

Advisers Fret that Clients Will Trim 401(k) Participation if Matches Are Cut

Will G.M.'s elimination of contributions have a domino effect?

By Lisa Shidler
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Financial advisers are worried that if more employers eliminate 401(k) matches, it will cause already cash-strapped and worried clients to reduce or halt their contributions.

Their concern comes on the heels of an announcement last month by Detroit-based General Motors Corp. that it is temporarily eliminating matching contributions for salaried workers.

Other companies are expected to follow suit.

In fact, new data confirm adviser worries.

Participants started reducing contributions in September for the first time since the economy worsened, said Dean Kohmann, vice president of 401(k) plan services for The Charles Schwab Corp. of San Francisco.

"We're seeing a noticeable increase in people lowering their savings rates in their 401(k) plans," said Mr. Kohmann, who is based in Richfield, Ohio.

He said that slightly under 5% of participants are making changes to their deferral rates.

And of the 248 companies surveyed in mid-October by human resources firm Watson Wyatt Worldwide of Reigate, England, and Washington, 2% said that they had already cut back on 401(k) matches. Another 4% said that they might do so in the coming months.

CRIPPLING EFFECT

The decision by companies to reduce matching contributions would likely have a crippling effect on retirement accounts already battered by the market.

In the past year 401(k) plans have lost \$2 trillion.

The problems that affect the 401(k) system need to be addressed soon by the new administration, said Jack VanDerhei, research director at the Washington-based Employee Benefit Research Institute's fellows program.

"Will the discussion of future 401(k) plans be accelerated, given the combination of market conditions and [last] Tuesday's elections? I'd say yes," said Mr. VanDerhei, who is also a professor at Temple University's Fox School of Business in Philadelphia.

If levels of participant anxiety are an indication, the new administration needs to act sooner, rather than later.

Third-quarter data from Financial Finesse Inc. in Manhattan Beach, Calif., which provides financial guidance to plan participants at 400 companies, reported that participants were more worried about budgeting and saving, compared with a year ago.

The firm said that 19% of participants asked questions in the third quarter about the difficulties of making ends meet, compared with 13% in the third quarter of 2007.

Linda Robertson, a certified financial planner who works at Financial Finesse as an adviser answering questions at the company's call center, recently spoke with a participant who reduced her 401(k) savings because she was afraid of losing her job.

"She's bringing her 401(k) savings down from 14% to 6%," said Ms. Robertson, who has been in the industry for 18 years.

"She thinks if she's laid off, she'll need more in her emergency fund. Normally, I wouldn't have agreed with her, but in her situation it really did make sense," Ms. Robertson said.

Although companies don't want to get rid of the match, they will reduce it or eliminate it temporarily until the economy recovers, said Alicia H. Munnell, director of the Center for Retirement Research at Boston College in Newton, Mass..

"In light of the immediate financial problems, employers have to make decisions about what they have to get rid of, and the alternative is laying people off," she said.

"[But] not having the match for some period of time means people will end up in retirement with less."

SEEING THE FALLOUT

Advisers are seeing the fallout.

Rick Shoff, a Philadelphia-based senior vice president and adviser with Captrust Financial Advisors of Raleigh, N.C., already has seen clients pulling back.

"We've certainly had some isolated situations where clients have looked to reduce their match," said Mr. Shoff, whose firm manages more than \$20 billion.

But eliminating the match can sour employees, he said.

"Just taking away the match is such a negative thing," Mr. Shoff said.

Companies always consider the pros and cons before reducing or eliminating a match, said Dave Barth, an adviser with Dawson Cos. in Cleveland, which manages \$450 million in assets.

"They're like everyone else," he said. "They're weighing the trade offs: Can we cut here in order to save jobs?"

The impact of reducing the matching contribution can be devastating for participants who are already starting to reduce the amount of money they put into their 401(k) plans, Mr. Barth said.

"People are seeing their statements and values go down. I've talked to a lot of people who are reducing because they're nervous about what's going on in the market," Mr. Barth said.

"They feel like all of the money they're putting in, they're losing," he said.

Other fund companies suspect that a trend is afoot but have no confirmation, yet.

Back in 2003, Malvern, Pa.-based The Vanguard Group Inc. found that about 5% of its companies had suspended or reduced matches, according to spokeswoman Amy Chain. She said that the company does not yet have any data to show if there is a similar trend this year, but anticipates that Vanguard will investigate to determine if its clients are reducing matching contributions.

At Baltimore-based T. Rowe Price Group Inc., the firm has no hard evidence that employers have reduced their matching contributions, said Heather McDonald, a spokeswoman.

"One of the sponsors said they strongly felt it was the wrong thing to do and worried about how it would affect [their attractiveness] from a recruiting standpoint," she said.

The employee deferral rate at her company has held steady this year at about 8%, Ms. McDonald said.

Reducing the match is something that companies really don't want to do, said Stace Hilbrant, president of 401k Advisors LLC in Wilmette, Ill., which manages \$900 million in assets.

"Everyone's talked about it, but I don't have any employers seriously thinking about it," he said. "It's politically very much verboten."

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