Employees’ 401(k) plans have experienced significant investment losses over the past several months as a result of the ongoing global recession, but these plans also are facing challenges on another front. In recent months, a growing number of employers have announced that they either are reducing or eliminating their 401(k) plan matching contributions on a temporary basis. In most cases, the employers say they must make changes to their matching contributions as an alternative to laying off workers.


In April, three survey reports were published which indicate the number of employers suspending or reducing their matching contributions to 401(k) plans.

The report from New York-based human resources consulting firm Mercer, Suspending the 401(k) Match: Look Before You Leap, reveals that 17 percent of the employers responding to the survey say they are “likely” or “very likely” to suspend their matching contributions. According to the report, over an employee's working lifetime, the loss of one year's employer contribution will not have a major impact on an employee’s ultimate retirement benefit. The report also states that the regulatory implications for suspending matching contributions can vary from plan to plan. While some plans may offer flexibility in terms of changing employer contributions, employers that maintain an Internal Revenue Service “safe harbor” design are subject to specific rules. Reducing or suspending employer contributions, could also have important implications for the plan’s nondiscrimination requirements.

The Towers Perrin (a global professional services firm) report, Benefits in Crisis—Weathering Economic Climate Change, finds that, in contrast to “media attention on the most severe cutbacks” by large employers, most companies surveyed indicate that they were “staying the course” in the benefits arena. Towers Perrin surveyed 500 U.S. companies and data collected from these companies suggest that the companies “remain committed to shared responsibility with employees.” Fewer than 10 percent of companies report that they have suspended or plan to suspend company contributions. The report concludes that more employees are changing their retirement expectations, with more than half (59 percent) of employers responding that employees plan to postpone retirement in light of the current economic climate.

Hewitt Associates, a global human resources consulting and outsourcing company, in their report, Cost Reduction & Engagement Survey, states that companies could save millions of dollars by suspending matching contributions for just one year, but the cost savings would reduce employee retirement savings. Hewitt recommends that companies temporarily suspend their contributions only if absolutely necessary because of the negative effects on employees and their ability to adequately save for retirement. Of the 500 companies surveyed, 20 percent respond that they already eliminated or reduced their matching contributions and another 22 percent report that they might reduce or eliminate the contributions this year.

An issue that may arise when an employer cuts or eliminates its matching contribution, as discussed in the Mercer report, is that the 401(k) plan could run afoul of the tax code’s nondiscrimination rules, unless the plan is a safe harbor 401(k) plan.