

Employer Match Contribution

Year End, True-Up Explanation

When an employer matching contribution is funded during the year on a per-pay period basis, but the cap on the match is based on the entire plan year's compensation, it may be necessary for the employer to "true-up" the matching contribution. This is done after the close of the plan year (i.e., make up the difference between the employer matching contribution already funded and the employer matching contribution to which the participant is entitled to under the formula).

Calculating employer matching contributions based on employee's elective deferrals and employee's eligible plan compensation for the entire year will also enable an employee to realize a greater match where certain statutory limits would preclude them from deferring for the entire plan year.

If the plan allows for a true-up, it is generally made after the end of the plan year to make all employees "whole." Meaning it allows the employee to receive the full amount of employer match that is offered. This situation would arise when employees defer at a high rate and reach their limits before the end of the plan year. Once their deferrals stop – so does their match.

To better understand the benefit of a true-up provision and how it is calculated please review the different examples on the next page.



True-Up Employee Example

- Employee earns \$225,000 per year
- Company match \$1.00 for every \$1.00 deferred up to 4% of pay deferred into the plan
- Employee receives \$9,375 per paycheck and is paid semi-monthly (24 pay periods/year)
- Employee intends to contribute the maximum of \$22,500

Employee 1: Elects to spread out their deferrals throughout the entire plan year.

- Employee defers \$937.50 per paycheck (~10% of pay - $\$937.50 / \$9,375$)
- Employee receives a company match per pay period equal to \$375 (4% of \$9,375)
- Over the 24 pay periods, employee defers the maximum of \$22,500 ($\937.50×24)
- Over the 24 pay periods employee receives the maximum company match of \$9,000 ($\375×24 or 4% of \$225,000)

Employee 2: Elects to defer at a higher rate per paycheck and would like to reach the maximum contribution limit by July 1.

- Employee defers \$1875 per pay period ($\$1875 / \$9,375 \approx 20\%$)
- After 13 pay periods, the employee reaches the maximum of \$22,500 ($\1875×13)
- Employee receives a company match per pay period equal to \$375 (4% of \$9,375)
- Over the 13 pay periods employee receives the company match of \$4,500 ($\375×13)
- Because the employee reached the limit of \$22,500 by July 1st, the employee received a match equal to 4% of \$112,500 (1/2 years pay)
- Without a true-up provision employee receives an annual match of only 2% ($\$4,500 / \$225,000$)

Employee 3: Determines they can afford to save even more per paycheck and would like to reach the maximum contribution limit by April 1.

- Employee defers \$3,750 per pay period ($\$3,750 / \$9,375 \approx 40\%$)
- After 6 pay periods, the employee reaches the maximum of \$22,500 ($\$3,750 \times 6$)
- Employee receives a company match per pay period equal to \$375 (4% of \$9,375)
- Over the 6 pay periods employee receives the company match of \$2,250 ($\375×6)
- Because the employee reached the limit of \$22,500 by April 1st, the employee receives a match equal to 4% of \$56,250 (1/4 years pay)
- Without a true-up provision employee receives an annual match of only 1% ($\$4,500 / \$56,250$)

A true-up calculation would allow Employees 2 and 3 to receive the maximum company match of 4% because the match calculation would not be done on a per pay period basis but on an annual basis. This means that the calculation would consider the employee's deferrals and eligible compensation for the full plan year.

All three (3) employees earned the same compensation of \$225,000 and deferred the same amount for the plan year (\$22,500 or 10% of pay). The difference is that Employee 1 received the 4% match each pay period for the entire plan year, whereas Employees 2 and 3 only received the 4% match for part of the plan year due to them deferring at a higher rate and reaching the maximum deferral limit early in the plan year.

	Employee Compensation	Employee Deferral	Company Match	True-Up	Total Annual Match
Employee 1	\$225,000	\$22,500 (10%)	\$9,000	N/A	\$9,000
Employee 2	\$225,000	\$22,500 (10%)	\$4,500	\$4,500	\$9,000
Employee 3	\$225,000	\$22,500 (10%)	\$2,250	\$6,750	\$9,000