FINANCIAL FREEDOM:

Helping Employees Save for the Future and Live for Today

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Book 3 in the
Power Behind the Purchase Series
A Purchasing Power White Paper
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EXECUTIVE SUMMARY

A retirement plan is supposed to be an employee's nest egg for their golden years. However, some employees are using those funds prior to retirement to cover expenses such as housing, medical care and even credit card debt.

A retirement savings plan is an essential part of employees' future financial security. Employee retirement plans have replaced pensions as the dominant form of retirement savings and income. Unlike more extreme cost-cutting measures by employers, like downsizing or layoffs, retirement benefits remained mostly intact during the Great Recession. Unfortunately, the recession affected retirement savings in other ways, as some workers had to dip into their savings, taking loans or hardship withdrawals from their accounts, including many who became unemployed or underemployed.

Americans age 50 and older are carrying an average of $8,278 in credit card debt, thousands more than younger people. In addition, nearly 18 percent of those nearing retirement are using their retirement funds to pay down credit card debt.

Consequently, almost 30 percent of 401(k) savers today have an outstanding loan against their account. For most Americans, 401(k)s are a primary retirement vehicle for their golden years. When they start taking loans or early distribution from these plans prior to retirement, employees are not only not using the funds for what they were intended, but also face risks involved as a result.

Employers are increasingly taking bolder actions to help ensure retirement plan participants achieve greater financial security, such as making changes in plan structure and investments, boosting the employer match and increasing the amount of guidance provided to participants.

What can be done to address employees' current financial stability, particularly for those employees living paycheck to paycheck, struggling to meet monthly expenses or unable to save $2,000 for emergencies? Progressive employers are adding employee purchase programs to help employees stretch their current cash flow and, hopefully, prevent borrowing from their 401(k) savings.

This discussion, the third in "The Power Benefit Series" of white papers, explores 401(k) loans in-depth. The paper examines what employees are saying today about their financial outlook, their participation in 401(k)s and whether or not they have taken out loans against them. It also discusses the role of employers in providing for employees' retirement as well as helping with their financial wellness prior to retirement.

THE CURRENT STATUS OF EMPLOYEES' RETIREMENT PLANNING

According to the Transamerica Center for Retirement Studies, the vast majority of employers (82 percent of those who were surveyed) said they consider retirement plans an important benefit for attracting and retaining employees. Of those surveyed, the number of employers offering a 401(k) or similar plan increased from 72 percent in 2007 to 82 percent in 2012. Worker participation rates in workplace retirement plans held steady at 77 percent in those five years.

Some workers have taken loans or hardship withdrawals from their accounts, and many people who became unemployed or underemployed took early distributions from their accounts during the five-year time period, however household retirement savings increased during that time, according to the Transamerica Center for Retirement Studies data. Despite the increases in household savings, the current levels of savings continue to be inadequate for many workers to meet their future retirement income needs.

Many middle- and lower-income employees are still reeling from the recession. Some employees are delaying retirement decisions due to inadequate savings.

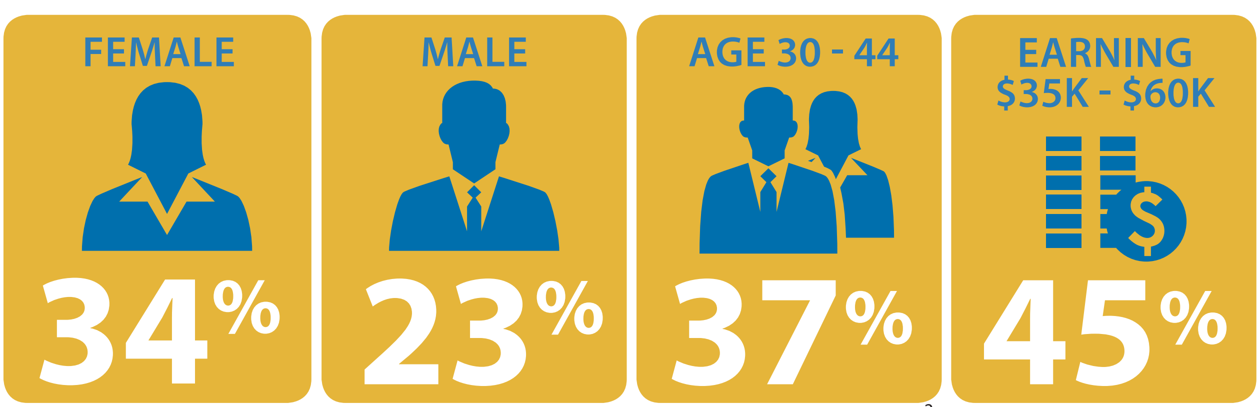
Half of Americans have less than $500 saved and many will be forced to work past age 66.

AGE **66**

Employees' financial wellness suffered a mild backslide in 2012, most notably in areas of cash management. In a likely attempt to stop from further backsliding, many employees turned to their retirement savings to pay more demanding, short-term expenses.

For most Americans, 401(k)s are a primary retirement vehicle for their golden years. But not when they are using that money early. Nearly one in three employees took a hardship loan or distribution from their 401(k) retirement accounts last year, up from one in four in 2011. Three groups struggled more than others when it came to taking hardship loans – women, lower-income employees and younger workers.

Who is taking 401(k) loans and distributions?



USING RETIREMENT FUNDS PRIOR TO RETIREMENT

Taking a loan from a 401(k) plan is rarely a good idea. The purpose of the 401(k) retirement plan is to provide for the employees' golden years. Sometimes, however, employees need cash and believe there are no viable options other than to tap their nest egg.

The primary benefit of a 401(k) loan is that the proceeds are not subject to taxes or the ten-percent penalty fee except in the event of default. Even though employees are borrowing from themselves when they take out one of these loans, they still have to pay interest. Most plans set the standard interest rate at prime plus an additional one or two percent. The benefit is two-fold. Unlike interest paid to a bank, the employee eventually gets this money back in the form of qualified disbursements at or near retirement. And, the interest they pay back into their 401(k) plan is tax-sheltered.

The biggest danger of taking out a 401(k) loan is that it will disrupt the dollar cost averaging process. This has the potential to significantly lower long-term results. Another consideration is employment stability – if an employee quits or is terminated, the 401(k) load must be repaid in full, normally within 60 days. Should the plan participant fail to meet the deadline, a default would be declared and penalty fees and taxes assessed.

What are the pros and cons of borrowing from a 401(k)?

The pros are:

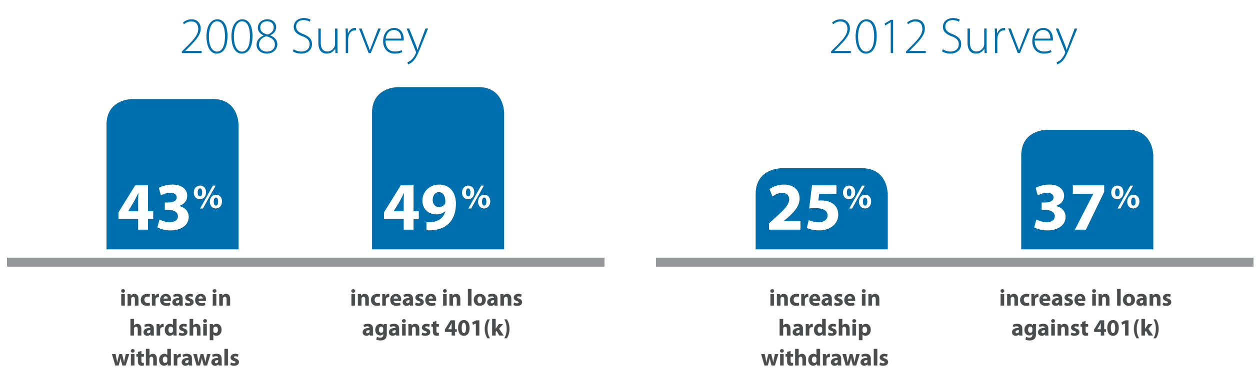
- No loan application is necessary.
- No minimum credit score is required.
- The employee repays the loan with automatic paycheck donations up to a maximum term of five years.

The cons include:

- Employees are now paying interest with after-tax money. If they hadn't borrowed the money, it would be earning tax-deferred interest inside of the 401(k) plan.
- If the employee leaves the company before the loan is repaid, any outstanding balance may be treated as a taxable distribution unless entirely repaid within a specific amount of time.
- 401(k) money is protected from creditors and bankruptcy, so if the employee borrows it to pay out debts, remains in financial trouble and ends up filing bankruptcy, then money will have to be used to pay debts that didn't have to be used.
- Loans to 401(k) plans may have higher interest rates.

There are generally no restrictions on how a 401(k) loan can be used. Some borrowers are using the money to pay for college or medical expenses, fund a business start-up, help a grown child, buy a car, or to consolidate or pay off higher-cost debt. Many employees today fall in the 'financially fragile' category (40 percent are living paycheck to paycheck). Consequently, they don't have savings available to fall back on, so the 401(k) becomes a source of funds.

It's good news that fewer employees are taking hardship distributions and loans from their 401(k) plans. In the 2008 WorldatWork and American Benefits Institute survey, 43 percent of respondents reported an increase in hardship withdrawals and 49 percent reported an increase in loans during the previous 12 months. In the 2012 survey, however, only 25 percent of employers said they had seen an increase in hardship distributions during the same period and 37 percent of employers reported that the number of employees who had taken a loan against their 401(k) had increased during the prior 12 months.



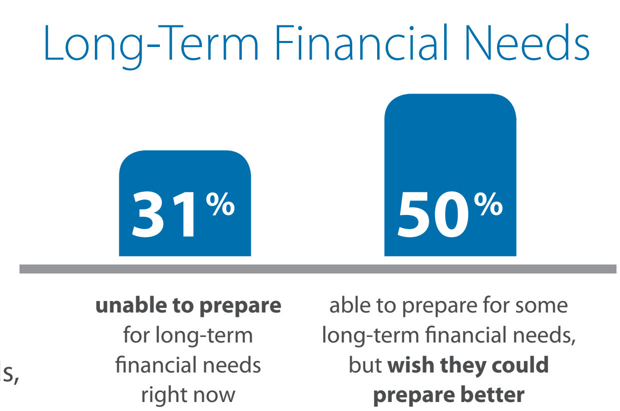
WHAT EMPLOYEES ARE SAYING ABOUT THEIR FINANCIAL OUTLOOK AND 401(k) LOANS

A nationwide survey of 1,046 working U.S. adults employed full-time was conducted online October 10-14, 2013, by Harris Interactive® on behalf of Purchasing Power. The purpose of the survey was to gain a greater understanding of employees' financial outlook, their ability to prepare for retirement and their use, if any, of their retirement plan funds as loans.

Long-Term Financial Needs

Survey results show that when respondents were asked to describe their ability to prepare for long-term financial needs such as retirement, college savings for children and general financial security:

- Nearly one-third (31 percent) of respondents say they are unable to prepare for long-term financial needs right now; while
- Half (50 percent) of respondents indicate they are able to prepare for some long-term financial needs, but wish they could prepare better.

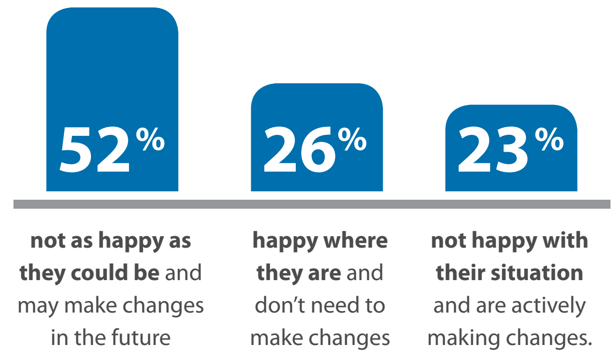


Current Financial Outlook

When asked to describe their current financial outlook:

- Half (52 percent) said they are not as happy as they could be and may make changes in the future;
- One-fourth (26 percent) stated they are happy where they are and don't need to make changes; and
- 23 percent report they are not happy with their situation and are actively making changes.

Current Financial Outlook



Retirement Plan Participation

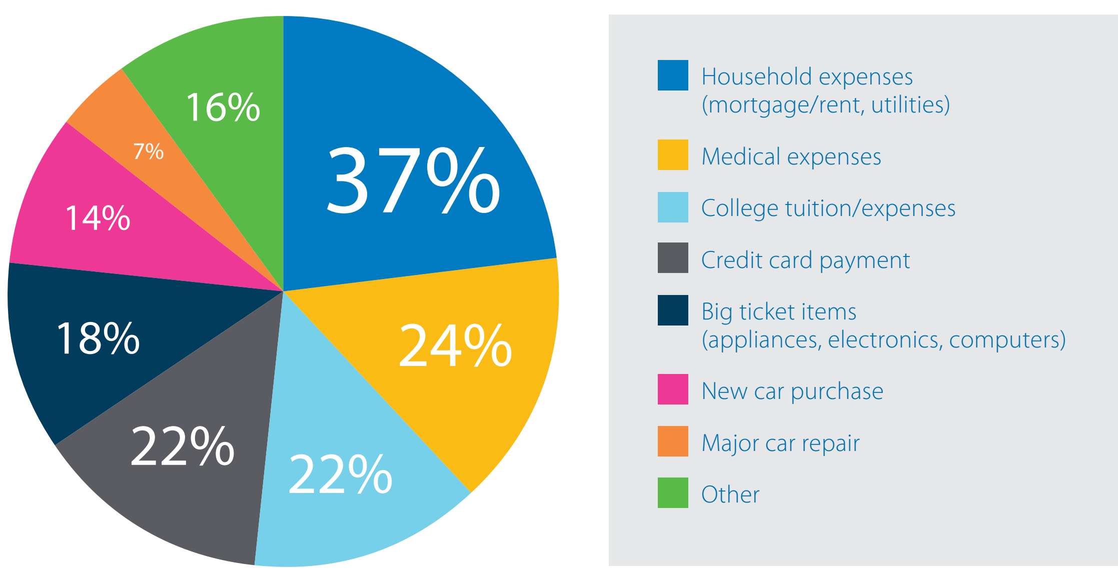
On the topic of retirement plans, 68 percent of respondents report that they or their spouse participate in a retirement program – 401(k), 403(b) or Roth – through an employer. Fifty-seven (57) percent of respondents said they specifically participate in a 401(k) through an employer.

Loans and Distributions

Respondents were asked if they or their spouse borrowed (took out a loan) or took an early distribution from their retirement plan in the last three years:

- 24 percent reported they borrowed or took an early distribution from a retirement program – 401(k), 403(b) or Roth – in the past three years.

Funds from loans and distributions were used for:



Employee Purchase Program

More than half (55 percent) of respondents said that if they or their spouse had access to an employee purchase program they would be at least somewhat likely to use it to purchase appliances, furniture, computers, electronics, educational services, etc. This type of solution could help ensure employees don't have to dip into their retirement savings for certain expenses.

THE EMPLOYER'S ROLE IN EMPLOYEES' RETIREMENT AND FINANCIAL WELLNESS

Employers play a critical role in helping workers improve their financial health and save for retirement, the most obvious of which is through providing access to retirement plans. The impact of employers depends on their commitment to offering specific features, planning tools, and retirement income options as part of their plans. As workers plan to extend their work lives, employers should find additional opportunities to help them through their transitions into retirement. Arguably, their most important role is to be a facilitator.

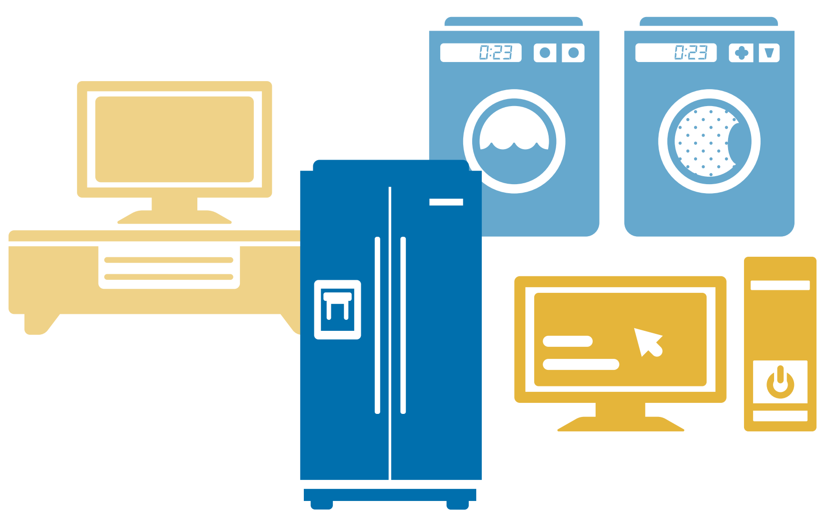
Although financial market performance cannot be controlled, by giving more workers access to retirement plans, investment fund choices, affordable continuing education, and distribution options, employers can help workers ultimately achieve retirement readiness.

But financial wellness is more than just preparing for the future. Its about living responsibly today. There is a way employees can preserve 401(k) savings while still being able to fund some unexpected expenses and reduce their reliance on student loans. Employee purchase programs provide a means for workers to obtain items they need without jeopardizing their financial future.

With Purchasing Power, employees have a disciplined way to purchase brand-name computers, electronics, home appliances, furnishings and educational services through the convenience of payroll deduction over a 12-month period with no hidden fees or ballooning interest. Purchasing Power is an option to keep employees from borrowing from their 401(k), getting caught in the minimum payment trap or incurring long payment terms, high interest and penalty fees.

Customers say that's just the way the program has been working. According to a survey of 2,091 Purchasing Power customers, 71 percent report that having access to Purchasing Power makes them less likely to consider their 401(k) or other alternatives for short-term financing needs.

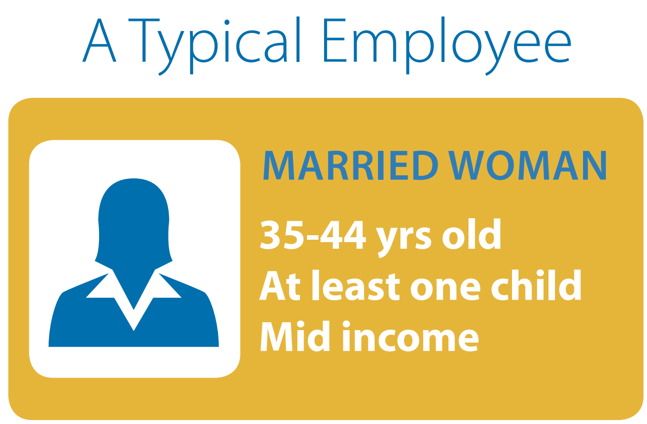
Utilizing employee purchase programs to obtain needed big-ticket items and educational services allows employees to ensure that they are utilizing their 401(k) plan for what it is meant to be – savings for their golden years.



THE ROLE OF AN EMPLOYEE PURCHASE PROGRAM IN WORKING TOWARD FINANCIAL WELLNESS NOW

For many employees, paying cash is not an option when it comes to making purchases. Financing options for employees are limited to credit cards; bank loans; payday, pawn and title loans. For every dollar employees try to finance to make purchases, they are charged high interest and financing charges, and risk incurring late fees and other penalty fees. Consequently, they simply do not have affordable financing options.

An alternative is an employee purchase program offered through the workplace as a voluntary benefit through payroll deduction. An employee purchase program promotes disciplined purchasing through manageable payments; a 12-month payment term; and pre-set spending limits and controls to prevent over-spending. For the employee, there is no down payment or ballooning interest, no late fees and no additional fees beyond the all-inclusive price.



In a nationwide study of those who participate in employee purchase programs, the typical employee is a 35-44 year-old married woman with at least one child in the household and earning a mid-income. This profile shares similarities with the demographic groups most vulnerable to financial stress.

AN EMPLOYER'S PERSPECTIVE: A BENEFIT THAT WORKS

This Purchasing Power client is a leading automotive aftermarket retail and service chain. Along with its vehicle maintenance and repair capabilities, it serves the commercial auto parts delivery market and is one of the largest sellers of replacement tires in the country.

The company has more than 18,000 employees and 10,400 are eligible to participate in Purchasing Power. This company introduced Purchasing Power as a voluntary employee benefit in November 2009 to address the number of employees taking out 401(k) loans. The company has a 15 percent participation rate (1,560 employees) in the Purchasing Power program and 48 percent of those employees are repeat buyers. Employees are offered access to all Purchasing Power products and Learning Solutions educational services.

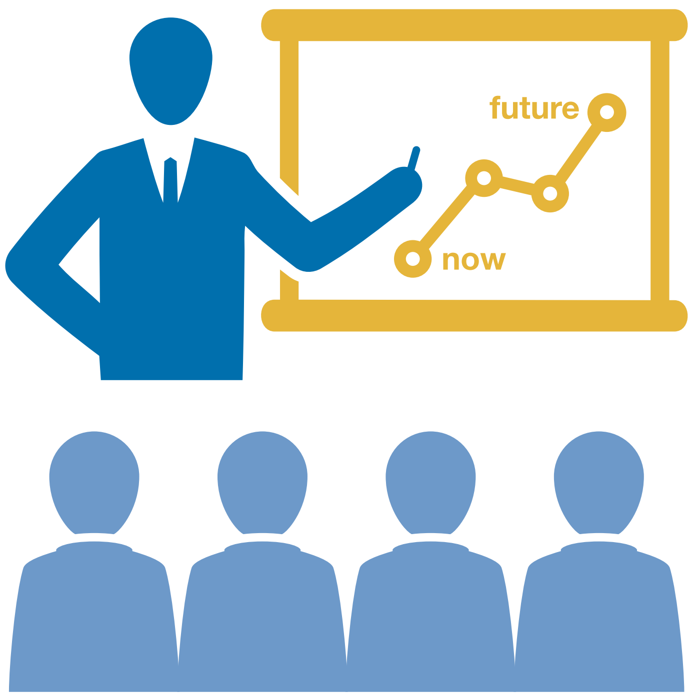
According to their benefits and compensation manager, the company finds the employee purchase program helps achieve HR objectives by "helping with the ever-present work-life balance question" and is "a great product to assist associates in getting services and products they need now and paying for it over time within their future pay budget." She reports that the employee purchase program helps keep the 401(k) focused on what it is intended for – retirement savings.

PROVIDING FOR THE FUTURE AND NOW

Retirement funds are intended to be for the future – not used today. The current level of savings continues to be inadequate for many workers to meet their future retirement income needs. Those employees who are dipping into their retirement funds for loans to use for expenses today are only compounding the problem.

Employers want to provide for the financial future of their employees. They will continue to play a vital role in helping workers save for retirement by offering retirement plans along with education and planning tools and retirement income options. A recent AON Hewitt survey reports that employers are taking a multi-faceted approach to strengthening their programs and promoting more retirement savings among individuals. Employers who don't already offer a workplace retirement plan should consider doing so.

However, it's equally as important for employers to address their employees' current financial stability. Offering an employee purchase program as a voluntary benefit can help by easing employees fiscal stress; aiding them in getting back on a firmer financial footing; and preserving existing retirement funds.



ABOUT PURCHASING POWER

Headquartered in Atlanta, Purchasing Power is available to six million people through large companies – including Fortune 100s – and government agencies. Purchasing Power is one of the fastest-growing specialty e-retailers in the market offering a leading voluntary benefit program. Honored for "World Class Service" by Smart Business, Purchasing Power was also recognized as one of the fastest-growing companies, ranking as one of "Atlanta's Best and Brightest Companies to Work For" earlier this year. Purchasing Power is 'Powering People to a Better Life™' through its employee purchase program, financial literacy efforts and charitable contributions. Purchasing Power is a Rockbridge Growth Equity, LLC Company. For more information, visit www.PurchasingPower.com

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Methodology

The Harris Interactive® surveys were conducted online within the United States on behalf of Purchasing Power, LLC. via its Quick Query omnibus product. The October 10-14,2013 survey was conducted among 2,027 adults (aged 18 and over). Figures for age, sex, race/ethnicity, education, region and household income were weighted where necessary to bring them into line with their actual proportions in the population. Propensity score weighting was used to adjust for respondents' propensity to be online.

All sample surveys and polls, whether or not they use probability sampling, are subject to multiple sources of error which are most often not possible to quantify or estimate, including sampling error, coverage error, error associated with nonresponse, error associated with question wording and response options, and post-survey weighting and adjustments. Therefore, Harris Interactive avoids the words "margin of error" as they are misleading. All that can be calculated are different possible sampling errors with different probabilities for pure, unweighted, random samples with 100% response rates. These are only theoretical because no published polls come close to this ideal.

Respondents for this survey were selected from among those who have agreed to participate in Harris Interactive surveys. The data have been weighted to reflect the composition of the adult population. Because the sample is based on those who agreed to participate in the Harris Interactive panel, no estimates of theoretical sampling error can be calculated.

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