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# Employers slow to restore 401(k) matching contributions

Just 44% of companies move to reinstate; many lack confidence

**By Joanne Wojcik**

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Economists heralded FedEx Corp.'s decision to restore its matching contribution to employees' 401(k) plans as a sign that the recession is ending, but surveys show that less than half of the firms that reduced or suspended plan matches in recent years have restored them.

Citing an improved earnings outlook, FedEx two weeks ago said that it will fully restore its 401(k) plan matching contribution, effective Jan. 1.

FedEx, which in 2008 had sweetened its match to 100% of employee deferrals on the first 1% of pay and 50% on deferrals up to 5% of pay in conjunction with a plan redesign, cited an earnings slump amid an ailing economy in suspending the match, effective Feb. 1, 2009.

FedEx had company among major firms reducing or suspending their 401(k) plan matching contributions last year.

Less than half have restored the reductions since then.

Although about the same number of employers suspended or reduced their 401(k) plan matches during another weak economic period from 2000-01, benefit consultants said, the rate of match restoration is a bit slower this time around.

As employers move to reinstate those contributions, some are altering the way that they calculate them and, in some cases, linking them to company profitability, the consultants said.

Since the financial crisis came to a head in September 2008, between 8% and 18% of employers either reduced or suspended their match of 401(k) plan contributions, according to various surveys by benefit consultants.

For example, while Fidelity Investments' March survey of 293 plan sponsors pegged the suspension rate at 7.9%, Towers Watson & Co.'s April survey of 334 plan sponsors put the suspension rate closer to 13%. Five percent reduced the match.

The restoration rate is a bit slower than that in the economic downturn at the beginning of the decade, said Beth McHugh, vice president of market insights at Fidelity. More than 50% of the 8% of plan sponsors that either reduced or suspended their matches in 2000 or 2001 reinstated them by the middle of 2002; that compares with just 44% as of March, she said.

Although Hewitt Associates Inc. said in a February survey that 80% of employers that suspended or reduced their company match last year were planning to restore it this year, only about one-third have done so, said Byron Beebe, Hewitt's U.S. retirement market leader.

"We did expect that a large number would put the match back in 2010," he said.

Companies that restored the match usually accompanied the announcement with other good company news, such as improved earnings, Mr. Beebe said.

David Wray, president of the Profit Sharing/401k Council of America, attributed employers' hesitation in part to déjà vu, in that it wasn't long ago that they were implementing similar suspensions and cuts because of an ailing economy.

"It's the lack of confidence in the future. Companies don't like to make commitments to their employees and withdraw them," Mr. Wray said. "It's not good for the morale of the work force."

Particularly in industries recovering more slowly from the recession and credit crisis, employers have been reluctant to reinstate their 401(k) matching contributions, said Jack Abraham, principal and head of the benefit practice at PricewaterhouseCoopers LLP.

"There are certain industries this time that are not recovering — for example, the construction materials industry," he said. "With prices depressed, they haven't been able to reinstate those types of benefits, because they're still losing money."

To ensure that they don't make promises that they may not be able to keep, some employers are making 401(k) contributions contingent on company profitability, benefit consultants said.

"We are seeing some be discretionary about their match so they won't put themselves in the position to make deadlines when they have to go through this again," said Bill McClain, a principal at Mercer LLC.

Rather than matching employees' regular payroll contributions, "they are contributing a percentage of pay at year-end, depending on how well the company performs," said Leslie Smith, senior vice president in the retirement practice at Aon Consulting.

Sprint Nextel Corp., for example, which had matched employee 401(k) plan contributions up to 5% of salary, revamped its plan in March 2009 to match contributions only up to 4% of salary, provided that the company exceeds its operating income target by at least 10%, a company spokesman said.

*Joanne Wojcik is a senior editor at sister publication Business Insurance.*