Plan Sponsors Can Do More to Improve Employee Retirement Readiness

Many companies worry about their employees' long-term financial security, particularly whether they are saving enough for retirement, but surprisingly few have built retirement plan offerings that sufficiently address these challenges.

According to a recent plan sponsor retirement survey, 75% of employers cite the retirement readiness of employees as their top workforce management issue, compared to 63% who are more concerned about budget constraints and 60% who worry more about attracting and retaining talent.

The one concern that polled higher than employers' fear of Americans outliving their retirement savings was rising healthcare costs, which was cited by 91% of survey respondents. Experts note that the aging workforce is also having an impact on rising healthcare costs as older employees have a higher rate of benefit usage than younger employees. Research conducted by Prudential revealed that for each individual who cannot afford to retire, employers pay an incremental cost of more than $50,000 a year.

Employers' concern aligns with those of plan participants. Aegon's 2018 Retirement Readiness Survey, for instance, indicates 57% of workers envision some form of transition to retirement in which they continue working as they do today or on a part-time basis. Globally, only 25% of workers think they will be able to collect 68% of their current annual income upon retirement, the Aegon survey shows.

Amid the growing angst over America's retirement security, the Trump Administration issued an executive order on August 31st calling on the Departments of Labor and Treasury to consider changing the required minimum distribution (RMD) rules for people with traditional Individual Retirement Accounts (IRAs) and 401(k)s as well as ways to make it easier for small businesses to offer retirement plans.

Improving Retirement Outcomes

The startling statistics on retirement security are driving plan advisors to develop tools and strategies aimed at helping employers maximize the effectiveness of their retirement plans. Providing access to better investment options and automatic plan design enhancements, derived from behavioral finance theory, are a few such strategies.

For instance, USI Consulting Group (USICG) has long leveraged its behavioral finance expertise to help plan sponsors make better-informed decisions regarding the design and management of defined contribution plans. Critical decisions such as implementing automatic enrollment, and selecting the appropriate contribution rate and default investment vehicles for plan participants are made with the guidance of behavioral data.

Recently, the USICG team worked with a multi-location luxury goods retailer to increase 401(k) enrollment, which appeared to have a hit a plateau at 64%, by applying behavioral finance strategies. Specifically, the team recommended implementing automatic enrollment, which placed employees in a default investment at a default rate unless they explicitly elected otherwise. Through this strategy, employee participation surged to 98%, a 34% increase.

In addition, the team recommended automatic escalation, which is designed to

increase a participant's deferral rate by a set percentage each year up to a specified cap. The goal is to encourage plan participants to save early to avoid missing out on their projected monthly income. The combined strategy of automatic enrollment and escalation dramatically improved participants' savings rates.

Plan Sponsors Can Do More

Despite the efforts to help companies improve retirement savings, many plan sponsors have yet to take advantage of the various strategies and tools to improve employees' retirement outcomes. For example, one survey noted that 43% of plan sponsors have not analyzed workforce demographics to help them maximize the benefit of their retirement plan.

According to USICG, plan sponsors can significantly improve participants' retirement readiness by working with their advisors on effective engagement, communication, and cost management strategies. When implemented correctly, these strategies can help participants double their savings rate and increase their average account balance by up to 50% in the first year.

To learn more about USICG solutions and strategies to maximize retirement savings, contact your USICG representative.

**Actual savings is dependent on plan size, demographics and design. Results will vary.*
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