

Impact of Economic Conditions on 401(k) and Profit Sharing Plans

Copyright © 2009 by the Profit Sharing/401k Council of America (PSCA)

20 N. Wacker Drive, Suite 3700
Chicago, IL 60606
312.419.1863
research@psca.org
<http://www.pzca.org>

Introduction

PSCA's *Impact of Economic Conditions on 401(k) and Profit Sharing Plans* reflects responses from 508 companies that currently sponsor a defined contribution plan. Data in this survey is often categorized by plan size. Plan size is determined by the number of active participants in the company's plan. Please note that the figures in the survey do not always add up to 100.0 percent due to rounding. Please direct questions or comments to research@psca.org or 312.419.1863x203.

Acknowledgements

The Profit Sharing/401k Council of America gratefully acknowledges the assistance provided by the following people and companies during the production of this survey.

All Survey Participants

PSCA's Research Committee:

Kathy Cissna, HR Rewards & Operations, R.J. Reynolds Tobacco Company

Ted L. Disabato, Managing Director, Disabato Advisors

Beth Ewing, Director, FedEx Corp.

Michael Falk, CFA, Vice President, Chief Investment Officer, ProManage LLC

Silvia Frank, Manager, Defined Contribution Plans, Trinity Health; Novi, Michigan

Monika Hubbard, Sr. Consultant, EPIC Advisors, Inc.

Judy Knoll, Profit Sharing Plan Controller, Martin Tractor Company, Inc.

Deirdre Kochanski, Partner, Pathways Financial Partners, Inc.

Scott K. Laue, Vice President, Savant Capital Management

Steve LaValley, 2nd Vice President, Retirement Services, MassMutual Financial Group

Jim Modelski, Senior Consultant, Dimeo Schneider & Associates LLC

Donald Mullen, Director of Benefits, Putnam Investments, Inc.

Bryan Ohge, Manager – Health & Retirement Benefits, Muscatine Food Corporation

Douglas G. Prince, Managing Director, Stifel Nicolaus & Company

Libby Smith, Vice President, ING, Inc.

Mary Ann Tweddle, Retirement and Financial Portfolio Manager, UPS

Terri Vaughan, Senior Vice President, Defined Contribution, Aon Consulting, Inc.

Justin White, Senior Associate, Casey, Quirk & Associates LLC

Rodney P. Wilson, Principal Engineer, Haag Engineering Co.

Table of Contents

Overview of Results – Page 4

Demographic Information – Page 5

Table 1: Respondents by Plan Size

Table 2: Respondents by Industry Type

Matching Company Contributions – Pages 6-7

Table 3: Changes Made to Matching Company Contributions in 2008-2009 as a Result of Economic Conditions

Table 4: Percentage of Companies that Suspended or Reduced the Match in 2008-2009 that Have Already Restored It

Table 5: Percentage of Companies that Suspended or Reduced the Match in 2008-2009 that Plan to Restore it Within Six Months (1st Quarter of 2010)

Non-Matching Company Contributions – Pages 8-9

Table 6: Changes Made to Non-Matching Company Contributions in 2008-2009 as a Result of Economic Conditions

Table 7: Percentage of Companies that Suspended or Reduced the Non-Matching Contribution in 2008-2009 that Have Already Restored It

Table 8: Percentage of Companies that Suspended or Reduced the Non-Matching Contribution in 2008-2009 that Plan to Restore it Within Six Months (1st Quarter of 2010)

Company Reaction – Page 10

Table 9: Plan-Related Actions Taken as a Result of Economic Conditions

Table 10: Percentage of Companies that are More Closely Scrutinizing the Fees Paid by the Plan and Participants

Table 11: Percentage of Companies that Feel Their Provider is Providing Fee Information in a Way that is Easy to Analyze

Participant Reaction – Pages 11-12

Table 12: Percentage of Companies that Experienced a Decrease in Plan Participation in 2008-2009 by Change to Matching Contribution

Table 13: Percentage of Companies that Experienced an Increase in Plan Participation in 2008-2009

Table 14: Percentage of Companies that Experienced a Decrease in Participant Deferral Rate in 2008-2009 by Change to Matching Contribution

Overview of Results

With the economic downturn of 2008 and 2009, there has been a focus on changes employers have made to their defined contribution plans. In October 2009, PSCA conducted a survey of 401(k) and profit sharing plan sponsors to determine exactly what impact the economic conditions had on defined contribution plans, what actions plan sponsors have taken to cope with economic conditions, and plans for 2010. PSCA received 508 responses from plan sponsors from across the country. Overall, the results demonstrate a continued commitment by plan sponsors to their participants and by participants to the plans. The majority of plan sponsors continued their matching or non-matching company contributions, and a significant percentage increased their employee education efforts. The majority of participants continued to participate in their employer's plan. A summary of the results follows.

Of 406 companies that offered a matching contribution on December 31, 2007, 14.8 percent suspended it, 3.7 percent reduced it, 4.7 percent increased it, and 76.8 percent made no changes to it in 2008-2009. Large companies were more likely to suspend the match (about 16.0 percent of companies) than small companies (6.1 percent of companies). Of those companies that suspended or reduced their matching contributions, 5.4 percent have already restored it. 41.3 percent of companies are planning to restore their match within the first quarter of 2010, with significantly more large companies (55.6 percent of companies with 1,000-4,999 participants) than small companies (no companies with less than 50 participants) planning to do so.

Of 264 companies that offered a non-matching company contribution on December 31, 2007, 26.8 percent suspended or reduced it, and 73.2 percent made no changes to it in 2008-2009. More large companies (34.0 percent) suspended or reduced the non-matching company contribution than small companies (26.1 percent). Of those companies that suspended or reduced their non-matching contributions, 5.5 percent have already restored it, and 30.6 percent plan to restore it within the first quarter of 2010.

As a result of economic conditions, plan sponsors took a variety of actions. 54.3 percent of all companies increased their plan education efforts, with 65.9 percent of large companies doing so. 9.6 percent of companies added investment advice as an option for participants, and 19.7 percent of companies changed the investment lineup. 55.4 percent of companies are more closely scrutinizing the fees paid by the plan and participants, and 81.4 percent of companies feel that their plan provider is providing fee information in a way that is easy to analyze.

Companies that suspended their matching contributions experienced a decrease in plan participation to a much greater degree (72.9 percent of companies) than those that did not change their matching contribution (14.4 percent of companies). Companies that suspended their matching contributions also experienced a decrease in participant deferral rates to a greater degree (56.7 percent of companies) than companies that did not change their match (20.8 percent of companies). 17.9 percent of companies that increased their match or made no changes to their match experienced an increase in plan participation.

PSCA also conducted a survey on the impact of the economy on 403(b) plans. The results of that study are available on our Web site at www.pasca.org.

Demographic Information

Table 1: Respondents by Plan Size

	Company Size (# of Participants)					All Plans
	1-49	50-199	200-999	1,000-4,999	5,000+	
Number of Plans	73	81	97	116	141	508
Percentage of Plans	14.4%	15.9%	19.1%	22.8%	27.8%	100.0%

Graph 1: Respondents by Plan Size

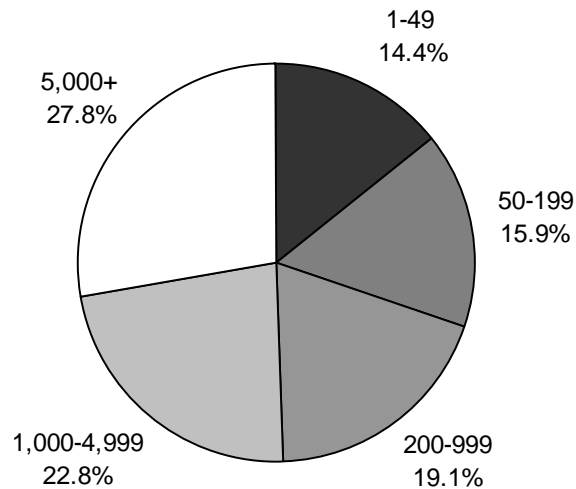


Table 2: Respondents by Industry Type

Industry	All Plans	
	# of Plans	% of Plans
Construction/Engineering	13	2.6%
Durable goods manufacturing	63	12.4%
Financial	88	17.3%
Healthcare	13	2.6%
Insurance and real estate	43	8.5%
Non-durable goods manufacturing	48	9.4%
Services	112	22.0%
Technology/Telecommunication	16	3.1%
Transportation	6	1.2%
Utility and Energy	13	2.6%
Wholesale and retail trade	68	13.4%
Other	25	4.9%
Total	508	100.0%

Matching Company Contributions

Table 3: Changes Made to Matching Company Contributions in 2008-2009 as a Result of Economic Conditions

Change	Company Size (# of Participants)					
	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Suspended the Match	6.1%	11.3%	18.4%	16.8%	16.1%	14.8%
Reduced the Match	0.0%	6.5%	6.6%	2.1%	3.2%	3.7%
Increased the Match	0.0%	3.2%	2.6%	4.2%	8.9%	4.7%
None	93.9%	79.0%	72.4%	76.8%	71.8%	76.8%

*Responses are from 406 companies that offered a matching contribution as of December 31, 2007.

Graph 2: Changes to Matching Contributions

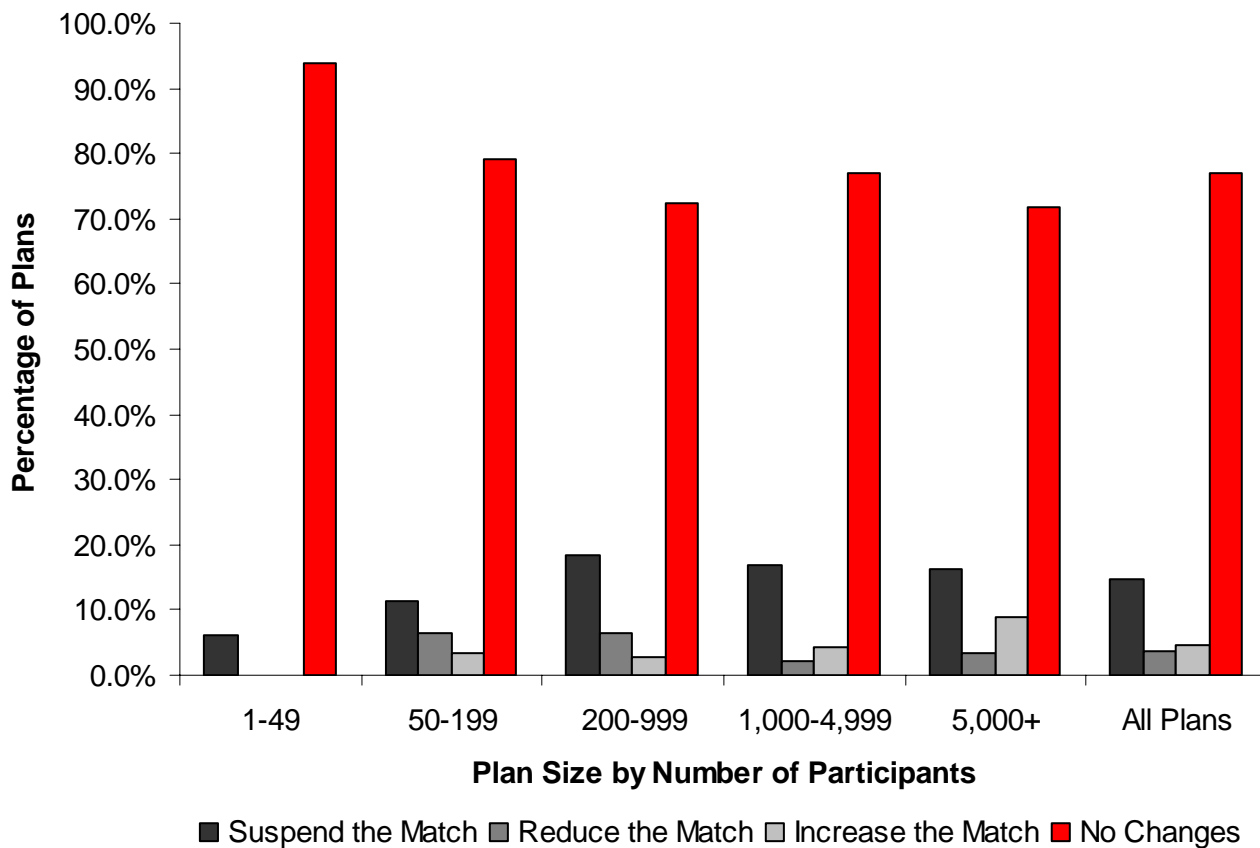


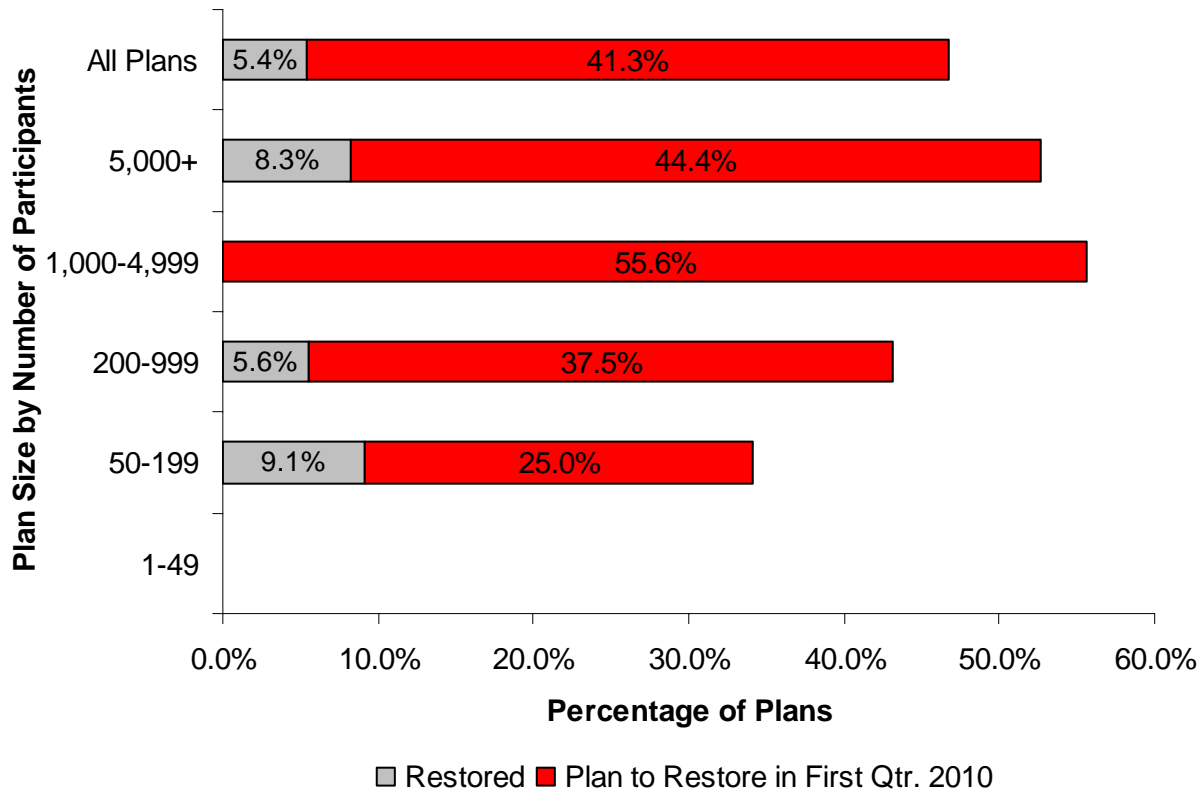
Table 4: Percentage of Companies that Suspended or Reduced the Match in 2008-2009 that Have Already Restored It

	Company Size (# of Participants)					All Plans
	1-49	50-199	200-999	1,000-4,999	5,000+	
Percentage of Plans	0.0%	9.1%	5.6%	0.0%	8.3%	5.4%

Table 5: Percentage of Companies that Suspended or Reduced the Match in 2008/2009 that Plan to Restore it within 6 Months (1st quarter of 2010)

	Company Size (# of Participants)					All Plans
	1-49	50-199	200-999	1,000-4,999	5,000+	
Percentage of Plans	0.0%	25.0%	37.5%	55.6%	44.4%	41.3%

Graph 3: Percentage of Companies that Have Already Restored Their Match or Plan to Restore it in the First Quarter 2010



Non-Matching Company Contributions

Table 6: Changes Made to Non-Matching Company Contributions in 2008-2009 as a Result of Economic Conditions

Change	Company Size (# of Participants)					All Plans
	1-49	50-199	200-999	1,000-4,999	5,000+	
Suspended or Reduced it	26.1%	27.7%	28.0%	20.6%	34.0%	26.8%
None	73.9%	72.3%	72.0%	79.4%	66.0%	73.2%

Responses are from 264 companies that offered a matching contribution as of December 31, 2007.

Graph 4: Percentage of Companies that Suspended or Reduced their Non-Matching Company Contributions in 2008-2009

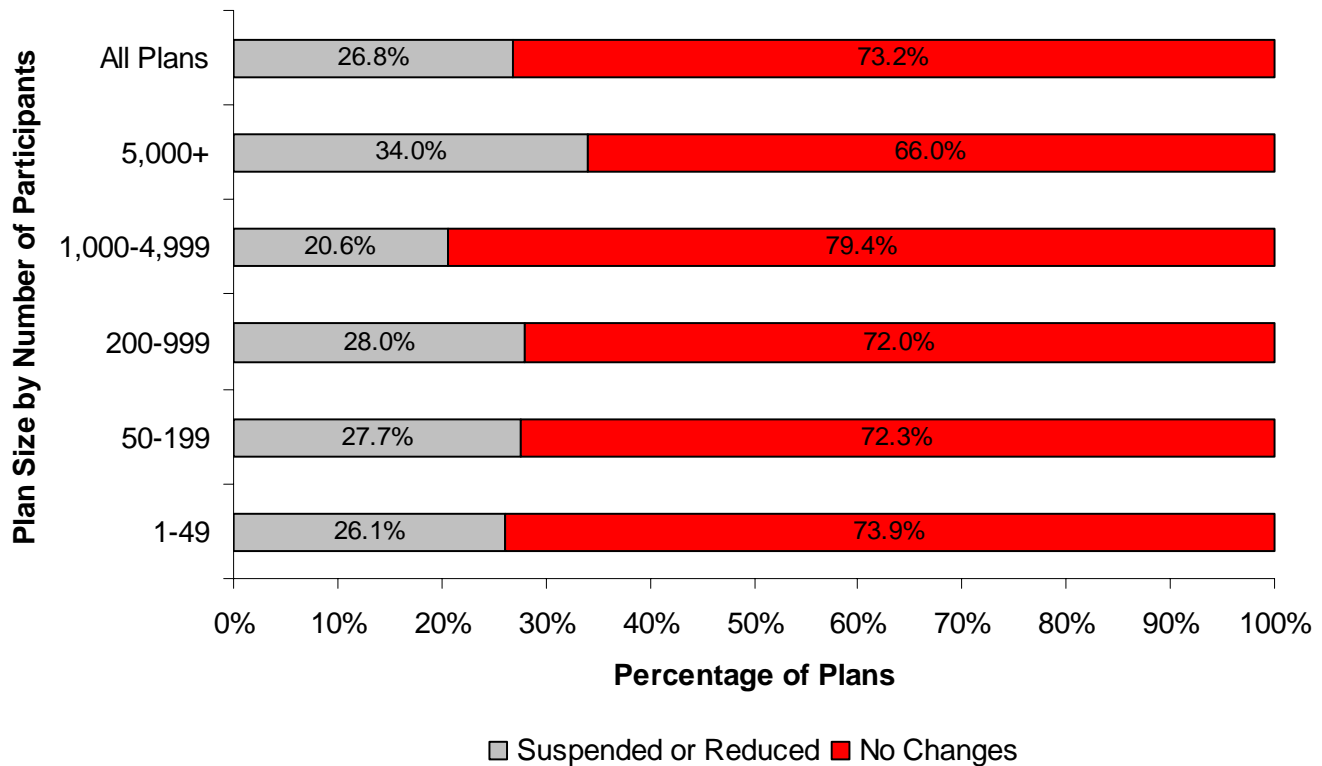


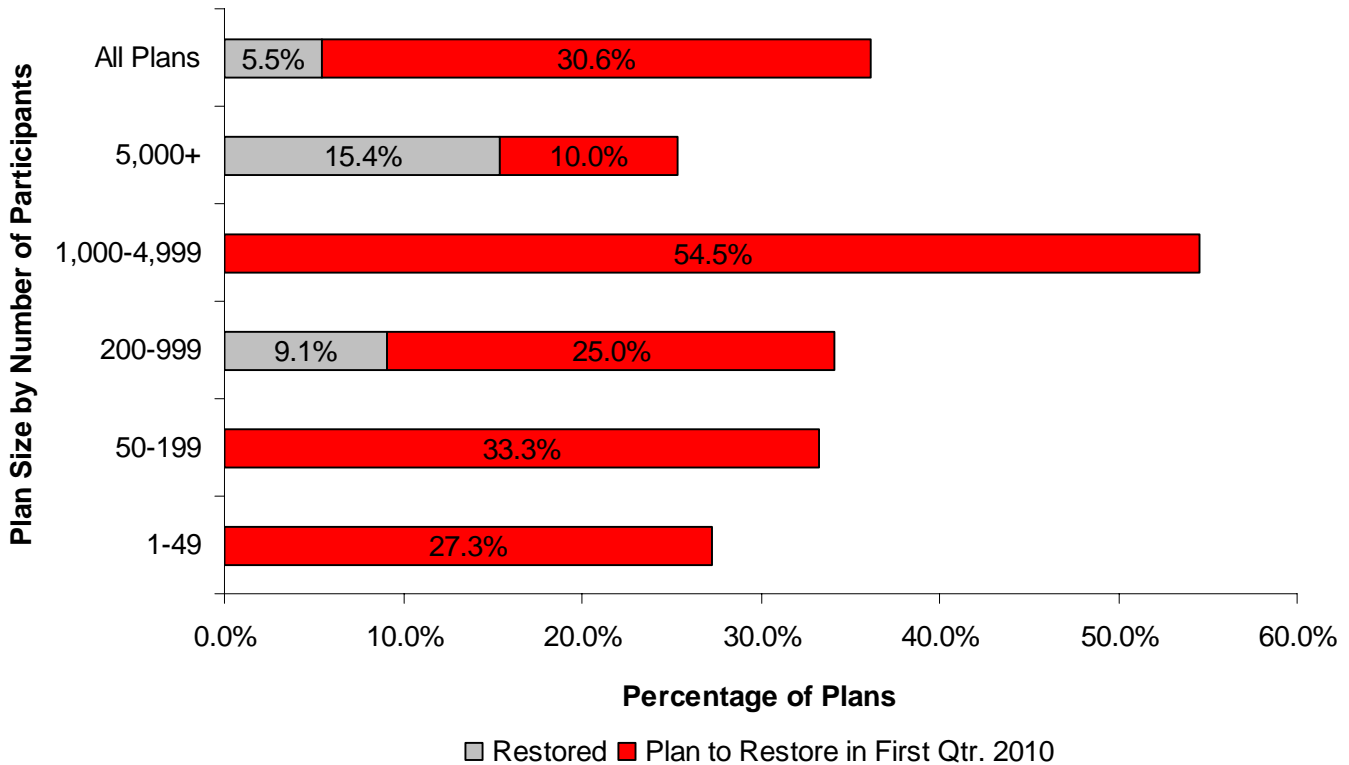
Table 7: Percentage of Companies that Suspended or Reduced the Non-Matching Contribution in 2008/2009 that Have Already Restored It

	Company Size (# of Participants)					
	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Percentage of Plans	0.0%	0.0%	9.1%	0.0%	15.4%	5.5%

Table 8: Percentage of Companies that Suspended or Reduced the Non-Matching Contribution in 2008/2009 that Plan to Restore it within 6 Months (1st quarter of 2010)

	Company Size (# of Participants)					
	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Percentage of Plans	27.3%	33.3%	25.0%	54.5%	10.0%	30.6%

Graph 5: Percentage of Companies that have Already Restored their Non-Matching Contributions or Plan to in the First Quarter 2010



Company Reaction

Table 9: Plan-Related Actions Taken as a Result of Economic Conditions

Action Taken	Company Size (# of Participants)					
	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Changed the Investment Lineup	19.2%	19.0%	27.1%	17.5%	16.9%	19.7%
Increased Employee Education	35.6%	49.4%	57.3%	53.1%	65.9%	54.3%
Added Investment Advice	8.2%	15.2%	9.4%	5.3%	10.9%	9.6%
Delayed Planned Plan Design Changes	6.8%	6.4%	6.3%	11.4%	13.8%	9.6%
Hired an Investment Consultant	2.7%	5.1%	4.2%	1.8%	4.4%	3.6%
Other	5.7%	6.3%	11.5%	17.4%	10.9%	11.0%

Other actions taken include:

- Adding automatic enrollment and/or automatic escalation.
- Adding target-date funds.
- Adding hardship withdrawal provisions.
- Allowing in-service distributions to employees over age 59 and a half.
- Changed fixed match to discretionary.
- Provided on-site market volatility training.
- Evaluating loan structure (increasing or decreasing number of loans outstanding at one time).
- Reevaluating investment fund offerings for the future; closing volatile funds to new money.
- Changing or consolidating vendors.
- Performing a fiduciary audit.

Table 10: Percentage of Companies that are More Closely Scrutinizing the Fees Paid By the Plan and Participants

	Company Size (# of Participants)					
	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Percentage of Plans	48.6%	44.4%	63.5%	56.0%	59.0%	55.4%

Table 11: Percentage of Companies that Feel Their Provider is Providing Fee Information in a Way that is Easy to Analyze

	Company Size (# of Participants)					
	1-49	50-199	200-999	1,000-4,999	5,000+	All Plans
Percentage of Plans	74.3%	83.3%	85.2%	75.4%	86.3%	81.4%

Participant Reaction

Table 12: Percentage of Companies that Experienced a Decrease in Plan Participation in 2008-2009 for Plans that Suspended the Matching Contribution

Change to Match	Company Size (# of Participants)			
	Less than 1,000	1,000-4,999	5,000+	All Plans
Suspended the Match	82.6%	75.0%	60.0%	72.9%
No Change to Match	15.3%	13.7%	13.3%	14.4%

Graph 6: Percentage of Companies that Experienced a Decrease in Plan Participation Rates in 2008-2009

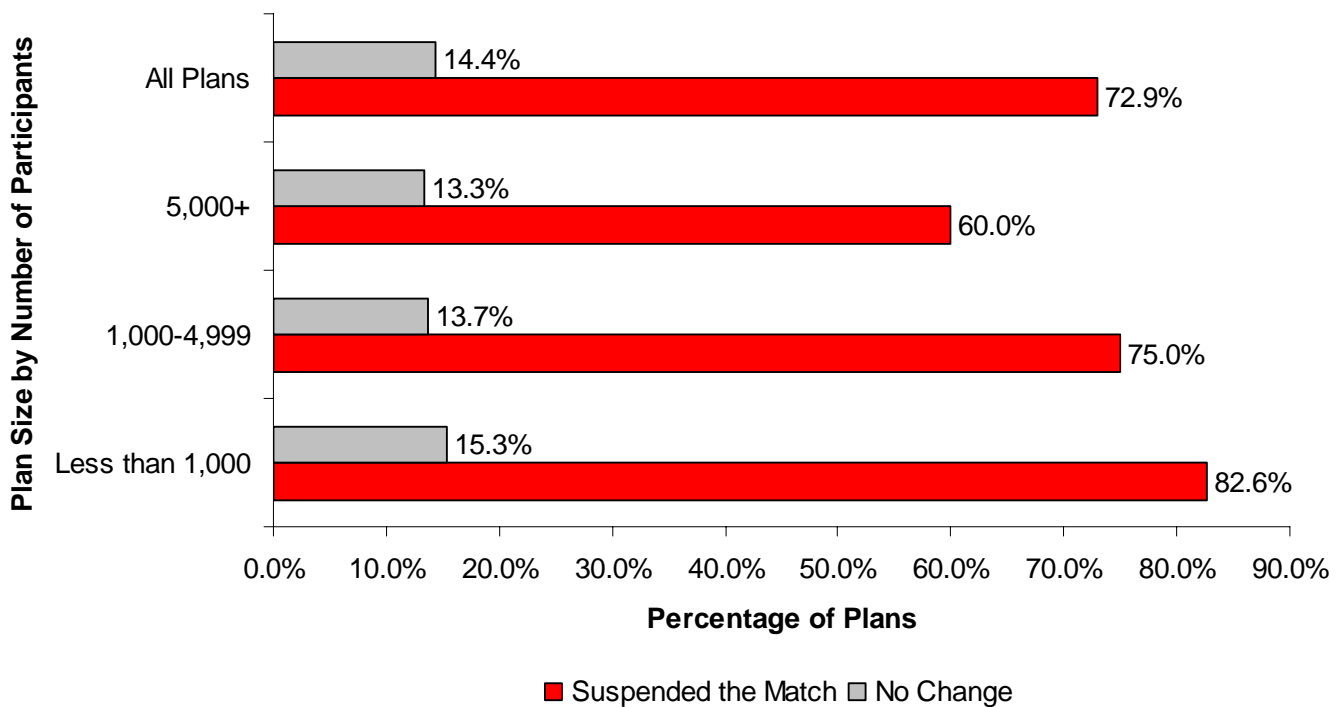


Table 13: Percentage of Companies that Experienced an Increase in Plan Participation in 2008-2009

Change to Match	Company Size (# of Participants)			
	Less than 1,000	1,000-4,999	5,000+	All Plans
Increased the Match	**	**	**	33.3%
No Change to Match	9.8%	19.0%	26.5%	17.0%
Both	11.3%	18.2%	27.0%	17.9%

** Insufficient sample size.

Table 14: Percentage of Companies that Experienced a Decrease in Participant Deferral Rates in 2008-2009 for Plans that Suspended the Matching Contribution

Change to Match	Company Size (# of Participants)			
	Less than 1,000	1,000-4,999	5,000+	All Plans
Suspended the Match	58.3%	62.5%	50.0%	56.7%
No Change to Match	18.0%	20.0%	25.6%	20.8%

Graph 7: Percentage of Companies that Experienced a Decrease in Participant Deferral Rates in 2008-2009

