WHY SOME 401(K) PLANS HAVE NO MATCH

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A 401(k) plan allows both the company and the employee to save for the employee's retirement on a pre-tax basis. In other words, the contributions are deductible when made, accumulating without pre-retirement taxation, and taxed only when the employee withdraws the funds many years down the road. Many companies with 401(k) plans make matching contributions. However, there are some companies that choose *not* to make much, if any, matching contributions. We see five major reasons that some companies choose to sponsor 401(k) plans while not making matching contributions. For some companies, several of the reasons may apply at the same time. (Throughout this article the reader should keep in mind that company contributions to a 401(k) plan can be looked upon as a retirement expense, a form of profit sharing, an incentive to save, or deferred wages.)

(1) Don't punish the poorest employees. Some companies take the attitude that, in any given year, there are always employees who, for whatever reason, cannot afford to save for retirement. If the company contribution to the plan is looked upon as a form of profit sharing, then the employer may feel the employee should get his share of the contribution even if he can't afford to contribute on his own. In other words, the employee doesn't *earn* the company contribution by *saving*; he earns it by helping the company make a profit.

(2) Salary versus benefits. Some employers feel so much market pressure, while trying to attract and keep good employees, that they pay more in salaries and offset that expense by paying less in benefits --- in some cases reducing retirement plan contributions.

(3) Empowering plan participants. Some employers subscribe to the more "flexible" approach of giving higher salaries and lower retirement benefits so that each *employee* can decide how much to take in taxable pay and how much (through use of the 401(k) plan) to save for retirement. This argument obviously goes hand in hand with item (2) above.

(4) Companies that are not yet profitable. Many start-up companies are not yet making a profit or they want to put all available profits back into growing the business. In lieu of retirement plan contributions, these companies might prefer to give their employees certain stock options or the right to save in a 401(k) plan, while the company itself may not yet have the cash to contribute to that same plan.

(5) Nondiscrimination tests. In order to keep all the tax advantages of 401(k) plans, the sponsors of these plans must show annually that the contributions of highly paid employees are not significantly higher than those of other employees. In order to motivate lower paid employees to contribute, many companies make a matching contribution. However, in companies and industries that already have good plan participation among all employees, there is less incentive to make a matching contribution.