Flexing your financial muscles
Retirement Readiness:
Get in shape and stay in shape
Flexing your financial muscles
The facts are irrefutable: Most Americans are not prepared to retire. Chances are, this fact applies to some of your employees. The evidence in survey after survey indicates as much. To cite the data yet again is to beat a dead horse.

Instead, it’s more productive to focus on how employers and their employees can work together toward the goal of more comprehensive retirement readiness. And although we know that retirement plan features like auto enrollment and escalation are good, often times they’re not enough to ensure adequate savings. Like physical fitness, financial fitness needs a more comprehensive approach.

If you have a desired fitness goal such as maintaining a healthy weight or running a marathon, proper training, and adherence to a disciplined routine are keys to achieving those goals. Similarly, having sufficient assets to live on in retirement requires disciplined planning. Yet most employees face obstacles such as lack of knowledge, time, and/or motivation to do the planning and execution, despite the fact that a significant portion of their income in retirement depends on how much they’ve saved during their working years.

Retirement readiness is about the person, not just the investments. Having sufficient assets to live on in retirement requires a disciplined approach.

We all know there are no shortcuts to achieving and maintaining physical wellness. The same holds true for financial wellness. As retirement programs shift the investment and longevity risk to individual workers, just how do you create a sense of urgency and discipline for saving with your employees amid the complex rules required to understand the keys to financial security?

The notion of financial wellness is not a new concept, but it is a relatively new viewpoint as it relates to employer-provided benefits and employee wellbeing. The annual “MetLife Study of Financial Wellness Across the Globe” defines financial wellness as “a multi-faceted concept that describes the overall financial health of an individual” influenced by factors such as financial literacy, financial behavior, financial situation, and financial stressors.

In other words, your age, marital status, understanding of basic financial concepts, ability to save, compensation, benefits, liquidity, and debt influence your overall financial wellness.

Why financial wellness matters as much as physical wellness
Let’s of course not forget the direct correlation between financial and physical wellness supported by countless studies that show the high percentage of missed work days, stress, and emotional instability workers say is tied to monetary concerns.

Let’s also not forget that financial wellness for an employee has an impact on the
financial wellness of a company. Workers who retire later because they are financially insecure can increase company expenses through escalated health care costs, higher wages, delayed hiring opportunities, and so on.

Clearly, financial wellbeing for employees requires much more thought and effort from a company than simply paying adequate salaries and reminding people of the importance of putting away a portion of their money toward retirement.

Providing an employee with a defined contribution program such as a 401(k) is an excellent start, but it’s not enough. Despite the tools available and the significant communications efforts aimed at providing important information on saving for retirement, many workers aren’t comfortable with this type of detailed planning. They need to be reminded that they have to save more, not pick winners in the stock market. Therefore, employees need a rational, well thought out retirement savings target. They need a plan to reach that target, and they need routine progress reviews and adjustments to make sure they stay on the right course.

What’s coming to light as a more pragmatic approach to retirement readiness is to view it holistically as a combination of education, savings, and new automated assistance tools, just as preventative care, diet, and exercise all play a part in physical wellness.

What’s in a number? Not much.

Not saving enough is not the sole culprit in today’s retirement readiness crisis, as many retirees don’t spend their retirement funds wisely because they don’t know how to make the right decisions to ensure the money will last.

Employees need to be aware of what their “take-home” pay will be once they retire, and save enough to have a shot at maintaining their standard of living throughout retirement.

With rising health care costs, long-term care, and uncertainty about inflation and taxes, employees need support to understand their financial needs. For example, some studies place healthcare costs in retirement at $250,000 per couple above and beyond what Medicare covers. Because of these complex financial circumstances, employees need to be aware of what their “take-home” pay will be once they retire, and save enough to have a shot at maintaining their standard of living throughout retirement.

Income streams in retirement often come from multiple sources, such as Social Security, personal savings and benefits provided from their current and previous jobs that may include pension and/or additional 401(k)/403(b) plans. Retirement planning therefore requires a bit of number crunching and access to tools and resources that will help your employees determine their income and anticipated expenses in retirement and, therefore, what financial vehicles are most efficient to get there, rather than simply focusing on how much they have saved.

Tools are powerful, but context is key.

We all know that as employees progress through their careers, their investment portfolio mix should change. In addition, retirement readiness means they need to take advantage of financial vehicles outside of the typical personal savings and 401(k) plans — options such as Health Savings Accounts (HSAs), life insurance and long-term care insurance.

As it stands today, expecting individual employees to be able to understand all the educational materials can be a challenge. As an employer, you need to give them the context behind “why” these tools are important to them.

For instance, why HSAs? Shifting income to HSAs allows employees (and retirees not yet eligible for Medicare) to offset the costs in a high-deductible health plan without having the money taxed by the federal government. They can also roll the money over
year to year, unlike a Flexible Spending Account (FSA). Why life and long-term care insurance? These can be valuable tools because employees and their dependents won’t have to dip into their savings in the event of a catastrophic injury.

Providing an employee with a defined contribution program such as a 401(k) is an excellent start, but it’s not enough. Employees often need a nudge to get started and a periodic tweak to stay on track.

Another example of missing the full picture is not taking advantage of employer contributions. Even within the typical defined contribution setting, employers often presume employees are simply leaving “free” money on the table if they don’t take advantage of their company’s 401(k) match. To the employer, the match is free money given to an employee to supplement their retirement savings. But it isn’t free to the employee, who has to contribute more from his or her take-home pay to earn the match. Rather, it’s an incentivized savings program that needs to be communicated as a valuable retirement savings tool.

If employees are struggling to find the time to educate themselves or understand retirement basics such as taking advantage of the company match incentives, then employers should explore mechanisms to do it for them. Applying attributes of a defined benefit program to a defined contribution plan helps employees understand the income needed to promote adequate savings for retirement. These attributes include thinking in terms of income replacement ratios and lifetime income.

The missing ingredient to a healthy retirement for all of us

An organization’s retirement program should provide multiple support mechanisms that promote financial wellness for workers of all ages. Today, many employers offer employees a plethora of modeling tools, retirement calculators, financial advice alternatives, educational seminars, and employee meetings/events, in an effort to make available the information needed to plan for retirement. Also, many company-sponsored retirement programs have incorporated auto-enrollment and escalation design features into their 401(k) plans to promote savings.

But they are not enough for a new generation of workers that needs to maximize its defined contribution plans in order to securely retire. This is validated through annual Retirement Confidence Surveys conducted by the Employee Benefit Research Institute and frequently published surveys, research papers and benchmarking studies on retirement readiness and benefit adequacy.

Retirement readiness is primarily in the hands of the individual, so we need a way to break down the barriers and get people to start saving responsibly for retirement. What we need is a fully-automated solution using a defined contribution savings program with periodic monitoring, and pre- and postretirement features would provide individuals with a ready-made financial wellness plan that will better prepare them for retirement.

Retirement readiness is about more than just saving for retirement. It’s about getting started today, staying on track tomorrow, and reaching the desired destination ahead.

A savings program that enrolls employees, sets a retirement target and contribution strategy based on pay, age and retirement savings to date, reviews outcomes, adjusts contributions as needed, and ultimately sends retirees a “paycheck” to improve the odds that employees will live out their retirement without running out of money. The periodic reviews, automatic adjustments and monitoring will assure employees never veer too far off the path to retirement security by adjusting for unforeseen economic and real life events.

This will also allow employees to monitor their progress toward retirement goals throughout their career without the burden, stress, or responsibility for the type of
retirement plan management that is unrealistic to expect of employees with limited knowledge, time, and/or motivation to do the planning and execution.

The majority of Americans know what it takes to get their bodies in shape. Some are more motivated to do it and more educated as to the most efficient ways to reach their goals. Others need outside support via personal trainers, videos, books and clearly defined plans. It’s relatively easy to start the journey. When it comes to retirement readiness, the financial planning tools are available, but sometimes it’s tough to know what course to follow and how to get on track and stay on track. It’s important for employers to explore and evaluate the appropriate strategy that will put workers in the best position to enjoy robust financial health in retirement.

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