Six Ways to Save for Retirement

Defined contribution retirement plans are a mainstay of employer-sponsored retirement benefit plans. In March 2010, 41 percent of private sector workers participated in employer-sponsored defined contribution plans. (See chart.) These plans often provide workers with incentives to save for retirement through matching contributions, thereby encouraging workers to take an active role in retirement planning. In general, defined contribution plans aim to put investment decisions into the hands of workers and they provide options for investing retirement funds. However, the worker also bears an investment risk: the payout of defined contribution plans is determined by the amount of money contributed to the plan and the rate of return of the money invested over time.

This issue of Program Perspectives takes a look at six types of defined contribution plans—savings, thrift, deferred profit sharing, money purchase pension, savings incentive match plan, employee stock ownership, and simplified employee pension—the rate of worker participation in each method of contribution. Estimates of defined contribution benefit provisions presented here are from the U.S. Bureau of Labor Statistics (BLS) “National Compensation Survey: Employee Benefits in the United States, March 2010,” on the Internet at http://www.bls.gov/ncs/ebs/detailedprovisions/2009/basic_retirement.htm#contribution. All defined contribution plans reported on in this survey have some form of employer contribution. Plans are categorized by type on the basis of Internal Revenue Code requirements and variations in contribution methods.

For additional assistance on benefits, contact one of our information offices:

**For additional assistance on benefits, contact one of our information offices:**

**NATIONAL: WASHINGTON, DC**

(202) 691-6199 TDD: (800) 877-8339

NSCinfo@bls.gov www.bls.gov/ecs

**REGIONAL:**

ATLANTA (404) 993-4222

BOSTON (617) 565-2327

CHICAGO (312) 353-1880

DALLAS (972) 850-4800

KANSAS CITY (816) 283-7000

NEW YORK (646) 264-3600

PHILADELPHIA (215) 597-3282

SAN FRANCISCO (415) 625-2270

**STATE AND LOCAL GOVERNMENT EMPLOYEE BENEFITS:**

**SICK LEAVE AND DISABILITY BENEFIT COMBINATIONS**

**DEFINED-CONTRIBUTION RETIREMENT PLAN TYPES**

**HIGH DEDUCTIBLE HEALTH PLANS**

**HEALTH BENEFIT COSTS BY WAGE CATEGORY**

**DEFINED-CONTRIBUTION PLAN INVESTMENT CHOICES**

**OUTPATIENT PRESCRIPTION DRUG COVERAGE**

continued inside

---

**TABLE 2**

Private industry workers’ method of contribution to defined contribution plans, by selected worker and establishment characteristics, 2009, in percent

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Pretax contribution</th>
<th>Roth 401(k) (post-tax) contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Worker characteristic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All workers</td>
<td>82</td>
<td>22</td>
</tr>
<tr>
<td>Management, professional, and related</td>
<td>87</td>
<td>24</td>
</tr>
<tr>
<td>Service</td>
<td>77</td>
<td>24</td>
</tr>
<tr>
<td>Sales and office</td>
<td>81</td>
<td>22</td>
</tr>
<tr>
<td>Natural resources, construction, and maintenance</td>
<td>73</td>
<td>15</td>
</tr>
<tr>
<td>Production, transportation, and material moving</td>
<td>80</td>
<td>18</td>
</tr>
<tr>
<td>Union</td>
<td>77</td>
<td>24</td>
</tr>
<tr>
<td>Nonunion</td>
<td>82</td>
<td>22</td>
</tr>
<tr>
<td>Establishment characteristic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods-producing industries</td>
<td>76</td>
<td>16</td>
</tr>
<tr>
<td>Service-providing industries</td>
<td>84</td>
<td>23</td>
</tr>
<tr>
<td>1 to 99 workers</td>
<td>76</td>
<td>17</td>
</tr>
<tr>
<td>100 or more workers</td>
<td>86</td>
<td>26</td>
</tr>
</tbody>
</table>

Note: Sums of individual items may be greater than 100 because multiple methods of contribution are available to some employees. Sums of individual items may be less than 100 because the contribution method is not determinable.

---

From page 3

ings are not subject to income tax upon distribution.

Of all private sector workers who participated in defined contribution plans in 2009, 82 percent participated in plans that made pretax contributions and 22 percent participated in plans that made posttax (Roth 401(k)) contributions, with the method of contribution varying by worker and establishment characteristics. For example, 17 percent of workers in small establishments participated in a plan that made posttax contributions, and 26 percent of workers in large establishments participated in such plans. (See table 2.)

The next Program Perspectives will feature high deductible health plans.
Types of Defined Contribution Plans

A savings and thrift plan requires an employee to contribute a predetermined amount of earnings into an individual account, all or part of which may be matched by the employer. Generally, there are no minimum amounts that an employee may contribute; there are, however, annual maximum limits that are set by the Internal Revenue Code. Both the employee and employer contributions can be either a flat amount or a percentage of the employee’s pay, although the latter is more prevalent. In 2009, 62 percent of earnings, with one-half of the plans matching employee contributions up to 6 percent of earnings and the remaining half of plans matching lower contribution ceilings, typically 3 or 4 percent of earnings. Alternatively, matching contributions varied, including an amount based on the level of employee contribution.

A deferred profit-sharing plan is a plan under which the company contributes a fixed or discretionary amount to employee accounts, based on the amount of company profits. The contributions may be spread equally among all employees or may be based on the employee’s salary.

A money purchase pension plan provides fixed employer contributions, typically calculated as a percentage of employee earnings. The contributions are allocated to individual employee accounts each year. Some plans may allow employee contributions, but employees are not required to make contributions.

A savings incentive match plan (SIMPLE) is limited to employers with 100 or fewer employees who do not have any other qualified retirement plan. SIMPLE plans can be either part of a 401(k) plan or established as individual retirement accounts (IRAs).

An employee stock ownership plan (ESOP) is a plan under which the employer pays a designated amount into a fund that is typically invested in company-related stock. Upon retirement, funds in the plan are distributed to employees according to a formula.

A simplified employee pension plan (SEP) is a defined contribution plan whereby employers of any size business establish individual accounts for employees at a financial institution. Only the employer contributes to a SEP. Employer contributions to the accounts must be made for all eligible employees. The employer may contribute any amount each year, as long as total contributions from the employer do not exceed limits set by the Internal Revenue Code.

Rate of worker participation

The rate of worker participation varies widely by type of plan. In 2009, all private sector workers who participated in a defined contribution plan, 64 percent participated in a savings and thrift plan, the most prevalent type of plan, 23 percent participated in a deferred profit-sharing plan, and 4 percent participated in an ESOP. The rate of participation also varies widely by worker and establishment characteristics. (See table 1.)

<table>
<thead>
<tr>
<th>Type of plan</th>
<th>Savings and thrift</th>
<th>Deferred profit sharing</th>
<th>Money purchase pension</th>
<th>Savings incentive match plan (SIMPLE)</th>
<th>Employee stock ownership (ESOP)</th>
<th>Simplified employee pension (SEP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All workers</td>
<td>64</td>
<td>23</td>
<td>18</td>
<td>4</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Management, professional, and related</td>
<td>70</td>
<td>19</td>
<td>21</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Service</td>
<td>58</td>
<td>16</td>
<td>20</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Sales and office</td>
<td>60</td>
<td>28</td>
<td>14</td>
<td>5</td>
<td>4</td>
<td>–</td>
</tr>
<tr>
<td>Natural resources, construction, and maintenance</td>
<td>55</td>
<td>19</td>
<td>25</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Production, transportation, and material moving</td>
<td>65</td>
<td>26</td>
<td>16</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Union</td>
<td>57</td>
<td>16</td>
<td>37</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Nonunion</td>
<td>65</td>
<td>23</td>
<td>16</td>
<td>4</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

Establishment characteristic

Goods-producing industries | 63 | 24 | 21 | – | – | – |
Service-providing industries | 64 | 22 | 17 | 4 | 5 | – |
1 to 99 workers | 56 | 25 | 15 | 9 | 4 | 4 |
100 or more workers | 70 | 21 | 20 | – | – | – |

NOTE: Dash indicates no workers in this category or data did not meet publication criteria. Sums of individual items may be greater than 100 because multiple defined contribution plan types are available to some employees.

Table 1: Private industry workers’ participation in defined contribution plans, by type of plan and selected worker and establishment characteristics, 2009, in percent
Types of Defined Contribution Plans

A savings and thrift plan requires an employee to contribute a predetermined amount of earnings into an individual account, all or part of which may be matched by the employer. Generally, there are no minimum amounts that an employee may contribute; there are, however, annual maximum limits that are set by the Internal Revenue Code. Both the employee and employer contributions can be either a flat amount or a percentage of the employee’s pay, although the latter is more prevalent. In 2009, 62 percent of savings and thrift plan participants in private industry were in plans where the employer matched up to a specified percentage of employee earnings, with one-half of the plans matching employee contributions up to 6 percent of earnings and the remaining half of plans matching lower contribution ceilings, typically 3 or 4 percent of earnings. Alternatively, matching contributions varied, including an amount based on the level of employee contribution.

A deferred profit-sharing plan is a plan under which the company contributes a fixed or discretionary amount to employee accounts, based on the amount of company profits. The contributions may be spread equally among all employees or may be based on the employee’s salary.

A money purchase pension plan provides fixed employer contributions, typically calculated as a percentage of employee earnings. The contributions are allocated to individual employee accounts each year. Some plans may allow employee contributions, but employees are not required to make contributions.

A savings incentive match plan (SIMPLE) is limited to employers with 100 or fewer employees who do not have any other qualified retirement plan. SIMPLE plans can be either part of a 401(k) plan or established as individual retirement accounts (IRAs).

An employee stock ownership plan (ESOP) is a plan under which the employer pays a designated amount into a fund that is typically invested in company-related stock. Upon retirement, funds in the plan are distributed to employees according to a formula.

A simplified employee pension plan (SEP) is a defined contribution plan whereby employers of any size business establish individual accounts for employees at a financial institution. Only the employer contributes to a SEP. Employer contributions to the accounts must be made for all eligible employees. The employer may contribute any amount each year, as long as total contributions from the employer do not exceed limits set by the Internal Revenue Code.

Rate of worker participation

The rate of worker participation varies widely by type of plan. In 2009, of all private sector workers who participated in a defined contribution plan, 64 percent participated in a savings and thrift plan, the most prevalent type of plan, 23 percent participated in a deferred profit-sharing plan, and 4 percent participated in an ESOP. The rate of participation also varies widely by worker and establishment characteristics. (See table 1.) Note from the table that the rate of participation in all types of plans adds up to more than 100 percent. This is because the design of a company’s defined contribution plans sometimes includes several different types of plans. For example, a savings and thrift plan may be combined with a profit-sharing plan that is aimed at fostering worker commitment to company goals.

Method of contribution

Employees have two methods for contributing funds to defined contribution retirement plans: through traditional 401(k) pretax contributions or through Roth 401(k) posttax contributions. Traditional 401(k) pretax contributions are a feature of defined contribution plans that allows employees to make pretax contributions to deferred compensation plans through salary reduction agreements. The before-tax contributions, as well as any investment growth in the plan, are not subject to Federal or most State income taxes until funds are withdrawn from the plan. Upon distribution, all contributions and earnings are subject to income taxes. Roth 401(k) posttax contributions are a feature of defined contribution plans that allows employees to make posttax contributions to all of their retirement plan contributions on a posttax basis. Plans with the Roth 401(k) feature are hybrids that combine elements of both Roth IRAs and traditional 401(k) plans. Posttax contributions and their earn-
**Defined contribution plan.** A defined contribution retirement plan specifies the level of employer and employee contributions and places those contributions into individual employee accounts. Retirement benefits are based on the level of contributions, plus earnings, that have accumulated in the account at the time of retirement.

**Access to a plan.** An employee has access to a plan if the employee is in an occupation that is offered the plan. By definition, either all employees in an occupation have access to a plan or none have access.

**Participation.** Participation is the percentage of employees who actually enroll in a benefit plan. A plan may be a contributory plan, which requires employees to contribute to the plan’s cost, or a noncontributory plan, in which the employer pays 100 percent of the cost of the benefit.

**Individual retirement accounts (IRAs).** An IRA is a retirement savings plan. There are several types of IRAs: traditional IRAs, Roth IRAs, savings incentive match plans for employees (SIMPLE) IRAs, and simplified employee pension (SEP) IRAs. Traditional and Roth IRAs are established by individuals who are allowed to contribute earnings up to a set maximum dollar amount. SIMPLE and SEPs are retirement plans established by employers.

**Employer matching contributions.** The employer matches a specified percentage of employee contributions. The matching percentage can vary by length of service, amount of employee contribution, or other factors.

---

**TABLE 2**

Private industry workers’ method of contribution to defined contribution plans, by selected worker and establishment characteristics, 2009, in percent

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Pretax contribution</th>
<th>Roth 401(k) (post-tax) contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>All workers</td>
<td>43%</td>
<td>20%</td>
</tr>
<tr>
<td>Management, professional, and related</td>
<td>28%</td>
<td>32%</td>
</tr>
<tr>
<td>Service</td>
<td>28%</td>
<td>42%</td>
</tr>
<tr>
<td>Sales and office</td>
<td>24%</td>
<td>42%</td>
</tr>
<tr>
<td>Natural resources, construction, and maintenance</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Production, transportation, and material moving</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Union</td>
<td>20%</td>
<td>26%</td>
</tr>
<tr>
<td>Nonunion</td>
<td>26%</td>
<td>24%</td>
</tr>
</tbody>
</table>

**Goods-producing industries** | 72% | 11%  |
**Service-providing industries** | 83% | 25%  |
**1 to 99 workers** | 76% | 17%  |
**100 or more workers** | 86% | 26%  |

Note: Sums of individual items may be greater than 100 percent because multiple methods of contribution are available to some employees. Sums of individual items may be less than 100 percent because the contribution method is not determinable.

---

The next Program Perspectives will feature high deductible health plans.

---

**Six Ways to Save for Retirement**

Defined contribution retirement plans are a mainstay of employer-sponsored retirement benefit plans. In March 2010, 41 percent of private sector workers participated in employer-sponsored defined contribution plans. (See chart.) These plans often provide workers with incentives to save for retirement through matching contributions, thereby encouraging workers to take an active role in retirement planning. In general, defined contribution plans aim to put investment decisions into the hands of workers and they provide options for investing retirement funds. However, the worker also bears an investment risk: the payout of defined contribution plans is determined by the amount of money contributed to the plan and the rate of return of the money invested over time.


---

**FROM PAGE 3**

Incentives are not subject to income tax upon distribution.

Of all private sector workers who participated in defined contribution plans in 2009, 82 percent participated in plans that made pretax contributions and 22 percent participated in plans that made posttax (Roth 401(k)) contributions, with the method of contribution varying by worker and establishment characteristics. For example, 17 percent of workers in small establishments participated in a plan that made posttax contributions, and 26 percent of workers in large establishments participated in such plans. (See table 2.)

The next Program Perspectives will feature high deductible health plans.

---

For additional assistance on benefits, contact one of our information offices:

**NATIONAL:** WASHINGTON, DC
(202) 691-6199 TDD: (800) 877-8339
NCSinfo@bls.gov www.bls.gov/ebns

REGIONS:
ATLANTA (404) 893-4222
BOSTON (617) 565-2327
CHICAGO (312) 353-1880
DALLAS (972) 850-4800
KANSAS CITY (816) 283-7000

NEW YORK (646) 264-3600
PHILADELPHIA (215) 597-3282
SAN FRANCISCO (415) 625-2270

NATIONAL: BUREAU OF LABOR STATISTICS U.S. DEPARTMENT OF LABOR

---

**NATIONAL COMPENSATION SURVEY**

www.bls.gov/ncs

Benefit Series

STATE AND LOCAL GOVERNMENT EMPLOYEE BENEFITS

SICK LEAVE AND DISABILITY BENEFIT COMBINATIONS

DEFINED-CONTRIBUTION RETIREMENT PLAN TYPES

HIGH DEDUCTIBLE HEALTH PLANS

HEALTH BENEFIT COSTS BY WAGE CATEGORY

DEFINED-CONTRIBUTION PLAN INVESTMENT CHOICES

OUTPATIENT PRESCRIPTION DRUG COVERAGE

continued inside