Whatever it Takes: Getting Creative with Enticements for Plan Participation

Increasing Plan Participation: Thinking Outside the Match Box

Saving for retirement for most U.S. workers is primarily done through a retirement plan offered at the workplace, probably a 401(k) plan. In some cases, it is the only avenue some have taken for accumulating retirement assets. But participation is optional; and some employees, for a variety of reasons, choose not to contribute. The traditional form of an incentive to participate is the offering of an employer matching contribution. Now, because of SECURE Act 2.0, employers have a more novel, approved way to entice workers to participate in the form of a "small financial incentive." Perhaps this added token will be the impetus to inspire employers to think outside the match box. The financial security of future retirees could depend on it.

Plan Access and Participation by the Numbers

The majority of U.S. workers (67 percent or 89 million) have access to a 401(k) plan at their places of work. Of those workers, over half (52 percent or 46 million) chose not to participate in 2023.[1] And the numbers are even more sobering for 401(k) plans *without* automatic enrollment. It is staggering to think that for private sector employers *without* automatic enrollment, the participation rate in their 401(k) plan is only 29 percent in 2023, down from 33 percent 10 years ago, according to the Bureau of Labor Statistics.[2] Compare that to a 71 percent participation rate for plans with automatic enrollment. But even with automatic enrollment, 29 percent of participants are opting out. This presents plan sponsors with an opportunity to find an incentive that causes employees to *not* opt out.

1. Bureau of Labor Statistics, 2023
2. https://data.bls.gov/cgi-bin/dsrv

The saying is true: You can lead a horse to water, but you can't make him drink. Sponsors must get more creative in their efforts to entice workers to participate and stay in the plan in order to

- Help participants achieve a critical financial goal of having adequate retirement income; and
- Ensure contributions for highly compensated employees in the plan are not, unduly, restricted, allowing them to maximize their contributions (i.e., nondiscrimination tests are met).

The impact of not participating is material. The retirement savings shortfall for U.S. workers is estimated at $3.68 trillion[3] and 28 percent of workers have no retirement savings.[4]

Beyond a Match: Small Financial Incentives

Thanks to Section 113 of the SECURE Act 2.0, employers may now offer "de minimis financial incentives," not paid for with plan assets, to help boost employee participation in 401(k) and 403(b) plans. Matching contributions are not considered de minimis incentives. Congress suggested a low-dollar gift card would be an example of such an incentive. Notice 2024-02 provided the following additional clarifications:

A de minimis financial incentive is

- Considered "de minimis" only if it does not exceed $250 in value.
- Only available for employees who have no 401(k) or 403(b) salary deferral election in effect.
- Not subject to plan contribution rules; therefore, plan qualification, testing and deductibility timing rules do not apply to them.
- Income or remuneration for the recipient; that means the gift is included in the employee's gross income as wages that are subject to employment tax withholding and reporting.

Further, the de minimis incentive need not be given in one shot; installments can still satisfy the restrictions. For example, if a plan provides a $100 gift card initially with a promise to provide an additional $100 gift card a year later, but only if the employee continues to defer at that later date, then the $200 total amount of gift cards is still a de minimis financial incentive.

Will A Gift Card Work?

A de minimis financial incentive, such as a gift card, has the potential to motivate 46 million employees who have access to a 401(k), but do not participate. That's a big lift—will it work?

A substantial body of research within the field of behavioral psychology offers valuable insights into how individuals make decisions—especially when it involves parting with their money. People respond to immediate gratification. The further in time the reward is away from the "purchase," the less likely the individual will act.[5] The same purchasing decision-making process takes place with a 401(k)'s CODA—or cash or deferred arrangement. Eligible employees decide whether to part with their cash now to receive a deferred benefit later—retirement income. The reward is not immediate; consequently, the purchasing (or deferral) decision is more difficult to make.

Congress adopted this theory and believed employees would be especially motivated by immediate financial incentives to defer into their 401(k) plans. Thus, in addition to providing matching contributions as a long-term incentive for employees to contribute to a 401(k) or 403(b) plan, de minimis gifts for deferring today should provoke participation.

3. Employee Benefits Research Institute
4. Economic Well-Being of U.S. Households, 2022
5. https://www.mckinsey.com/capabilities/growth-marketing-and-sales/our-insights/putting-behavioral-psychology-to-work-to-improve-the-customer-experience

Beyond a Gift Card

Who doesn't like a gift card? While they are appreciated, let's not get fixated on them. Plan sponsors may be overlooking other creative ways to encourage plan participation like offering the following items:

- Lunch with the CEO
- Corporate sky miles
- In-flight beverage vouchers
- Lottery tickets
- A retirement-themed party for reaching participation goals
- Swag bags with savings-related chachkas
- Movie passes
- Theater tickets
- Sports passes
- Food baskets
- Donations to favorite charities on behalf of employees

To approach this in a methodical manner, plan sponsors must first know their employees. What incentives beyond a $250 gift card might motivate an employee to start contributing? To determine this, sponsors could

- Conduct an employee survey,
- Brainstorm with the HR department,
- Get plan committee input,
- Find out what colleagues are doing,
- Talk to plan vendors and service providers, and
- Seek insight from financial advisors.

And let's not forget—sometimes just simple—free—recognition can work. A personal thank you note from the CEO and/or plan committee for making deferrals can go a long way to improving plan participation.

Another important step is to set a goal in order to measure success. What does the plan sponsor hope to accomplish with the incentive? Is it to

- Increase participation by a set percentage or number of participants
- Create excitement and draw attention to the plan
- Improve employees' perception of the plan
- Try something new
- All of the above

Measuring Success and ROI

To measure success a sponsor will need to know what the plan's current participation rate is and what the uptake is after offering the reward. Does the result match the goal? Also, look at the uptake statistics from past enrollment meetings and compare them to what happens when a de minimis incentive is offered. Did the new incentive perform better than what had been offered in the past? Was it worth the time, effort and cost?

Further, it is important to track new participant behavior down the road as well. Do they continue to defer, or do they reduce their contribution level or drop out completely? Should an incentive not to opt out be considered?

Of course, there are costs to providing a de minimis incentive, including

- The total monetary value of the gift
- Staff time and effort to promote, implement and measure
- Coordination with payroll and other internal processes

Those costs must be weighed against the value of the gains:

- Increased participation (hopefully)
- Better retirement outcomes for participants
- Better positioning for the plan to satisfy nondiscrimination testing

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What Now?

In the face of a multi-trillion-dollar retirement savings deficit, it behooves plan sponsors to use all available avenues to increase 401(k) plan participation rates. Not only do employees benefit when participation rates are high but sponsors as well. Among the tools at hand to promote plan participation is a new one—a de minimis financial incentive, which could be a $250 gift card or something more creative. It's time to think outside the match box for a good cause.

Partner with First Eagle

First Eagle has developed a number of participant-oriented value-add tools that financial professionals can leverage to deliver a high-caliber, differentiated experience for their plan sponsor clients and promote financial wellness among their plan participants. For example, as part of the First Eagle Client Engagement Series, we have developed a collection of events designed to both attract plan participants and connect them to the guidance they need. These include, for example, a "401(k) Day" in which fun activities and tasty snacks are accompanied by presentations emphasizing the importance of retirement saving. First Eagle can provide detailed implementation plans for these events, including everything from client-segmentation strategies to sample language for invitations. Please reach out to your First Eagle representative to learn more.

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Definitions

SECURE 2.0 Act is broad legislation designed to help Americans save for their future through provisions that aim to expand access to retirement plans, increase savings opportunities for employees and streamline administration of employer-sponsored retirement plans, including 401k plans.

A **401(k) plan** is a retirement savings plan offered by many American employers that has tax advantages for the saver.

National 401(k) Day is a holiday that promotes retirement savings education. It occurs on the Friday following Labor Day (Monday).

A **403(b) plan** is a retirement account designed for certain employees of public schools and other tax-exempt organizations.

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