

Increased 401k Participation Improves Employees' Retirement Outlook

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Are you hoping to increase the participation in your company's 401k plan? Here are three ways to move the needle:

1. Add a **Roth** feature. In 2006, the Roth feature became available in 401k plans, not just in the IRA world. This is a great advantage to your plan participants! As you are aware, Roth contributions allow participants to create a non-taxable bucket for retirement, and all of their investment earnings are tax free! With a Roth option in their 401k plan, they can contribute a much higher amount post-tax than they could with their IRA, and your more highly compensated team members will be able to use it, though they cannot contribute at all to a Roth IRA! Now that many plans offer the Roth feature, you may find that this is an important recruiting tool – if a prospective employee has money in a previous employer's 401k plan and part of their account is Roth, you **MUST** have that feature available in your plan in order to be able to accept their rollover into your plan. This might not be a deal-breaker for that prospect, but it's certainly an inconvenience at best. Finally, even older participants, who might not immediately see the advantages of a Roth option, have reasons to utilize this feature because they may want to be able to pass on a non-taxable bucket to their heirs or they may want to lower their taxable income in retirement so as to pay lower Medicare premiums. They can both contribute post-tax and also do in-plan Roth conversions to move some of their traditional monies into that non-taxable bucket. There are so many reasons to go Roth!
2. Consider **auto-enrollment** and **auto-escalation** features. Although seemingly paternalistic at first glance, these two features have become increasingly popular as companies strive to help employees save enough to retire. Auto-enrollment means that the plan sponsor can use inertia, or typical human behavior, in favor of the employees' saving habits, rather than fighting against it! Instead of a regular 401k plan, wherein the employee needs to choose to participate, with this feature, the employee would need to choose *not* to participate. While plan sponsors sometimes balk at this decision, studies have shown that the vast majority of employees have no problem with being auto-enrolled, as very few tend to actually opt-out of the 401k plan. In fact, there is no statistical difference in the opt-out rate for auto-enrolling at 3% vs. at 6%! With that knowledge, many employers have begun to add auto-escalate as well, increasing their employees' contributions automatically every year by 1% at a time to a set maximum. Of course, participants can opt-out of contributing at any time and once an employee makes an active decision, they are removed from the auto list entirely. This feature has greatly improved participant outcomes!
3. Do more – and more creative – **employee education**. Your Advisor should be working to ensure that your employees understand this vitally important, but ridiculously complex, piece of your benefits package! Doing onsite and web-based meetings, depending on where your team works, either in the office or remotely, is key. The opportunity for your employees to meet with

a financial advisor in the context of their 401k plan might be the only time they ever discuss their goals, their debt, their investments, or their fears about their future with a professional. You can give them a valuable gift in the form of an Advisor who is an expert in the 401k world and ready to work with your employees so that they can make empowered and educated decisions!

At the end of the day, every plan sponsor wants the best outcomes for their team and they know that participation in the 401k is crucial to their financial wellness. These three optional features can enhance both the participants' experience with their money and their 401k plan as well as the fiduciaries' experience of acting in their team members' best interest!

Angela D. Mansfield, AIF® is an advisor with nearly 15 years of experience in the 401k field, both on the recordkeeper and advisor sides of the business. Angela provides education to participants, HR Directors, and business owners to help them articulate their priorities and ensure they are getting the most out of their 401k plan. She believes that everyone can utilize their 401k plan to have the future they dream about for themselves. Please see her bio on www.pensionmark.com for more information.