401(k) Benchmarks and Trends

Modernizing a defined contribution (DC) plan—and keeping it flexible—is key in supporting a company's employee recruiting and retention efforts. To help you compare your plan against others, we've prepared this summary of major industry benchmarks and trends.

The 401(k) Plan of the Past…

…Restricted eligibility and investment flexibility. In most cases, employees weren't eligible to participate until they had one year of service and were at least 21 years of age. A one-year-of-service requirement to receive an employer match and five-year cliff vesting were common, and participants typically were only allowed to make contribution or investment election changes once each quarter—by contacting a call center during normal business hours.

Recent trends show that 401(k) plans are changing to allow for more flexibility and a chance for employees to really save for a financially secure retirement.

Snapshot of Today's Employees[1]

- 60% have saved less than $25,000
- Only 57% are currently saving
- Only 44% have calculated savings needs
- 22% expect to retire at age 70 or later

What Are the Emerging Trends in 401(k) Plan Design?[2]

Eligibility – *shorter service requirements*

- A growing number of plans have no service or age requirements: Between 40% and 50% of today's plans have no minimum age requirement.
- Of plans that have an age minimum, about 25% set it at age 18, with a slightly higher number setting it at 21.
- Less than a third of all plans have a one-year waiting period.
- Fifty-five percent of large plans and about 24% of small plans permit immediate eligibility and vesting. The larger the plan size, the less likely there's an age threshold.

Employer match – *shorter service requirements and innovative formulas*

- Some employers are boosting their match from 50 cents per $1 contributed up to 6% of pay, to $1 per $1 contributed up to 6% of pay.
- Innovative (stretch) match formulas are being researched: 25% of first 12% of pay (rather than 50% of first 6%).

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Automatic enrollment – *becoming a standard feature*

- Setting default deferral rate at just 1% or 2% is losing favor.
- More than half of all plan sponsors already have a 3% minimum default deferral percentage (13% have set a 4% deferral rate).
- Setting auto-enrollment deferral rates at 9% or 10%, while rare among plan sponsors, results in about the same opt-out rate as setting them lower.
- A modestly growing number of auto-enrollments now cover all employees, not just new hires.

Automatic contribution escalation – *rising in popularity*

- This feature is likely to become more prevalent in coming years.
- Research shows that many participants aren't contributing enough to take full advantage of the company match.
- Inertia tends to get in the way of participants increasing their contribution rates over time.

Roth 401(k) contributions – *will become more prevalent*

- It's an attractive option for higher-paid employees who are seeking to protect more of their assets from future taxation.
- After setting up the source of after-tax contributions, Roth 401(k)s require very little additional work for the administrator and recordkeeper.

Investment choices – *simplified investment options*

- More plan sponsors and their plan providers are presenting pre-assembled portfolios for participants to consider. Target date funds are also the most common *default option* in automatic enrollment plans.
- Model portfolios designed for conservative, moderate and aggressive investors have not gone out of style.
- Some confusion persists over target date funds, which some participants combine with other funds to pursue what they believe is broader diversification. The right education program—one that shows how target date funds are built—can reduce or eliminate this misperception.

Investment advice – *increasing in availability*

- Increasing numbers of plan sponsors are providing some form of investment advice to participants, from in-person guidance to online tools.
- A recent Aon Hewitt survey found that 44% of employers offered access to third-party online investment advisory services; 33% arranged for telephone access to advisors; and nearly 25% provided in-person meetings with financial advisors.[3]
- Nearly 80% of plan sponsors said that enhancing employee retirement readiness is viewed as a top priority.[4]

Contact Us

If you have any questions about any of the trends discussed and how we can help modernize your plan, please contact us at (xxx) xxx-xxxx or send an email to [Advisor email]. We welcome your input.

[1] Employee Benefit Research Institute, Retirement Confidence Survey, 2014.
[2] 56th Annual Survey of Profit Sharing and 401(k) Plans, Profit Sharing Council, 2013.
[3] *2013 Trends and Experience in Defined Contribution Plans*, 2013, Aon Hewitt.
[4] *Annual 401(k) Benchmarking Survey, 2012 Edition*, 2013 Deloitte Development LLC.