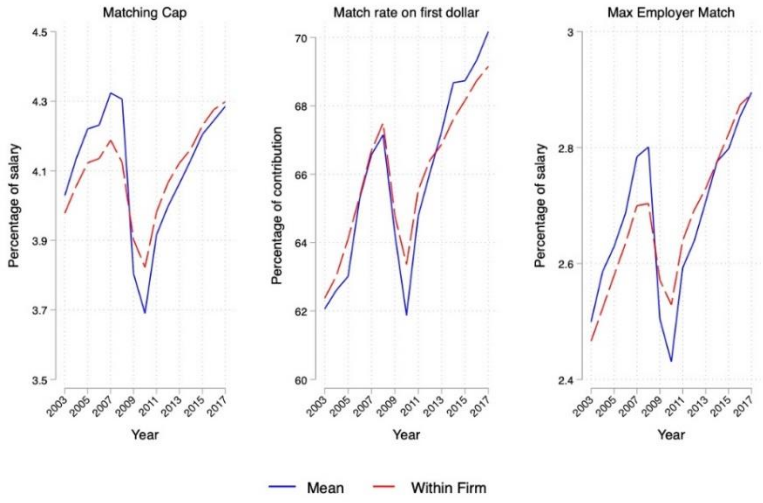
Match Suspensions and the Covid-19 Pandemic

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The Great Recession saw a substantial number of firms who offered Defined Contribution plans suspend their match schedules. The effect of these suspensions endured for almost a decade (Arnoud et al, 2021)[1]. Figure 1, which is taken from our previous NBER RDRC-funded work[2] shows three indicators of the generosity of matching formulas — the matching cap, the match rate on the first dollar and the maximum employer match — from hand-coded data from the 4,000 largest US 401(k) and 403(b) plans in the US. This sample covers more than 45 million workers. The mean level of maximum employer match did not reach its pre-recession level until 2017. Unfortunately, the economic disruption around the Covid-19 pandemic has seen a new wave of match suspensions (Center for Retirement Research 2021)[3].

Figure 1: Employer Matching 2003-2017



In the proposed work, we will extend our data set to cover 2018 to 2020 to study the incidence and implications of this latest round of match suspensions. This would involve collecting matching schedules, vesting schedules and details on auto-features for our existing sample of 6,000 plans (the largest 4,000 in the US and a random representative sample of 2,000 firms) for the most recent three years. This information will be extracted from the auditor's reports that all U.S. firms with more than 100 employees are obliged to submit alongside their form 5500 filings.

[1] Arnoud, A., Choukhmane, T., Colmenares, J, O'Dea, C. & Parvathaneni, A. "The Evolution of US Firms' Retirement Plan Offerings. Evidence from a New Panel Data Set."

[2] This work was funded under the 2019 to 2020 NBER RDRC. Delays in our data collection (due to Covid-19) meant we asked for and received an extension. We received the final batches of our data in March 2021, have a draft ready, and the final paper will be submitted by April 15th 2021.

[3] https://crr.bc.edu/wp-content/uploads/2021/03/401k-Match-Suspension_3-18-21.pdf

Using this data, we propose to:

- Document the incidence of match suspensions both in a representative sample of U.S. 401(k) and 403(b) plans, and in a sample of the largest firms. In aggregate, the latter sample contains a majority of DC-covered employees in the US.
- Describe the characteristics of firms associated with match suspensions. In particular, we plan to examine the incidence of suspensions by size, industry and pre-suspension plan features.
- Examine the correlation between incidence of suspending matching during the Great Recession and during the Covid-19 pandemic. Are there certain firms, or industries, where this type of firm action is more likely? If so, and given the length of time to reinstatement, the risk of shocks compounding could have substantial impact on the lifecycle wealth accumulation for people in those industries.
- Finally, we will combine this new plan-level data with data on plan-level average employee and employer contribution amounts to look at the effect of these match suspensions, and of the Covid-19-related economic disruption, on retirement contributions. There are two competing narratives about the effect of the pandemic on retirement contributions. On the one hand, a natural employer (precautionary) response would be to suspend (or reduce) their retirement contributions in order to free up financial resources in the face of mounting uncertainty and economic disruption. This, in turn, might induce employees to save less. We aim to assess the extent to which this has occurred. On the other hand, a natural employee (precautionary) response to economic turbulence would be to save more. Additionally, for those whose income has not been affected, saving more has also been made easier by the fact that consumption opportunities became more limited as a consequence of public health limitations on social interactions. This has led to a historic increase in the personal saving rate observed in aggregate data, but it is unclear how much of this increase in aggregate saving has been reflected in higher contributions to retirement plans. We intend to quantify these two channels (the reduction in employer incentives to save and the increased propensity of employees to save) and assess which one dominates in different types of firms.

Our project is primarily related to SSA **Focal Area #6: Economic Security of SSA Beneficiaries**. The effect of employer matches has a direct effect on contributions to the retirement plans that many SSA beneficiaries will rely on to supplement their SSA, and can also have indirect effects through employee responses. Our work will shed light on what is likely to be the direct impact, through these channels, of the current Covid-19 related economic episode. More generally, it will also add to the evidence base of the interplay between aggregate economic conditions, employer retirement incentives and employee retirement saving (and so has relevance to **Focal Area #6: Informing Long-Term Projections and Models)**.