WHITE PAPER

Retire Ready:
A Holistic Approach to Preparing Employees for Success

Introduction: What Is Retirement Readiness?

Retiring is one of the biggest events in a person's life. The transition rests on many years of planning and saving, but many employees fail to recognize the magnitude of retirement and the financial planning it takes to leave the workforce and live comfortably. Employees who retire at age 65 can expect to live about 20 more years, a number that is sure to keep growing with medical advances. Despite the fact that retirement can span two-plus decades, a startling number of employees haven't even conducted calculations about how they will afford to live during those years.

According to the Employee Benefit Research Institute (EBRI), few workers have tried to estimate their retirement savings needs—only 44% report they and/or their spouse have tried to calculate how much they will need to live comfortably in retirement.[1] Towers Watson found that nearly four in 10 employees plan on delaying retirement, and the number of workers planning to extend their careers has increased nine percentage points since 2009.[2]

In today's world of diminishing pensions and increasing defined contribution (DC) plans, the responsibility to save for retirement falls more and more on employees—but employers can play an important role in helping workers succeed in retiring when they desire. This paper explores the role employers can play in ensuring employees are "retirement ready," meaning financially and mentally prepared to retire.

What's Holding Employees Back?

Major factors that impact retirement readiness are:

- **Low employee deferral rates –** Many employees tend to contribute to employer-sponsored retirement plans at a rate that's too low to retire comfortably or in a timely manner.
- **Leakage –** Loans, hardship withdrawals or payouts with job changes can damage workers' retirement readiness by age 65.
- **Longevity –** About one out of every four 65-year-olds today will live past age 90, and one out of 10 will live past age 95, according to estimates from the Social Security Administration.
- **Social Security and Medicare –** Eighty-three percent of employees believe Social Security will be less valuable in the future, and 88% have similar fears about Medicare, according to Towers Watson.
- **High health-care costs –** Towers Watson found that workers also worry about current and long-term health-care costs. Only two in five employees believe they can afford any medical expenses that may come up in the next year, and 70% of employees fear higher out-of-pocket medical costs in the future.
- **Psychological barriers –** In addition to financial factors, the psychology of retiring can be equally challenging. Some workers may not have a plan after retirement and feel lost, causing them to delay leaving the workforce simply because they don't know what to do next.

Why Employers Should Take Action

There are many compelling motivations for employers to prepare their workforce for retirement. Aside from the fiduciary responsibility employers must fulfill, helping employees retire is crucial as an older workforce of delayed retirees becomes increasingly common. By 2050, the U.S. Census predicts that 19.6 million American workers will be 65 years or older, making up roughly 19% of the total U.S. workforce. The number of 65-year-old-plus people in the workforce is expected to grow by 75% while the number of individuals in the workforce who are 25 to 54 is expected to grow by only 2%.[3]

The increase in workers' ages is attributed to several factors, according to the Centers for Disease Control and Prevention, including overall health of the older population, the change in eligibility for Social Security retirement benefits, the economy, the need for health insurance, and the design of employer-sponsored benefits such as the change from defined benefit plans to DC plans.

With so many employees opting to stay in the workforce past 65, various effects may be seen throughout companies. While there are some clear benefits to retaining an older workforce—such as having a team of experienced, loyal professionals—it can also have serious consequences, such as higher health-care costs and a lack of opportunities for younger workers to move up the ladder. [4]

If employees are not retiring when they want, another possible consequence is decreased morale and productivity because of resentful feelings about having to work longer than planned. By planning early for the amount of money they will need in retirement, employees are less likely to be surprised about the date they can realistically retire.

These potential effects and consequences can provide motivation for employers to help their workforce prepare for retirement. In fact, the belief that having a high number of older employees reduces opportunities for younger workers is widely accepted in Europe and is used as a rationale for early retirement programs. Studies of European companies indicate that the effects of an aging population could be severe, and business executives are, in turn, increasingly concerned.[5] Many of the companies surveyed expect workforce aging to create significant management challenges. Thirty-five percent of respondents in a report from The Economist Intelligence Unit said it will become harder to promote younger workers who are ready to move on, and almost a quarter fear increased age discrimination lawsuits.[6]

Executives also fear higher benefit costs as a result of an aging workforce, with 43% saying they anticipate greater employee demand for benefits like health care and retirement. The same percentage expect a higher cost of benefits, and 35% say they expect increased flexible working schedules to care for older dependents and phased retirement. The report also found that 22% of executives believe older workers are less productive and 26% think they are harder to manage than younger workers.

Solutions for Improving Retirement Readiness

Time will tell how an aging workforce may affect companies. Regardless, employers can help every employee enjoy a dignified, comfortable retirement at the age at which they wish to leave the workforce. With changes to plan design, communication efforts and enrollment features, employers can help employees get on a better path for the future. The biggest thing employers can do to help workers retire is encourage them to begin saving early in their careers and to save adequately. Consistent, long-term saving is crucial to retirement readiness. To encourage smart savings behavior, employers can take the following steps.

Step 1: Get Help from an Advisor

Hiring a retirement plan advisor is an important decision that can significantly impact employees' retirement readiness. Employers with a focus on helping employees prepare adequately for retirement should hire a likeminded advisor to help achieve their goals. The advisor's role should be to work with the employer on assessing employees' retirement readiness and providing resources to help improve participant outcomes.

A successful advisor is proactive in helping employees achieve retirement success. He or she maintains an open stream of communication with employers, updating them frequently and answering questions in a timely manner. A successful advisor is approachable and does not clutter conversations with investment jargon. When choosing an advisor to help improve a company's retirement readiness, employers have many important considerations, including the qualifications of the advisor and whether the advisor has a clear strategy for improving the retirement outcomes of employees.

Step 2: Conduct a Retirement Readiness Assessment

Once an advisor has been chosen, he or she can work with the employer to determine how many employees are on track to retire by age 65. Many workers may be planning to delay their retirement past this age. What's more, according to 2014 data from EBRI, 10% of employees never plan to retire at all.[7]

EBRI also found that 45% of workers simply guessed how much money they would need for retirement rather than conducting a systematic calculation.[8] Eighteen percent of workers said they estimated it themselves or asked a financial advisor, and 8% used an online calculator or read or heard how much was needed.

Begin assessing employees' retirement readiness by evaluating the following:

- Overall participation rate in the company's retirement plan;
- The average contribution rate of employees; and
- The average employee account balance.

Who's at Risk?

Once employers have a better understanding of how long it will take their employees to retire, they can begin to identify at-risk demographics and implement strategies to help with retirement readiness. Research shows several groups are at risk.

Women, for example, have a unique set of planning needs. On average, they live longer than men and need additional retirement funds as a result. They are also at risk for having less retirement savings because of time away from the workplace while raising children or caring for aging family members. Their incomes also statistically lag behind men's, leading to lower savings rates over a lifetime.

Hispanic and Asian women may especially be at risk for running out of retirement funds. Studies indicate that Hispanic (67%) and Asian women (68%) are less likely than women in the general population (predominantly Caucasian, 73%) and African-American women (74%) to place an emphasis on retirement savings.[9]

Latino employees, in particular, are much less likely than white workers to be covered by an employer-sponsored retirement plan. Studies show that 54% of African-American and Asian employees and 38% of Latino employees ages 25 to 64 work for an employer that sponsors a retirement plan, compared to 62% of white employees. Three out of four African-American households and four out of five Latino households ages 25 to 64 have less than $10,000 in retirement savings, compared to one out of two white households.[10]

Employers should also keep in mind generational risks among employees. While baby boomers may have funds from a pension plan, millennials generally rely on DC plans, which transfer more responsibility to the participant. Financial Finesse's 2013 generational research report found that millennials are still better at day-to-day money management than Generation X, but they struggle with debt, such as student loans, and have not prioritized retirement saving. The study also found that:

- **Generation X** lags behind its younger counterparts in cash management, inhibiting meeting long-term financial goals.
- **Late baby boomers'** savings are in danger because of growing college bills and long-term care costs.
- **Early baby boomers** are in the best shape financially, but many lack adequate emergency savings.[11]

Step 3: Make Plan Design Changes

Effective plan design features can improve retirement readiness by encouraging participants to start saving early, increase their savings rates incrementally, and periodically review their asset allocation. Here are a few plan design changes that can help employees with their retirement readiness.

1. **Implementing automatic features –** More than one-third of Americans have never increased their contributions to an employer-sponsored retirement plan, according to research from TIAA-CREF.[12] Automatic enrollment and escalation are two simple ways to improve retirement readiness and combat participant inertia. Employers can extend automatic enrollment to all employees, not just new hires, to encourage more employees to save.

   Also, employers should consider automatically enrolling workers at a starting contribution rate of higher than 3%, as employees tend to remain at the same savings default rate. Many workplace retirement savings plans that automatically enroll workers start their contribution rates at 3% of pay, a savings rate that may be inadequate to support the standard of living for many retirees. EBRI found that at the default deferral rate, 42% of those not already saving for retirement would continue contributing as-is at 3%, and 35% would increase their contributions. Automatic escalation can help fight participant inertia by gradually increasing workers' contributions toward their retirement.[13]

2. **Adjusting the employer match –** Companies can also consider matches that encourage workers to contribute at least 6% with increased employee contributions each year. Employers can implement a “stretch match” to keep employer costs the same. A stretch match involves raising the match, for example, from 6% to 10% of deferred pay. But employers can keep their contribution costs neutral by reducing the match amount from 50% on the dollar to something less.[14] Employers should consult with their plan’s provider or third party administrator for assistance with employer contribution changes.

3. **Re-enrolling participants –** Re-enrolling employees in the company-sponsored retirement plan can have many benefits, including reevaluating fund choices and allocations, ensuring participants’ portfolios are diversified, and exposing them to adequate investment risk relative to their ages. During re-enrollment, employers offer participants an opportunity to review and make changes to their investment allocations or be defaulted into the plan’s qualified default investment alternative (QDIA). Unless the worker opts out, the 401(k) account will be automatically reallocated to the company’s QDIA. Although employers commonly choose a target-date fund (TDF) as the QDIA, they can explore other options designated by the Department of Labor (DOL) such as lifestyle funds and managed accounts.

   Unlike TDFs, which are named based on the targeted year of retirement and become more conservative as they approach the date, lifestyle funds are categorized based on the fund’s risk level such as conservative, moderate and aggressive and participants can choose which category is best. In managed accounts, third-party providers design a customized portfolio for each participant and the provider, and are responsible for choosing and monitoring the investments.

   Before choosing a QDIA, the employer should understand the differences in funds among various providers. TDFs with the same date, for example, may have significant differences among various providers when it comes to glide paths, underlying investments, investment strategies and fees. Likewise, the level of personalization in managed accounts may differ from one provider to the next.

4. **Limiting loans –** Limiting the number of loans participants can take from their retirement accounts can potentially diminish loan defaults as well as prevent inadequate retirement savings. Research from the Financial Literacy Center (FLC) on more than 4.3 million 401(k) participants found that about 20% of participants had outstanding loans, and 12% of that number terminated their employment with an outstanding loan. Nearly 80% of those who left their job with an outstanding loan defaulted on it. To combat the problem of loan defaults, the FLC suggests limiting borrowers to one loan at a time and limiting the amount of the loans.[15]

5. **Offering lifetime income options –** A lifetime income option can provide pension-like benefits and help employees better plan for their retirement. Employers who choose to offer a lifetime income solution in their 401(k) plan face challenging decisions including whether to offer an in-plan or out-of-plan solution, and whether it will be guaranteed or non-guaranteed. They should also consider the fiduciary responsibilities associated with it, such as documenting the process for selecting the income solution, as well as any restrictions in the product—such as portability—and how they might affect the participant.

   Participants may also need guidance about what happens when they retire. Some workers may opt for a lump-sum rollover option when requesting a distribution from their 401(k) plan, while others may want a stream of income similar to a paycheck to help with budgeting during retirement.

   Employers can work with their advisors to document a process for these decisions.

Step 4: Improve Education and Communication

Implementing smart education and communication tactics can further improve participant outcomes. A multimedia approach using individual and group meetings, phone calls, email and direct mail is effective in reaching participants through a number of methods.

Younger workers may prefer communication through email, whereas older employees may like a phone call. Depending on age, compensation level, retirement plan contribution level, and other factors, each employee has unique needs in preparing for retirement. A 25-year-old employee’s investment questions and concerns are much different than a 55-year-old employee’s, whose retirement is much sooner. In the age of mobile technology, younger employees may respond better to communications available 24/7 via apps, email and social media.

Many employees say they prefer digital communication methods, such as work email (47%), personal email (28%) and online avatar (19%), according to research from Prudential Retirement.[16] Group meetings (19%) and one-on-one meetings (18%) also made the top five, indicating employees still value face-to-face communication. Employers say group meetings and seminars are

still the most successful ways to communicate benefits information. The use of mobile devices to communicate with employees jumped 3% to 16% year-over-year, according to Prudential research.

The most successful methods of communication during enrollment in 2013 were:

- Mail received at home (21%)
- A video, CD or DVD presentation (18%)
- Social media networking, internal to the organization (17%)
- Social media networking, external to the organization (16%)
- Targeted marketing mailings based on age, income and stage of employee's life (16%)
- Mobile devices, such as smartphones and tablets (16%)

Respondents to Prudential's study said the best communication methods outside of enrollment were:

- Emails (84%)
- Mail to homes (77%)
- Signing up on benefits website (76%)
- Phone calls (75%)
- Text messages (46%)

Key Tips for Effective Education and Communication

The employer's plan provider should be able to provide retirement education material to help support the ongoing needs of the participants. Advisors can help employers ensure their workers are receiving adequate information throughout the year and use the following tactics to make sure the messages are heard:

1. **Communicate throughout the year –** Effective communication about employer-sponsored retirement plans should not occur just during enrollment time. Throughout the year, employees should receive information about benefits and upcoming meetings. As it gets closer to the enrollment period, they should receive reminders through multiple communication channels.

   It's also important to give employees a brief overview of what they can expect during meetings. Aside from enrollment meeting information, employees should receive newsletters, emails, postcards and ongoing messages about the importance of saving and planning for the future.

2. **Avoid investment jargon –** Financial jargon should be eliminated from participant meetings and from all communication with participants. Even investment terms that seem like common knowledge should be explained so participants aren't intimidated. Many employees are in the dark about even seemingly common investment terms like equity and target-date funds.

   Hearing and reading complicated investment terms can lead to inertia. It can also lead to poor investment choices that do not generate enough return to help employees retire. Explaining retirement terms in the simplest way is the best way to get employees to take an active interest in their retirement planning.

3. **Provide tools –** Offering participants tools provided by the plan's provider can also help them determine their retirement readiness. Retirement and income projection calculators can help participants estimate the savings needed to reach their desired retirement age based on factors like current age, age the participant wishes to retire, the participant's current savings rate, and estimated Social Security benefits. Calculators can be adjusted to see how different savings rates and various factors affect retirement, which may prompt participants to make changes that improve their retirement readiness.

4. **Offer one-on-one meetings if possible –** This option may not be available at every company, but one-on-one meetings with advisors are a great way to help participants with retirement readiness. When meeting individually, they may feel more comfortable with engaging and asking questions.

5. **Measure results –** Once communication tactics are in place, employers can work with advisors and recordkeepers to track metrics, such as participation rates, deferral rates, account balances and general education about portfolio diversification. Employers can also work with advisors to periodically review communication strategies based on any changes at the company.

Going Beyond Numbers

Even if employers are doing everything in their power to help participants increase their savings rates, financial preparedness is a loss if workers are not mentally ready to retire. Entering retirement is one of the biggest decisions an individual can make in his or her lifetime, and it should be planned and contemplated in detail before leaving the workforce.

Deciding to leave the workforce can cause conflicting emotions. On the one hand, it affords the opportunity to spend more time with family, travel and relax, but on the other hand, it can leave a void and a feeling of lack of purpose in one's life, at least during the adjustment period. Retirees may fear boredom in retirement, miss mentally stimulating discussions they had in the workplace, or become less engaged in society.[17]

It's also important that participants try to anticipate events that can occur during retirement, even if they are difficult to consider, such as spousal illness or death. An employee may fail to consider how his or her retirement age will affect the financial welfare of family members if the employee dies. While discussing these events may be unpleasant, it's all part of preparing for retirement.

Retirement should be thought of as a career change, suggests counseling psychologist Nancy K. Schlossberg. Her findings, published by the American Psychological Association, assert that retirement consists of many transitions that depend on several factors.[18] These factors include:

- The retiree's level of preparedness;
- The level of work satisfaction;
- Expectations about retirement;
- The degree to which a meaningful life is established;
- The retiree's health; and
- The retiree's sense of financial security.

By understanding the different ways in which employees approach retirement, employers can help prepare them emotionally for life after work.

Employers can enlist the help of their advisors and recordkeepers to develop an intentional retirement planning program that encourages holistic retirement preparation. During pre-retirement planning sessions—or as part of a communication campaign through newsletters, brochures and emails—the materials should help spur conversations about life in retirement and help employees envision their retirement through questions such as:

- Where do you want to live, and have you researched the cost of living in that city?
- Do you want to live near friends or family?
- Do you want to work part-time or volunteer?

- Where do you want to travel?
- Do you want to continue your education or take up hobbies?

These questions are a starting point for employees to help create an action plan for what a "typical day in the life of retirement" might look like, as well as trying to create a positive experience after leaving the workplace. After all, financial planning is just one part of successful retirement.

Conclusion

Retirement readiness is an important issue for employers. Providing employees with the tools and information they need to retire comfortably and on time is important because of the potential effects of an aging workforce.

The major factors impacting participant readiness include low employee deferral rates and plan leakage as a result of loans, hardship withdrawals and job changes. Employees are also living longer, which requires more retirement savings to cover the 20-plus years they will be out of the workforce.

Further, employees worry about whether they will be able to count on Social Security and Medicare benefits in the future. They are also concerned about high health-care costs in retirement. Even if they are financially ready for retirement, they may still be mentally unprepared.

Employers can help workers with their retirement readiness through changes in:

- **Plan design –** Automatic enrollment and escalation can encourage employees to start saving and combat savings inertia once they are participating in a plan. Employers can also consider adjusting the employer match to encourage higher employee contributions, or re-enrolling participants in the plan to give them an opportunity to make changes to their investment allocation or be defaulted into the plan's QDIA. They can also limit the number and amount of participant loans to reduce the risk of defaulting.
- **Education and communication –** Employers should communicate with participants through a variety of channels, including phone, email and in-person meetings. It is most effective to communicate consistently throughout the year, not just during enrollment time. Employees respond most favorably to meetings and communication that are free of investment jargon. They also like to have access to tools that can help them prepare for retirement, such as online retirement calculators.

If possible, employers should offer one-on-one meetings with employees to encourage more active participation. They should also measure the success of the education and communication efforts, as well as the plan design changes, through metrics such as participation rates, deferral rates, account balances and fund diversification.

Financial planning isn't the only thing that goes into retirement readiness. To truly prepare employees for life after work, employers must also understand the mental roadblocks to starting a new chapter of life. Help employees envision their retirement by outlining possible future events, work options, hobbies, travel plans and educational opportunities. By creating a holistic approach to retirement, employers can send each generation into an enjoyable and comfortable next phase of their lives.

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