# Steps To Take If Your Employer Stops Matching Your 401(k) Contribution

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A growing number of companies and institutions have or are planning to stop matching contributions to their worker's 401(k) plans as a result of the COVID-19 pandemic, according to recent reports.

So what advice do certified financial planners have for workers who are facing this situation?

**Increase Your Savings**

The most common match is 50 cents on the dollar up to 6% of the employee's pay. And that translates into 5.1% percent of a worker's pay, according to the Plan Sponsor of America's 61st Annual Survey of Profit Sharing and 401(k) Plans. Put another way: employers contribute, on average, $4,040 per year, according to Fidelity research.

Many advisers suggest increasing, if you are able, how much you save in your 401(k) or other types of investment accounts to offset the loss in matching contributions from your employer. "It's time to revise your plan," says Chris Chen, a certified financial planner with Insight Financial Strategists. "This may be an opportunity. According to the FRED, those people who still have jobs have seen their savings rate actually increase. Maybe they can increase their retirement contribution?"


**Personal Saving Rate**

Philip Herzberg, a certified financial planner with The Lubitz Financial Group, is of the same opinion. "I would advise workers to maintain their retirement contributions or even increase them," he says. "Even though your firm may have suspended matching contributions, you can keep contributing to your 401(k) on your own."

If you can afford to, elect to contribute more in order to make up for the temporary loss of your employer's 401(k) match.

For her part, Danielle Harrison, a certified financial planner in Columbia, Mo., says there are several options to consider including continuing to fund your employer-sponsored plan.

"One factor to look at before doing this is the quality of the plan," she says. "Does the plan have a diversified offering of low-cost funds and investment options? Are there low plan fees? If the answer to both of these is yes, then, by all means, continue to sock away funds in your employer-sponsored accounts. For high wage earners, this may be the easiest way to fund your retirement needs without having to make other more complicated moves, such as utilizing a backdoor Roth conversion."

**Save In A Roth 401(k) Or Roth IRA**

Brandon Opre, a certified financial planner with TrustTree Financial, says employees who no longer have a 401(k) match should consider saving in other investment accounts instead. "Contributing up to the 401(k) match limit has always been a 'no brainer' but absent the match, it levels the playing field with the other vehicles such as a Roth IRA."

Investment accounts outside of your retirement plan can offer more flexibility of investment options available, he says. "Not all plans offer a Roth 401(k) option anyways, so contributing to one directly - or using a back-door strategy - might be a good option for you," says Opre. "Of course you'd need to know to execute this strategy, or work with a professional who can guide you."

For his part, David Mullins, a certified financial planner with David Mullins Wealth Management, the suspension of a 401(k) match should be an opportunity to examine your employer-sponsored plan. "The opportunity may exist to contribute to a Roth or traditional IRA with additional investment options and/or lower costs," he says.

According to Herzberg, contributions to a Roth IRA are made with funds on which you've already paid income tax. "There is frequently more flexibility when it comes to Roth IRA investment choices and withdrawals than there are with traditional or Roth 401(k) plans.

Read**: Is Now a Good Time for a Roth IRA Conversion?**

When looking at other options such as IRA or Roth IRAs, Harrison notes that there are many do-it-yourself options with very low fees, such as Vanguard, Fidelity, or Schwab. "You can also look at working with a financial adviser, but please make sure to do your homework. Ask how the adviser is paid and if they act as a fiduciary - putting your interests above their own - in all aspects of the relationship."

Many advisors, she says, only manage investment assets without giving personal financial planning advice to their clients. "If that is the case, you need to weigh the fees and commissions they will receive versus the value you receive from them," she says.

Read**: Ten Questions to Ask Your Financial Advisor**

Another valuable option to consider, says Opre, is cash value life insurance, or simply saving into a taxable investment account. “Both of these options provide different sets of benefits than a 401(k) would.

**Out-of-the-box Options For Retirement Funds**

If you have a high deductible health plan, you could also look at maxing out a health savings account (HSA), says Harrison. “You get a triple tax benefit, no taxes on the money you contribute, tax-free growth, and tax-free distributions if you use the funds for medical purposes, either now or at retirement,” she says. “After age 65, if you use the funds for a non-qualified purpose, you will have to pay ordinary income taxes on the funds, but that is no different than having the funds held in an IRA.”

**Don’t Stop Saving**

At a minimum, don’t stop contributing to your 401(k) says Dan Galli, a certified financial planner with Daniel J. Galli & Associates. “You still need to save for retirement and the tax benefits (either pretax or Roth) are helpful,” he says. “Plus, it's automatic which means it will happen.”

Others share this point of view. “An employer suspending a match can't be an excuse to not contribute,” says David Shotwell, a certified financial planner with Shotwell Rutter Baer. “Rather, the employee contributions are now more important as the retirement need doesn't change. It may mean the 401(k) is no longer the best option, depending on how much you are saving, available funds, etc.”

And Mullins noted another benefit of saving in a 401(k). “Money you contribute into a pretax 401(k) is money you are not taxed on for the year,” he says. “This means immediate tax savings now with the added bonus of tax-deferred compounding interest within the account. Taxes won't be due until you withdraw funds, hopefully in retirement when your tax bracket is likely lower.”

And don’t forget about the return on investment. An employer match is certainly a nice perk, says Rob Greenman, a certified financial planner with Vista Capital Partners. “A 100% return on an investment would be tough for even Warren Buffett to beat,” he says. “However, it's not the only reason to sock away funds in a 401(k). Putting employee salary deferrals into pretax or Roth 401(k)s during times of uncertainty can provide fruitful returns. Think about the employees who continued to sock away funds in their 401(k) account back at the depths of the financial crisis. Those entry points in the market were handsomely rewarded.”

**Others point to the benefits of dollar-cost averaging as a reason to keep saving**

“While a cut in benefits is disappointing, workers should not necessarily change their contribution,” says Neal Nolan, a certified financial planner with Parsec Financial. “This could be a huge mistake, especially at current market levels. Dollar-cost averaging is really important and over time the market will rise to a new high.”

From a retirement readiness perspective, he says workers will be much better off continuing their contributions. “However, there are circumstances when it may be prudent to reduce or stop salary deferrals,” says Nolan. “That decision should be carefully weighed. If a worker stops contributions, I recommend restarting them as soon as possible.”

Another adviser also sees the advantage of buying low. “You might have lost some value in your account recently, but the good news is that your continued contributions allow you to ‘buy at a bargain’ because prices have gone down,” says David Haas, a certified financial planner with Cereus Financial Advisors. “You are likely to have made money by the time you retire.

And still others say there’s a benefit in using other people’s money, as in Uncle Sam’s, to keep saving in a 401(k). The match is probably the best benefit of the 401(k), but it certainly is not the only benefit, notes Mark Wilson, a certified financial planner with MILE Wealth Management. “401(k) contributions allow you to save taxes, invest the government's money, and add discipline to the investment process,” he says. “In the end, those making 401(k) contributions will have more money (even without a match) than those skipping these plans.”

The benefits of pretax savings cannot be understated either. If your income and expenses remain the same, and the only aspect of your compensation that has changed is that your employer has suspended the 401(k) match—there should be no reason to change your saving strategy, says Daniel Trumbower, a certified financial planner with Halpern Financial. “It is never a bad time to save for your future, particularly in a tax-advantaged way,” he says. “In a 401(k), you get a discount on each dollar you invest equal to your marginal tax rate because you are contributing pretax dollars.”

And ultimately, losing the match is no big deal, says Deborah Badillo, a certified financial planner with The Lubitz Financial Group. “Regardless if you have a match or not for one year, you should contribute toward retirement if you can,” she says. “One year of no match will be immaterial for retirement projections for a successful retirement. The key is to continue to save in a tax-advantaged method for retirement over your entire career.”

**Retirement Readiness Affected?**

If your retirement goal has been affected by the COVID-19 pandemic, there are a few things that can be done to get back on track. “If they find they were previously too conservatively invested, they can increase the level of risk exposure until they are closer to their retirement age,” says Nolan. “The next option is to adjust the retirement age/date. The final step is to increase one’s savings rate; however, this can be very difficult to do as our financial identity is often tied to our lifestyle and spending habits.”

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**Other Pressing Needs**

For his part, Thomas Scanlon, a certified financial planner with Raymond James, always encourages clients to contribute enough to their 401(k) plan to get the employer match.

“But if there is no employer match, this deserves a second look,” he says.

So, for instance, if there are other pressing needs with debts, it may make sense to temporarily turn off the 401(k) contributions and direct these funds elsewhere, says Scanlon. “This could be to build up a cash reserve or pay down credit cards, etc.,” he says.

**Review Your Plan**

Mullins also says individuals should run their personal finances in much the same way a business owner runs their business.

“CFOs across the business world are bracing balance sheets preparing for the repercussions of the Great Shutdown,” he says. “Your household balance sheet should be no different, you must prepare. If you find yourself needing living expenses during these uncertain times start with a list of your available options. 401(k) loans, available credit, equity in your home, etc. Each option has its own benefits and disadvantages. For example, HELOCs may have the best interest rate, but take the longest to get. A credit card may be the quickest option, but the double-digit interest rates on most cards will make it one of the most costly.”

**Lost Your Job?**

To be sure, many workers have lost their jobs, or have been furloughed, or have been asked to take a pay cut. For that group, Marguerita Cheng, a certified financial planner with Blue Ocean Global Wealth, offered this advice: “If you’ve experienced a reduction in income or job loss, it’s certainly OK to suspend contributions for the time to compensate for the reduction in cash flow,” she says. “If a person needs tax savings and has not experienced a reduction in income, I would advise them to maintain a certain amount so that they don't owe money in taxes.”

And during this crisis, she says it’s prudent to be engaged in all aspects of your personal finances - not just investments. Now, for instance, is a good time to consider refinancing your mortgage, and review your insurance and estate plans.

Trumbower agrees. “If your salary has been cut, and contributing to your 401(k) would mean that you would struggle to pay essential bills—then, of course, you must prioritize your ability to have housing and food on the table,” he says. “Ideally, reduce the contribution rather than eliminate it, with the goal of reinstating it when you are able.”

No matter what, Harrison recommends making every effort you can to continue saving for your future, either by fully funding an emergency fund, paying down consumer debt, or putting money towards retirement. “Times of financial crisis can help you understand how planning for your financial future can be so valuable,” she says.