

## Is Your Company Match Achieving its Objective?

What is the true objective of your company match? Is it intended to help your employees save more for retirement? Is it used as a tool to recruit new employees? Do you offer a match to incentivize lower paid employees to save more in order to improve your nondiscrimination test? In the end, is your company match achieving its objective?

After all, more than 95% of plans offer a match according to a 401khelpcenter.com article titled, "*Benchmark Your 401(k) – 2012.*" When was the last time your match was discussed and evaluated? Have you considered restructuring your match in order to help participants save more for retirement? Reducing corporate expenditures was on the forefront of the minds of many companies back in 2007 and 2008. As a result, some organizations reduced or eliminated their match altogether while most entertained the idea at a minimum. According to a study by Towers Watson titled, "*A Look at Defined Contribution Match Reinstatements,*" in 2011, 75% of those who suspended their match have since reinstated it. The majority of the companies that have reinstated the match have done so within 9 to 12 months following the original suspension date.

A company match is a very powerful tool when used correctly. According to Vanguard Center for Retirement Research's article titled, "*401(k) Plan Design: Match, Loan, and Investment Menu Effects,*" match design typically increases participation rates by 5-15%, yet it is one of the top three reasons why participants save for retirement. For example, the most common match by far among plan sponsors is to match 50% of the first 6% that an employee defers. This means that participants are incentivized to save up to 6% of their pay. However, in order to achieve successful retirement outcomes, most participants should save between 10-15% of their pay. This can be achieved through other "Courageous Plan Design" features, such as Auto Escalation (which will be discussed in future newsletters). Using the match as a key driver in helping more participants achieve successful retirement outcomes is a topic that committees should discuss regularly.

One restructured formula to incentivize employees to save more would be a 30% match on the first 10% the employee defers into the plan. This structure is great for those companies that currently use the common 50% up to 6% formula since they are already matching 3% of an employees pay. This would encourage participants to target 10% versus a lesser amount like 6%, yet it will not increase the company's additional matching dollars.

If you need assistance in discussing the objective of your company match and any potential changes, we encourage you to contact your dedicated Plan Consultant today.