Match Play: What's an Employer to do?

What to consider when you need to reconsider your 401(k) plan match

☐ Yes

☐ No

☐ Maybe

Robert M. Kaplan
CFP, CPC, QPA, APA Vice President,
National Training Consultant, ING Technical Services

Deborah L. Dupont
DIrector ING Institute for Retirement Research

New times call for new measures. What may have seemed unthinkable a few years ago has on so many levels become a new reality for employers, plan particpants and investors.

Markets have tumbled, taking with them confidence and optimism as well as dollars. Industries once thought the backbone of the economy find themselves on very shaky ground.

With a new economic reality come new issues for employers and plan participants alike, especially with respect to retirement investment. There is a heightened awareness of the need to prepare adequately for individual retirement security, and much scrutiny and debate about the "best" way to achieve this state for more individuals.

At the same time, many employers who – with the best of intentions – have offered a 401(k) plan, complete with employer matching contribution, find themselves under pressures they hadn't anticipated even two years ago. Maintaining the same level of match, for many, may compromise the larger goals and viability of the company itself.

Eliminating or reducing a matching contribution isn't something any employer wants to do, but more and more are discovering that it's something they have to consider.

In this situation, there's much to appraise…

- Can I reduce or eliminate a match and still maintain Safe Harbor plan status?
- Should I eliminate the match overall?
- Do I have other options?
- Are there other places where I can reduce benefits costs?
- Am I locked into making a matching contribution for the entire year?
- Will I have flexibility to reinstate, or increase, a match after I've changed it?
- How will I communicate this change and what notice am I required to give?
- What steps do I need to take, what documents do I need to consider?
- What will the effect be on employee morale?
- Will employees stop investing?
- What are the long-term implications for employees' saving and retirement security?

Safe Harbor Status and Matches

Many employers take advantage of what's known as "Safe Harbor" protection for their 401(k) plans to make sure that all employees have the opportunity to maximize their contributions to the plan each year, even if lower-paid employees have lower participation and contribution rates.

By providing a matching contribution, employers provide an incentive for all employees to invest, and reduce administrative concerns.

In the event that an employer can't maintain the Safe Harbor match, however, there are options to continue the plan. Having chosen to offer a Safe Harbor plan in the past does not limit the plan to being always and only "Safe Harbor."

With 30 days notice, an employer can eliminate (or reduce) a Safe Harbor match… and still maintain the 401(k) plan itself… in essence turning it into a "plain" 401(k), performing ADP and ACP testing and potentially funding top-heavy minimums.

There are three main arrangements by which an employer can offer a match and maintain a Safe Harbor 401(k):

1. At least dollar for dollar up to 3% of compensation deferred; 50 cents for deferrals of 3% to 5%
2. Dollar-for-dollar up to 4% of salary deferred
3. Minimum 3% for all eligible employees, regardless of whether an employee makes salary deferrals into the plan.

Bottom line: Even if a plan currently enjoys Safe Harbor protection because of the employer match:

- That protection does not lock an employer into maintaining an unexpectedly unaffordable contribution for a full year, and
- Reducing or eliminating the matching contribution does not require the termination of the plan overall.

What do I have to do?

In the event that you do decide to reduce or eliminate the match, first consider whether an all-out elimination is your only option. Can you continue to support a match but a lesser one? What about changing eligibility or delaying the timing?

In either scenario, however, there are steps an employer needs to take when changing a match arrangement.

- Review your plan design… make sure you understand the nature of the match arrangement or formula, and which employees will be affected

- In a Safe Harbor plan, you must provide a minimum of 30 days written notice to participants
- Work with your plan's investment provider, recorkdkeeper and your own make sure that key documents are updated:
  - Enrollment kits
  - Summary Plan Description
  - Plan amendment
  - Online tools and plan documents
- Make sure your own payroll and benefits department(s) understand the change
- Consult with your plan's recordkeeper about testing implications (especially in a situation where you are changing a Safe Harbor match).
- Note: Plans that are deemed to be Top Heavy (usually plans with under 100 participants) must still satisfy the minimum contribution requirement

What about my Employees?

Reducing or eliminating a match is not a decision any employer takes lightly. There will be employee impacts on a number of levels.

An employer contribution can be a powerful motivator in getting employees themselves to save in the plan. Eliminate that incentive and it's likely that you will have employees who choose to stop, or reduce, their own contributions as well. Plus, you are probably reducing the likelihood that new employees, or newly eligible employees, will join the plan.

There's a long-term potential impact on employees' retirement readiness… the following table illustrates the effects over time of a match suspension of one or two years, employee contribution suspensions for the same periods, and the combined effects of both a match and employee contribution suspensions.

The illustration assumes an annual salary of $50,000, employee contributions of 6% ($3,000) and an employer match of 50%. It is not adjusted for inflation, and assumes a 5% annual return on investment (this is not indicative of any specific investment, and past performance does not guarantee future results.)

	NET EFFECT OF EMPLOYER SUSPENDING MATCH		NET EFFECT OF EMPLOYEE STOPPING CONTRIBUTION		NET EFFECT OF BOTH EMPLOYER MATCH AND EMPLOYEE CONTRIBUTION	
Year	**For 1 Year**	**For 2 Years**	**For 1 Year**	**For 2 Years**	**For 1 Year**	**For 2 Years**
1	$(1,540)	$(1,540)	$(3,081)	$(3,081)	$(4,621)	$(4,621)
2	$(1,617)	$(3,158)	$(3,235)	$(6,315)	$(4,852)	$(9,473)
3	$(1,698)	$(3,316)	$(3,396)	$(6,631)	$(5,095)	$(9,947)
4	$(1,783)	$(3,481)	$(3,566)	$(6,963)	$(5,349)	$(10,444)
5	$(1,872)	$(3,655)	$(3,745)	$(7,311)	$(5,617)	$(10,966)
6	$(1,966)	$(3,838)	$(3,932)	$(7,676)	$(5,898)	$(11,514)
7	$(2,064)	$(4,030)	$(4,128)	$(8,060)	$(6,193)	$(12,090)
8	$(2,167)	$(4,232)	$(4,335)	$(8,463)	$(6,502)	$(12,695)
9	$(2,276)	$(4,443)	$(4,552)	$(8,886)	$(6,827)	$(13,329)
10	$(2,390)	$(4,665)	$(4,779)	$(9,331)	$(7,169)	$(13,996)
11	$(2,509)	$(4,899)	$(5,018)	$(9,797)	$(7,527)	$(14,696)
12	$(2,634)	$(5,143)	$(5,269)	$(10,287)	$(7,903)	$(15,430)
13	$(2,766)	$(5,401)	$(5,532)	$(10,801)	$(8,299)	$(16,202)
14	$(2,905)	$(5,671)	$(5,809)	$(11,341)	$(8,714)	$(17,012)
15	$(3,050)	$(5,954)	$(6,099)	$(11,908)	$(9,149)	$(17,863)
16	$(3,202)	$(6,252)	$(6,404)	$(12,504)	$(9,607)	$(18,756)
17	$(3,362)	$(6,565)	$(6,725)	$(13,129)	$(10,087)	$(19,694)
18	$(3,530)	$(6,893)	$(7,061)	$(13,786)	$(10,591)	$(20,678)
19	$(3,707)	$(7,237)	$(7,414)	$(14,475)	$(11,121)	$(21,712)
20	$(3,892)	$(7,599)	$(7,785)	$(15,199)	$(11,677)	$(22,798)
21	$(4,087)	$(7,979)	$(8,174)	$(15,959)	$(12,261)	$(23,938)
22	$(4,291)	$(8,378)	$(8,583)	$(16,756)	$(12,874)	$(25,135)
23	$(4,506)	$(8,797)	$(9,012)	$(17,594)	$(13,518)	$(26,391)
24	$(4,731)	$(9,237)	$(9,462)	$(18,474)	$(14,193)	$(27,711)
25	$(4,968)	$(9,699)	$(9,935)	$(19,398)	$(14,903)	$(29,096)
26	$(5,216)	$(10,184)	$(10,432)	$(20,368)	$(15,648)	$(30,551)
27	$(5,477)	$(10,693)	$(10,954)	$(21,386)	$(16,431)	$(32,079)
28	$(5,751)	$(11,228)	$(11,501)	$(22,455)	$(17,252)	$(33,683)
29	$(6,038)	$(11,789)	$(12,077)	$(23,578)	$(18,115)	$(35,367)
30	$(6,340)	$(12,378)	$(12,680)	$(24,757)	$(19,021)	$(37,135)

The most extreme scenario here (but entirely plausible and perhaps even optimistic in these times)… both employer and employee stopping contributions for just two years… results in that employee's account being reduced by more than $35,000 after 30 years.

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Not all or nothing. Employers who think they need to eliminate their match should first consider the possibilities for reducing it instead.

What are my Options?

Is cutting the match your only option to cut unnecessary benefits expenses? Consider your total benefits program before settling on any specific measures.

- All aspects of your benefits programs
- Extra "perk" programs such as Employee Assistance or membership sponsorships
- Print and other communication expense

In the event that you do change your match, make it a temporary measure, and commit to reinstating this key benefit as soon as it's feasible for your company.

Your employees may not thank you, but they will likely appreciate candor, honesty and understanding as they – and you – adapt to the demands of the new economy and workplace.

How to help employees manage 401(k) cutbacks:

- Encourage employees to continue making their own 401(k) contributions
- Discourage employees from decreasing their contributions
- Offer financial education to help employees learn how to manage investments
- Separately address the needs of various age groups
- Let employees know what your best estimate is for when you may be able to resume the match – "after the recession," or "when sales improve"
- Stress that the reduction applies to all employees
- If possible, tell employees what the suspension helps to avoid – i.e., salary cuts or layoffs

"Quick Savings… at what cost?" *Business Management Daily*, 6/8/2009

If you do decide to reduce or eliminate a 401(k) match, ING's Special Report, *Match Points,* can be distributed to your employees. This report stresses the importance of continuing to contribute to the plan. It illustrates the potential long-term effect if an employee decides to stop contributing even for a year, and stresses the importance of other plan features and benefits. It can be downloaded at www.ing.com/us/sponsorIIRR under "Publications"

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