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## Our 401(k) System, in Black and White

By Kerry Pechter     *Thu, Mar 6, 2014*

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*Bloomberg and Strategic Insights gave two opposing views of defined contribution plans in separate reports in recent weeks. Bloomberg reporters called DC plan sponsors stingy. Strategic Insights, in a broader survey, found an opposite trend.*

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Are 401(k) plan sponsors becoming more or less generous to participants as time goes by?

Anybody who read Bloomberg's February 20 expose would have gotten the impression that "stingy" sponsors have been sapping "hundreds of thousands of dollars" from employees' nest eggs.

Some of the largest sponsors, wrote Bloomberg's Carol Hymowitz and Margaret Collins, are saving money by delaying annual matches until after the end of the year, thus denying a year's worth of match to any employee who left service before December 31.

But a report from research firm Strategic Insight, issued this week, gave a much rosier impression. "Plan design features that saw aggregate improvements [between 2009 and 2013] include employer matching contributions, formulas, schedules and vesting," according to an analysis by Bridget Bearden, head of defined contribution retirement research at SI.

The contrast in the two stories is not surprising, given the sharp polarization in viewpoints of the defined contribution industry. Those with great plans (or who advocate for the industry) regard the 401(k) glass as at least half-full. Those with no plan (or who advocate for the roughly half of full-time workers who can't save at work) regard it as half-empty.

At first glance, the Bloomberg/Strategic Insight discrepancy seemed remarkable, because both parties appeared to be drawing opposite conclusions from the same data. I asked Bearden how that could be. She said Bloomberg used a tiny sample size and SI used a much bigger one.

"The biggest difference between the reports is the sample size and framing of the data," she replied in an email. "Our analysis is based on several years of survey work by our affiliate *Plansponsor* magazine. In each of the past several years for which we analyzed the data, more than 5,000 plan sponsors participated.

"For example, Bloomberg found 57 large companies that posted information about their matches on their '5500' forms. [A disclosure required by the Department of Labor.] The charts highlight that of those 57, only 17 (30%) matched annually. The part that 70% (the majority) match in increments other than annual is missed. Other percentages posted also reflect minorities in terms of both the sample size and the overall population of plan sponsors," Bearden wrote.

In other words, they didn't draw from exactly the same data.

The two stories could not have been more different in the portrait they painted of plan sponsors. The Bloomberg story charged that 23% of the companies that reinstated their matches after the financial crisis

cut contributions. And it named names of companies that had switched to once-a-year contributions. Blue-chip companies like AOL, JP Morgan Chase, Oracle and IBM—17 in all—were put through a virtual perp walk across the Bloomberg/BusinessWeek website.

The reporters also compared the reality to an ideal. Bloomberg/Businessweek.com's [infographic](#) showed the difference in accumulations in a defined contribution account over a 40-year span between an account with a 3% match and a 6% match. The assumed average growth rate was 6%. The accumulations were \$624,062 and \$812,636, for a difference of about \$188,500.

The SI report, by contrast, took a more Panglossian view. It boasted that the “percentage of employers matching 50%-99% of the first 6% rose to 58% in 2013 from 52% in 2009, while the percentage of employers saying that their match was less than 50% of the first 6% fell to 22% in 2013 from 31% in 2009.”

Over 80% of plan sponsors match contributions within three months, SI said. Seventy-seven percent of sponsors in 2013 said the match frequency was “each pay period.” The percentage of plan sponsors that match annually declined from 15% in 2012 to just 14% in 2013.

In the 401(k) debate, as in most debates, anyone can cherry-pick the examples or create glossy averages and paint any picture they want. When there are hundreds of thousands of plans, you can connect the dots in an infinite number of ways. I'd guess that the situation isn't as dismal as Bloomberg imagines or as reassuring as Strategic Insights suggests.

Life, after all, isn't fair. Millions of us compete for a finite number of positions at profitable companies with excellent medical and retirement benefits. Some of us are fortunate enough to work for such companies our whole lives. Others are fortunate enough to work for such companies for part of our careers. Many aren't fortunate at all. But the expectation of parity in 401(k) plans is a straw man argument. (Also, the 401(k) match is just one piece of the compensation picture at a company.)

Full disclosure: I've had good and bad experiences with the 401(k). One of my employers patently underpaid everyone by 10% but, in an addition to a match and profit sharing, it volunteered an extra 10% of salary to the each person's 401(k) account every year. I wish everyone had a plan like that. But I also worked for a much less profitable company where, on the day of my separation, I instantly lost about \$7,000 in unvested 401(k) matches because I hadn't completed the minimum three years.

We live in an opportunistic society. We sit side by side on airliners but pay different fares. Even if we send our kids to the same college, my tuition bill might be \$45,000 and yours \$10,000. Or maybe even zero. We accept or regret these discrepancies, as the case may be.

The 401(k) issue is slightly different. The federal tax break for long-term saving is supposedly available to all. But its benefits don't accrue to all, and it rewards those in higher tax brackets disproportionately. To some people, that seems regressive and unfair. The Bloomberg article may have stretched to make a point, but the concern is valid.