

HIFE News Review



A new 404(c) class for HR professionals

In a recent forum of college administrators, HR professionals and fiduciary auditors (in Denver, CO) we at HIFE became acutely attune to the need for education of 404(c) ERISA regs. We are all painfully aware of the increasing number of law suits filed against US companies. The April '05 *EmploymentSource Newsletter* notes: "Court records indicate that 25%...of all the litigation matters in federal courts are employment-related disputes".

This raises important questions. How does ERISA define a fiduciary? Do HR professionals, though unwittingly, at times incur fiduciary liabilities? Is there any relief from these liabilities? HIFE's new class: **Contemporary 401(k) Issues**, is designed to address these and other important related fiduciary concerns.

HIFE is currently testing the new class with college & HR professionals to maximize its effectiveness and will soon present the class to SHRM for Preferred Provider status. Contact hrrelations@hife-usa.org for additional information.

Point of Interest

Among individuals age 50-59 what is the average balance in their 401(k)s?

a. \$88k b. \$188k c. \$288k d. \$388k

Did you say 'a.'? Hard to believe! Wall Street Journal, Dec.20, 2004

HR Newsletter

Vol. 1 Issue 2

page 1 **From the HIFE Board – A new class for HR professionals: 404(c)**

page 1 **401(k) Participation Drags into 2005 – Possible solutions**

page 2 **Workplace Supports – Financial Education & the Bottom Line**

401(k) Participation Drags into 2005

Many companies are hoping to see 401(k) contributions increase over the poor participation rates which plagued companies from '00 to '04. This is of special importance to company execs that have seen their contribution percentage gradually (in some cases dramatically) fall due to the demands of discrimination testing and poor employee participation. According to one recent study 'close to 4 in 10 workers say they are not currently saving for retirement' and that includes saving to 401(k)s (Employee Benefit Research Institute).

What's the culprit? Most studies show 2 nagging concerns: 1) a lack of confidence in the financial markets as a whole, and 2) a failing confidence in corporate ethics (i.e.. the whole World Com, Enron debacle).

So what is a company to do? One key solution has been financial education (increasingly referred to by GAO and other federal agencies as 'financial literacy'). Companies know that knowledge is a key factor to reducing fear about financial markets. In addition, when a company provides this education it increases employee confidence in the 'good will' of the company. This is good. But the flight to financial literacy through education has bogged down in several key areas.

1st - Most employer provided financial education focuses solely on retirement planning. Well of course! We're talking about 401(k)s. But for most employees 401(k) participation affects issues of budgeting, debt, saving for college education & a host of other financial decisions. 401(k) participation does not operate in a vacuum.

2nd - Most employee sponsored financial education is provided through web sites (about 72% of companies according to the EBRI Investment Advice Survey). This information is generally too impersonal, generic and unwieldy for most employees to find really beneficial. Less than 10% of employees will actually use these web site financial education resources (SHRM, EBRI & WoldatWork joint study-survey).

3rd - On site financial education is usually provided by some interested party (such as the 401(k) provider) which does little to bolster employee confidence in the unbiased value of the information.

So what is the solution? More companies are turning to Colleges and Universities to provide unbiased on-site education for employees. "These college classes are not workshops or seminars but solid practical hands-on education that cover all areas of financial planning. Because this education is offered through institutions of higher education, the due diligence incumbent on companies to avoid liability issues is less burdensome" (HIFE, study on Financial Education in the Workplace).

A recent issue of the *SHRM Workplace Visions* journal suggests "there may be a need for more advice in managing retirement savings. Employees may increasingly expect this type of guidance from their employers as a component of their retirement benefits...". (No. 2 - 2005). Contact HIFE for accessible college/university financial education programs in your area at university.relations@hife-usa.org.

Workplace Supports

Financial Education & the Bottom Line

A full "two thirds of Americans say they have trouble paying their bills, and worry about money" (Coping with Money, 1996). "Approximately 15 percent of workers in the United States are currently experiencing stress from poor financial behaviors to the extent that it negatively impacts their productivity" (German, Leech and Grable, 1996). It seems rather obvious that employees with fewer financial anxieties make better employees. What may seem less obvious is how financial literacy directly improves a company's bottom line. Dr. Garman (Virginia Tech's National Institute for Personal Finance Employee Education) notes the following: "The return comes from such factors as increased worker productivity, less time spent at work dealing with personal financial matters, reduced absenteeism to take care of financial matters, reduced human resource administrative costs to process wage garnishments and requests for payroll advances and 401(k) loans, reduced Social Security payroll taxes because more workers utilize pre-tax health and dependent care, and an increased number of worker retirements on time (rather than delayed)." Financial literacy is a significant 'workplace support' that benefits individual employees, but it also serves a company's important bottom-line interests.