How Does Your 401(k) Stack Up?

From the 401(k) match to diverse investment options, how to tell if you have a solid plan.

Is your 401(k) overflowing with cash or riddled with high costs and poor investment options?

By Emily Brandon | June 29, 2015 | 11:15 a.m. EDT + More

A good 401(k) plan can help propel you to a secure retirement. Your 401(k) plan often gives you a tax break, employer contributions and investment growth, all at the same time. But some 401(k) plans have such high costs and poor investment options that much of the tax break is cancelled out. Here's how to tell if your 401(k) plan is worthwhile.

The 401(k) match. Most Vanguard 401(k) plans (94 percent) provide employer contributions, according to a Vanguard analysis of 1,900 401(k) plans with 3.6 million participants. The most common 401(k) match is 3 percent of pay, which 37 percent of companies offer to savers who meet the requirements. The analysis found a match of 4 percent of pay (18 percent) and 2 percent (14 percent) are also common. A few firms (14 percent) provide employer matches worth 6 or more percent of pay.

Savings needed to get the match. In order to get a 401(k) match, you often need to meet specific savings goals. The most popular savings requirement for Vanguard 401(k)s is 6 percent of pay (44 percent of plans), but 4 percent (15 percent) and 5 percent (19 percent) are also common requirements to get the entire 401(k) match on offer. Some plans even ask employees to save 10 percent or more in order to get the maximum possible 401(k) match. "The most import thing is making certain you meet your match," says Carolyn McClanahan, a certified financial planner for Life Planning Partners in Jacksonville, Florida. "A lot of people who don't put anything in their 401(k) plan are missing out on free money."

The plan's match formula also plays a role in how easy it is to get the 401(k) match. Vanguard administered 401(k) plans with 225 different match formulas in 2014. The most common 401(k) match is 50 cents for each dollar saved up to 6 percent of pay, and 25 percent of plans have this match. Using this formula, a worker earning $60,000 per year would need to save $3,600 to get the maximum possible 401(k) match of $1,800. If that worker is only able to save 2 percent of pay, or $1,200, he will only get a 401(k) match of $600, and will be forfeiting the additional $1,200 he could have gotten if he were able to save more. New workers are frequently automatically enrolled in 401(k) plans at a default savings rate that is typically lower than what you would need to save to get the entire match. "If you are being automatically enrolled into a plan, something to be aware of is that default is likely going to be significantly lower than what you could set it at to get the maximum match," says Barbara Butrica, a labor economist and senior fellow at the Urban Institute.

When eligibility begins. Just over half (58 percent) of 401(k) plans allow employees to contribute to the plan with their first paycheck. But some employers make workers wait between two and six months (21 percent) or even a year (15 percent) before they are eligible to contribute any money to their 401(k) plan, Vanguard found. The waiting periods are even longer to get a 401(k) match. Just under half (47 percent) of employers immediately begin paying a 401(k) match to new hires, but over a quarter (27 percent) of plans require a year of service before providing any employer matching contributions. "Often there is a waiting period to get a match, and sometimes there is a waiting period to be eligible to participate in the plan," Butrica says.

How soon you can keep your match. Watching employer contributions accumulate in your account does not necessarily mean you will get to keep them if you quit or are laid off from your job. Company contributions don't belong to you until you are vested in the 401(k) plan. Just under half (47 percent) of 401(k) plans offer immediate vesting of employer contributions, Vanguard found. Some 401(k) plans don't allow you to keep any of the 401(k) match until you have a specific number of years of job tenure, such as three years (10 percent). Other employers allow you to keep a gradually increasing percentage of the company contributions based on your years of service, but you typically don't get to keep all of it unless you stay with that employer for five (18 percent) or six (14 percent) years. "You can always get back your own contributions, but the different vesting periods will determine how long you have to wait before you can get back the employer match," Butrica says.

Additional employer contributions. In a minority of 401(k) plans there are other types of employer contributions, such as profit-sharing or company stock. These contributions might be made regardless of whether the employee saves in the plan. The median non-matching contribution was 4.4 percent of pay, but 16 percent of employers contributed 10 or more percent of pay. Half of plans provided these contributions based on a percentage of pay, while others varied the contributions based on age or job tenure. Just over a third (37 percent) of Vanguard 401(k) plans provide both matching and non-matching contributions.

The Roth option. Slightly more than half (56 percent) of Vanguard 401(k) plans now offer an after-tax Roth 401(k) option, up from 42 percent in 2010. While you can't deduct Roth 401(k) contributions from current income, withdrawals from these accounts in retirement can be tax-free. "The people that are most likely to use it are younger people and people with shorter job tenure," says Jean Young, a senior research analyst for the Vanguard Center for Retirement Research.

Low-cost investment options. Selecting low-cost investment options will help your money grow faster. "Individual participants can now learn more easily what all the fund expenses are," says Joel Kelley, a certified financial planner for Woodstone Financial in Asheville, North Carolina. Index funds are growing in popularity as 401(k) participants aim to keep their investment costs low. About half (52 percent) of Vanguard 401(k) plans provide at least four low-cost index funds as investment options, up from 28 percent in 2005.

Vanguard plans offered an average of 27 investment options in 2014, up from 19 in 2005, largely due to the increased use of target-date funds. But the average number of funds actually used by participants has declined from 3.5 in 2005 to 2.9 in 2014. "Participants are using fewer funds. At the median it is two, and sometime this year we expect it to go to one," Young says. "They are using a single target-date fund or a single balanced fund."

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