

401(K) Plans

ERC Survey & Review of Current Trends

March 2010

Conducted by ERC

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Overview

In March of 2010, ERC conducted a survey on organizations in Northeast Ohio to determine trends in 401(K) plans. The survey's objective was to provide a snapshot perspective of the most current issues and trends surrounding 401(K) plan administration among Northeast Ohio employers. In addition, a review of current 401(K) practices provided in other recent research on a national level is provided in this report as a reference and comparison.

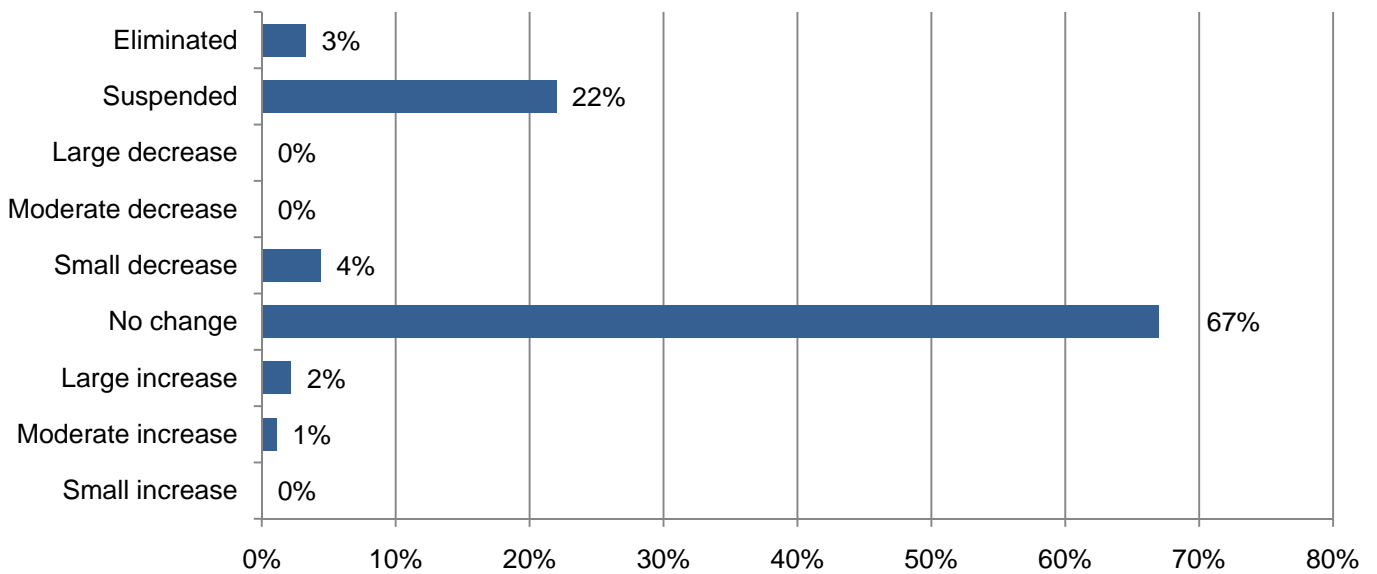
Key findings in the survey

- Sixty-seven percent of employers reported no change in employer contribution last year.
- Many employers report that employee participation or contribution to 401(K) plans has remained largely unchanged in the past year; however, some did report increases or decreases of varying degrees to contribution levels.
- In general, employers are not considering adding annuities to their retirement plans in the future.
- Automatic enrollment and immediate vesting upon hire are not widespread practices among employees.
- Most employers are not offering nor planning to offer IRAs, however, other benefits including the Roth 401(K), profit sharing, and defined benefit 401(K) are more commonly offered.
- The most common barriers to enhancing the effectiveness of 401(K) plans cited by employers are lack of employee understanding and low participation.

Employer Contributions

Similar to the surveys conducted by Deloitte, Towers Watson, and Hewitt Associates on a national level, employers have appeared to take a “wait and see” approach to 401(K) plans. According to ERC’s survey, most Northeast Ohio organizations (67%) made no changes in regards to organizational contributions for their 401(K) plans. Some organizations (22%), however, suspended their contributions/matches. Few employers (3%) reported eliminating their match. Only 4% of organizations decreased their contribution by a small amount. These local trends compare to national trends suggesting that 12% of employers suspended their matching contribution in 2009 (Towers Watson, 2009).

Figure 1 | Changes to employer contributions

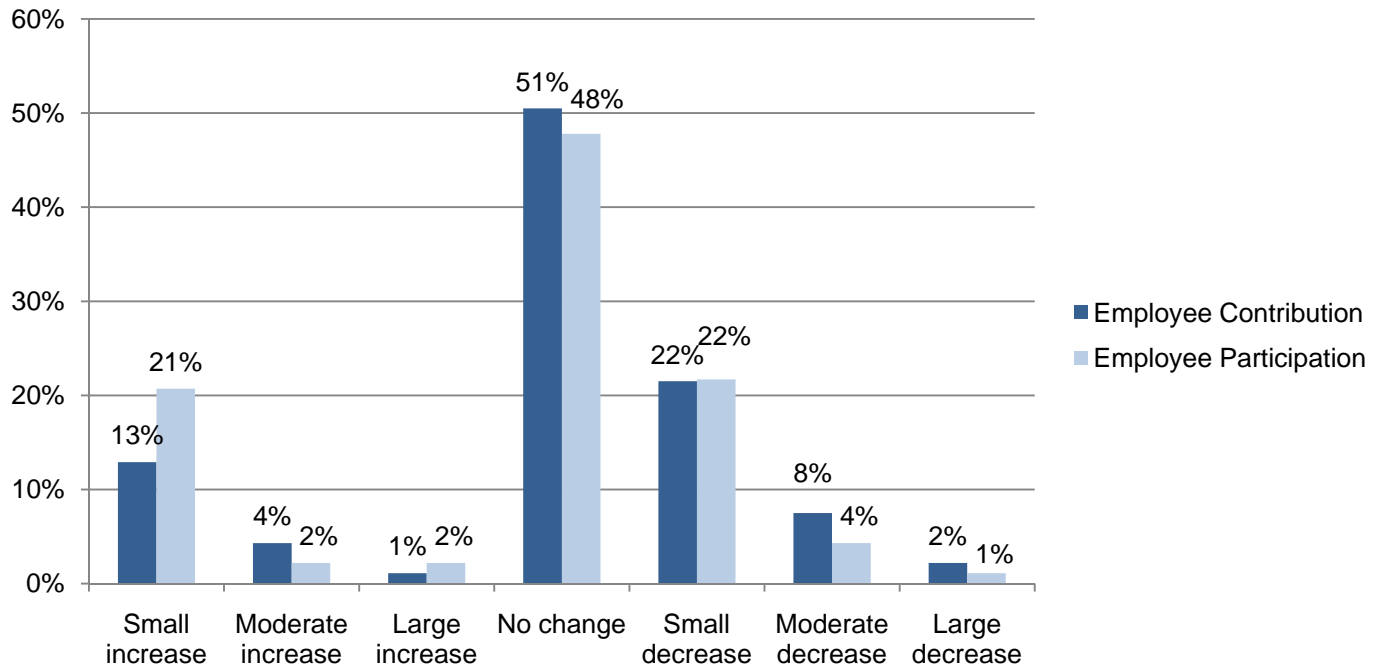


According to ERC’s Economy & HR Survey, some employers that decreased their contribution in 2009 plan to reinstate their contribution (ERC, 2010). Other studies, including one conducted by Hewitt Associates (2010) suggest that 80% of organizations that suspended or reduced their company 401(K) plan matching contributions are planning to restore the match this year.

Employee Contributions & Participation

In the past year, employee contributions to 401(K) plans appear to have remained largely unchanged with some employers reporting increases or decreases. Thirty-two percent of employers reported a decrease – mostly small – in their employee contributions to 401(K) plans. Many employers (51%) reported no change to employee contributions. In the survey, change to employer contribution was moderately correlated with change to employee contribution and participation, signifying that if employers maintained their level of contribution, employees were more likely to maintain their level of participation and contribution. Similarly, if employers decreased, suspended, or eliminated their contribution, employees were more likely to decrease their level of participation and contribution. According to Deloitte’s annual survey on 401(K) trends, 38% of employers reported that their employees decreased their rates last year (Deloitte, 2009).

Figure 2 | Changes to employee contributions

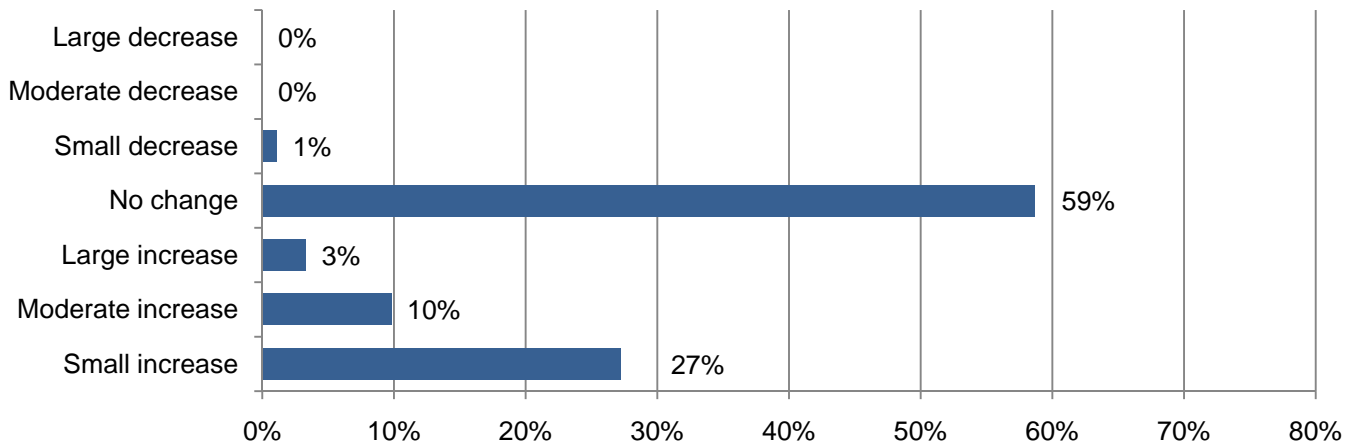


Despite slight changes to employee contributions, employee participation changes vary according to employers. Many organizations have either seen a small increase or small decrease in employee participation within the past year.

Education and Training on 401(K) Plan

Fifty-nine percent of employers report that they have not made any changes to education or training programs on their 401(K). Forty-percent of respondents report providing increases in education/training to varying degrees. Education and training on 401(K) plans often improves participation rates in the 401(K) plan.

Figure 3 | Changes to education or training on 401(K)



Common communication methods used by employers include in-person financial educational seminars, webcasts, investment guidance, online advice, and phone access to advisory accounts (Hewitt Associates, 2010). In fact, Towers Watson (2010) found that employers using more communication methods achieved higher employee participation in their 401(K) programs.

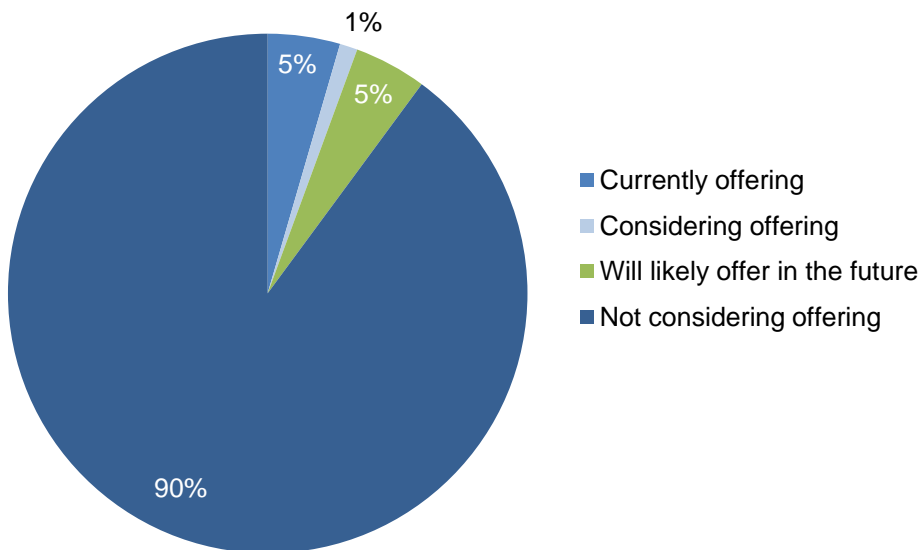
401(K) Plan Features

The majority of organizations (67%) have not made any changes to investment options offered in their 401(K) plans. Approximately 31% have increased investment options by small (15%), moderate (9%), or large (7%) degrees. Few have decreased investment options, with only 1% reporting a small decrease and large decrease. It appears that most employers (48%) offer between 5 and 14 options, according to Towers Watson (2010).

Ninety-eight percent of employers reveal that they have not changed the years of service required to be fully vested in their organization's 401(K) plan.

The Department of Labor is currently researching possible solutions to enhance retirement security, one of which is to promote the use of annuity options. Annuities, however, are not on the forefront of employers' plans for their 401(K) plans, with 90% not considering offering them. Few organizations (5%) currently offer these and say they are likely to offer them in the future. On a national level, 14% of employers appear to offer annuities with 72% reporting that they are at least somewhat unlikely to offer them in the future (Hewitt Associates, 2010).

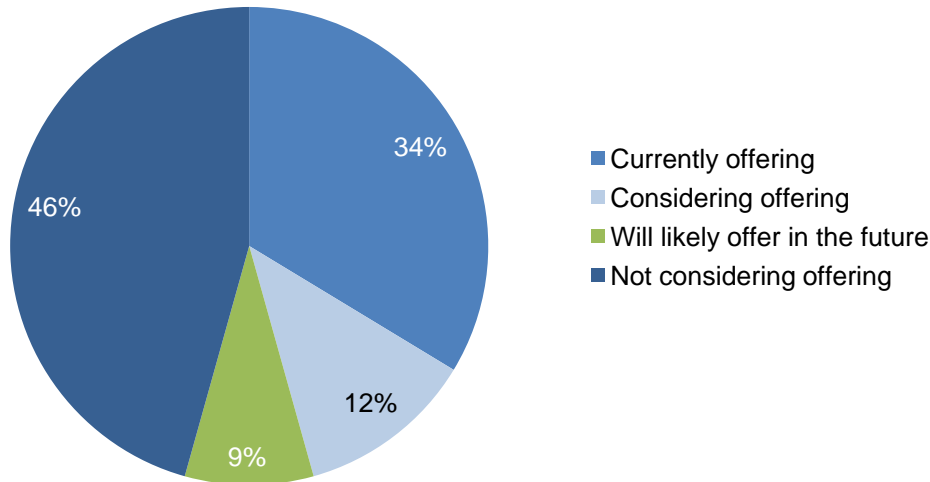
Figure 4 | Annuities



Automatic Enrollment

Automatic enrollment remains a fairly common practice among employers with 34% currently offering it, 12% considering offering, and 9% saying they will likely offer it in the future. Forty-six percent of organizations are not considering offering automatic enrollment. Results of Hewitt Associates' survey on national trends in 401(K) plans suggest that 59% of employers offer automatic enrollment with 12% likely to offer it (Hewitt Associates, 2010). Similarly 51% offer automatic enrollment according to a Towers Watson survey (Towers Watson, 2009). In either case, Northeast Ohio employers appear to slightly lag the national trend were the majority of employers are automatically enrolling employees in 401(K) plans. Employers say that automatic enrollment generally has increased their participation in 401(K) plans (Deloitte, 2009).

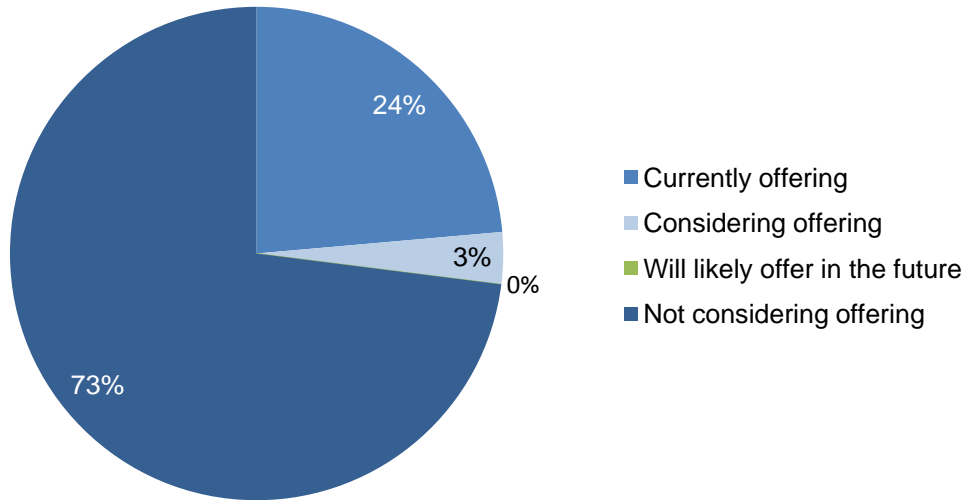
Figure 5 | Automatic Enrollment



Immediate Full Vesting

Most organizations (73%) are not considering offering immediate full vesting upon hire. Approximately 24% are considering offering this feature to their programs. Forty-percent of employers in Deloitte’s study offered immediate full vesting upon hire (Deloitte, 2009).

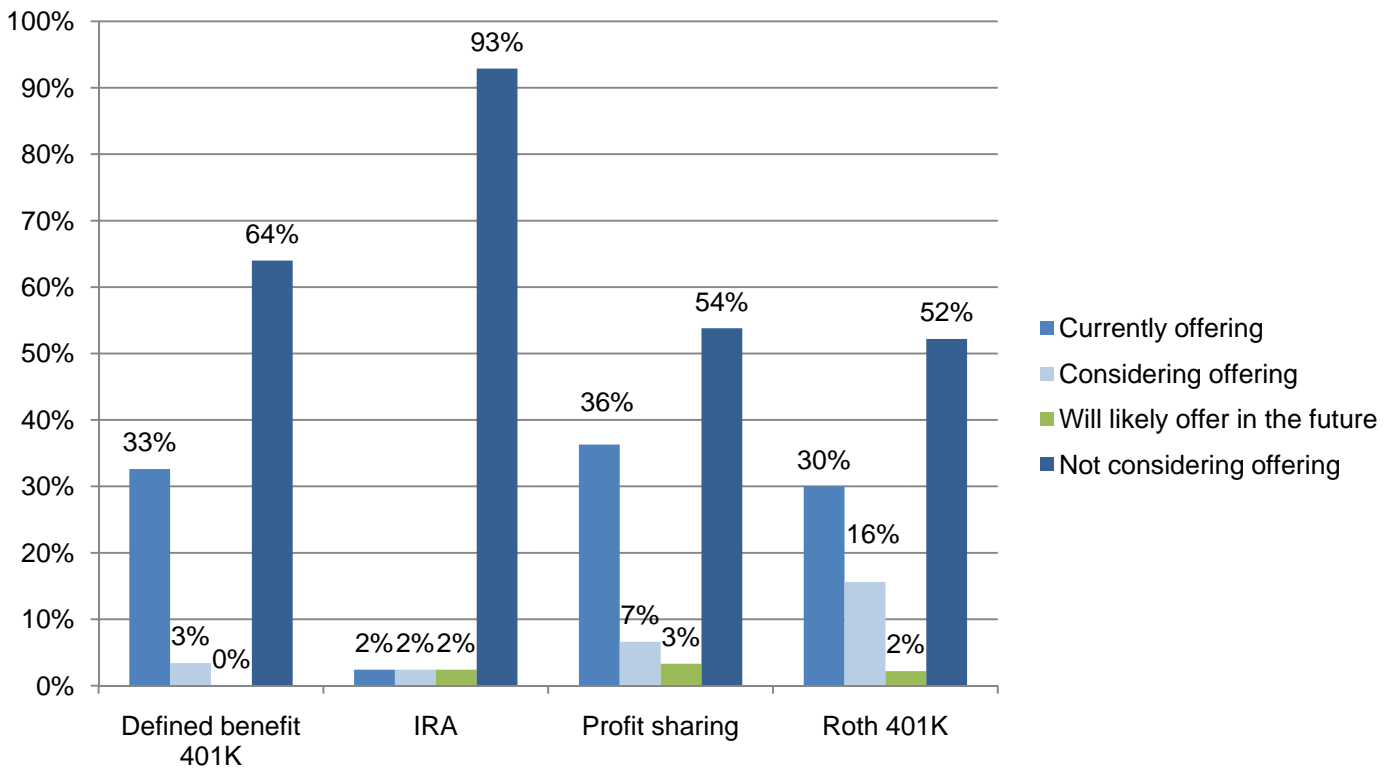
Figure 6 | Immediate Full Vesting Upon Hire



Additional Benefits to 401(K)

In regards to plans offered in addition to the 401(K), most employers are either currently offering an additional plan or not considering offering anything additional. IRAs are not commonly offered by 93% of respondents and most have no intention of offering them. Defined benefit 401(K)s, profit sharing, and Roth 401(K)s are offered by 30% or more respondents. On a national level, 29% of employers are offering Roth 401(K)s with 12% planning to offer it (Hewitt Associates, 2010).

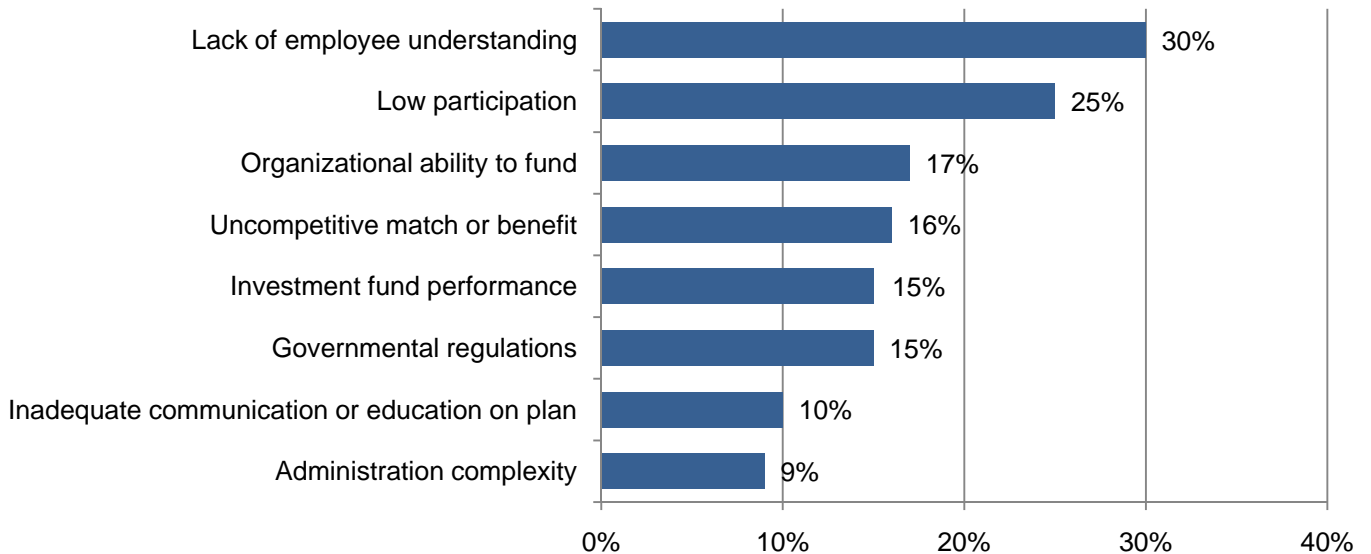
Figure 7 | Plans offered in addition to 401(K)



401(K) Plan – Looking Toward the Future

Employers cite that the current barriers to enhancing the effectiveness of their organization’s 401(K) plan include lack of employee understanding (30%) and low participation (25%). Employers also stated other barriers to their 401K plan effectiveness which included employee fear and reluctance to participate in the 401(K) due to the economic challenges of the past year and lack of employee willingness to learn and take an active role in their 401(K) plan participation. Several employers reported that their programs were doing well with solid employee participation and that no barriers currently exist. The results compare similarly on a national level, as nearly a quarter (23-24%) of employers claim employee usage and lack of understanding are primary obstacles to enhancing the effectiveness of the plan (Hewitt Associates, 2010).

Figure 8 | Current barriers to enhancing the effectiveness of organization’s 401(K) plan



Education and communication are common ways that employers improve employee understanding and increase participation in 401(K) plans. Hewitt’s study appears to suggest that employers are planning to enhance communication practices surrounding 401(K) plans. Employee communication and enhancing their understanding of the organizations’ retirement plan features appears to be a significant priority for employers (Hewitt Associates, 2010) to enhance the effectiveness of their plans.

Respondent Demographics

Ninety-three (93) organizations in Northeast Ohio participated in the survey; a breakdown of the industries and sizes they represent is provided below.

Figure 9 | Respondent demographics by industry and organizational size

	Percent
Industry	
Manufacturing	49%
Non-Manufacturing	37%
Non-Profit	14%
Organizational size	
1-50	23%
51-200	52%
201-500	16%
501+	9%

About ERC

ERC is Northeast Ohio's largest organization dedicated to HR and workplace programs, practices, training and consulting. ERC membership provides employers access to an incredible amount of information, expertise, and cost savings that supports the attraction, retention, and development of great employees. We also host the nationally recognized NorthCoast 99 program and sponsor the ERC Health insurance program. For more information about ERC, please visit www.ercnet.org.

Sources

ERC (2010). 2010 Economy & HR Survey.

Hewitt Associates (2010). Hot Topics in Retirement: 2010.

Towers Watson (2009). Managing Defined Contribution Plans in the Current Environment.

Deloitte (2009). Annual 401(K) Benchmarking Survey: 2009 Edition

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