HOW COMPANIES ARE DESIGNING 401(K) PLANS TO MAXIMIZE PARTICIPATION

By, Lynn Weirich and Kim Moore

A company retirement plan is designed to be part of the overall compensation strategy. We can view weekly pay as current pay and retirement contributions as future pay.

As we wrote in our article, “Employee Stress and Financial Health,” employees are stressed about money and looking to their employers for tools to help them. Offering a retirement plan is probably the greatest opportunity to help employees with preparing for the future. Employers do have a number of available options to encourage participation in their retirement plan. For today, we will focus on the most common type of retirement plan, a 401(k) plan.

NO RETIREMENT PLAN?

The Bureau of Labor Statistics reports that 66% of non-union employees have access to some form of retirement benefit, and the US Census Bureau reports that 41% of eligible workers participate in 401(k) plans. So, why aren’t more companies offering a retirement plan? Let’s address the primary reasons that are cited:

- a plan is **hard to maintain**
- a plan is **expensive**
- the plan has **poor participation**
- there is **potential liability**

1. Hard to maintain

There are a number of moving pieces to manage in a corporate retirement plan. All should be managed carefully and in the best interests of all participants. With a strategically designed process, plans can be managed efficiently and without commanding substantial hours from key leaders.

Suggestion: Bring in professional outsource partner who will act as a **co-fiduciary.** Their job is to bring a system and help you run it.

2. Expensive

Plan design is paramount. A 401(k) plan can be affordable when designed properly. In addition to direct costs associated with a retirement plan, we have to consider the indirect costs of having employees who will fall further behind in their retirement planning and create additional stress for themselves, their families, and your business. Plus, employees who continue working past retirement age can cause premium increases in the medical plan due to increasing health care needs. In fact, **for every year an employee delays retirement beyond normal retirement age, employer health care costs can go up $10,000-50,000 per year!***

** BenefitsPro, Liz Davidson of Financial Finesse, June 7, 2011*

3. Poor participation

Participation is purely a function of education and plan design. More ideas on this topic are below.

4. Potential liability

It is true that you as an owner or plan sponsor have liability for a retirement plan. And there is greater liability for poorly-operated plans, which is another reason to bring in an outsource partner who will serve as a co-fiduciary. A co-fiduciary will share in the liability with you and help you operate the retirement plan. Look for an advisor who is certified by the Center for Fiduciary Excellence (CEFEX), which is a stamp of approval on best practices, ethics, and the fees they are charging for their service.

WHY NOT CONSIDER AUTO ENROLLMENT?

Auto enrollment statistics across the nation show that between 80–90% of employees who are automatically enrolled will stay enrolled. If you find participation is lagging, consider this a positive way to help your employees.

According to the *Defined Contribution Institutional Investment Association (DCIIA) Plan Sponsor Survey 2014*, lack of use is based on the <u>perceptions</u> that Auto Enrollment…

- Is too paternalistic
- Increases Employer costs
- Causes Employees to complain
- Is unnecessary due to high current participation rates

But what do the statistics collected by this survey actually show?

- Before implementation of automatic enrollment, 51% of plan sponsors reported participation levels of over 75%.
- After automatic enrollment, 80% of plan sponsors reported participation rates of greater than 75%.

Another study by Vanguard, conducted in January of 2015, showed that among new hires, participation rates more than doubled to 91% under Automatic Enrollment compared with 42% under voluntary enrollment.

POSITIVE OUTCOMES

Offering an employer-sponsored retirement plan, such as a 401(k) helps to narrow the retirement-savings gap. A 401(k) plan is a tool to facilitate savings for all employees and ultimately, for the employer in terms of a savings on health care costs plus other costs associated with employee financial stress. Providing a well-designed 401(k) plan and employing features, such as auto enrollment, can enable people to start saving sooner and at a higher rate so they can reach their goals and retire.