

# Guide to Crafting an Effective and Competitive 401(k) Plan

Balance cost and competitiveness  
without compromise

In today's competitive business landscape, your 401(k) plan can be more than just another line item on an expense report—it can be a **key to unlocking** higher employee satisfaction and retention.

That said, optimizing your retirement plan doesn't require a choice between cost savings and competitive benefits. With the right strategies, you can elevate your 401(k) plan from a financial obligation to a powerful tool for fostering a motivated, loyal workforce. Here are ways to help achieve a balanced, effective 401(k) design that benefits both your employees and your bottom line.



## Plan design that pays

To offer a competitive retirement benefit that boosts retention and incentivizes employees to save for retirement, have you considered auto-enrollment and auto-escalation?

Auto features lower the barriers to saving, and have a significant impact on participation<sup>1</sup> (auto-enrollment) and potentially boosting savings rates (auto-escalation).<sup>2</sup>

Also, beginning January 1, 2025, all new plans will be required to include **auto-enrollment** and **auto-escalation**.<sup>\*</sup> If your plan doesn't offer auto-enrollment, there is an employer tax credit of \$500 for the first three years.

Increasing the initial default deferral rate can also help improve readiness and encourage on-time retirements.

*Auto-enrollment  
tax credit  
\$500 for first  
three years*

*Auto features  
increase  
participation  
to 94%<sup>1</sup>*

*\* Exclusions, deadlines, and restrictions apply*

**7.7%**

The average deferral rate<sup>3</sup>

**4.6%**

The average 401(k) employer match<sup>4</sup>

**10–15%**

Recommended savings rate by industry experts

## Benchmarking may help to reduce plan fees

**Benchmarking—regularly comparing your retirement plan to your industry peers—is more than your fiduciary responsibility.** It's an essential best practice to ensure that your plan fees are competitive and in line with industry standards. Benchmarking is the process of evaluating plan fees, investment options and costs, and service providers toward ensuring your 401(k) plan:



is competitive with plans offered by other companies like yours



can attract and retain top talent



fits your business' financial needs and goals



lowers your overall benefit costs by boosting retirement readiness

## Vesting schedules encourage retention, help with cash flow

If you offer a company match, the vesting schedule can encourage employee retention and help you manage long-term cash flow more effectively. If an employee leaves or is terminated before becoming 100% vested, the plan retains the unvested portion, and those dollars can be used to offset future employer contributions and/or be used to pay for plan expenses.

Vesting schedules vary—here are the most common:

### GRADED VESTING

|   |                     |                       |                       |                       |                       |                        |
|---|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|
| Employee assumes ownership at specific annual intervals.* | 1 YEAR<br><b>0%</b> | 2 YEARS<br><b>20%</b> | 3 YEARS<br><b>40%</b> | 4 YEARS<br><b>60%</b> | 5 YEARS<br><b>80%</b> | 6 YEARS<br><b>100%</b> |
|---|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|

---

### CLIFF VESTING

|  |                     |                      |                        |
|--|---------------------|----------------------|------------------------|
| Granted after a specific timeframe, i.e., employee receives 100% ownership after 3 years of service. | 1 YEAR<br><b>0%</b> | 2 YEARS<br><b>0%</b> | 3 YEARS<br><b>100%</b> |
|--|---------------------|----------------------|------------------------|

---

### IMMEDIATE VESTING

|                               |                       |
|-------------------------------|-----------------------|
| 100% of the match right away. | 1 YEAR<br><b>100%</b> |
|-------------------------------|-----------------------|

---

\* Federal rules require full vesting within six years.

## Employer contributions: consider the alternatives

An employer match is only one type of incentive contribution. Instead, you might choose to grant company equity or offer profit sharing. These alternative strategies enable you to incentivize employees while providing flexibility to vary contributions from year to year based on business performance and economic conditions.

# Embracing effective strategies

**Crafting an effective plan design strategy can help you streamline costs while providing a competitive retirement benefit.** Now may be a good time to review your current 401(k) plan with a focus on flexibility and cost-efficiency.

**CONTACT US** to discuss tailored plan design strategies that reflect the unique needs of your business and employees.

---

## Sources

- 1 [Vanguard. "How America Saves. 2025.](#)
- 2 [Vanguard. "How America Saves. 2025.](#)
- 3 [Vanguard. "How America Saves. 2025.](#)
- 4 [Vanguard. "How America Saves. 2025.](#)

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements, and you should consult your attorney or tax advisor for guidance on your specific situation.

©401(k) Marketing, LLC. All rights reserved. Proprietary and confidential. Do not copy or distribute outside original intent.