

Lost Your 401(k) Matching Contribution? Don't Lose Track of Your Retirement

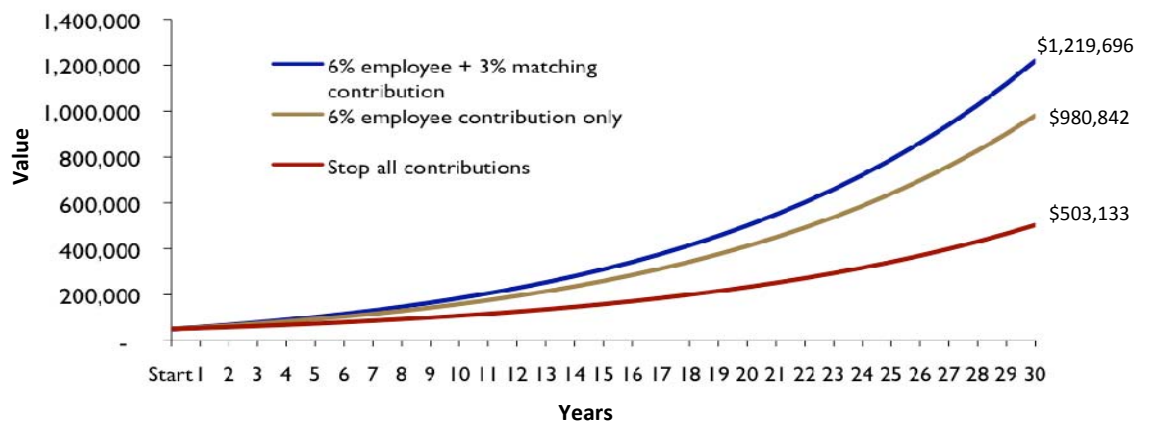
Contributing to a 401(k) — even without employer matching contributions — is still the smartest way to save for retirement.

The severe economic downturn of recent months has brought about a worrisome trend: more and more companies are suspending matching contributions to their retirement savings plans. Since June 2008, dozens of major companies — including GM, Ford, Chrysler, Eastman Kodak, Motorola, FedEx, Sears, U.S. Steel, Sprint Nextel, and many others — have decided to suspend matching contributions to their 401(k) plans in an effort to shore up cash flow.¹ For employees, the moves effectively reduce their compensation by as much as 6%, leaving many questioning how much they should contribute to the plan themselves.

What's in a Match?

Under IRS rules, employers can contribute as much — or as little — as they choose, as long as the total contribution (employee and employer) is not more than 100% of the employee's pre-tax salary, or \$49,000 in 2009, whichever is less. In practice, many large employers match a portion of employee contributions — typically, 50% of the first 6% of employee deferral contributions, although matching rates vary from plan to plan.

Over Time, Contribution Level Makes a Big Difference²



Losing a 3% employer match may not sound all that significant now, but it can make a big difference in the long run. As the chart above illustrates, a 3% drop in the contribution rate can mean thousands less saved over time — \$238,854 over 30 years in the above example.² Likewise, stopping employee contributions as well would have an even greater impact, potentially reducing your nest egg by over half.

Portfolio Strategies

If you are considering reducing your contribution to your 401(k) or 403(b) plan because your employer has suspended its match, think again.

- **Employer-sponsored 401(k) and 403(b) plans remain one of the best ways to save for retirement — with or without employer matches.** Their pre-tax contributions provide immediate tax relief, while affording the advantages of tax-deferred compounding, which helps money grow faster over time. They also offer high contribution limits and the ease of payroll deductions.
- **Most of the companies that have suspended matching contributions have indicated they intend to restore the matches once their finances improve.** Although there is no way of telling if and when this will happen, employers who wish to attract talent will need to keep their compensation competitive.
- **Consider increasing your contribution rate to compensate for employer suspensions.** If your employer has cut its match, that means you'll need to work even harder to achieve your long-term savings goals — especially since many plan balances have already been eroded by the market routing of the past year. If you're not already contributing the maximum permitted by your employer, upping your contribution to compensate for the suspended employer match can keep you on target to meet your savings goals.
- **Consider contributing to an IRA.** Like an employer-sponsored plan, an IRA can offer immediate tax relief and tax-deferred growth. In 2009, you can contribute up to \$5,000 (\$6,000 if you're over 50).
- **Max your match.** If your employer has *not* suspended its matching contribution, make sure to contribute enough to get the full match. Employers usually match a portion of employee contributions — typically 50% of the first 6%, which translates to an immediate 50% return on this portion of your contribution.

¹Source: Pension Rights Center, pensionrights.org.

²Example assumes: beginning balance of \$50,000, semi-monthly contributions, first year salary of \$50,000, annual raises of 3%, and an 8% annual rate of return. Example is for illustration only and is not intended to represent actual results.