



# 401(k) Employee Participation: Why It Matters and How to Fix It

A 401(k) plan can be one of the most compelling benefits for attracting and retaining valued staff—but only if your employees actually take advantage of it.

## Participation in Your 401(k) Matters

Encouraging employees to sign up for your company's 401(k) plan is vital for several reasons:

### **American workers are not financially prepared for retirement**

With the decreased use of pensions and the limitations of Social Security, many working people have to partially or completely fund their own retirement savings. In a recent survey, 59% of workers in small companies said they planned to work past age 65 or not retire at all, and 55% planned to work after they retired. They felt they hadn't saved enough and couldn't afford to retire.<sup>1</sup> You can help your employees better prepare for their financial future by offering a 401(k) plan with features that meet their needs.

### **Failed compliance tests cause undue administrative tasks and corrective actions**

The IRS has set up safeguards to ensure that all eligible employees can participate in a 401(k) equitably through annual compliance tests. Higher participation and contribution percentages can help your plan pass these tests. Failing these tests can lead to excess plan administrative tasks, possible excise tax, and depending on the corrective actions you take, additional required contributions to some employees or contribution refunds with negative tax consequences for other employees.

## You and your employees receive tax benefits for contributing

Your employees fund their 401(k) accounts with pre-tax dollars, which lowers the amount of their taxable salary. As an employer, your contributions to eligible employees' accounts offset your taxable income. Tax benefits are the government's way of rewarding both parties for taking on the responsibility of saving for the future.

## Change your 401(k) Plan to Increase Participation

There are a number of plan features that may motivate more employees to take advantage of your 401(k) plan. You could choose to:

**Add an employer matching contribution.** Since most participating employees contribute at least up to the employer match, establishing a matching contribution can encourage them to save. This can also motivate employees to stay at your business and helps prevent your competitors from luring valuable staff away from you.

**Add an Automatic Enrollment feature.** That way, your employees will be automatically enrolled as soon as they become eligible. They can opt out at any time, or change the amount of their contribution. Options include:

- *Automatic Contribution Arrangements:* Basic auto-enroll plans where contributions for employees who don't select any investments are placed in default investments
- *Eligible Automatic Contribution Arrangements:* Plans that mandate the automatic contribution percentage to be uniform for all participating employees
- *Qualified Automatic Contribution Arrangements:* Plans that have Safe Harbor provisions<sup>2</sup> and automatically increase contribution amounts at specified intervals

Employees appreciate automatic enrollment because they don't have to remember to sign up when they become eligible. This feature has been shown to increase participation among staff. However, automatic enrollment may require additional time and expense for administration, and you'll have to incur the expense of any matching contributions.

**Shorten or eliminate waiting periods for new employees.** Your employees get an earlier start on their savings, which can help increase both their participation and appreciation of your company. Immediate participation can also aid your efforts to recruit experienced employees by allowing them to transition between jobs without a gap in saving for their retirement. However, reducing waiting periods can be cumbersome and time consuming to administer.

**Consider altering your vesting schedule and allow immediate vesting for employer contributions.** Like shorter waiting periods, immediate vesting can motivate enrollment, boost morale and make it easier to attract top talent. However, this may not be ideal if your business has higher employee turnover rates because you'll be adding to your plan administrative burdens, on top of the cost of recruiting and training new staff.

**Ask for a custom plan solution from your adviser.** Since one size does not fit all when it comes to 401(k), your plan service provider should help you weigh the various options and implement those that help you boost participation without putting undue burdens on your internal administrative processes. Does your service provider offer one-on-one in-person education and investment support for your employees? Dedicated employee support may be what your plan needs to improve participation. Also, remember that circumstances change over time. It's recommended that you review your 401(k) plan design at least once every three years to make sure it still aligns with your business goals and meets the needs of your staff.

## Our Individualized Plan Analysis Can Help

At Fisher Investments 401(k) Solutions, we specialize in serving small and mid-size companies, offering services that can be customized to each particular business. We can coordinate a third party plan analysis for you to help evaluate whether you're offering a compelling benefit that resonates with your employees, and encourages them to participate in your retirement savings plan.

### About Fisher Investments 401(k) Solutions

Fisher Investments 401(k) Solutions is dedicated to helping small and mid-size businesses and their employees reach their retirement goals. We seek to offer comprehensive 401(k) plan services that are designed to help employees optimize their retirement savings while easing the company's risk and administrative burden.

<sup>1</sup> Source: *The Retirement Readiness Imperative: Overcoming the Challenges Faced by Small Companies*, Transamerica Center for Retirement Studies, October 2013.

<sup>2</sup> Safe Harbor provisions allow plans to opt out of some annual compliance testing but require employers to maintain certain levels of contributions to its employees. Please see <https://www.irs.gov/forms-pubs/about-publication-560.pdf> for more information.