



PROGRAM

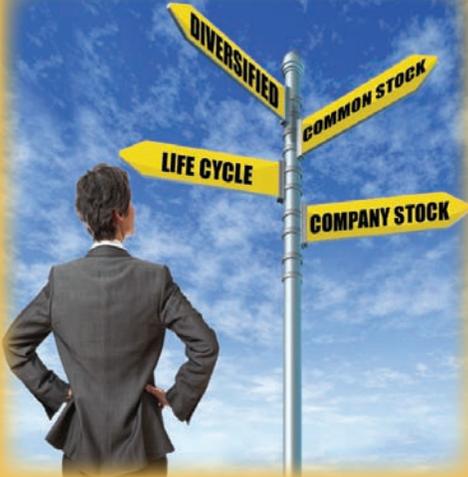
VOL. 3, ISSUE 5

PERSPECTIVES

JUNE 2011

DEFINED-CONTRIBUTION PLAN INVESTMENT CHOICES

Employees given range of investment options in 401(k) plans



NATIONAL COMPENSATION SURVEY

www.bls.gov/ebs

Benefit Series

STATE AND LOCAL GOVERNMENT
EMPLOYEE BENEFITS

SICK LEAVE AND DISABILITY
BENEFIT COMBINATIONS

DEFINED-CONTRIBUTION
RETIREMENT PLAN TYPES

HIGH DEDUCTIBLE HEALTH PLANS

**DEFINED-CONTRIBUTION PLAN
INVESTMENT CHOICES**

OUTPATIENT PRESCRIPTION
DRUG COVERAGE

HEALTH BENEFIT COSTS BY
WAGE CATEGORY

In the past 10 years, many employees participating in defined contribution savings and thrift retirement plans, such as 401(k)'s, suffered large investment losses. In some companies, employees lost nearly all of their 401(k) savings by investing retirement funds in company stock, due in part to having limited investment choices. These losses led to reforms such as the Pension Protection Act of 2006, which allows workers greater control over how their funds are invested by requiring employers to provide alternative investment options to company stock for defined contribution retirement plans.

This issue contains some newly published NCS data on investment choices in savings and thrift

defined contribution retirement plans. Additional NCS detailed data on retirement benefits can be found at <http://www.bls.gov/ncs/ebs/detailedprovisions/2009/ebb10045.pdf>. Historical data on defined contribution plan investment choices can be found at <http://www.bls.gov/ncs/ncspubs.htm>.

The estimates of employee and employer contribution investment choices and options presented here were adjusted to remove responses that were not determinable. Responses are considered not determinable when survey respondents cannot provide specifics on the availability or choice of their investment. Estimates were adjusted under the assumption that the distribution of responses that were not determinable was similar

continued inside

to that of determinable responses. For 2009, the rate of responses that were not determinable for available investment choices was 16 percent for employee contributions and 19 percent for employer contributions. Additional adjustments were made to remove responses that were not determinable for those workers with investment choices available.

Available investment choices

Options for investing in savings and thrift defined contribution retirement plans, such as 401(k)'s,

include a wide range of available investments and risk. Among typical investment options in recent years are company stock, common stock funds, diversified investment funds, and life-cycle funds. Company stock investments typically have the highest risk, along with the highest potential returns. Common stock funds, diversified investment funds, and life-cycle funds have varying amounts of risk to meet the large range of employer or employee investment profiles. Available investment options for

workers' own contributions or employers' matching funds are fairly similar, but there is some variation.

Workers were more likely to have investment choices for their own contributions than for employer matching funds, but most workers participating in savings and thrift plans could choose among investment options for either type of contribution. Some workers also had multiple savings and thrift investment options available to them. (See table 1.)

TABLE 1

Investment choices for employee and employer contributions in savings and thrift plans, private industry workers, National Compensation Survey, 2003, 2005, 2009

(All workers participating in savings and thrift plans = 100 percent)

Investment choices	2003	2005	2009
Employee contributions			
Investment choice available	98	99	98
Company stock	34	28	22
Common stock fund	53	48	63
Diversified investments	56	51	81
Life-cycle funds	–	–	30
Other	17	15	15
No investment choice available	2	1	2
Employer contributions			
Investment choice available	87	89	90
Company stock	26	23	14
Common stock fund	45	44	57
Diversified investments	49	48	72
Life-cycle funds	–	–	27
Other	11	12	14
No investment choice available	13	11	10

Note: Individual items may sum to percentages greater than that listed for the total for all investment choices available because multiple savings and thrift investment options were available to some employees. Dash indicates data not requested.

Company stock

In recent years, company stock has been declining as an available investment for defined contribution savings and thrift plans. In 2009, 22 percent of private industry workers had company stock as an investment choice for their contributions, compared with 34 percent in 2003. In addition, only 14 percent of private industry workers in 2009 could choose to invest their employer's matching contributions in company stock, compared with 26 percent in 2003. (See table 1.)

In 2009, 30 percent of part-time employees could choose to invest their own contributions in company stock, a greater percentage than full-time employees (21 percent.) Thirty-five percent of union em-

ployees could choose company stock, compared with 20 percent of nonunion employees. (See table 2.)

Diversified investments

Diversified investments aim to minimize risk for an investor by spreading the risk of investment over several different equity or debt instruments. Risk protection, to varying degrees, makes diversified investments very popular. As a result, diversified investments were the most common investment choice in 2009 for both employee and employer retirement contributions. Eighty-one percent of private industry workers could invest their own funds in diversified investments, while 72 percent could invest their employer's matching contributions in these instruments.

In 2009, 87 percent of part-time employees had diversified investments as a possible investment choice for the employee's funds, compared with 80 percent of full-time employees.

Common stock funds

In 2009, common stock funds were the second most popular investment choice available to private industry workers in savings and thrift plans. A common stock fund invests in a combination of the common stocks of publicly traded companies. Historically, common stock funds have performed well over long periods; hence, they are often seen as attractive options for investing retirement funds. Common stock funds can range from investment in well-known companies through such options as the popular Standard & Poor's 500

TABLE 2

Percent of employees with investment choices for employee contributions in savings and thrift plans, private industry workers, National Compensation Survey, 2009

(All workers participating in savings and thrift plans = 100 percent)

Characteristics	Investment choice available	Available investments					No Investment choice available
		Company stock	Common stock fund	Diversified investments	Life-cycle funds	Other	
All workers	98	22	63	81	30	15	2
Full time	98	21	63	80	29	15	2
Part time	98	30	70	87	47	13	–
Union	100	35	70	85	38	14	–
Nonunion	98	20	63	80	29	15	2

Note: Individual items may sum to percentages greater than that listed for the total for all investment choices available because multiple savings and thrift investment options were available to some employees. Dash indicates no workers or data did not meet publication criteria.

Savings and thrift plans. Under these defined contribution plans, employees typically contribute a predetermined pretax portion of earnings to an individual account, all or part of which the employer may match. Employers may match a fixed percentage of employee contributions or a percentage that varies by length of service, amount of employee contribution, or other factors. Contributions are invested as directed by the employee or employer. Although usually designed as a long-term savings vehicle, savings and thrift plans may allow preretirement withdrawals and loans.

Defined-contribution plan. A defined contribution retirement plan specifies the level of employer contributions and places those contributions into individual employee accounts. Retirement benefits are based on the level of funds in the account at the time of retirement.

Company stock. Employees receive equity, in the form of company stock, in the company that sponsors the defined contribution plan.

Common stock fund. A common stock fund is a professionally managed fund invested in the common stock of a variety of companies.

Diversified investments. Diversified investments are professionally managed funds that are invested in more than one type of equity or debt instrument.

Life-cycle funds. Life-cycle funds are professionally managed funds that adjust from a position of higher risk to lower risk as the employee nears a target retirement date or other specified time horizon.

from page 3 

index to investment in small-company, industry, or international funds, which may have both higher risks and greater returns.

In 2009, 63 percent of private industry workers had common stock funds as an investment choice for their own funds while 57 percent could choose common stock funds for their employer's matching contributions. Investment in common stock funds has increased since 2003 for both employee and employer's matching contributions.

Life-cycle funds

Often referred to as target retirement or "set it and forget it" funds, life-cycle funds aim to provide an easy and efficient way for employees without any

real knowledge of investing to contribute toward their retirement. With life-cycle funds, employees typically choose a retirement time horizon up front and a corresponding fund that is closest to that time horizon. The chosen fund then automatically adjusts the employee's investments from a position of higher risk to lower risk as the employee nears retirement.

The NCS first produced data on life-cycle funds as an investment choice within savings and thrift plans in 2009. The data show that 30 percent of private industry workers had life-cycle funds as an investment choice for employee contributions and 27 percent had life-cycle funds as an option for employer contributions. ●

The next Program Perspectives will feature outpatient prescription drug coverage.

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/ebs

REGIONAL:
ATLANTA
(404) 893-4222

BOSTON
(617) 565-2327

CHICAGO
(312) 353-1880

DALLAS
(972) 850-4800

KANSAS CITY
(816) 285-7000

NEW YORK
(646) 264-3600

PHILADELPHIA
(215) 597-3282

SAN FRANCISCO
(415) 625-2270

