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What to Do When the 401(k) Match Must Go

Plan sponsors that need to cut their 401(k) contribution would be wise to consider the implications to the broader employer/employee social relationship, and take steps to counter this negative perception as much as possible.

By Lori Lucas

General Motors, Goodyear, Frontier Airlines. As in past recessions, the list of companies that are suspending their 401(k) contribution grows longer every day.

Many plan sponsors recognize the drawbacks of eliminating their contribution to the 401(k), including reduced plan participation, potential nondiscrimination testing issues and weakened employee morale. A cut in the plan sponsor's 401(k) contribution may even be interpreted by employees as a much broader intent by the company to permanently disengage from sponsorship of retirement income. After all, many companies have already reduced or eliminated pension benefits. Retiree medical benefits have also often undergone haircuts. Employees may very well wonder if the 401(k) plan is next to go. Behavioral research demonstrates that such a line of reasoning by employees may affect their on-the-job productivity.

Proponents of behavioral finance argue that benefits such as 401(k) plans enhance employees' productivity by creating an interaction with the company that is more "social" in nature, and not just transactional or pay-related. Behavioral experiments indicate that the implied long-term commitment to the employee of such benefits may not only improve output, but may make people more willing to help others, act less selfishly, and be more team- and teamwork-

oriented. Conversely, a movement away from such benefits can weaken the social fiber, reducing productivity.

In his book *Predictably Irrational*, MIT professor Dan Ariely cited one such experiment in social relationships, where people were asked to perform a simple task on a computer. Some of the participants were paid for the task (either 10 to 50 cents or \$5); others were asked to perform the task as a favor to the experimenters. The experimenters found that those who did the task as a favor, regarding it as a part of a social relationship and not merely as a transaction, tended to work much harder than those earning 10 or 50 cents, and slightly harder than those earning \$5 for the task. In other words, when the task was framed in a social way—as a favor to experimenters—it elicited greater commitment from the participants than when people were simply paid for their work.

Plan sponsors that need to cut their 401(k) contribution would be wise to consider the implications to the broader employer/employee social relationship, and take steps to counter this negative perception as much as possible. In particular, those who are committed to their 401(k) plan over the long term will wish to signal this commitment loudly and clearly. This can be done not only through explicit communication, but also by revisiting plan

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features. Steps to take include:

Communicate long-term intentions. Many plan sponsors who have cut the company contribution have already explained that the reduction is temporary. This telegraphs a longer-term dedication to the 401(k) plan by the sponsor. Continued, persistent communication in 2009 about the DC plan and the merits of saving will demonstrate concern about participants' retirement well-being. Indeed, according to a recent Callan Associates survey, many plan sponsors are intending to increase communication/education to participants in 2009. According to the survey, 63 percent were going to increase communication in such areas as investing, plan participation and retirement income adequacy. With the use of e-mail, webinars and Internet postings, such communication can be a low-cost way of broadcasting continued support of the DC benefit.

Keep a residual commitment to the matching contribution. Studies have shown that even a tiny match can improve plan participation. If a cut to the match is required, plan sponsors may wish to consider keeping a residual match, or reinstating a residual match as quickly as possible. Even 10 cents on the dollar is better than no company contribution at all, and the small contribution can demonstrate that the company is doing what it can to help employees.

Break out the bells and whistles. Enhancing the 401(k) plan with features such as Roth contributions, investment advice and automatic rebalancing can provide a positive message and much-needed support. Unfortunately, according to a recent Callan survey, very few plan sponsors are considering adding such features this year. Just over a quarter (28 percent) have Roth IRA contributions, and only 1.6 percent are considering adding the feature in 2009. Just over a third (37 percent) offer investment advice, and less than 2 percent say they are very likely to offer it in 2009. Instead, plan sponsors say they are focused on other priorities, such as increased investment manager due diligence and compliance. This is understandable

and important, but many plan enhancements can be relatively painless and low-cost to implement, and they can have a significant impact on the perception of the plan by employees.

Move ahead with automation. Likewise, the survey showed that few plan sponsors are adding automatic enrollment or automatic contribution escalation. Half of plans offer automatic enrollment, but only an additional 2 percent say they will add it in 2009. Just over a third (36 percent) offer automatic contribution escalation, with less than 5 percent planning to add it in 2009. For plans with a company match, the cost of adding automatic enrollment or automatic escalation may be prohibitive in today's environment. But for plans without a company match, the reality is that automatic enrollment and contribution escalation will be the most effective ways of bolstering plan participation.

Ariely points out that once a social relationship is undermined, it is very difficult to regain it. Plan sponsors who see their 401(k) plan as a long-term investment in their employees will want to take this into account as they position any temporary reductions to their 401(k) plan or to any other employee benefits.

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Lori Lucas, EVP and defined-contributions practice leader at Callan Associates Inc.