

FOR IMMEDIATE RELEASE

IFG IN MEMPHIS PREDICTS LESS GENEROUS 401(K) MATCHING PLANS ARE HERE TO STAY

Memphis, Tenn. (July 12, 2011) – Tens of thousands of salaried workers in Memphis and millions more across the country have received some good news from their employers recently: the companies will start matching 401(k) contributions once again. For a large number of employees, however, this silver lining does contain a cloud. Matching plans may be less generous than in the past.

While most companies and employees are hopeful that reduced matching percentages are just a temporary fix until the economy fully recovers, the professionals at the Memphis office of Innovative Financial Group (IFG) have a few words of warning to future retirees. *Reduced matching funds, they predict, may be the new status quo even if consumer spending and economic health return to pre-recession levels.*

Before the recession, the most common matching plan called for the company to contribute 50 cents for every dollar contributed by the employee for up to six percent of annual income (“The Most Common 401(k) Features,” U.S. News & World Report, Sept. 25, 2008). Since this formula essentially amounts to an immediate 50 percent return on investment, financial professionals at IFG and elsewhere were typically encouraging clients to take full advantage of company matching.

Then, in 2008 and 2009 a large number of major U.S. companies, most notably including FedEx among Memphis employers, called a temporary halt to 401(k) matching. It should be noted that UPS did the same, along with both Ford and General Motors, as well as countless other companies in a wide range of industries. As a result, workers across the country felt the double whammy of reduced 401(k) values due to a falling stock market and no matching funds.

According to the Profit Sharing Council of America, 40 percent of companies that suspended their 401(k) matching programs during the recession have now started up again (“401(k) and Profit Sharing Plan Response to Current Conditions,” PSCA.org, Dec. 2010). However, the majority have new limits in place on how much the company will contribute.

James E. Smith, Vice President of IFG, believes these new limits, which are typically described as being temporary, may become the new standard in 401(k) plans. “Even if a company has every intention of eventually restoring its 401(k) matching program to previous levels, we expect economic realities may ultimately prevent them from reaching that goal,” said Smith.

One common form these new limits are taking is a cap on the total matching contribution available per employee. For example, MGM Resorts International, which operates the Gold Strike Casino Resort in Tunica, Miss., has set a \$500 annual limit on matching contributions.

Other companies like UPS have capped their contributions at two percent of the employee's salary, down from the previous limit of three percent.

“Telling someone who has done everything right in terms of retirement saving for the past twenty or thirty years that they need to lower their expectations is one of the most difficult parts of our job,” said Todd Shapiro, Financial Representative with IFG. “Unfortunately, that may be the case for individuals who plan to retire within the next five years. They simply may not have time to make up for the reduced value of their 401(k) plans in recent years.”

Fortunately, both Smith and Shapiro agree that most employees do have time to make the necessary adjustments in their retirement strategies.

“Funding your retirement is likely to always require course corrections, whether the economy is soaring or stumbling,” said Smith. “The important thing is to have a strategy, to know what your real returns are in your 401(k) after fund expenses, and to stay vigilant and make changes as needed. Right now, it's your 401(k) that likely needs your attention. Tomorrow, it will be something else. What I tell my clients is to never give up on your dreams, just be flexible on what path you take to get there.”

About Innovative Financial Group:

A member of the John Hancock Financial Network based in Nashville, Tenn., Innovative Financial Group (IFG) has been serving clients for more than 60 years. Additional locations in Atlanta, Memphis, and Chattanooga have helped expand IFG's ability to provide successful solutions to meet the needs of individual and business clients.

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