

Boosting Participation in Your Company's 401(k) Plan

One rule of retirement investing is the earlier you start and the more you put away, the more you'll have for your later years. But convincing younger employees to make larger deferrals *now* is not easy.

You've probably seen the figures touting the impact of compounding on steady plan contributions made during a participant's younger years. Even small contribution increases when an employee is under age 30 can have a major effect on the employee's plan balance at retirement age.

Your plan's design can help encourage younger employees to participate in the plan (or make larger contributions than they do now). Here are some suggestions.

Increase your match. Raising your matching contribution to 50 cents or more per dollar deferred can have a significant impact on participation rates. Employers who don't want to raise their costs might consider reallocating an existing match so that more is allocated to the first 3% or so of an employee's pay contributed to the plan.

Allow more frequent deferral elections. Allowing participants to change their deferral percentages frequently gives them the ability to adjust their take-home pay to meet expected -- and unexpected -- expenses. When you provide the flexibility to stop and restart contributions more often, employees can feel more comfortable keeping contributions high during normal times, knowing they can cut back if they need the money for other purposes. In most cases, this means higher contributions overall.

Regularly sell the benefits of contributing. Many employers only promote their plans during initial enrollment. Others provide an ongoing message, often through a periodic participant newsletter, or they use creative ideas, such as contests, to bring attention to the plan. Some employers make a special effort to encourage an employee to contribute more when the employee has more money to contribute -- i.e., when he or she is getting a raise. They provide supervisors with contribution change forms to give out to employees during favorable salary reviews.