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MARKETS

U.S. Companies Have a New 401(k) Fix: Spend More

Microsoft, Host Hotels, others raise contributions to retain employees, encourage older workers to retire

Last year Microsoft offered more money to the more than 60,000 current employees in its 401(k) plan. PHOTO: BRIAN SNYDER/REUTERS

By *Sarah Krouse*
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Some employees who haven't saved enough for retirement are now getting more money from an unlikely source: their employers.

Companies from Microsoft Corp. MSFT +0.18% to Host Hotels & Resorts Inc. are boosting contributions to their workers' 401(k) plans, a move many firms have long resisted because of the costs.
The average company contribution to 401(k)s rose to an estimated 4.7% of employee salaries in 2016, up from 3.9% in 2015, according to data on 1,900 workplace retirement savings plans run by fund giant Vanguard Group. It was the highest percentage and biggest year-to-year jump since at least 2007.

"It's a no-brainer to try and max that out as much as possible," said Francois Burianek, a 43-year-old senior software engineer for Microsoft's Xbox gaming unit, who raised his 401(k) contributions by more than 70% after the technology giant increased what it was prepared to match.

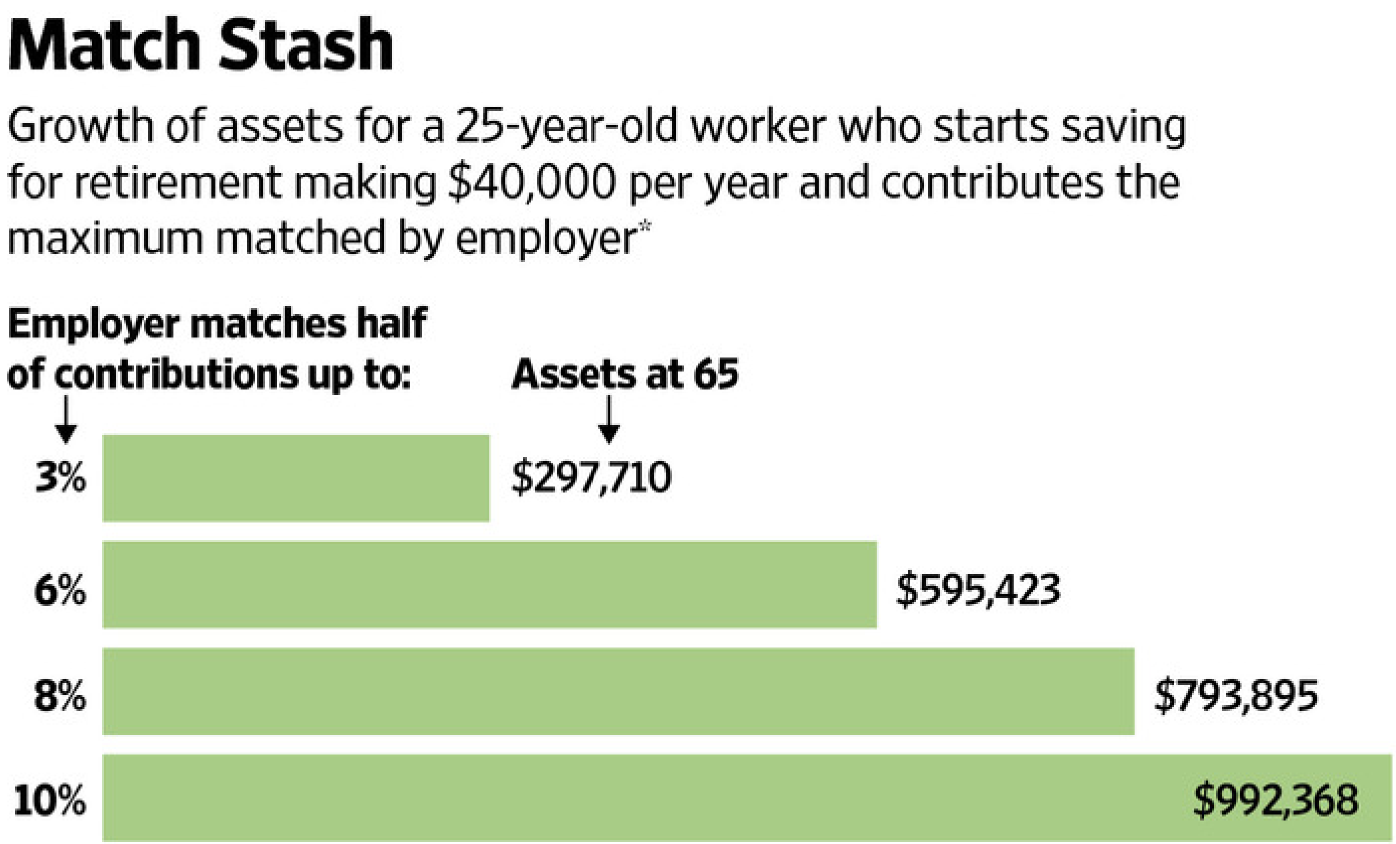
Here's why this is happening: Some companies in certain industries say they need to spend more to retain the best employees and motivate staff. They also need to ensure that older, relatively expensive workers can afford to retire on time and make way for younger staff, retirement experts said. Employees who don't have adequate nest eggs will stay in their jobs longer and add to a company's overall health-care costs.

The boost in contributions represents a policy shift for American companies that embraced tax-deferred 401(k) plans partly because the savings tool allowed them to shift the burden of paying for retirement to employees. Many shed more expensive defined-benefit pension plans that guaranteed employees a certain percentage of their salary in retirement.

Companies tried to encourage more 401(k) savings over the past decade by automatically enrolling workers in the plans and boosting the amount employees set aside each year unless they opted out.

But many U.S. workers still aren't saving enough on their own. The average percentage they set aside among Vanguard-run retirement accounts has dropped since 2007 largely because more new 401(k) savers were enrolled at lower initial savings rates. The average total employee and company contributions to workplace savings plans among workers who participate, as a result, haven't moved above 11% of salaries for at least a decade.

Many retirement plan advisers say employees need to save about 15% of their salaries each year.



“If you want people to retire at a certain time they need to have acquired sufficient assets,” said Jean Young, a senior research analyst at the Vanguard Center for Investor Research. “There’s a growing interest among some employers in supporting that dynamic,” with more money, she said.

The added contributions by some companies are a stark change from the depths of the financial crisis when many employers suspended or pared back contributions. The prolonged economic recovery in the years since has put many companies on more stable footing.

A 401(k) is an employer-sponsored plan that allows workers to contribute part of their pretax pay up to certain federal limits. That money is typically not taxed until it is withdrawn and participants generally pick from a list of funds and investment options. Companies aren’t required to make their own contributions to employee accounts but some companies agree to match a portion of what workers chip in. These accounts rise and fall with financial markets.

Some firms, particularly in the technology industry, are using more generous 401(k) contributions to help attract and retain talent, according to Aimee DeCamillo, head of retirement plan services at T. Rowe Price Group Inc.

Ultimate Software Group Inc. steadily increased the company match for its $281 million 401(k) plan in recent years as it met new revenue targets. In January 2016 the Weston, Fla.-based company pushed its match to 40% of any employee contribution up to federal limits for its roughly 3,700 workers, up from 35%.

Another company that recently contributed more of its own money, Host Hotels, said it hadn't done enough to get employees closer to the savings rate many retirement advisers recommended.

"We weren't getting people to the 15%" contribution level retirement advisers recommend, said Karen Montague, director of total rewards at Host Hotels, a real-estate investment trust that owns properties run by big hotel chains such as Hilton Worldwide and Marriott International Inc.
So in April Host increased its company match and now chips in 50 cents of every dollar its 220 employees invest in its 401(k) plan, up to 8% of their salary, an increase from the previous 6% limit.

Host also has a discretionary matching system that matches as much as an additional 4% of salary each year, up from 3% before the change. The change to Host's matches means the company is likely to contribute an additional $250,000 to the plan, based on 2016 contribution data. Increasing the discretionary component could result in another $300,000 a year, the plan's administrator said.

In Seattle, Microsoft tried to change employee behavior before increasing its own contributions. Roughly three years ago it increased the salary amounts workers pick to contribute when they sign up for a 401(k). Workers now choose from the options of 8%, 10% or 12%, as compared with 6%, 8% or 10%.

Last year Microsoft offered more money to the more than 60,000 current employees in its 401(k) plan. Instead of chipping in half of up to 6% of each worker's salary, the firm started matching half of all employee contributions up to federal limits. The government limits employee contributions and sets an overall limit on the amount channeled into an individual's plan.

As a result of that change the technology giant contributed roughly $150 million more to its $17 billion retirement savings plan last year.

After one year of the increased match 52% of Microsoft workers had maximized the amount of pretax money they contributed to the plan, up from 36% in 2015, the company said. That was half the time the company's research suggested it could take to get 50% of its employees to maximize the amount they contributed.

"It's blowing my budgets," said Fred Thiele, general manager, global benefits at Microsoft.

But the move encouraged more workers to save additional money for retirement, particularly those with lower incomes, which was the company's intent.