

Use of employer matching contributions in 401(k) plans — Follow-up survey

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Introduction

In April 2009 the global economy had entered a serious recession. Grant Thornton conducted a survey that month to ask employers how the economic downturn was affecting their use of 401(k) matching contributions.

We reported that approximately a quarter (27%) of the survey respondents were considering reducing or eliminating their 401(k) match, even where they sponsored “safe harbor” plans or believed that reducing or eliminating the matching contribution might have a negative impact on employee participation in their plans.

The general economic outlook has changed significantly in the six months since then, so in January 2010, we polled 168 employers to inquire what actions they finally took, what impact they saw from their decisions and what considerations affect the role of their 401(k) plans today.

Executive summary

The number of respondents who considered reduction or elimination of their matching contribution rose from the 27% reported last April to 42% by the end of 2009. Although 42% considered reducing or eliminating the matching contribution, only 59% actually did so.

Of those who reduced or eliminated their matching contribution, only 20% have restored the match, although 64% of those who haven't yet restored their match report that they plan to do so in the future. Most of those who considered reducing or eliminating their match, but hadn't yet done so, now report that they are no longer considering reducing or eliminating the match.

As the economy improves, most employers report an increasing emphasis on recruiting and retaining employees, and approximately two-thirds of employers reported that offering a 401(k) plan significantly or moderately improved their ability to recruit and retain employees. However, most also reported that they have no plans to increase their match, add profit sharing contributions or shorten the vesting schedule as a means to enhance their 401(k) plan's effectiveness in recruiting and retaining employees.

Summary of results

Many employers reduced or eliminated their 401(k) matching contribution during the economic downturn, but few are still considering doing so.

Approximately 42% of respondents reported considering reduction or elimination of their matching contribution. Of those, 59% actually reduced or eliminated their match. However, only 13% of respondents are still considering a future reduction or elimination of their matching contribution. Eighty percent of those who have reduced or eliminated their matching contribution have not yet restored it.

Many employers believe that their 401(k) plan plays a role in recruiting and retaining employees. However, few respondents indicated that the matching contribution was a key plan design element in this regard.

Approximately 69% of respondents reported that their 401(k) plan significantly or moderately improved their ability to recruit and retain employees. However, of those who reduced or eliminated their match, 70% reported that this had little or no impact on their recruiting and retention. Thirteen percent of employers have considered increasing their matching contribution to enhance recruiting and retention, while the rest are not doing so.

Few sponsors are considering other employer-funded enhancements to their 401(k) plans at this time.

Although 27% of respondents reported that they already provide a profit sharing contribution, 59% reported that they are not considering adding a profit sharing contribution to enhance their 401(k) plan. Similarly, 94% of respondents are not considering shortening their plan's vesting schedule.

Detailed survey results

Number of employers considering changing match

We asked respondents whether they had considered reducing or eliminating their 401(k) matching contribution. Of the 168 respondents, 43.88% answered no and 42.45% answered yes. The remaining 13.67% indicated that they did not provide a matching contribution during the period.

Grant Thornton observation

The number of respondents that considered reducing or eliminating their match increased from 27% to 42% during the period between our two surveys (April 2009 and January 2010). During the same period, the economy improved and the rate of job losses slowed. While not conclusive, this suggests that changing the 401(k) match may be a lagging response to economic difficulties rather than a leading response.

Number of employers who reduced or eliminated the matching contribution

Of respondents who reported they had considered changing their match, 59.32% reported that they had done so and 40.68% reported that they had not taken any action.

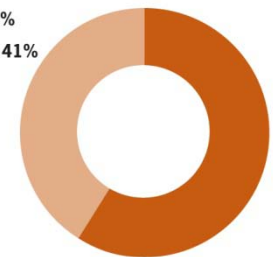
Grant Thornton observation

It appears that while a number of respondents considered changing their match, only a little over half actually acted on this cost-saving measure.

- Considered **42%**
- Did not consider **44%**
- No match during this period **14%**



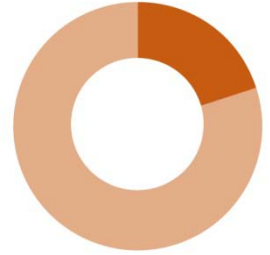
- Did reduce or eliminate the match **59%**
- Did not reduce or eliminate the match **41%**



Number of respondents who have restored their match

Of those who had reduced or eliminated their matching contribution, 80% reported that they had not restored some or all of the match, while 20% reported that they had restored at least part of the match.

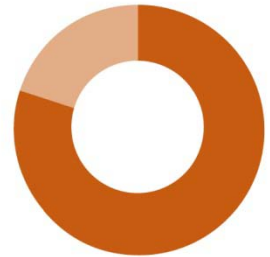
- Have restored **20%**
- Have not yet restored **80%**



Respondents planning to restore their match in the future

Of those who have not yet restored their matching contribution, 64.27% report that they plan to do so in the future and 35.71% report that they do not plan to do so.

- Plan to restore match in future **64%**
- Do not plan to restore match **36%**



How soon respondents plan to restore their match

Of those planning to restore their match in the future, 66.67% report they are not sure when they will do so. Another 22.22% report they plan to restore their match in 2010, and 11.11% plan to restore their match after 2010.

- During 2010 **22%**
- After 2010 **11%**
- Plan to restore, but not sure when **67%**

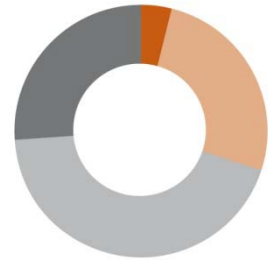


Grant Thornton observation

Given that 80% of respondents who cut or eliminated their match have not restored it, and that a majority of those planning to restore their match are not sure when they will do so, it appears that most such respondents are remaining on the sidelines and are not yet ready to commit to incurring the expense of this employee benefit.

Perceived impact of reducing/eliminating the match on recruiting and retention

Respondents were asked whether they believed cutting back their matching contribution affected the companies' recruiting and retention efforts. Of the total, 44% reported low impact, 26% reported moderate impact, 26% reported no impact and 4% indicated a significant impact.

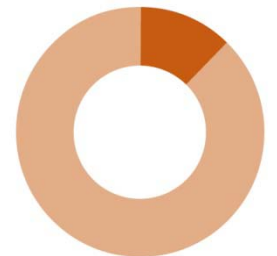
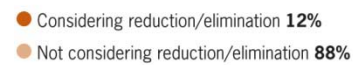


Grant Thornton observation

There is much anecdotal evidence that respondents believe that simply offering a 401(k) plan has the most impact on recruiting and that the details of the plan are less important to prospective employees.

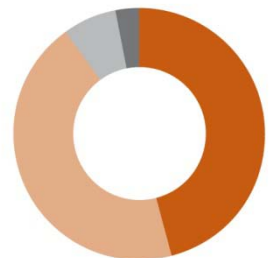
Employers still considering reduction or elimination of their match in the future

Of the respondents, 87.5% indicated no future plans to reduce or eliminate their matching contribution, while 12.5% are still considering future reductions.



Post-recovery importance of recruiting and retention

Respondents were asked, now that the economy is recovering, how important recruiting and retention are at their companies. Of the total, 46.65% reported a high level of importance, 44.20% moderate importance, 7.25% low importance and 2.90% reported that it was not important.



Grant Thornton observation

These responses support the view that, at least within the finance and human resources functions, increasing demand for talent is being factored into planning.

Importance of 401(k) plan in recruiting and retention

Respondents were asked whether their 401(k) plan improved their ability to recruit and retain employees. Of the total, 21% reported a significant improvement, 48% moderate improvement, 20% low improvement and 11% no improvement.

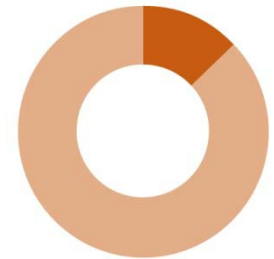
- Significant improvement **21%**
- Moderate improvement **48%**
- Low improvement **20%**
- No improvement **11%**



Increasing match as recruiting and retention tool

When asked whether they had considered increasing their 401(k) matching contribution for recruiting and retention, 86.96% of respondents reported that they had not, and 13.04% reported that they were considering an increase.

- Considered increasing match **13%**
- Have not considered increasing match **87%**



Adding a profit sharing contribution to the 401(k) plan

Just over one-eighth (13.04%) of respondents reported that they have considered providing a profit sharing contribution in addition to the match under their 401(k) plan, but over half (58.70%) of employers advised that they had no such plans, and 26.81% reported that they already provided a profit sharing contribution.

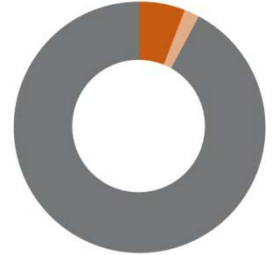
- Yes, in addition to the matching contribution **13%**
- Yes, instead of the matching contribution **1%**
- No profit sharing **59%**
- We already provide a profit sharing contribution **27%**



Changing the match vesting schedule

Survey participants were asked whether they had considered changing the vesting schedule for employer contributions to their 401(k) plan. A majority 92.03% reported that they had not, 5.80% reported that they were considering shortening the vesting schedule and 2.17% reported that they were considering extending it.

-
- Considering shortening the vesting schedule **6%**
 - Considering extending the vesting schedule **2%**
 - Have not considered changing the vesting schedule **92%**



Demographics

The 168 people who completed the survey are organized by industry, company size and revenues in the following charts.

Industry sector

Primary industry	Percent of respondents
Manufacturing-other	21.74
Financial services	10.14
Business services-technology	6.52
Banking	5.80
Manufacturing-technology	5.80
Wholesale trade/distribution	5.80
Retail/trade	5.07
Real estate	4.35
Construction	2.90
Energy	2.90
Health/ health services/distribution	2.90
All other	26.08

Company size

Number of employees	Percent of respondents
<100	21.74
100–499	31.16
500–999	13.04
1,000–4,999	22.46
5,000–9,999	5.80
10,000–19,999	2.17
20,000–49,999	2.90
50,000+	0.72

Company revenue

Revenue in U.S. dollars	Percent of respondents
<\$50M	27.54
\$50M–\$100M	18.12
\$100M–\$250M	10.87
\$250M–\$500M	18.12
\$500M–\$1B	8.70
\$2B–\$5B	9.42
\$5B–\$10B	2.90
\$10B–\$20B	2.90
\$20B+	1.45

Conclusion

Taken together, the responses Grant Thornton received to the survey indicate a lingering ambivalence about returning to matching contributions among those who have reduced or stopped their match, as well as the perception that the demand for talented employees is likely to increase as the economy recovers more fully.

This may be a picture of the issue as it stands “at the bottom,” i.e., after the downturn in the economy has stopped, but before the economic rebound is fully underway. This could lead to fiscal conservatism (holding off on reinstating the match), as well as preparation and planning for a changed labor market after the projected recovery has largely occurred.

In terms of recruiting and retention, respondents were clear that it is important to be able to offer a 401(k) plan, while the specific importance of the matching contribution formula and the vesting schedule were ranked relatively low.

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