

President's Page



Delivering For Every Employee

Maximizing the bottom line.

By David Wray

Most employers have reacted to our economic situation by reducing the number of workers, either by layoffs or attrition. The workers remaining are very productive and of high-quality. They are the foundation upon which companies will build when the demand for their products and services returns to normal levels.

However, it is these critical employees who have the greatest opportunity to change jobs when the economy improves. It has always been easier for someone currently employed to find a new job. This advantage will be magnified when the economy turns. Prospective employers will realize that those still employed after the current downsizing know their stuff and deliver. Companies need to start taking action now so that in the future they will retain the high quality, committed workers they need to be successful in the future. The most successful companies will be those that have successful strategies for limiting voluntary turnover, which is inconvenient, expensive, and goes directly to the bottom line.

One successful strategy that helps with employee retention is sponsorship of a highly valued defined contribution program. Fortunately, most plan sponsors,

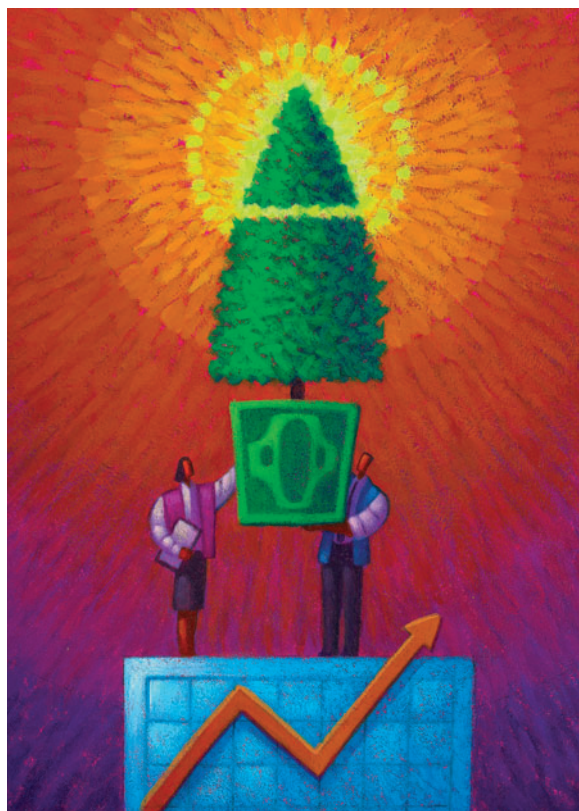
like plan participants, are staying the course with their defined contribution plans. As the data from our *52nd Annual Survey* shows, companies not only stayed the course, but they continue to improve their programs through 2008. However, the retention benefit to employer-sponsored defined contribution programs is limited to participating employees, especially those using the program most effectively. There is no retention benefit

when employees do not participate and take full advantage of the benefits a plan provides.

This means that company's retention strategy should include both a focus on delivering a highly valued program and increasing plan participation. Typically, when employers think about improving plan participation, they consider employee ages, income levels, desire for control, and risk tolerance. A recent study by Ariel Education

Initiative, the nonprofit affiliate of Ariel Investments, LLC, and Hewitt Associates suggests that companies seeking to gain a greater understanding of their workforce might also want to consider the racial composition of their workforce and plan participation.

In their study, "401(k) Plans In Living Color: A Study Of 401(k) Savings Disparities Across Racial and Ethnic Groups," they compared the 2007 defined contribution plan related behavior of African-American, Asian, Hispanic, and white employees in the employer-sponsored defined contribution plans of 57 of the largest U.S. companies. Controlling for salary, job tenure, and age they found that African-Americans are 7 percent less likely to participate in a plan, Hispanics are 6 percent less likely to participate, and Asians



are 3 percent more likely to participate than white employees. Further, white employees save an average of 7.9 percent of pay, while African-American employees save 6 percent, Hispanics save 6.3 percent, and Asians 9.4 percent.

The differences regarding hardship withdrawals and loans are even greater. 7.8 percent of African Americans had taken a hardship withdrawal. 3.4 percent of Hispanics, 2.0 percent of Asians, and 2.1 percent of white participants had done so. 39 percent of African-Americans had an outstanding loan balance. 29 percent of Hispanics, 16 percent of Asians, and 21 percent of white participants had a plan loan balance.

Finding out the reasons people do not save for retirement can be challenging. As a separate survey by Ariel Investments, LLC and Charles Schwab found, African-Americans are nearly twice as likely as compared to Caucasians to say they want to retire by age 50, but when asked about their savings goals, they placed a lower priority on retirement saving than their white counterparts.

This type of confusion and inconsistency led McDonald's Corporation to make enrollment automatic for its store managers and to provide a match that is generous by industry standards. In McDonald's Profit Sharing and Savings Plan, if you save just 1 percent, you always get a 3 percent fully vested match, plus a fully vested profit sharing match of up to 4 percent. Last year, those who saved 1 percent got a match of 7 percent, and those who saved 5 percent got a match of 11 percent of pay. The large match is one way of emphasizing how much employees need to save for retirement. Automatic enrollment helps ensure that it happens.

Employers can play a pivotal role in the evolution of defined contribution plans by adding race and ethnicity to the other factors they track. Once they become aware of the differences lurking beneath the surface, they can engage in a number of efforts to bring parity between races. One important way is through customizing communication and education efforts. Additionally, modifying plans to include plan design solutions like

automatic enrollment can result in strong, robust participation across all demographics. Increasing plan participation is critical to employee and company success. One way PSCA has attempted to help has been by providing communication and education campaigns translated into Spanish.

When the economy improves and employers begin expanding their work forces, there will be a recruiting war for employed talent. Companies need to implement strategies now so that their employees, and especially their best employees, do not test the water when this happens. Highly valued defined contribution programs help reduce voluntary turnover, but only with those participating in plans. Employers should consider taking actions now that will maximize plan participation and optimize plan usage by participants. Research like the Ariel/Hewitt study suggests that a variety of approaches is necessary if companies are to achieve this goal. ➤

David Wray is PSCA's president.



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