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Report to the Chairman, Subcommittee On Civil Service, Committee On Government Reform and Oversight, House of Representatives

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PRIVATE PENSIONS

Plan Features Provided By Employers That Sponsor Only Defined Contribution Plans

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The Honorable John L. Mica
Chairman, Subcommittee on Civil Service
Committee on Government Reform and Oversight
House of Representatives

Dear Mr. Chairman:

In accordance with your interest in considering possible changes to the structure of federal employee retirement plans, you asked that we develop information on the approaches private employers are using to provide retirement benefits to their employees, the extent to which these approaches may be changing, and the specific features of these pension plans. In partial response, we reported on the trends in the numbers and types of pension plans sponsored nationwide by private employers in October 1996.[1]

As agreed with the Subcommittee, this report, which completes our work in response to your request, identifies the general features of defined contribution (DC) plans in the private sector. DC plans provide retirement benefits that are based on employer and/or employee contributions to individual employee accounts and the investment experience of those accounts. Specifically, this report describes patterns in the plans' (1) eligibility requirements for employee participation, (2) arrangements for employer and participant contributions, (3) eligibility requirements for employee rights to accrued benefits, (4) employee investment options, (5) loan and other provisions for participant access to plan assets while still employed, and (6) options for withdrawal of benefits upon separation or retirement. Consistent with the Subcommittee's interest, this report also presents information on the six features for the Thrift Savings Plan (TSP)—the defined contribution plan component of the Federal Employees Retirement System (FERS)—for comparison. Also as agreed, this report summarizes the explanations provided in retirement literature and by pension experts with whom we consulted on why employers might decide to sponsor more than one pension plan for the same groups of employees.

We developed data on the features of pension plans sponsored by a representative sample of private employers with 100 or more employees that sponsored only single-employer DC plans in 1993 by reviewing summary plan descriptions (SPD)—documents describing plans' features

[1]Private Pensions: Most Employers That Offer Pensions Use Defined Contribution Plans (GAO/GGD-97-1, Oct. 3, 1996).

that private employers were to file with the Department of Labor (DOL) for each pension plan they sponsored. We also report on the subset of employers with 10,000 or more employees because these employers may provide a more relevant comparison with the federal government. Using a computerized research database maintained by DOL, we also developed information on the number of plans offered by all employers with two or more employees that sponsored only single-employer DC plans in 1993 as well as other information useful for our analysis.[2] All the numbers presented in this report are point estimates of population values and have an associated sampling error of not more than 10 percent at the 95-percent confidence level unless otherwise specified. As agreed with the Subcommittee, because we obtained our plan information from published SPDs rather than directly from employers, we generally were able to describe how employers structured their DC plans to the extent that the information was available in these descriptions, and we were not able to provide the rationale behind the employers' decisions regarding plan design. We gathered the information on TSP that is presented in this report from published documents.

Background

Employer-sponsored pension plans, in combination with Social Security and personal savings, provide millions of retirees and their families with retirement income. As we reported in our October 1996 report, most employers that sponsor pension plans provide benefits using a DC plan.[3] For a DC plan, the employer establishes an individual account for each eligible employee and generally promises to make a specified contribution to that account each year. Employee contributions are also often allowed or required and can be made on either a pretax or after-tax basis. Pretax contributions are not taxed in the year they are earned, but rather, they are taxed when withdrawn from the employee's account. After-tax contributions are taxable in the year that they are earned as part of the employee's annual income. Employers can make "matching" contributions, which are made only if employees also contribute to their accounts, and/or "nonmatching" contributions that are made regardless of whether or not employees contribute to their accounts. The employee's retirement

[2]In 1993, approximately 490,000 employers with 2 or more employees sponsored only single-employer DC plans. For reasons described in appendix I, our sample of 419 employers was drawn from the subset of 3,297 of these employers that had 100 or more employees.

[3]In 1993, approximately 44 million employees participated in private single-employer pension plans, and about 20 million (or 45 percent) of these participants were covered by plans of employers that sponsored only DC plans. Both of these statistics include only those participants covered by employers' primary plans to prevent double-counting of participants covered by more than one plan; however, the statistics undercount the number of participants covered when employers offer multiple plans to different groups of employees.

benefits depend on the total of employer and employee contributions to the account as well as the account's investment gains and losses.[4]

In the early 1980s, Congress began to consider a new retirement system for federal civilian employees that would be more like private sector retirement systems and include a DC plan component. As a result, in 1986 the Federal Employees' Retirement System Act was enacted, which closed the Civil Service Retirement System (CSRS) to new entrants and established FERS for employees generally hired after December 31, 1983.[5] FERS is a three-tiered program that includes a basic annuity in addition to the defined contribution TSP and Social Security.[6] Although FERS provides an annuity in addition to Social Security and DC pension benefits, many financial planners believe that under current market conditions income from participant and government contributions to TSP alone could generate 50 percent or more of the retirement income available to most FERS participants. Thus, it may be useful for policymakers to know how the features of TSP compare with the features of private sector DC plans.

In comparing the features of private and public sector pension plans, it is important to consider key differences between private and public employers. Notably, private sector employers can deduct the cost of providing pension benefits from their taxable revenues. To qualify for these tax advantages, however, private employers must be in compliance with complex and frequently changing laws and regulations. Public employers need not comply with all of the rules that private employers face in designing and modifying their pension systems. Public sector pension benefits must be legislated, and changes to retirement programs for public employees involve political as well as business, financial, and human resource management issues.

[4]Private employers are not required to provide their employees with pension benefits; however, those employers that do so must meet certain minimum legal standards. In particular, under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, private employers that provide pension benefits are to manage pension plan funds prudently and in the best interests of participants and their beneficiaries, inform participants of their rights and obligations, and adequately disclose the plan's terms and activities. ERISA also provides certain minimum standards for various plan features, including those discussed in this report.

[5]For a more complete description of the legislative history of FERS, its early implementation, and features see Federal Pensions: Thrift Savings Plan Has Key Role in Retirement Benefits (GAO/HEHS-96-1, Oct. 19, 1995) and Federal Retirement: Implementation of the Federal Employees Retirement System (GAO/GGD-88-107, Aug. 4, 1988).

[6]Although employees covered by CSRS can contribute to TSP, the government does not make contributions to their accounts. In this report, we describe TSP as it applies to employees covered by FERS to more fully describe all of its features.

Notwithstanding the different environments in which private and public pensions evolve, it is also important to recognize that all employers that sponsor pension and other employee benefit programs do so for the same underlying business and financial reasons, which include to (1) attract and maintain an effective workforce in a competitive marketplace, (2) motivate employees to work towards meeting their employers' goals, and (3) manage the transition of older employees from work to retirement.

Results in Brief

The designs of DC plans for the 3,297 employers with 100 or more employees that sponsored only single-employer plans in 1993 varied greatly with respect to eligibility requirements, contribution arrangements, accrual of benefits, investment options, loan provisions, and withdrawal options so that no single plan design could be identified as representing a "typical" DC plan. With respect to eligibility requirements, the employers reported that they generally established eligibility requirements that their employees must satisfy to participate in their plans. In 1993, 51 percent of the employers specified that employees must meet a combination of age and service requirements—usually age 21 and 1 year of service. Fifty-five percent of the 100 larger employers with 10,000 or more employees reported requiring that employees meet length of service requirements, generally 1 year of service, with no corresponding age requirements. Under the federal government's TSP, newly hired employees covered by FERS must have from 6 to 12 months of federal service before they become eligible to participate.

Ninety-seven percent of the 3,297 employers provided for employer contributions to the plan rather than requiring participants to fully fund their own pensions. Under the most common funding arrangement, employers made automatic, or nonmatching, contributions to the plan with no participant contributions allowed or required. The subset of 100 larger employers were more likely to allow participants to contribute to their plans on a pretax basis, with the most common funding arrangement consisting of employer nonmatching, matching, and participant pretax contributions—the same arrangement provided for under the federal TSP. Fifty-one percent of the employers that provided for pretax contributions (and 60 percent of the larger employers) allowed participants to contribute more than 10 percent of their salaries, whereas federal employees who participate in TSP are limited to contributing 10 percent of their basic pay on a pretax basis.

Employers generally did not include enough information in their SPDs to allow us to determine the maximum potential cost, or liability, of making employer contributions, expressed as a percentage of compensation. Moreover, we could not determine an employer's liability for contributions without also knowing the portion of these contributions that were used to reduce the employer's corporate tax liability in any given year. However, for the 27 percent of the employers for which we could determine the liability for contributions, not taking corporate taxes into consideration, 59 percent had a liability of up to 5 percent of participant compensation, and 41 percent had a liability of 6 percent or more of participant compensation.[7] For the subset of larger employers, 76 percent had a liability of up to 5 percent of participant compensation, and 24 percent had a liability of 6 percent or more of participant compensation. In comparison, the government's maximum potential liability for contributions under TSP is 5 percent of participant compensation, assuming participants contribute at a rate that maximizes government matching contributions.[8]

Although by law participants have always owned their own contributions (and earnings on those contributions) to DC plans, employers have often established minimum service requirements that participants were required to meet before they could own, or become "vested" in, employer contributions to the plan. About one-third of the employers provided for immediate vesting of matching contributions and one-eighth for immediate vesting of nonmatching contributions. The subset of employers with 10,000 or more employees were more likely to use immediate vesting for matching (52 percent versus 35 percent) and nonmatching contributions (23 percent versus 13 percent) compared with all of the employers included in our review.

The employers used vesting requirements that generally required fewer years of service for employees to own matching contributions, as compared with nonmatching contributions. That is, 44 percent of employers provided for participants becoming fully vested in matching contributions within 4 years, while 22 percent provided for full vesting for nonmatching contributions within the same time period. Federal employees are immediately vested in any government matching contributions made to their accounts, and most become fully vested in the

[7]Because we were able to determine the liability for contributions for only a small portion of the employers in our sample, these estimates have a sample error of 15 percent.

[8]In 1996, federal agencies contributed about $2 billion to FERS employees' TSP accounts.

government's automatic 1 percent nonmatching contribution after completing 3 years of service.

A significant portion of the employers did not specify in their SPDs whether participants could direct how the contributions made to their accounts were invested, although the subset of larger employers were more likely to so specify. The majority of those employers that specified participants could direct the investment of their accounts and specified the number of investment options available in their SPDs provided at least four investment options. These employers frequently included investment options such as employer stock, stock mutual funds, and bond mutual funds. Federal employees who participate in TSP may direct the investment of their accounts using three funds—a nonmarketable government securities fund, a diversified stock fund, and a diversified bond fund. Two additional funds—an international and a small company stock fund—are scheduled to become available in 2 to 3 years.

Nearly two-thirds of the employers reported providing plan participants access to a portion of their account balances prior to separation from employment. Nearly half allowed participants to borrow from their accounts up to certain legal limits, and some also allowed participants to withdraw some or all of their own contributions, usually in the event of a personal financial hardship. The larger employers were somewhat more likely to allow participants to borrow from their accounts or make financial hardship withdrawals; however, they were less likely to allow withdrawals for reasons other than financial hardship. The federal TSP includes a loan program and allows participants to make hardship withdrawals and a one-time withdrawal at age 59½ or later without separating from federal service.

Nearly all the employers allowed participants to take their account balances as a lump-sum distribution when they retired; while two thirds allowed participants to withdraw their accounts in even installment payments over some specified period of time, and nearly half provided for an annuity that would produce a regular monthly payment for the rest of a participant's life. The subset of larger employers were less likely to provide an installment or annuity option in their plans. Employers generally provided the same withdrawal options to participants who separated for reasons other than retirement; however, most of these participants could opt to defer any withdrawal from their accounts until some future date not to exceed the year following the year in which they turn age 70½. TSP allows federal employees to select from all three withdrawal options—a lump-sum distribution, installment payments, or an annuity. Federal employees who separate from the government before retirement may also choose to defer their withdrawal until the year following the year in which they turn age 70½.

A small portion (12 percent) of the approximately 490,000 employers with 2 or more employees that sponsored only single-employer DC plans also sponsored more than one DC plan for the same groups of employees. Employers with fewer than 100 employees were more likely to sponsor multiple plans covering the same groups of employees than employers with 100 or more employees. Experts with whom we consulted suggested that smaller employers might be better able to manage multiple plans because they had fewer accounts to manage, while larger employers might be more likely to offer multiple plans to compete with other employers. According to pension experts with whom we consulted and pension-related literature, private employers design their pension programs principally to control costs, maximize federal tax incentives, and comply with ERISA, as amended, while at the same time structuring their compensation and benefits to support their overall business and financial goals.

Scope and Methodology

To provide the requested information on patterns in plans' features, we reviewed SPDs—documents that all private employers were to file with DOL for each pension plan they sponsored—for a sample of private sector employers with 100 or more employees that sponsored only single-employer DC plans to supplement their employees' Social Security retirement benefits. We stratified our sample by employer size using 3 groups—employers with 100 to 999 employees, 1,000 to 9,999 employees, and 10,000 or more employees. Because of the larger sampling error associated with the first two strata, we reported on two groups—all the employers in our sample and the subset of larger employers with 10,000 or more employees, the one stratum for which our sample included the entire population of such employers. Because DOL officials told us that the Department would not be able to provide SPDs for all the employers in our sample, we requested SPDs from DOL and directly from the employers.[9] As a result, we were able to obtain and analyze 281 SPDs—67 percent of the 419 employers in our sample. In considering the representativeness of the sample of employers for which we had obtained SPDs, we found that the

[9]Officials told us that DOL did not monitor or enforce employer compliance with the SPD filing requirement because of limited resources and other competing priorities. Effective August 5, 1997, with the passage of the Taxpayer Relief Act of 1997, private employers subject to ERISA are required to file copies of their SPDs with DOL only upon request.

281 employers were generally comparable to our universe of 3,297 employers, in terms of employer size, industry type, and geographic region.

We also analyzed pension plan information that was available from DOL's research database from which we had selected our sample of employers to provide additional information on the plans' features. To provide information on TSP, we reviewed summary documents published by the Federal Retirement Thrift Board.

As agreed with the Subcommittee, we limited the scope of our analyses involving SPDs to those employers with 100 or more employees. Also as agreed, our review included the largest primary plan offered by private employers that sponsored only DC plans in 1993, the most recent data available at the time of our review. We included only single-employer plans in our analyses, because the research database did not identify all of the employers associated with each multiemployer plan. Unless specifically noted, the estimates presented in this report are generalizable to the population of employers with 100 or more employees that sponsored only single-employer DC plans in 1993 with a sampling error of no more than 10 percent at the 95-percent confidence level.[10]

Also, as agreed with the Subcommittee, we did not independently verify the accuracy of the information (1) described in the SPDs or (2) contained in the DOL research database. Moreover, we could not confirm that the SPDs provided by DOL represented the most up-to-date information for each DC plan in our sample. Lastly, due to differences such as those described in the background section of this report, pension plan experiences in the private sector may not be applicable to the federal government.

To provide information on the use of multiple plans, we used the DOL research database to identify the number of private employers with two or more employees that sponsored more than one DC plan to provide benefits for the same groups of employees in 1993. We did not independently verify DOL's criteria for identifying plans in their research database as primary versus supplementary. To obtain insights on what factors employers may consider in deciding whether to sponsor multiple plans, we reviewed retirement-related literature and consulted with pension experts, which we selected on the basis of prior work we had done on private sector pensions.

[10]Approximately 8 million participants are covered by plans sponsored by the employers in our population.

Appendixes I and II provide more detailed information on our objectives, scope, and methodology and the results obtained, respectively.

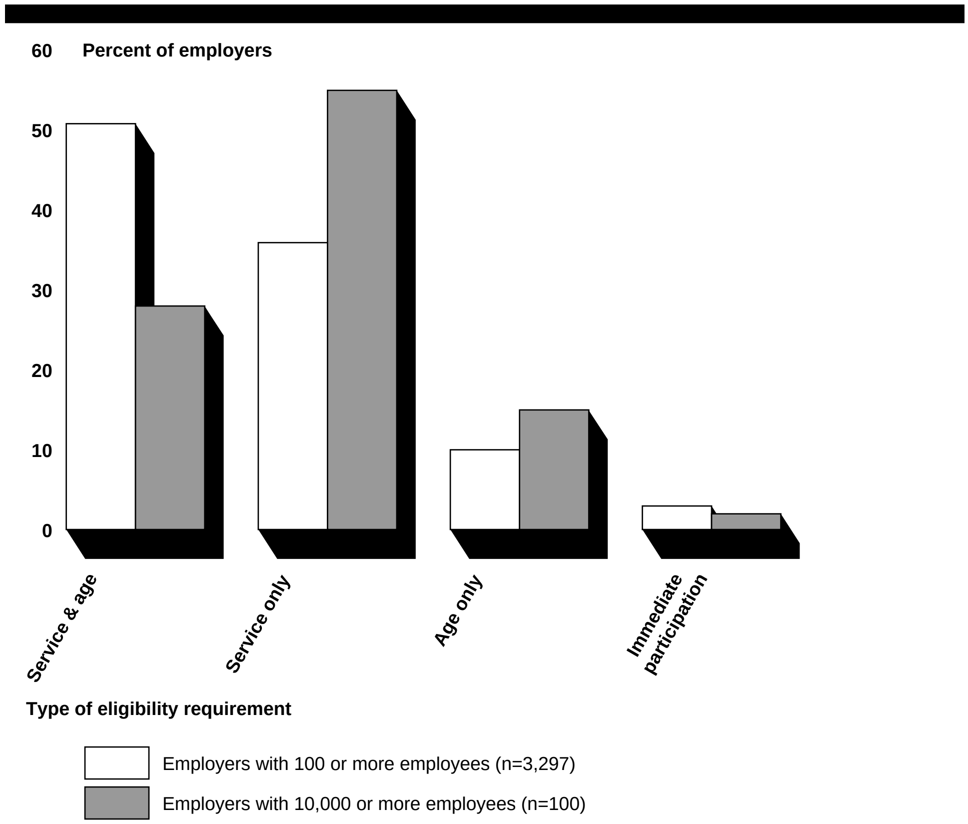
We requested comments on a draft of this report from the Secretary of Labor. These comments are discussed at the end of this letter. We did our review in Washington, D.C., from October 1996 to July 1997 in accordance with generally accepted government auditing standards.

Eligibility Requirements

Employers that sponsor DC plans generally establish certain minimum age and/or service requirements that employees must meet before they are allowed to participate in these plans. These eligibility requirements allow employers to reduce the administrative costs associated with establishing individual accounts for employees. Flexibility to establish minimum participation requirements may be especially useful to employers facing high turnover rates. Such requirements allow employers to use their resources to benefit employees who are more likely to remain with the employer for the long term. Under ERISA, as amended, employers cannot require employees to be over age 21 or to have completed more than 1 year of service with the employer. However, an exception applies to plans where participants immediately own all employer contributions made to individual accounts—employers may require that employees complete 2 years of service to be eligible to participate in these plans.

Of the 3,297 employers with 100 or more employees that sponsored only single-employer DC plans in 1993, 51 percent (1,673 employers) reported using some combination of age and length of service to determine when an employee was eligible to participate in the plan. The most common combination, which was used by 73 percent of these 1,673 employers, was that an employee must be age 21 with 1 year of service—the legal limit. For the 100 larger employers, 55 percent used only length of service to determine eligibility (with most requiring 1 year of service), while 28 percent used a combination of age and service (with 93 percent requiring an age of 21 and 1 year of service). Figure 1 shows the distribution of employers according to the type of eligibility requirement used.

Figure 1: Percentage of Employers Using Various Eligibility Requirements, by Employer Size (1993)



Source: GAO analysis of SPD data (see app. II, table II.1).

Although the summary plan documents did not provide information on the rate of participation among covered employees, we were able to determine the percentage of employees with active accounts in 1993 for 2,127 (or 65 percent) of the employers in our review using DOL's research database. For these employers, 74 percent had a participation rate of 76 to 100 percent, 18 percent had 51 to 75 percent participation, 4 percent had 26 to 50 percent participation, and 4 percent had 25 percent participation or less. We could determine the participation rate for 72 of the larger employers. These employers showed a considerably lower rate of participation—15 percent had a participation rate of 76 to 100 percent, 24 percent had 51 to 75 percent participation, 15 percent had 26 to 50 percent participation, and 47 percent had 25 percent participation or less. A high or low rate of participation may be a reflection of whether or not employers contributed to their plans. According to experts with whom we consulted, employers that reported 100 percent participation generally made contributions automatically to participant accounts.

Newly hired federal employees covered by FERS are eligible to participate in TSP during the second open season after they are hired. Two open seasons are held each year (May 15 to July 31 and November 15 to January 31); thus, the minimum service required to participate ranges from 6 to 12 months. The government establishes and makes automatic contributions to accounts for all eligible employees covered by FERS. As of March 1997, 83 percent of eligible FERS employees made contributions to their accounts.

Types of Employer and Participant Contributions

DC plans are funded by means of employer and/or participant contributions. Employer contributions can be based on the amount a participant contributes (i.e., matching contributions), on some other criteria unrelated to participant contributions (i.e., nonmatching contributions), or on some combination of the two. For example, an employer could make matching contributions by providing $1 for each dollar a participant contributes up to a specified maximum. Alternatively, an employer could make nonmatching contributions determined on the basis of annual profitability or a specified percentage of participant compensation.

In addition to employer matching and nonmatching contributions, participants may be allowed or required to contribute to their DC plan. Plans can provide for participant contributions to be made on a pretax or after-tax basis or on some combination of the two. For pretax contributions, employers generally reduce a participant's salary by an agreed upon amount and contribute these funds directly to the participant's DC account, thereby allowing the participant to defer paying income taxes on this portion of their salary until the funds are withdrawn from the account, presumably at or during retirement.

Regardless of the type(s) of contributions employers and/or participants make to the plan, each employer must ensure that total contributions to participant accounts do not exceed certain legal limits set by ERISA, as amended. Specifically, the annual dollar contribution limit to a DC participant account is the lesser of $30,000, or 25 percent of participant compensation.[11] Moreover, participant pretax contributions are limited to $9,500 per year and participant after-tax contributions may be limited to allow employers to satisfy certain nondiscrimination rules.[12] Contributions that are calculated as a percentage of participant compensation are limited to including a maximum annual compensation of $160,000. Each of the above limits is indexed to the consumer price index to adjust for changes in the cost of living over time.

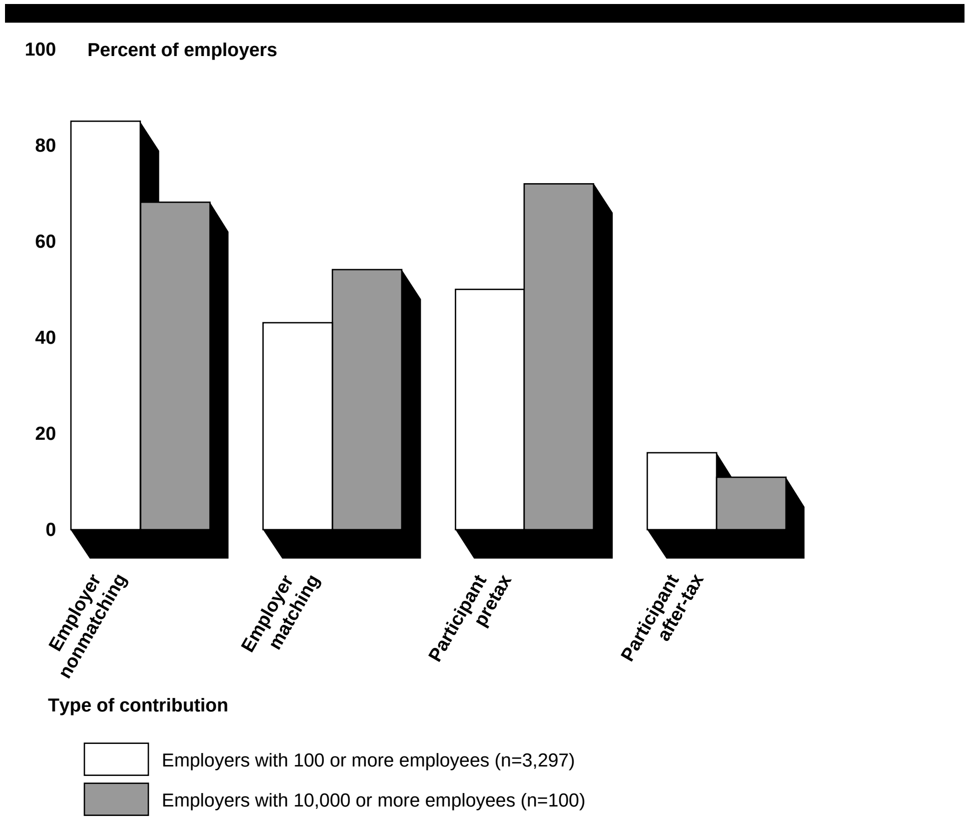
Most Employers Contribute to Their DC Plans

Of the 3,297 employers with 100 or more employees that sponsored only single-employer DC plans in 1993, 97 percent reported providing for matching and/or nonmatching contributions to the plan, and 1 percent funded the plan solely on the basis of participant contributions. For the 100 larger employers, 94 percent provided for employer contributions, and 6 percent provided only for participant contributions to the plan. Thus, most employers that sponsor only DC plans contribute towards their employees' retirement benefits rather than require that their employees bear the entire cost. As shown in figure 2, 85 percent of the 3,297 employers provided for employer nonmatching, 43 percent for employer matching, 50 percent for participant pretax, and 16 percent for participant after-tax contributions. For the 100 larger employers, 68 percent of employers provided for employer nonmatching, 54 percent for employer matching, 72 percent for participant pretax, and 11 percent for participant after-tax contributions.

[11]Special limits are applicable through December 31, 1999, for employers that sponsor both basic annuity and DC plans covering the same group of employees.

[12]Nondiscrimination rules are designed to ensure that employers only receive tax advantages for those pension plans that provide coverage to a broad base of their employees rather than to highly-paid employees or managers of the company exclusively.

Figure 2: Percentage of Employers That Provide for Various Types of Contributions, by Employer Size (1993)



Note: Because employers can provide for more than one type of contribution to a plan, percentages do not add to 100 percent.

Source: GAO analysis of SPD data (see app. II, table II.2)

The two most common arrangements for employer and participant contributions were to provide for (1) employer nonmatching contributions and no participant contributions (41 percent) or (2) employer matching and nonmatching contributions plus participant pretax contributions (25 percent). None of the other arrangements were used by more than 8 percent of the employers that sponsored only single-employer DC plans.

The subset of larger employers were more likely to provide for participant pretax contributions to their plans than the overall group of employers in our review—72 percent versus 50 percent, respectively. The most common contribution arrangements were also somewhat different for these employers. Specifically, 26 percent of the larger employers provided for matching, nonmatching, and participant pretax contributions—the same arrangement provided under TSP for those federal employees covered by FERS; 23 percent provided for nonmatching contributions only; 18 percent provided for matching and participant pretax contributions; and 11 percent provided for nonmatching and participant pretax contributions. None of the other combinations of contributions were used by more than 6 percent of the larger employers. Table II.2 (see app. II) provides more details on the combinations of contributions that the employers specified in their SPDs.

The employers that provided for matching contributions to their plans used a wide variety of matching arrangements. For example, employers applied different limits on what level of participant contributions would be eligible to receive a match, matched different amounts of each dollar contributed by participants, and sometimes provided different matching contributions for different levels or types of participant contributions.

Of the 1,410 employers that provided for matching contributions, 815 employers (and 32 of the subset of larger employers) specified the level of participant contributions that they were willing to match and the amount of matching contributions that would be provided for each participant dollar contributed. Of these employers, 60 percent offered to match participant contributions that did not exceed 5 percent of the participants' compensation, and 40 percent offered to match participant contributions that did not exceed 6 percent or more of compensation. Fifty-eight percent of the employers matched 50 cents or less for each eligible participant dollar contributed, and 42 percent matched more than 50 cents for each eligible participant dollar contributed.[13] How an employer combined these two factors—the amount of participant contributions eligible to be matched and the level of matching contributions provided for each eligible participant dollar contributed—determined the maximum potential amount of an employer's matching contributions. Our analyses showed that employer matching practices were not related to participant contribution eligibility practices. That is, employers did not provide a high rate of matching contributions only when the percentage of eligible participant contributions was low, nor did they provide a low rate of matching contributions only when the percentage of eligible participant contributions was high.

[13]Because only a small portion of the employers in our sample provided for matching contributions and specified the maximum level of participant contributions eligible for employer matching contributions and the rate of matching contributions provided for each dollar participants contributed, the sample errors for these estimates are 15 percent.

Of the larger employers, 45 percent offered to match participant contributions that represented up to 5 percent of their compensation, and 55 percent offered to match participant contributions that represented 6 percent or more of compensation. Further, 62 percent of the larger employers matched $1 or more for each eligible participant dollar. In comparison, TSP provides for government matching contributions on participant contributions not exceeding 5 percent of compensation, and the government match equates to 80 cents for each eligible dollar of participant contribution, assuming participants contribute at least 5 percent of their salary.[14]

For the 2,786 employers that provided for nonmatching contributions to their plans, 45 percent specified that the dollar amount to be contributed to participant accounts would be determined on the basis of some percentage of annual profits, while another 45 percent specified that the dollar amount would be determined on the basis of some percentage of participant compensation. Seventy-nine percent of these employers did not specify in their SPDs the exact percentage that would be used to determine nonmatching contributions. Similarly, of the 68 larger employers that provided for nonmatching contributions to their plans, 45 percent determined nonmatching contributions on the basis of profits, and 36 percent, on the basis of participant compensation. Sixty-six percent of these larger employers did not specify the exact percentages used to determine nonmatching contributions. TSP provides for government nonmatching contributions equal to 1 percent of employee compensation for those employees covered by FERS.

Most Employers Allow Participants to Contribute to Their DC Plans

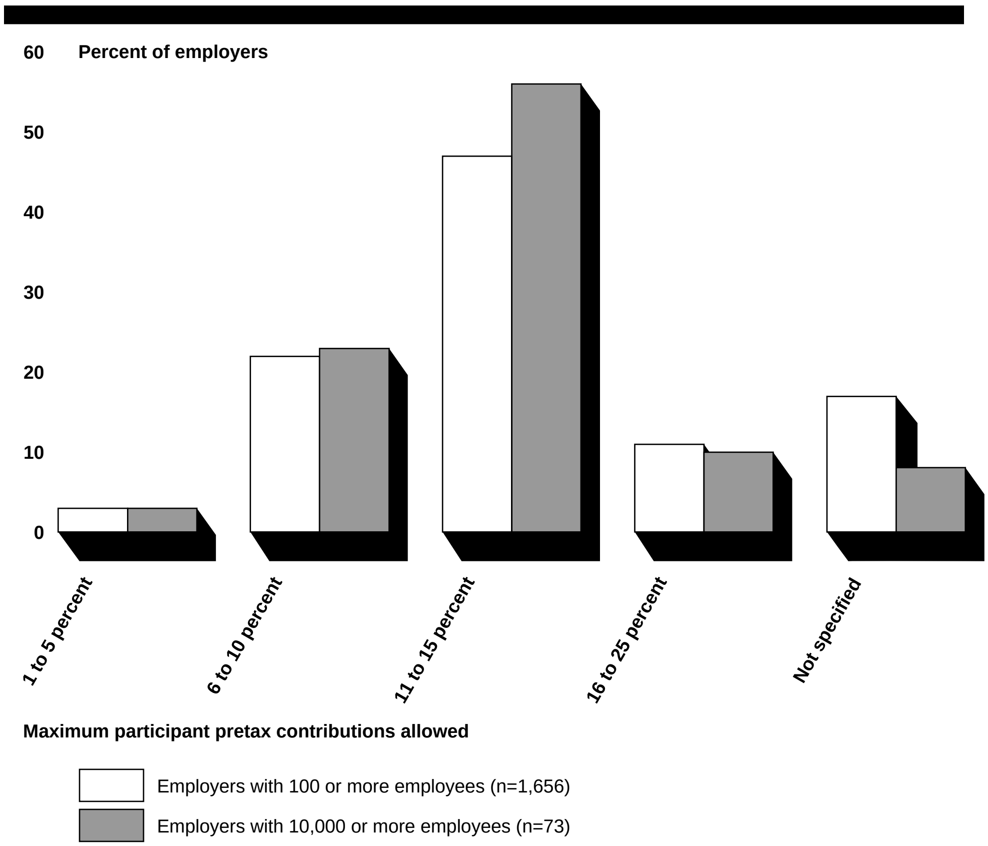
Of the 3,297 employers that sponsored only single-employer DC plans to provide pensions for their employees, 1,862 (or 56 percent) of these employers allowed participants to make contributions to their plans. Of these 1,862 employers, 71 percent allowed participants to contribute on a pretax basis, 18 percent on either a pretax and/or after-tax basis, and 11 percent on an after-tax basis. Seventy-three of the 100 larger employers provided for participant contributions—85 percent of these 73 employers allowed pretax contributions, and 15 percent allowed both pretax and after-tax contributions.

[14]TSP provides for matching contributions using a graduated schedule—participants covered by FERS receive a dollar-for-dollar match on the first 3 percent of salary that they contribute and a 50 cents match for each dollar contributed for the next 2 percent of salary. Thus, participants who contribute less than 5 percent of their salary experience a higher overall level of match for each dollar contributed. For example, if participants contributed 3 percent of their salary to the plan, they would receive a dollar-for-dollar match from the government.

Of the 1,656 employers that provided for pretax contributions (and thus allowed participants to shelter a portion of their income from current taxation as well as accumulate savings for retirement), 51 percent allowed participants to contribute more than 10 percent of their annual compensation to the plan (not to exceed the Internal Revenue Service limit). Similarly, 60 percent of the 73 larger employers that provided for pretax contributions allowed participants to contribute more than 10 percent of their annual compensation to the plan. Federal employees covered by FERS are allowed to contribute up to 10 percent of their basic pay on a pretax basis to TSP, up to the current legal maximum of $9,500.[15] Figure 3 shows the maximum participant pretax contributions allowed for plans sponsored by employers that only offer single-employer DC plans.

[15]Basic pay is the rate fixed by applicable law or regulation before any deductions. Basic pay (1) includes locality-based comparability payments and certain categories of differential or premium pay and (2) excludes other types of pay, including bonuses, allowances, overtime, and holiday pay.

Figure 3: Percentage of Employers That Provide for Various Levels of Participant Pretax Contributions (1993)



Source: GAO analysis of SPD data (see app. II, table II.8).

Most Employers Did Not Specify Their Liability for Contributions in Their SPDs

Of the 3,297 employers included in our review, 883 (or 27 percent) of the employers included enough information in their SPDs to allow us to calculate the maximum potential cost, or liability, of making employer contributions—matching, nonmatching, or both—to their plans. Thus, our results regarding employer liability for contributions are not generalizable to all the employers included in our review. Of the 883 employers, 59 percent had a liability of up to 5 percent of participant compensation, and 41 percent had a liability of 6 percent or more of participant compensation (with the greatest liability being 18 percent).[16]

An employer's actual liability for contributions may be less than the potential maximum in any given year for a variety of reasons, including

[16]Because we could only determine the employer's liability for contributions for a small portion of the employers in our sample, these estimates have a sample error of 15 percent.

when participants do not contribute enough to maximize employer matching contributions or when employers elect to contribute less than the maximum allowable nonmatching contributions in any given year. Moreover, an employer's effective cost of contributions cannot be determined without knowing what portion of those contributions may have been deducted from the employer's corporate taxes in any given year.

We could determine the maximum employer liability for contributions for 38 of the 100 larger employers. Of these 38 employers, 76 percent had a liability of up to 5 percent of participant compensation, and 24 percent had a liability of 6 percent or more of participant compensation. In comparison, the government's maximum potential liability for contributions for employees covered by FERS is 5 percent of compensation—consisting of up to 4 percent in matching contributions plus 1 percent in nonmatching contributions. In 1996, government agencies contributed about $2 billion to FERS employees' TSP accounts.

Vesting

Participants of DC plans accrue the right to pension benefits, or become "vested," by meeting certain requirements established by employers. By law, participants are always fully vested in any pretax or after-tax contributions that they make to their accounts, whether these contributions are voluntary or mandatory. Thus, employer vesting requirements apply only to the participant's right to employer-matching and/or nonmatching contributions. ERISA, as amended, requires that participants become fully vested in 100 percent of employer contributions to their accounts (1) within 5 years if the employer uses "cliff" vesting, where no rights to benefits are earned in prior years or (2) within 7 years if the employer uses "graduated" vesting, where rights to benefits are earned gradually over the period starting no later than the third year. Employers may also use more liberal vesting requirements if they choose. For example, immediate vesting occurs when an employer sets no vesting requirements. Employers can use vesting schedules to reduce the cost of providing pension benefits to employees who do not remain with an employer for at least 5 to 7 years.

Of the 1,410 employers with 100 or more employees that sponsored only single-employer DC plans in 1993 and made matching contributions to their plans, 1,374 employers specified vesting requirements in their SPDs. Of these 1,374 employers, 56 percent reported using graduated vesting;

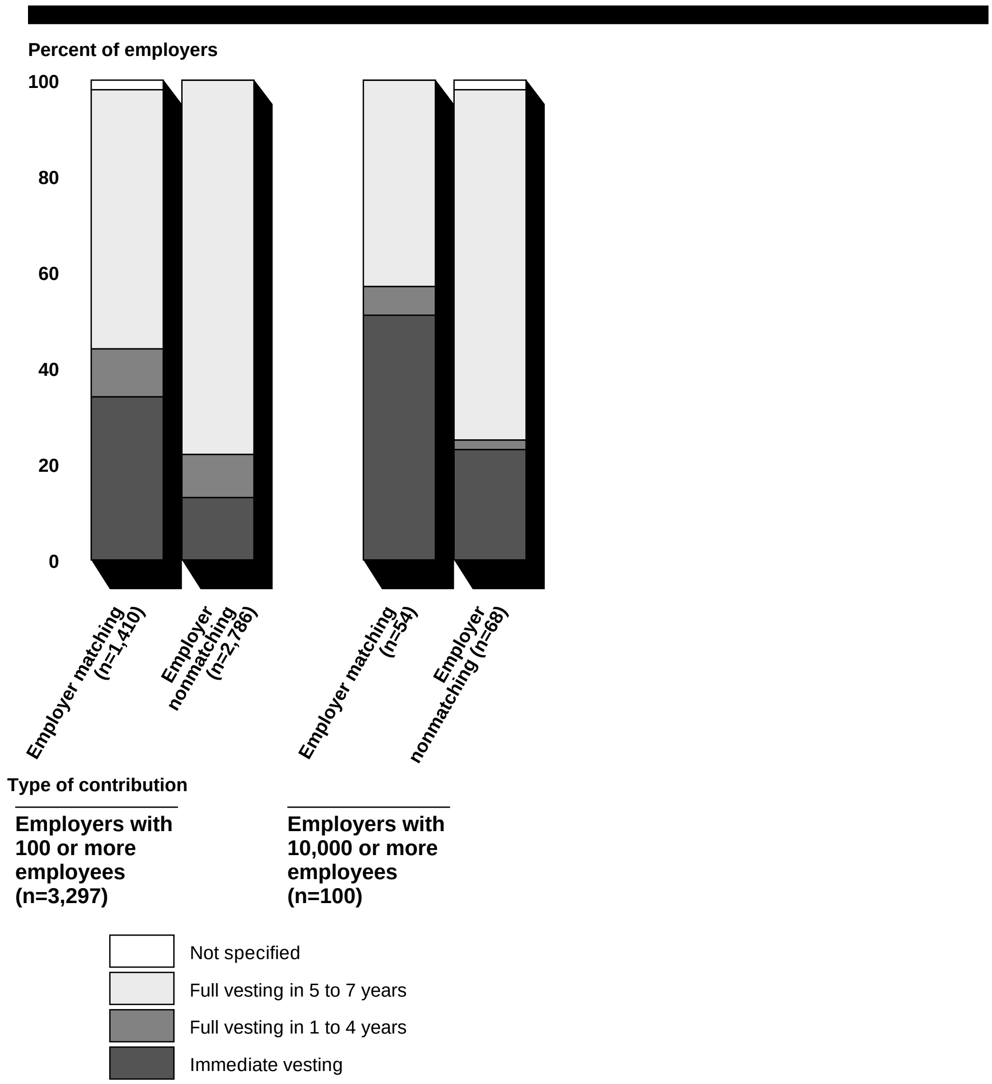
35 percent, immediate vesting; and 9 percent, cliff vesting.[17] Larger employers were more likely to use immediate vesting—52 percent used immediate vesting, 26 percent used graduated vesting, and 22 percent used cliff vesting. Of the 2,786 employers that made nonmatching contributions to their plans, 2,755 employers specified vesting requirements in their SPDs. Of these 2,755 employers, 70 percent used graduated vesting, about 17 percent used cliff vesting, and 13 percent used immediate vesting. For the larger employers, about 51 percent used graduated vesting, 26 percent used cliff vesting, and 23 percent used immediate vesting.

Regardless of the type of vesting schedule used, employers generally used more liberal schedules for matching contributions compared with nonmatching contributions. Forty-four percent of the 1,410 employers that provided for matching contributions specified that participants became fully vested in these contributions within 4 years, while 22 percent of the 2,786 employers that provided for nonmatching contributions specified that participants became fully vested in these contributions within the same time period. Similarly, 57 percent of the subset of larger employers provided for employees to become fully vested in any matching contributions within 4 years, compared with 25 percent for nonmatching contributions within the same time period. Federal employees covered by FERS are immediately vested in any matching contributions, and most become fully vested in the automatic 1 percent nonmatching contributions after completing 3 years of service.[18] Figure 4 shows the length of time to full vesting for employer-matching and nonmatching contributions for plans sponsored by employers that only offer single-employer DC plans.

[17]Because only a small portion of the employers in our sample provided for matching contributions and specified vesting requirements in their summary plan descriptions, the sample errors for these estimates are no greater than 11 percent.

[18]FERS employees in congressional and certain noncareer positions become vested in the automatic 1 percent nonmatching contributions after completing 2 years of service.

Figure 4: Percentage of Employers That Require Various Lengths of Service for Full Vesting in Matching and Nonmatching Contributions, by Employer Size (1993)



Source: GAO analysis of SPD data (see app. II, table II.10).

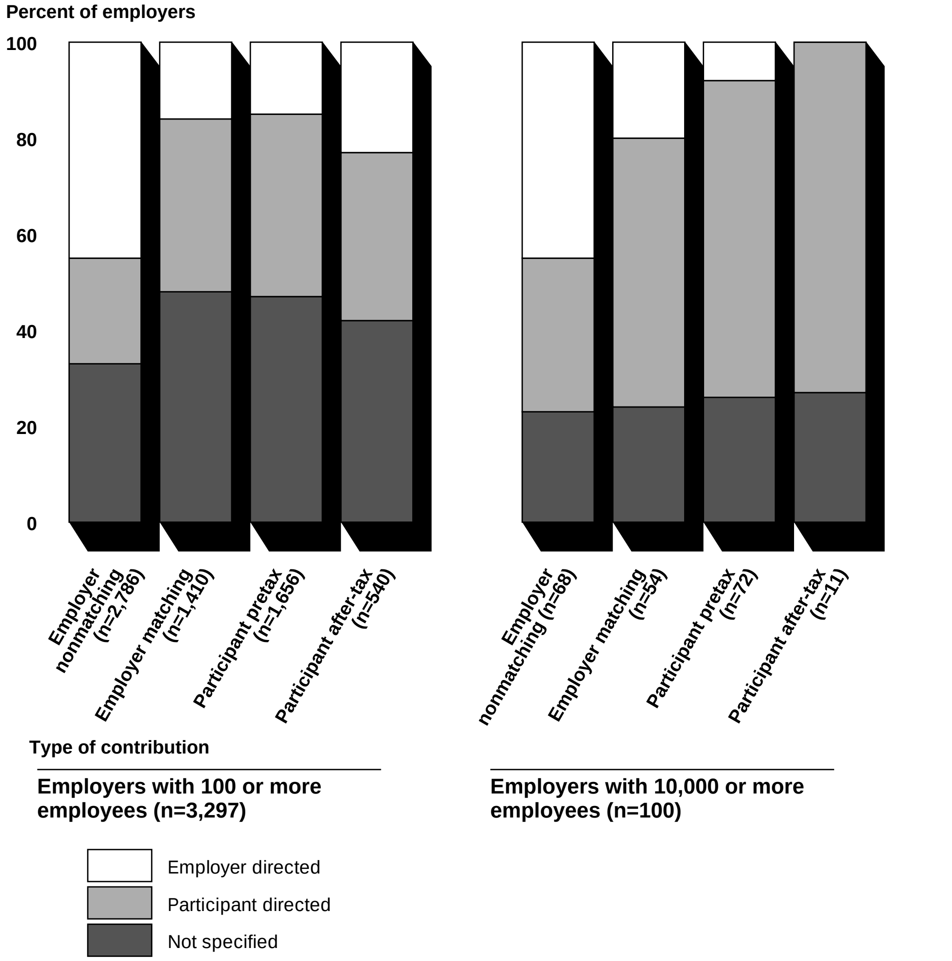
Using DOL's research database, we were able to determine the proportion of participants who were fully vested in 1993 for 2,825 (or 86 percent) of the employers in our review. For these employers, more than half of the current employees were fully vested for 62 percent of the plans, while half or less of the employees were fully vested for 38 percent of the plans. For the 83 larger employers for which we were able to determine the percentage of fully vested participants, the proportion of plans with more than half and half or less of participants fully vested were virtually the same as for all employers—63 percent and 37 percent of employers, respectively.

Investment of Contributions

By law, employers that sponsor DC plans can either invest employer and participant contributions made to the plan, or they can allow participants to direct the investment of their own accounts. Employers that provide for "participant-directed" accounts in their plans must meet certain DOL regulations to insulate themselves from being liable for any losses that result from a participant's exercise of investment control. Specifically, employers that allow participants to direct their own accounts must offer a broad range of investment alternatives, consisting of at least three diversified investment alternatives, each having different risk and return characteristics. Moreover, participants must be allowed to change their investment decisions at least once in every 3-month period. Employers must also provide participants with descriptive information on each investment option, including risk and return characteristics, transaction fees and expenses, and copies of prospectuses.

A considerable portion of the employers with 100 or more employees that sponsored only single-employer DC plans in 1993 did not specify in their SPDs whether participants could direct the investment of contributions made to their accounts, as shown in figure 5. As also shown, the larger employers were more likely to specify who could direct the investment of each type of contribution. For those employers that did report on who could direct the investment of account assets, participants were more frequently allowed to direct the investment of all but nonmatching contributions made to their accounts. The larger employers were more likely to allow participants to direct the investment of all types of contributions made to their accounts.

Figure 5: Percentage of Employers That Specified Participant Versus Employer-Directed Investment, by Contribution Type and Employer Size (1993)



Source: GAO analysis of SPD data (see app. II, table II.11).

Of the employers that specified participants could direct the investment of their accounts and specified the number of investment options in their SPDs, the majority provided participants with at least four investment options from which to choose. About half of the employers did not list the specific investment choices available to participants in their SPDs; however, investments commonly listed included employer stock, stock mutual funds, bond mutual funds, balanced funds consisting of both stocks and bonds, guaranteed investment contracts providing a fixed interest rate through an insurance company, U.S. government securities, and money market investments consisting of short-term securities.

Although we could not determine the proportion of participants who actually selected each available investment option, we were able to determine the proportion of total plan assets invested in (1) stocks and (2) bonds in 1993 for approximately three-fourths of the employers in our review using DOL's research database. For these employers, 81 percent had 25 percent or less of their total plan assets invested in stocks (not including an employer's own company stock) and 95 percent had 25 percent or less of their total plan assets invested in bonds. For the larger employers, 93 percent had 25 percent or less of their total plan assets invested in stocks, and 100 percent had 25 percent or less invested in bonds. We were unable to determine what proportion of these investments resulted from employer contributions, participant contributions, and market gains or losses over time.

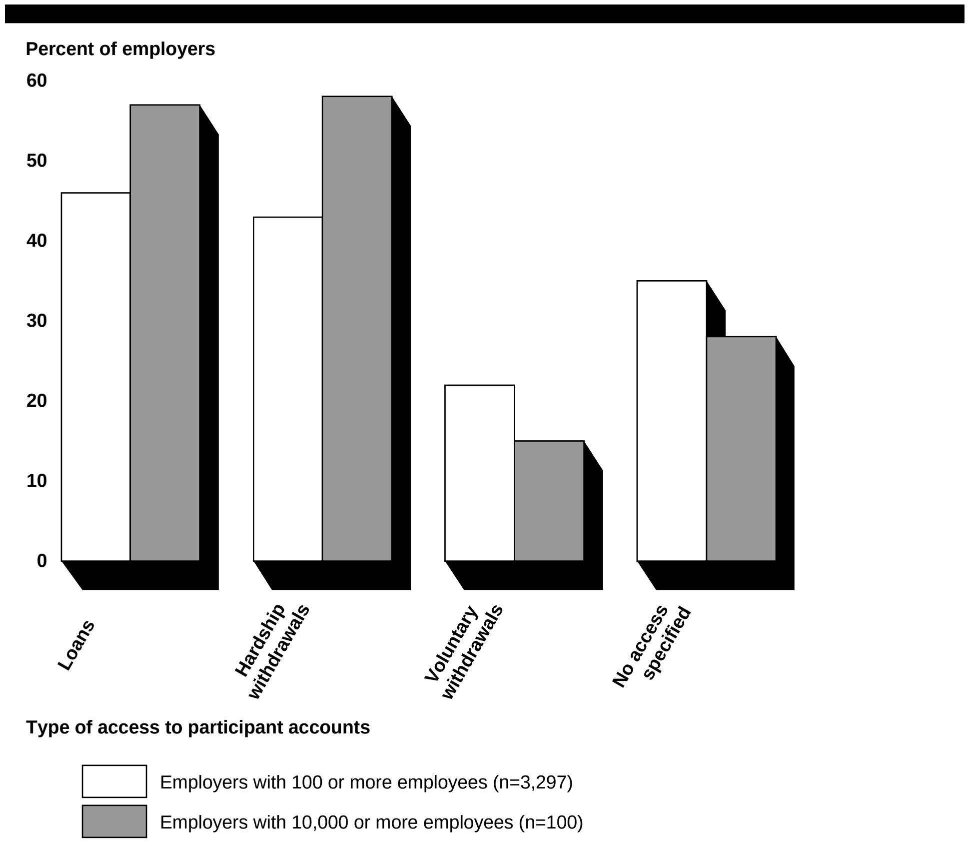
Regardless of how plan assets are invested, employers must receive, hold, and transmit plan assets up to the time the assets are withdrawn by plan participants. Employers generally do so using a trust fund, an insurance account, or a combination of the two. Using the DOL research database, we were able to determine how 2,831 (or 86 percent) of the employers in our review managed their participant accounts in 1993—70 percent of these employers used trust funds, 20 percent used a combination of trust funds and insurance accounts, and 10 percent used insurance accounts. The larger employers also used these same methods in approximately the same proportions.

Federal employees who participate in TSP may direct the investment of their accounts using three investment funds—the "G fund" that is invested in short-term nonmarketable U.S. Treasury securities, the "C fund" that is invested in the stock of the same 500 companies selected by the Standard & Poor's Corporation for its S&P 500 index, and the "F fund" that is invested in U.S. government, corporate, and mortgage-backed securities. In 2 to 3 years, participants will have two new funds—a small company stock fund and an international fund—which will bring the number of investment options up to five funds. Participant accounts are managed by the Federal Retirement Thrift Investment Board, an independent government agency tasked with managing TSP prudently and solely in the interest of participants and their beneficiaries.

Participant Access to Account Assets Prior to Separation or Retirement

Employers that sponsor DC plans can permit participants to access some portion of their account balances while they are still actively employed using loan, voluntary withdrawal, and/or hardship withdrawal provisions. Employers can include loan provisions that permit participants to borrow a portion of their vested account balances and repay this amount in level payments over a specified number of years at a specified interest rate. ERISA, as amended, generally limits a participant's outstanding loan balance to the lesser of $50,000 or 50 percent of the participant's vested account balance. Employers can also allow participants to make voluntary withdrawals from their after-tax contributions and/or employer contributions (and the earnings on these contributions) without requiring that the funds be repaid; however, a 10 percent tax penalty applies to most of these distributions if they are made before age 59½. Some employers specify that participants will face additional penalties for making a voluntary withdrawal, such as losing the right to make contributions to the plan for 1 year. An employer can allow participants to make a hardship withdrawal from their pretax contributions (but not the earnings on those contributions) to meet immediate and heavy financial needs for which no other resources are available. Needs that meet the legal definition of a hardship include medical expenses, purchase of a principal residence, tuition for postsecondary education, and prevention of eviction from, or foreclosure on, a principal residence. Nearly two-thirds of the 3,297 employers reported providing plan participants access to a portion of their account balances prior to separation from employment. Figure 6 shows the percentage of employers with 100 or more employees that sponsored only single-employer DC plans in 1993 and provided for each type of participant access to their accounts.

Figure 6: Percentage of Employers That Provide Various Types of Access to Participant Accounts, by Employer Size (1993)



Note: Because employers can provide for more than one type of access to participant accounts, percentages do not add to 100 percent.

Source: GAO analysis of SPD data (see app. II, table II.13).

Of the 3,297 employers included in our review, 46 percent specified that participants could borrow from their accounts; 43 percent provided for hardship withdrawals, and 21 percent specified that participants could make voluntary withdrawals from their accounts. Of the larger employers, 57 percent provided for loans, 58 percent provided for hardship withdrawals, and 15 percent provided for voluntary withdrawals.

For those 1,530 employers that included a loan feature in their DC plans, 11 percent reported allowing participants to borrow from their accounts for any reason, while the remaining employers allowed participants to

(1) borrow from their accounts only for specified purposes or (2) submit an application to the employer for approval. ERISA, as amended, allows employers to set a minimum loan amount of up to $1,000; however, 47 percent of the employers either did not specify a minimum loan amount in their SPDs or specified a minimum amount that was less than $1,000. Moreover, only 27 percent of the employers specified that participants were limited to one outstanding loan at any given time. The vast majority of employers (98 percent) allowed participants to borrow up to the legal limit of $50,000 (or 50 percent of their vested account balance, if less). Although the 57 larger employers that provided for loans were more likely to allow participants to borrow from their accounts for any reason (35 percent versus 11 percent for all employers), the other components of their loan programs were generally comparable to the group of employers as a whole.

Using DOL's research database, we were able to determine the proportion of total plan assets represented by outstanding participant loans for 787 (or 51 percent) of the employers that allowed participants to borrow from their accounts. For 88 percent of these employers, participant loans represented 5 percent or less of the plan's total assets, which suggests that the majority of plan contributions were being held and invested for retirement rather than being tapped by participants for preretirement spending. An even greater percentage—94 percent—of the 32 larger employers for which we could determine this information had outstanding participant loans of 5 percent or less of total plan assets.

For those 1,419 employers that allowed participants to make hardship withdrawals from their accounts, 86 percent specified neither limits on the number of hardship withdrawals that could be made in 1 year nor a required minimum amount that must be withdrawn. Similarly, 79 percent of the 58 larger employers that provided for hardship withdrawals did not specify such restrictions in their summary plan documents. However, 77 percent of the employers (and 79 percent of the larger employers) specified some form of penalty for participants who made a hardship withdrawal from their accounts—the most common penalty being the suspension of a participant's right to contribute to the plan for some period of time. Thus, although participants may not be able to control their need to make a hardship withdrawal from their accounts in all circumstances, employer penalties may discourage participants from tapping their accounts prior to retirement.

For those 709 employers that allowed participants to make voluntary withdrawals from their accounts, 20 percent limited participants to one such withdrawal per year and 13 percent specified that participants must withdraw some minimum amount ranging from $100 to $500. Moreover, one-third of these employers required participants to meet certain age and service requirements before they could make a voluntary withdrawal from their accounts. For example, the most common requirement was that participants must be at least age 55 and have 10 years of service with the employer. Twenty-one percent of the employers penalized participants who made voluntary withdrawals from their accounts, for example, by suspending a participant's right to contribute to the plan for 12 months. For plans that provided for employer matching contributions, such a penalty also suspended a participant's ability to receive matching contributions over the same time period. The 15 larger employers that provided for voluntary withdrawals were more likely to set a minimum amount that participants must withdraw; however, other limits and restrictions were generally comparable to those provided for by all the employers included in our review. All of the above limits, restrictions, and penalties can reduce an employer's administrative burden for allowing participants to make voluntary withdrawals from their accounts as well as encourage participants to preserve their accounts for use in retirement.

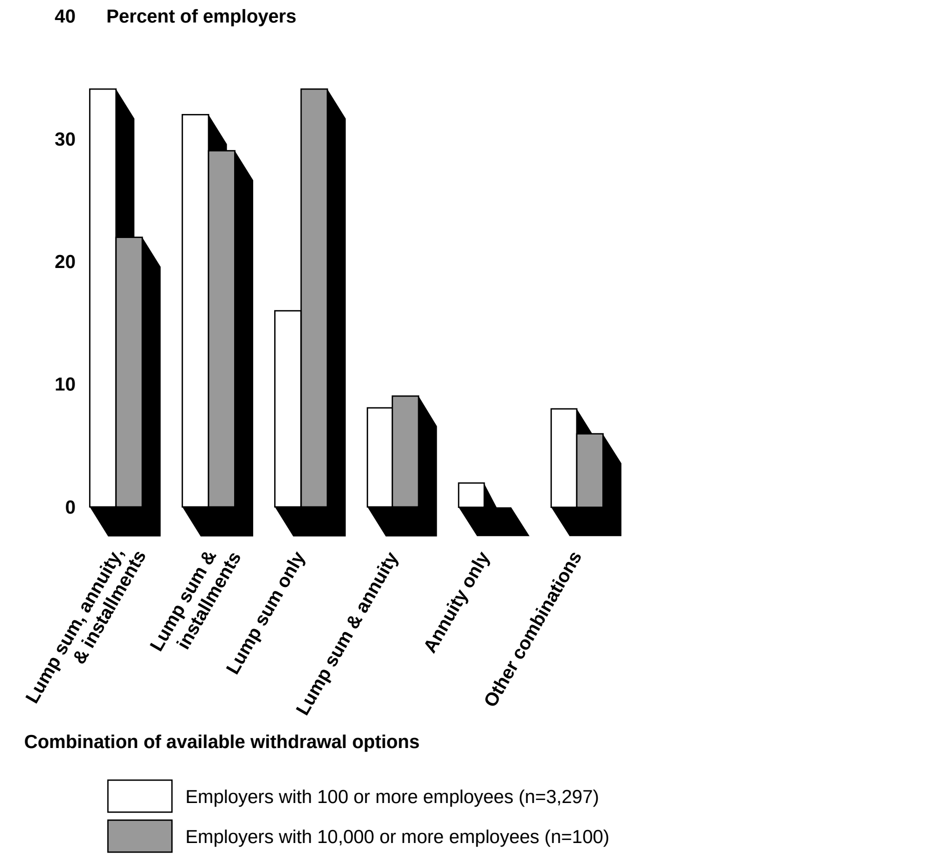
The federal TSP includes a loan program, which allows participants to borrow from their own contributions (and earnings on those contributions) for any reason. The federal program sets the minimum loan amount at $1,000, allows two loans outstanding at any one time, and is limited to the same $50,000 limit as private sector plans. The federal program also provides for hardship withdrawals, and participants who are at least age 59½ may make a one-time voluntary withdrawal from their accounts while they are still in federal service.

Benefit Withdrawal Options

Employers that sponsor DC plans can allow participants to receive their pension benefits from their individual accounts in a variety of ways at retirement—generally as a lump-sum distribution or an annuity. For a lump-sum distribution, employers disburse a participant's entire account within 1 taxable year. For an annuity, the participant receives regular payments for the participant's remaining lifetime. Employers that offer annuities must also offer a joint and survivor annuity that provides a surviving spouse with at least one-half the amount of the participant's benefits. Employers generally pay for the additional survivor benefits by reducing the participant's monthly benefit. In addition to a lump sum or annuity, some employers allow participants to withdraw their accounts using installment payments that deplete the account over a period of time that can be specified by the employer or the participant. Employers are currently required to begin disbursements from pension accounts no later than April of the year following the year participants turn age 70½.

Of the 3,297 employers with 100 or more employees that sponsored only single-employer DC plans in 1993, 92 percent reported providing for lump-sum distributions, 67 percent for installment payments, and 47 percent for annuities when participants separated from the employer at retirement. Of the 100 larger employers, 97 percent provided for lump-sum distributions, 52 percent for installment payments, and 32 percent for annuities when participants retired. Although the majority of employers provided more than one withdrawal option in their plans, less than one-third of the plans specified that participants could opt to withdraw their accounts using a combination of withdrawal options—for example, by taking a portion of their account as a lump-sum withdrawal and purchasing an annuity with the remainder of their account balance. Limiting participants to one withdrawal option may allow employers to control their administrative costs. Figure 7 shows the combinations of withdrawal options provided for by employers that sponsor only single-employer DC plans.

Figure 7: Percentage of Employers That Provide for Various Combinations of Withdrawal Options at Retirement, by Employer Size (1993)



Source: GAO analysis of SPD data (see app. II, table II.14).

For those participants who separate from an employer for reasons other than retirement, employers generally provided for the same withdrawal options as those available at retirement. However, the majority of the employers allowed participants to defer making a withdrawal from their accounts until a later date, thus providing them an option to avoid the 10 percent tax penalty assessed on pension assets withdrawn prior to age 59½. The ability to maintain vested account balances with a prior employer or to "roll over" funds to either a special individual retirement account or a new employer's retirement plan reflects the portability of DC plans. ERISA, as amended, allows employers to unilaterally cash out a participant account if the balance is $5,000 or less—72 percent of the employers (and

80 percent of the larger employers) specified that participants with small account balances would be required to receive a lump-sum distribution of their accounts.

Under TSP, participants can choose to withdraw their accounts as a lump-sum distribution, an annuity, or regular monthly installment payments. For married participants who withdraw their accounts as a lump sum or monthly installment payments, their spouses must first waive their rights to a 50-percent joint life annuity. Participants with vested account balances of $3,500 or less are to be automatically cashed out unless participants select another withdrawal option or elect to leave the funds in the plan. Participants may defer receiving any immediate withdrawals from their accounts until April of the year following the year they turn 70½—the legal limit for pension deferral.

Use of Multiple Plans and Possible Explanations Provided by Experts and the Literature

According to DOL's research database, in 1993, 12 percent of the approximately 490,000 employers that sponsored only single-employer DC plans covering 2 or more participants sponsored more than one DC plan for the same group of employees. An employer may sponsor multiple plans to provide primary benefits to different groups of employees, primary and supplementary benefits to the same group of employees, or a combination of both. It is important to note that employers that sponsor supplementary pension plans do not necessarily offer more comprehensive or "generous" retirement benefits than employers that offer only a primary plan. Administrative costs are generally insignificant compared with the cost of employer contributions, and pension programs with either one or multiple plans can be designed to result in the same total cost to an employer.

The proportion of employers that sponsored multiple plans covering the same groups of employees was fairly consistent across different employer size categories—12 percent of employers with fewer than 100 employees sponsored supplementary plans, as compared with 9 percent of employers with 100 to 9,999 employees and 14 percent of employers with 10,000 or more employees. One expert with whom we consulted suggested that a greater proportion of larger employers may sponsor supplementary plans, because these employers are more likely to have initially sponsored plans that were later supplemented with a 401(k) plan to compete with other employers.[19] This same expert also noted that smaller employers were

[19]Under a 401(k) plan, participants may direct their employers to defer a portion of their compensation to be directly deposited into their pension accounts. Taxes on these contributions, as well as any investment earnings, are deferred until the participant receives a distribution from the account.

better able to cope with managing multiple plans during the period before computer technology was readily available.

The proportion of employers that sponsored multiple plans covering the same groups of employees were also fairly evenly distributed across different industry categories, although employers in the services industry were about 30 percent more likely to sponsor supplementary plans, on average. Employers in the mining, communications, and utilities industries as well as tax-exempt employers were the least likely to sponsor supplementary plans. Appendix III provides more detailed information on the number of employers that sponsored primary and supplementary plans in 1993, stratified by employer size and industry group.

Pension experts with whom we consulted and pension-related literature suggested various factors that may explain why some employers might choose to offer more than one pension plan to their employees. According to these sources, employers that sponsor pension plans are primarily concerned with controlling benefit costs, maximizing the federal tax incentives for providing pensions, and meeting the legal requirements of ERISA, as amended. Employers must also design their compensation and benefit packages to support their overall business and financial goals. For example, employers may use multiple pension plans to (1) recruit and retain certain groups of employees while also satisfying longer-tenured employees, (2) enhance productivity and employee morale, (3) reduce pension liabilities by shifting a portion of pension contributions to employees, and/or (4) link compensation to performance for higher paid employees, as described in more detail below. These sources also said that computer technology has made it possible for more employers to manage multiple pension plans than would have been practical using only paper records. As a result, employers may choose to sponsor multiple plans that provide different combinations of pay and benefits to different groups of employees.

According to the experts, employers must meet industry benefit standards to remain competitive in attracting new employees and encouraging those employees to stay with the company. By providing more than one pension plan, employers can encourage career employment while meeting the needs of younger, more mobile, workers with desired skills. For example, younger and more mobile workers may demand a 401(k) plan in their benefits packages to allow them to build up retirement benefits that are fully portable should they change jobs. On the other hand, a basic annuity (or “defined benefit”) plan may provide better benefits for employees who remain with an employer for the long term. By offering a pension program consisting of both these types of plans, employers can satisfy the needs of both groups of employees.

Employers may sponsor employee stock option plans (ESOP) and profit sharing plans for a variety of reasons, only one of which is to provide employees with primary or supplementary retirement benefits. These plans can enhance employee productivity by increasing employee identification with the company and providing a more direct incentive for improved job performance. These plans also give employers the option of whether to contribute to the plan in any given year, depending on company profitability. For an ESOP, other benefits can include creating a more liquid market for closely held stock, raising new capital, obtaining financing at below-market interest rates, and sheltering profits from corporate income taxes.

New retirement programs that include one or more DC plans may reflect a cultural shift away from benefits paid solely by the employer towards a partnership relationship between the employer and employees. By offering a combination of pension plans, employers allow employees to influence their own level of benefits according to their participation and investment choices. Employers that offer a combination of a basic annuity and a DC plan can guarantee a certain minimum level of retirement benefits, while employees can choose the extent to which they participate in supplementary plans to increase their potential benefits upon retirement.[20]

Employers can increase the benefits available to their senior executives and other highly paid employees by sponsoring supplementary plans that are not covered by ERISA and benefit only selected groups of employees. Although these "nonqualified" plans are not accorded preferential tax treatment, and therefore do not provide employers with tax benefits, employers can use them to motivate executives by linking the amount of benefits to some measurable level of performance, such as total sales. Nonqualified plans also allow employers to provide higher-paid employees with the same retirement income replacement rate as lower-paid employees, while still complying with ERISA's nondiscrimination

[20]Under FERS, the government guarantees that each participant will receive a certain minimum level of retirement benefits from their basic annuities and Social Security and a 1 percent automatic contribution to TSP. Participants who choose to contribute to their TSP accounts can add to this guaranteed level of benefits.

regulations and annual limits on employee contributions to the employer's other qualified pension plans.[21]

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Secretary of Labor. In a letter dated October 28, 1997, the Assistant Secretary of Labor for Pension and Welfare Benefits provided Labor's comments. (See app. IV.) DOL provided no substantive comments; however they did make one technical comment regarding the fact that nonqualified plans are not accorded preferential tax treatment. We clarified the report to reflect this comment.

As agreed with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this report. We will then send copies of this report to the Ranking Minority Member of the Subcommittee, the Chairman and Ranking Minority Member of the Senate Governmental Affairs Committee, the Secretary of Labor, and other interested parties. We will also make copies available to others on request.

Major contributors to this report are listed in appendix V. If you have any questions, please call me at (202) 512-8676.

Sincerely yours,

Michael Brostek
Associate Director, Federal Management
and Workforce Issues

[21]Because employers and/or participants are legally limited in the amount of contributions they can make to a qualified plan account each year, certain higher-paid employees cannot accrue benefits at the same rate as lower-paid employees under some plans. For example, for plans that allow participants to contribute up to 10 percent of their salaries on a pretax basis, those participants that earn more than $95,000 will not be able to contribute a full 10 percent of their salaries because of the $9,500 annual limit on pretax contributions. Some employers sponsor additional plans that cover only those higher-paid employees that cannot accrue benefits at the same rate as lower-paid employees under the employers' other pension plans. Because these additional plans explicitly exclude lower-paid employees (i.e., they do not meet nondiscrimination rules established by ERISA, as amended), they are nonqualified plans.

Contents

Figures

Abbreviations

CSRS	Civil Service Retirement System
DB	defined benefit
DC	defined contribution
DOL	Department of Labor
ERISA	Employee Retirement Income Security Act of 1994
ESOP	employee stock option plan
FERS	Federal Employees Retirement System
IRS	Internal Revenue Service
SPD	summary plan description
TSP	Thrift Savings Plan

Objectives, Scope, and Methodology

The Chairman, Subcommittee on Civil Service, House Committee on Government Reform and Oversight, asked us to provide information on the use of defined contribution (DC) plans in the private sector.[1] He said that such information would assist congressional decisionmakers as they consider whether to design a retirement system for new federal hires. Among the information requested was an analysis of the features of private sector DC plans. This review was undertaken in response to that part of the request. The objective of our review was to determine, for employers that sponsored only DC plans, the

- eligibility requirements for employee participation,
- arrangements for employer and participant contributions,
- eligibility requirements for employee rights to accrued benefits,
- employee investment options,
- loan and other provisions for participant access to plan assets while still employed, and
- options for withdrawal of benefits upon separation or retirement.

To address an additional interest of the requester, we also determined the number of employers that sponsored more than one DC plan to provide retirement benefits to the same groups of employees, and their potential reasons for doing so.

To accomplish the first objective, we reviewed Summary Plan Descriptions (SPD)—documents describing the terms and conditions of pension plans that all private employers were to file with the Department of Labor (DOL) for each pension plan they sponsored—for a random stratified sample of private sector employers that sponsored only DC plans to supplement their employees' Social Security. We also included additional plan information that was available from the DOL research database, which we used to draw our sample of employers.

During our early design work, DOL officials told us that the Department did not monitor or enforce employer compliance with the SPD filing requirement because of limited resources and other competing priorities.[2] For this reason, we identified a preliminary sample of employers and mailed written requests for the employers' SPDs. On the basis of this initial request, we determined that it would be difficult to obtain SPDs from

[1]A DC plan is one in which retirement benefits depend upon the amounts contributed to individual employee accounts and the investment experience of that account up to the time of retirement.

[2]Effective August 5, 1997, with the passage of the Taxpayer Relief Act of 1997, private employers subject to ERISA are required to file copies of their SPDs with DOL only upon request.

employers with less than 100 employees, because these employers had a very high nonresponse rate to our request. Moreover, DOL officials told us that smaller employers were also much less likely to file an SPD with DOL, compared with larger employers. Therefore, as agreed with the Subcommittee, we limited the review of SPDs to employers with 100 or more employees.

It is important to note that the data shown in this report may reflect only part of each sampled employer's retirement benefits program, because it does not include information on (1) additional DC plans that some employers offer or (2) Social Security benefits that most workers will qualify for upon retirement.

Sample Selection

To select our nationwide sample from employers with 100 or more employees that sponsored only single-employer DC plans, we used the 1993 research database of computerized Internal Revenue Service (IRS) Form 5500 reports maintained by the Pension and Welfare Benefits Administration of the Department of Labor (DOL)—the most recent data available when we designed our review. Under the Employee Retirement Income Security Act of 1974, private employers must annually file a separate Form 5500 report with the IRS for each of their pension plans. Each report is to contain financial, participant, and actuarial data.

We did not independently verify the accuracy of the DOL research database. However, IRS edits the reports by checking addition and consistency on financial and other record items and corresponds with filers to obtain corrected data before providing the computerized data to DOL. DOL further edits the Form 5500 data to identify problems, such as truncated or incorrect entries, before constructing its research database, which consists of (1) all plans with 100 or more participants for which a Form 5500 was filed and (2) a 10-percent sample that is weighted to represent the universe of all plans with less than 100 participants.

According to the DOL research database, approximately 490,000 employers with 2 or more employees sponsored only single-employer DC plans in 1993. We excluded employers that (1) had fewer than 100 employees, (2) sponsored only multiemployer DC plans, because of incomplete data,[3] or (3) sponsored only DC plans that were either terminated or consolidated

[3]A multiemployer plan is one to which more than one employer is required to contribute pursuant to one or more collective bargaining agreements. Only one Form 5500 is filed for each multiemployer plan, using one of the sponsoring employers' identification numbers. Therefore, we could not identify all of the participating employers.

with another plan during 1993, because we wanted to review plans that had the greatest probability of still being in existence at the time we issued a report. Finally, we excluded those employers that offered only DC plans for which we could not determine the number of employees from the 5500 reports. We selected a sample of 419 employers from the remaining universe of 3,297 employers.[4]

Because we randomly selected the sample of private employers that sponsor only DC plans, the results are subject to some uncertainty or sampling error. The sampling error consists of two parts: confidence levels and ranges. The confidence level indicates the degree of confidence that can be placed in the estimates derived from the sample. The range is the upper and lower limits between which the actual universe estimates may be found. Our sample was designed so that the sampling error would not be greater than 10 percent at the 95-percent confidence level; however, where we further subdivided the sample along particular groups (e.g., employers that provided for matching contributions), the resulting number of employers was too small to meet this criteria. In the letter portion of this report, we indicate when the sampling errors are greater than 10 percent; these sampling errors are also at the 95-percent confidence level. In appendix II, which provides the detailed results of our analyses, we do not provide individual sample errors, because the number of such individual estimates would be prohibitive.

We stratified our sample according to employer size using 3 categories—100 to 999; 1,000 to 9,999; and 10,000 or more employees. We included in our sample all the employers that had 10,000 or more employees, because these employers may provide a more relevant comparison with the federal government. Table I.1 shows the distribution of the employers from which we selected our sample and the 419 employers selected according to employer size.

Table I.1: Distribution of the 419 Employers by Employer Size

Number of employees	Number of employers in sample universe	Number of employers in sample
100-999	2,498	158
1,000-9,999	699	161
10,000 or more	100	100
Total	**3,297**	**419**

Source: GAO analysis of data obtained from DOL.

[4]We originally selected a sample of 430 employers; however, we excluded 11 of these employers from our study because of incorrect codes in the DOL research database.

Response Rate Calculation

For the 419 employers in our sample, we (1) identified the unique plan number for each employer's primary DC plan using the DOL research database and (2) sent each employer a letter requesting that an SPD for the identified plan be provided to us. For those employers that sponsored more than one such plan (each covering different groups of employees), we requested information on the employer's largest primary plan.[5] For 50 of the employers, our letters were returned as nondeliverable. From the remaining 369 employers, we received 138 SPDs. Forty-four employers provided us with a different plan than the one we requested; however, the plans provided appeared to be a primary DC plan and were included in our review.

To obtain the 281 SPDs that we did not receive directly from employers, we requested that DOL provide us copies from its files. DOL provided 143 of the requested SPDs and told us that 138 of the SPDs were not available, because the employer never filed a copy as required by law.

Overall, we were able to obtain SPDs for 281 of the 419 employers in our sample, for a response rate of 67 percent. We were unable to determine if the SPDs provided by employers or DOL reflected the most current information available. Table I.2 shows the disposition of each of the 419 employers in our sample by employer size.

Table I.2: Disposition of Employers in the Sample by Employer Size

	Number of employees			
Employers in sample	**100-999**	**1,000-9,999**	**10,000 or more**	**Total**
SPD provided by employer	47	60	31	**138**
SPD provided by DOL	60	49	34	**143**
Subtotal	**107**	**109**	**65**	**281**
SPD not provided by employer or DOL	51	52	35	**138**
Total	**158**	**161**	**100**	**419**

To examine the extent to which our results were generalizable, we compared the 281 employers for which we obtained an SPD to the universe of employers with 100 or more employees that offered only single-employer DC plans on the basis of employer size, industry type, and geographic region. The results of these analyses showed that the sample respondents were generally comparable to employers in our universe for these characteristics.

[5]Approximately 6 percent of the employers in our universe sponsored more than one primary plan.

Analysis of SPD Data

To identify and summarize the general characteristics of the 281 DC plans for which we obtained an SPD, we developed a detailed data collection instrument to allow information from each SPD to be recorded in a consistent and standardized way. Each SPD was reviewed twice—the second review was completed by a more experienced analyst to provide 100 percent verification of the information collected. We did not independently verify the accuracy of the information described in the SPDs.

We entered the information from the data collection instruments into a database to determine the frequency of the data elements and reviewed our results for patterns and relationships.

Review of Thrift Savings Plan Provisions

To identify information on the federal Thrift Savings Plan (TSP), we reviewed various publications that we obtained from the Federal Retirement Thrift Investment Board. We included this information in our report to provide a general basis for comparison between the government's existing DC plan and those plans sponsored in the private sector.

Analysis of Research Database

To supplement the data available from the SPDs, we pulled additional plan information from DOL's research database—the same database from which we selected our sample. We used this information to analyze the rate at which eligible employees chose to participate in the plans, the employers' methods of managing accounts, the proportion of participants that were fully vested, and the percentage of plan assets invested in employer stocks, stocks, bonds, and outstanding participant loans. We were able to supplement only those SPDs that described plans included in the 1993 research database.

Review of Multiple Plans

To address part of the second objective, which was to identify the number of employers that sponsored more than one DC plan covering the same groups of employees, we used the 1993 DOL research database and included employers with two or more employees. To determine why employers might decide to sponsor multiple plans, the remainder of the second objective, we (1) reviewed retirement-related literature that we identified using an on-line business periodical system and (2) consulted with experts in the field of pensions. The experts with whom we consulted were Mr. Ray Schmitt, Specialist, and Ms. Carolyn Merck, Specialist, the Congressional Research Service; Mr. Dallas Salisbury, President, the

Employee Benefit Research Institute; Mr. Richard R. Joss, Resource Actuary, Watson Wyatt Worldwide; and Ms. Martha Priddy Patterson, Director of Employee Benefits, Policy and Analysis, KPMG Peat Marwick. We selected these individuals because we had identified them as experts during prior work we had done on private sector pension issues.

To identify whether plans in its research database provided primary versus supplementary benefits, DOL used a set of assumptions, which it validated for a small sample of plans. Employers that sponsored only one plan, by definition, sponsored a primary plan. For employers that sponsored more than one plan, DOL's assumptions identified (1) multiple DC plans of the same type as primary plans covering different groups of employees and (2) multiple DC plans of different types as primary and supplementary plans covering the same group of employees, with the largest one being the primary plan. We did not independently verify the accuracy of DOL's criteria for identifying the primary versus supplementary status of plans. According to DOL officials, their validation analyses indicated that their assumptions were not accurate in all cases; however, they appeared to be valid for the large majority of situations where employers sponsor more than one pension plan.

We obtained and analyzed the sample of SPDs and completed the review of multiple plans between October 1996 and July 1997 in accordance with generally accepted government auditing standards.

Summary Plan Description Analysis Results

Table II.1: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Participation Requirement and Employer Size (1993)

Participation requirement		Number of employees: 100 or more — Number	Number of employees: 100 or more — Percent	Number of employees: 10,000 or more[a] — Number	Number of employees: 10,000 or more[a] — Percent
Age (in years)	18	254	8	8	8
	19	47	1	0	0
	20	60	2	0	0
	20.5	85	3	2	2
	21	1,564	47	34	34
	None[b]	1,232	37	54	54
	Not specified	56	2	3	3
	Total	**3,297**	**100**	**100**	**100**
Length of service	1 month	33	1	3	3
	3 months	97	3	2	2
	4 months	23	1	0	0
	6 months	460	14	8	8
	9 months	6	0	0	0
	1 year	2,159	65	69	69
	1.25 years	6	0	0	0
	2 years	91	3	2	2
	None[c]	365	11	14	14
	Not specified	56	2	3	3
	Total	**3,297**	**100**	**100**	**100**

Note: Due to rounding, numbers and percentages do not always add to the total.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

[b]Because 1,093 employers with 100 or more employees (and 51 employers with 10,000 or more employees) were silent regarding an age requirement but explicitly specified that employees must meet a particular length-of-service requirement—we included these employers under the "none" rather than "not specified" category.

[c]Because 47 employers with 100 or more employees were silent regarding a length-of-service requirement but explicitly specified that employees must meet a particular age requirement—we included these employers under the "none" rather than "not specified" category.

Source: GAO analysis of summary plan description data.

Table II.2: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Contribution Source and Type and Employer Size (1993)

Contribution source and type				Number of employees			
Participant		Employer		100 or more		10,000 or more[a]	
Pretax	After-tax	Matching	Nonmatching	Number	Percent	Number	Percent
•				42	1	6	6
•	•	•		107	3	5	5
•	•	•	•	165	5	3	3
•	•		•	63	2	3	3
•		•		265	8	18	18
•		•	•	819	25	26	26
•			•	196	6	11	11
	•	•		23	1	0	0
	•		•	183	6	0	0
		•[b]		23	1	0	0
		•[b]	•	8	0	2	2
			•	1,354	41	23	23
Not specified				50	2	3	3
Total				**3,297**	**100**	**100**	**100**

Note: Due to rounding, numbers and percentages do not always add to the total.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

[b]These employers provided matching contributions on the basis of contributions that participants made to a separate pension plan.

Source: GAO analysis of summary plan description data.

Table II.3: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Basis for Making Nonmatching Contributions and Employer Size (1993)

	Number of employees			
	100 or more		10,000 or more[a]	
Basis for making nonmatching contributions	Number	Percent	Number	Percent
Some percent of profits, allocated by participant compensation	1,238	44	26	38
Participant compensation	1,251	45	25	37
Profits and participant compensation	24	1	5	7
Some percent of profits, allocated by participant contributions	11	0	5	7
Other	107	4	5	7
Not specified	156	6	3	4
Total	**2,786**	**100**	**68**	**100**

Note: Due to rounding, numbers and percentages do not always add to the total.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.4: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Maximum Employer Nonmatching Contributions and Employer Size (1993)

	Number of employees			
	100 or more		10,000 or more[a]	
Maximum employer nonmatching contributions expressed (as a percent of participant salary)	Number	Percent	Number	Percent
5 percent or less	223	8	17	25
6 to 10 percent	196	7	5	7
More than 10 percent	154	6	2	3
Not specified	2,212	79	45	66
Total	**2,786**	**100**	**68**	**100**

Note: Due to rounding, numbers and percentages do not always add to the total.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.5: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Maximum Level of Participant Contributions Eligible for Employer Matching and Employer Size (1993)

Maximum participant contribution eligible for employer matching[a] (percent of salary)	Number of employees			
	100 or more		10,000 or more[b]	
	Number	Percent	Number	Percent
1 percent	0	0	0	0
2 percent	93	11	0	0
3 percent	78	10	6	18
4 percent	222	27	8	23
5 percent	97	12	2	5
6 percent	231	28	14	41
7 percent	48	6	2	5
8 percent	23	3	0	0
9 percent	0	0	0	0
10 percent	8	1	2	5
More than 10 percent	14	2	2	5
Total	**816**	**100**	**34**	**100**

Note 1: Of the 3,297 employers with 100 or more employees in our study, 1,410 employers provided matching contributions to the primary plan. We could only determine the maximum participant contributions eligible for employer matching contributions for 816 of these 1,410 employers, because the summary plan descriptions for the remaining 594 employers did not contain this information.

Note 2: Due to rounding, numbers and percentages do not always add to the total.

[a]This column represents the maximum participant contribution, expressed as a percent of salary, for which employers will provide some level of matching contributions. However, participants are frequently allowed to contribute a greater percent of salary than that which is eligible for matching contributions. For example, an employer may allow participants to contribute up to 10 percent of their salary to a plan but provide matching contributions for only the first 6 percent contributed.

[b]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.6: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by the Maximum Level of Employer Matching Contributions and Employer Size (1993)

Maximum level of employer matching of eligible participant contributions[a]	Number of employees			
	100 or more		10,000 or more[b]	
	Number	Percent	Number	Percent
Less than 25 percent	43	5	0	0
25 percent	162	20	3	9
26 to 49 percent	19	2	0	0
50 percent	248	30	8	25
51 to 74 percent	38	5	2	6
75 percent	23	3	0	0
76 to 99 percent	0	0	0	0
100 percent	249	31	17	53
More than 100 percent	33	4	3	9
Total	**815**	**100**	**32**	**100**

Note 1: Of the 3,297 employers with 100 or more employees in our study, 1,410 employers provided matching contributions to the primary plan. We could only determine the maximum level of employer matching of eligible participant contributions for 815 of these 1,410 employers, because the summary plan descriptions for the remaining 595 employers did not contain this information.

Note 2: Due to rounding, numbers and percentages do not always add to the total.

[a]This column represents the overall level of matching contributions that employers provided for eligible participant contributions. For example, if an employer provided $1 dollar for each dollar of a participant's contribution that was eligible for employer matching, then the overall level of matching contributions would be 100 percent. If an employer provided 50 cents for each dollar of a participant's contribution that was eligible for employer matching, then the overall level of matching contributions would be 50 percent.

[b]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.7: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by the Maximum Potential Employer Cost of Contributions and Employer Size (1993)

Maximum potential employer cost of contributions[a] (percent of salary)	Number of employees			
	100 or more		10,000 or more[b]	
	Number	Percent	Number	Percent
Employer does not contribute to plan	42	5	6	16
1 percent	31	4	2	4
2 percent	120	14	5	12
3 percent	120	14	5	12
4 percent	138	16	6	16
5 percent	72	8	6	16
6 percent	46	5	3	8
7 percent	55	6	2	4
8 percent	13	1	0	0
9 percent	2	0	2	4
10 percent	114	13	2	4
11 to 15 percent	106	12	0	0
16 to 18 percent	25	3	2	4
Total	**883**	**100**	**38**	**100**

Note 1: Of the 3,297 employers with 100 or more employees in our study, 3,205 employers specified that they made matching and/or nonmatching contributions to the primary plan. Of these 3,205 employers, we could only determine the maximum potential employer cost of contributions for 883 employers, because the summary plan descriptions for the remaining 2,322 employers did not contain this information.

Note 2: Due to rounding, numbers and percentages do not always add to the total.

[a]This column represents the maximum potential employer cost of making contributions to the primary plan. An employer's actual cost of contributions may be less than this maximum. For example, participants might not contribute enough to maximize employer matching contributions or the employer might elect to contribute less than the maximum allowable nonmatching contribution in any given year.

[b]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.8: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by the Maximum Participant Contributions Allowed and Employer Size (1993)

		Number of employees			
		100 or more		10,000 or more[a]	
Type of participant contributions allowed	**Maximum rate of participant contribution allowed (percent of salary)**	**Number**	**Percent**	**Number**	**Percent**
Pretax only	1 to 5 percent	38	3	2	3
	6 to 10 percent	292	22	14	23
	11 to 15 percent	622	47	35	56
	16 to 20 percent	119	9	6	10
	21 to 25 percent	23	2	0	0
	Not specified	228	17	5	8
	Total	**1,322**	**100**	**62**	**100**
After-tax only	1 to 5 percent	0	0	0	0
	6 to 10 percent	83	40	0	0
	11 to 15 percent	0	0	0	0
	16 to 20 percent	0	0	0	0
	21 to 25 percent	0	0	0	0
	Not specified	123	60	0	0
	Total	**206**	**100**	**0**	**0**
Pretax and after-tax	1 to 5 percent	0	0	0	0
	6 to 10 percent	54	16	5	45
	11 to 15 percent	66	20	0	0
	16 to 20 percent	9	3	3	27
	21 to 25 percent	6	2	0	0
	Not specified	199	60	3	27
	Total	**334**	**100**	**11**	**100**

Note: Due to rounding, numbers and percentages do not always add to the total.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.9: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Type of Vesting for Matching and Nonmatching Contributions and Employer Size (1993)

		Number of employees			
		100 or more		10,000 or more[b]	
Type of employer contribution	Type of vesting[a]	Number	Percent	Number	Percent
Matching	Immediate	478	34	28	52
	Cliff	127	9	12	22
	Graduated	768	54	14	26
	Not specified	36	3	0	0
	Total	**1,410**	**100**	**54**	**100**
Nonmatching	Immediate	356	13	15	22
	Cliff	483	17	17	25
	Graduated	1,917	69	34	50
	Not specified	31	1	2	3
	Total	**2,786**	**100**	**68**	**100**

Note 1: For defined contribution plans, the term “vesting” refers to a participant’s ownership rights to employer contributions made to his or her individual plan account (and the earnings that accrue from those contributions) even if the participant separates from the employer. Participants are always fully vested in any pretax or after-tax contributions that they make to the plan.

Note 2: Due to rounding, numbers and percentages do not always add to the total.

[a]Three common forms of vesting include immediate, cliff, and graduated vested. Under immediate vesting, participants are fully vested in employer contributions at the time they are made. Under cliff vesting, participants become fully vested after a specified number of years of service, with no vesting prior to that number of years. Under graduated vesting, participants are partially vested over a period of years according to an increasing schedule until full vesting is achieved.

[b]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.10: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Number of Years to Full Vesting for Matching and Nonmatching Contributions and Employer Size (1993)

Type of employer contribution	Number of years to full vesting	Number of employees: 100 or more		Number of employees: 10,000 or more[a]	
		Number	Percent	Number	Percent
Matching	Immediate	478	34	28	52
	1 year	0	0	0	0
	2 years	6	0	0	0
	3 years	84	6	2	4
	4 years	44	3	2	4
	5 years	256	18	16	30
	6 years	136	10	6	11
	7 years	369	26	2	4
	Not specified	36	3	0	0
	Total	**1,410**	**100**	**54**	**100**
Nonmatching	Immediate	356	13	15	22
	1 year	6	0	0	0
	2 years	6	0	0	0
	3 years	154	6	2	3
	4 years	96	3	0	0
	5 years	716	26	23	34
	6 years	449	16	3	4
	7 years	995	36	23	34
	Not specified	8	0	2	3
	Total	**2,786**	**100**	**68**	**100**

Note 1: For defined contribution plans, the term "vesting" refers to a participant's ownership rights to employer contributions made to his or her individual plan account (and the earnings that accrue from those contributions) even if the participant separates from the employer. Participants are always fully vested in any pretax or after-tax contributions that they make to the plan.

Note 2: Due to rounding, numbers and percentages do not always add to the total.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.11: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Number of Investment Options for Each Type of Contribution and Employer Size (1993)

		Number of employees			
		100 or more		10,000 or more[a]	
Type of contribution	Number of investment options	Number	Percent	Number	Percent
Pretax	None—employer directs investments	248	15	6	8
	2 to 3 options	75	5	9	13
	4 to 9 options	467	28	35	49
	10 or more options	88	5	3	4
	Not specified	777	47	19	26
	Total	**1,656**	**100**	**72**	**100**
After-tax	None—employer directs investments	123	23	0	0
	2 to 3 options	38	7	2	18
	4 to 9 options	138	26	6	55
	10 or more options	13	2	0	0
	Not specified	228	42	3	27
	Total	**540**	**100**	**11**	**100**
Matching	None—employer directs investments	232	16	11	20
	2 to 3 options	50	4	8	15
	4 to 9 options	377	27	20	37
	10 or more options	75	5	3	6
	Not specified	675	48	13	24
	Total	**1,410**	**100**	**54**	**100**
Nonmatching	None—employer directs investments	1,253	45	31	46
	2 to 3 options	111	4	5	7
	4 to 9 options	434	16	15	22
	10 or more options	61	2	2	3
	Not specified	927	33	16	24
	Total	**2,786**	**100**	**68**	**100**

Note: Due to rounding, numbers and percentages do not always add to the total.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

Table II.12: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Type of Investment Options for Participant and Employer Contributions and Employer Size (1993)

		Number of employees			
		100 or more		10,000 or more[b]	
Type of contribution	Type of investment option[a]	Number	Percent[c]	Number	Percent[c]
Participant	Employer stock	129	4	18	18
	Stock funds	604	18	45	45
	Bond funds	343	10	20	20
	Balanced funds	397	12	29	29
	Guaranteed investment contract	469	14	25	25
	U.S. government securities	172	5	6	6
	Money market	337	10	31	31
Employer	Employer stock	605	18	31	31
	Stock funds	745	23	43	43
	Bond funds	451	14	26	26
	Balanced funds	565	17	31	31
	Guaranteed investment contract	625	19	28	28
	U.S. government securities	217	7	5	5
	Money market	446	14	31	31

[a]Employers can provide participants with a variety of options for investing participant and/or employer contributions. Some common investment options include shares of the employer's stock; shares of stock in other companies; bonds offered by other companies; balanced funds, which invest in both stocks and bonds; guaranteed investment contracts, which are offered by insurance companies and provide a guaranteed rate of return for a specified period of time; U.S. government securities; and money market funds, which are invested in short-term securities such as Treasury bills and bank certificates of deposit.

[b]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

[c]Because some employers offered more than one of these investment options, percentages will not add to 100 percent.

Source: GAO analysis of summary plan description data.

Table II.13: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Type of Participant Access to Account Assets and Employer Size (1993)

Type of participant access to vested account assets			Number of employees			
			100 or more		10,000 or more[a]	
Hardship withdrawals[b]	Loans[b]	Voluntary withdrawals[c]	Number	Percent	Number	Percent
•			283	9	9	9
•	•		759	23	34	34
•	•	•	269	8	9	9
•		•	108	3	6	6
	•		403	12	14	14
	•	•	100	3	0	0
		•	232	7	0	0
Not specified			1,144	35	28	28

Note: Employers can design defined contribution plans to allow participants access to a portion of their vested account balance before retirement using a variety of plan features, including hardship withdrawals, loans, and voluntary withdrawals. Participants who use a withdrawal option may be subject to various IRS and/or employer limits and penalties.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

[b]Hardship withdrawal provisions allow participants to withdraw a portion of their own contributions to the plan if they suffer a financial hardship, as defined by the IRS.

[c]Loan provisions allow participants to withdraw a portion of their account, subject to IRS limits, and repay their account within a specified period at a specified rate of interest.

[d]Voluntary withdrawal provisions allow participants to withdraw a portion of their after-tax contributions and/or employer contributions for any reason and without having to repay their accounts.

Source: GAO analysis of summary plan description data.

Table II.14: Number and Percent of Employers That Sponsor Only Single-Employer Primary Defined Contribution Pension Plans by Withdrawal Options Available Upon Retirement and Employer Size (1993)

	Number of employees			
	100 or more		10,000 or more[a]	
Withdrawal options available upon retirement	Number	Percent	Number	Percent
Lump-sum distribution	3,022	92	97	97
Annuity	1,537	47	32	32
Installment payments	2,216	67	52	52
Access to account balance as needed	14	0	2	2
Other	78	2	2	2
Not specified	175	5	3	3

Note: Because some employers offer more than one withdrawal option, percentages do not add to 100 percent.

[a]Employers with 10,000 or more employees represent a subset of the employers with 100 or more employees.

Source: GAO analysis of summary plan description data.

IRS Form 5500 Analysis Results

Table III.1: Number of Private Sector Employers That Sponsor Only Single-Employer Defined Contribution Pension Plans, by Type of Pension Plan Offered and Employer Size (1993)

Number of employees	Number of employers that sponsored primary plans	Number of employers that sponsored supplementary plans	Proportion of employers that sponsored supplementary plans
2-9	173,762	28,938	0.167
10-24	110,089	11,093	0.101
25-49	62,107	4,441	0.072
50-99	39,556	2,579	0.065
100-249	29,073	2,288	0.079
250-499	9,455	874	0.092
500-999	4,960	506	0.102
1,000-2,499	2,622	290	0.111
2,500-4,999	969	162	0.167
5,000-9,999	427	65	0.152
10,000-19,999	261	40	0.153
20,000-49,999	143	19	0.133
50,000 or more	145	19	0.131
Not reported	56,689	5,711	0.101
Total	**490,258**	**57,025**	**0.116**

Note 1: This table includes those employers that sponsored only single-employer DC pension plans covering two or more participants.

Note 2: The database that we analyzed categorizes pension plans as primary or supplementary using a set of criteria established by DOL. According to these criteria, employers that sponsored only one plan, by definition, sponsored a primary plan. For employers that sponsored more than one plan, DOL's assumptions identified (1) multiple DC plans of the same type as primary plans covering different groups of employees and (2) multiple DC plans of different types as primary and supplementary plans covering the same group of employees, with the largest one being the primary plan.

Source: GAO analysis of IRS Form 5500 data.

Table III.2: Number of Private Sector Employers That Sponsor Only Single-Employer Defined Contribution Pension Plans, by Type of Pension Plan Offered and Industry Group (1993)

Industry group	Number of employers that sponsored primary plans	Number of employers that sponsored supplementary plans	Proportion of employers that sponsored supplementary plans
Agriculture	8,285	687	0.083
Mining	2,455	136	0.055
Construction	33,147	3,415	0.103
Manufacturing	56,348	4,193	0.074
Transportation	6,665	512	0.077
Communications and utilities	3,987	240	0.060
Wholesale trade	36,899	3,316	0.090
Retail trade	47,273	3,373	0.071
Finance, insurance, and real estate	34,786	3,064	0.088
Services	247,056	37,692	0.153
Tax-exempt organizations	15,363	612	0.040
Not reported	703	61	0.087
Total	**492,967**	**57,301**	**0.116**

Note 1: This table includes those employers that only sponsored single-employer DC pension plans.

Note 2: The database that we analyzed categorizes pension plans as primary or supplementary using a set of criteria established by DOL. According to these criteria, employers that sponsored only one plan, by definition, sponsored a primary plan. For employers that sponsored more than one plan, DOL's assumptions identified (1) multiple DC plans of the same type as primary plans covering different groups of employees, and (2) multiple DC plans of different types as primary and supplementary plans covering the same group of employees, with the largest one being the primary plan.

Source: GAO analysis of IRS Form 5500 data.

Comments From the Department of Labor

U.S. Department of Labor

Assistant Secretary for
Pension and Welfare Benefits
Washington, D.C. 20210

OCT 28 1997

Michael Brostek
Associate Director, Federal Management
and Workforce Issues
General Government Division
U. S. General Accounting Office
Washington, DC 20548

Dear Mr. Brostek:

We have reviewed the draft report which was sent to us on October 14, 1997, entitled "Private Pensions: Plan Features Provided by Employers That Sponsor Only Defined Contribution Plans" (GAO Code 410080). We have no substantive comments concerning the report, however, we would like to suggest that the term "nonqualified plans," as it appears at page 28, last full paragraph, be clarified to reflect that it refers to benefit plans that are not accorded preferential treatment under the Internal Revenue Code.

The Department appreciates the opportunity to review this document.

Sincerely,

Olena Berg

Olena Berg
Assistant Secretary

Major Contributors to This Report

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