Retirement Planning Mutual Gains

CREATING EMPLOYEE READINESS AND
COMPETITIVE BUSINESS ADVANTAGE

IN THE BUSINESS OF YOUR SUCCESS℠

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Introduction

The path to a secure retirement seems to be more difficult to find for today's workers as they struggle to accumulate enough savings for retirement. In fact, Americans' confidence in their ability to retire comfortably is at historically low levels.

This trend gives employers the opportunity to assist their employees in understanding how to plan for a secure retirement, while at the same time creating an important advantage for their businesses in the race to hire and retain the best talent. Research indicates that employers can benefit significantly by providing retirement plans for their employees that offer a full service solution. Of course, healthy and effective plans are the best in helping employees on their journey to retirement readiness.

Retirement trends: the bad, the ugly, and the good

The Employment Benefit Research Institute's latest Retirement Confidence Survey data show that since the recession began in 2008, more Americans across all age brackets say they plan to work longer than current retirees, and are more concerned about job uncertainty than planning for retirement. As a result, retirement planning gets pushed aside but the concern about how they will manage without a steady paycheck lingers, creating even more anxiety and worry about the future.

EBRI's long-term tracking data on employee attitudes about retirement are reinforced by other U.S. studies that point to the changing nature of retirement, and the continued concerns of American workers as they navigate economic ups and down and face the need to save for their futures.

The bad: declining savings, declining confidence

EBRI's Retirement Confidence Survey, which has been conducted annually since 1991, shows a steady decline since 2009 among American workers who say they are saving for retirement, down from the peak of nearly three-quarters before the recession took hold to 66 percent in 2012. Workers with the least income (under $35,000 annually per household) are the most pressed, with only a third saying they are currently able to save for retirement.

Workers in their 20s and 30s know that retirement today is less of a "guarantee" than what earlier generations may have experienced, and report less confidence that Social Security will be much help beyond basic living expenses when their time comes to retire. However, EBRI's data suggest this does not mean today's workers are ignoring the issue of retirement planning. Increasing numbers of younger workers report they plan to work years longer, and indicate retirement is something they think about, even if it is not a topic about which they are very knowledgeable.

Equally important, more than two-thirds of workers across all ages say they feel behind when it comes to retirement readiness—that's a 12 percent rise in this level of concern since 2005, when the economy was thriving.

Clearly, the sluggish recovery and stubbornly high unemployment have continued to dampen Americans' attitudes about being able to plan for or feel secure about retirement. In fact, EBRI's survey found that when asked to name the most pressing financial issue facing Americans today, both current workers and retirees were more likely to name job uncertainty. Forty-two percent say this is the major financial issue, and only 14 percent of workers say they are very confident they will have enough money to life comfortably in retirement.

The ugly: making ends meet comes first

EBRI's research suggests that one reason retirement confidence may be stagnant is that so many Americans are preoccupied with more immediate financial concerns. For instance, when EBRI asked people to name the most pressing financial issue facing most Americans today, both workers and retirees are most likely to identify job uncertainty. In other words, 42 percent of current workers, and 41 percent of retirees think the majority of Americans are worried about keeping full-time work, getting a job, or are afraid of losing what work they have.

Last on their list of most important financial concerns, at 2 percent for both current workers and retirees, was planning or saving for retirement. Other prominent concerns documented in the EBRI survey include:

- Making ends meet (10 percent of workers and 13 percent of retirees)
- The economy overall (9 percent each)
- Making mortgage payments (9 percent of workers and 7 percent of retirees)
- Paying down debt or loans (8 percent of workers and 5 percent of retirees)
- Paying for health insurance or medical expenses (7 percent of workers and 6 percent of retirees)

The struggling economy, job uncertainty, and the press of daily living are seen as contributing to the gradual upward trend in the percentage of workers who expect to retire after age 65. That number has gone from 11 percent in 1991 to 17 percent in 1997, to 24 percent in 2007, and today stands at 37 percent. This trend combines with the increasing recognition among workers across age groups that they are a little or a lot behind in planning and saving for retirement. Today, 67 percent of all workers report they are behind schedule.

In a study of Americans' attitudes as the recession was waning in June 2010, the Pew Research Center found hardships were lingering even though the stock market had recovered about 50 percent of its pre-recession value. For example, four in 10 adults said they had to withdraw money from their savings, 401(k) or other retirement accounts to pay bills, and 70 percent believed the recession had inflicted major economic changes on society.

The good: 'retirement readiness'

But all is not grim news: EBRI data also show that workers who currently contribute to an employer-sponsored retirement savings plan were more than twice as likely as those who don't to say they have savings and investments of at least $50,000. In addition, those enrolled in employer-sponsored savings plans also reported higher confidence in their ability to have enough money to retire comfortably (64 percent) as compared to those who do not participate (48 percent).

Additionally, a cross-section of the economy represented by organizations like AARP, the National Federation of Independent Business, the American Savings Education Council, The Business Roundtable, and the Service Employees International Union have banded together to issue a national call to action for the business sector and government to collaborate in developing solutions for, and improving education about, the long-term financial security needs for Americans in an era of federal fiscal constraint. In fact, AARP called on its own members among the Baby Boom generation to share their experiences, lessons learned and successes in planning for retirement with younger workers in order to assist in advancing national education on this topic.

These awareness efforts appear to be having an impact, particularly with younger generations. Studies show that younger workers are very cognizant of the need to set up retirement savings plans, and place a priority on seeking employment with a company that offers a retirement plan, or a plan that includes some form of employer contribution.

Concerns about debt and financial security were reported by Gen Y workers surveyed in 2011 by the Center for Work Life Policy, which found these factors were important considerations in job and career choices for those born between 1965 and 1978. Younger adults, meanwhile, as the Pew Research Center discovered, remain the most optimistic about their future economic prospects despite the recent recession.

What do these trends in attitudes about work, debt and saving levels, and planning for retirement mean for companies that currently have retirement plans, and also for small to mid-size businesses that are considering offering a retirement plan? Simply put, the current environment offers opportunities for savvy companies to offer user-friendly employee education about retirement, and set up plans with the kinds of options that offer benefits to both the business and the employee.

Retirement plans: recent changes offer opportunities

Opportunity for Employees

American workers know they should save for retirement: National surveys show that younger workers do not have the same expectations about "Social Security being there" for them as their parents did (Pew Research Center), and retirement experts indicate these younger workers are more willing to embrace opportunities to plan for and to save for their retirement—*if* their employers can make the process as painless as possible.

Online learning about retirement: In the case of Gen X and Gen Y workers, this means providing these "digital natives" and "early adopters" greater online access to interactive educational tools that provide them with helpful information about such topics as the advantages of a 401(k) plan for retirement planning as well as savings. The online possibilities are many and varied, from descriptions of categories of investment choices and risk factors, to interactive features that calculate the results of savings left intact for 20 or 30 years, to planning tools to help them estimate the size of the nest egg they will need to replace income at various levels. These are among the many popular options for providing useful and persuasive information to these tech savvy employees.

Enterprise Council on Small Business (ECSB) Research finds that younger business people tend to rely more on mobile applications, or "apps," using smartphones (nearly 60 percent) and to participate in more advanced mobile activities, from searching the Internet (47 percent), to downloading and reading files (20 percent) and watching online videos (9 percent).

Older business people, meanwhile, still prefer to receive information more directly, including via email or mail.

ECSB Research also finds that younger Americans also respond best to information that is available for them to access 24/7 to suit their schedules, and that these younger workers rely on a variety of communication channels – including blogs, social media, and to websites to get information.

Best Practice: *Consider communication preferences of younger employees for biggest impact with your retirement readiness information.*

Educate them about popular choices: Employers also should consider some of the newer 401(k) options that younger workers show signs of appreciating, including:

- *Automatic opt-in*—With this feature, the employee is enrolled in a 401(k) plan once they reach a certain employment milestone, like 6 months or 1 year of service with the company, without having to do anything at all. The employee can change the preset low percentage of their contribution, and the employer adds a predetermined match. But the employee has to take action to opt-out of participation, rather than the other way around.
- *Target date funds (TDFs)*—This type of option is another approach that is winning more participants among those in their 20s and 30s and early

40s. According to EBRI, participation in these funds grew from 43.6 percent in 2008 to 47.6 percent in 2010. Among the 20-somethings, 52 percent owned TDFs.

Wow them with the data: It is also worthwhile to provide these younger employees with access to robust information sources as part of your retirement readiness plans, as research data show they are eager to study it for themselves. A good example would be to provide access to online comparative data on the risk profiles for these types of investments, including the options your company is offering. The value of doing this was supported by Ron Lieber in his "Your Money" column in the New York Times, when he noted that not all of these funds share a common risk profile even though they may carry the same target year for retirement. In other words, all 2040 funds are not of equivalent risk for your employees' retirement savings.

Best Practice: *Remember that younger workers want solid information, and favor ease and automation, and these preferences can be harnessed to spur their retirement savings habit*.

Providing "retirement readiness" information and a variety of planning tools and opportunities to learn is viewed as a clear competitive advantage for an employer in the race to hire and retain the best workers. Research shows that younger workers are especially willing to avail themselves of online information and planning tools. But it also is useful to augment an online portal with access to other opportunities to learn more about retirement planning and the options to save for retirement.

Many businesses bring in locally based experts on retirement planning to speak at employee meetings or "brown bag" lunches. Some companies have internal experts in HR or finance to host small-group informational sessions. The key for employers is getting started to interest employees in bring proactive about the subject of saving in general, and planning for retirement in particular.

Best Practice: *Provide retirement readiness information using traditional and online tools to reach employees, and at the same time, increase the value of your company as a preferred employer by including retirement saving and planning as part of your benefits package.*

Research suggests that providing a retirement benefit adds to the competitive marketability of a firm, according to the American Savings Education Council (ASEC), which notes, "In these competitive times, employers who make savings, retirement planning, and financial security a priority will have an edge."

Opportunity for Employers

The opportunities are there for companies of all sizes to provide information and access to a benefit that will contribute to their employees' personal satisfaction with their jobs, which in turn benefits morale and productivity, and the company's reputation as an attractive place to work. Research suggests that providing a retirement benefit adds to the competitive marketability of a firm, according to the American Savings Education Council (ASEC), which notes, "In these competitive times, employers who make savings, retirement planning, and financial security a priority will have an edge." (http://www.choosetosave.org/asec/factsheet.pdf). This advantage will become increasingly valuable as Baby Boom generation workers retire, and fewer younger workers will be available to take their places on the job.

For larger or publicly traded companies: The opportunities for employers are fairly well understood, as these are the organizations that have led the rapid shift from defined-benefit retirement systems into the employer-sponsored, defined contribution retirement plans led by the movement to 401(k) style programs.

For family-owned businesses: If a family owner has been considering the business the primary savings for retirement, now is a good time to consider the option of including a 401(k) plan in the family retirement plan. The economic tumult that hit with the 2008-2009 recession is a stark reminder that the organic growth Americans had assumed was built in to certain aspects of the economy – including primary residences and their business values as going concerns – no longer look as certain as they once did.

In addition, recent federal rule changes make 401(k) plan management and service fees more transparent, and there are new retirement plan offerings in the market that warrant taking a fresh look at the opportunities to create a preferred-employer advantage as well as help the business owner rebalance the risks in his or her own retirement portfolio.

New disclosure rules are a help: Federal rules governing important disclosures about most retirement plans went into effect July 1, 2012. These new regulations issued by the U.S. Department of Labor are intended to assure that retirement plan service providers give the companies they serve,, clear and usable information about the fees and expenses they charge. Prior to the implementation of this rule, some plan service providers were transparent in disclosing such costs, but others were not. With these revised rules, there will be no more 'hidden fee' issues for plans covered by the Employee Retirement Income Security Act of 1974, as amended (ERISA), including most 401(k), 401(b), and 403(b) plans.

A word about retirement plan management: Despite this good news, the latest rule changes add more layers to the reporting and management regulations for employer-sponsored retirement plans. The new rules require vendors to disclose information about fees charged to plan sponsors, other compensation vendors earn because of their relationship to a plan, and the services for which the fees or compensation are paid.

These disclosures must be made to plan fiduciaries. In addition, under other new rules, plan administrators have to provide general plan and plan expense information, as well as comparative information about investment options and alternatives, to employees and participants.

This means the administration of the retirement plan needs to be considered as part of the overall decision process for the company. What else should the business consider?

Creating a 'retirement readiness' win-win

Opportunity to offer highly valued benefits: From the perspective of retirement advisory experts, these changes present a unique opportunity for companies to bring new benefits to their employees in the form of helpful information about planning for their long-term financial futures. Larger organizations will be better equipped to take advantage of these changes, while small- to mid-size businesses will look to plan advisors and vendors to assist.

What should a small- to mid-size business owner look for: If the company already offers a 401(k) plan, now is a good time for a plan 'check-up,' in which sponsors and advisors review the management and administrative aspects, and investment options with respect to fees and expenses, but also with an eye to what may be most attractive to the employees the business needs to attract and retain into the future. In the view of retirement experts, achieving that balance among cost efficiency, reduced fiduciary risks, and competitive retirement benefits, means conducting a detailed assessment around such questions as:

- What changes have occurred at the company that might suggest it is time for changes to the retirement benefit offerings? For example, are employee demographics changing? Does the business have new locations, more new employees?
- Are needs of employees changing? When was the last time the company surveyed employees about their benefits?
- Are there retirement plan options that weren't available when the plan was first set up that might make sense today?

Considerations in selecting or evaluating a retirement benefit program include:

- An independent retirement plan advisor—Good retirement advisory firms may help the company's owners and retirement planners think about building a program tailored to the needs of the organization.
- Ease and "fit"—a plan that is easy to manage, affordable, and offers the flexibility to meet the needs of the business today and in the future.
- Lower risk profile—a fiduciary risk analysis that minimizes exposure to liability.
- Employee information—a plan design that offers educational components to assist employees in planning for their futures; i.e., an easy-to-understand plan guide, expert planning information, and options to meet employees' individual needs.

Conclusion

Helping employees is, in fact, perhaps the biggest payoff for companies, and the most significant reason to invest the time in developing a defined-contribution retirement plan that takes advantage of the latest best practices, for two principal reasons:

First, research shows that American workers increasingly look to a company's benefits in choosing where to work, or in staying with a company. The businesses that achieve the elevated status of "employer of choice" in their industries invariably offer competitive benefits, including retirement plans that meet employees' needs.

Second, helping employees also means providing them with valuable information not only about the company's retirement plan but also about effective long-term financial planning for themselves and their families. Putting it all together creates a model retirement readiness win-win for America's competitive businesses and their employees.

Sources

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