



Considerations for Retirement Plan Design

Setting up a retirement plan for your company can be an effective way for your eligible employees to save for the future – and a quality plan design for your workplace retirement solution can help maximize the benefits for your business and your eligible employees.

Overview of Common Plan Design Features¹

Employee Eligibility Requirements		
PLAN DESIGN FEATURE	DEFINITION	INDUSTRY STANDARDS*
Automatic Enrollment	Automatic enrollment automatically enrolls an eligible employee in their employee-sponsored retirement plan, which allows an employer to automatically deduct elective deferrals from an employee's wages unless the employee makes an election not to contribute or elects to contribute a different amount. Section 101 of the SECURE 2.0 Act of 2022 ("SECURE 2.0") will require newly established 401(k) and 403(b) plans to automatically enroll eligible participants with an initial minimum enrollment amount of 3% (unless the participant affirmatively elects otherwise) beginning in 2025. ²	42%
Minimum Age or Service Requirement	A defined contribution plan may require completion of a specific period of service or set a minimum age requirement before an employee becomes eligible to participate in the plan, or before the employee becomes eligible to receive employer matching contributions (where the employee is permitted to make employee contributions at an earlier date).	59%
Service Requirement	A defined contribution plan may require an employee complete a minimum period of service before an employee becomes eligible to participate in the plan, or before the employee becomes eligible to receive employer matching contributions (where the employee is permitted to make employee contributions at an earlier date).	3 months (median)
Minimum Age Requirement	A defined contribution plan may require an employee to attain a certain minimum age before an employee becomes eligible to participate in the plan.	21 years old (median)

¹Average for savings and thrift defined contribution retirement plans offered to private industry workers in 2022

Employee Contributions		
PLAN DESIGN FEATURE	DEFINITION	INDUSTRY STANDARDS*
Automatic Escalation	Plan feature designed to increase an employee's contribution rate automatically, and periodically to their retirement plan. Section 101 of SECURE 2.0 will require newly established 401(k) and 403(b) plans to automatically increase (or escalate) participant's default enrollment rate of 3% by 1% annually (capped at 15%) beginning in 2025. ²	26%
Employee Pre-Tax Contribution	The most common plan design feature that allows employees to make pre-tax contributions who elect to reduce their taxable compensation and to have their employee contribute that amount to the plan on their behalf before federal and state taxes are deducted from pay. Distributions from a plan funded by pre-tax contributions are taxable at distribution.	100%
Employee After-Tax Contribution	Plan design feature that allows employees to make part or all their retirement plan contributions on an after-tax basis. Contributions are deducted from an employee's annual compensation after all payroll and income taxes have been deducted, meaning that after-tax contributions and their earnings are not subject to income tax upon distribution (although the employee does pay income tax on any investment earnings associated with the after-tax contributions).	76%
Permits Employee Rollover	Plan design feature that allows employees to rollover contributions from other qualified retirement plans or IRAs into their current employer's retirement plan.	88%

Employer Contributions		
PLAN DESIGN FEATURE	DEFINITION	INDUSTRY STANDARDS*
Specified Employer Matching Percent	Employers can contribute money into their employees' retirement plan account to reflect the contributions an employee has made up to a specified limit.	62%
Immediate Vesting	An employee is vested in 100% of employer contributions immediately and the employer cannot forfeit or take it back for any reason.	36%

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Methods of Plan Distributions		
PLAN DESIGN FEATURE	DEFINITION	INDUSTRY STANDARDS*
Annuity	Allows employees to take withdrawals on fixed monthly income distributions.	11%
Installments	Allows retiring participants to receive a series of regular installment distributions from their retirement plan accounts (typically monthly or quarterly).	43%
Loans	Allows participants to take loans from their retirement plan account balances in amounts under the limits imposed by the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code.	74%
Non-Hardship Withdrawals	Allows participants to take limited withdrawals from their retirement plan account without proof of hardship while still actively employed. Certain plan design features may permit in-service withdrawals before a participant attains age 59 ½ from after-tax contributions subject to specified limits regarding the frequency and number of such withdrawals.	10%
Lump Sum	Allows a participant that has separated from service to take their entire vested account balance in a full lump sum distribution.	89%

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Our Experience and Guidance Can Make a Difference

Your Morgan Stanley Financial Advisor can help you navigate common features and benefits of each plan design feature so **YOU** can decide what makes sense for your business.

¹ <https://www.bls.gov/ebs/publications/retirement-plan-provisions-for-private-industry-workers-2022.htm#Overview>

² https://www.finance.senate.gov/imo/media/doc/Secure%20202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf

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