

# IBM shifts 401(k) policy to once-a-year matches

MARK JEWELL - AP Business Writers - Associated Press

IBM is making changes to its employee benefits that may cause other large corporations to follow suit. The technology company will begin making contributions to employees' 401(k) accounts in lump-sum annual payments, rather than at the time of each paycheck. It's a move that will help the company cut retirement plan expenses.

Employees were notified this week that matching contributions will be made just once annually, on Dec. 31, beginning next year. "This change reflects our continuing commitment to invest in our employee 401(k) plans while maintaining business competitiveness in a challenging economic environment," IBM spokesman Doug Shelton said.

The end-of-the-year 401(k) match won't be unique to IBM, but experts say the company's move could lead other major employers to consider making less frequent contributions.

"IBM is one of the world's most influential plan sponsors," said Mike Alfred, CEO of BrightScope Inc., which rates corporate 401(k) plans. It places IBM's among the top 30 plans at large employers. "Everyone in the benefits industry will pay close attention to whatever IBM does."

Across the country, some 60 million workers participate in 401(k)s, which have become a key source of retirement savings. Most companies match from 3 percent to 6 percent of the amount the employee contributes to the account. Contributions are exempt from income tax, and investment earnings grow tax-free until withdrawal.

Although the amount employees will receive won't change, those who leave IBM prior to Dec. 15 won't receive that year's 401(k) matching contribution, unless they're retiring. That's a disincentive for those considering jobs outside IBM.

IBM matches an employee's 401(k) contribution dollar-for-dollar up to 6 percent of eligible pay, for those hired before 2005. Those hired later are eligible to receive up to 5 percent of pay. IBM also makes automatic contributions, ranging from 1 to 4 percent of pay, even if the employee doesn't contribute to the account on their own behalf.

IBM paid \$875 million last year in matching and automatic contributions to the more than 200,000 eligible employees. The company, based in Armonk, N.Y., had some 433,000 employees globally at the end of last year, when it reported nearly \$107 billion in revenue.

IBM's switch to an annual lump-sum matching contribution puts it among a

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relatively small number of employers taking that approach. About 7 percent of employers offering 401(k)s make contributions once a year, benefits consultant Mercer estimates. About 88 percent make contributions each pay period, with a smaller number using monthly or quarterly distribution schedules.

Companies switching to end-of-the-year matches typically save money because they don't provide matching contributions for employees who leave during the year, other than those retiring. "The amount of the cost that is saved would vary significantly depending on the turnover within the organization," said Alison Borland, a vice president with consulting firm Aon Hewitt.

Also, with annual contributions, Borland noted that a company has more freedom to allocate cash reserves as it sees fit during the course of a year, rather than regularly having to dip into accounts for biweekly matching contributions. Ultimately, however, the contribution must be made, in lump-sum at the end of the year.

Although annual contributions could help the company better manage its finances and cut costs, Alfred, of BrightScope, said IBM's shift away from biweekly matches isn't a positive for employees on the whole. Employees could miss out on some investment gains depending on how the financial markets perform during a given year. That's because the company will have the cash available until year-end, rather than putting it in employee accounts where it would be invested throughout the year. However, that could be a plus for employees if markets decline.

For long-term employees, any savings differences resulting from an annual match rather than biweekly contribution could be marginal by the time a worker reaches retirement, given the ebb and flow of the markets.

A company's policy of making matches annually rather than biweekly may not be a decisive factor for an employee considering leaving, or for a potential hire who might join, Borland said. The amount of matching contributions is what employees focus on, rather than the timing.

But the potential hit to retirement savings for an employee leaving could be significant.

Take this example of an employee who earns \$45,000 a year, and receives a matching contribution capped at 4 percent. That employee would get an \$1,800 match from the company. But if the worker leaves at the end of September under a policy like IBM's new one, he or she would give up an accrued value of about \$1,405, compared with what the worker could have received in biweekly matches. That example assumes a monthly average investment return of 0.4 percent.

Whatever a company's matching policy, employees need to be saving more for their retirements, Borland said.

Aon Hewitt estimates that employees will typically need a retirement fund worth 11 times their annual end-of-career pay, beyond Social Security, to cover their needs

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when they stop working. Currently though, Americans are on track to accumulate funds worth only 8.8 times their final salaries, according to the consulting firm's most recent research.

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