



The Benefits of A 401(k), Including Reducing Student Loan Debt

By Bobbi Kloss

When private employers think about financial wellness they typically center their thoughts on 401(k) plans. The conversation today though has expanded the discussion on 401(k) programs to include student loan debt and other high-impact life events that have the ability to redirect an employee's thoughts, and finances, off of savings. These events have the potential to impact saving for today, tomorrow, or the future.

To an employer, it can appear that the focus of the majority of employees is on the financial challenges of today, not on saving for their future. This has prompted employers with an existing 401(k) plan to get involved and figure out how to solve the participation challenge. These challenges also deter other employers contemplating a 401(k), wondering if it would be worth it.

According to a ten-year trend survey from 2007–2017 by Transamerica Center for Retirement Studies, more employers are confident that their employees are saving for the future. Meanwhile, plan participation shows that 61% of employees say they are confident that they can retire comfortably versus ten years ago. Additionally, 70% of employers see their 401(k) as an important benefit for the attraction and retention of employees and 80% of employees say a 409(k) plan is an attraction for making an employment decision.

Whether you have an existing plan or are considering implementing a 401(k) plan, let's review the benefits of a 401(k) program. What is and why would you want a 401(k) plan for your employees? In general terms, a traditional 401(k) plan is a tax deferred savings plan for employees to financially prepare themselves for retirement. Not only is a 401(k) offering considered a standard benefit for employees, since attracting and retaining quality employees is of primary concern for employers, a 401(k) can be positioned to be a competitive advantage for employers. How is this so?

With the lowest unemployment rate in 10 years, employers are competing for talent not only within their local market and industry but now competition for employees spans industries, crosses over state boundaries and even spans across the country, thanks to modern technologies. With such a fierce competition for skilled employees, employers are seeking ways to elevate themselves as an employer of choice. With baby boomers aging out of the workforce and Millennials and Gen Z having a greater presence in the workforce, the mindset of employers for engagement needs to change to match the work-life balance and workplace values of the newer generations.

One way to do so is by meeting the needs of the employee holistically—meaning meeting not only their physical wellbeing but their emotional, social, and financial wellbeing. Whether just now adopting a 401(k) program, which will only keep you competitive with other employers, or by positioning your plan strategically within a holistic wellness program, providing a necessary competitive advantage, it can truly be a win-win.

Once adopted, employers should consider the various engagement practices that are available. They are : 1) a known standard of matching contributions; 2) automatic enrollment; 3) automatic escalation or increase in deferrals; and (4) continuous education from offering advisors for investment strategies, potential tax credits employees may be eligible for, such as the [Savers Tax Credit](#), and the pros versus cons of using a 401(k) as a loan mechanism.

An additional strategy that employers should take note of is a recent [Internal Revenue Service private ruling](#) giving approval to an employer for its student loan contribution benefit to go through its 401(k) plan. Employers may have more options within their financial wellness program to allow for their employees to work towards both eliminating student debt today and simultaneously saving for tomorrow's retirement. Employers who wish to follow a similar process as outlined in the ruling should consult with their plan advisor to the applicability of a similar plan offering.

Knowing how to apply your available dollars to attract and retain employees begins by taking the time to know and understand the needs of your workforce, both the potential and existing employee base. In today's competitive climate, a decision maker cannot afford to be disengaged from its greatest asset—its employees.

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