



## It's All About the Match

### Employee Satisfaction with Retirement Plans

In the past, especially at larger companies, defined benefit plans (i.e. traditional employer-funded pensions that provide a benefit based on factors such as length of service) were a preferred retirement vehicle. And indeed company-funded retirement benefits are great -- if the company can afford them. All too often we've seen companies crushed under the weight of their pension obligations, failing to adequately fund them, and leaving their employees with little or no retirement benefits. Companies are shying away from sponsoring defined benefit plans, and today's workforce is becoming suspicious of them.<sup>1</sup>

For many companies, especially small and medium-sized businesses, 401(k) plans are the retirement benefit of choice. But if you're going to go to the trouble of establishing a plan you want more than just a solid benefit on paper. You want the plan to be a tool to attract and retain talent. In this regard the 401(k) plan has a significant weakness; employees see it as a portable and generic benefit. Their next employer will probably have one, and they can even roll account balances over into IRAs that offer similar tax-deferred benefits.

Merely offering a 401(k) will not earn employee loyalty. But there are things you can do to turn your 401(k) into "golden handcuffs." The most important thing is to offer a generous employer match (that is, to reward employees who use the 401(k) to save for retirement by contributing an amount keyed to the amount the employees put in). The ability to receive employer matching contributions is the primary distinction between 401(k)s and many other tax-favored savings vehicles. Employees like employer matches for the obvious reason -- it puts money in their pockets. Matches are perceived less as a soft "benefit" and more as additional cash compensation, even though employees can't spend them immediately. Yes, employer matches come at a cost, but when compared to the costs averted by increased retention and more effective recruiting, you may find yourself well ahead of the game.

You can increase the retaining power of your 401(k) match (and reduce your costs) by implementing an appropriate vesting schedule. By requiring employees to vest in their employer match you can give them the feeling of an immediate cash benefit (they see the matching funds in their accounts and can watch them grow over time) along with an incentive to stay (unless they reach 100% vesting, they will miss some or all of the benefit). And should an employee leave before becoming fully vested, you can recycle the forfeited, unvested employer contributions to help fund matches for other employees.

Surprisingly, research shows that the goodwill generated by a robust match applies to other aspects of the plan as well. Employees who are satisfied with match rates tend to believe that other aspects of their 401(k) plans, such as investment options, plan administrator services, and education about the plans, are better than other plans.<sup>2</sup> In practical terms this means that if employees think they are receiving a good match, they will tend to believe that their plan is better in virtually every way than what they could find at another job. The 401(k) plan that achieves this perception is more than just a generic, portable benefit; it is now a retention and recruiting advantage.

<sup>1</sup> Private sector employees tend to be evenly split as to whether they prefer defined benefit or defined contribution plans, with older employees and retirees expressing a slightly greater preference for defined benefit plans and younger employees expressing a slightly greater preference for defined contribution plans. Society of Actuaries/The American Academy of Actuaries Retirement Plan Preferences Survey Report of Findings (Matthew Greenwald & Associates, Inc. 2004).

<sup>2</sup> Retirement Attitude Survey, Watson Wyatt Retirement (2003).