‘Stretching’ the Match Raises Contribution Rates

By Editor Test *Wed, Dec 1, 2010*

Plan participants contributed more when their employer matched 25% of up to 8% of pay than when their employer matched 50% of 4% or 100% of 5%.

Employees tend to contribute more to their retirement plans if the employer matches a fraction of their contribution instead of their entire contribution, even when the employer’s contribution stays the same, according to a Principal Financial Group study.

As indicated in the chart below, employees contributed more when their employer matched 25% of up to 8% of pay than when their employer matched 50% of 4% or 100% of 5%. The maximum employer outlay was the same in each case.

Match Formula	Max. Employer Contribution	Average Participant Contribution	Total Contribution
100%, up to 2% of pay	2%	5.3%	7.3%
50%, up to 4% of pay	2%	5.6%	7.6%
25%, up to 8% of pay	2%	7.0%	8.8%

“The data tells us that while the employer contribution stays at 2 percent, the higher target deferral in the match formula is spurring participants to save more,” said Barrie Christman, vice president of individual investor services at The Principal. “Employers can incent better savings behavior without having to increase their costs.” Stretching the matching contribution to a higher level does not hurt participation rates, the analysis showed.

Among participants contributing to plan with an employer match, 43% contributed 6% to 10% and 26% contributed 11% to 15%. “We believe most retirement plan participants should be saving in the 11-15 percent range–including employer match–in order to have a sufficient income at retirement,” said Christman. Of that sample group, 75% defer up to their employers’ matching contribution.