

# Evaluating company match in today's economic climate

Given the current economic environment, many organizations are now faced with having to make difficult decisions around reducing their overall expenditures. Everything from a reduction in force to suspension of employee benefits is being considered to ensure costs are being allocated efficiently and appropriately. Reports of layoffs and suspension of company match are now impossible to ignore in the mainstream media. As a result, many employers are asking whether Fidelity's corporate defined contribution clients are freezing or reducing their company match or not, and many have inquired on what they need to evaluate when considering making such a change.

This guide will identify the trends we are currently seeing among our clients and will highlight some of what should be considered prior to making a change to your company match.

## Recent Trends:

- ☑ Overall, 4.6% of Fidelity clients have reduced or suspended employer contributions, representing 6.9% of Fidelity's active participant base.<sup>†</sup>
- ☑ The decision to reduce or suspend employer contributions has been made by both small and large companies across various industries. However, the vast majority of plans that are reducing or suspending are small to mid-size companies with less than 5000 participants. The most significant concentration has been among manufacturing companies.<sup>†</sup>
- ☑ During 2001 & 2002, several plan sponsors among the automobile industry, financial-services companies and the airline industry lowered or suspended employer contributions due to economic issues. It is important to note that the majority of those employers reinstated their contributions when business conditions improved.

## Evaluate your options—step by step

Before moving forward with a match suspension or reduction, it's important to review all aspects of your total rewards program. When looking specifically at your defined contribution plan, it is also important to consider the following:

- A reduction in match vs. a suspension
- Implications for your employees
- Impact to you as an employer
- The communication strategy

Please review the steps below to help you identify some of what to review and consider prior to making a final decision.

### 1. Evaluate Your Total Rewards Program

While the suspension of company match has garnered a lot of recent media attention, there are multiple areas that should be considered when looking at your total rewards program, such as:

- Employee health care premiums
- Employee perk and wellness programs
- Defined benefit plan features
- Reiterating the value of existing programs
- Audits and data efficiency
- Confirming the objectives of your defined contribution plan

### 2. Review Your Retirement Plan Documents

In order to determine if a match suspension can be implemented immediately, it is important to understand exactly how the match requirements are detailed in the plan document. In addition, the following components should be evaluated.

- Verify that the match and/or profit sharing contributions are truly discretionary vs. a fixed formula (e.g., 50% of the first 6% of compensation deferred)
- Understand the population eligible to receive the match/contribution (e.g. All employees, salaried/professional, etc.)
- Review the definition of eligible compensation for the match
- Understand the timing of the match (e.g., does your match accrue during each pay period or during the whole plan year?)
- Understand eligibility requirements to receive the match (e.g., immediate, 12 months of service, last day of the plan year)
- Review whether your plan specifies making a "safe harbor matching contribution" as there may be additional implications. For example, a safe harbor match suspension requires a notice to participants 30 days prior to the suspension effective date
- Note that mid-year changes could require additional considerations

### 3. Consider A Match Reduction vs. Suspension

Before moving to a full match suspension, you may want to consider a reduction in your match. Either way, changes can be made, but depending on the specific language in your plan document, you may have to comply with a notification period or wait until the first day of the plan year.

- Consider changing the match formula
- Limit the population eligible to receive the match/contribution (e.g. exclude Highly Compensated Employees, certain employee types, etc.)
- Change the definition of compensation for contribution purposes
- Consider moving to a discretionary match
- Delay the timing of the contribution
- Eliminate a “true up” match

### 4. Evaluate Implications

When considering a match suspension, it is critical to understand the impact to you and your employees. A match suspension could affect employee retirement readiness, plan administration and your non-discrimination testing results.

#### Employee Retirement Readiness

Employer contributions often motivate employees to enroll and participate in retirement savings plans. Fidelity research discovered that among plan design components, the presence of an employer match is a powerful driver in increasing plan participation; a match rate of more than 50% increases participation by 9%.<sup>‡</sup> Therefore, reducing or suspending employer contributions could lead to a decrease in plan participation and/or a reduction in employee deferral rates, compounding the issues of helping employees adequately prepare for retirement.

- Evaluate your demographics to project overall impact
- Consider impacts to employee morale
- Benchmark your match formula within your peer group

#### Plan Administration

To implement a company match suspension or reduction, you may incur additional costs. These include updating or making changes to the following:

- Plan Materials, including:
  - Summary Plan Descriptions (SPDs)
  - Summary of Material Modification (SMM)
  - Plan amendment
  - Enrollment kits
- Payroll
- Match calculation
- Notifications—for Safe Harbor plans, a notice is required at least 30 days prior to suspending or reducing the match.

<sup>‡</sup> Fidelity recordkept plan design data as of 12/2007.

## Non-discrimination Testing

Reducing or suspending employer contributions may trigger the need for testing in that particular year. Plans that are not currently Safe Harbor could experience adverse testing results, which may result in the need for corrective actions. If you anticipate non-discrimination testing issues, forecasting the potential cost and compliance impact of plan design changes will be critical.

- Consider running projections to estimate impact on ADP & ACP Tests.
- Determine strategy for addressing failures

## Continue to Engage Your Employees

Regardless of your decision, it is becoming increasingly important to communicate to your employees. Many organizations are choosing to lead their employees through these difficult times by providing tools and resources for additional financial education.

If you decide to make a change, implementing a comprehensive communication plan to educate your employees on the changes to be made is an important method for a successful implementation. Proactive organizations recognize the power of a motivated and efficient workforce and therefore choose to openly address on-going business strategies with their employees. Consider appropriately positioning the business rationale for modifying programs and highlight the value of existing ones.

## Fidelity Can Help

Now more than ever, companies must make decisions to ensure the success of their business while leading their workforce through this volatile economy. Fidelity recognizes these decisions are significant and we are prepared to assist your organization in working through these challenges. For additional guidance on what to consider, please contact your Fidelity Managing Director. If you are interested in an in-depth analysis on evaluating cost cutting strategies, Fidelity Consulting Services can provide detailed solutions to help meet your company's objectives.

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