

Match Contributions

Plateau while Eligibility and Vesting Accelerate

Plan design has a direct impact on the performance of an employer's plan. Understanding industry benchmarks and best practices can increase a retirement plan's efficiency as well as help increase levels of participation and contributions.

MATCH CONTRIBUTIONS

Participation and salary deferral rates increase with an employer match contribution.

Plans with a 100 percent match contribution enjoy higher participation (76%) than plans with a 25 percent employer match (61%). However, across the industry, the stated match per dollar of salary deferral decreased or stayed flat in 2004.

MATCH CONTRIBUTION PER DOLLAR of Deferral

INDUSTRY	2004	2003	2002	2001	2000
Agricultural, Forestry, Fishing	\$0.44	\$0.46	\$0.45	\$0.39	\$0.37
Construction	\$0.36	\$0.37	\$0.35	\$0.34	\$0.34
Finance, Insurance, Real Estate	\$0.46	\$0.46	\$0.44	\$0.43	\$0.43
Manufacturing	\$0.36	\$0.37	\$0.35	\$0.35	\$0.35
Mining	\$0.47	\$0.47	\$0.47	\$0.45	\$0.46
Retail Trade	\$0.33	\$0.36	\$0.34	\$0.32	\$0.32
Services	\$0.39	\$0.41	\$0.36	\$0.36	\$0.35
Tax-exempt	\$0.58	\$0.60	\$0.61	\$0.57	\$0.57
Technology	\$0.34	\$0.36	\$0.35	\$0.33	N/A
Transportation & Communication	\$0.37	\$0.40	\$0.37	\$0.36	\$0.36
Wholesale Trade	\$0.37	\$0.39	\$0.36	\$0.37	\$0.36

BUSINESS TYPE	MOST COMMON STATED MATCH FORMULA
Agriculture, Forestry, Fishing, Hunting	50% up to 6% of pay
Mining	50% up to 6% of pay
Utilities	100% up to 4% of pay
Construction	50% up to 6% of pay
Manufacturing	50% up to 6% of pay
Wholesale Trade	50% up to 6% of pay
Retail Trade	25% up to 4% of pay
Transportation, Warehousing	50% up to 4% of pay
Publishing, Broadcasting, Data Processing	50% up to 6% of pay
Finance, Insurance	50% up to 6% of pay
Real Estate, Rental Leasing	50% up to 6% of pay
Professional, Scientific Services	50% up to 6% of pay
Other Services	50% up to 6% of pay
Technology	50% up to 6% of pay
Healthcare	50% up to 6% of pay

The most common 401(k) match formula of plan sponsors with The Principal is 50% up to 6% of pay.



Eligibility Requirements

The national trend is toward more immediate eligibility. However, many plan sponsors served by The Principal tend to use a longer eligibility wait requirement of one year. This may be due to several factors, including administrative work associated with turnover, and the need to pass the actual deferral percentage (ADP) tests.

ELIGIBILITY CATEGORY	THE PRINCIPAL OVERALL	INDUSTRY BENCHMARK ¹
Immediate	11%	37.2%
6 months	17%	15.4%
1 year	55%	28.9%
Other	17%	18.5%

Vesting

Fewer plan sponsors of The Principal are using cliff-vesting schedules, while the use of graded vesting schedules and immediate vesting have grown.

VESTING SCHEDULE	THE PRINCIPAL OVERALL	INDUSTRY BENCHMARK ¹
Immediate	10%	33.7%
Cliff	7%	18.9%
Graded	82%	43.8%
Other	1%	3.06%

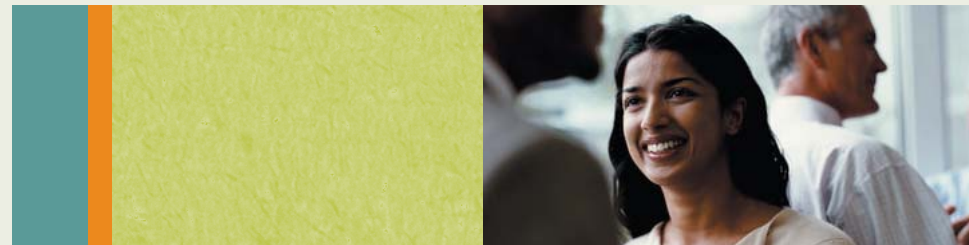
¹ 401khelpcenter.com, 2004

Solutions

A growing number of plan sponsors with The Principal use these plan design services:

Ask for a Safe Harbor review. This plan design allows plan sponsors to automatically satisfy non-discrimination testing on salary deferral and matching contributions if the plan follows the safe harbor matching formula. Thirteen percent of plan sponsors with The Principal had a Safe Harbor plan design. Average salary deferral rates in these plans is 7.8 percent, which is higher than plans without a Safe Harbor design.

Consider an Individual 401(k). These plans are designed for owner-only businesses, including thousands of highly compensated self-employed professionals, such as doctors, lawyers, and real estate agents. The plans provide the same significant tax savings and higher contributions compared to a stand-alone solo 401(k) plan but offer the extra advantages of a big-company, traditional 401(k) plan, such as unique investment selection and a review program. The Principal currently serves more than 500 individual 401(k) plans.

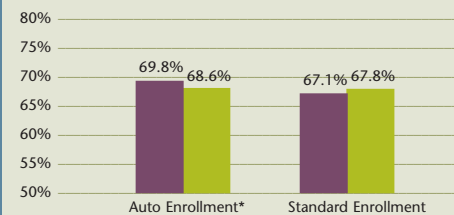


Automatic Enrollment

In 2004, the number of plan sponsors served by The Principal using automatic enrollment doubled. About 8 percent of companies, mostly large corporations, in the United States have adopted some form of automatic plan enrollment. (Source: 2004 PSCA Annual Survey)

Participation is slightly higher with use of an automatic enrollment feature.

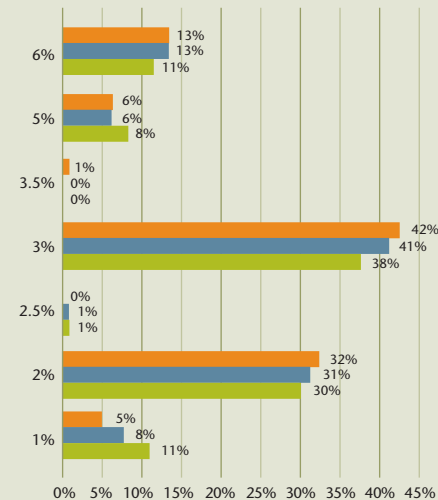
AVERAGE PARTICIPATION by Enrollment Selection

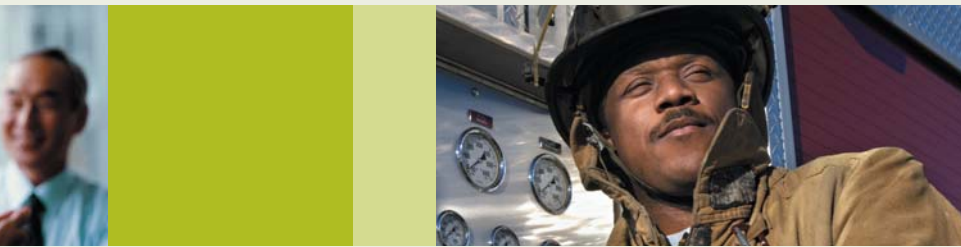


*Have adopted auto enrollment for newly hired employees.

The most common default salary deferral percentage used for automatic enrollment is 3%.

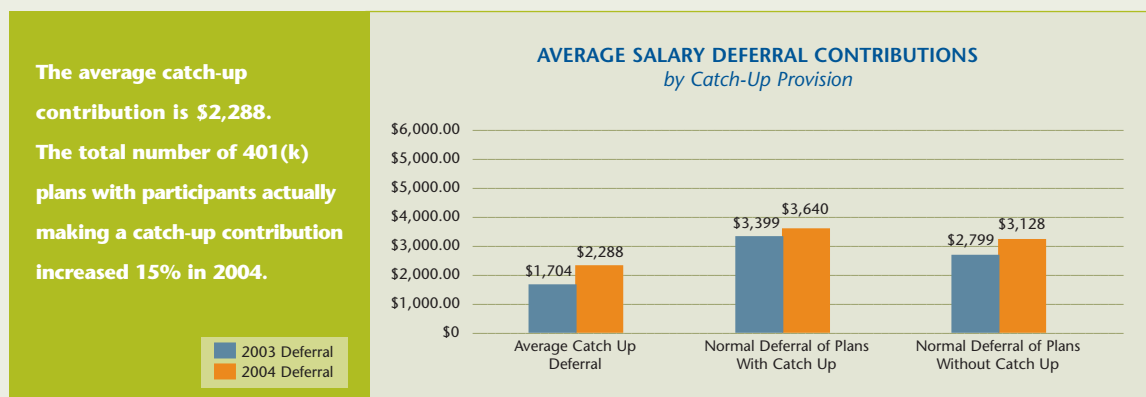
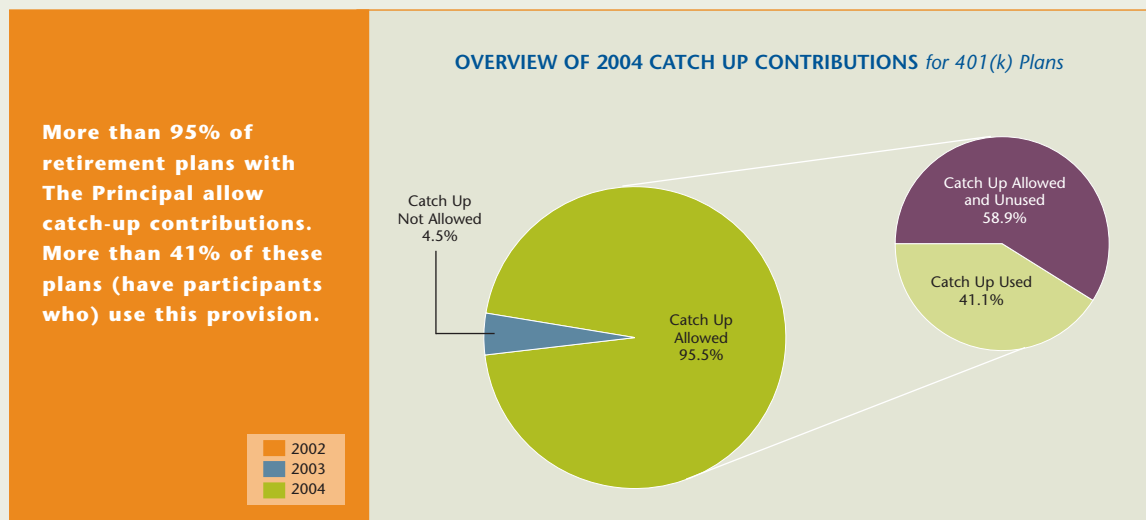
PROTO PLANS USING AUTO ENROLLMENT by Salary Deferral Default Rates





Catch-Up Contributions

Thanks to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), plan sponsors can allow participants who are age 50 or older to make additional pre-tax contributions to their retirement plans. In 2004, 96 percent of the 401(k) plan sponsors served by The Principal allowed catch-up contributions – a 10 percent increase over 2003.



Other Employer Contributions

Of the 83 percent of plans that allow for other employer contributions, only 16 percent actually make such a contribution. The most common other employer contribution are discretionary contributions and qualified non-elective contributions.

Fast Facts

The actual 2004 match per dollar of salary deferral decreased or stayed flat for all industries.

More than 37 percent of plans nationwide offer immediate eligibility.

(Source: 401khelpcenter.com, 2004)

One-third of all plans in the United States offer immediate vesting.

(Source: 401khelpcenter.com, 2004)