7 Signs of a Good 401(k) Plan

A generous 401(k) match and low-cost investment options will help your savings grow faster

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A good 401(k) plan with generous employer contributions can help propel you toward a secure retirement. But high fees and poor investment choices make some 401(k) plans a bad deal, even after accounting for the tax breaks. Here are a few ways to tell if your company is providing a competitive 401(k) plan.

A generous 401(k) match. Post-recession, fewer employers are offering a 401(k) match. Some 85 percent of plans provided an employer contribution in 2010, down from 95 percent in 2007, according to a Vanguard analysis of 2,000 401(k) plans with more than three million participants. Companies that still provide a match continue to offer about the same amount they did in previous years. The maximum possible match remains a median of 3 percent of pay. The most common 401(k) match is 50 cents for each dollar saved up to 6 percent of pay, but only a quarter of plans provided this exact match formula. Vanguard managed plans with more than 200 distinct match formulas in 2010, and some were far more generous than others. The matches range from less than 1 percent of pay to more than 7 percent of pay. Most employers require workers to save between 4 and 6 percent of their pay to get the maximum possible match.

Immediate eligibility to participate. Only about half (52 percent) of companies offer new employees immediate eligibility for the 401(k) plan. The rest require between one and three months of employment (24 percent), or even as much as a year of service (15 percent) before workers qualify to join the retirement plan. Larger companies are more likely to offer immediate eligibility than smaller companies. But once employees begin to save in the 401(k) plan, they may not yet be eligible for the 401(k) match. A quarter of employers require one year of service before workers may receive matching contributions, and almost a third (32 percent) of companies require between one and six months of job tenure. Less than half (43 percent) of companies immediately contribute to the 401(k) accounts of new employees.

Immediate vesting. You won't get to keep your employer's contributions to your 401(k) account until you are vested in the plan. Almost half of plans (46 percent) immediately vested participants in 2010. However, about a third of employers (31 percent) require five or six years of service before you can keep the entire 401(k) match provided. "Sponsors don't want to spend benefit dollars on short-term employees," says Jean Young, a senior research analyst for the Vanguard Center for Retirement Research. "If you have a high-turnover workforce, you might rather see your benefit dollars go to your long-tenured employees." Some 401(k) plans have cliff vesting schedules, in which you don't get to keep any of the match until you've been employed for a certain number of years. Other matches are graded, meaning you keep a gradually increasing percentage of the match as your tenure with the company increases. "The most generous plans either have immediate vesting or vesting schedules that are on the shorter end," says Joshua Itzoe, a certified financial planner for Greenspring Wealth Management in Towson, Md., and author of *Fixing the 401(k): What Fiduciaries Must Know (And Do) To Help Employees Retire Successfully*.

Low-cost investment options. According to Vanguard, 401(k) plans offer an average of 19 funds on the menu of investment choices, but workers invest in an average on just three funds. "A good plan has low-expense funds, preferably life cycle and index funds," says William Bernstein, a principal at Efficient Frontier Advisors in Eastford, Conn., and author of *The Investor's Manifesto: Preparing for Prosperity, Armageddon, and Everything in Between*. "The lower the expense ratios, the better." Bernstein says employees should choose funds with expense ratios between 10 and 30 basis points. Some 401(k) plans are responding to employee demand for less-expensive funds. In 2010, 40 percent of Vanguard 401(k) plans offered at least four low-cost, index-fund options covering U.S. equities, non-U.S. equities, U.S. taxable bonds, and cash, up from 24 percent that did so in 2004. "When you have a lot of index funds, that generally means that the overall costs of the plan should be lower," says Itzoe.