

December 4, 2024

Types of Private Sector Defined Contribution Plans

Background

A pension is an employer-sponsored benefit that helps workers prepare for their financial security in retirement. The two types of employer-sponsored pension plans are those (1) that provide a regular monthly payment during retirement, known as *defined benefit* (DB) plans; and (2) in which employee and employer contributions and related earnings accumulate in participants' accounts and are eventually available as retirement income, known as *defined contribution* (DC) plans.

Over the past several decades DC plans have become more common in the private sector, while DB plans have become less common. The number of active private sector DC plan participants increased from 11.2 million in 1975 to 92.6 million in 2022. In the same period, active participants in private sector DB plans decreased from 27.2 million participants to 11.3 million. This In Focus profiles the types of DC plans, the number of plans, the number of participants, and the dollar amount of assets in these plans. Data in this In Focus illuminate the concentration and scale of participation and assets across DC plans. This may be helpful information for Congress to have when potential changes to policies affecting DC plans are under consideration. While this In Focus is limited to private sector pension plans, public sector employers also provide retirement benefits, including both DB and DC plans, to their employees.

Nearly all private sector plan sponsors must file annual publicly available disclosures called a Form 5500 Series report. This disclosure includes information such as plan features, number of participants, and assets. CRS tabulated the DC plan characteristics using the most recently available Form 5500 microdata published by the Department of Labor (DOL), representing 801,371 DB and DC plans in 2022. DC plans accounted for 754,862 plans, or 94.2% of the plans in the dataset. There were 121.3 million total participants enrolled in DC plans. About 92.6 million of these participants were active (i.e., eligible for the plans, even if they choose to not make contributions). The remaining (non-active) participants were retired or separated and receiving (or eligible to receive in the future) benefits from the plans. DC accounts held \$8.1 trillion in assets in 2022.

Depending on an individual plan's structure, contributions come from employers, employees, or both. The Internal Revenue Code (IRC) places annual limits on the amount that employees and employers can contribute to DC accounts. Employee contributions, called *elective deferrals*, are limited to the lesser of \$23,000 or the employee's wages in 2024. Employer contributions can *match* employee contributions, be made at the discretion of the employer

(typically *profit-sharing contributions*), or be required by the plan's structure (called *nonelective contributions*). The overall contribution limit for employee and employer contributions is \$69,000 in 2024. Employees ages 50 and over are permitted to contribute an additional \$7,500 in 2024. These additional contributions are called *catch-up contributions* and do not count toward the elective deferral or overall contribution limits. Beginning in 2025, employees ages 60-63 will have a higher catch-up limit: the lower of \$10,000 or 150% of the regular catch-up amount.

Types of DC Plans

DC plans have a variety of structures, allowing employers to offer a type suitable for the characteristics of the company and its employees. Examples include profit-sharing plans, 403(b) plans, and employee stock ownership plans (ESOPs). While the 401(k) plan is a well-known retirement benefit, it is actually not a separate plan but a feature of DC plans. Profit-sharing plans are the form of DC plans that most frequently feature a 401(k) component. Other plans with 401(k) components include ESOPs, money purchase plans, target benefit plans, and stock bonus plans.

Profit-Sharing Plans

About 97% of DC plans are profit-sharing plans. In a profit-sharing plan, an employer may—but is not required to—make contributions to employees' accounts. Employers have a variety of options regarding the structure, frequency, and amounts of these discretionary contributions. Employee contributions (elective deferrals) are not allowed in a profit-sharing plan unless the plan also includes a 401(k) component. **Table 1** indicates that nearly 94% of profit-sharing plans have 401(k) components. While many 401(k) plans match a portion of employees' elective deferrals, fewer have employer profit-sharing contributions.

Table 1. Selected Characteristics of Profit-Sharing Plans in 2022

Type	Number of Plans	Participants (Thousands)	Assets (Millions of Dollars)
All Profit-Sharing Plans	729,833	107,634	\$7,087,399
With 401(k) Component	685,676	101,677	\$6,722,319
Without 401(k) Component	44,157	5,956	\$365,080

Source: Calculated by CRS using the Employee Benefits Security Administration (EBSA) Private Pension Plan Bulletin and Private Pension Bulletin Data for the 2022 plan year.

403(b) Plans

In 2022, 403(b) plans represented 2.6% of private sector DC plans. In the private sector, 403(b) plans are exclusively available to 501(c)(3) charitable organizations and churches. Most 403(b) plans sponsored by private sector employers are required to file the annual Form 5500. These plans use one or both of the following structures: (1) participants may purchase annuity contracts with insurance companies, or (2) participants may invest in mutual funds held in custodial accounts. **Table 2** shows that 37.6% of plans covering 69% of private sector 403(b) participants offered both of these options in 2022. Similar to 401(k) plans, employees can make elective deferrals to contribute to their own accounts and employers can contribute on behalf of their employees on a matching or nonelective basis.

Table 2. Selected Characteristics of Private Sector 403(b) Plans in 2022

Type	Number of Plans	Participants (Thousands)	Assets (Millions of Dollars)
All 403(b) Plans	19,398	10,200	\$667,950
Annuity Contracts Only	8,401	1,561	\$74,126
Custodial Accounts Only	3,711	1,533	\$74,528
Both Structures	7,286	7,106	\$519,296

Source: Calculated by CRS using the Employee Benefits Security Administration (EBSA) Private Pension Plan Bulletin and Private Pension Bulletin Data for the 2022 plan year.

Employee Stock Ownership Plans (ESOPs)

In 2022, ESOPs accounted for about 1% of DC plans. ESOPs are a retirement plan structure for private sector employers designed to promote employee ownership by primarily investing in the stock of the employer's company. **Table 3** indicates that in 2022, there were 6,465 ESOPs. More than half of ESOPs were *leveraged ESOPs*, which acquire stock with borrowed money or other debt financing.

Table 3. Selected Characteristics of ESOPs in 2022

Type	Number of Plans	Participants (Thousands)	Assets (Millions of Dollars)
All ESOPs	6,465	14,922	\$1,812,094
Leveraged	3,566	1,806	\$316,502
Other than leveraged	2,899	13,116	\$1,495,592
KSOP	973	13,060	\$1,587,994

Source: Calculated by CRS using the Employee Benefits Security Administration (EBSA) Private Pension Plan Bulletin and Private Pension Bulletin Data for the 2022 plan year.

Note: KSOPs can be either leveraged or other than leveraged.

Some ESOPs included a 401(k) component; these arrangements are referred to as *KSOPs*. About 15% of ESOPs in 2022 were KSOPs, and 88% of ESOP participants were enrolled in a plan using this structure.

Other Plans

In 2022, other plans collectively accounted for about 1% of DC plans. **Table 4** provides data on stock bonus, target benefit, money purchase, and simplified employee pension plans (SEP-IRAs).

Stock bonus plans are similar to profit-sharing plans except that the employer contributions are made in the plan sponsor's stock.

Money purchase plans require employers to make annual contributions on behalf of their employees. Employers decide what percentage of each employee's salary to contribute, up to 25% (subject to the overall DC contribution limit of \$69,000 in 2024). Employees determine how to invest the contributions made on their behalf. Money purchase plans accounted for 0.6% of private sector DC plans in 2022.

Target benefit plans also require annual employer contributions. In this structure, the percentage of employee salary contributed is not fixed; rather, it is determined by the target dollar amount to be contributed to the employees' accounts. Target benefit plans accounted for less than a tenth of a percent of private sector DC plans in 2022.

SEP-IRAs are employer-sponsored individual retirement accounts (IRAs) and are commonly referred to as simplified employee pension (SEP) plans. These plans allow employers to make contributions as a percentage of their employees' pay. In addition, employees may make contributions, up to the IRA contribution limit, to the SEP-IRA or to another traditional or Roth IRA. About 100 SEP plans filed Form 5500 in 2022 (though not all SEP plans must file Form 5500).

Table 4. Other Types of DC Plans in 2022

Type	Number of Plans	Participants (Thousands)	Assets (Millions of Dollars)
Stock bonus	4,399	4,577	\$629,504
Money purchase	4,050	2,960	\$199,495
Target benefit	306	28	\$1,709
SEP plans	99	126	\$10,908

Source: Calculated by CRS using the Employee Benefits Security Administration (EBSA) Private Pension Plan Bulletin and Private Pension Bulletin Data for the 2022 plan year.

John J. Topoleski, Specialist in Income Security
Sylvia L. Bryan, Research Assistant

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