

Loan Provisions Aren't Likely to Increase Participation



It's widely believed that if an employee can use account balances to meet non-retirement financial needs, then adding a loan provision will increase a plan's participation rate. According to our data, that's not necessarily true.

Loans are allowed in 68 percent of our proto-type plans. However, participation is only slightly higher (0.4 percent) in these plans, than in plans that don't allow for loans.

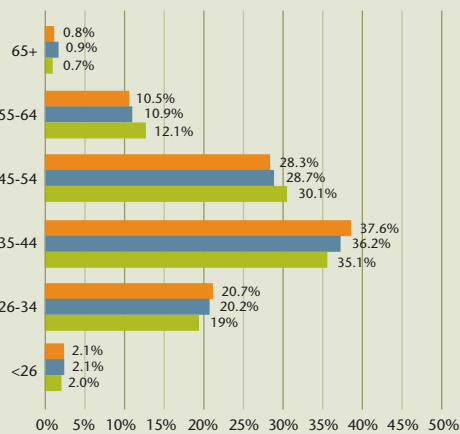
In plans with a loan feature at The Principal, an average of 22 percent of participants have an outstanding loan, with an average outstanding loan balance of \$5,534.

Many providers offer various levels of plan loan services designed to simplify loan administration for plan sponsors. Of the plans serviced by The Principal that allow loans, the majority (78%) allow only one loan.



Participants age 35 to 54 have more loans than any other age group.

OUTSTANDING LOANS by Age Group



Solutions

Promote a long-term view. Even with plans that offer loans, companies should strive to help participants remain focused on long-term financial security and their retirement goals. Before taking out a loan, participants should consider these factors:

- Earnings or compound earnings may be lost
- Loans are re-paid with after-tax dollars
- There is an initial set-up cost, as well as quarterly loan fees until the loan is repaid in full
- Paying for a loan may mean not being able to contribute as much to the retirement plan

Fast Fact

Industry-wide, an average of 27.6 percent of participants have loans outstanding, with an average loan amount of \$6,260. (Source: 2005 Profit

Sharing/401(k) Council of America Annual Survey)

Participants under age 20 with a loan have an average loan balance that's 41% of the total account balance. However, loan balances decrease steadily with age.

AVERAGE LOAN BALANCE AS A PERCENT OF TOTAL ACCOUNT BALANCE by Age Group

