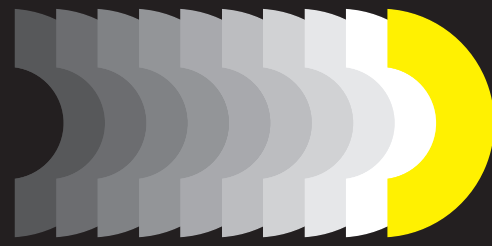
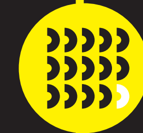


10 steps employers can take to curb 401(k) loans

Loans from 401(k) plans can undermine retirement savings for workers. Here are 10 steps employers can take to help decrease 401(k) plan leakage—from plan design strategies to engagement tactics.

1. Get to the root of the issue

Educate and reinforce budgeting behaviors all year long. Start with the basics, using financial wellbeing programs and resources to teach workers how to build budgets and create emergency savings funds that address both short- and long-term financial needs.

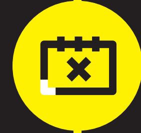


2. Limit the number of loans available

More than 40% of plans allow for multiple general purpose loans at one time . On average, plans that allow for multiple loans have a higher percentage of participants with an outstanding loan . Additionally, when plans allow for multiple loans, most loan users have more than one outstanding loan[2].

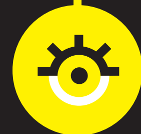
3. Know your people

What does your data show you? Examine the data by demographics, attitudes, and savings behaviors. Are workers not saving for retirement because they're struggling with paying for elder care, student loans, or other day-to-day financial needs? Listen to your employees and evaluate your benefits lineup to ensure you're optimizing your benefits investment.



4. Add a loan waiting period

One-third of plans require workers to have a gap between paying off one loan and taking another loan[1]. Having waiting periods requires workers to break the cycle of back-to-back loans against their accounts.

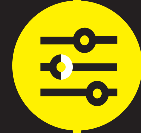


5. Look inside and outside

In cases of workers' credit card or medical debt, cross-promote benefits features that you offer, such as credit counseling and health savings accounts. These can help participants with saving, spending, and reducing debt. Additionally, think about how budgeting and saving apps and other services can reinforce your financial wellbeing philosophy.

6. Add low-cost loan options outside the plan

Send the message that the 401(k) plan should be earmarked for retirement by giving access to low cost loan providers. These loans can help workers pay for emergency bills that pile up without cracking their retirement nest egg.



7. Make it more personal

Add targeted, just-in-time messaging during the loan transaction process. This can make the employee pause one last time and consider other options before electing a loan. It won't sway every participant, but it helps highlight the risks of loans at the most important time.

8. Allow terminated employees to repay their loan

Loan default rates skyrocket when workers leave their employer[2]. As a result, two-thirds of plans allow terminated employees to repay their loan and avoid hefty tax penalties[1].

9. Roll out the welcome mat

In an ideal world, your new hires come to your organization with an understanding of positive financial behaviors. However, it can't hurt to re-educate them on the repayment requirements—and consequences of defaulting—if they have a loan from their prior employers' plan. Take the opportunity to communicate with your newest employees to help them start off on the right financial foot.

10. Reduce the balance eligible for loans

Twenty-two percent of employers do not allow workers to have a loan against the balance attributable to employer contributions[1]. Doing so limits the amount of loan balances and therefore potential leakage from the plan. It also conveys to workers that the employer contribution is for retirement purposes.

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1 Alight Solutions, *Trends & Experience in Defined Contribution Plans*, 2017

2 Alight Solutions, *Universe Benchmarks*, 2018

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