



Don't Get Burned Cutting Your Match

Current economic times have forced some companies to look for ways to cut costs. An increasingly common target has become the 401(k) match contribution. A study released on March 25, 2009 states, "34% of U.S. employers have reduced or eliminated matching contributions in their defined contribution plans in 2008 and 29% of employers plan to do so in the next 12 months".

Following are some general examples to help clarify the rules.

Sulfur Corporation had a number of very profitable years. During that time, they matched 50 cents per \$1.00 of employee 401(k) deferrals. The match only applied to the first 6% of pay an employee contributed. With 2008 financial reports looking bleak and little hope for recovery in 2009, costs had to be reduced. They decided to cut the match to 10 cents on every employee dollar contributed, up to 6% of pay. Some points to consider:

- If the plan document has a specific match formula defined, then a plan amendment must be written.
- All eligible participants are entitled to receive the match allocation up until the date of the amendment.
- If the plan currently has a rule that participants must be employed on the last day of the year, the match does not need to be allocated.
- The only notification an employee must receive is the Summary of Material Modification (SMM).

Now suppose Sulfur Corp maintained a Safe Harbor 401(k) plan; different rules apply:

- A plan amendment is required.
- A notice must be provided to employees at least 30 days prior to the effective date of the change.
- The amendment must be adopted effective at least 30 days after the amendment's adoption date to eliminate or reduce the matching contribution formula.
- The match must be funded through the date of the amendment.
- Employees must be given a reasonable opportunity to change their 401(k) deferral election.
- Current year testing for the entire year for both the ADP and ACP tests must be applied.
- If the Safe Harbor Match is eliminated, ADP and ACP testing must be done and failure of these tests is likely, resulting in reduced deferrals for highly compensated employees.

If the need to adjust your course of action arises, Alliance will help guide you through the potential pitfalls. We will ensure all necessary steps are followed and all important considerations are reviewed before a company makes the decision to reduce or eliminate a matching contribution.