

May 2015

Missing out:

*How much employer 401(k)
matching contributions do
employees leave on the table?*

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EXECUTIVE SUMMARY

As the country has shifted from traditional employer-provided pensions to 401(k) style defined contribution plans, employees have become increasingly responsible for their own retirement decisions. Americans have also become more concerned about their retirement future during this time. Since 2001, a majority of Americans—59% in 2014—have placed this issue ahead of all other financial issues measured by an annual Gallup poll.¹

Given the importance of this issue, Financial Engines decided to study how well employees were taking advantage of their employer's 401(k) matching contribution. Employer matching contributions play an important role in making the 401(k) a viable retirement vehicle for Americans by influencing higher individual savings levels and adding a significant subsidy to personal savings.

Financial Engines examined the savings records of 4.4 million retirement plan participants at 553 companies.

Our study revealed three main findings:

1. One in four employees missed out and did not save enough to receive their full employer match.
 - a. In 2014, the average amount of employer match not received was \$1,336 per employee, which equates to an extra 2.4 percent of annual income missed.²
 - b. Over 20 years, this annual loss adds up to \$42,855 per plan participant.
 - c. In total, over 1 million employees in our study sample left more employer matching contributions unclaimed (\$1.4 billion) than claimed (\$1 billion).
 - d. We estimate that nationwide American employees are passing up approximately \$24 billion annually in employer matching contributions by not saving enough to receive their full employer 401(k) match.³

2. Lower-income and younger employees were much more likely than others to miss out on at least part of their employer matching contribution.

- a. Forty-two percent of plan participants earning less than \$40,000 per year do not take full advantage of the employer match versus about 10 percent of employees with incomes over \$100,000 per year.
- b. Thirty percent of younger employees missed out on the employer match compared to 16 percent of older employees. ⁴

3. Employees who benefitted from Financial Engines advisory services—including both active users of online advice and professional management—missed out less on their employer match compared to those not receiving this help.

- a. Only 15 percent of employees using advisory services missed out on some of their employer match level compared to over one-quarter (26 percent) who did among those not using advisory services.
- b. This pattern was true at every age and income level—those using advisory services were consistently better off.

How to boost savings rates:

Plan Sponsors. Plan sponsors should automatically enroll participants at a default savings rate that guarantees the full match or include automatic escalation to achieve the full match over time. These are considered best practices to improve savings and match utilizations rates. Employers should also consider adding advisory services to their retirement plan offering.

Employees. For employees seeking to save more, Financial Engines recommends the following:

- **Know your plan.** Find out how your employer 401(k) match is designed and strive to save at least enough to get the full match—the sooner the better.
- **Get professional investment help.** If you have access to professional investment help (online advice or managed accounts), take advantage of that benefit.
- **Ask a financial advisor.** Talk with a financial advisor who has a legal commitment as a fiduciary to put the interest of their clients ahead of their own.

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- **Commit to save more when you can.** If you can't afford to save enough to get the full match today, increase your savings rate when you get your next raise and each raise thereafter until you reach your 401(k) contribution limit. Or sign up for automatic escalation of your savings if your employer offers this.

Given that industry experts estimate America's retirement shortfall to range from \$4.13 trillion to \$14 trillion, increasing savings rates and match utilization levels is critical to help address this growing retirement crisis. ⁵

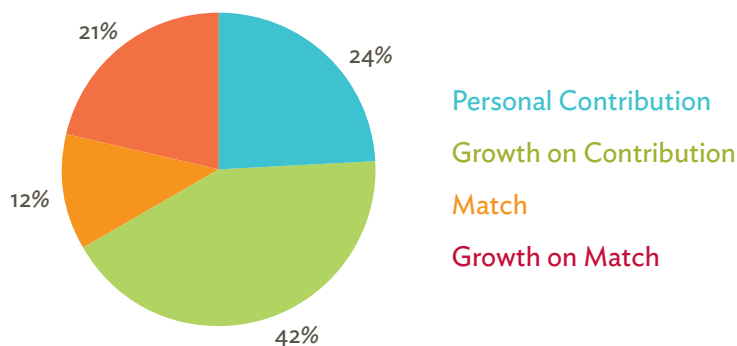
ROLE OF EMPLOYER 401(K) MATCHING CONTRIBUTIONS

Employer 401(k) matching contributions a critical part of American retirement landscape

Over the past 30 years, there has been a transformation in our nation’s workplace retirement system. Professionally directed pension plans have given way to individually managed 401(k) plans. Tens of millions of employees are now largely responsible for managing their own retirement including making decisions about how much to save from each paycheck. According to Aon Hewitt, 92 percent of employers offering a defined-contribution retirement plan match employees’ retirement savings up to a certain amount, thereby influencing their employees’ saving decisions. The most common match as of 2013 is one dollar of employer matching contribution for every dollar the employee contributes up to six percent of the employee’s annual salary.⁶ Ideally, a worker would save at least enough to receive the maximum match from their employer.

The employer matching contribution plays a crucial role in retirement savings. For a plan offering a \$.50 cents match for each \$1.00 of personal saving up to six percent of income, the employer match provides one-third of total retirement savings. In the following example, we took a 25 year-old employee with no initial savings, who consistently saved six percent of her income and received an employer match of three percent. At retirement this employee would have saved a total of \$483,776, assuming five percent real growth and 1.5 percent real salary increases. In this scenario, the employer match would provide \$161,259 or 33 percent of the total saved.

Figure 1. Importance of employer match to total retirement savings



Source: Financial Engines

Given the vital role of employer matching contributions to retirement security, it was important to study this issue.

OVERALL FINDINGS

Overall one in four employees miss out on their employer's match, \$1,336 on average per year

Financial Engines found that among the employees studied, one in four missed out on at least part of their employer match—over 1 million of the 4.4 million employees studied. Of the employees contributing below the full employer match level, 285,386 (7 percent) received no match, and the rest (792,389) received only a partial match. This population missed out on an average of \$1,336 per person annually.

Figure 2. Number and percent of employees not maximizing their employer match

4,378,445	1,077,775	25%	\$1,336
Total number of employees studied	Number of employees who did not maximize their employer match	Percent of employees who did not maximize their employer match	Average amount of match unclaimed per worker

Source: Financial Engines

The total amount of employer matching contributions not claimed by employees came to \$1.4 billion. In fact, these employees received only \$1 billion of their employer's match, so they left more money unclaimed than they received in employer matching contributions in 2014.

Figure 3. Employees who did not maximize their employer match: total match unclaimed vs. claimed, 2014



Source: Financial Engines

The \$1,336 left on the table amounts to 2.4 percent of salary on average. Thus, employees are effectively giving up the equivalent of an extra 2.4 percent of their income each year by not taking full advantage of employer matching contributions. Moreover, there are additional tax benefits that can accrue to employees who defer a greater amount of their salary to their retirement plan.

Missing out on \$1,336 each year can have a big impact over an entire working career. Over 20 years that annual loss grows into \$42,855, assuming conservatively that the worker's salary is fixed and the annual growth rate is 4.5 percent. This is relevant to a 45 year-old worker seeking to retire at age 65. The \$42,855 is only the employer match and does not include the additional savings out of the worker's own pocket that would also add up over time. For a younger 25 year-old worker, missing out on \$1,336 on average each year over 40 years adds up even more—to \$142,270.

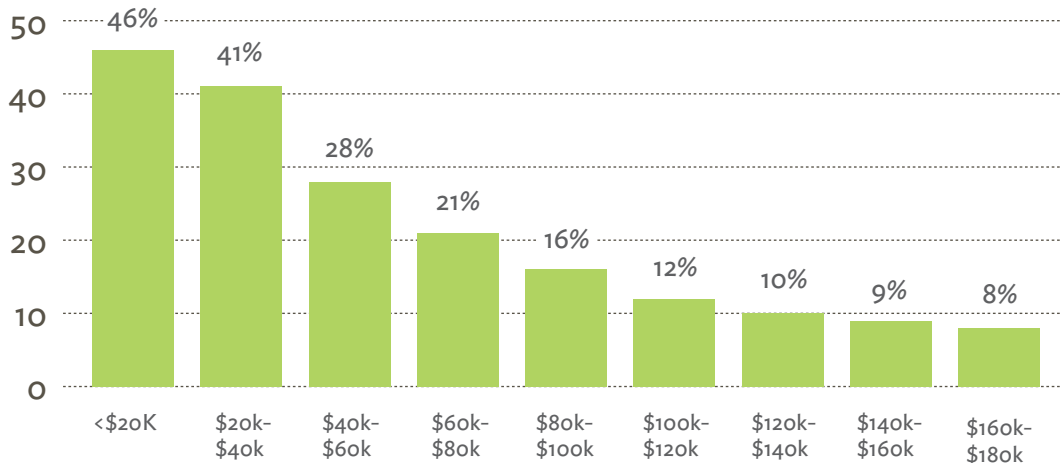
By extending this analysis to all 73.7 million American employees who are active participants in defined-contribution retirement plans we estimate that American employees nationwide are passing up approximately \$24 billion annually in employer matching contributions by not saving enough to receive their full employer 401(k) match.⁷

BY INCOME AND AGE

Lower-income and younger employees are much more likely to miss out on their employer matching contribution

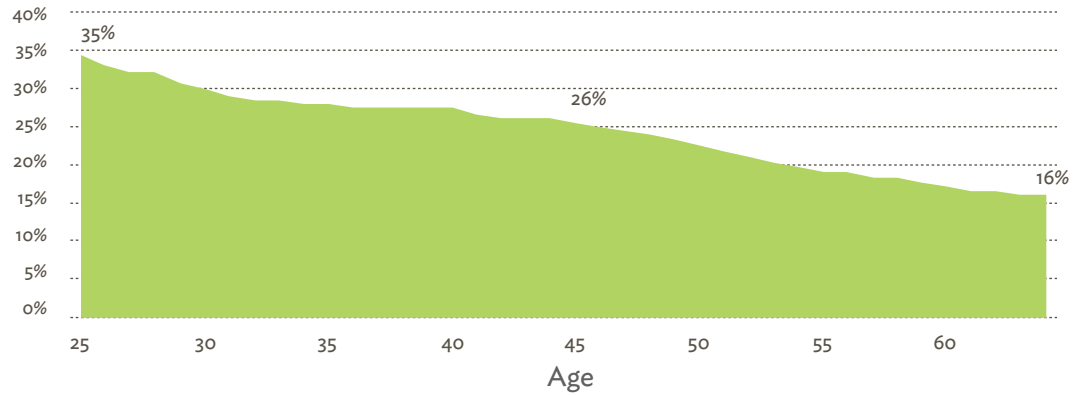
Lower-income and younger employees were much more likely than others to miss out on at least part of their employer matching contribution. Older age and higher income reduces the likelihood of an employee missing out on employer matching contributions. The effect of income was much greater than the effect of age. For example, 42 percent of people earning less than \$40,000 per year do not take full advantage of the employer match versus only about 10 percent of employees with incomes over \$100,000 per year. Thus, the highest income employees were 76 percent less likely to miss their employer match compared to those with lower incomes. Employees aged 60 and over are approximately half as likely to miss out on the employer match versus employees under age 30—16 percent versus 30 percent.

Figure 4. Percent of employees who did not maximize their employer match by income



Source: Financial Engines

Figure 5. Percent of employees who did not maximize their employer match by age



Source: Financial Engines

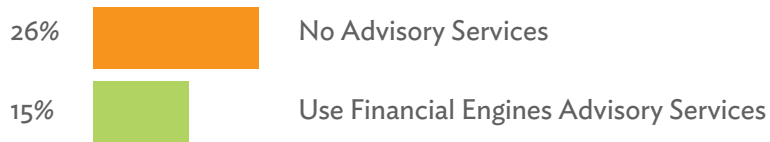
As employees age the likelihood of missing out on the full employer match declines steadily. The exception to this trend occurs during middle-age years between age 35 and 45, when the rate of decline flattens out. The 30s and 40s are often a time when employees are responsible for the cost of raising and educating dependent children, which can reduce the amount of income available for retirement savings. However, after the age of 50, more employees focus again on saving for retirement and taking full advantage of the match contributions from their employer.

BY USE OF ADVISORY SERVICES

Employees using advisory services missed out less on their employer match

Employees who benefitted from advisory services—including both active users of online advice and professional management—were more likely to receive their full employer match compared to those not using advisory services. Only 15 percent of employees using advisory services missed out on at least part of their employer match compared to over one-quarter (26 percent) who did among those not using advisory services.

Figure 6. Percent of employees not maximizing their employer match



Source: Financial Engines

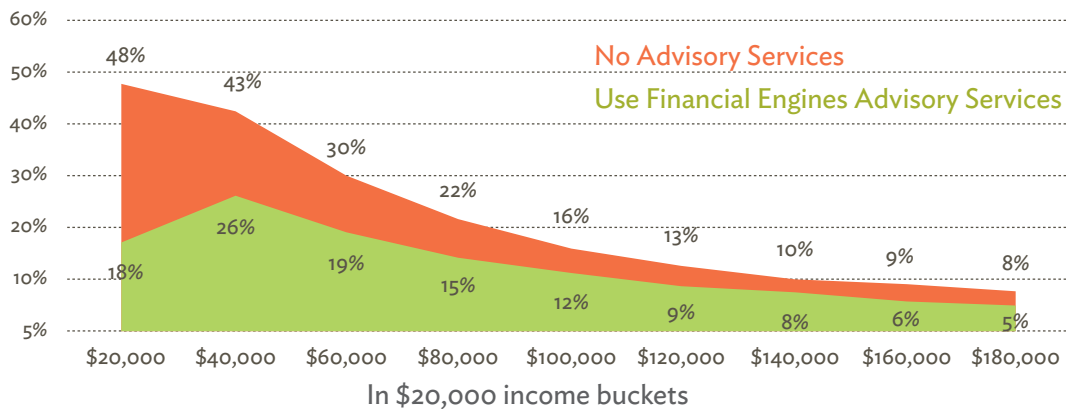
ADVISORY SERVICES BY INCOME AND AGE

At every income level, employees using Financial Engines advisory services better maximized their employer match

Employees using advisory services better maximized their employer match at every income level compared to employees who did not use these services. This is especially important for employees earning low- to moderate- incomes because these employees are more at risk of under-saving for retirement than workers with higher incomes.⁸

(See Figure 7.)

Figure 7. Percent of employees who did not maximize their employer match by income

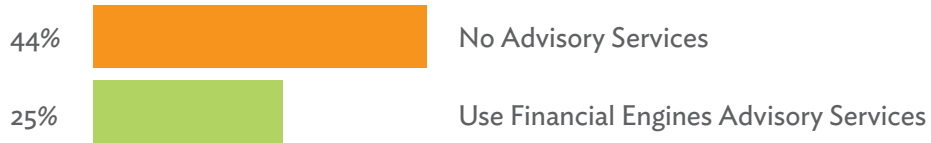


Source: Financial Engines

For example, among employees earning less than \$40,000 who did not use Financial Engines advisory services, an average of 44 percent did not maximize their employer match. Among those who used Financial Engines advisory services, 25 percent missed out on at least part of their employer match. (See Figure 8.) The proportion of low- and moderate-income employees using advisory services who missed out on part of their employer match was 43 percent lower compared to the same income group who did not use advisory services.

Figure 8. Percent of low- and moderate-income workers who did not maximize their employer match

(Income less than or equal to \$40,000)

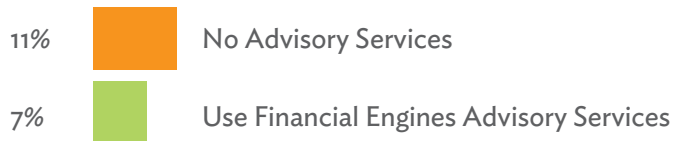


Source: Financial Engines

This basic pattern held true for every income level, though higher income employees were much less likely to contribute below the employer match level.

Figure 9. Percent of high-income workers who did not maximize their employer match

(Income greater than or equal to \$100,000)



Source: Financial Engines

BY REGION

Regional differences exist in likelihood of maximizing employer match

Financial Engines analyzed how employees in states in the Northeast, Midwest, Southern and Western regions of the country varied in their likelihood of contributing below the full employer match level.

The share of employees who contributed below the employer match level was highest in the Southern region where 27 percent of employees did not take advantage of their full employer match. The Western region had the lowest percentage of employees who missed out on their employer match at 21 percent. The Midwest and the Northeast regions had similar percentages of employees not maximizing their employer match at 22.5 percent and 22.2 percent respectively. The higher proportion of employees maximizing their employer match in the West may be in part due to the fact that the West had the highest median income of any region, at \$78,000. Midwestern employees had the lowest median income at \$60,800, but did not have the worst performance. The employees in the Midwest were less likely to miss out on at least part of their employer match level compared to those in the Southern region—22.5 versus 27 percent respectively—though the median income in the South was slightly higher than in the Midwest.

Figure 10. Analysis of match missed by region

Region	Median income	Percent of employees who did not maximize employer match	Average amount of employer match missed	Average match missed as a percent of average income
Midwest	\$60,820	23%	\$1,205	2.29%
Northeast	\$72,130	22%	\$1,473	2.34%
South	\$61,730	27%	\$1,279	2.36%
West	\$78,130	21%	\$1,599	2.45%

Source: Financial Engines

Figure 11. Percent of employees who did not maximize their employer match by region



Source: Financial Engines

There were small regional differences in the amount of employer match missed as a percent of average salary. The percent missed by salary varied from a high of 2.45 percent in the Western region to a low of 2.29 percent in the Midwest. Employees in the Midwest missed the lowest amount of match as a percent of average income. (See Figure 10.)

RECOMMENDED BEST PRACTICES

Employees and employers seeking to increase match utilization should utilize best practices

Plan Sponsors. Plan sponsors play a critical role in designing plans that can help employees save at least enough to reach their full employer match. Financial Engines recommends that plan sponsors automatically enroll participants at a default contribution rate that maximizes the employer match, or escalate savings to the full match level over time. The following are studies that support these best practices:

- A study by Vanguard entitled *Maximizing the Match in DC Plans* showed that plans with automatic enrollment did worse on maximizing the match compared to voluntary enrollment plans. This was attributed to low default savings rates in most auto-enrollment plans that place employees into a contribution rate below the full employer match level. Vanguard recommends raising initial default savings rates in automatic enrollment plans to increase the proportion of employees who maximize the employer match.⁹
- A 2013 study by Prudential Financial, Inc. showed that in retirement plans with auto-escalation for five or more years the savings rate was 21% higher than plans without auto-escalation.¹⁰
- In another study entitled *Simplification Raises Saving Rates* researchers have found that simplifying escalation decisions to a binary choice—to save enough to get the full employer match or not—resulted in 15 percent of employees who were previously contributing below the employer match level to increase their contribution level to maximize their employer match.¹¹

In addition, the PLANSPONSOR 2014 Defined Contribution (DC) Survey revealed that employees in plans offering managed accounts had higher savings rates than those in plans not offering managed accounts, or plans that offer target-date funds as the default investment. For example, in plans with over \$1 billion in assets, those with managed accounts had an average savings rate of 8.1% compared to 7.5% in plans not offering managed accounts, and 7.7% in plans offering target-date funds as default. Moreover, plans with over \$1 billion in assets offering managed accounts as a default had an even higher average savings rate of 9.2%.¹² This correlation found by PLANSPONSOR is consistent with our finding that employees who utilized Financial Engines' advisory services maximized employer matching contributions more than those who go it alone. (See *Figure 6*).

Employees. Financial Engines recommends that employees seeking to save more take the following actions. First, find out how your employer 401(k) match is designed and strive to save at least enough to get the full match—the sooner the better. The most common employer matching policy provides an immediate 100% return per dollar invested up to six percent of income.¹³ Second, if your employer offers professional investment help (online advice or managed accounts), take advantage of that benefit to receive greater insights on the importance of saving throughout the year. Third, talk with a financial advisor who has a legal commitment as a fiduciary to put the interest of their clients first. Lastly, commit to increasing your savings rate when you get your next raise and each raise thereafter until you at least reach your 401(k) contribution limit. Or sign up for automatic escalation of your savings if your employer offers this.

Adopting these best practices may help improve match utilization levels in retirement plans.

SUMMARY AND CONCLUSION

Because most American employees are now largely responsible for making their own retirement decisions, Financial Engines undertook to study how well they were doing on one big decision within their control: how much to save. In particular, we chose to study to what extent employee investors in 401(k) plans were taking full advantage of their company retirement savings match. This study did not go beyond and attempt to make any determination of what the appropriate level of total annual savings should be for employees. We remained focused on determining the level of savings that would maximize the employer matching contribution.

Financial Engines found that the economic impact of not taking full advantage of the employer match is significant. We examined the experience of 4.4 million employees at Financial Engines client companies and found that:

1. One in four employees missed out and did not save enough to receive their full employer 401(k) savings match.
 - a. The average matching contribution missed was \$1,336 per employee, which equates to an extra 2.4 percent of salary.
 - b. This annual loss adds up to \$42,855 per plan participant over 20 years.
 - c. Among employees who missed their full employer match, the total amount of match contributions left on the table (\$1.4 billion) was greater than the amount received (\$1.0 billion).
 - d. Nationwide American employees are passing up an estimated \$24 billion annually in employer matching contributions by not saving enough to receive their full employer 401(k) match.¹⁴
2. Lower-income and younger employees were much more likely than others to miss out on at least part of their employer matching contribution.
3. Regional differences exist in how well employees take advantage of their employer's 401(k) matching contribution, with the employees in the southern region being least likely to maximize their match.
4. Employees who benefitted from advisory services—including both active users of online advice and professional management—missed out on their employer match less compared to those not receiving this help.
 - a. Only 15 percent of employees using advisory services contributed below their employer

match level compared to over one-quarter (26 percent) who did so among employees not using advisory services.

The key finding is that left to their own devices many employees are not taking full advantage of their employer's matching contributions, which reduces their retirement savings by tens of thousands of dollars over a working career. However, the use of best practices among employers and employees can make a positive impact on improving utilization of employer matching contributions.

METHODOLOGY APPENDIX

Financial Engines reviewed the savings behavior of 4.4 million plan participants at 553 plan sponsors.¹⁵ Most of these employees worked for large companies.¹⁶ The study examined those that received Financial Engines advisory services (online advice or professional management) and those who did not use advisory services. The employees in this study had an average age of 45, and median income of \$63,200, making them slightly older and more highly compensated than the typical American worker.¹⁷ All of data in this report is from November 2014.

The median income of employees who did not use advisory services was \$61,995; it was higher for employees who use Financial Engines advisory services at \$69,870. The median income for employees using professional management was \$66,010, and \$84,360 for those using online advice. The average age among those using advisory services was 47, and 45 among those not using advisory services.

Financial Engines determined what the potential employer match would have been for each person depending on their salary and compared this to the actual match received for all plan participants. This information was specific for each of the 553 plans included in the study.

Key Definitions Used In This Study:

Active User of Online Advice: An active user of online advice is a participant who has received online investment advice from Financial Engines on an advised or subadvised basis between December 2013 and November 2014. Financial Engines' online advice delivers a personalized forecast of the value of investments at retirement and enables users to explore the potential impact of different contribution amounts, risk levels, company stock, and retirement goals. Online advice also provides specific fund recommendations across a total portfolio, helping users decide which investments to make and how much to invest in each.

Professional Management User (or Managed Accounts): For this study, a participant is considered a professional management (or managed account) user if they were enrolled as a member in Financial Engines Professional Management program as of the end of November 2014, or if they were a member of a professional management service for which Financial Engines is a sub-advisor. A managed account is an investment account owned by an individual investor and looked after by a hired professional, in this case by Financial Engines, who provides a personalized investment portfolio tailored to the specific needs of the account holder.

Advisory Services: For the purpose of this study, advisory services are online advice and/or professional management investment services provided by Financial Engines to its customers.

No Advisory Services: Refers to participants who do not use Financial Engines advisory services.

Endnotes

¹ Andrew Dugan, Retirement Remains Americans' Top Financial Worry: Wells Fargo/Gallup Investor and Retirement Optimism Index. (Washington DC: Gallup, 2014) <http://www.gallup.com/poll/168626/retirement-remains-americans-top-financial-worry.aspx>.

² We restricted our analysis to employees for whom we have salary data, which was 4.4 million active plan participants. For those employees who failed to receive the full match, on average they missed \$1,336 per year. The unutilized match amount was 2.4% of the average annual income.

³ 401(k) Fast Facts, (Washington, DC: American Benefits Council, 2014) http://www.americanbenefitscouncil.org/documents2013/401k_stats.pdf

From our analysis of the savings records of 4.4 million active plan participants, we know that 25% missed out on at least part of their employer matching contribution. On average they missed \$1,336 per year. Nationwide there are 73.7 million employees who are active participants—people who have not retired or otherwise terminated their employment—in employer-sponsored defined-contribution plan. We assume that 25% of all active plan participants missed out on at least part of their employer match and that they missed \$1,336 per person annually. Multiplying \$1,336 by 18.4 million active participants yields \$24 billion in estimated total missed matching contributions.

⁴ Younger employees are those under age 30, and older employees are those over age 60. See pages 5-6 of this study.

⁵ Retirement Savings Shortfalls: Evidence from EBRI's Retirement Security Projection Model,® (Washington DC: Employee Benefit Research Institute, 2015) http://www.ebri.org/pdf/briefspdf/EBRI_IB_410_Feb15_RSShortfls.pdf; The Retirement Savings Crisis: Is It Worse Than We Think? (Washington DC: National Institute of Retirement Security, 2013) http://www.nirsonline.org/index.php?option=com_content&task=view&id=768&Itemid=48.

⁶ 2013 Trends & Experience in Defined Contribution Plans (Chicago: Aon Hewitt, 2014) http://www.aon.com/attachments/human-capital-consulting/2013_report_Trends-Experience-DC-Plans_Highlights.pdf.

⁷ American Benefits Council, op. cit. (See Endnote 2.).

⁸ The Retirement Savings Crisis: Is It Worse Than We Think? (Washington DC: National Institute of Retirement Security, 2013).

⁹ Jeffrey W. Clark, et al., Maximizing the Match in DC Plans (Valley Forge: Vanguard, 2015) <https://institutional.vanguard.com/iam/pdf/CRRMXMP.pdf?cbdForceDomain=false>.

¹⁰ Overcoming Participant Inertia Automatic Features That Improve Outcomes While Improving Your Plan's Bottom Line (Harford: Prudential Financial, Inc., 2013) <http://www.prudential.com/media/managed/overcoming-participant-inertia.pdf>.

¹¹ John Beshears, et al, Simplification Raises Saving Rates, Working Paper 12659 (Cambridge: National Bureau of Economic Research: 2006) <http://www.nber.org/papers/w12659.pdf>.

¹² Lee Barney, "Managed Account Value," based on PLANSPONSOR 2014 Defined Contribution (DC) Survey, (New York: Asset International, Inc., 2015). <http://www.planadviser.com/MagazineArticle.aspx?id=10737425296&magazine=10737425313>.

¹³ 2013 Trends & Experience in Defined Contribution Plans (Chicago: Aon Hewitt, 2014).

¹⁴ American Benefits Council, op. cit. (See Endnote 2.).

¹⁵ We examined only employees eligible to save in their plans (excluding retired and terminated employees) working in companies offering a savings match, and where salary data was available.

¹⁶ Over 80 percent of the sample was enrolled in the top 143 largest retirement plans as measured by the number of plan participants.

¹⁷ Bureau of Labor Statistics, Employed persons by detailed industry and age, 2013 annual averages, Current Population Survey, http://www.bls.gov/cps/industry_age.htm. The average age of the employees in our study was 45, compared to the U.S. average of 42 for all employed people in 2013. The average age for all employed persons in 2014 was not available as of the date of this report, thus Financial Engines used 2013 data. The median income for employees in this study was \$63,200 compared to \$41,392 among all full-time employees in 2014. Bureau of Labor Statistics, Economic News Release, Table 1, Median usual weekly earnings for full-time wage and salary workers, seasonally adjusted, <http://www.bls.gov/news.release/wkyeng.t01.htm>. For all full-time wage and salary workers median weekly earnings were \$796 during the 4th quarter 2014. Financial Engines multiplied \$796 by 52 work weeks in a year to get the annual amount of \$41,392.

About Financial Engines

Financial Engines is America's largest independent investment advisor. We help people make the most of their retirement assets by providing professional investment management and advice. Headquartered in Sunnyvale, CA, Financial Engines was co-founded in 1996 by Nobel Prize-winning economist Bill Sharpe. Today, we offer retirement help to more than nine million employees across 600+ companies nationwide (including 144 of the Fortune 500). Our investment methodology, combined with powerful online services, dedicated advisor center and personal attention allow us to help more Americans get on the path to a secure retirement.

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