Three Reasons Employees Skip 401(k) Contributions and How to Help

Helping employees deal with other financial stressors can help them save for retirement.

By Tony Aguilar

It's a fact: Americans are missing their window to build retirement readiness — even while employers try to help. According to the "Are U.S. Workers Ready for Retirement?" report published by the Schwartz Center for Economic Policy Analysis, 68 percent of working-age people (aged 25 – 64) do not participate in an employer-sponsored retirement plan. In addition, 2015 data from Financial Engine showed that one-in-four workers are missing out on employer matching programs, amounting to an estimated $24 billion left on the table by employees each year.

The Big Questions

With $24 billion, or roughly $1,336 per working employee, left on the table, employers and industry experts have to ask, "Why?" Why would someone pass up free money? What could be a bigger deal to Americans than making sure they can afford to live after they're beyond working age? Why aren't massive changes like the Pension Protection Act and others resulting in better savings habits across the board?

The questions may seem daunting, but the answers are not as complex as you'd think.

In 2015, the benefits market saw a major shift away from one-off benefits to a focus on holistic employee financial wellness. Why? Data from the Society of Human Resources showed that for every $1 spent on a financial wellness program, the average company saved $3. That 200 percent return on investment has fueled one of today's biggest benefits trends.

Even with this new focus, there are still major gaps that exist in providing employees the help they need to build wellness and get retirement ready. These gaps are the key indicators, signs, and reasons employees are skipping out on saving for retirement, one of their biggest financial wellness opportunities.

Reason #1

The 3-S Epidemic

One of the biggest influencers in the financial wellness fight for employees is something we like to call "3-S." Short Sighted Syndrome, or "3-S," affects many more employees than most companies think.

While 2016 Gallup data showed that almost 70 percent of Americans are worried about running out of money during retirement, other market data shows that they aren't doing much about it. In fact, a recent Time Magazine survey revealed that one in three Americans have $0 saved for retirement.

The answers to why Americans aren't saving for retirement and motivation behind 3-S can be found outside of benefits research. According to the U.S. Bureau of Labor and Statistics, while spending on pensions and retirement-related purchases like insurance are up, they are no match for the short-sighted life goals most working Americans are after.

Food, housing, and transportation expenses all outpaced savings for retirement by at least 17 percent. Transportation spending alone outpaced retirement savings almost 2:1, showing clear indicators that most Americans are worried about tomorrow but spend their budget on the shorter-term life goals they can achieve today.

How to Help

To help with this problem, employers need to expand their employees' vision. While retirement is a worry, if employees can't see a path to remedy the brewing financial crises of under-saving, they aren't likely to change.

Effective wellness programs need to include tools that do more than simply "calculate payments," but provide a way to get beyond the "3-S" epidemic. Tools need to show the long-term effects that decisions like car purchases, paying off or refinancing student loans, or buying a home have on an employee's financial future.

Reason #2:

The Growing Student Loan Struggle

Very quietly the workforce training environment has turned on its head over the past 20 years. In that time, the number of college-educated workers has climbed almost 20 percent according to the US Census Bureau data.

The good news of a more educated workforce has come with a quiet but massive burden that affects most employees in a major way. According to data from the Americans for Student Assistance, 70 percent of this year's graduates will enter the workforce with student loans. This is fueled by the fact that the cost of tuition for a four-year university has increased 125 percent over the last 20 years and the average student loan balance of a graduate has tripled in the same amount of time.

This new debt-stressed employee environment creates a major hurdle to both wellness and retirement savings. According to 2015 data from Americans for Student Assistance, 73 percent of student loan borrowers say that their education loans have caused them to put off saving for retirement.

In addition, the same report, "A Life Delayed," showed that student loans affected 43 percent of borrowers' ability to start a family, and 63 percent of borrowers' ability to make a major purchase, like a car, and 73 percent of borrowers' ability to purchase a home.

How to Help

Today, employers have an easy-to-implement way to help. Since early 2016, publications like Forbes, Bloomberg, and the New York Times have reported on the new phenomena of "Student Loan Benefits." These benefits not only help eliminate the savings-blocking problem of loan payments, our company, Student Loan Genius, has created a service to leverage student loan payments to directly grow retirement savings.

The service, Genius Save, works with any retirement plan and leverages the student loan payment of an employee to trigger a contribution into retirement. Backed by Prudential and leveraged by companies like Pinterest, Oregon Community Credit Union, and others, the benefit is helping employers activate unused retirement dollars while fueling recruiting and employee retention.

Including a student loan benefit — whether a repayment counseling service or a matching benefit — is a major opportunity for employers to eliminate one of the biggest hurdles to saving for retirement.

Reason #3

The Benefit Blinders and Enrollment Woes

Last but not least on the top of the list of retirement-saving blockers for many employees are the benefit blinders. When it comes to open enrollment, most employees focus on short-term critical benefits like health insurance.

When there are hundreds of pages of forms and collateral, at some point even the most concerned employee will zone out. This causes major opportunities for financial wellness benefits, like a retirement benefit or student loan benefit to be put on the shelf for a "some day" that never comes.

How to Help

To help remove the blinders and expand their employees' view of benefits, there are several approaches in action today. For example, in tech corridors like San Francisco and Austin, employers like Pinterest and Facebook use wellness days and benefit fairs to encourage employee sign-ups. In addition, where possible, plan sponsors should consider rolling out benefits like student loan help or other more flexible options at different points in the year.

If employers can remove key benefits from the open-enrollment pile, they create a new opportunity to have a positive conversation while also driving adoption by removing the competition for an employee's energy.

Finding Company-Specific Answers

Over the past almost ten years of helping employees find a path toward financial wellness, I've found that in most areas and companies there are trends. Sometimes those trends follow the much larger numbers. Most times, those trends have some variation that is specific for employees or different companies.

That's why in my work today, we use these factors to develop company-specific surveys before we launch any benefit. While we work with student loan benefits, most plan sponsors and benefits administrators we talk to end up uncovering other new ways and insights to help employees.

Conclusion

So, for any company trying to overcome retirement savings hurdles or any other benefit adoption problem, we recommend you start with something as simple as asking. Whether it's a survey or interviews, most of the time the secret benefit answers you need are closer than you think.

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