Retirement Times September 2020

Good News 401(k)

T. Rowe Price did a deep dive into its recordkeeping data and surfaced with a few important points.

Its "Reference Point Report is an annual client data benchmarking report so plan sponsors can review trends and benchmark their progress and participant behavior across the firm's client base. 'We continue to see the importance and significant impact plan design and financial wellness programs have on keeping participants on track with their financial priorities' by John Sullivan, Editor-In-Chief "

- Plan participation was greater than 79%
- Over 61% of plans at T. Rowe Price automatically enroll participants, with 37% enrolling at a 6% default deferral
- Average account balances rose to over $100,000, an increase of 8%, although over 34% of eligible participants did not contribute to their plans in 2019
- Employers are increasing match formulas from 3% to a 4% to 5% effective match rage
- Direct rollovers of plan assets increased to 76% in 2019 from 74% in 2018
- Lower rates for cash-out distributions and loans
- Participant usage of loans decreased in 2019 to 22.1%, down from the seven-year high of 24.9% in 2013, but the optional loan provisions included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act could change that trend
- Allocations to company stock investments increased more than 11%

For this and more information on 401(k) participant behavior and plan design trends, see this article in 401k Specialist Magazine.

Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

More Good News

"Scoring the Progress of Retirement Savers," a recent report by the Empower Institute ("Empower"), shows that the median projected income replacement among participants in a study they conducted was as high as 64%. In other words, many Americans are on track to maintain 64% of their current income in retirement.

"Plan sponsors can take several steps to help facilitate savings within a plan. The first is automatic enrollment. We find an 11-point difference in median income replacement percentages between participants who enrolled automatically versus those who opted into the plan. The difference may reflect an important benefit of auto-enrollment: Many participants begin saving earlier in their tenure, because enrollment begins as soon as they are eligible.

A second feature that correlates with higher median income replacement is auto-escalation. Our survey found that people who participate in a plan with this feature achieve a median retirement income replacement of 107%, a full 27 percentage points higher than participants in plans without it."

For more information, read Empower's report on Scoring the Progress of Retirement Savers

Have you ever considered offering a Phased Retirement Program?

Phased retirement includes a range of flexible retirement approaches that would allow employees approaching normal retirement age the option to reduce the hours worked while phasing into complete retirement.

For employees, phased retirement may be seen as a benefit by many older workers. It allows them to gradually ease into retirement while maintaining a higher income than they would receive if they quit work entirely. It could also help employees prepare for greater retirement readiness.

"Changes in Social Security have made it easier for recipients to continue working after reaching full retirement age without losing their benefits; Americans are living longer, which means that retirees will need greater financial resources to support themselves. In 2020, the IRS allows for $18,240 of income per individual before affecting social security benefits (before reaching full retirement age)."*

For employers, phased retirement programs can be used to retain skilled older employees who would otherwise retire.

Employers can benefit from tenured employees' knowledge and experience while reducing employer payroll and benefits costs. These employees may want to continue to make a meaningful contribution to your company, while working reduced hours. This concept may involve employees working remotely. During the COVID-19 pandemic, many workers have become comfortable working remotely, and employers in some industries may derive continued benefits of a partially remote workforce.

Employers will likely be surprised at the number of workers willing to accept reduced hours or a lighter workload. A recent study from the Transamerica Center for Retirement Studies* found "that nearly three- quarters of employers polled at 1,800 companies of all sizes reported that many of their employees expect to work past age 65 or do not plan to retire at all. In addition, 43% of working baby boomers are already contemplating a phased retirement. While 4 out of 5 companies surveyed said they plan to support senior employees who want to continue working, just 4 in 10 of the firms currently offer flexible retirement

schedules."*

Working with retirement plan providers and benefit advisers can also help employees smoothly transition out of the workforce. Employees can consider the plan's distribution options, financial planning opportunities and individual financial consulting, where appropriate, on how to make savings last.

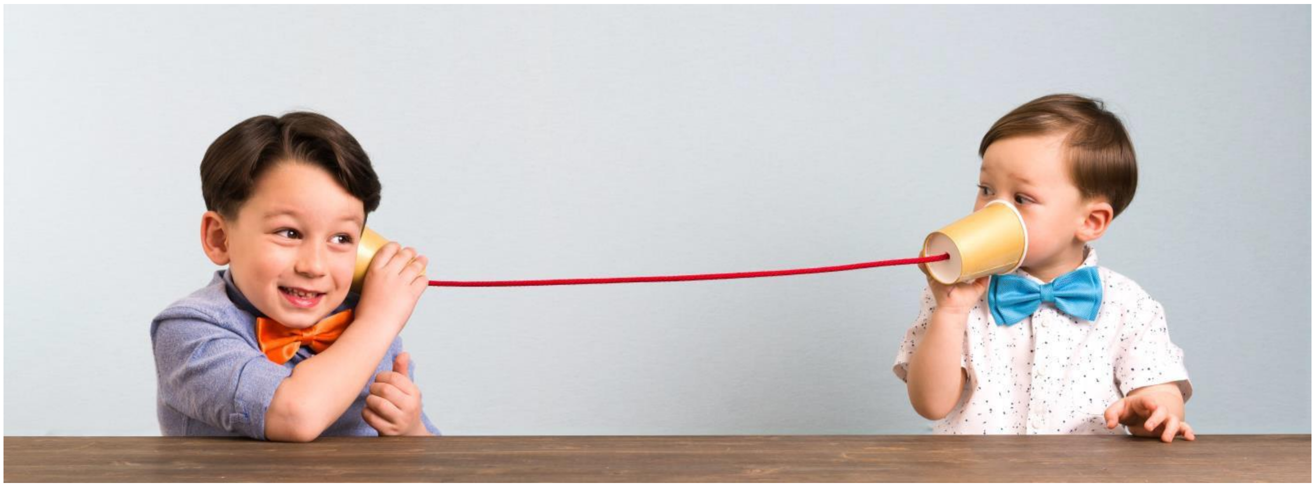
For more information on this topic, read *Transamerica Center's 17th Annual Retirement Survey.

Are You Hearing About Financial Wellness?

Employers have heard a lot about financial wellness. However, employers don't always recognize the connection between financial wellness and improved retirement savings behavior as well as a more productive workforce overall. All employees, no matter what generation they belong to, want to work in a friendly environment where they don't have to stress about their job, particularly when it comes to their finances. People tend to change jobs more often for one simple reason – money.[1]

As a result, companies experience a higher turnover rate and need to take extra efforts to provide their employees with stable and well-paid jobs. Because a happy employee is a productive employee.

A financial wellness program can improve employee productivity, increase employee satisfaction, reduce absenteeism and even help cut down on stress related health care claims. Comprehensive financial wellness programs reduce the disruptions in the employee's day from concerns over debt, collection calls, missed payments and poor credit scores. Surveys regularly show that finances are the leading cause of stress for Americans, above family obligations, health, and even work.[2] An employee who is financially prepared for expected and unexpected eventualities will exhibit greater engagement at work with less to worry about in their finances.[3]



Financial wellness programs help employers realize the value of a workforce that is prepared for a successful and secure retirement. With a focus on employee engagement, the best of these platforms offer financial well-being resources that provide a foundation for goal setting, as well as educational material to enhance understanding of retirement planning strategies. With the best financial wellness tools, all employees – regardless of compensation or savings level – should also have access to financial planning support to assist them in achieving their retirement goals.

It is worth looking into a financial wellness program with your advisor, to provide stability to employees. Employees will feel appreciated and motivated. That will translate into higher productivity and better results. Perhaps today is the day to start an internal discussion about how a financial wellness program might support a healthy, focused workforce and the role it can play in affecting your organization's bottom line.

[1] https://fortune.com/2020/01/06/why-people-change-jobs-careers-changing-industries/

[2]https://www.apa.org/research/action/speaking-of-psychology/financial-stress#:~:text=Audrey%20Hamilton%3A%20Money%20is%20a,as%20diabetes%20and%20heart%20disease

[3]https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/employees-financial-issues-affect-their-job-performance.aspx