

GAO  
Accountability · Integrity · Reliability

# Highlights

Highlights of [GAO-10-153T](#), a testimony to the Special Committee on Aging, U.S. Senate

## Why GAO Did This Study

Over the past 25 years, the number of defined benefit (DB) plans has declined while the number of defined contribution (DC) plans has increased. Today, DC plans are the dominant type of employer-sponsored retirement plans, with more than 49 million U.S. workers participating in them. 401(k) plans currently cover over 85 percent of active DC plan participants and are the fastest growing type of employer-sponsored pension plan. Given these shifts in pension coverage, workers are increasingly relying on 401(k) plans for their pension income.

Recently, policy makers have focused attention on the ability of 401(k) plans to provide participants with adequate retirement income and the challenges that arise as 401(k) plans become the predominant retirement savings plan for employees. As a result, GAO was asked to report on (1) challenges to building and maintaining of savings in 401(k) plans, and (2) recent measures to improve 401(k) participation and savings levels.

## What GAO Recommends

GAO is not making new recommendations as part of this testimony. In a recent report on leakage—actions that reduce savings prior to retirement—we called for measures to improve the information participants receive about the disadvantages of early withdrawals, and for a change in law to permit continued contributions immediately after hardship withdrawals.

View [GAO-10-153T](#) or key components. For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or [bovbjerg@gao.gov](mailto:bovbjerg@gao.gov).

## 401(K) PLANS

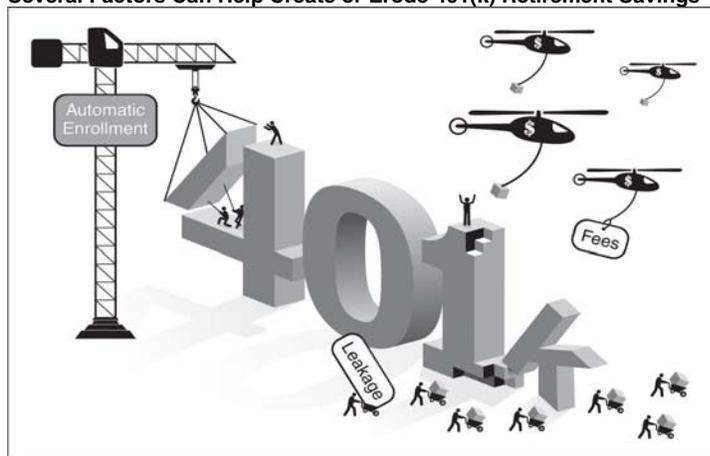
### Several Factors Can Diminish Retirement Savings, but Automatic Enrollment Shows Promise for Increasing Participation and Savings

#### What GAO Found

There are challenges to building and saving through 401(k) plans. While low participation rates may be due, in part, to the fact that some workers participate in DB plans, there is also a large portion of workers who do not have access to an employer-sponsored retirement plan, as well as some who do not enroll in such a plan when an employer offers it. We found that for those who did participate, their overall balances were low, particularly for low-income and older workers who either did not have the means to save or have not had the opportunity to save in 401(k)s for much of their working lifetimes. There are also challenges workers face in maintaining savings in 401(k) plans. For example, 401(k) leakage—actions participants take that reduce the savings they have accumulated, such as borrowing from the account, taking hardship withdrawals, or cashing out the account when they change jobs—continues to affect retirement savings and increases the risk that 401(k) plans may yield insufficient retirement income for individual participants. Further, various fees, such as investment and other hidden fees, can erode retirement savings and individuals may not be aware of their impact.

Automatic enrollment of employees in 401(k) plans is one measure to increase participation rates and saving. Under automatic enrollment, which was encouraged by the Pension Protection Act of 2006 and recent regulatory changes, employers enroll workers into plans automatically unless they explicitly choose to opt out. Plan sponsors are increasingly adopting automatic enrollment policies, which can considerably increase participation rates, with some plans' rates reaching as high as 95 percent. Employers can also set default contribution rates and investment funds. Though target-date funds are a common type of default investment fund, there are concerns about their risks, particularly for participants nearing retirement.

#### Several Factors Can Help Create or Erode 401(k) Retirement Savings



Source: GAO analysis.