The Defined Contribution Plans Of *Fortune* 100 Companies for the 2010 Plan Year

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American workers increasingly rely on defined contribution (DC) plans, such as 401(k) plans, to save and invest for retirement. Thus, hits to workers' 401(k) savings together with the lingering fallout from the financial crisis have forced many employees to delay retirement. Given the prominent role 401(k) plans play in the financial security of millions of Americans and the widespread lack of retirement readiness, the design and operation of these plans warrant thorough evaluation and careful management.

This Towers Watson study[1] analyzes *Fortune* 100 companies'[2] accounting reports attached to Form 5500 filings for their largest DC plan covering salaried employees for the 2010 plan year.[3] The analysis looks at eligibility and vesting rules, employee and employer contributions, and plan investments, as well as five-year trends in plan design and practices.

As the data are publicly available, the sample and data are well defined and consistent, with no apparent sample bias.

Analysis highlights

- Of *Fortune* 100 companies that offer only DC plans to new hires, 51% offered both matching and non-matching contributions, and 46% offered matching contributions only. Seventy-six percent of *Fortune* 100 companies with active defined benefit (DB) plans offered only matching contributions, and 21% offered both matching and non-matching contributions.
- Companies that offer only DC plans to new hires contributed an average 6.4% of pay, while contributions from companies that sponsor both an active DB plan and a DC plan averaged 4.6% of pay. After freezing or closing their DB plan, many employers added a non-matching contribution to the DC plan design and contributed more to the DC plan.
- The majority of companies allowed participants to direct employer contributions as they saw fit, while a very small minority continued to provide employer contributions in company stock.
- Investment returns on DC plan assets averaged 12.5% during 2010 for companies in this analysis.
- The percentage of current *Fortune* 100 companies with automatic enrollment in 2010 was 43%. Of these, 43% automatically increased employee contributions over time.

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Aggregate cash flow statement for 2010 *Fortune* 100

Among *Fortune* 100[4] companies, individual corporate net revenue was at least $25.6 billion, and DC plan assets averaged roughly $6 billion in 2010. These DC plans held approximately $598 billion in total assets, as shown in *Figure 1*.

Figure 1. Aggregate cash flow statement of DC plans in the 2010 *Fortune* 100

	2010 ($ billions)
Beginning-of-year assets	$520
Company contributions	$14
Employee contributions	$26
Rollovers, incoming transfers, other contributions	$15
Appreciation/depreciation, dividends and interest (investment Income)	$65
Benefit payments	–$41
Expenses, outgoing transfers and other reductions	–$1
End-of-year assets	$598

Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

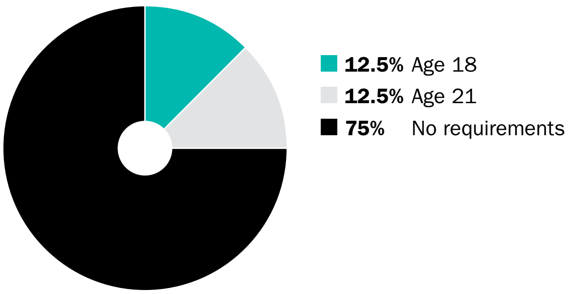
[1] For last year's analysis, see Towers Watson, "The Defined Contribution Plans of *Fortune* 100 Companies in 2009," *Insider,* February 2011.

[2] *Fortune* magazine's annual *Fortune* 100 (2011) list consists of the largest U.S. companies based on net revenue.

[3] Ninety-five percent of the *Fortune* 100 employers in this study use the calendar plan year as reported in their Form 5500 filings. Results on investment returns are reported only for companies using a calendar plan year, but other results reflect all companies regardless of fiscal year-end date.

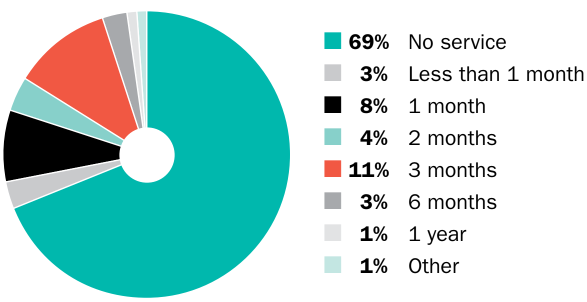
[4] Our analysis does not reflect two *Fortune* 100 companies whose accounting reports were not available on the Department of Labor website.

Figure 2. Age requirements for DC plan participation among *Fortune* 100 companies



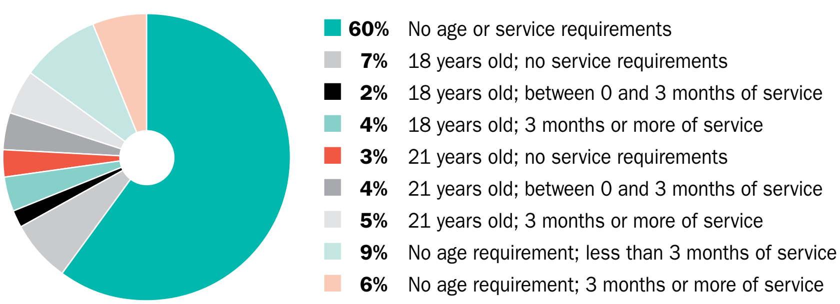
N=95
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 3. Service requirements for DC plan participation among *Fortune* 100 companies (employee contributions only)



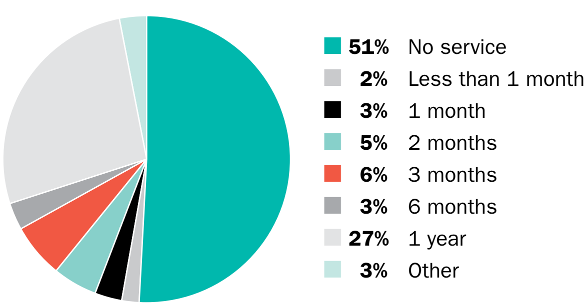
N=94
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 4. Combination of age and service requirements for DC plan participation among *Fortune* 100 companies (employee contributions only)



N=94
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 5. Service requirements for employer contributions among *Fortune* 100 companies



N=90
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Aggregate plan assets grew by 15% in 2010 — compared with 21% in 2009 — with much of the growth attributable to investment gains. Employers in this analysis contributed roughly $14 billion to their DC plans in 2010. *Fortune* 100 companies contributed $13 billion to their DC plans for the 2009 plan year, according to last year's analysis.

Eligibility and vesting requirements for DC plan participation

Most of the *Fortune* 100 companies had no age or service requirements for participating in the DC plan. Only 25% imposed an age requirement — either age 18 or 21 — and 31% had a service requirement (*Figures 2* and *3*). The most common service requirements were three months (11%) and one month (8%).

Figure 4 shows combined age and service requirements for DC plan participation.

Service requirements for receiving employer contributions

While 51% of companies had no service condition for receiving employer contributions, 27% required employees to complete one year of service before becoming eligible for employer contributions (*Figure 5*).

In 65% of companies, employees became eligible for plan participation and employer contributions at the same time. In the remaining 35%, employees had to wait for some period —the most common being one year — after becoming eligible to join the DC plan to begin receiving employer contributions.

Employer matching contributions often vest immediately

In 58% of the DC plans in this analysis, the employer's matching contributions vested immediately. Slightly more than one-quarter (28%) of plans had cliff vesting for matching contributions, and 14% used a graded vesting schedule that began during the second year of service and continued for another one to four years, typically ending with the fifth year.

With cliff vesting, employees must meet a service requirement (usually three years) before they can take company contributions with them if they leave their employer. With graded vesting, the amount employees can take with them depends on how long they worked for the company. *Figure 6* (next page) shows 2010 vesting requirements.

Employer non-matching contributions usually take longer to vest

Most employees undergo some waiting period before becoming fully vested in non-matching contributions (*Figure 7*). Of *Fortune* 100 employers offering non-matching contributions, 56% used cliff vesting (typically a three-year schedule), 31% vested them immediately and 13% used a graded schedule.

Among employers that offer both a matching and non-matching contribution, 70% had the same vesting requirements for both types of contributions, while 30% had different vesting requirements. For those with different requirements, the vesting period for non-matching contributions was longer than the vesting period for the match.

Contributions and match rates

Employers with active DB plans are less likely to offer non-matching contributions

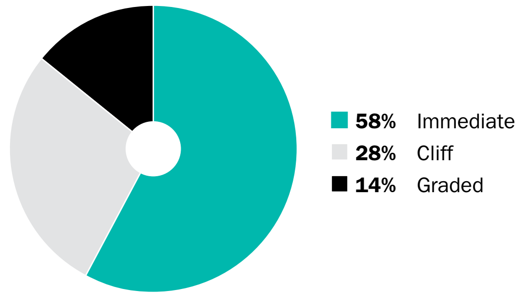
In 2010, 55% of *Fortune* 100 companies made only matching contributions to DC accounts, and 42% made both matching and non-matching contributions (*Figure 8*). Only one of these employers contributed nothing to its employees' 401(k) accounts, and two made only non-matching contributions.

Of companies offering only a DC plan to newly hired employees in 2010, 51% offered both matching and non-matching contributions, 46% offered only matching contributions, and 3% made only non-matching contributions. Of companies with active DB plans — those open to newly hired employees — 76% offered only matching contributions to their 401(k) plans, 21% offered both matching and non-matching contributions, and 3% provided neither.[5]

Several companies introduced the non-matching contribution to the DC plan shortly after freezing or closing the DB plan, presumably to mitigate the DB pension loss.

[5] Roughly 31% of companies in this analysis have an active DB plan for salaried employees, according to various other sources.

Figure 6. Vesting requirements for receiving company matching contributions among *Fortune* 100 companies



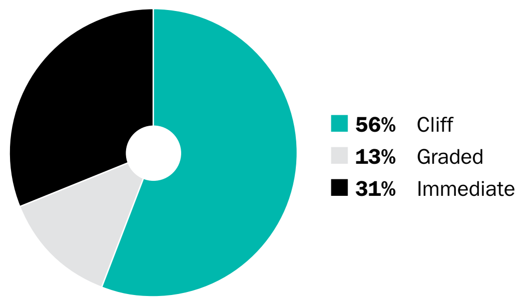
N=93

Of those who have cliff vesting (N=26)	
1 year	**4%**
2 years	**38%**
3 years	**58%**

Of those who have graded vesting (N=12)	
Over 2 years	**8%**
Over 3 years	**8%**
Over 4 years	**15%**
Over 5 years	**54%**
Over 6 years	**15%**

Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 7. Vesting requirements for non-matching contributions among *Fortune* 100 companies



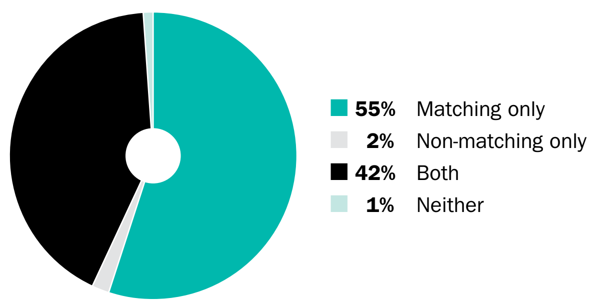
N=39

Of those who have cliff vesting (N=22)	
2 years	**27%**
3 years	**63%**
Other	**10%**

Of those who have graded vesting (N=5)	
Over 4 years	**20%**
Over 5 years	**80%**

Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 8. Types of employer contributions provided to newly hired employees among *Fortune* 100 companies



N=98

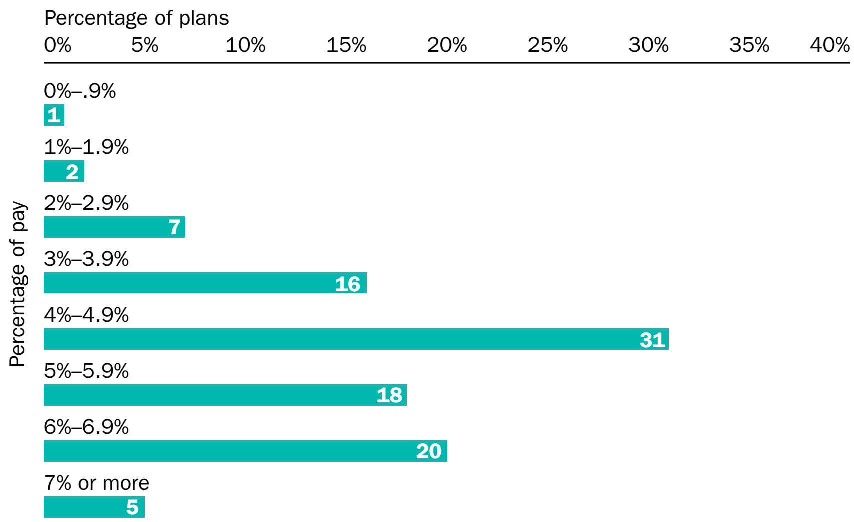
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Employers with only DC plans make higher contributions as a percentage of pay

This analysis defines matching contributions as the maximum match offered by the employer. In 2010, the average matching contribution to DC plans sponsored by the *Fortune* 100 companies was approximately 4.5% of pay, while the median was roughly 4.3% of pay. *Figure 9* shows the distribution of employer matching contributions.

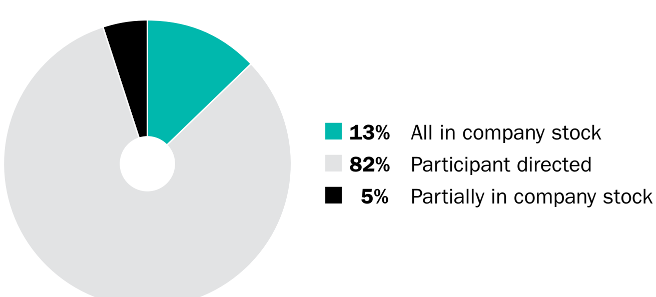
Among *Fortune* 100 companies providing non-matching contributions in 2010, the amounts were fixed in 58% of them, with the average being 3.2% of pay and the median 3.0%. In the other 42% of companies offering a non-matching contribution, contributions are made at the employer's discretion and range from 0 to 15% of compensation. Almost a quarter (22%) of plans with discretionary non-matching contributions did not make them in 2010.

Figure 9. Distribution of employer matching contributions among *Fortune* 100* companies



N=95
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 10. How matching contributions are invested



N=95
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

In 2010, total contributions (matching plus non-matching) for all *Fortune* 100 companies averaged 5.9% of pay, while the median was 5.0% of pay.[6]

In companies offering only a DC plan to new hires in 2010, the average matching contribution was 4.6% of pay, and the median matching contribution was 4.5% of pay. Of those offering a non-matching contribution, 62% of the contributions were fixed and 38% were discretionary. For 2010, average and median fixed non-matching contributions were 3.4% and 3.0%, respectively. Total contributions (matching plus non-matching) made by companies offering only DC plans to new workers averaged 6.4% of pay, while the median was 6.0%.

Companies that sponsor both an active DB plan and a DC plan contributed less — for 2010, the average matching contribution was 4.1% of pay, and the median was 4.0%. DB plan sponsors contributed an average (matching plus non-matching) 4.6% of pay to the DC plan, and a median 4.3% of pay.

Investment of matching contributions is mostly participant-directed

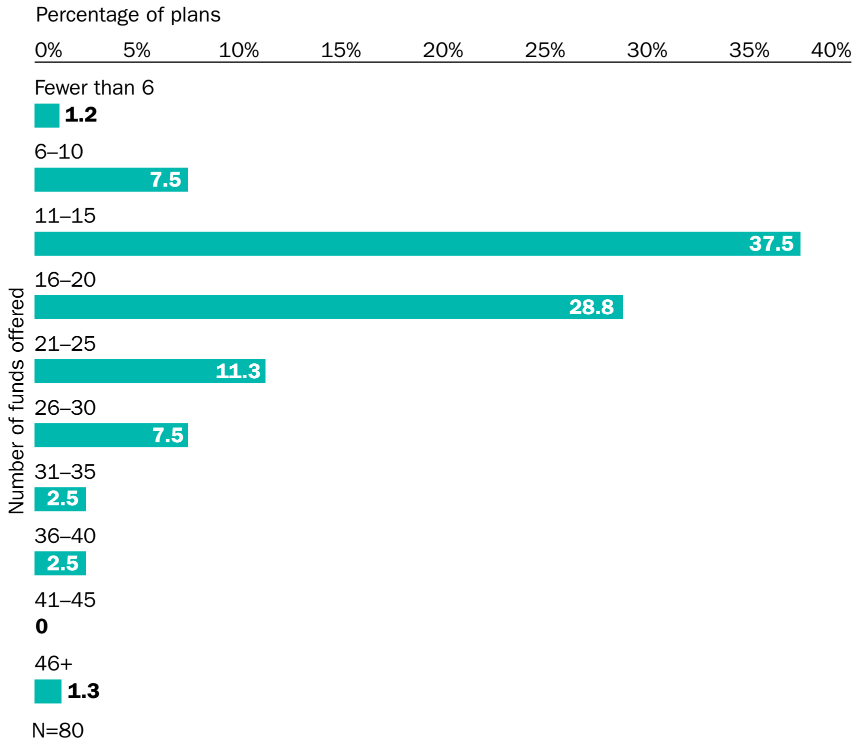
Investment of employer contributions to employees' DC accounts takes different forms. The investment might be at the participant's direction, in company stock or a combination of the two. As shown in *Figure 10,* 82% of plans allow participants to choose their investment. Of the remaining employers, 13% make contributions in the form of employer stock, and 5% split their contributions between employer stock and participant direction.

All but two of the companies whose matches are in company stock allow employees to diversify out of the company stock immediately. The other two companies allow diversification according to the plan's vesting rules.

[6] Of filers that provided a discretionary non-match over the last year and reported the contribution amount as a range, the study used the maximum value.

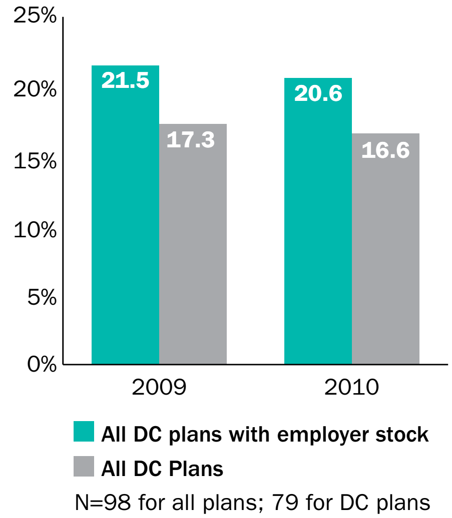
"Almost a quarter (22%) of plans with discretionary non-matching contributions did not make them in 2010."

Figure 11. Investment funds offered in DC plans among *Fortune* 100 companies*



*This analysis considers target date funds and brokerage windows as one investment option.
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 12. Average allocation of plan assets to employer stock in *Fortune* 100 DC plans



Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Plan investments

Most companies offer 11 to 20 investment options

In 2010, these *Fortune* 100 companies' DC plans offered four to 62 investment options, with a median of 16 funds. *Figure 11* shows the distribution of the number of options offered.

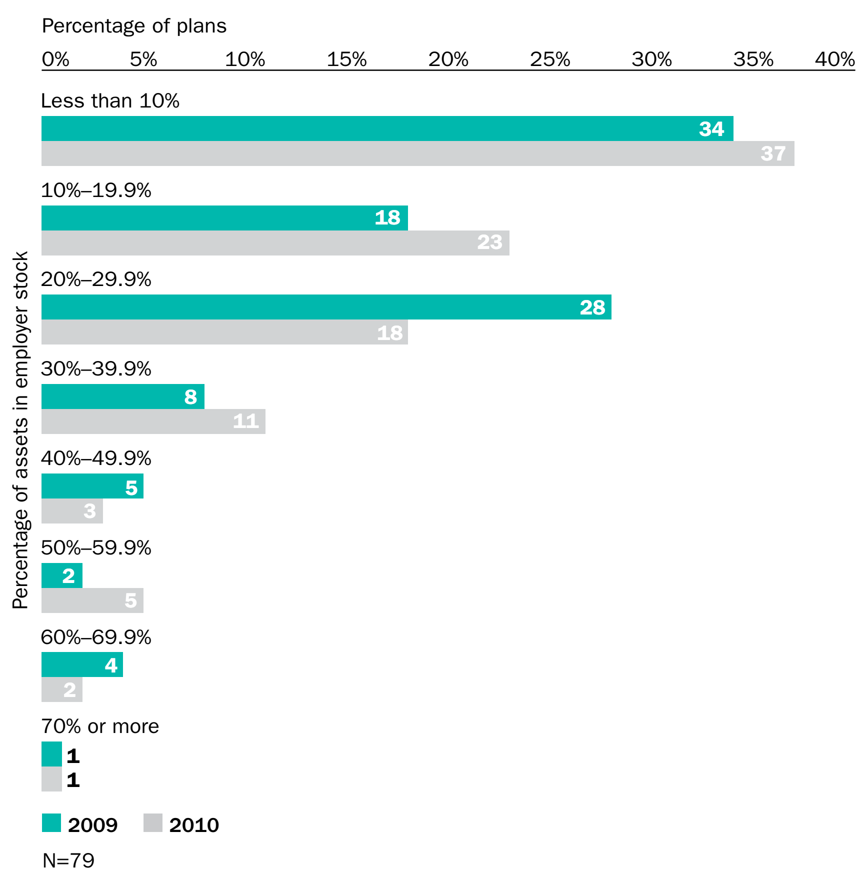
Prevalence of employer stock in DC plans declines

Between 2009 and 2010, the overall percentage of plan assets invested in employer stock declined slightly (*Figure 12*). Asset allocations in 79 of 98 companies (81%) included employer stock.[7] Among all *Fortune* 100 companies in this analysis, 16.6% of plan assets were allocated in company stock. Among those whose plan assets include company stock, the holdings made up 20.6% of plan assets.

At the plan level, the percentage of assets invested in employer stock varied, as shown in *Figure 13*. Of DC plans holding company stock, 37% had less than 10% of their assets in employer stock at year-end 2010, and 23% held between 10% and 19.9%. The majority of DC plans with company stock — roughly 78% — invested less than 30% of their assets in company stock during 2010. Only one of the *Fortune* 100 plans with company stock invested more than 70% of plan assets in this asset class in 2010.

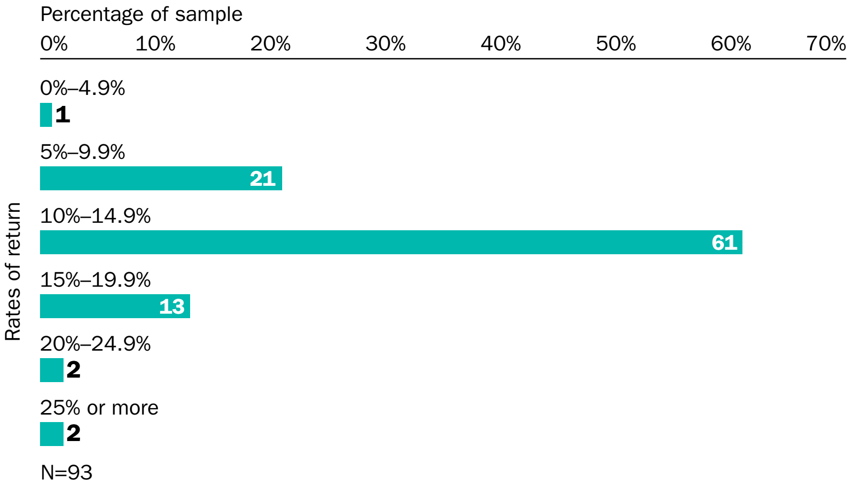
[7] Seven of the 19 *Fortune* 100 companies that maintain employer stock in their plan assets do not offer publicly traded stock.

Figure 13. Distribution of net plan assets in employer stock in companies that maintain this investment class (2009 versus 2010)



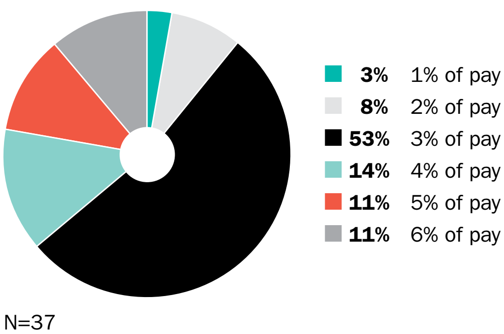
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 14. Distribution of *Fortune* 100 investment returns in DC plans for 2010



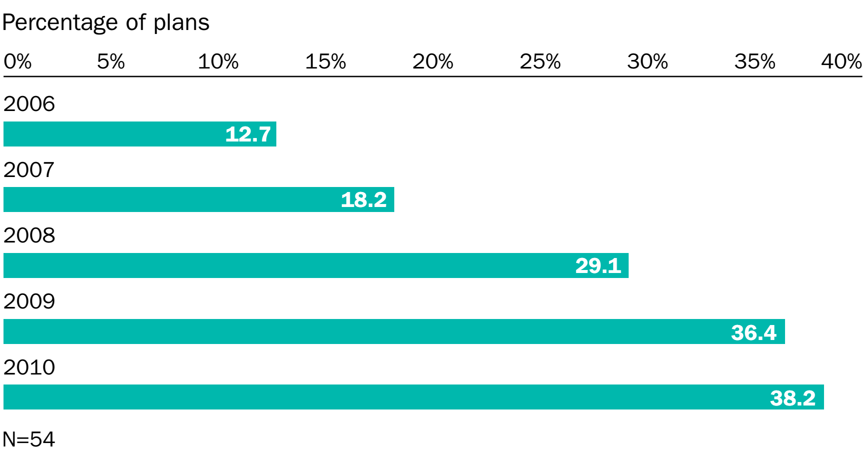
Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 15. Default employee contribution rates among *Fortune* 100 companies with automatic enrollment



Source: Towers Watson analysis of 2010 Form 5500 filings for *Fortune* 100 companies.

Figure 16. Automatic enrollment among *Fortune* 100 companies, 2006–2010



Source: Towers Watson analysis of 2006–2010 Form 5500 filings for *Fortune* 100 companies.

Between 2009 and 2010, the number of DC plans with relatively low allocations to company stock increased — the percentage investing less than 10% of plan assets in company stock rose from 34% to 37%. Similarly, the number of plans investing between 10% and 19.9% in company stock rose from 18% in 2009 to 23% in 2010.

Investment returns strong in 2010

For the DC calendar-year plans of *Fortune* 100 companies for which data were available, investment returns on plan assets averaged 12.5% during 2010, and the median return was 12.2%. Returns ranged between 10% and 14.9% for 61% of these plans. *Figure 14* shows the distribution of 2010 investment returns across plans.

Among the companies in this study that also manage DB plan assets, the average return on DC plan assets was 12.5%, while the average return on DB plan assets was 13.0%.

Automatic enrollment

Forty-three percent of companies on today's *Fortune* 100 list automatically enroll employees in their DC plans. Of these, 43% also automatically increase employees' contribution percentages over time, with all but two increasing them by 1% annually. In 2010, the initial default contribution percentage was most commonly 3%, although it ranged from 1% to 6%. Contributions can eventually reach 15% of an employee's salary through such auto-escalation provisions. *Figure 15* shows the distribution of initial default contribution percentages for companies with automatic enrollment.

Five-Year trends

Towers Watson has been conducting this analysis for five years, and we analyzed data on the 54 companies in our study for all five years to see trends over time.

Automatic enrollment becoming increasingly popular

Among the 54 *Fortune* 100 companies in the five-year group, automatic enrollment jumped from 13% in 2006 to 38% in 2010 (*Figure 16*).

Employer stock becoming less prevalent

Employer stock as a percentage of total assets fell in each of the last five years. *Figure 17* (next page) shows the steady shift away from employer stock.

Investment returns over last five years have fluctuated widely

Figure 18 (next page) shows returns on DC plan assets over the last five years. The five-year average was 5.72%.

After freezing/closing DB plan, companies contribute more to DC plans

Of the 54 companies in the study group for the last five years, 20 froze or closed their DB plans between year-end 2006 and the beginning of 2011. To mitigate the loss of retirement income, many of these companies made changes to their DC plans — most often in contribution types and amounts.

After freezing or closing their DB plan, many employers added a non-matching contribution to the DC plan design. In 2006, 75% of these plans provided only matching contributions, 20% provided both matching and non-matching contributions, and 5% made no contributions. In 2010, 75% of these plans made both matching and non-matching contributions, and 25% provided matching contributions only.

Many of these employers also increased total contributions to their DC plans as a percentage of pay. Among this group in 2006, the average and median total employer contributions to DC plans were 4.4% and 4.5% of pay, respectively. By 2010 — after closing or freezing their DB plan — the group's average and median total employer contributions were 7.1% and 7.7%, respectively. For most participants, however, these higher contributions are not likely to fully replace the future retirement income associated with an active DB plan.

Conclusion

DC plans have become increasingly important to American workers. All the *Fortune* 100 employers offer 401(k) plans, and the vast majority offer them to all employees with one month or less of service. Moreover, almost all these employers offer matching contributions, and many also make non-matching contributions.

For DC plans to be effective retirement savings vehicles, employees must take advantage of them. Employers are moving beyond making these benefits available — they are designing plans to encourage employees to participate, to save more and to make educated investment decisions. Of companies in this study, for example, roughly two in five automatically enroll employees in their 401(k) plan. Assuming DC plans continue to provide an increasingly large share of retirees' income, employers will likely keep enhancing their DC plan designs and introducing new features to help employees meet their income needs.

Figure 17. Plan assets held in employer stock among *Fortune* 100 companies, 2006–2010

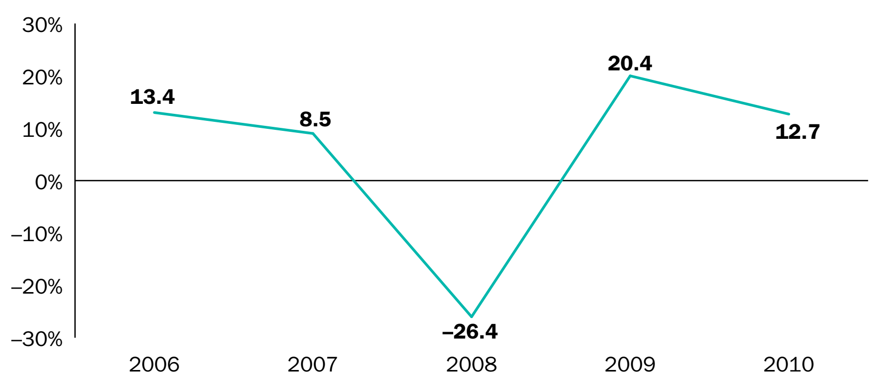
Percentage of assets in company stock

N=52

Source: Towers Watson analysis of 2006–2010 Form 5500 filings for *Fortune* 100 companies.

Figure 18. Investment returns in *Fortune* 100 DC plans, 2006–2010

Average rate of return



N=51

Source: Towers Watson analysis of 2006–2010 Form 5500 filings for *Fortune* 100 companies.

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