# GAO Report: Some Plan Designs May Reduce Retirement Savings

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Retirement plan sponsors have ways to limit their outlays for very young employees, and those that move to other employers soon after coming on board. The General Accountability Office (GAO) recently analyzed those plan design opportunities, and is sounding alarm bells. It has expressed concerns to Congress that these options can reduce employees' ultimate retirement savings potential.

**The report**

The GAO focused on plan sponsors' ability to:

- Defer plan participation eligibility until age 21,
- Limit eligibility for a year's worth of matching contributions only to participants employed by the sponsor on the last day of that year, and
- Use vesting to limit participant claims on employer matching contributions until participants have logged a certain amount of years of participation in the plan.

The survey determined that 41% of plans feature a minimum age requirement of 21. The impact on an 18-year-old "average earner" based on what the participant would have deferred before age 21, including a 3% match, would be $134,456 less in savings by the time of retirement.

An average employee working for a company with an end-of-year employment requirement would come up short by $29,297 at retirement, according to the GAO report. Finally, the GAO considered the retirement savings impact for a worker who leaves jobs at two companies before meeting a three-year cliff vesting requirement, if those job changes occur when the employee is 20, then age 40. The GAO predicted lost retirement savings of $81,743.

**The advice**

The GAO report serves as a reminder for plan sponsors of the flexibility they do have — and might wish to exercise. If, for example, your plan allows employees as young as 18 to join the plan, but you experience high turnover among such young employees, you might opt to shift the participation eligibility age to 21.

On the other hand, if you currently don't allow employees to join the plan until reaching age 21, and you're having a tough time recruiting workers below that age, you might consider moving in the opposite direction.

**The road ahead**

In the end, the GAO urges Congress to consider ERISA changes to prevent the lost retirement savings as outlined above. However, the prospects of Congress doing so aren't very strong. In the meantime, plan sponsors have the ability to design plans that will attract and retain employees.

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