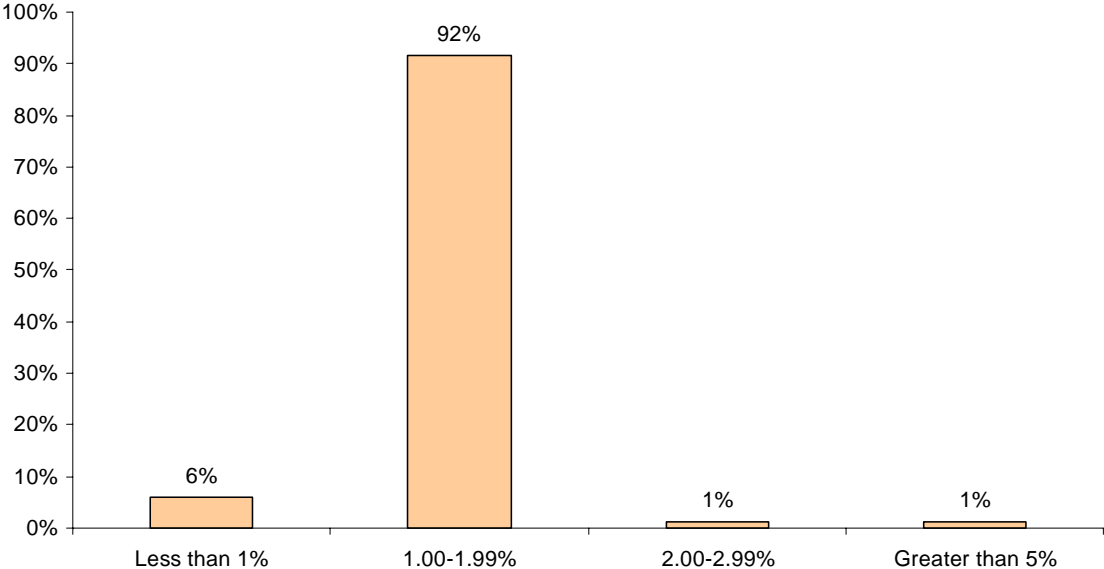
If your plan includes an automatic escalation clause, what is the initial default employee contribution? (n=82)

Mean = 3%

Frequency of Responses	
1%	4%
2%	12%
3%	68%
4%	9%
5%	5%
6%	2%
<b>Total</b>	<b>100%</b>

**Figure 18: Annual Escalation Rate**

What is the annual escalation rate? (n=83)



Note: No respondents indicated an annual escalation rate of 3 percent to 3.99 percent or 4 percent to 4.99 percent.

**Figure 19: Current Default Employee Contribution**

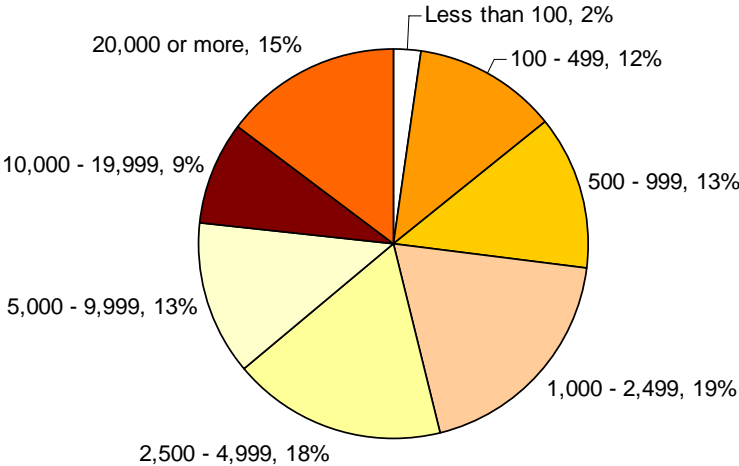
If your plan does not include an automatic escalation clause, what is the current default employee contribution? (n=115)

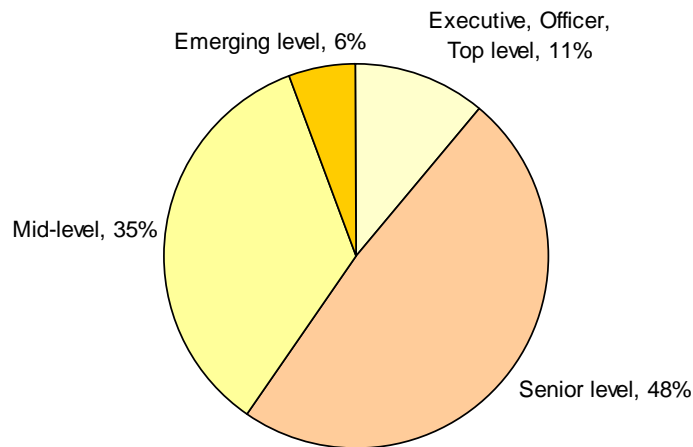
Mean = 3%

Frequency of Responses	
1%	4%
2%	17%
3%	52%
4%	12%
5%	4%
6%	10%
7%	0%
8%	1%
9%	1%
<b>Total</b>	<b>100%</b>

**Demographics**

**Figure 20: Organization Size (n=450)**



**Figure 21: Responsibility Level (n=464)****Figure 22: Industry (n=454)**

Finance and insurance	13%
Manufacturing	11%
All other manufacturing	9%
Health care and social assistance	8%
Professional, scientific and technical services	6%
Utilities	6%
Retail trade	6%
Information	5%
Educational services	3%
Real estate and rental and leasing	3%
Arts, entertainment and recreation	2%
Other services (except public administration)	2%
Wholesale trade	2%
Computer and electronic manufacturing	2%
Public administration	2%
Pharmaceuticals	2%
Construction	1%
Accommodations and food services	1%
Management of companies and enterprises	1%
Transportation	1%
Other	16%