



RETIREMENT SAVINGS PERMANENCE BULLETIN

FASTER MATCHING CONTRIBUTION VESTING INCREASES RETIREMENT SECURITY

ACTION REQUESTED: Make the retirement savings provisions contained in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) permanent as part of the final pension reform bill (H.R. 2830/S. 1783).¹ This will result in increased retirement savings (and consistency in vesting as described in more detail below) because EGTRRA requires more rapid vesting for matching contributions to 401(k) plans.

BACKGROUND: Approximately 54 percent of those born between 1965 and 1974 will hold three to five jobs and about a quarter will have six to nine jobs during their working career.² Shorter vesting schedules could have a significant effect on accumulated retirement savings. Before EGTRRA (and after, if the EGTRRA provisions expire), employer contributions to retirement plans fully vested after the employee completed five years of service. EGTRRA shortened this so employer matching contributions would fully vest, becoming the employee's assets to take with them, after three years of service.³ Vested assets can be rolled by workers from one retirement savings vehicle to the next as they progress through their careers, allowing them to concentrate their savings in one account.

Interestingly, the Senate-passed pension reform bill (S. 1783) contains a provision requiring three-year vesting for "non-elective" employer contributions, such as profit-sharing contributions, that do not depend on the employee's contributions. With this change, all employer contributions would vest according to the same schedule.

CONCLUSION: The final pension bill should not apply a faster vesting schedule to non-elective employer contributions than to matching contributions, which is precisely what could occur if the 2001 vesting schedule for matching contributions is allowed to expire. **Making retirement savings provisions, including faster vesting, permanent in the final pension reform bill means employees can accumulate more retirement savings and vesting schedules are kept simple and consistent.**

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- 1 The Pension Protection Act of 2005 (H.R. 2830) and the Pension Security and Transparency Act of 2005 (S. 1783) are currently being merged by a conference committee. Contained only within H.R. 2830 is a provision to make permanent the retirement savings provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).
- 2 Sarah Holden, Investment Company Institute, Jack VanDerhei, Temple University and EBRI Fellow, *The Influence of Automatic Enrollment, Catch-Up, and IRA Contributions on 401(k) Accumulations at Retirement*, *Employee Benefit Research Institute Issue Brief* No. 283, July 2005.
- 3 Alternatively, prior to EGTRRA matching contributions could vest in annual increments of 20 percent beginning with the employee's third year of service and fully vesting after seven years of service. EGTRRA shortened the gradual vesting period by commencing the 20 percent vesting period after the second year of service.