

9 great steps

to making the most of your 401k program



ING  **DIRECT** | **shareBUILDER 401K**

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You know there are affordable, simplified 401k plans for your business, even if you're self-employed. You see the unique benefits 401ks offer in terms of savings and tax advantages, and that a 401k makes a strong recruiting and retention tool.

If you have employees, your question now may be, "How do I design a program that can be successful for my business?"

Keep your program simple to be effective.

There can seem to be a million choices when you set up your 401k plan. We recommend keeping it simple to meet your savings and business goals. Adopt the **nine best practices** on the following pages to use your 401k plan to its fullest.

Sell the plan.

Promote full participation in your company's 401k plan and endorse your plan benefits. Make certain your 401k is a cornerstone of your annual benefits review.



WHY:

Getting the word out on your 401k program makes it easy for your employees to get involved. It's a great way to help make a difference in their lives and create greater loyalty to helping grow your business.

KEY ITEMS

- A 401k helps employees save for retirement while reducing taxes.

TO TELL

- *(If you opt to provide a match)* Participating is like receiving a bonus!

YOUR TEAM:

- Sooner is better than later: employees who start younger are more likely to have a greater nest egg at retirement.
- Your provider's toll-free number for customer support, and a web address for online resources.

Achieve high enrollment.

Build in “auto-enrollment,” which automatically enters each employee into the plan. (They can opt out.) Make it a goal to achieve over 90% participation with a default contribution of 3% gross pay.



WHY:

Automated enrollment is a simple way to make sure most of your people are saving for tomorrow. And high 401k participation helps drive employee loyalty and retention, saving you valuable time and money.

MORE FACTS: Most employees — 69% in one study — would prefer to be auto-enrolled.¹ The average 401k participation rate is only 66%, but when auto-enrollment is established, participation jumps to 92%.²

¹ Employee Benefits Research Institute, April 2006.

² Hewitt Associates, 2006 Hewitt Universe Benchmarks

Provide a company match.

If you can afford to match, then by all means do so. Matching for the first 3%–6% of employees' contributions is recommended. Or consider annual profit-sharing contributions as an alternative.



WHY:

A match is a great incentive for employees to get involved, and is almost always tax-deductible for your business. Of course it helps increase savings, plus it makes your company's program competitive with bigger businesses.

Allow immediate eligibility with short vesting.

Get employees started right away in their plan and give them true ownership of their investment dollars.



WHY:

A 2- to 3-year vesting schedule ensures you're not spending company dollars on "short-timers" while still providing a nice incentive for employees to stay with your company. Vesting schedules of 4 or more years are not as compelling for your employees.

Offer low-expense, market-efficient investments.

Select diversified investments with low expense ratios ... like exchange-traded funds (ETFs), which track the major indexes and are diversified and efficient by their very nature.



WHY:

First, costs can be a serious drag on returns over time, so offering index funds makes sense. Second, the “efficient market hypothesis” suggests it’s very tough for investors to beat the market.¹ If you can’t beat it, join it! (But keep company stock out of the plan to avoid conflicts of interest.)

MORE FACTS:

¹ For a definition of the “efficient market hypothesis,” visit http://en.wikipedia.org/wiki/efficient_market_hypothesis/

To learn more, we suggest reading *A Random Walk Down Wall Street* by Burton G. Malkiel.

Keep investment choices simple.

Limit the number of investment options to 15 or fewer, while maintaining plenty of diversification.



WHY:

Too many choices tend to overwhelm employees. Offering a lot of investment options lowers the likelihood of employees participating in your plan.¹ It also makes it more difficult for participants to make good decisions on which investments to select and the percentage to contribute to each.

MORE FACTS: In one study, 401k participation rates were 70% with 12 investment options, but fell steadily to 60% as choices were increased to 60 options.

¹ Sheena S. Iyengar, Wei Jiang, and Gur Huberman, "How Much Choice is Too Much? Contributions to 401(k) Retirement Plans," in Pension Design and Structure, Oxford University Press, 2004.

Plan for increases.

Install a program which automatically boosts each employee's deferral when his or her salary rises. A 1% increase in your employee's contribution to his or her 401k account is the standard recommendation.



WHY:

This strategy helps employees contribute more as they earn more. Participants tend to like automatic savings adjustments that align with their raises, as they see no reduction in take-home pay.

Discourage early withdrawals.

Reduce employees' temptation to borrow and spend their retirement savings by restricting 401k loans to hardship cases only.



WHY:

It's good to have access to 401k funds in a true emergency, but withdrawals hurt savings' growth over time. And if an employee leaves the company, the 401k loan repayment is due immediately or a tax penalty will apply. That can really put a dent in a nest egg!

Automate IRA rollover.

Build in an automatic IRA rollover to ensure that departing employees have their funds for tomorrow. Advise strongly against “cashing in” their 401k plans when changing employers.



WHY:

An automated rollover helps your employees secure retirement savings in a tax-advantaged IRA and avoid losing the money to taxes, penalties, or a spontaneous spending spree. 401k funds withdrawn before the age of 59½ are subject to taxes plus an additional 10% penalty. Ouch!

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great steps to a 401k program you can be proud of

Offering a cost-effective, hard-working 401k plan as part of your company's benefits package can make a real difference in your employees' futures—and that of your business as well. Keeping the program simple and as automatic as possible enables everyone to be more involved and makes it easy on you.

Whether you're just getting started or looking to get your current plan under control, there is no better time to optimize your 401k program. We think you'll start seeing a difference in productivity and job satisfaction immediately. And as for the benefits down the road, well ... let's just say the best is yet to come.