



## How To Get Younger Employees Interested in a 401(k) Plan

**Situation:** Company's 401(k) salary deferral plan was set up as a way to attract and retain talented workers and to motivate employees. While management is satisfied with the morale-boosting effects of the plan, the plan's participation rate among younger workers is less than desirable.

**Question:** What can be done to make the plan more appealing to younger employees?

**Answer:** Getting twenty-something workers excited about a retirement savings plan is not the impossible dream. The company can help increase employee participation in its plan by targeting its communication efforts to younger workers.

**Discussion:** Not long ago, a stable job at a big company usually meant a pension at retirement. Now, however, many younger employees have to take responsibility for their own retirement, making the most of their 401(k) plans. That's why it's important to educate younger workers about the benefits of investing for retirement in a 401(k) plan. Here are some suggestions to help increase plan participation.

**Furnish** plenty of plan information to employees to reinforce the company's retirement message. Focus the marketing materials on younger workers who stand to benefit the most from compound investment earnings over time. Use several media outlets to tell employees about the plan, such as e-mail, newsletters, Internet and Intranet promotional materials, posters, and paycheck stuffers.

**Direct** communication efforts at younger workers, and emphasize the benefits that may persuade them to participate, such as portability and loan options. If younger workers realize they can take their money with them if they switch jobs and have access to their money in an emergency, they may be more likely to begin contributing to the plan.

**Prepare** for employee enrollment meetings by getting to know the audience prior to the meeting. Find out basic demographic information to better target their needs and concerns. Create a comfortable environment to foster audience involvement. Allow employees several opportunities to ask questions and participate in discussions.

**Hold enrollment/education** meetings on a regular basis. Require employees to attend a meeting immediately before they're eligible to participate. Arrange for employees who decline participation to attend another meeting. This will help to keep the retirement savings message fresh in the minds of non-participants. Remember, the more opportunities employees have to enroll, the more apt they are to join.

**Use specific examples** to impress on employees the importance of investing in their 401(k) plan for retirement. Let young workers know that delaying contributions can make a big difference in the long run. For example, if a 24-year-old defers \$100 a month for the next 41 years and earns an 8% average annual total return during all those years, the account would be worth \$379,321 at age 65. Under the same circumstances, if this person waits just one year to begin contributions, the account would total \$349,101 at age 65. That's a difference of \$30,220. Factor in a 25% employer matching contribution and the difference swells to almost \$38,000.

**Don't forget** about an extra incentive to save for retirement: Not only will deferrals not count as taxable income in the year contributed, but workers may also qualify for a saver's tax credit — a direct reduction of a worker's tax bill — on a portion of the contributions they make to their 401(k) plan. Eligibility for the credit is based on the participant's adjusted gross income.



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## Plan Loan and Hardship Distribution Requests

For many employees, the assets in their 401(k) plan accounts represent a majority of their savings. So, not surprisingly, over the past year as money has gotten tighter, employers have seen an increase in requests for plan loans and hardship distributions. If you are receiving distribution requests, the following information should be a helpful review for handling them.



### Plan Loans

Under federal tax law, the maximum amount an employee can borrow from his or her plan account is (1) the greater of \$10,000 or 50% of the balance of the employee's account; or (2) \$50,000, whichever is less. All of the employee's outstanding loans are taken into account when determining the maximum loan amount.

Most plan loans must be repaid within five years. However, loans used to buy a principal residence may have a longer repayment period. Loans are typically repaid through payroll deduction.

To help control the use of plan loans, many employers impose restrictions, such as loan fees and a minimum loan amount (usually between \$500 and \$1,000), and place limits on the number of outstanding loans an employee can have at a time.

The plan documents must specify a method for determining eligible hardships. Hardship distributions — unlike loans — are not repaid to the plan. Where a plan uses a facts-and-circumstances method, the plan administrator reviews all relevant facts and circumstances in each individual situation. While the plan generally can allow a hardship distribution for any reason, it must have established rules to ensure that the distribution will be used for an immediate and heavy financial need.

The safe harbor method permits hardship distributions to: (1) pay certain medical expenses incurred by the participant, participant's spouse, or dependents; (2) purchase a principal residence; (3) cover post-secondary educational expenses for the participant, the participant's spouse, children, or dependents; (4) prevent eviction from or foreclosure on a principal residence; (5) pay the funeral expenses of a spouse, parents, children, or dependents; and (6) repair damage to the participant's principal residence that would qualify for the income-tax casualty loss deduction (without regard to whether the loss exceeds 10% of adjusted gross income). Participants generally are prohibited from making elective deferrals to the plan for six months following the hardship distribution.

Hardship distributions generally are limited to the amount of the employee's total elective contributions as of the date of distribution minus the amount of any previous hardship distributions.

Please talk with us if you have questions about plan loans, hardship distributions, or your retirement plan's provisions for them.

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## Do You Need a Plan Audit?

*The annual Form 5500 filing for a qualified retirement plan generally must include audited financial statements for the plan. However, the U.S. Department of Labor (DOL) exempts a small retirement plan from the general audit requirement under certain conditions.*

### Definition of a Small Plan

Plans with fewer than 100 participants at the beginning of the plan year are eligible for the audit waiver if they meet specific requirements. In addition, a plan that has between 80 and 120 covered participants at the beginning of the plan year that filed a small plan annual report for the previous year may elect to continue to file as a small plan.

### Other Waiver Requirements

In addition, a plan has to meet three other basic requirements to be eligible for the audit waiver:

As of the last day of the preceding plan year, at least 95% of the plan's assets must be "qualifying plan assets." If less than 95% are qualifying plan assets, any person who handles nonqualifying assets must be bonded in an amount at least equal to their value.

The plan must include certain information in the Summary Annual Report (SAR) furnished to participants and beneficiaries in addition to the usual required information.

The plan administrator must furnish, without charge, copies of statements the plan receives from financial institutions holding or issuing the plan's qualifying plan assets to any participant or beneficiary who requests the information. In addition, the administrator must provide participants evidence of any required fidelity bond, upon request.

Check with us if you have questions about plan audit requirements or the waiver.



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## Quotes of the Quarter

*"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves." Peter Lynch*

*"You make most of your money in a bear market, you just don't realize it at the time."*

Shelby Davis

