The Importance of Financial Wellness

Numerous recent studies highlight the fact that American workers of all ages may not be saving enough to maintain their current standard of living during retirement. Indeed, many workers lack confidence that they will ever be able to afford to retire. In its latest research on the subject, the Employee Benefit Research Institute (EBRI) found that only 17% of workers say they are very confident in their ability to live comfortably throughout retirement, while less than three quarters (64%) say they are very or *somewhat* confident in their ability to retire comfortably.[1]

17%	64%
very confident in their ability to live comfortably throughout retirement	only somewhat confident in their ability to retire comfortably

Another study from the Center for Retirement Research at Boston College found that 50% of all working-age households are at risk of being unable to maintain their preretirement standard of living while in retirement.[2] The researchers considered households to be at risk if their projected replacement rate (retirement income as a percentage of preretirement income) falls more than 10% short of a targeted replacement rate that would allow them to maintain their living standard.

An Ongoing Problem

While these numbers are disturbing, the issue of employees being ill prepared for retirement has been a concern for years. Plan sponsors frequently see evidence of employees who feel unable to take full advantage of their retirement plans due to financial concerns. In particular, employees may believe they can't afford to contribute to their employer's plan or, if enrolled, they may think they can't afford to increase their contributions. In the EBRI research, workers with lower incomes (64%), those who have not calculated how much they will need to save for retirement (65%), and those in fair or poor health (75%) said they strongly or somewhat agreed that preparing for retirement makes them feel stressed. Moreover, almost a third (30%) of workers overall reported worrying about their finances at work.[3] What is new now is that employers are becoming more involved in helping employees master the financial skills that can help them prepare for retirement.

[1] *2018 Retirement Confidence Survey,* Employee Benefit Research Institute, 2018
[2] *National Retirement Risk Index Shows Modest Improvement in 2016,* Center for Retirement Research at Boston College, 2018
[3] *Perceived Helpfulness of Financial Well-being Programs: Results from the 2017 and 2018 Retirement Confidence Surveys,* Employee Benefit Research

Identifying Sources of Financial Stress

What are the financial pressures that are preventing employees from participating fully in their retirement plans — pressures that can also have an adverse impact on their productivity at work? Primary sources of financial stress include:

- **Health care expenses**
- **Housing affordability**
- **Burden of debt repayment**

Recognizing indicators of financial insecurity can alert employers that certain of their employees are experiencing high stress levels.

Global Benefits Attitude Survey (2017–2018)

Willis Towers Watson identifies the following indicators of financial insecurity:

- Not contributing to employer-sponsored retirement savings plan
- Hardship withdrawals from employer-sponsored retirement plan
- Loan from employer-sponsored retirement plan
- Recent qualified domestic relations order
- Active wage garnishment

How Employers Can Help

Employers can play an important role in inspiring their employees to improve their financial health. An overwhelming majority of employees whose responses were analyzed by the EBRI stated that certain workplace programs would help reduce stress and improve their financial well-being.[3] Many employees expressed an interest in getting help with:

Calculating how much to save for a secure retirement:	**75%**
Anticipating monthly expenses during retirement:	**72%**
Planning for health care expenses during retirement:	**72%**
Comprehensive financial planning:	**68%**

Although fewer employees thought that debt counseling, budgeting assistance, and student loan debt assistance would be helpful, younger workers (ages 25–34) were more likely than older workers to think that these programs would be helpful in preparing for retirement or increasing productivity at work.

A growing number of employers/plan sponsors understand that they can benefit significantly by helping employees improve their financial well-being. Financial wellness programs that incorporate money management training and tools with plan participant education can provide the financial knowledge and planning skills to help employees reach a degree of retirement security.

What to Include

To achieve a state of financial wellness, individuals must feel they have control over their financial lives. An effective financial wellness program helps employees reach that goal by educating them about overcoming personal financial challenges. An effective program helps employees identify behaviors that hold them back and offers alternative strategies that can help them make better financial choices.

Employers might consider incorporating some or all of the following strategies:

- **Debt management and reduction.** This program would educate employees about different types of debt, show them how to comparison shop among different credit card offers, and help them determine what level of debt may be appropriate for their income level. It could also include a module on how to interpret the terms and conditions associated with credit cards and other consumer debt.

- **Budgeting.** Providing access to educational materials and online tools that explain the basic principles of day-to-day budgeting and allow employees to make a personal budget can be an extremely effective means of empowering employees to take control of their finances.
- **Prioritizing saving.** Information that helps prioritize saving over spending can open up a world of new possibilities for many employees. Educating employees on topics such as the ins and outs of buying a first home, financing a college education, and preparing for retirement help employees understand that they can be more in control of their financial lives.
- **Investment education.** Ignorance of basic investing concepts impedes progress toward achieving financial goals for many employees. Employers who introduce financial and investment education programs have the potential to help employees make better decisions when it comes to investing for their retirement. Using a variety of educational materials and tools, including calculators and quizzes, employers can help their employees understand topics such as compounded earnings, investment risk and reward, and the benefits of diversification and asset allocation.

Once employees have been exposed to various strategies that are intended to help them become better money managers, plan sponsors could consider offering them a checklist that outlines a set of personal financial goals. These goals can help get employees started on the path to improving their financial future. The checklist could set some or all of the following goals:

- [x] Craft a budget
- [x] Pay off consumer debt. Start by paying down those debts with the highest interest rates
- [x] Open a savings account for financial emergencies and fund the account with enough money to pay three to six months of living expenses
- [x] Enroll in the employer-provided retirement plan and contribute at least enough to get an employer matching contribution, if offered. Then increase the contribution level by 1% each year until savings are on track
- [x] Start a college savings fund
- [x] Add a little extra to each home mortgage payment to pay off the debt early

Examine Retirement Plan Design

Financial wellness initiatives can be a key component of a larger program designed to ensure that employees can start on the path to retirement security. In addition, employers can take other measures that will help bring employees closer to achieving that goal.

By reviewing the current structure of their plans, employers can determine if tweaks or changes to plan enrollment and vesting requirements would be useful.

For example, automatic enrollment and automatic contribution escalation may encourage greater plan participation and help employees make saving for retirement a priority.

Employers should also look at ways they can prevent asset leakage from their retirement plans. Asset leakage through plan loans, in-service withdrawals, and cash outs when changing jobs compromises the retirement readiness of many participants.

[4] Private Letter Ruling 201833012

In addition, employers may want to review a recent private letter ruling from the IRS:

The IRS letter gave the green light to a large employer seeking to help employees pay down their student debt while saving for retirement.[4] This employer added a 401(k) plan perk, called a Student Loan Repayment program, to its existing matching contribution benefit. Under the program, if an employee remits a student loan repayment equal to at least 2% of compensation, the employer will make a non-elective employer contribution to the employee's 401(k) equal to 5% of compensation. The employer makes the retirement plan contribution for the employee regardless of whether the employee contributed to the plan. Contributions under the Student Loan Repayment program are tax deferred for the employee and tax deductible for the employer.

Be aware that private letter rulings generally cannot be relied upon by other taxpayers. However, an industry group has requested that the IRS issue a revenue ruling or other guidance of general applicability so that this 401(k) plan feature can be available to all employer 401(k) plans without each plan sponsor being required to request its own private letter ruling.

Measuring Success

As more employers implement financial wellness programs in the workplace, it's likely that many of them will want to know whether these programs do what they say they do and if they are worth the investment. While it is difficult to quantify every aspect of a workplace financial wellness program, there are some metrics that can help measure the effectiveness of these programs.[5] Employers may want to focus on some or all of the following:

- **Employee Engagement** — Do employees value the benefit enough to use it? How engaged are they? Employers can access vendor data to measure the number of employees who actually sign up for financial wellness programs, who answer quizzes, and who download or attend seminars on the subject.
- **Plan Participation** — Retirement plan metrics such as participation rates and average deferral rates can help employers gauge how effective their financial wellness programs are. In general, increased enrollments and contributions are likely indicators that employees have extra money to invest in their retirement plans.
- **Employee Debt and Plan Loans** — Taking plan loans, requesting hardship withdrawals, defaulting on debt, and having wages garnished are all signs of employees in financial distress. Employers can use payroll and plan data to measure the effectiveness of financial wellness programs in reducing the frequency of such negative financial behaviors among employees.
- **Employee Retention Rates** — An effective financial wellness program may result in increased employee retention rates. Employers can measure retention rates before and after the introduction of a financial wellness program to see if the program had a discernible impact.
- **Disability and Health Benefit Claims** — Employees who are highly stressed due to financial concerns are more likely to file health benefit claims for stress related illnesses and claim disability or workers' compensation than employees who are not under stress. Employers can track absenteeism and health care costs in their companies before and after the introduction of a financial wellness program to see what impact the program had.
- **What About Your Business?** — A financial wellness program may or may not be appropriate for your business. A trusted advisor can help you explore your options.

[5] *6 Ways to Measure the Success of Financial Wellness Efforts,* Society for Human Resource Management, 2019.

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For over 10 years, Amber has focused on helping America's workforces retire on their own terms. As a retirement plan consultant, she works closely with plan sponsors designing plans to promote retirement readiness for their employees. In 2017 Amber was recognized by the National Association of Plan Advisors (NAPA) as a Top advisor under 40 (a.k.a. "young guns"), and added to the top female advisor list in 2018, 2017 and 2016. She was featured in Employee Benefit Adviser Magazine as one of 2015's Rising Stars in advising. Hartford Business Journal has recently recognized her on their top 40 under 40 list. Amber exemplifies her dedication to the industry by holding her Chartered Retirement Plan Specialist (CRPS®) and Certified Plan Fiduciary Advisor (CPFA) designations.

Amber is a graduate of East Carolina University where she received her Bachelor of Science in Business Administration. With her southern roots, she loves college football and coaches her niece's cheerleading squad. She resides in Haddam, CT with her fiancé, two stepchildren, and fun loving dog Ernest.

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