

IBM Plans to End 5% Employer Matching in 401(k) Plan

The American multinational technology company is pulling its traditional 401(k) company match in favor of a company retirement account contribution for all employees.

Reported by [NOAH ZUSS](#)

IBM plans to end 5% matching contributions to employees' 401(k) accounts in favor of an automatic 5% retirement benefit provided to all employees, starting January 1, 2024, a company spokesperson confirmed by email.

The technology corporation will still allow employees to make deferrals into a 401(k), but it will direct 5% of each employee's salary into what it terms a "Retirement Benefit Account," according to a spokesperson and details from a company memo posted to a conversation on the web site Reddit.

"IBM is introducing a new company-provided benefit for U.S. employees called the Retirement Benefit Account within the existing IBM Personal Pension Plan, which helps save for retirement automatically, with no contribution required from the employee," explained the spokesperson by email. "The RBA adds a stable and predictable benefit that diversifies a retirement portfolio and provides employees greater flexibility and options."

IBM employer contributions were based on an internal IBM pension formula that varied depending on an employee's eligibility for the IBM Personal Pension Plan as of December 31, 2007, and a different set of options for those hired on or after January 1, 2005, according to the firm's 2022 Form 5500, filed in July 2023.

Currently, IBM automatically enrolls new employees into the DC plan at 5% of eligible salary and performance pay after approximately 30 days of employment with IBM, unless they elect otherwise. New hires become eligible for the IBM automatic contribution and the IBM matching contribution after completing the applicable service requirement, which generally is one year.

Additionally, in plan year 2022, "matching and automatic contributions were made once annually at the end of the year. In order to receive such IBM employer contributions each year, a participant must be employed on December 15 of the Plan year, and meet all eligibility requirements," according to information included in the 2022 Form 5500.

Participants in the existing IBM plan are fully vested at all times "in their account balance, including employee contributions, employer contributions and earnings thereon, if any," according to information in the 2022 Form 5500. The IBM memo said the company plans to end matching contributions in a change planned as part of continued improvements to support workers' well-being.

"By introducing this retirement benefit within IBM's Personal Pension Plan, which is stable and well-funded, IBM is able to provide a benefit to IBMers that also helps diversify their retirement portfolios," the leaked IBM memo stated. "We periodically benchmark the benefits IBM offers compared to industry peers, and 5% is aligned to the market—but in addition, with the RBA, no employee contribution is required."

Additional text of the leaked document included a description of the "key features of the Retirement Benefit Account":

- Guaranteed 6% annual interest rate for the first 3 years;
- Tax-deferred growth;
- Even when the market declines, your balance will not;
- No enrollment necessary. No investment decisions to make; and
- Immediately vested and portable.

'Concerning' for Employees

IBM planning to end the employer match is uncommon, says Rob Massa, managing director and Houston operations retirement practice leader at Qualified Plan Advisors.

"The U.S. [private] retirement [system] is a voluntary one and, as long as a plan sponsor follows the law and IRS/[Department of Labor] regulations and administers the plan in accordance with its plan document, they may make any plan design settlor (i.e., non-fiduciary) decisions in any way they prefer," he says. "The decision to eliminate the match is legally acceptable, and there is no fiduciary liability associated with it."

Phillip Hulme, chief financial adviser and COO at Atlanta-based Stars & Stripes Financial Advisors, explains that the move by IBM is "concerning for employees."

IBM is shifting risks for retirement benefits from the company and onto employees by taking away workers' matching contributions, which means they will be "earning less," Hulme says.

The leaked IBM document addressed some of the differences to the existing plan, called the IBM 401(k) Plus Plan. "[W]e recognize 5% is less than employees are eligible to receive through the current 401(k) Plan," the memo stated. "To offset the difference, IBM is providing a one-time salary increase effective January 1, 2024, separate from the annual salary plan later in the year."

IBM reported in a September 2022 SEC filing about its transfer of \$16 billion worth of defined benefit pension plan obligations to Prudential Financial and MetLife, one of the biggest pension risk transfer deals ever. The IBM defined benefit plan was frozen to new hires in 2006.

In the 2022 plan year, 168,865 IBM retirement plan participants held retirement balances in the IBM 401(K) Plus Plan, comprising more than \$53.3 billion in total assets, as of the latest data available.

Rebrand

Plan adviser Massa had not previously heard of a plan sponsor offering something called a "Retirement Benefit Account."

"However, under the law, a plan sponsor can name any retirement plan anything they want," he says. "For example, while most plans use the [IRS] IRC [Internal Revenue Code] Section 401(k) in the name of their salary deferral plans, there is no requirement to use that term."

Employees will become eligible for the RBA regardless of whether they participate in any other IBM retirement plan, but similar to eligibility for the 401(k) plan, the new benefit has a one-year service requirement, according to the memo.

"Based on what has been shared from IBM, this sounds like a cash balance plan," adds Massa. "IBM currently sponsors a cash balance plan called the 'IBM Personal Pension Plan,' and my educated guess is that they are either using this program and rebranding it or constructing a new cash balance plan and calling it the IBM Retirement Benefit Account Plan. Cash balance plans are designed to have both a contribution credit (i.e., 5% per year) and an earnings credit (e.g., 4% per year). So that's my best guess as to what they are up to."

Cash balance plans share some similarities with both DC and DB plans but are regulated as defined benefit plans.

IBM's plan to eliminate the company match was first reported by The Register, a technology news website based in the U.K. Early reporting was based off of a leaked internal IBM memo and a note on LinkedIn from adviser Hulme, a former IBM employee who says he was aware of the move.

"On the face of it, I see no [Employee Retirement Income Security Act] issues or legal risks with what they are doing," says Massa. "But going forward, if this is a cash balance plan, IBM would be assuming the investment risk on the cash balance plan portfolio and will also be assuming the cost of PBGC premiums."

Despite IBM's uncommon move to end retirement plan matching contributions, the company should not face legal issues under ERISA, agrees Drew Oringer, a partner in and general counsel at the Wagner Law Group.

“The entire private retirement system is voluntary, and IBM has no obligation to continue or provide any particular ongoing benefit,” says Oringer. “An employee benefit, like a 401(k) plan, is in many ways nothing other than another part of the overall compensation package that includes basic salary.”

Tags

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