

Why are employees not participating in their 401(k)s?

Tackling three roadblocks to retirement plan participation

Workplace retirement plans are intended to help employees achieve financial security in retirement, but their success depends on a critical factor—enrollment.

Principal® is here to help plan sponsors examine plan design impacts on participation amid changing participant needs and complex regulations.

Three roadblocks preventing retirement plan participation

Examining plan design impacts on participation can help plan sponsors identify ways to help more employees make progress. Proprietary data at Principal® on non-participants shows that younger and lower-wage workers are less likely to enroll in a workplace retirement plan.

To better understand the reasons behind low participation, Principal® surveyed individuals who are eligible for their workplace retirement plan but currently not contributing.¹ An analysis of the survey results revealed three roadblocks to participation that can be classified under two main themes: education and engagement gaps.

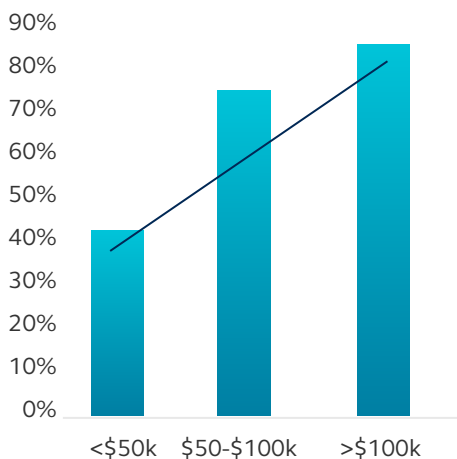
In the last two years, participation rates among private-sector employees fell below

50%²

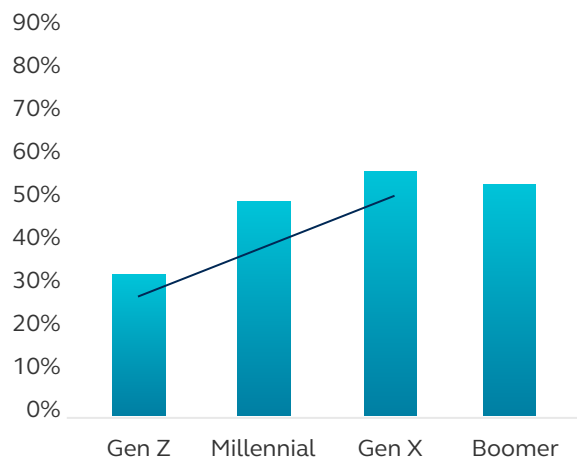
The roadblocks to participation are:

1. **Eligibility** can be misunderstood.
2. **Saving** for retirement is confusing.
3. **Debt**, salary, and expenses.

Participation rates increase as salary increases



Participation rates increase as age increases



¹ Principal® Retirement Security Survey—Nonparticipants, December 2023. All statistics are from the survey unless otherwise noted.

² Bureau of Labor Statistics: March 2022 and March 2023.

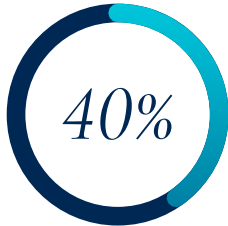
Roadblock one: Eligibility can be misunderstood

If workers aren't sure if they're eligible for their retirement benefits, especially when starting with a new employer, they're not likely to enroll.

22% don't know if they are eligible.

35% of Gen Z don't know if they are eligible.

It's possible that this uncertainty could stem from workers having multiple jobs in the past and seeing different retirement plan provisions along the way. Employees may have been automatically enrolled (auto-enrolled) in a retirement plan at a past job and assume that's how all plans work. In all the information they receive about their employee benefits, it's possible some don't realize they need to take action to enroll.



40%
had more than one job in the past five years.

Roadblock two: Saving for retirement is confusing

The survey found that many non-participating employees actually thought they were saving for retirement through their workplace plans.

59% thought they were saving for retirement.

64% of them are from Gen X, the generation closest to retirement age.

Of these respondents:

- 49%** thought they were auto-enrolled.
- 41%** thought they signed up themselves.
- 77%** said they started saving as soon as they were eligible for the plan.

This misunderstanding has significant implications for these workers' futures, requiring them to play catch-up and giving them less time to build sufficient retirement savings. Feeling behind and not fully understanding how to enroll and save can prevent nonparticipants from taking action.

“ *I have no clue what I'm doing with any of the retirement stuff; that's why I haven't signed up for my company's retirement plan.* **”**

MALE, GEN Z
Income:
\$50,000-\$74,999

Those who believe they're actively contributing were asked if money is being deducted from their paychecks for their employer's retirement plan.

70%
said yes.

Of those who believe they're contributing, almost 60% report participating in a prior employer's plan and 68% have a balance at Principal®. This may be why survey respondents think they are actively contributing.

Among all survey respondents, here's where they want help from their employer:

1. Determining how much to contribute per paycheck
2. Balancing debt with saving for retirement
3. Planning for income in retirement
4. Creating a savings goal
5. How to select investments within the retirement plan



Four of the top five needs are barriers to getting started.

Choosing investments is a topic where only 30% feel comfortable, and creating income in retirement can be one of the most challenging elements of retirement. The consequences of this uncertainty are daunting; just 27% of all surveyed are confident they'll be financially prepared to live comfortably in retirement.

Roadblock three: Debt, salary, and expenses

Many employees feel now isn't the right time to save for retirement. When asked why, people across all generations, salary ranges, and account balances offered similar answers:

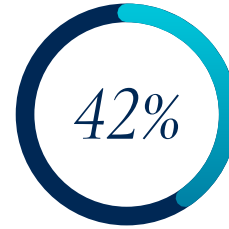
1. Monthly expenses are too high
2. Paying off debt
3. Income is too low

*Americans have
\$17.5 trillion
in debt.*

Federal Reserve Bank of
New York, Q4 2023.

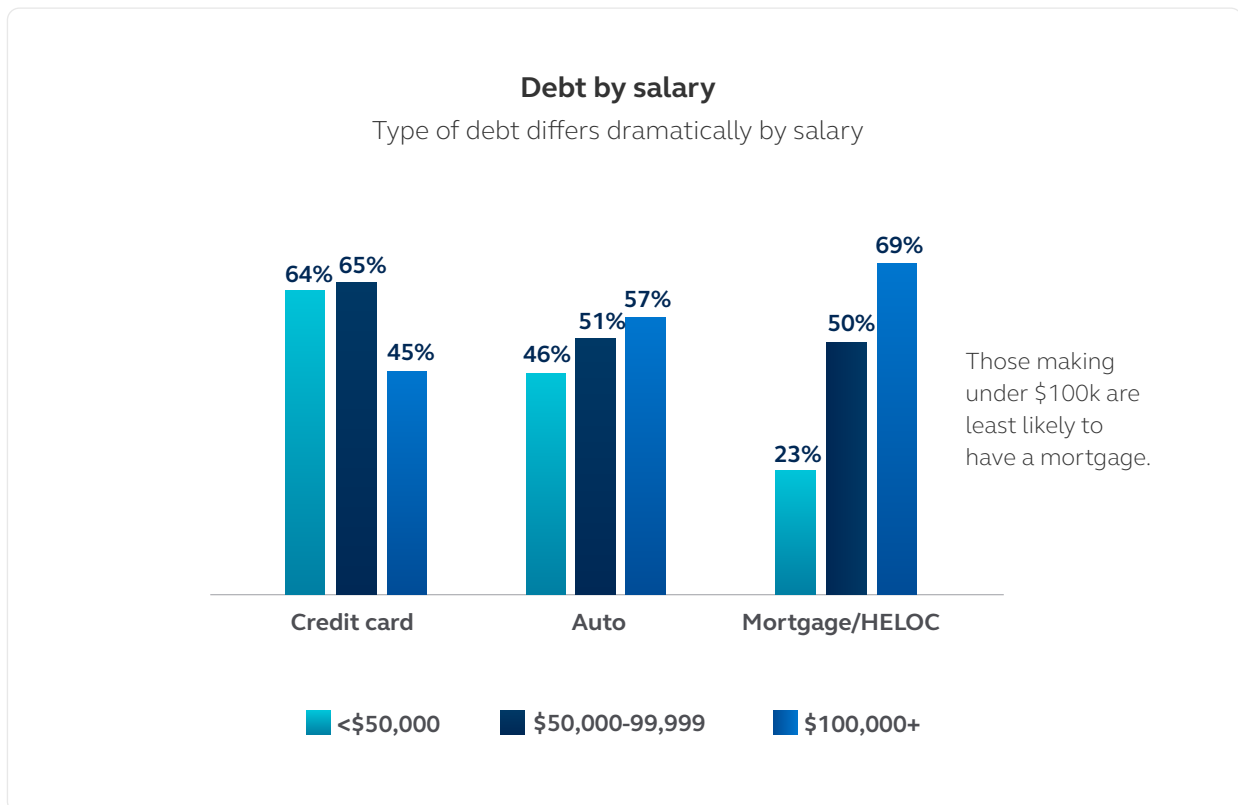
Debt by generation

Low monthly income and higher monthly expenses create a financial imbalance that leads to debt. The type of debt differs by generation, with Gen Z least likely to have a mortgage while Gen Y carries more student loan debt.



- Gen X** has the most credit card debt at 50%.
- Millennials** have the most student loan debt at 39%.
- All generations but Gen Z** have medical debt.

cite debt as a main reason they are not participating in their workplace retirement plans.



With debt so pervasive, employees find it difficult to balance saving for retirement and paying down debt. If they wait to save for retirement until they're debt-free, they lose valuable time and miss out on the potential for compounding interest.

Depending on the amount and type of debt, the situation for many can be overwhelming, making it hard to see a way out. Helping nonparticipants get started and offering small action steps can help people move from feeling stuck to feeling empowered.

Ways to boost retirement plan participation among employees

Plan sponsors and retirement plan providers have the most opportunity to help employees with their long-term financial security. Those surveyed cite their plan provider (50%) and employer (46%) as trusted sources of financial education. Plan providers and employers should work together to improve participation.

33%

of survey respondents expect a 401(k) to provide a top source of retirement income.

Carve out time to address enrollment

Plan sponsors are looking for new ways to engage employees to get them to act on their retirement plan benefits. Time and attention might be the easiest and most cost-effective ways to help more employees save. Consider a focus on retirement plan enrollment during the annual benefits election period.

During the benefits election period

Nearly half (49%) of non-participating employees surveyed would be interested in enrolling if given the opportunity annually when they're already focusing on other benefits. This option was more popular among younger and lower-wage employees, as well as those without a retirement plan balance.

During performance review season

Of those surveyed, 46% said they would be interested in hearing about enrollment during performance review season. Salary increases usually come during performance reviews, so including a discussion of retirement plan enrollment could help employees make informed decisions based on their new pay rate.

Communication best practices

When considering ways to boost participation, there's rarely a one-size-fits-all answer because everyone's financial situation and communication preferences are unique. Consider the power of personalized communications to alert non-contributing employees that they're not actively participating—especially when so many think they are. Younger employees and those who haven't saved anything for retirement could benefit from this type of nudge.

Best practices for engaging communication include:

- **Personalization:** Personalize the messages based on plan information but also on what's known about the individual's motivations. Besides personalizing with a first name, consider including plan name, specific data on their enrollment status or deferral percentage, and other data points that support employees as they navigate various life stages.

- **Frequency and reach:** Communicate more often throughout the year, using a variety of mediums to reach nonparticipants at the right time. Evaluate how and when you present employee benefits and look for gaps to fill, both on the calendar and in the content.
- **Simple, actionable steps:** Add frequent automated nudges for those who start the enrollment process but don't finish. Every employee has different stressors and distractions; some just need consistent reminders to take action.
- **Testing and optimization:** Test a variety of messages to find what is most successful for each employee segment. Consider running tests on the personalization elements, optimal send time and dates, messaging, and calls to action. Make sure to isolate and test one element at a time so results are clear.
- **Improve the process:** Work with the retirement plan service provider to determine if there are abandonment points in the process where the experience might be improved. Another way to identify pain points is through surveys of those who've just enrolled. Ask about the process and what they found confusing to find areas of focus.

Personalized communications can significantly enhance participant engagement and outcomes. For example, testing participant communications at Principal® has shown a 17% increase in email click-through rates when the first name is added to the subject line.³ By offering targeted information and reminders, personalized communication can help employees make informed decisions, stay on track with their retirement savings, and ultimately help achieve better financial security.

Help find the balance between saving and debt

Balancing debt and saving for retirement are important for overall financial security. Most retirement plan providers offer guides, worksheets, and online resources. However, consistent communication helps participants know what options are available when they're ready to act.

Recent legislation in the SECURE Act 2.0 offers some options that employers can consider adding to their retirement plans, such as:

- **Matching student loan debt repayment:** Employers may treat qualified student loan payments as if they're elective deferrals to make matching contributions.
- **Emergency savings provisions give employers two options:** One allows participants to withdraw up to \$1,000 in a year from their retirement account to pay for emergency expenses; the other lets employers allow emergency sidecar accounts to which the employer may make matching contributions. There are limits and stipulations for each provision.

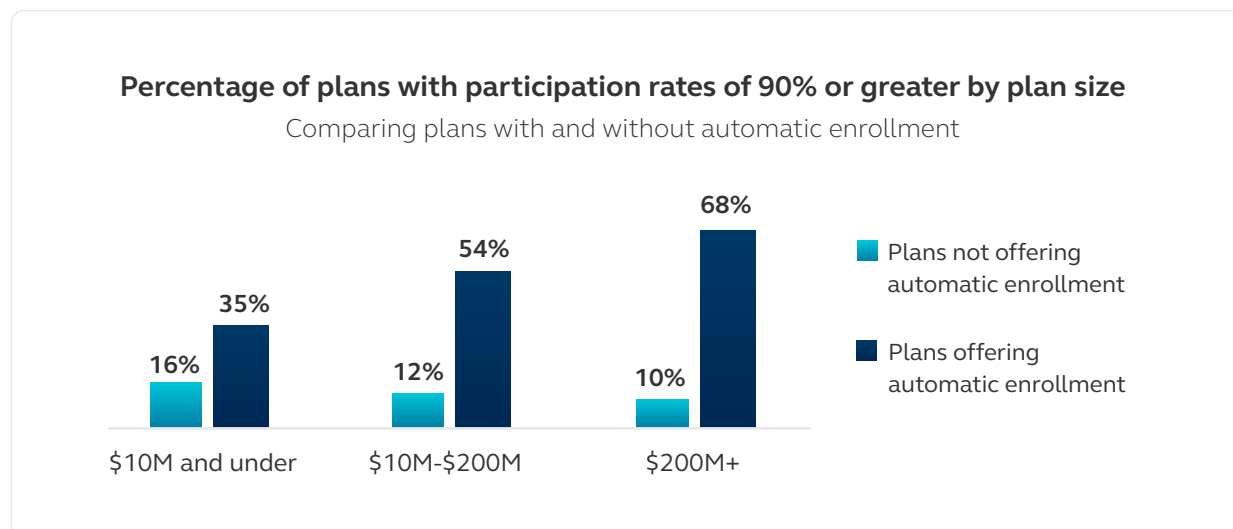
If adding these options, ensure that communication is extensive. Debt can be overwhelming, but progress and relief can be incremental. Some people like to focus on one issue at a time, but showing them a way to make progress on both fronts simultaneously may help. A simple communication can show how an initial deferral rate of 1-2% is a good start that allows them to pay down debt. Giving employees relief for debt payments and a way to get out of a cycle of surprise expenses can allow them to better plan and save.

Plan design can address most participation challenges

Employees generally go along with most plan provisions as evidenced by their acceptance of automated features. Adding plan design features like auto-enrollment, auto-increase, annual sweeps, and deferral matches are some of the fastest ways to help more employees and boost participation rates.

Auto-enrollment

Plans of all sizes typically benefit from auto-enrollment. Based on Principal® data, participation rates across plan sizes are generally low until auto-enrollment is added. Fewer than 10% of employees opt out of auto-enrollment.⁴ The likelihood that a plan with auto-enrollment has a 90%+ participation rate more than doubles at any plan size.



Auto-increase

By adding an auto-increase feature to auto-enrollment, powerful plan design can tap into human nature and increase participation. With auto-increase, employees are less likely to remain at the default percentage, so they save more toward their retirement. The survey revealed nonparticipants are receptive to auto-enrollment.

62%
agree with auto-enrollment at some level.

Including:

35% who would stay enrolled at the default percentage

17% who would increase it

Annual enrollment sweep

Adding auto-enrollment doesn't provide a solution for everyone because it doesn't help current employees who aren't enrolled in the plan. Consider performing an annual enrollment sweep to help existing nonparticipants, re-enroll those who stopped contributing (with the ability to opt out), and alert those who didn't know they were eligible.

With a sweep, employees can decide whether to participate based on their current finances, not their budget on the day they were hired. Timing a sweep with the performance review season could effectively be the annual nudge that eligible employees are asking for and provide another opportunity to save if an employee is receiving a raise at that time.

Employer contribution matches incentivize participation

Employees respond to employer matches. Adding a stated match may be one of the bigger investments in terms of solutions.

83% of those surveyed said they'd start contributing if they received a match.

78% of these specific respondents are in plans that do offer a match,⁵ **highlighting the need for more and better communication.**

Participation rates for plans with auto enrollment with match vs. no match

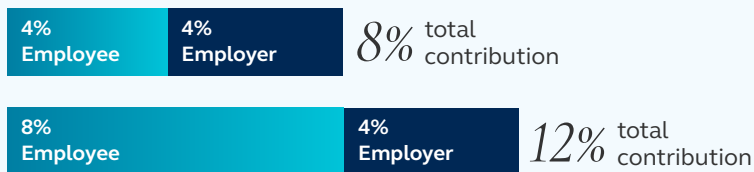
Principal® data shows participation rates are higher when employers match contributions.

Plans with a participation rate of	% of plans that attain this participation rate	
	With a match	Without a match
90%+	23.7%	18.7%
70-90%	28.4%	25.6%
50-70%	22.5%	24.7%
<50%	25.5%	30.9%

How matching contributions can be more cost-effective

One of the reasons plan sponsors don't offer matching contributions is the cost. However, there are revenue-neutral options plan sponsors can consider. If a plan currently has a match, consider stretching it.

For example, a 100% match of a participant's first 4% of deferral contribution costs the same as a 50% match on the first 8% of deferral, but the stretched match can incentivize the participant to contribute more.



Matching participant contributions is a great incentive, but it can be a significant expense for plan sponsors. These expenses can be offset by tax deductions; employers of any size can deduct matching contributions up to a maximum limit from their company tax returns.

Considerations for a stronger retirement plan

The issues around retirement saving are complex, and each plan sponsor has a unique situation. From plan design and regulations to participant demographics and inertia, Principal® approaches these challenges holistically and offers experienced consultants to plan sponsors to help employees attain a comfortable retirement.

If your organization is facing participation challenges, reach out to a Principal® representative.

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