

Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

Volume XV | Number XV | April 2018

Could Automatic Features added to your 401K Plan Help your Employees become more “Retirement Ready”?



One of the more important goals of 401k plan sponsors is to increase the rate of employee participation. Your company is investing time and money to provide the valuable benefit of a defined contribution retirement plan. Getting your employees to use that benefit effectively can be challenging. While surveys of employee attitudes consistently show that saving for retirement is a high priority goal, with the distractions of other financial priorities such as health care and student loan debt, saving for retirement can easily fall to the bottom of the priority list. Adding automatic features to your 401k plan can help participants increase their retirement contributions by prioritizing this important matter for their future financial wellbeing.

630 Freedom Business Ctr. Dr.
3rd Floor
King of Prussia PA 19406
tp-advisory.com

E: tpadilla@tp-advisory.com
P: 610-254-0451
M: 610-405-4110



Studies have shown that these features can be effective at increasing participation rates. Higher participation can be beneficial to employers and employees by increasing overall satisfaction with a company's 401k plan benefit. Higher retention rates and increased awareness of successfully working toward being retirement ready can be valuable to employee and company moral.

There are a number of misconceptions about auto features on the part of plan sponsoring employers. For instance, employers have expressed concern that employees will resent the loss of control over more of their paycheck. But employee polling data show that large majorities agree with the statement "You are glad your company offers automatic enrollment." Even majorities of employees who opted out of the auto-enrollment feature agreed with the statement. Saving for retirement is something everyone knows they need to do.

Another concern is that if enrollment is automatic, employees won't take responsibility for their own retirement planning. Also, saving one or two percent for retirement won't have much of an impact on retirement savings goals. All true if the savings goal is to reach an overall savings rate of 10 to 11%. Principal Financial, a prominent provider of 401k plan platforms, has conducted studies showing that only 4% more employees opt out of auto enrollment if the starting deferral rate is 6% instead of 3%. Bold is proving to be better.

Another employer concern is that too many new participants will make the employer match too expensive and the extra work and expense does not help overall company profitability. Auto features can actually do the opposite if they help reduce turnover, especially among more valuable and higher compensated employees who are more likely to have the means and desire to contribute to their 401k plan but might be limited by low participation and deferral rates by rank and file employees. More participation from these employees can mean higher deferral limits for key executives. Your more highly compensated employees are more likely to already be in the plan, so added match expenses will mostly be on lower wage employees auto enrolled into the plan.

Employees have shown that they know they need to be saving for retirement. Procrastination and avoidance behavior are forms of inertia that auto features can help overcome. Plan participants recognize that they have personal biases against doing it themselves. The incremental aspects of auto features can help gradually ease employees along path they know they need to travel. People typically learn to live within their net income. The old adage "if I don't see it I won't miss it", particularly if it is going toward a valuable future benefit rather than an extra cup of coffee or a vacation, applies. Everyone one benefits from progress towards retirement readiness.

Automatic features can raise the profile of a 401k plan by helping employees do things they already want to do, but might need a little help moving in the right direction. For more information about how automatic features might benefit your company contact Tom Padilla at TP investment Advisory services. 610-254-0451 or tpadilla@tp-advisory.com

This month's employee memo will help reinforce the message of saving for retirement by reminding employees to think about using the event of a raise to add to their 401k plan deferral rate. Timing auto deferral increase features with annual company raises will encourage greater retirement savings and makes it even more attractive.



One of the best times to think about increasing your retirement plan contributions is when you get a raise. Any time you earn a raise, you have the opportunity to increase your retirement savings or begin saving for retirement without impacting your current lifestyle.

To remove yourself from this list, or to add a colleague, please email us at tp-advisory.com or call 610-254-0451

Services offered through TP Investment Advisory Services, LLC, a registered investment adviser with the state of Pennsylvania. This message and any attachments contain information which may be confidential and/or privileged and is intended for use only by the addressee(s) named on this transmission. If you are not the intended recipient, or the employee or agent responsible for delivering to the message the intended recipient, you are notified that any review, copying, distribution or use of this transmission is strictly prohibited. If you have received this transmission in error, please (i) notify the sender immediately by e-mail or by telephone and (ii) destroy all copies of this message. If you do not wish to receive marketing emails from this sender, please send an email to thomaspadilla@comcast.net or a postcard to 1053 Croton Rd., Wayne, PA 19087
ACR# 255588 09/17