



Educating staff on benefits aids their financial security

Scott Everhart

Does your retirement plan education begin and end with a packet in an employee's mailbox?

The myriad paperwork that accompanies most companies' retirement or 401(k) plans can be confusing and intimidating for any worker. But taking the time to fully educate your employees on retirement benefits can help increase worker satisfaction in addition to reducing your own fiduciary liability.

According to the Employee Retirement Income Security Act, employees must be well-informed of their investment choices available with their 401(k) retirement plan. This means companies are obligated to go beyond simply distributing packets of information to employees, and expecting them to read and understand it.

With CEOs becoming increasingly liable for 401(k) losses, adhering to the guidelines outlined by ERISA becomes even more important for businesses.

Even when an employee is well-informed regarding the potential risks of an investment option, when markets take a downturn, it's human nature to look for someone to blame for losses.

So what can you do to provide your employees the highest level of education on their plan while reducing your liability? Choosing a 401(k) provider that is both a registered investment adviser and a certified financial planner helps in providing investment advice to employees.

Hiking plan participation

If you are a highly compensated employee, you may have run into a situation where you were not entitled to contribute as much as you would have liked to the plan.

ERISA sets guidelines that prevent discrimination in favor of highly paid employees. Many companies surrender these funds and mail a refund check for plan contributions that are over the limit.

There are ways, however, to avoid this situation through increased employee participation.

Increasing participation among employees, as well as raising the percentage of salary they contribute to the plan, will increase the average deferral percentage for non-highly compensated employees. This in turn allows the highly compensated employees to contribute more to the plan.

Employees often think of a 401(k) as simply a savings account. This is never more apparent than when employees leave a company - more than half take a cash distribution on their 401(k) sum, paying taxes and penalties as a result.

Full participation in a 401(k) plan can be more lucrative than many employees realize.

For example, an employee earning \$1,000 a week may contribute 6 percent of pay and the company may match with 50 cents on the dollar. In this scenario, the employee contributes \$60 and the employer contributes \$30.

But because that the employee contribution is deducted from the worker's paycheck before figuring federal and state income taxes, their \$60 contribution only cost them \$40. Thus, the employee in effect spent \$40 to gain \$90 in their account - a 125 percent return on their investment.

With additional education on the advantages of a 401(k) plan, employee participation would likely increase along with the amount each employee contributes to the plan.

An employee's choice to not participate in the 401(k) plan can be equated to turning down a 3 percent raise.

Fostering financial success

A quality financial education can be a valuable benefit for employees - just as valuable as an on-site health club, or an end-of-year bonus. Unfortunately, Social Security benefits are not longer a guarantee. But even if they were, they typically replace only about 30 percent of pre-retirement earnings.

By helping employees understand the importance of saving for themselves, you're helping to secure their financial futures while improving employee retention.

In addition to helping employees decide how much they need to save for retirement, it is reasonable to expect your 401(k) provider to educate employees on the value of budgeting, cash-flow management, college savings and estate planning.

When providing information on your 401(k) plan, don't stop short with just a packet of information in employees' mailboxes. Doing so too often results in employees going to the human resources department for investment advice.

That puts your workers at a disadvantage and also opens the company to a liability risk.

Ask your plan provider to provide a registered investment adviser who is also a certified financial planner to hold ongoing educational financial meetings for your employees.

A quality financial education is a benefit your employees will profit from for years to come.

Scott Everhart is a partner of Everhart Financial Group, an independent registered investment advisory firm in Columbus. Reach him at 614-717-9705 or scotte@everhartfinancial.com.