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Schwab to End Match to 401(k)'s

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The Charles Schwab Corporation, which is struggling through the worst slump in its history, yesterday became the latest company to tell employees that it would stop making matching contributions to their retirement plans.

The decision follows extensive layoffs at Schwab and is a painful cost-cutting move for its chairman, Charles R. Schwab, who has been a champion of the 401(k) plan, a retirement instrument that has been replacing traditional pensions for more than a decade.

Other companies that have said they are reducing or halting such contributions include Goodyear Tire and Rubber, Great Northern Paper, Tech Data, the El Paso Corporation and the CMS Energy Company.

Employees are usually free to choose whether to enroll in 401(k) plans, and benefits specialists say that company matches are a significant factor in an employee's decision to participate. Until now, survey data suggests, the incentive has been strong enough to keep employees from dropping out of the retirement programs even as market returns have waned.

As more companies eliminate their contributions, the rate at which Americans save for retirement — already considered inadequate — may drop even further.

"Eliminating a match has potentially disastrous effects, based on all the empirical evidence," said Alicia H. Munnell, director of the Center for Retirement Research at Boston College. "People are not good at saving. You have to have a long time horizon, and you really have to have something that induces you to do it. Employer matches are a very attractive incentive."

Matching contributions have been popular, helping to make 401(k) plans the second-most-prized company benefit, after health care, according to a survey by the Principal Financial Group, a provider of plan administrative services. But as the economy sputters, companies are reviewing retirement plans, health insurance and other benefits, trying to reduce costs without cutting jobs. However painful it may be to cut 401(k) matching contributions, it can still be easier than cutting other benefits, like traditional pensions, which are tightly regulated and cannot be reduced once they have been earned.

"That's one reason why these plans are popular with employers," said Ed Ferrigno, vice president of the Profit Sharing/401(k) Council of America. "They allow them to adjust their program in conjunction with the business cycle."

There are few statistics tracking the availability of company matching contributions; most surveys go to 2001 and then stop. But some consultants who help companies set up benefit programs say a number of them are reviewing whether to reduce contributions, link them to profitability or eliminate them.

"You see a trend toward saying, `Here's a smaller match, and if we do better at the end of the year, there will be a larger match,' " said Robyn Credico, a senior consultant with Watson Wyatt who specializes in 401(k) plans and similar retirement programs.

Ms. Credico, who works mostly with large corporations, said that so far, many cutbacks had been confined to certain struggling industries.

"The place where you'll see the trend is primarily in the automotive industry," she said. "They either reduced the match or eliminated it completely."

Ford Motor and DaimlerChrysler, for example, suspended their 401(k) matches for 2002 as part of cost-cutting programs. The cuts applied only to salaried workers; hourly employees did not receive the match. A Ford spokeswoman, Anne Marie Gattari, said the company planned to reinstate its matching contributions when finances improved.

Ms. Credico said the companies that she worked with were also considering temporary suspensions.

"They're not saying to employees, `This is forever,' " she said.

One client, a technology company that Ms. Credico declined to identify, plans to base its decision on whether to cut its 401(k) contribution on its health care costs. The company's health insurance costs are rising so steeply, she said, that something else has to give.

"Rather than making the employees pay a whole lot more for their health insurance, they're considering doing this," she said.

Goodyear, which is struggling financially, suspended its 401(k) match for 2003. In 2001, Goodyear contributed $37.8 million to employees' accounts, a Goodyear spokesman, Keith Price, said. The company has also eliminated its dividend and is asking employees to pay more of their health insurance costs.

So far, the suspension affects only salaried employees, but Goodyear plans to extend it to hourly workers when their contract expires next month. Wayne Ranick, a spokesman for the United Steelworkers of America, said from the union's perspective, the 401(k) match was a "third tier" benefit and was less important than preserving traditional pension benefits and opposing the creation of private Social Security accounts.

To the extent broad statistics exist, the numbers suggest that reductions in 401(k) matching contributions began in 2000, the year the technology bubble broke.

A survey by the Profit Sharing/401(k) Council of America, a group that represents employers, showed that in 1999, the average matching payment to a 401(k) account was 3.3 percent of participants' pay. The average fell to 2.5 percent in 2000 and stayed the same in 2001. The organization had no data for 2002.

At Schwab, the 401(k) plan has been generous. Until now, the brokerage firm offered participating employees $2 for every $1 they put into their accounts, up to $250 a year. After that, a Schwab spokesman said, the company matched each dollar contributed by employees with a dollar, up to 5 percent of their annual compensation.

Christopher V. Dodds, Schwab's chief financial officer, said that suspending the contribution would save a "reasonably significant" amount, though less than $15 million a quarter.

The end of matching contributions follows other cost-cutting measures at Schwab. The company, based in San Francisco, has eliminated 9,000 jobs since the end of 2000, a reduction of 35 percent.

Mr. Dodds said the company had to make some tough choices about how to reduce expenses because customers were making fewer stock trades. He said the company chose to cut the retirement benefit rather than make another round of layoffs.