

# Plan Design: Eligibility & Vesting

Approximately 15 percent of plans with services provided by The Principal had immediate vesting, which was below the industry average of 39 percent. Among plans that did not have immediate vesting, a five-year graded schedule was the most common in the industry.<sup>1</sup> **The most common vesting schedule among plans with services provided by The Principal was a six-year graded schedule.**

## Safe Harbor Solutions

In 2006, 19 percent of the 401(k) plans with recordkeeping services from The Principal were Safe Harbor plans. This increased from 13 percent in 2004. This plan design allows plan sponsors to automatically satisfy non-discrimination testing on salary deferral and matching contributions if the plans meet the Safe Harbor matching formula. Safe Harbor plans had deferral rates higher than non-Safe Harbor plans. In addition, participation rates in Safe Harbor plans were 14 percent higher than in non-Safe Harbor plans.

## Individual 401(k) Plans

Designed for owner-only businesses, including highly compensated professionals like doctors, attorneys, and real estate agents, the Individual 401(k) provides the same tax savings and higher contributions compared to a stand-alone solo 401(k) plan. It also offers the extra advantages of a traditional plan such as unique investment selection and a review program.

The Principal began offering Individual 401(k) arrangements at the end of 2004, and by the end of 2006 we had just over 500 Individual 401(k) plans.

## Eligibility Requirements

Eligibility Category	The Principal Overall	Industry Benchmark <sup>1</sup>
Immediate	12%	48.5%
3 months	10%	16.6%
6 months	16%	16.6%
1 year	53%	17.8%
Other	9%	6.2%

*The most common eligibility requirement was one year among plans with services provided by The Principal.*

## Vesting

Eligibility Category	The Principal Overall	Industry Benchmark <sup>2</sup>
Immediate	14%	39.5%
Cliff	9%	11.8%
Graded	76%	46.1%
Other	1%	3.4%

## Fast Fact

*A Profit Sharing/401(k) Council of America Roth 401(k) Survey 2007 revealed that 61% of employers who do not offer a Roth feature in their 401(k) plan were considering or planning to add this feature.<sup>1</sup>*

## Roth 401(k) Elective Deferrals

Starting on January 1, 2006, employers were authorized to begin offering Roth 401(k) elective deferrals as an additional feature to their plan participants with the option of electing to have part — or all — of their elective deferral contributions treated as after-tax contributions. That means that those contributions made in after-tax dollars have no immediate tax savings, but contributions and eligible earnings can be withdrawn tax-free in retirement if certain requirements are met. Distribution of Roth 401(k) elective deferrals can only be made after separation from service, death, disability, age 59½, financial hardship, or termination of the plan.

Companies were hesitant to begin offering the Roth 401(k) features because initially the feature was not going to allow new contributions after December 31, 2010; however, Congress made the plan feature permanent in the Internal Revenue Code with the passage of the Pension Protection Act of 2006.

According to the Profit Sharing Council of America, 22.4 percent of employers added a Roth 401(k) feature to their 401(k) plans and 7.9 percent of eligible employees made Roth 401(k) contributions in 2006.<sup>3</sup> At the end of 2006, less than 10 percent of plan sponsors with services provided by The Principal allowed Roth 401(k) contributions and 6.5 percent of participants with access to a Roth 401(k) had elected Roth 401(k) salary deferrals.

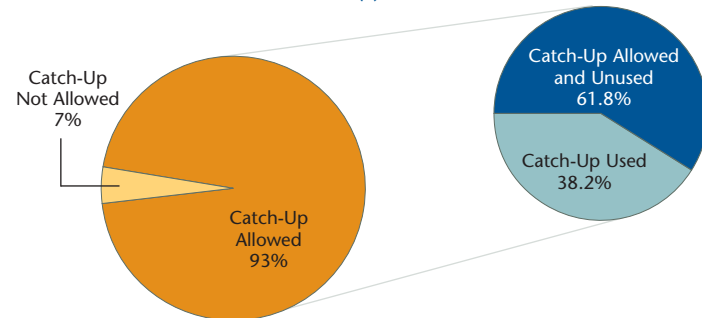
Plans that allowed Roth 401(k) contributions **had higher salary deferral rates, participation rates, and average account balances.** Participation rates for plans allowing Roth 401(k) contributions were 10.5 percent higher than plans that did not allow Roth 401(k) contributions. Average account balances were 25 percent higher for plans allowing Roth 401(k) contributions.

<sup>1</sup> Profit Sharing/501(k) Council of America Roth 401(k) Survey 2007

<sup>2</sup> Profit Sharing Council of America 50th Annual Survey

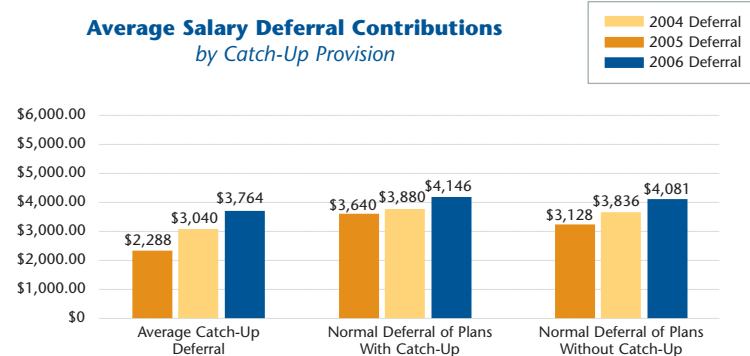
<sup>3</sup> Profit Sharing/401(k) Council of America Survey

### Overview of 2006 Catch-Up Contributions for 401(k) Plans



*More than 93% of retirement plans with The Principal allowed catch-up contributions. More than 38% of these plans had participants who used this provision.*

### Average Salary Deferral Contributions by Catch-Up Provision



*The average catch-up contribution was \$3,764.*

### Plan Design as a Percent of Total 401(k) Plans

