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HR insourcing NEWSLETTER

Differentiated HR functions, insourced cost effectively for mid-size to smaller companies.

CFO's, CEO's Listen Up!

PART I: Savings and Retirement

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In today's world of increased unemployment, salary reductions, furloughs and other bad news, there are items of good news including the opportunity to secure and maintain personal savings that you as an employer can work on and institute with your employees.

401K's, Defined Contributions Plans

No question, it is disconcerting to see what the past year has done to retirement savings. Couple this with the depressed housing market, general employment concerns and the uncertain future of social security benefits - it causes many of us to wonder how long we will need to continue working.

The depressed stock market may represent an opportunity for employees who can see their way past this current crisis, continue contributing to retirement savings and thereby take advantage of these market lows.

First, some relevant facts about savings and retirement:

FACTS

- More than 40% of private sector workers were active participants in "traditional" defined benefit pensions in 1975, compared with less than 17% today (this number will continue to decrease as companies freeze and terminate their defined benefit plans and substitute defined contribution plans instead).[1]
- Defined contribution plan participation – just under 16% of private sector workers were active participants in 1975 compared with nearly 42% today (this number will continue to increase when more employers have these plans as their sole employer-sponsored retirement vehicle).[1]
- The U.S. Congressional Budget Office estimates $2 trillion in retirement savings plan losses since the onset of the economic crisis.[2]
- Social Security benefits are the only source of retirement income for 25% of current retirees and the primary source for nearly 75%.[1] For more than 50% of all retirees, Medicare and Medicaid are the only meaningful health and long-term care protection they have during retirement (this number will only increase for baby-boomers since fewer and fewer employers offer any type of retiree health coverage).[1]
- All of these facts and statistics point to the need for all of us to focus even more attention on savings in general - retirement planning and savings in particular.

Some basic RECOMMENDATIONS to consider:

- Due to the current depressed market, companies should seize the opportunity to continue to support and encourage 401K contributions, since upside potential can be more dramatic at these lower stock market levels.
- If Employer has a "match" on their 401K Plan, promote good and ongoing communication encouraging employees to, at a minimum, contribute up to the maximum contribution level matched. As enlightened benefits experts advise – the match is "free money" above and beyond what your Employee contributions earn. Employees are often shortsighted and may ignore taking full advantage of the company's match.
- If Employees can contribute more to their 401K's, encourage them to target saving 10-15% of their pay.
- As an Employer within your plan, consider both "default" of automatic enrollment + automatic escalation of participants' 401(K) contributions (with successive earning increases, encourage participants to increase contribution level by 1%).
- Recent history with typical voluntary 401K plan enrollment indicates average participation of 50 - 60% of eligible employees, whereas "auto-enrollment" tends to see average of over 80% net of eligible employees participating.

The economy's general recovery is likely to take awhile, it is important that all of us do everything we can to encourage financial responsibility and thrift. If "Flat is the new Up", then with a changing orientation away from consumption and debt "Thrift is the new Black" – let's recognize it and use it to our best long-term advantage.

With these initiatives and other human resource related efforts, consider HR Insourcing as a cost-effective means of supporting all your HR needs.

[1]Source: "The Future of Retirement Plans" by Dallas Salisbury, Employee Benefits Research Institute (EBRI.org). Wall Street Journal, April 2, 2009, pg. A10.

[2]Source: "Tough Responsibilities in a Tough Era" by Russ Banham, Wall Street Journal, April 2, 2009, pg. A9.

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