

News Release

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NEW DATA FROM CHARLES SCHWAB SHOWS EMPLOYER MATCH IS KEY FACTOR IN HOW MUCH EMPLOYEES SAVE IN 401(K) PLANS

SAN FRANCISCO, Nov. 3, 2008 — Charles Schwab has released a new report revealing an important connection between how a company offers its 401(k) plan matching contribution and employee saving levels. From 2004 to 2007, employees at companies with retirement plans serviced by Schwab were most likely to choose the plan's "match ceiling" as their deferral level in order to maximize the employer contributions they can receive. The match ceiling is the amount of salary employees need to defer into their plan in order to receive the maximum employer matching contribution.

For example, among plans serviced by Schwab in which employers offer a six percent matching contribution, 20 percent of employees selected the six percent match as their deferral rate – the most concentrated deferral level and more than double the next largest participant contribution percentage in these plans.

"The formula employers use to match employee 401(k) contributions can vary widely, but because we've found that employees tend to choose the match ceiling as their savings rate, many employers are more carefully considering how to establish their match to help employees boost their savings," said Dean Kohmann, vice president of Charles Schwab retirement plan services.

For example, here are two possible employer match formulas:

- Employer A offers a 100 percent match, up to three percent of an employee's compensation
- Employer B offers a 50 percent match, up to six percent of an employee's compensation

In both these cases, an employee could receive an employer match equal to three percent of compensation, but because of Employer B's higher match ceiling, an employee in this plan would have to defer an additional three percent into the plan to receive the maximum employer match. The maximum cost of the match to the employer remains the same.

"Employers who are focused on increasing their employees' savings rates should consider adjusting their match formula, because we know that the employer match amount is one of the most important factors in driving an employee's savings rate," said Kohmann.

The most common employer match formula according to Schwab data is that the employer matches 50 percent of an employee's deferred salary up to six percent of compensation. Thirty-six percent of Schwab's plan sponsor clients have adopted a six percent match ceiling for their plan as shown in the following table.

Employer Match Ceilings Among Schwab Clients	
Match Ceiling	Percent of Plan Sponsors Adopting
1-3%	14%
4%	11%
5%	23%
6%	36%
Above 6%	13%
Dollar Ceiling	3%
Total	100%

From 2004 to 2007, Schwab saw a steady increase in the number of employers instituting a matching feature in their plans, especially among larger employers. In plans with more than 2,500 participants, the number of employers providing a match has jumped from 78 percent in 2004 to 88 percent in 2007.

“The increase in the number of companies offering a 401(k) match is largely due to employers placing a greater emphasis on employee retirement readiness and increasing employee savings rates,” noted Kohmann.

The Schwab data indicates that employer match levels also increased in small and mid-sized plans. Across all sizes of plans included in the report, the level of employer match increased just over one percent from 3.15 percent in 2004 to 4.19 percent in 2007.

Matching Contribution Level by Plan Size		
Plan Size (# of Participants)	Level of Employer Match	
	2004	2007
1-99	3.11%	4.70%
100-499	3.13%	4.39%
500-1,000	2.89%	3.89%
1,000-2,500	3.48%	3.47%
2,500+	3.45%	3.56%
Total	3.15%	4.19%

*Average plan size is 744 participants

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About Charles Schwab

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