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. 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 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.