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AN OPPORTUNITY TO EDUCATE YOUR EMPLOYEES (401(k) Plans)

By: Matt W. Zeigler, Esq.

A recent survey of plan participants in a 410(k) plan yielded some surprising results. What this survey really indicated was the extent to which the employers are not truly tooting their own horns with the benefits that many employers are already presently providing.

Survey Results.

The survey was performed by the Gallop Organization of 802 plan participants in 401(k) Plans. Some of the surveys most significant findings:

- About 75% of the respondents were unable to identify the optimal time to switch into a bond fund;
- About 50% of the respondents thought, erroneously, that stock or bonds were included in money market funds;
- About 50% of the respondents thought, correctly, that short-term government securities could be found in money market funds;
- About 36% of the respondents correctly identified last year's inflation rate at less than 5%. Most survey participants over-estimated the rate of inflation;
- The performance of the stock market affected about 51% of the respondents' decisions on buying or selling stock; and
- Lower interest rates paid on saving accounts and money market funds affected about 62% of the respondents' investment decisions.

Participants' Purposes for Retirement Funds.

Another of the study's surprising findings was that about 25% of the participants plan to use their retirement plan money for purposes other than retirement. Those respondents stated that they would use the tax deferred money to pay for education, medical expenses, or other emergencies, and indicated that they would stop or reduce their contributions if they could not use those funds for non-retirement purposes. 14% of the participants surveyed said that they intended to borrow money in the next 24 months primarily for the purchase of a home or for further education.

Michigan Food News, Personnel Notes, published June, 1993; Vol. 47, No. 6.

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An Employer's Educational Opportunity.

What this study indicates is that employers have the opportunity with this kind of misinformation prevalent among their plan participants to perform a service of education for their employees. This study only dealt with participants of a 401(k) plan and these participants are usually more active in the investment decisions relative to their own contributed dollars. But an employer, seeing the need for its employees to have a greater appreciation of the investment dynamics of their retirement funds, could easily expand the concepts of education here to include all retirement plans.

Many employers are already providing a retirement benefit, so the employer could bring in the people handling the invested funds, usually at no cost to the employers, to explain the benefits, to explain the tax deferred accumulation of retirement plan dollars, the new 20% withholding rules, the 10% premature distribution penalty and to answer questions regarding stocks, bonds, money market funds, and other investment strategies and matters.

The employer can use the opportunity presented by the information revealed by this survey to focus the attention of its employees on the value of the benefits provided, and, at the same time, to educate those employees to not only become better employees, and for those employees to become more understanding of the reality of the world of retirement planning. They may, then, be better able to prepare for their own retirement, and be less likely to borrow or spend those deferred tax dollars already set aside for retirement for other purposes.