STAGES OF RETIREMENT PLANNING

Strategies to boost employee engagement

Aug. 22, 2019
Agenda

• Retirement strategies for plan participants
• Employer best practices to boost retirement readiness
• Case studies to boost engagement
Presenters

Eric Carroll
Partner, Audit, RSM US LLP
eric.carroll@rsmus.com

Joe Mattia
Director, RSM US Wealth Management LLC
joe.mattia@rsmus.com

Brent Hulbert
Director, RSM US Wealth Management LLC
brent.hulbert@rsmus.com
Retirement readiness

Retirement can be expensive

80% is roughly the amount of your annual income that many experts estimate you’ll need for each year of retirement.¹

Sources of retirement income²

34% Social Security

66% All other sources
- company retirement plan
- pensions
- personal savings and investments
- earnings/income
- other

¹ David Blanchett, Estimating the True Cost of Retirement, June 30, 2015.
Fidelity's suggested total pre-tax savings goal of 15% of annual income (including employer contributions) is based on our research, which indicates that most people would need to contribute this amount from an assumed starting age of 25 through an assumed retirement age of 67 to potentially support a replacement annual income rate equal to 45% of preretirement annual income (assuming no pension income) through age 93. The income replacement target is based on the Consumer Expenditure Survey 2011 (BLS), Statistics of Income 2011 Tax Stats, IRS 2014 tax brackets, and Social Security Benefit Calculators. The 45% income replacement target (excluding Social Security and assuming no pension income) from retirement savings was found to be fairly consistent across a salary range of $50,000-$300,000; therefore the savings rate suggestions may have limited applicability if your income is outside that range. Individuals may need to save more or less than 15% depending on retirement age, desired retirement lifestyle, assets saved to date, and other factors. Based on 6% investment growth assumptions on tax deferred savings. Source: Fidelity Investments.
Deferral rates by participant age

Source: Vanguard How America Saves 2019
Prioritizing long-term retirement savings

1. Emergency reserve (3 – 6 months of living expenses)
2. HSA (Health Savings Account) if eligible for match\(^1\)
3. Defined Contribution savings to maximize employer match (if available)
4. Additional payments on higher interest loans (credit card debt / student loans with interest >6%)\(^2\)
5. Additional Health Savings (HSA) / Health Spending Accounts\(^1\)
6. Additional Defined Contribution savings (up to the maximum contribution)
7. Additional payments on lower interest loans (such as student loans with interest <6%)\(^2\)
8. IRA\(^3\)
9. Taxable account

**Getting Started**

Start with emergency savings and make sure to take advantage of employer matching funds if they are available.

If long-term retirement savings are your objective, leave HSA funds in your account to grow while you fund current health care expenses from other accounts.

---

\(^1\) Must have a high-deductible health insurance plan that is eligible to be paired with an HSA. Those taking Social Security benefits age 65 or older and those who are on Medicare are ineligible. Tax penalties apply for non-qualified distributions prior to age 65; consult IRS Publication 592 or your tax advisor.

\(^2\) This assumes savings in a diversified portfolio may earn 6% over the long term. Actual returns may be higher or lower. Generally, consider making additional payments on loans with a higher interest rate than your long-term expected investment return.

\(^3\) Income limits may apply for IRAs. If ineligible for these, consider a non-deductible IRA or an after-tax 401(k) contribution. Individual situations will vary; consult your tax advisor.
Stress in the workplace

Financial matters is the top cause of stress

- Financial or money matters / challenges: 59%
- My job: 15%
- Relationships: 12%
- Health concerns: 10%
- Other: 4%

Source: PwC’s 8th annual Employee Financial Wellness Survey, PwC US, 2019
Nearly half of all employees say they find it difficult to meet household expenses on time each month.

Source: PwC’s 8th annual Employee Financial Wellness Survey, PwC US, 2019
Saving for retirement
Good news / bad news – we are living longer

If you’re 65 today, the probability of living to a specific age or beyond

Average life expectancy at age 65

<table>
<thead>
<tr>
<th>Year</th>
<th>Women</th>
<th>Men</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>84.1</td>
<td>80.1</td>
<td>4.0</td>
</tr>
<tr>
<td>2010</td>
<td>85.2</td>
<td>82.6</td>
<td>2.6</td>
</tr>
<tr>
<td>2090</td>
<td>89.6</td>
<td>87.7</td>
<td>1.9</td>
</tr>
</tbody>
</table>

COUNT ON LONGEVITY

Average life expectancy continues to increase and is a mid-point not an end-point. Plan on the probability of living much longer—perhaps 30 plus years in retirement—and invest a portion of your portfolio for growth to maintain your purchasing power over time.


© 2019 RSM US LLP. All Rights Reserved.
The retirement equation

A SOUND RETIREMENT PLAN
Make the most of the things that you can control but be sure to evaluate factors that are somewhat or completely out of your control within your comprehensive retirement plan.
New savers

• Characteristics
  - First time savers
  - New to the 401(k) experience
  - Low investment knowledge
  - Lower salary/wages
  - Student loans
  - Age 18-25
New savers, cont.

- **Primary focus**
  - 401(k)-101 education
  - Emphasis is on participation – just get started!
  - Make it easy
    - Auto enrollment feature
    - QDIA – Target Date Funds
  - Roth education
  - Student loans vs. 401(k)
Early savers

• Characteristics
  - Early in the saving process
  - Limited investment knowledge
  - Small balance, but building
  - Advancing in career/income
  - Student loans
  - Age 25-35
Early savers, cont.

- **Primary focus**
  - 401(k) – 201 education
    - Website tools/resources
    - Investing
  - Increasing deferrals
    - Auto increase feature
  - Proper asset allocation
    - Target date funds
    - Rebalancing
  - Balancing student loans and saving more
Mid-career savers

• Characteristics
  - Financial stress building
    • Well on their way OR need to catch up – which is it??
  - Income is rising
  - Good idea of their risk tolerance
  - Additional savings outside the plan
  - May have or seeking personal advisor/guidance
  - Age 35-55
Mid-career savers, cont.

• Primary focus
  - Less general education, more one-on-one guidance
  - Relieving financial stress
    • On track or need to catch up??
    • Specific questions about their situation
  - Strong contributions
    • 10-15% goal
  - Time for a more holistic view of their savings situation
Pre-retirement savers

• Characteristics
  - Thinking about retirement
    • Within 10 years
  - Financial stress
    • Can I retire when I want to?
  - Income is peaking
  - Less debt/expenses
  - Age 55+
Pre-retirement savers, cont.

• Primary focus
  - Continued one-on-one guidance
  - Maxing out contributions
    • Catch-up contributions
  - Mitigating investment risk
  - Pre-retirement questions
    • Distributions, rollovers, Social Security
  - Retirees – Stay in or get out?
Polling Question #3

Who provides retirement plan education to your employees?

a. Advisor
b. Recordkeeping provider
c. Internal resources
d. Currently don’t provide
Participants need help

Financial literacy
Financial literacy is the *education* and *understanding* of various financial areas including topics related to managing personal finance, money and investing. Topics include investing, insurance, real estate, paying for college, budgeting, retirement and tax planning.

Financial wellness
The process of learning how to successfully manage *financial expenses*. Money plays a critical role in our lives and not having enough of it impacts health and overall well being.
Retirement saving and well-being

• Successful retirement planning drives confidence, even “happiness”

• Nine out of 10 participants agree:
  - Being on track for retirement positively influences my well-being
  - I am a happier and more confident person because I am saving money for retirement

“Having enough money to live the life I want” ranked second to good health among factors contributing to participants’ well-being

Source: 2019 BlackRock DC Pulse Survey
Retirement saving and well-being

But on the flip side, unsuccessful planning takes an emotional toll

Key factors provoking participant worry about overall well-being:

- Not making enough money to live the life I want (51%)
- Not having enough money to take care of an unexpected emergency (43%)
- Not being on track for retirement (38%)

About four in 10 participants say that not being on track for retirement has increased their anxiety

Source: 2019 BlackRock DC Pulse Survey
Shaping plan design

Sponsors are concerned about setting appropriate expectations among participants when it comes to effective savings levels.

- **89%** say setting default contribution rates/escalation maximums too low can actually reduce amount participants would save otherwise.

- **94%** agree it would be helpful to advise participants on ideal amount of savings at age-related milestones.

Source: 2019 BlackRock DC Pulse Survey
Sponsors have a clear point of view about what supports retirement planning:

- 93% Automatically enrolling participants
- 86% Automatically increasing the amount participants save for retirement annually
- 86% Automatically reallocating assets to more appropriate age-based investments

Source: 2019 BlackRock DC Pulse Survey
Benefits of effective plan design

Increase participation

Boost savings rates

Improve investment diversification
# Plan design

<table>
<thead>
<tr>
<th>Feature</th>
<th>Benefits</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Automatic enrollment</strong></td>
<td>Can drive higher overall participation rates</td>
<td>Can be administratively cumbersome</td>
</tr>
<tr>
<td></td>
<td>Opt –out vs Opt –in</td>
<td>Cost, if sponsor matches contributions</td>
</tr>
<tr>
<td></td>
<td>Negates inertia</td>
<td>Turnover / Terminated participants</td>
</tr>
<tr>
<td><strong>Automatic escalation</strong></td>
<td>Higher saving rates</td>
<td>Cost of benefits</td>
</tr>
<tr>
<td></td>
<td>Inertia</td>
<td></td>
</tr>
<tr>
<td><strong>Professionally managed</strong></td>
<td>More appropriate allocations</td>
<td>Fiduciary oversight and selection</td>
</tr>
<tr>
<td><strong>investment options</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employer contributions</strong></td>
<td>Incentive for participants to save</td>
<td>Cost to employer</td>
</tr>
<tr>
<td></td>
<td>Higher savings accumulation</td>
<td></td>
</tr>
</tbody>
</table>
Case study: Plan “refresh” with major participant engagement

• Diversified automotive company
• 725+ employees
• $47.5 million in plan assets
• Objective
  - Engage participants to revisit their investment elections (re-election window)
  - Heavy focus on communications / education
  - Streamline core menu
  - Improve the asset allocations of participants
• Plan changes
  - Several core investment options removed
  - Switched to lower cost institutional share classes
  - All balances and future contributions re-enrolled into qualified default investment alternative (target-date funds) if participants did not act during re-election window
Considerations

• Recognize participant demographic and game plan for specific needs
• Participant survey to identify concerns/needs/wants
• Evaluate engagement objectives
• Identify possible plan design features to maximize results
• Monitor effectiveness