News and Information for Employers

FINANCIAL WELLNESS EDITION

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5 Reasons to Rethink Financial Wellness

Normalize Retirement Savings Habits

Stop Retirement Savings Setbacks

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5 REASONS TO Rethink Financial Wellness

Starting a financial wellness program can help increase employee productivity and lessen presenteeism.

#financialsecurity #financialwellbeing #financialwellness

Employees are worried about their finances. They worry about them in the evenings, on weekends and during working hours. Plus, with the increased stress caused by the pandemic, it's no secret your workforce could use some help.

More than meets the eye

Many employees struggle with cash for emergencies. In a recent 2020 study, they found that 47% of respondents had difficulty finding $250 for emergencies[1] and had to resort to credit instead. While millennials are saddled with loan debt, members of the "sandwich generation" are burdened with dividing their limited resources between themselves, their children and their parents, while still trying to prepare for their own retirement.

Each employee demographic is struggling with their own financial challenges, which is why a dynamic financial wellness program needs to span the generations and provide potential solutions for each unique situation.

How can employers help?

Oftentimes, one of the major problems is a lack of access to financial literacy resources. And it's a problem that employers can help solve by providing financial wellness programs for their employees. Here are five advantages of a financial wellness program:

1. Engagement.

Are your employees going through the motions or are they creating and sticking to their financial plans? Financial worries can increase employee stress which leads to distraction at work. It has been shown that offering a financial wellness program breeds loyalty and focus. Six in 10 workers say they are more committed to their employer and more productive at work when they have a financial wellness program.[2]

1 C. J. Marwitz. "Employee Financial Wellness: Looking Ahead to 2021." BenefitsPro. December 4, 2020.

2 Prudential. "Wellness Programs Earn Their Place in Human Capital Strategy." June 2019.

2. **Lower health care costs.**
   Financially unhealthy, stressed employees frequently have higher health care costs. Financially stressed employees may increase corporate health care budgets, as their health care costs run 46% higher than non-stressed employees.[3] Lowering overall health care expenses tend to lead to lower employer costs.
3. **Fewer incidents of "presenteeism."**
   "Presenteeism" is a term that describes lost productivity by employees who are physically present, but not working. They are distracted by outside work stressors. This stagnant time costs employers in lost wages, lost productivity and reduced job performance.
4. **Retention and attraction.**
   As stated, employees say financial wellness programs demonstrate that their employers care about them, encouraging commitment to the company. Losing employees costs money in recruitment efforts and the training of new hires. Turnover can cost employers 120-200% of the salary of the positions affected.[4] The presence of this program in your employee benefits package may also help attract new talent.
5. **Retirement saving.**
   Employees who have their budgets and debts under control are much more likely to save via their 401(k) plan and increase their contributions as their financial situation improves. These employees are also less likely to take a loan from their 401(k) plan.

Becoming an employer of choice

Joining the employers that offer a financial wellness program can help you demonstrate your understanding that happy, healthy employees are vital for a highly productive company. But keep in mind, helping your employees become financially healthy is a little more complex than it might seem at first glance.

Here are three tips for increasing employee financial literacy:

— Choose resources relevant to your specific workforce. What works for the millennials may not work for baby boomers.

— Ask your employees. Priorities often differ between genders, age groups, married, single, families, lifestyle, homeowners, renters and so on. Send out an anonymous poll with targeted questions to better understand your employees and what resources they need to confront their financial challenges.

— Learn the boundaries. Employees want their employers to provide and facilitate the program but don't want them to be overly involved in their personal lives. So set clear expectations and firm boundaries to help prevent overstepping from work life into personal space.

The ultimate goal is financial well-being. It's not enough for employees to learn about what constitutes financial well-being; they must put it into action to achieve success.

Having a financial wellness program can benefit your employees in the form of improved employee morale and boost their productivity at the same time. It's a win-win situation for all.

3 Jane Clark. "Offering financial wellness education could improve employee productivity." January 29, 2019.

4 Umass Lowell. "Financial Costs of Job Stress." 2019..

Normalizing Retirement Savings Habits

For far too long, reaching an adequate replacement retirement income has been the exception rather than the norm for America's workforce. Discover how auto features could transform your plan's effectiveness and help improve participant outcomes.

#401k #retirementincome #autoenrollment #401kplandesign #retirementreadiness #participantoutcomes

Many American workers struggled financially before the COVID-19 pandemic. Therefore, it isn't surprising that this crisis could greatly hinder their ability to reach their retirement income goals.

Indeed, more than three-quarters of employees (77%) say they have been concerned about their financial well-being since the COVID-19 outbreak[1] and 82% will rely on their workplace retirement plan as a primary income source in their post-working years. That is, if they can get there — four in five employees expect to continue working for pay after "retiring."[2]

In addition, many simply can't afford to retire; the median household retirement savings is just $50,000.[3] That's nowhere near the 60-80% replacement income financial experts say most people need to maintain their pre-retirement standard of living.

What does all this say about retirement readiness in America? More importantly, what does it indicate about the effectiveness of workplace retirement plans?

The data above clearly demonstrates that for far too long and far too many Americans, reaching a successful replacement retirement income has been the exception, not the norm. So, it stands to reason that employers must reimagine the function of their company's retirement plan to help "normalize" saving for the future.

Employers should evaluate their plan's value through the lens of helping more employees retire on time and with dignity. That means getting employees to recognize that saving for retirement isn't "optional" if they want to stop working someday. It also means providing them with the right tools toward helping them save enough to replace their income for 10, 20, 30 or more years.

The case for automatic features

How can employers more effectively help employees build adequate retirement savings? It isn't complicated.

Employers have a ready-made tool in their arsenal that vastly simplifies retirement savings: automatic plan design features. These include auto enrollment, auto escalation and auto-diversification through qualified default investments, such as target date funds.

Auto features have become a best practice in retirement plan design to help improve employee participation and savings rates.

1 National Endowment for Financial Education (NEFE)/Harris Poll Survey. April 2020.

2 Employee Benefit Research Institute (EBRI). "2019 Retirement Confidence Survey." April 2019.

3 Transamerica Center for Retirement Studies. "19th Annual Transamerica Retirement Survey: A Compendium of Findings About U.S. Workers." December 2019.

In fact, two-thirds of employers who have adopted auto features have experienced a direct benefit to plan outcomes.[4]

Is it better for employers to use auto features to help employees make sound financial decisions for the future? The short answer is yes. Let us show you how.

Help Your Employees Start

With automatic enrollment, employees are enrolled into the plan without needing to take any action — unless they opt out. One obvious benefit of automatic enrollment is that it drives higher participation rates; in fact, plans with this feature have an average participation rate of 87%.[5]

In most cases, employees are enrolled at a default deferral rate of between 3-6%[6], and their contributions are directed to a diversified qualified default investment alternative, such as a target date fund.

Help them save more

In addition, employers can use auto escalation, another plan design feature, to help improve employees' savings rates over time. The typical default increase is 1% per year. While automatic enrollment improves savings rates, adding auto escalation boosts the impact.

In plans with neither automatic enrollment nor auto escalation, only 44% have savings rates above 10% (including both employee deferrals and employer matching contributions). In plans that implement automatic enrollment only, the percentage of participants with savings rates above 10% increases to 67%. However, where plan sponsors implemented both automatic enrollment and auto escalation, that percentage rises to 70%.[7]

Help them diversify

Finally, auto-diversification rounds out the auto feature trifecta. Often, this looks like automatically investing participant contributions into a qualified default investment alternative (QDIA) like a target date fund (TDF) or managed account.

This typically occurs when a participant has not made an investment election on their own. Automatically directing contributions to a target date fund or similar investment that is appropriately diversified for a participants' age and stage of life enables them to appropriately invest for retirement, even though they haven't actively selected their own investments.

Most TDFs also have an automatic rebalancing feature, so the participant's portfolio remains properly invested based on their anticipated retirement date, regardless of market performance.

Plan effectiveness is measured by outcomes

Automatic features are a helpful plan design tool that employers can implement to assist employees in getting on track toward having the income they need to retire in comfort. In addition, it's important for employers to evaluate their plan's effectiveness based on retirement readiness — because outcomes are what truly matter.

Once auto features are in place, employers should also pay careful attention to plan health metrics, such as projected monthly income (PMI) - an illustration of a participant's estimated monthly income stream in retirement based on their current savings. Participants with low PMIs may be at greater risk of not adequately replacing their income in retirement.

Another metric, the income replacement ratio (IRR), provides a glimpse of retirement readiness based on a specific income replacement percentage, such as 70%, using current and projected savings. Participants with low IRRs may be at greater risk of running out of money in retirement.

Understanding these metrics and the positive impact of auto features can help you evaluate your participants' retirement readiness — and your plan's effectiveness. With these insights, you can intelligently architect your plan to "normalize" retirement savings and help your employees work towards successfully achieving their retirement goals.

4 DCIIA. Plan Sponsor Survey, 5th edition. April 2020.

5 Alight. 2020 Universe Benchmarks Report. June 2020.

6 Correia, Margarida. "PSCA: 401(k) participants hike deferral rates again." Pensions & Investments. Dec. 18, 2019.

7 DCIIA Fourth Biennial Plan Sponsor Survey "Auto Features Continue to Grow in Popularity." December 2017.

Stop Retirement Savings Setbacks

How can employers help stop retirement savings setbacks? Here is why tapping into retirement savings too early can have long-term effects and undo years of savings for participants.

#retirement #401k #retirementplanning #financialwellness #SHRM #HRbenefits #COVID19

The global pandemic has had a staggering effect on the economic lives of millions, driving them to actions that could have long-lasting effects on their retirement savings.

Facing unprecedented strain caused by the COVID-19 crisis, individuals who lack adequate emergency savings are turning to retirement plans to address their financial shortfalls.

Additionally, hardship withdrawals have been made easier by the passage of the 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Act expanded distribution options, offered favorable tax treatment for coronavirus-related distributions from eligible retirement plans and relaxed payback options for those who met specific criteria.[1]

A reported six percent of retirement plan holders took advantage of at least one CARES Act provision offered by the plan. Of these withdrawals, 21% took the maximum amount allowed under the Act ($100,000 or 100% of the vested balance).[2]

Plan leakage consequences

Overall, retirement plan leakage - which includes in-service withdrawals, cash-outs at job change and loans - can create savings repercussions and even a delay in retirement, even if the amounts are paid back.

In a single year, Employee Benefit Research Institute (EBRI) reported that $92.4 billion was lost due to leakages from cash-outs.[3] This is a serious problem as it can reduce aggregate 401(k)/IRA wealth at retirement. Essentially, money withdrawn early loses its potential for growth and interest accumulation, hindering its ability to produce adequate income replacement in retirement.

1 Internal Revenue Service "Coronavirus-related relief for retirement plans and IRAs questions and answers." irs.gov. March 2020.

2 T. Rowe Price. "How the coronavirus is affecting retirement saving." Sept. 2020.

3 Employee Benefit Research Institute. "The Impact of Auto Portability on Preserving Retirement Savings Currently Lost to 401(k) Cashout Leakage." Aug 2019.

For those who still consider tapping into their retirement plan savings, they may be doing so as a result of a lack of emergency savings, something that is increasingly prevalent, according to a recent Bankrate study.[4]

- In 2020, about three times as many Americans report having less emergency savings now than before, compared to those reporting more savings.
- Approximately 21% of Americans say they have no emergency savings, the lowest rate in the 10-year history of the Bankrate poll.

These staggering facts point to the importance of having a robust financial wellness program in the workplace and by placing special emphasis on maintaining an emergency savings account, which employers can offer via payroll deduction.

Curbing savings damage

Separating emergency or "rainy day" savings and retirement savings accounts can have a practical impact, too. It can reduce the urge to give into short-term wants and separate long-run retirement savings needs.[5]

Participants should be aware of these financial factors when making retirement plan withdrawals:[6]

- Repayments to a retirement plan are made with after-tax dollars that will, in turn, be taxed again when they eventually withdraw them from an account.
- The fees paid to arrange a retirement plan loan may be higher than a conventional loan, depending on how they are calculated.
- The interest is not tax deductible even if you use the money to buy or renovate a home.

Benefits of financial education

Employers should work with retirement plan advisors to find ways to educate participants in today's remote work environments; for example, an employer could host a virtual employee education meeting.

In these volatile economic times, it's especially relevant to cover important topics that may help participants maintain a healthy retirement savings strategy including:

- Maintaining retirement plan contributions and not being influenced by market activity.
- Reviewing historical market trends on downturns and recoveries.
- Resisting plan withdrawals by looking at alternative sources such as home-equity loans or refinancing to take advantage of low-interest mortgage rates, personal lines-of-credit or even borrowing from a family member.

Despite the uncertainty brought on by the pandemic, employers can utilize key resources and get help from their plan advisors toward ensuring employees make sound retirement savings decisions today, and in the future.

4 Bankrate. "Survey: Nearly 3 times as many Americans say they have less emergency savings versus more since pandemic." Aug. 2020.

5 Harvard Business School. "Building Emergency Savings Through Employer-Sponsored Rainy-Day Savings Accounts." Nov. 2019

6 FINRA. "401(k) Loans, Hardship Withdrawals and Other Important Considerations." 2020.

About Financial Network Limited

Financial Network Limited (FNL) was founded to provide personalized investment strategies for individuals and families, and distinctive employee benefit programs for employers. Nearly 30 years later, we remain an independent, family-owned and operated firm with the same mission and commitment: to provide comprehensive and innovative client solutions with the highest levels of professionalism and integrity.

We deliver extraordinary value through clear analysis and Fiduciary-focused oversight so our Clients can focus on their careers and families, not the administration of their retirement plan. We continue to refine our processes to improve Plan Sponsor practices and to promote superior Participant outcomes. No “consultant-speak”, no “complicated explanations”. Just simple, accountable results.

For more information on how we support retirement plan sponsors and participants, visit our website or contact us directly.

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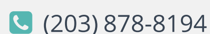

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