

Trends in 401(k) Plans and Retirement Rewards

A report by WorldatWork
and the American Benefits Institute
March 2013

research





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Introduction and Methodology

This report summarizes the findings from a survey to update information on 401(k) plans, conducted by WorldatWork in partnership with the American Benefits Institute, the research and education affiliate of the American Benefits Council. Some of this information was gathered in prior years. When possible, comparisons to findings from earlier editions of this survey are shown in this report. Due to differences in questions over the years, some comparisons are not available.

On Nov. 14, 2012, survey invitations were sent electronically to 4,724 WorldatWork members. Members invited to participate were randomly selected from those who indicated responsibility for benefits or compensation and benefits.

The American Benefits Institute is the research and education affiliate of the American Benefits Council. Also on Nov. 14, 2012, survey invitations were sent electronically to 282 plan-sponsor members of the American Benefits Council. One person from each member company received the survey invitation; this person was instructed to forward the survey link to the most appropriate person in the organization to complete the survey.

When the survey closed on Dec. 17, 2012, a total of 490 responses were received, a 9.7% response rate. To provide the most accurate data possible, data were cleaned and analyzed using statistical software. After cleaning and duplicates were removed, the final data set contained 476 responses.

The respondents to this survey are representative of the memberships of WorldatWork and the American Benefits Council. The respondents to this survey were predominantly from large companies (71% indicated more than 1,000 employees) and are, therefore, generally representative of the memberships of WorldatWork and the American Benefits Council. More detail regarding respondent demographics can be found in the “Demographics” section at the end of this report. (See Figures 20-22.)

The frequencies or response distributions listed in the report show the number of times or percentage of times a value appears in a data set. Due to rounding, frequencies of data responses provided in this survey may not total exactly 100%.

Executive Summary

WorldatWork and the American Benefits Institute are proud to collaborate on this update to a survey that previously collected data from both organizations' memberships regarding employer-sponsored retirement plans. In the 2008 fielding of the survey, responses were gathered from a little more than 500 respondents. In this survey (data collected in late 2012), a similar response of nearly 500 respondents was received.

Consistent with when this survey was conducted in 2008, an extremely high percentage of respondents (94%) reported that they offer a 401(k) retirement plan to their employees. This high percentage is probably due to two factors: 1) the survey itself was titled "Trends in 401(k) Plans," thus potentially signaling to potential participants that only those companies offering a 401(k) plan should participate in the survey; and 2) the majority of WorldatWork and American Benefits Council member companies are based in the United States and are large enterprises — 71% reported more than 1,000 employees.

Employee Participation and Contributions

- A majority of companies responding to the survey reported that most employees participate in their retirement plan: 73% of the survey's respondents reported that greater than 70% of their eligible employees currently participate in their organization's plan. (See Figure 3.)
- More than three-quarters of responding organizations (77%) indicated that the average employee contribution was greater than 5% of salary per paycheck. The most common level of employee participation reported by plan sponsors was between 5% and 7% of salary per employee paycheck. (See Figure 5.)
- When asked about the percentage of employees who elect to contribute the maximum allowable employee contribution under the plan, there was little change between 2008 and 2012. (See Figure 4.) In 2012, a majority of companies (52%) reported that fewer than 10% of employees elect to contribute the maximum to their retirement plan. This data suggest that employees need more education on the advantages of tax-deferred savings, as provided by defined contribution plans. Employers may be able to help improve employee contribution rates by implementing automatic escalation features, in which participant contributions gradually rise over time or with salary increases.
- When asked what percentage of the company's employees takes advantage of the full employer match being offered, a 66% majority of respondents reported that at least half of their plan participants are contributing sufficiently to take advantage of the full employer match. (See Figure 6b.) The flip side of this figure is, that the remaining 34% percent believe that more than half of their plan participants are "leaving money on the table" by not contributing enough to take advantage of the full employer match. Again, this may represent an opportunity to better educate and/or promote the long-term financial benefit of taking advantage of the full employer contribution. Further, employees not taking full advantage of

the match might benefit from an auto-escalation provision in the plan, which could gradually drive them toward the full matching contribution.

Employer Contributions

- The 2012 data indicates that the 2008 financial crisis did not significantly affect employer contributions to 401(k) plans. Despite anecdotal reports of companies suspending or eliminating their 401(k) matching to cut costs during the depths of the recession, almost 9 out of 10 respondents (88%) said their company neither suspended nor eliminated their company matching contributions during the previous five years. Only 8% of 2012 respondents said their match was suspended at some point in the past five years and has not been restored. (See Figure 6d.)
- For more than three-quarters of the companies participating in the survey (77%), there was no change in the 401(k) matching formula during the past 12 months; further, they are not considering a change in the near future. (See Figure 6c.)
- 94% percent of respondents reported that they provide matching contributions in cash versus company stock or cash and company stock. This is the most prevalent form of employee 401(k) match offered by employers. Only 3% of respondents reported that they were matching solely with company stock, a significant shift from a 2003 WorldatWork survey in which 17% of respondents reported providing a match of company stock only. (See Figure 6a.)
- Consistent with the finding immediately above, the prevalence of company stock as a holding in employee retirement plans is far less prevalent today than in the past. In the 2002 version of this survey, 64% of companies reported that less than 20% of total plan contributions were held in stock. In 2012, 93% of organizations are reporting that level of company stock in the plan. (See Figure 7.)

Fee Disclosures

- Only 1 in 5 companies reported believing that new plan fee disclosure rules have made participant communications more clear than they were before. Of the remaining respondents, 22% said they believe that the new rules have made participant communications less clear than they previously were, and 58% said that the rules have made it neither more nor less clear for plan participants. (See Figure 19.)

Investment Advice and Choices

- Among the survey's 53% of companies who said they provide investment advice services to employees, two-thirds (67%) reported doing so through an adviser who is independent of the plan's investment options. (See Figure 9a.) This is an increase of roughly 20% since 2008, most likely due to new regulations issued under the Pension Protection Act of 2006 (PPA), which included new requirements for employers delivering investment advice.

- The number of investment choices offered to employees by employers continues to increase. In 2012, more than half of the companies in the survey (54%) reported offering 16 or more investment options to employees through the retirement plan — a slight increase since 2008. In aggregate, 91% of organizations reported offering more than 10 investment options to employees in 2012. (See Figure 10.) The most common investment choices selected by employees are target date funds/lifecycle (68%) and domestic equity investments (67%). (See Figure 11.)
- When employers renew or select a new employee investment service provider, the top three priorities or considerations are, in order: fees (75%), expected/historical returns (62%), diversification (51%). (See Figure 12) Plan fees, which could comprise both administrative and investment charges, typically have a direct effect on plan costs for the company and participants. Fees were the subject of substantial new disclosure regulations that went into effect shortly before the fielding of the 2012 survey.
- About 12% of employers indicated that they offer an annuity payout option through either a defined contribution or defined benefit plan. The majority of survey respondents (60% in Figure 15) said they do not offer an annuity or an annuity-like lifetime payout option for participants at this time. Of the remaining respondents, 21% reported that they don't currently offer an annuity but that they are "considering" it — an indication that annuities or annuity-like income stream payout options may become more common in the near future in order to ensure lifetime payout streams.
- 1 out of 5 companies (20%) reported that they offer cash and debt management education to their employees. (See Figure 16.) The financial crisis saw — and continues to see — many employees struggle with personal financial matters. These matters can influence their ability or willingness to participate in and contribute to a workplace retirement plan. These results might indicate an opportunity for a more holistic approach to employee retirement education.

Automatic Enrollment and Automatic Escalation

- A combined 56% of respondents reported their company offers automatic employee enrollment in the 401(k): 26% have automatic enrollment with an automatic escalation feature, and 30% have auto enrollment without automatic escalation. An additional 18% said they were considering auto enrollment. (See Figure 14.)
- Companies not offering an automatic escalation require a higher default contribution. 42% of companies that do not have an automatic escalation clause reported having an employee default contribution greater than 4%. Among companies that have an automatic escalation clause, only 27% reported a default employee contribution greater than 4%. (See Figures 14a and 14c.)
- 53% of companies that offer automatic escalation set the initial default employee contribution between 3% and 4%. (See Figure 14a.) This is in accordance with the 3% minimum initial default

amount required under the PPA for “safe harbor” automatic contribution arrangements (plans meeting the safe harbor requirements eliminate the need to satisfy nondiscrimination rules). Overwhelmingly, 97% of companies increase the default at 1% per year — also consistent with the safe harbor contained in the PPA that requires employers to default to a minimum of 4% the second year, 5% the third and 6% the fourth year. (See Figure 14b.) Auto escalation levels for the safe harbor plans cannot exceed 10%.

- The policy objective of increasing participation rates through automatic enrollment appears to be achieving its goal. When taken in aggregate, 30% of companies reported employee 401(k) plan participation in the 80%-89% range. (See the bar chart in Figure 3.) But when broken down by whether the company has auto enrollment, a significant disparity in employee participation emerges. 37% of companies with auto enrollment reported participation in the 80%-89% range, but only 21% of companies without auto enrollment report similar 80%-89% participation. Further, 36% of those with auto enrollment reported participation in the “90% or greater” range while only 19% without auto enrollment report similarly in the “90% or greater” range. (See the line graph in Figure 3.) Ultimately, companies without auto enrollment are more likely to report lower employee participation rates than those with automatic enrollment. To build on the successes of automatic features, additional enhancements (e.g., higher permissible default rates) may improve retirement income adequacy and coverage.

Hardship Distributions and Loans

- Fewer employees are taking hardship distributions and loans from their 401(k) plans. In the 2008 survey, 43% of respondents reported an increase in hardship withdrawals and 49% reported an increase in loans during the previous 12 months. In 2012, however, only 25% of employers said they had seen an increase in hardship distributions during the same period and 37% of employers reported that the number of employees who had taken a loan against their 401(k) had increased during the prior 12 months. (See Figure 8.)

More than 20 graphs and figures follow, providing additional context and detail for the information provided in this executive summary.

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Detailed Survey Results

Participation

Figure 1: Type of Organization

“Is your organization:”

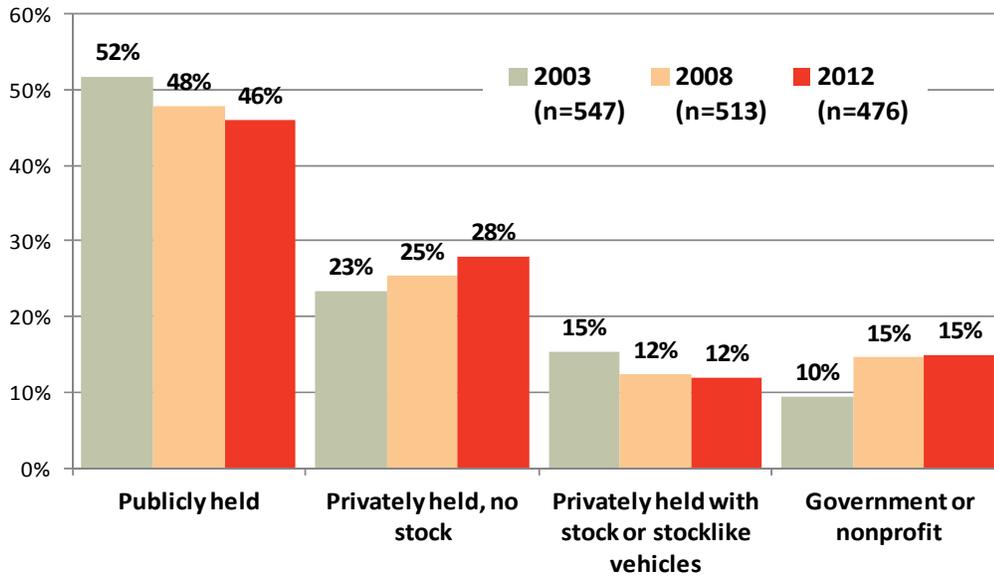


Figure 2: Organizations Offering a 401(k) Plan

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

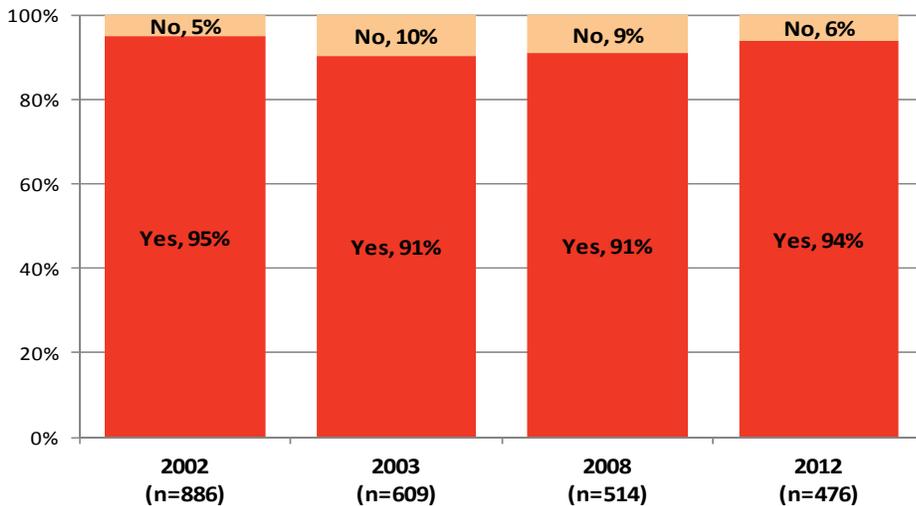
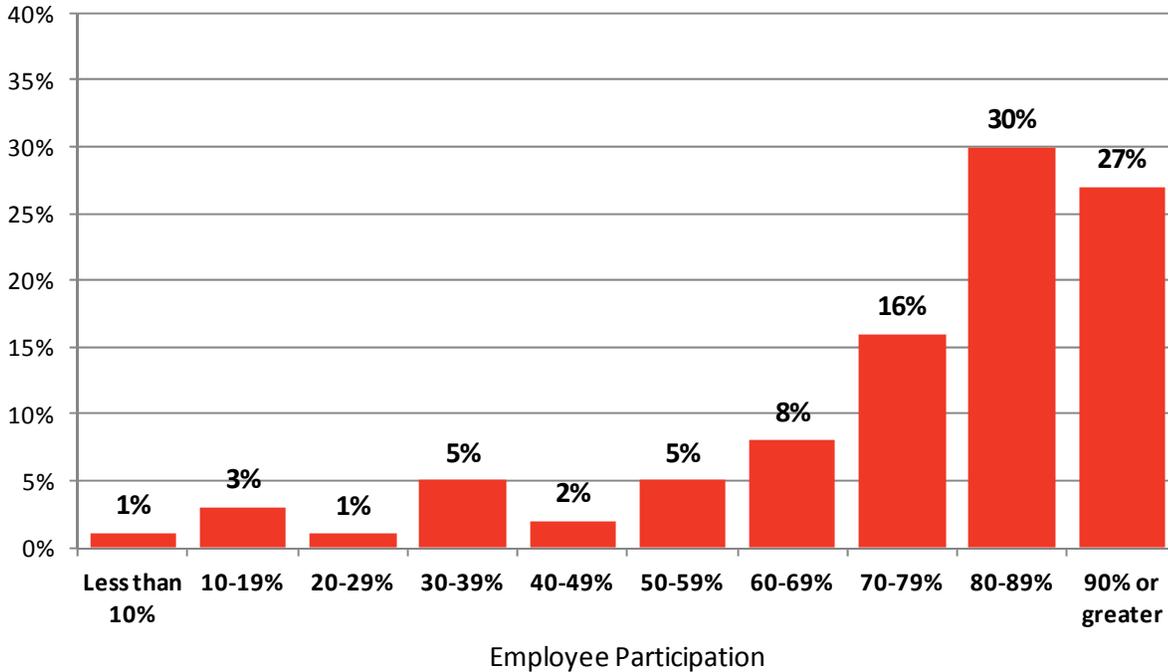
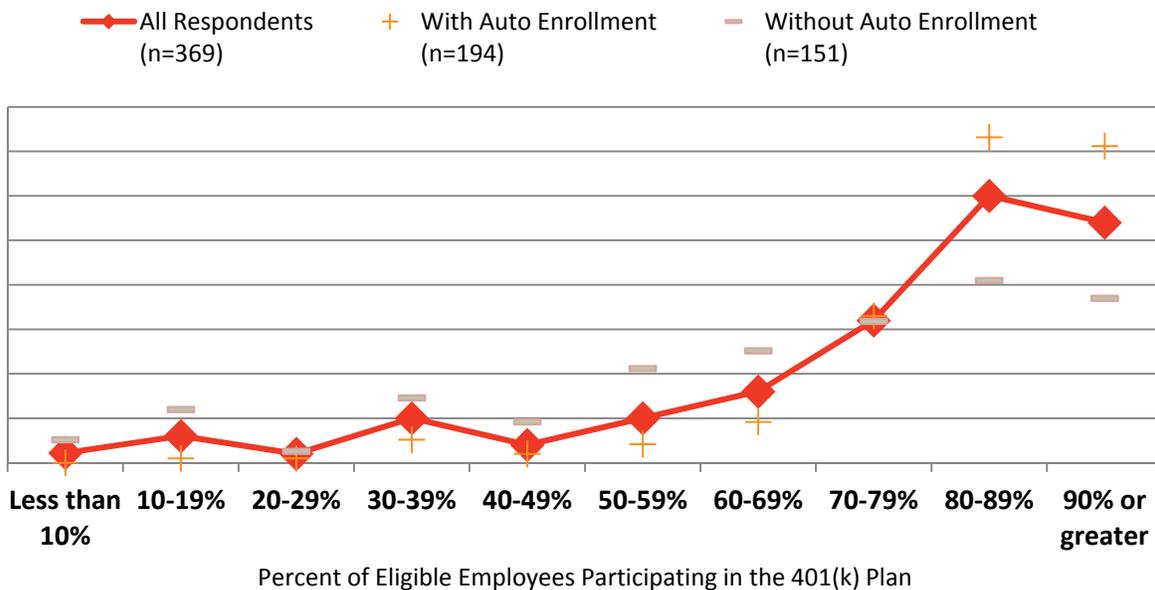


Figure 3: Percentage of Employees Participating in a Plan

“What percentage of your organization’s U.S./eligible employees is currently participating in the 401(k) plan?” (n=369)



The graph below includes the employee participation information above as well as differences in participation levels depending on whether an organization offers automatic 401(k) plan enrollment. (See Figure 14 for more detail on automatic enrollment.)



Employee and Employer Contributions

Figure 4: Maximum Employee Contribution

“What percentage of eligible employees elected to contribute the maximum employee contribution allowed under your 401(k) plan?”

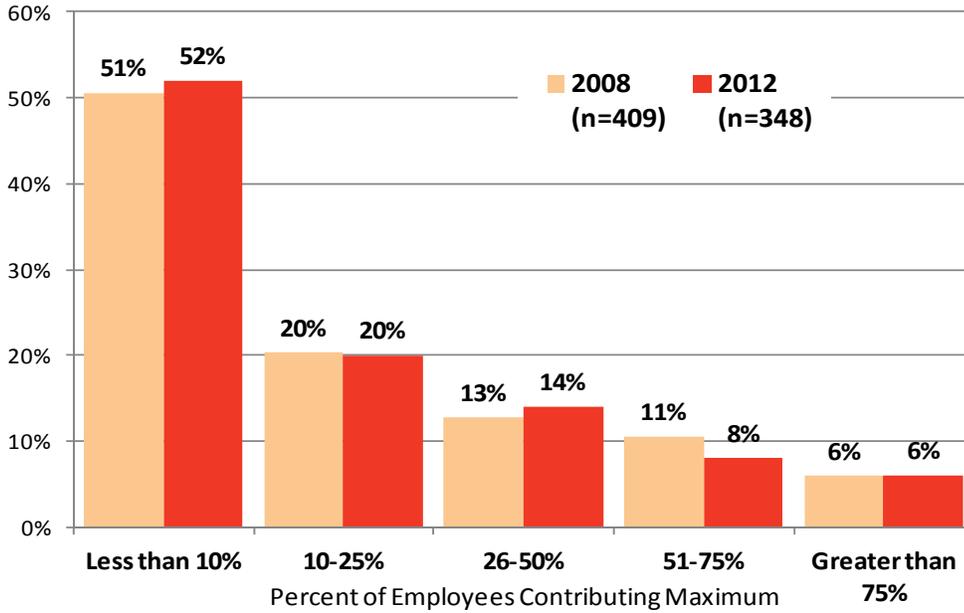


Figure 5: Average Employee Contribution

“What is the average 401(k) employee contribution per paycheck?” (n=361)

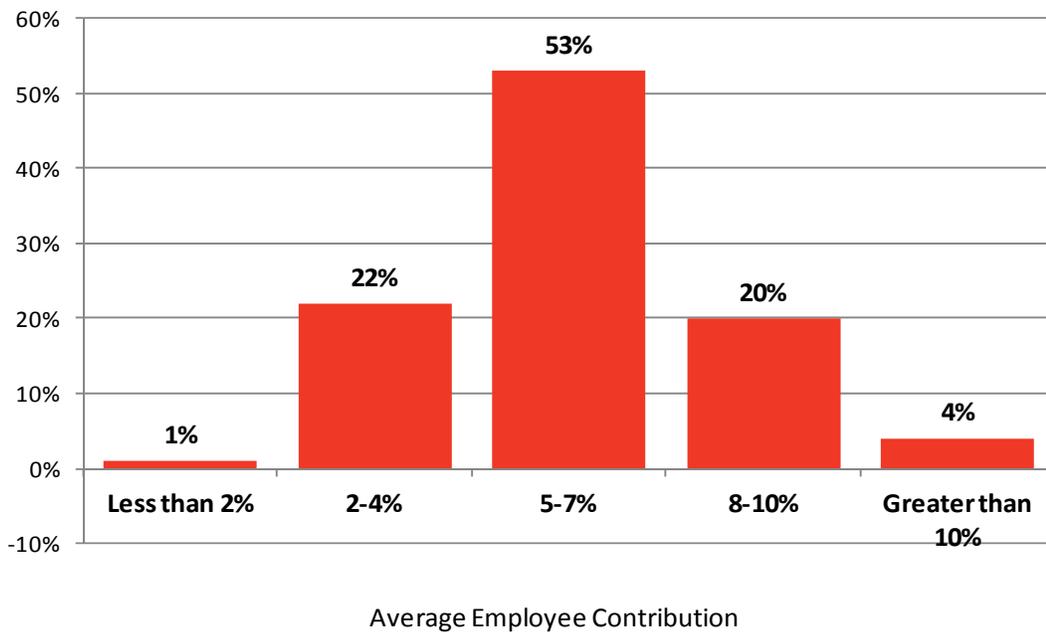


Figure 6: Company Contribution or Match

“Does your company provide a contribution or some type of employer match to the employee's individual 401(k) contribution? (Check all that apply.)” (n=373)

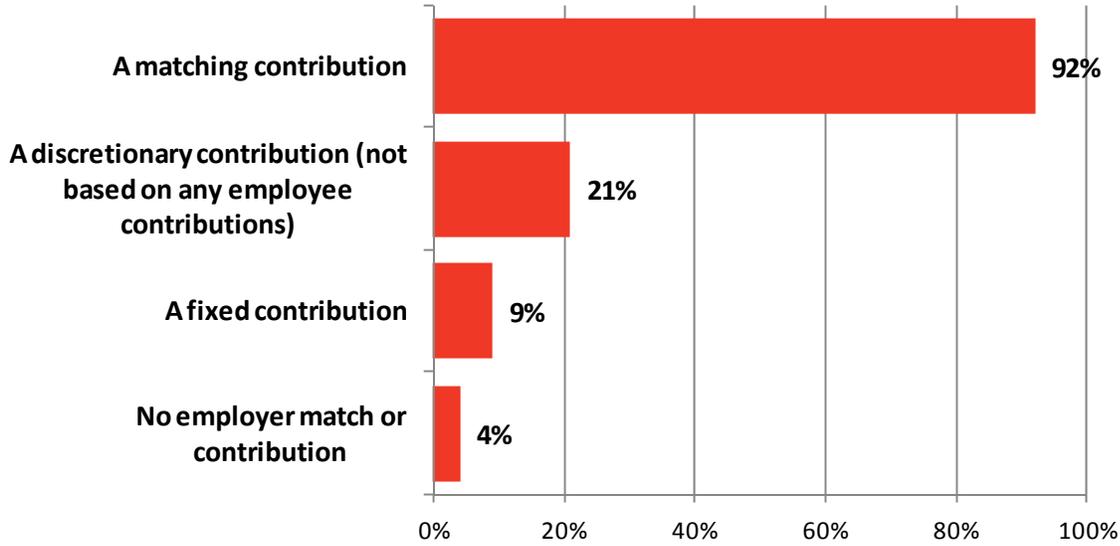


Figure 6a: Type of Company Match or Contribution

“What does the company match or contribution consist of?”

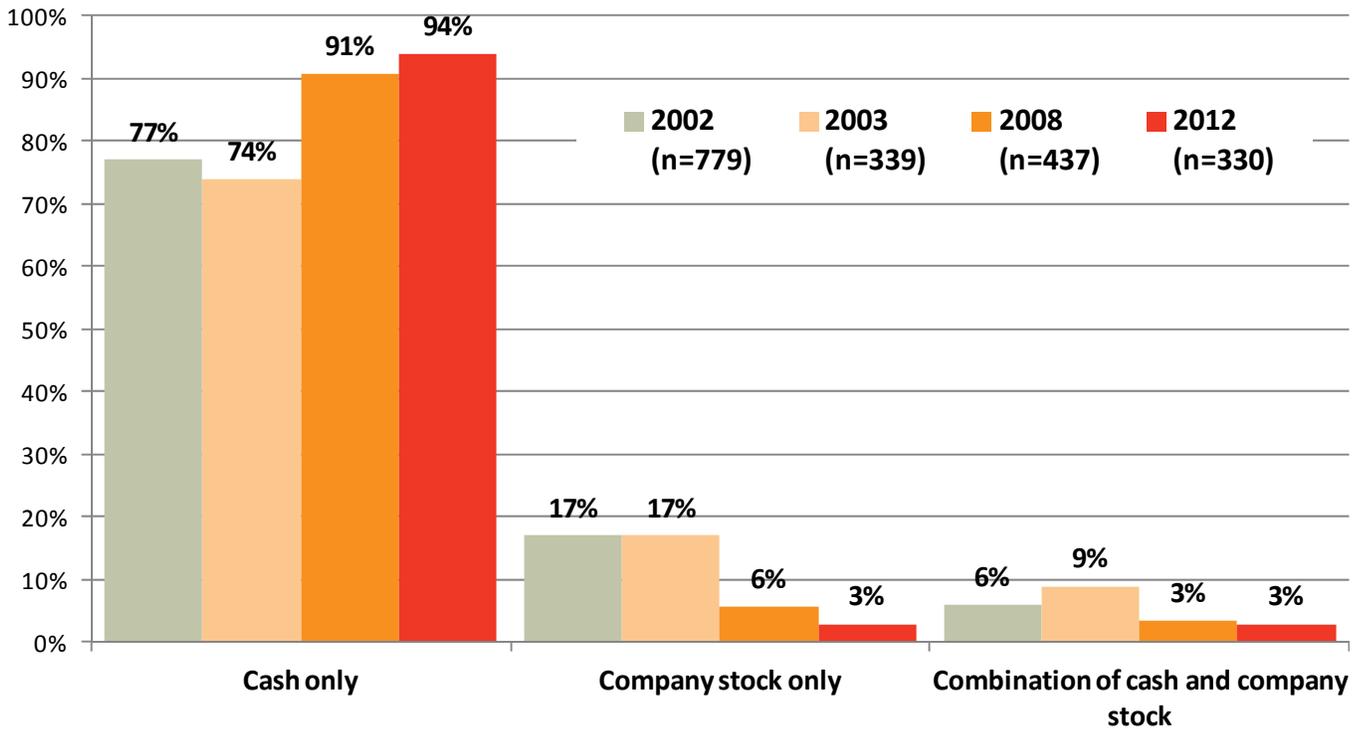


Figure 6b: Employees Taking Advantage of Full Employer Match

“What percentage of employees take advantage of the full employer match offered?” (n=315)

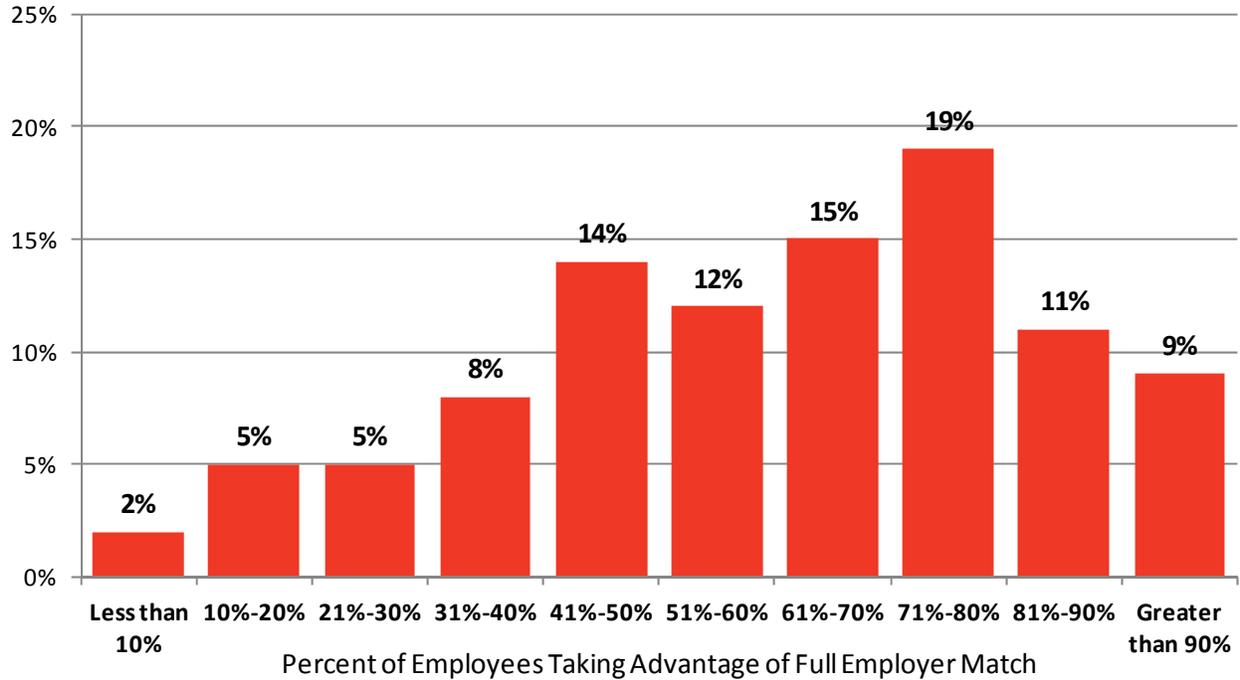


Figure 6c: Employer Match Changes

“Has your employer match changed in the last 12 months or are you currently considering a change to your employer-matching contribution? (Check all that apply.)”

	2008 (n=457)	2012 (n=328)
No change in match during past 12 months and none being considered	74%	77%
Match has been increased	9%	9%
Match increase is currently being considered	6%	9%
Match decrease is currently being considered	6%	3%
Match has been decreased	2%	2%
Match has been eliminated entirely	3%	0
Match elimination is currently being considered	N/A	0%

Figure 6d: Match Suspension or Elimination

“In the past 5 years, did your organization either ‘suspend’ or ‘eliminate’ your 401(k) matching contribution? If so, was it restored?” (n=329)

No, match was neither "suspended" nor "eliminated"	88%
Match was "suspended" but has been partially restored	3%
Match was "suspended" but has been fully restored	0%
Match was "suspended" and has not been restored in any way	8%
Match was "eliminated" and has been partially restored	1%
Match was "eliminated" and has been fully restored	1%
Match was "eliminated" and has not been restored in any way	0%

401(k) Plan Relation to Company Stock

Figure 7: Percent of Plan in Company Stock

“Approximately what percent of all money in your company's 401(k) plan (both employer and employee contributions) is in your company's stock?”

2002 (n=433)		2003 (n=146)		2008 (n=272)		2012 (n=357)	
Less than 20%	64%	Less than 5%	23%	Less than 5%	71%	0%	75%
		6-10%	12%	6-10%	7%	>0%-5%	6%
		11-19%	28%	11-19%	11%	6-10%	6%
20 - 39%	19%	20 - 39%	21%	20 - 39%	8%	20 - 39%	5%
40 - 59%	11%	40 - 59%	11%	40 - 59%	3%	40 - 59%	1%
60 - 79%	3%	60 - 79%	3%	60 - 79%	0%	60 - 79%	1%
More than 80%	2%	More than 80%	2%	More than 80%	0%	80% or greater	0%

401(k) Plan Activities

Figure 8: Changes in Plan Activities

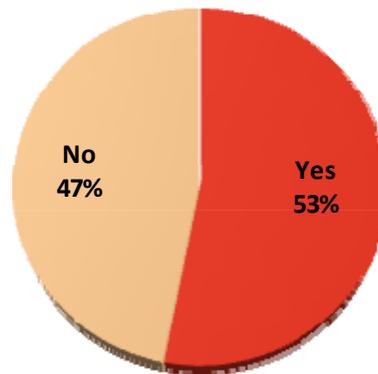
“Please indicate the changes in plan activities, if any, of 401(k) participants in your organization during the past 12 months:” (n=344)

	Increased		Stayed About the Same		Decreased	
	2008	2012	2008	2012	2008	2012
Employee participation rates	24%	30%	63%	66%	13%	4%
Employee contribution percentages	13%	23%	65%	73%	22%	4%
Investment in company stock	9%	5%	55%	74%	37%	21%
Employee withdrawals from plan	32%	20%	66%	76%	2%	4%
Employees taking hardship distributions	43%	25%	56%	67%	1%	8%
Employees taking out loans	49%	37%	49%	58%	2%	5%
Employees seeking employer-provided investment advice	n/a	29%	n/a	70%	n/a	1%

Investment

Figure 9: Investment Advice Provided

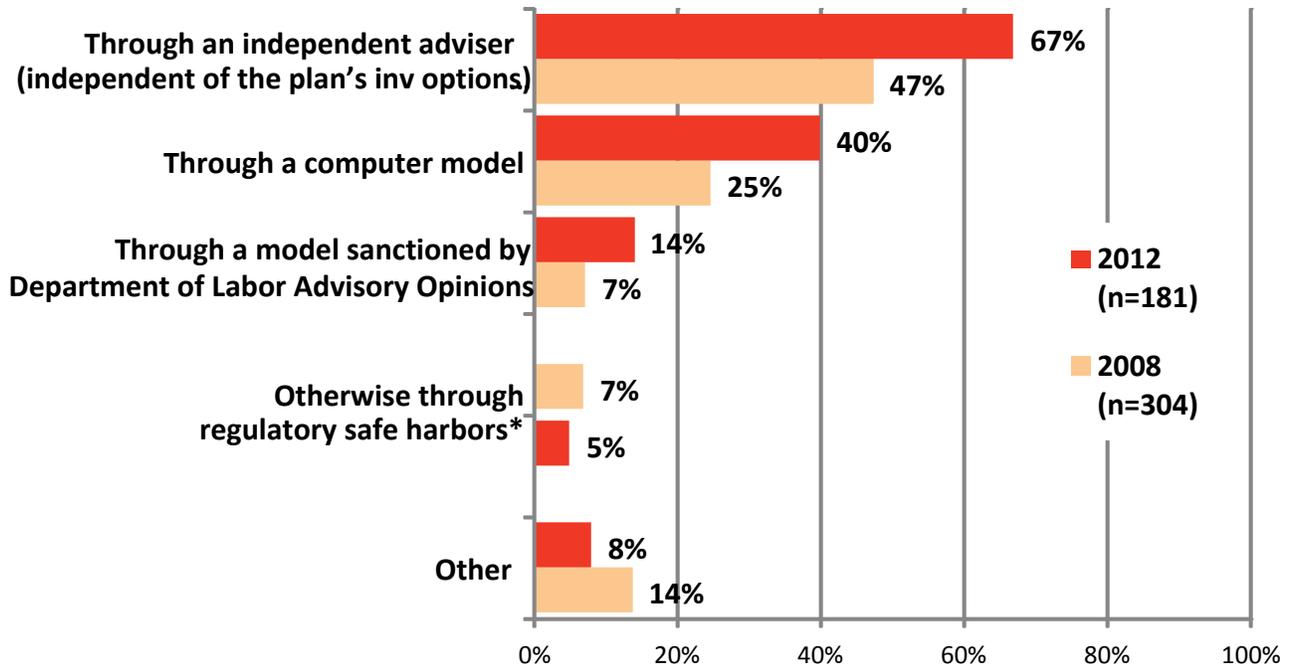
“Does your company provide investment advice services to employees? (Investment advice is defined as professional recommendations or guidance to help participants effectively accumulate and manage their retirement savings.)” (n=356)



Investment Advice Services Provided

Figure 9a: How Investment Advice Is Provided

“If your company provides investment advice, please indicate how the advice is provided. (Check all that apply.)”



*The wording of this response option was slightly modified for 2012 for greater clarification. In the 2008 survey, the response option was “Otherwise through new regulations (e.g. Pension Protection Act of 2006).”

Figure 10: Employee Investment Choices

“How many investment choices does your 401(k) plan offer to employees?”

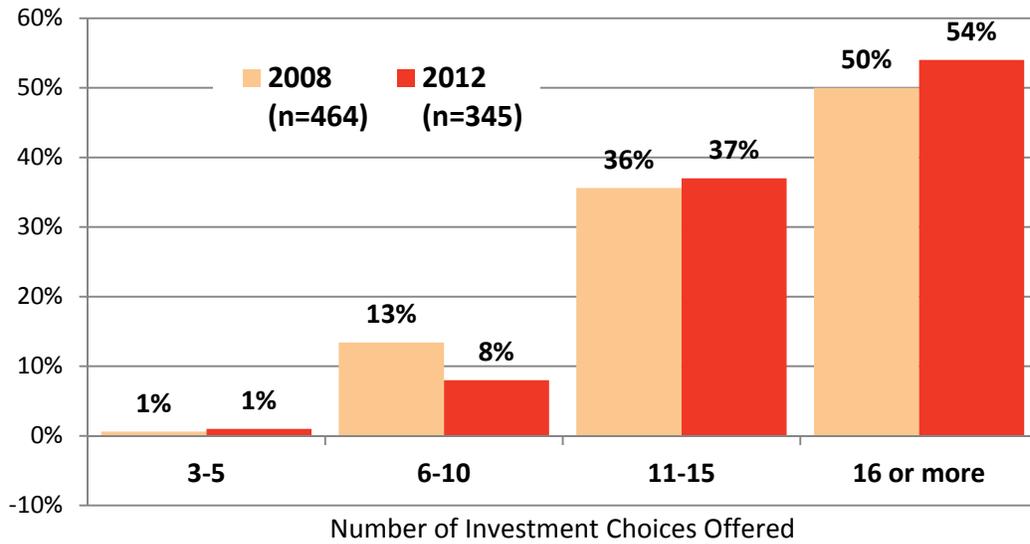


Figure 11: Most Popular Investment Choices

“Please indicate the 3 investment choices most often selected by employees, in terms of the percentage of employees participating. (Choose up to 3.)” (n=335)

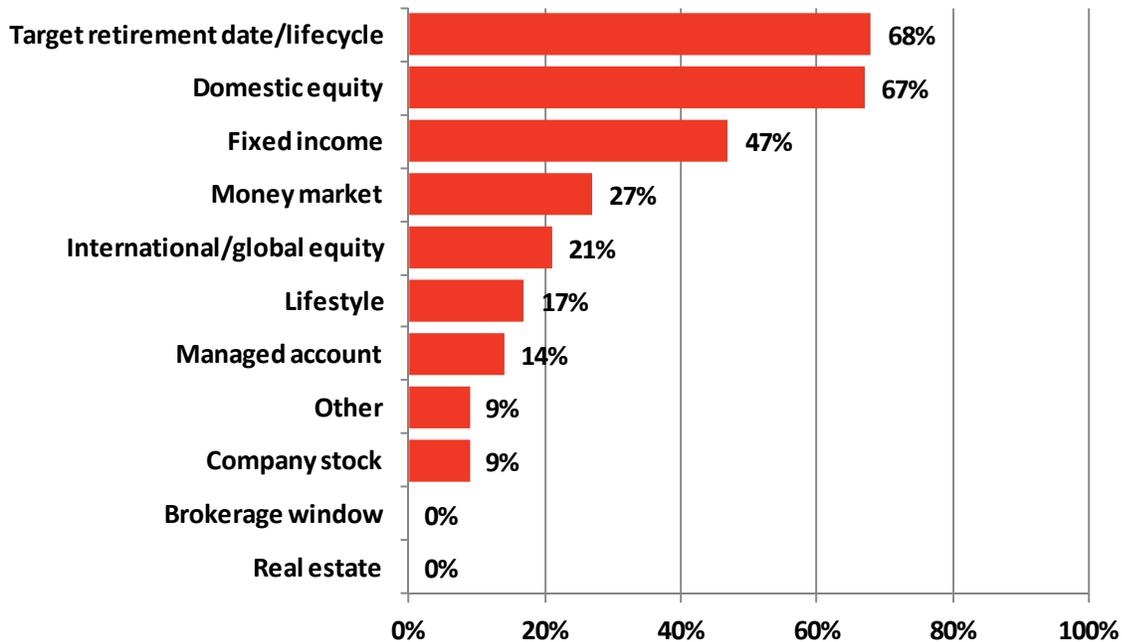


Figure 12: Top Priorities in Employee Investment Selection

“When your company completed its most recent investment menu review, which 3 of the following were the top priorities in renewing or selecting employee investment services? (Choose 1

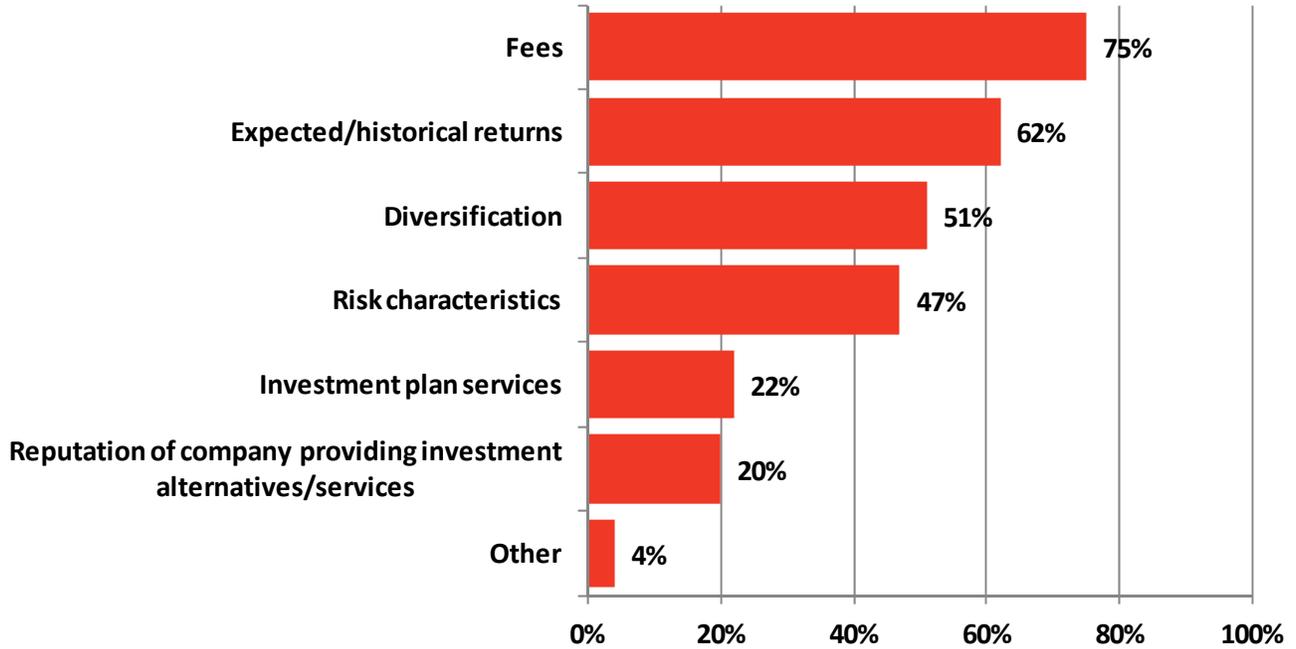
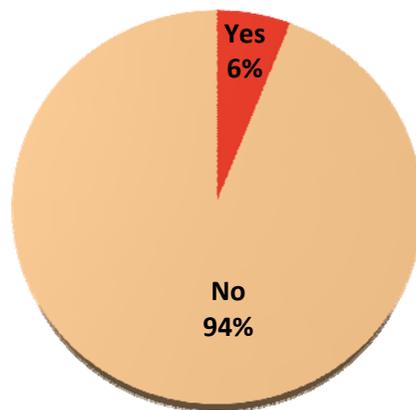


Figure 13: Default Investment Option Change Prevalence

“Has your company changed its default investment option during the past 12 months?” (n=347)



Change in Default Investment Option

Automatic Enrollment

Figure 14: Availability of Automatic Enrollment

“Does your company offer automatic 401(k) enrollment, either with or without an automatic escalation clause? (Note: An automatic escalation is a default increase of the employee contribution each year.)” (n=347)

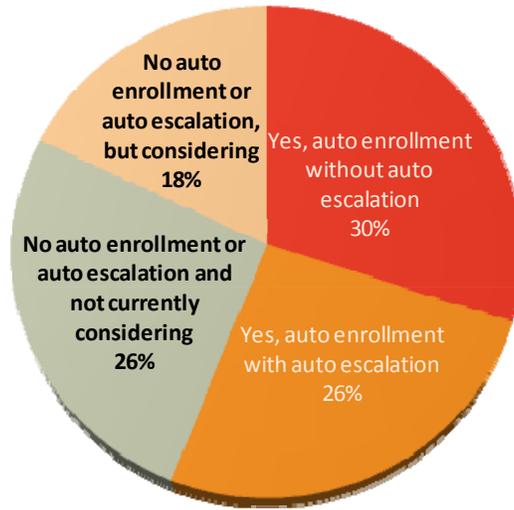


Figure 14a: Initial Default Employee Contribution

“What is the initial default employee contribution under your plan's automatic escalation?” (n=88)

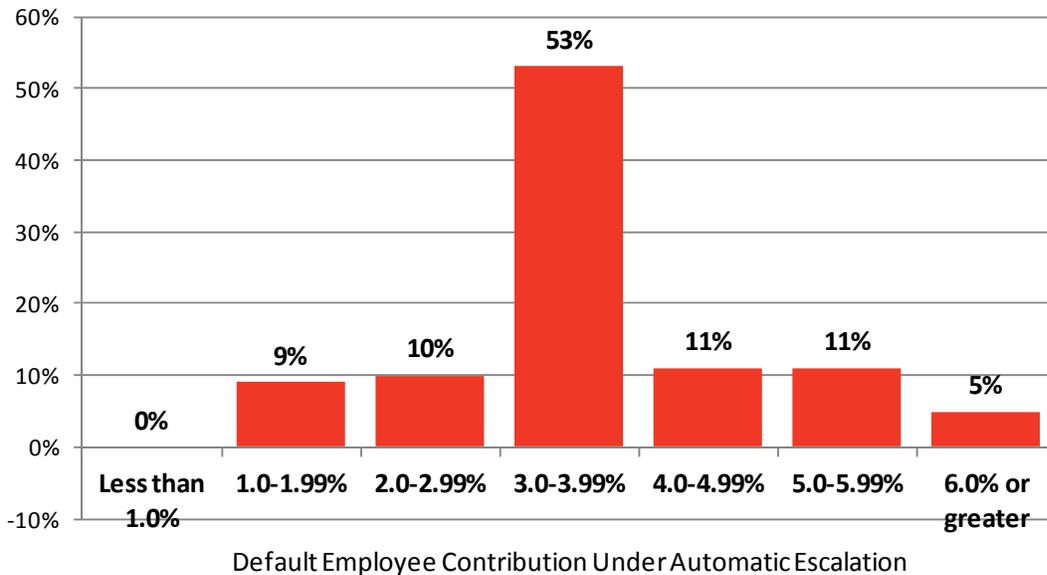


Figure 14b: Annual Escalation Rate

“What is the annual escalation rate?” (n=87)

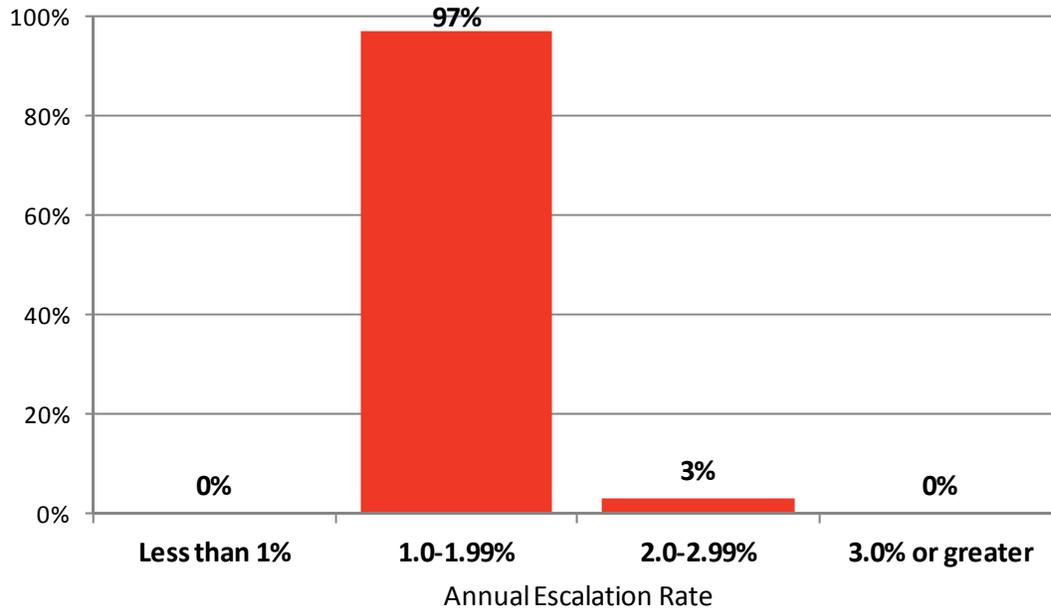
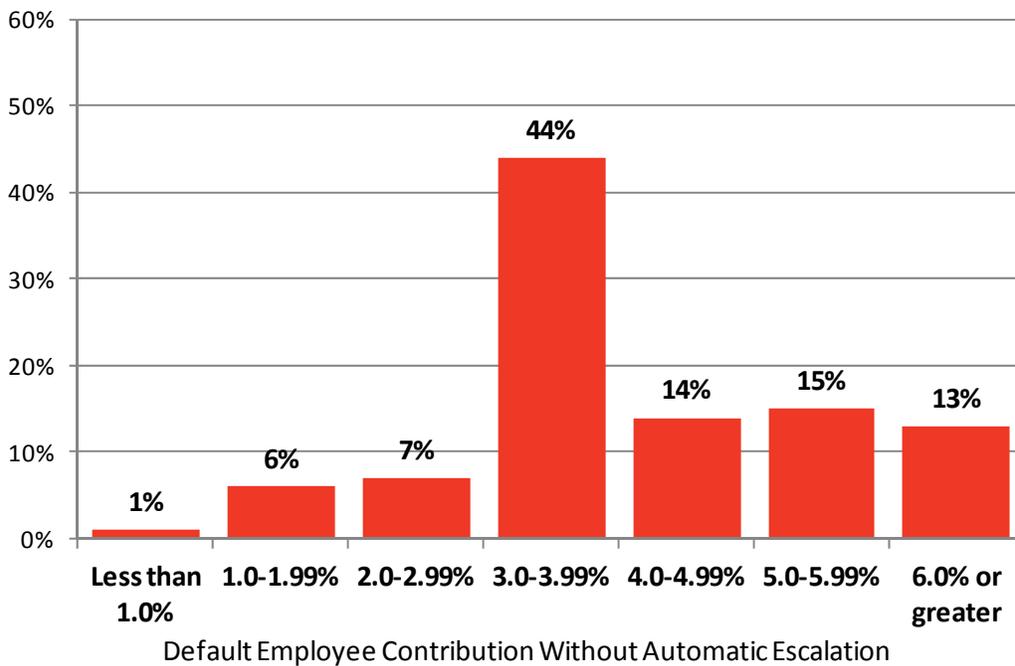


Figure 14c: Current Default Employee Contribution

“If your plan does not include an automatic escalation clause, what is the current default employee contribution?” (n=108)



Lifetime Annuity

Figure 15: Lifetime Annuity Payout Option Prevalence

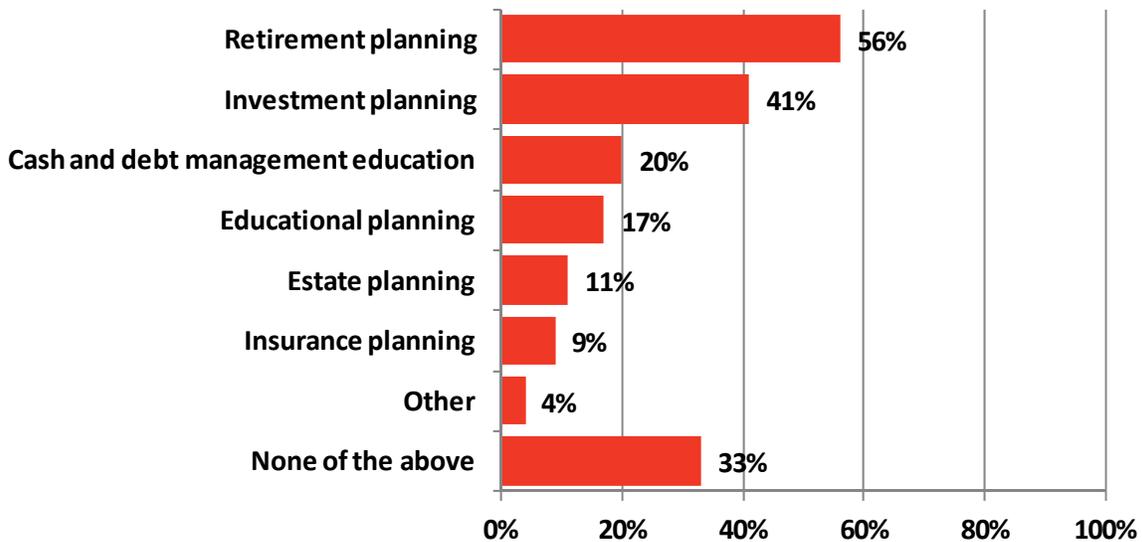
“Does your company currently offer a lifetime annuity payout option with its retirement plan, or are you considering one?” (n=328)

No, we do not currently offer a lifetime annuity payout option and we <i>are not</i> considering it as a future option	60%
No, we currently do not offer a lifetime annuity payout option but we <i>are</i> considering it as a future option	21%
Yes, annuity payout option in our defined contribution (DC) plan	8%
Yes, annuity payout option in our defined benefit (DB) plan	7%
Yes, annuity payout option in both our DB and DC plans	4%

Financial Planning

Figure 16: Financial Planning Offerings

“Which of the following does your organization offer? (Check all that apply.)” (n=334)



401(k) Loans

Figure 17: 401(k) Loan Change Considerations

“With regard to 401(k) loans, which of the following is your organization either allowing or considering? (Check all that apply.)” (n=335)

Longer payback terms after employee leaves or terminates	3%
Increase in number of loans	3%
Additional loan purposes	0%
Other	4%
None	91%

Impact of Fee Disclosure Rules

Figure 18: Fee Benchmarking as a Result of Fee Disclosure Rules

“Have the new fee disclosure rules caused your organization to conduct a fee benchmarking analysis outside of your normal review process?” (n=330)

No	62%
Although we regularly benchmark, the fee disclosure rules caused us to conduct a review outside of our normal process	22%
We are considering it	9%
We do not follow a regular benchmarking schedule, but the new rules caused us to conduct a review	6%

Figure 19: Perception of Fee Disclosure Rule Clarity

“In your opinion, have the new fee disclosure rules made participant communications more or less clear?” (n=330)

Participant communications are neither more nor less clear than prior to the fee disclosure rules	58%
Participant communications are less clear	22%
Participant communications are more clear	20%

Demographics

Figure 20: Organization Size (n=363)

Less than 100 employees	3%
100 - 499	12%
500 - 999	14%
1,000 - 2,499	21%
2,500 - 4,999	18%
5,000 - 9,999	10%
10,000 - 19,999	9%
20,000 or more employees	13%

Figure 21: Respondent's Responsibility Level (n=364)

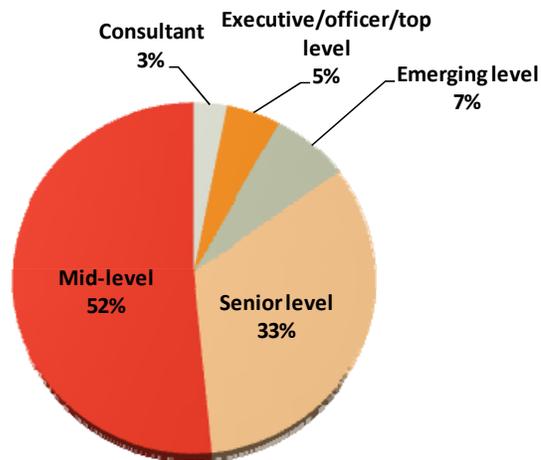


Figure 22: Industry (n=365)

Agriculture, Forestry, Fishing & Hunting	1%
Mining	2%
Utilities	5%
Construction	1%
Manufacturing	18%
Wholesale Trade	2%
Retail Trade	5%
Transportation & Warehousing	3%
Information	2%
Finance & Insurance	10%
Real Estate & Rental & Leasing	2%
Professional, Scientific & Technical Services	7%
Management of Companies & Enterprises	0%
Administrative & Support & Waste Management & Remediation Services	0%
Educational Services	1%
Health Care & Social Assistance	7%
Arts, Entertainment & Recreation	1%
Accommodations & Food Services	2%
Other Services (except Public Administration)	4%
Public Administration	2%
Other	24%