SITE CONTENTS
Home Page
Research Center
Community Center
Vendor Directory
Conferences, Commentary & More
The Hot List
Blogs
CHANNELS
Compensation, Benefits & Rewards
HR Management
Legal Insight
Recruiting & Staffing
Software & Technology
Training & Development
W = Member Only
WorkforceHRJobs
Find A Job
Post A Job
PRINT EDITION

Coping With 401(k) Withdrawal

As 401(k) interest lags, employers struggle with ways to motivate workers to consistently invest. One financial expert suggests some basic financial education for employees, regarding the long-term benefits of socking away 10 to 15 percent of income.

By Kim Fernandez

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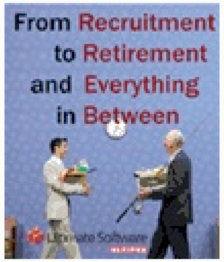
Despite signs that the U.S. economy is rebounding, 401(k) plan managers say they're seeing more workers withdrawing from their retirement accounts or declining to participate at all, which is sparking worry that fewer Americans will be able to retire at age 65 ... or at all.

Nearly two out of three workers say they're worried they won't ever be able to retire, according to a recent survey by New York-based research firm StrategyOne, a division of Daniel J. Edelman Inc. Another survey by the New York-based human resources consulting firm Towers Watson & Co., found that only 34 percent of workers with defined contribution plans, such as 401(k)s are somewhat or very confident of having enough resources to live 25 years post-retirement. More than half of all respondents said that they had seen significant declines in their retirement savings over the previous 24 months.

Ronald Stair, president of the retirement-plan consulting firm Creative Plan Designs, East Meadow, N.Y., says there isn't much employers can do if workers

Feature Contents



are taking money out of their accounts to meet expenses. “People are worried about whether they have the money to feed their kids today,” he says. “I have an employee here who would rather have $500 cash than a $5,000 contribution to her retirement plan. Her need is immediate.”

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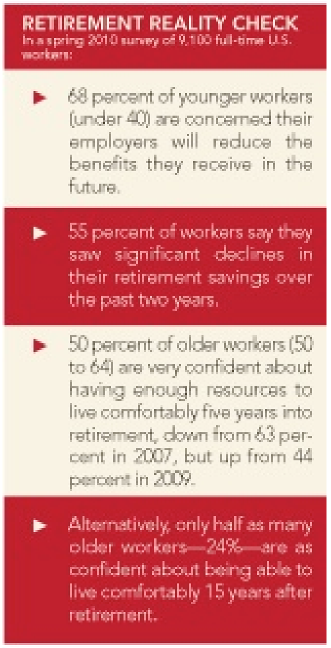

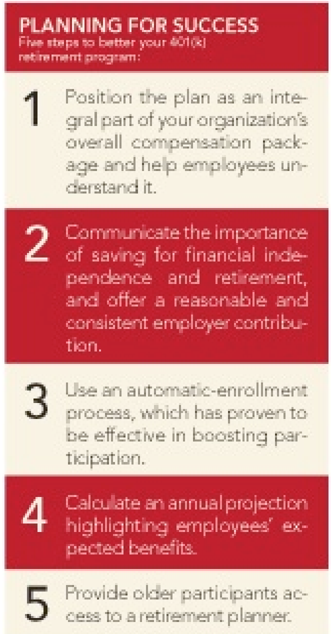

And some employees may be reluctant to contribute to retirement plans because they're befuddled. Charles Schwab Corp., a 401(k) service provider, surveyed more than 1,000 plan participants nationwide and found that only 47 percent feel

Despite the grow th in 401(k) plans, nearly half of Americans ages 56 to 62 haven't saved enough for retirement, according to a recent Employee Benefit Research Institute analysis. Defined-contribution plans don't reach some employees, including those w orking in small businesses. Even BrightScope, the relatively young defined-contribution ranking company, is only now establishing a plan.

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very confident in making investment decisions, and a little more than half find retirement benefits even more confusing than health care benefits. Yet, 70 percent say their 401(k) is their only or their primary source of retirement savings.

Managers of 401(k) plans worry about waning employee participation and the serious repercussions down the road.

Jeff Acheson, partner and managing director of consultant SD Retirement Plan Solutions in Pittsburgh, advises employers to ask themselves whether their plan offers enough value to motivate employees to contribute and whether it is understood and appreciated. "One thing that is frustrating for an employer is to spend a lot of money on benefits," Acheson says, "and a lot of times, people don't look past their paychecks to see how it might work for them."

Other retirement experts agree and say educating employees is among the best ways to boost retirement plan participation. "Part of the reason people think they don't have money to invest is that sometimes they're not looking at their finances as a total package," says Judith Cohart, president of Personal Finance Employee Education Foundation, a not-for-profit organization promoting employee-sponsored financial education. "We suggest employers start with basic financial literacy to get people looking at their budgets and understanding they should be putting away 10 to 15 percent of their income for retirement."

That can also boost productivity. "Employees are better able to concentrate on their work because they're not worrying about their finances," Cohart says. The Charles Schwab survey found that more than two-thirds of people worry about money at work, and 82 percent feel more focused when their personal finances are in order.

An analysis of participant behavior in plans that Schwab services, however, reveals that fewer than 10 percent of people with access to investment advice actually take full advantage of it. Seventy percent of those who do get 401(k) advice on average double their savings rate to 10 percent of their pay.

Creative Plan's Stair says he brings in an outside consultant to meet with his employees because there are potential liability concerns when talking about retirement funds. "You can get too involved," he says. "You end up with someone saying, 'You told me to do this and now I'm screwed, and I'm going to sue you.' "

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