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FINANCIAL

Mastering Your Company's Match

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If I offered to give you \$15 back if you gave me \$10, would you do it? Of course, you would! That is pretty much the way a 401(k) company match works. If your company offers a matching contribution as part of its 401(k) and a participant contributes to that plan, then the company is giving that employee additional money just for participating. This makes a company match one of the most powerful tools in a participant's retirement arsenal – if it is used correctly. Here are some ways that a company match can be so powerful.

Give Your Participants a Raise

The general rule of thumb for retirement savings is that on average an individual should save between 10% to 15%. That number can seem daunting to most people. However, add in a company match and that number becomes much more attainable. For instance, if the company match is 50% of the first 6% deferred, then a participant who contributes the full 6% is getting 3% from the company and is now at 9% – much closer to the 10% goal. Also keep in mind that the participant got to that 9% number with only 6% of their own money being contributed. That's pretty powerful stuff!

Match Wisely

How the company chooses to design the match can have significant impacts on participant behavior. If the company front-loads a match, such as offering a 100% match on the first 3% deferred, it may be inadvertently dissuading participants from contributing more than 3% of their own money. Also, if too little match is offered, then the company may miss out on the incentive feature that a match can offer. Therefore, it is important to assess how much money your company can afford to allot to match money and then design your match to encourage your participants to defer as much as possible into the plan.

Give the Plan Some Relief

If your company is already offering a match and plans to continue doing so in the future and/or if the plan regularly fails annual compliance testing, then you may want to consider a Safe Harbor Match plan design. A traditional Safe Harbor Match is as follows: 100% of the first 3% deferred and 50% of the next 2% deferred. Therefore, if a participant contributes 5% of their own money, the company would match 4%. The other caveat

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with a Safe Harbor Match is that the money that the company contributes to the Safe Harbor Match is immediately 100% vested, which means it is the participants to take if she ever leaves the company. What makes a Safe Harbor Match so powerful is that by offering it, the plan is deemed to pass annual compliance testing, which means no more refunds to highly compensated employees if the plan would have otherwise failed testing. It also is an amazing benefit to your participants since a 5% deferral plus a 4% match gets them pretty close to that 10% goal.

A company match is a tremendous incentive that can help your employees meet their retirement goals. If you would like an analysis of your company's current match structure or if you would like to discuss implementing a company match, please contact us.

About the Author

Jamie serves as the Strategic Retirement Plan Coordinator for Grinkmeyer Leonard Financial. She works with company presidents, CEOs, CFOs, and human resources professionals to design, implement, and manage a total benefit strategy, including 401(k) plans and group health and welfare plans. Jamie holds the Qualified 401(k) Administrator (QKA) designation as awarded by the American Society of Pension Professionals and Actuaries, which signifies her qualifications as they pertain to the complex issues of qualified plan design, testing, and administration. She also holds the Accredited Investment Fiduciary® (AIF®) designation as awarded by Fi360 and the Certified Plan Fiduciary Advisor (CPFA) designation as awarded by the National Association of Plan Advisors.

About Grinkmeyer Leonard Financial

Grinkmeyer Leonard Financial is an industry leader in helping to provide focused, full-service defined contribution consulting services to employers looking for efficient, effective strategies for their retirement plans. We seek to help employers maximize plan efficiency, minimize fiduciary risk, increase participation and diversification, boost investment possibilities, and improve the overall plan experience. Grinkmeyer Leonard Financial is a proud member of Retirement Plan Advisory Group, one of the largest independent consulting networks in the U.S.

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