

How Simplifying Your 401(k) Plan Can Lead to More Loyal Employees

By Marianne Nelson

A study released last year found that employees who participated in their company's 401(k) plan had turnover rates that were less than half of non-participants.¹ While the 401(k) plan might not be the only reason workers stay with their employer, most value the help their company provides in saving for their largest financial challenge.

Providing a retirement plan to your employees is a requirement for most companies to compete for workers, especially in a tight labor market such as what we're now experiencing. Unfortunately, retirement plan usage has been stagnant for the past decade. On average, one-third of eligible workers do not even enroll in the plan. The problem? It just takes too much work to do it.

The average 401(k) plan now offers more than 19 investment options, nearly double the number just seven years ago. While choice can be good, economists who study worker behavior find that too many choices overwhelm workers, often to the point of their making no choice.

What can you do to make it easier for your employees to save for retirement and become more loyal to your company? Here are five ways you can simplify your company's retirement plan:

- *Immediate Eligibility.* The best opportunity to get an employee to enroll in a retirement plan is right when they start with the company. Workers make decisions about other benefits at that time, so allow them to sign up for the 401(k) plan at that time as well.
- *Simple Enrollment Materials.* Historically, most employees received a thick, confusing booklet of information about their 401(k) plan and were expected to wade through it on their own. By providing your employees streamlined, easy to read materials, you can increase participation.
- *Automatic Enrollment.* Nearly one-fourth of employers now automatically enroll new employees in the 401(k) plan unless the employee "opts out." A default contribution rate and investment option are pre-selected by the employer, though the employee can override them if they so choose. The Pension Protection Act that was signed into law in August 2006 provides further support and incentives for employers to flip the decision process for 401(k) plans in this manner.
- *Target Date Funds.* Target date funds, a type of mutual fund that automatically grows more conservative as retirement nears for an investor, have become quite popular in recent years. Employees just select the fund designed for the year closest to when they expect to retire and all of the more sophisticated investment strategies are done for them, including diversification, age-based asset allocation and risk management.
- *Tiered Investment Line-Up.* Another way to simplify the investment-decision process is to group the plan's investments. The first tier is often asset allocation options, such as target date funds, where an employee can just make one simple choice. The second set consists of individual mutual funds from which an employee can create their own portfolio. The third option is to have investments done for workers through an advice program. This approach allows employees to invest based on their comfort level.

Providing simple solutions that result in workers being better prepared for retirement can be seen as simply doing the right thing for employees. But enhancing participants' financial security also can help protect the investment you have made in your employees. Clearly, a case of doing well by doing good.

To learn more about these and other solutions for employer-sponsored retirement plans, talk to your financial services provider today.

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¹ Charles W. Cammack Associates, Inc., May 2006.