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The Best 401(k)s: Retire at 60 From Conoco With $3.8 Million; Facebook Last

By Margaret Collins and Carol Hymowitz | July 22, 2014

A first-of-its-kind ranking of 401(k) plans at the 250 biggest companies in the U.S. found that ConocoPhillips (COP:US) and Abbott Laboratories (ABT:US) are among those that provide the most lucrative retirement benefits. Among the least generous are Facebook Inc., Amazon.com Inc. and Whole Foods Market Inc. The natural-foods grocer offers a maximum contribution of $152 annually.

ConocoPhillips, a Houston oil and natural gas producer, topped the Bloomberg News rankings of the largest public companiesâ 401(k) plans, largely due to a matching formula that contributes 9 percent of annual salaries for employees who save as little as 1 percent of their pay.

Facebook finished last in the Bloomberg rankings, which were based on 2012 data, the latest available for all companies. The Menlo Park, California-based social media company didn't offer any match at the time. It started making contributions in April to its 401(k) plan.

The rankings allow employees, for the first time, to see how their own 401(k) compares to others on such criteria as company match, investment options, and time to vest. For example, more than 40 percent of companies allow workers to vest immediately, enabling them to take company contributions with them if they leave. Retailers Home Depot Inc. (HS:US) and Amazon.com make employees wait three years, and software maker Oracle Corp., four.

One finding rings out clearly: when generously conceived, a 401(k) plan can put workers on the track for a comfortable and secure retirement. After 13 years working in three states for ConocoPhillips, 35-year-old Daniel Baker is feeling confident about his eventual retirement even though he's at an age when many workers have just begun to focus on their 401(k) plans.

Mental Peace

"My wife and I have peace of mind," said Baker, who works in the company's treasury department. "We're well on our way."

ConocoPhillips was among about 90 companies that gave additional retirement funds to employees, regardless of whether or how much the workers themselves contributed. Tobacco company Philip Morris International Inc. (PM:US), runner-up in the rankings, paid not only a 5 percent match but also an extra 15 percent of employees' compensation.

"A robust retirement package for our U.S. personnel is essential to ensuring that we can attract, motivate and retain the best

global talent," said Corey Henry, a spokesman for New York-based Philip Morris.

Primary Vehicle

Created by federal legislation in 1978 as a supplement to traditional pensions, 401(k)s instead have supplanted them as corporate America's primary retirement vehicle. Participants increased to 61 million in 2011 from 7.5 million in 1984, according to Labor Department data. Americans held $4.3 trillion in 401(k) plans as of March 31, according to the Investment Company Institute, a trade association for the fund industry.

Even as 401(k)s mushroomed, companies carefully guarded the details of their plans, making any comparisons difficult.

In 2010, the Department of Labor began posting information online that the government had required companies to provide about their 401(k) plans. Yet the details were so difficult to access and understand that few employees could ever hope to decipher them.

Drawing on Labor Department data, BrightScope Inc., a financial information company, began rating plans according to how soon each one would enable the typical worker to retire.

"Some companies have the philosophy that it's their job to take care of employees, and others are sheer profit machines who will do only what they have to to be competitive," said Mike Alfred, chief executive officer of San Diego-based BrightScope.

Difficult Comparisons

BrightScope's website doesn't measure one company against another. Also, its ratings are based in part on workers' behavior: whether they participate in the plan, and how much they save.

To bring clarity to the 401(k) universe, Bloomberg News reporters spent six months tracking down and studying company filings. Bloomberg's analysis focuses on what companies offer new hires.

Efforts to make plans more transparent and understandable to employees are vital, Massachusetts Secretary of the Commonwealth William F. Galvin said in an interview.

"It's very hard to do a comparison of your plan versus other plans, and employees are also in the dark about how much they're getting and any changes to the plan," said Galvin, who has urged Congress to force companies to disclose shifts in the timing of their 401(k) contributions. "No one ever envisioned, when 401(k)s started, that people would become so dependent on them for retirement, and regulation hasn't kept pace."

Long Tradition

Energy and biotechnology companies generally scored high in the Bloomberg rankings. Many used to offer pensions to all employees, and have continued the tradition of funding the bulk of savings needed for a secure retirement.

ConocoPhillips estimates that an employee could retire at 60 after 35 years of service with savings of $3.8 million, adjusted for inflation, assuming a starting salary of $75,000 and increases of 4 percent a year.

"Our goal is to help employees replace at least 80 percent of their incomes in retirement by providing two-thirds of what they need while they save one-third," said Lynn Tramel, a benefits manager at ConocoPhillips. "It's a partnership."

Biotechnology and science companies rely on highly educated employees, many of whom have Ph.D.'s or M.D.'s., and substantial retirement plans serve as powerful recruitment and retention tools. At Abbott Laboratories, which made Bloomberg's top 10, employees who save just 2 percent of their annual salaries get a 5 percent match from the company.

Giving Incentives

"We want to give incentives to young employees without a lot of discretionary income," said Stephen Fussell, executive vice president of human resources at the Abbott Park, Illinois-based pharmaceutical company. "We don't think you need to work at 10 companies over your career to keep advancing and growing."

Near the bottom are retail companies, including Whole Foods (WFM:US) and Home Depot. Retailers say they consider a broad range of benefits and costs and are especially weighing rising expenses for health care.

"In addition to our 401(k) plan, we offer benefits that our more than 80,000 Team Members have the opportunity to actually vote on, including paying only $0 to $15 per paycheck for health insurance premiums, and a broad-based stock plan," said Mark Ehrnstein, global vice president of Team Member Services at Austin-based Whole Foods.

At Atlanta-based Home Depot, employees must wait three years to be vested. The retailer also doesn't match employees' contributions until they have worked there for a year. Then it puts in a maximum of 3.5 percent if employees save 5 percent or more of their salaries.

"Our view is, if you hold up your end, we'll hold up ours," said Brant Suddath, Home Depot's director of benefits.

Google, Apple

While Google Inc. (GOOG:US) and Apple Inc. ranked in the top half, other tech giants such as Facebook, Amazon.com, Yahoo! Inc. and Oracle lagged. One reason such companies scrimp on 401(k) plans is that some highly skilled employees share in stock ownership.

Until this year, Facebook didn't offer any match. When Bloomberg contacted Facebook in February about its 401(k) plan, the social media company disclosed it was soon going to provide matching contributions. This April, the company started making contributions of 50 cents on the dollar -- retroactive to Jan. 1 -- up to a maximum 3.5 percent benefit for employees who save 7 percent of their salaries.

"Although Facebook is a young company, we take a comprehensive approach to the benefits we offer all our people, which include a robust 401(k) match as well as other retirement benefits," Renee Whitney, Facebook's benefits manager, said in an e-mail.

Amazon, Oracle

Amazon, based in Seattle, matches up to 2 percent of employees' salaries if they contribute 4 percent. Yahoo, based in Sunnyvale, California, provides one-fourth of workers' contributions, or a maximum of $4,375, for those who save the $17,500 pretax income they're currently allowed to set aside annually in a 401(k) plan by the Internal Revenue Service. (Workers aged 50 or older can contribute another $5,500 annually, for a total of $23,000.)

Oracle workers who leave within four years can't fully transfer the company's 401(k) matching funds. Oracle, based in Redwood City, California, saved more than $3 million in company contributions in 2012 because employees left prior to vesting,

government filings show.

Spokesmen for Amazon, Yahoo and Oracle declined to comment.

Ranking Criteria

Bloomberg's ranking gave the most weight to the matching contribution, which financial experts say is the biggest factor in determining the size of an employee's nest egg. Companies also received a boost if they provided additional contributions, offered low-cost index funds, allowed employees to vest immediately, and made matching payments each payroll period rather than delaying until the end of the year.

Bloomberg excluded 10 companies because they couldn't be assigned an appropriate score. Some, like Berkshire Hathaway Inc., provide different 401(k) plans at multiple subsidiaries. Others don't match employee contributions -- a key criterion in the rankings -- yet compensate in other ways. Intel Corp., for example, doesn't have a match but puts six percent of each employee's salary into his or her 401(k), whether the worker contributes or not.

"We're proud at Intel of the fact that we can deliver a certain level of retirement readiness to employees regardless of their ability to save, through our use of a fixed-employer contribution in lieu of a match," said Chris Kraeuter, a spokesman.

Huge Difference

The differences in plans from one company to another can add up to hundreds of thousands of dollars over the course of a career. Bloomberg assumed that an employee with a starting salary of $50,000 at age 25, who was granted annual pay increases of 3 percent, reached a final salary of $163,102 at age 65. He made the average contribution for his age of between 6 percent and 9 percent annually and the portfolio generated an annual return of 5 percent.

Under those conditions, the individual would have $1.6 million if he worked at ConocoPhillips, according to Jack VanDerhei, research director of the nonprofit Employee Benefit Research Institute in Washington. That doesn't count the substantial savings from the company's additional contributions in a cash account of between 6 percent and 9 percent a year.

The same person would have ended up with less than half, or $730,340, in his 401(k) if he worked at Whole Foods.

Breeding Loyalty

ConocoPhillips' retirement plan breeds loyalty in employees like Baker, a senior analyst in the treasury department. When he joined the company after graduating from Oklahoma State University, he had a child and was struggling to cover his family's living expenses.

Yet by saving just 1 percent of his salary to generate the company's 9 percent match, he started amassing a hefty 401(k) balance. As his income has risen, he has increased his own contributions.

"Now I tell interns, don't just think about salary, think about the benefits you'll get," he said.

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