Helping Employees Meet Their Retirement Needs

Less than one-half of U.S. workers know how much they need to save for a comfortable retirement, a situation particularly significant for employees of smaller businesses whose employers are less likely to contribute to their retirement.

A study released by the Economic Policy Institute indicates that more than 40 percent of American workers will not even be able to replace 50 percent of their current annual wages after they retire. Twenty percent of these workers, now between the ages of 47 and 64, will likely be facing a future of living in poverty.

"Employers who take an active role in facilitating their employees' financial futures may well see increased employee loyalty and productivity as a result," says Jim Greenhaus, vice president, marketing & sales, National Payment Corporation.

What Can Employers Do?

Here are several options employers can consider to help employees improve their retirement planning and savings.

Establish and promote a 401(k) program: If you don't offer a 401(k) plan, consider doing so. Even if you as the employer do not contribute to the plan, participants can have a portion of their pay deducted on a pre-tax basis and invested in a tax-deferred retirement plan.

Help employees reduce withholding: Assign payroll staff to work with employees to help them withhold the proper amount of taxes. Withholding too much is simply an interest-free loan to the government. By reducing withholding to the proper amount, employees increase take-home pay that can be the source of additional contributions to retirement savings.

Provide financial coaching: Schedule a trusted and unbiased financial consultant or your 401(k) plan administrator to speak with employees about financial management, including retirement savings (and mandiate attendance). And don't just provide this couching to those that are getting close to retirement, focus on your younger employees. Few employees understand time as a key factor in retirement savings. " What people don't realize is that their biggest ally in saving for retirement is time, not the behavior of the market," according to Jane White, President of the Retirement Solutions Foundation. "People should start contributing to their 401(k) plans in their 20s and 30s--when the last thing on their minds is retirement. If they wait until their 40s they will have to set aside a much higher percentage of their income--potentially outside of their plan where it won't have the same tax advantages."

Make your 401(k) plan the best it can be: Recently, David Wray, President of the Profit Sharing/401k Council of America, called plan sponsors to "fiduciary excellence." Specifically, Wray urged plan sponsors to:

- Provide automatic rebalancing.
- Offering a professionally managed option.
- Offering fewer funds choices - the average plan now provides about 15 choices, is this too many?
- Closely monitor fund performance and removing poor choices.
- Providing investment advice.
- Maximizing the provisions of EGTRRA for the plan.

Help employees improve money management skills: "Probably the biggest problem is lack of education of the participants," explains Tim Younkin, a pharmacist and self-educated 401(k) expert in Virginia Beach, Va. In a recent retirement survey prepared by Mathew Greenwald & Associates, Inc., the majority of employees express lack of confidence in their investment knowledge and ability to save adequately for retirement. Specifically, two thirds think that "you do not know as much as you should about retirement investing" describes them well (25% very, 40% somewhat well).

Increase participation in your 401k: High participation helps in creating a positive attitude towards the company and helps greatly in employee retention, but it is also an important key to your employees retirement savings. Major studies show a 401(k) plan is more appealing if you:

- Do a great job of designing a plan to meet the company's goals, taking into account other pension plans, if any, demographics and employee investment sophistication. Work closely with your plan vendor to help you do this.
- Shorten or eliminate the waiting period for new employees to enter the plan. You are more apt to get a new employee to enroll during your orientation meetings when you have their full attention and can explain the benefits to them in a small group than you are one year down the road.

- Furnish lots of good plan information. Regularly tell your employees about the plan and its benefits to them. Do this through more than just one medium. Use e-mails, newsletters, internet, intranet, statements, etc.
- Demonstrate to the plan participants that you are monitoring the investment options by providing them with regular reports that provide net performance for each option against an appropriate index.
- Provide daily Internet and telephone access to asset and balance information. Allow participants to trade frequently. When an employee feels in control of their assets, they feel better about being a part of the plan.
- Hold 401(k) meetings quarterly. These are great opportunities to communicate plan benefits and features. Remember, you need to sell the plan and the more opportunities you give your employees to enroll the more likely they are to join.
- Automatically enroll all eligible employees. It has both positive and negative points, but it may do more to improve workers retirement than most other actions an employer can take.

Offer direct deposit of payroll: Direct deposit of payroll allows employees to have their pay electronically credited to their accounts at most financial institutions, including banks, credit unions or savings and loan institutions. Pay can also be allocated among accounts such as checking, savings and even mutual funds or money market accounts. This is important because it may reduce the temptation to spend the money rather than save it.
