

Using Financial Education to Increase 401(k) Participation

Sometimes, the biggest barrier to plan participation is lack of knowledge. For employees that have little or no experience investing, a 401(k) plan can be very intimidating. One of the most effective ways of increasing plan participation is to ensure your employees receive adequate financial education about your plan.

Understanding the provisions of the plan, how a plan actually works, and most of all, how to invest in the plan's investment options can overwhelm employees. It is critical to provide ample information to personnel; and the information needs to be understandable and delivered in a way that resonates with employees. Multiple delivery methods of unbiased information, including live workshops, online tools and tutorials, and Web-based content are some of the most popular ways to educate your staff. Additionally, providing access to experts via a telephone or face-to-face meeting allows employees to discuss how the information applies to their specific circumstances.

Offer a loan provision in the plan. Of course, you want to encourage your employees to save their retirement savings for retirement. However, there may be hesitation on the part of some people to participate in a 401(k) plan because they feel uncomfortable putting their money in a retirement plan that won't allow them access to the funds for a long period of time. A loan

provision gives employees a feeling of security that should they need access to their money, the option of taking out a loan is available, without the tax penalties of a hardship withdrawal.

Provide a matching contribution. Plans that offer some sort of matching contribution reveal higher participation rates than those that do not. Even a small matching contribution can be the incentive a person needs to start participating; and the cost to the company can be relatively low. If you are top heavy or fail discrimination tests, you may find that providing a matching contribution ends up saving your company money and helps you retain valued employees.

Offer general financial education for employees. Many people are stressed about their finances and barely make ends meet; this directly affects plan participation. Consider providing your employees with an unbiased general financial education program that starts with information about reducing debt and better budgeting. This will better prepare them for more advanced topics like investing, planning for a child's college education and, of course, saving for retirement. If you help your employees find the money to save and then teach them the importance of planning for their future, you will likely increase your plan's participation levels and even your company's productivity levels.

Financial Finesse is the leading provider of a full suite of financial education, coaching, and counseling programs to over 350 organizations. It works with corporations to design company-specific financial education programs that address a variety of business and human resources needs. Contact: www.financialfinesse.com or 866-733-2677.

Originally published in Best Practices in Compensation & Benefits, June 2005.