

Linking 401(k) Plan Behavior to Employee Performance Reviews

By William J. Arnone

Twenty-five years ago, when I began my career as a retirement planning professional, I would get a predictable reaction from human resources and benefits executives to my suggestion that they provide financial education and counseling to their rank-and-file employees. “Why?” many responded. “Their personal finances are none of our business.” Employees’ financial concerns were considered back then to be private matters that were not within the purview of employer-employee relations. This position was often reinforced by benefits counsel, who cautioned against the liability exposure that employer-sponsored financial planning activities might trigger.

Today, employer-sponsored programs to educate and counsel employees about retirement security and a range of other personal financial concerns are commonplace. Indeed, the question that plan sponsors now ask is no longer “Why should we have a program?” but rather “What type of program makes the most sense for our organization?” In view of the dramatic shift in responsibility for retirement funding from defined benefit to defined contribution plans, employers recognize that providing employees with adequate resources and tools is essential to the success of this movement.

Plan sponsors remain concerned, however, that the behavior of significant segments of their workforce is jeopardizing the ability of defined contribution plans to succeed. Of all the mistakes that employees make, failure to participate at all or at adequate contribution levels is the number one threat to their long-range financial security. The Pension Protection Act's automatic enrollment provisions will go a long way toward reducing non-participation. There remains, however, the critical problem of low contribution rates by plan participants.

What can employers do to address this problem more effectively? The vehicle that has the highest likelihood of having a real impact on employee behavior is the annual performance review. Performance reviews are sure-fire events each year when an employer has the undivided attention of the employee. They are typically conducted by the one individual by whom the employee is most influenced – an immediate superior. What if the employee's 401(k) plan behavior were made an explicit part of the review?

A solid starting place is to note one simple fact during the review: the extent to which the employee is not taking full advantage of the employer matching contribution. The employee's supervisor would bring this up during the review and just ask the employee whether he or she knew about the match and how it works. The employee would be given the opportunity to discuss it during the review. The supervisor would then indicate on the review form that the match was discussed and would then note the employee's response. Employee reactions might range from utter surprise that there is a match, or not realizing that free money was being left on the table because of a lack of understanding about how

the match works, to having a rationale for not contributing enough to get the full match. No judgment would be expressed about the reason. Rather, the goal of the discussion is to alert the employee to a plan feature that is not being fully used for the individual's personal benefit and prompt the employee to consider taking a close look at how much he or she is contributing. The reviewer might even seize the moment and have a contribution form or a link to the plan's Website handy.

Over time, more 401(k) plan behaviors, such as investment allocations and outstanding loans, might be added to the scope of the review. Starting with the match, however, makes sense, as an individual's savings rate is one of the most important components of planning for retirement security. An employee's failure to take full advantage of the match also raises legitimate questions that are pertinent to an assessment of the individual's value as an employee. To put it bluntly: can an employer afford employees who don't appreciate the value of money? The review process will also serve as a feedback loop to improve plan communications and education.

Incorporating plan behavior into the performance review process is no doubt bold and controversial. I am getting from today's human resources and benefit executives, and yes their counsel, similar reactions to the ones I experienced a quarter century ago. If we are serious about changing employee behavior for the better – and the national evidence is clear that plan sponsors need to do a much better job to help us avert a national retirement crisis - then we should avail ourselves of every opportunity to have an impact on employees whose actions or inactions are jeopardizing their financial futures.

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