How to use your 401(k) plan to save your company money!

Retirement readiness is good for business

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At a Glance

- Retiree forecast challenges
- Related Plan Sponsor Challenges
- Increasing Company Profits through effective plan design

Show me the Money!

USA retirement assets total more than $29 trillion

- $9.5 trillion in IRA's (90% are rollovers)
- $8.1 trillion in DC plans
- $3.2 trillion in private DB plans
- $6.1 trillion in state/local/fed plans
- $2.3 trillion in annuity reserves

Retiree Forecast Challenges

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- A Baby Boomer (70 million) now retires every 7 seconds, 10,000 a day to 2030
- One-third of the U.S. workforce is now over 50
- 77 percent of Americans over the age of 40 do not know how much of their retirement savings they can safely spend each year without running the risk of outliving their assets.

Retiree Forecast Challenges

- Millennials are the fastest-growing demographic in the workforce today, and will comprise 75 percent of the global workforce by 2025
- More than 3 out of 4 millennials who have access to retirement plans take advantage of them
- 65 percent said their inability to save was thanks to impulse buying, despite the importance of some of the savings goals they'd set

Retiree Forecast Challenges

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- **41 percent of the millennials view a financial milestone or savings goal as the trigger that will shoot them off into retirement.**
- **The average millennial starts investing in a retirement plan at age 22 (compared with age 27 Gen Xer)**
- **60 percent of millennial 401(k) participants held target-date funds, compared with 41 percent of 401(k) participants in their 60s**

Retirement Focus is Shifting

- The outlook of those approaching retirement continues to shift –

"What age do I want to retire"

"How much do need to retire"

"How much a month do need to retire"

Retirement Focus is Shifting

- Plan Sponsors now measure their success in retirement readiness, not just participation

- 88 percent are worried about how those employees hanging on to their jobs to earn more retirement cash will affect their businesses

Do Participants Need Help?

- 10% of participants (around 7,000,000) max out their contributions
- 29% of Americans 55 and older don't have any retirement nest egg (or pension)
- 82% never change their investment elections after their original enrollment date

Do Participants Need Help?

- The average 401(k) balance is $106,500
- Participants on the verge of retirement , ages 55 to 59, had $179,100 (medium $62,700)
- Hard to say these "savings plans" have been effective as "retirement plans"

For Comparison…A participant making $50,000 a year, contributing 6% with 3% match for 30 years, 6% average return = $528,000)

If you made the maximum contribution every single year and posted double-digit investment returns, it would take around 20 years to hit a million

So Are Sponsors Doing a Good Job?

That's a really good question

- If you run a great plan with low fees and well performing investments, but your participants are not able to retire, is it successful?

From a fiduciary perspective, the answer is yes....sort of.

Might not make for good business though.

Does it matter if participants can't retire?

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That's another really good question.

What is our plan really supposed to do?

- Recruit
- Retain
- Retire

What does it matter if we are not successful at all of these?

So what if they can't retire?

What can happen to our businesses if we do not promote financial wellness:

- **Higher healthcare care costs**
- **Talent leakage (turnover)**

So what if they can't retire?

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What can happen to our businesses if we do not promote financial wellness:

- Loss in productivity
  - Health related absences
  - Distractions:
    - 19% of employees admit that personal finances distract at work for 5 hours or more per week
    - 32% of Genx employees report that personal finances distract them at work

Case Study

Three like companies with 1,000 employees that only vary in worker demographics

	COMPANY 1	COMPANY 2	COMPANY 3
PERCENT OF WORKFORCE 60+	30%	20%	10%
PERCENT OF WORKFORCE 40-60	45%	40%	35%
PERCENT OF WORKFORCE UNDER 40	25%	40%	55%
ANNUAL HEALTHCARE & DISABILITY PREMIUMS	$7.6M	$6.6M	**$5.5M**
ANNUAL SALARY COSTS	$49.5M	$48.0M	**$46.5M**

Source: CIGNA (healthcare premium)
Source: www.lanl.gov (Voluntary LTD rates); Ge Re Research, www.genre.com/aboutus/press-releases/gen-re-announces-2013-us-group-disability-and-group-term-life-market-survey-results.html

Source: Bureau of Labor Statistics, www.bls.gov/news.release/archives/wkyeng_10202015.pdf (Salary Differential)

Where to start - Can our participants actually retire and save us money?

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- Fewer than 20% of plan sponsors have assessed their participants projected retirement income ratios (gap analysis)
- Without this assessment, how do you know your providers products and services are providing significant value?
- Without quantifying readiness, how can sponsors evaluate whether their decisions are helping, hurting, or having any effect at all on helping participants reach retirement goals?

What Makes Plan Assets Grow

Now that we know what our participants need to retire, what can we change to make an impact?

- **Investment Income** – quality investments will certainly increase plan assets
- **Lower plan fees** – The less fees paid, the more plan assets there will be to invest
- **Contributions** – contributions consistently increase the retirement assets available for investment growth

Biggest bang for the buck

Let's see what has the largest impact

We have a new participant in our plan!

- Salary is $50,000 a year
- Receives a 3% COLA
- Will retire after 30 years of service.
- Sponsor matches 50% up to 6% of EE deferrals (3% max)
- Plan earns 6% average

How much will he/she have at retirement?

Biggest bang for the buck

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$264,000 - Enrolled at 3% (receives 1.5% match)

$314,000 - Enrolled at 3%, saved 1% in plan fees

$322,080 - Enrolled at 3%, picked top funds each quarter

$528,000 - Enrolled at 6% (full sponsor match)

$703,000 - Enrolled at 9%

$838,000 - Enrolled at 9%, saved 1% in plan fees

Biggest bang for the buck

Results:

Participants need to save more

Quick Fiduciary Reminder

- **As a plan fiduciary, you have to do these:**

a) Offer quality investments
b) Make sure the plan fees are reasonable (low)

- **As a plan fiduciary, you should also do this:**

a) Encourage participants to contribute more
b) Encourage participants to contribute more

Would plan design changes have an impact?

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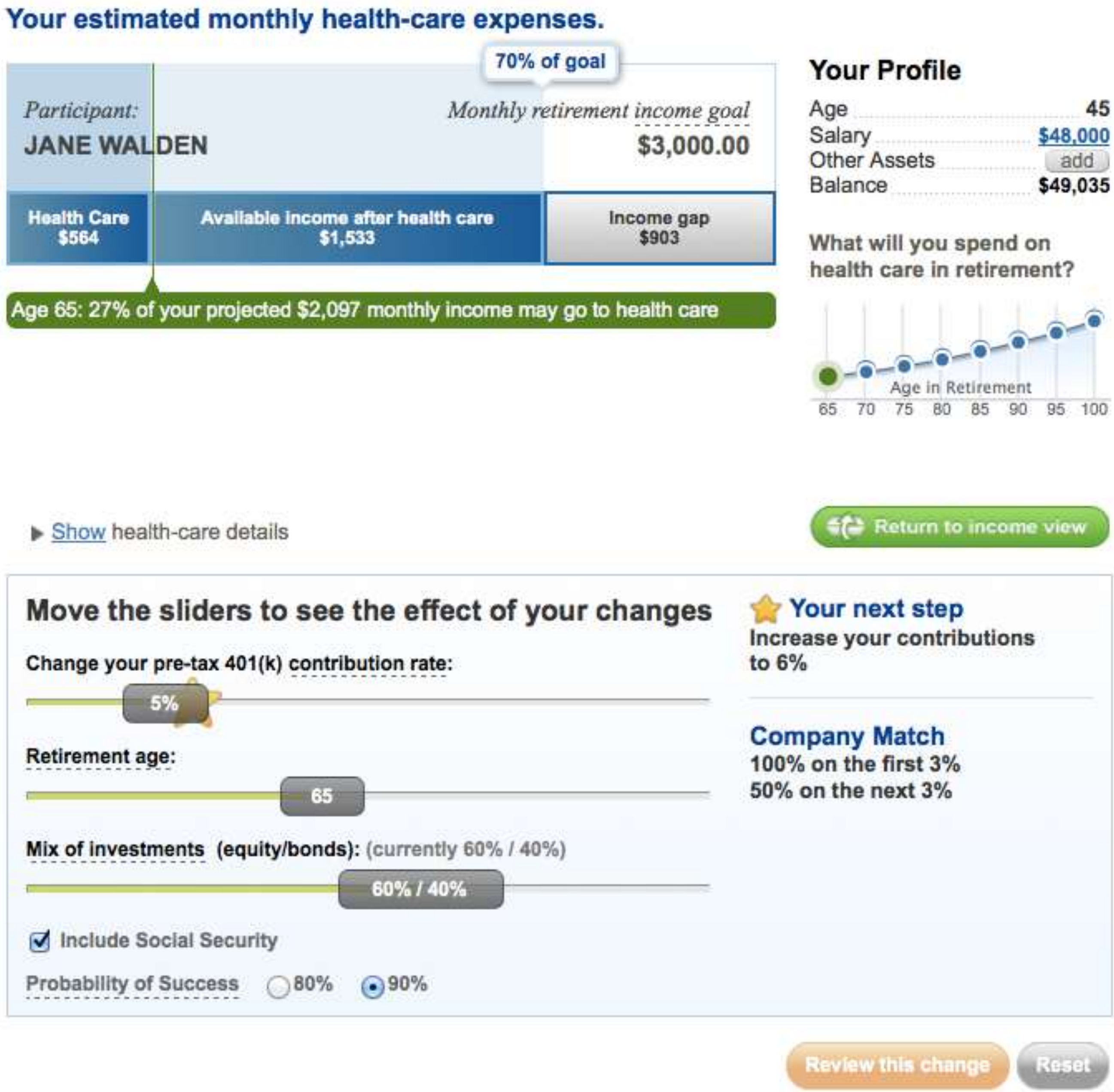
- **Take a look at your demographics and select the best approach to encourage deferral increases**

a) Would using **better technology** increase savings?
b) Would **automatic savings** features work better?
c) Would participants respond better to **investment advice**?

Tech approach

Online Vendor Product approach



Automate Deferrals / Increases

- **Auto enroll participants on date of hire**
- **Auto enroll participants at 3% to 6% deferral rates**
- **Auto escalation – increase deferral rates to maximize sponsor match (and more)**

How will our participants respond?

- Surveys show fear of employee pushback appears to be the main deterrent to adoption of automatic features
- A recent JP Morgan report shows that to be very overstated

How will our participants respond?

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- Too many participants view a sponsor’s initial deferral rate as an endorsement and don’t raise their contribution percentage

- Surveys show opt out contribution rates

~6% for auto enroll

~ 10% for auto escalate

Will automation features cost more money?

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- May cost more, but design could equalize the impact
- Stretch matching contribution could minimize the effect: Keep the match at 3%

a) 33% up to 9% (12% total)
b) 25% of 12% (instead of 50% of 6%)
c) Per our previous Example:
   $528,000 – 50% of 6% (9% total)
   $879,000 – 25% of 12% (15% total)

Offering participants access to advisors

85% of 401(k) participants surveyed in 2016 by Charles Schwab said:

- They wanted help with investing and retirement planning

- They would use a financial wellness program if it were offered by their employer

(a step beyond the required 404c education)

Offering participants access to advisors

Changing the education approach:

- Re-focus education on risk tolerance and contribution deferral rates (less on maximizing investment returns)
- Provide access to investment advisors

  DOL feels investment advice is needed now more than ever

  DOL is changing rules to encourage sponsors to provide participants individual investment advice

Offering participants access to advisors

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Changing the education approach:

- Provide access to investment advisors

Per the WSJ:

"Survey after survey shows that formal advice leads investors to <u>increase their savings</u>, diversify their holdings and continue holding stocks/mutual funds even when the market takes a plunge."

Quick Fiduciary Quiz

- If my plan design does not encourage participants to save more, am I at risk?
- If my plan design does not encourage participants to make investment changes to ensure they are on the correct glide path, am I at risk?
- If I run a great plan with low fees and well performing investments, but my participants are not able to accumulate enough savings to retire, am I at risk?

Recap- Helping our participants retire, win win

Once again, lets think about why we should maybe revisit our plan design:

There is a business case for designing a plan so employees can retire:

- Reduce impact on increasing healthcare costs
- Reduce impact of talent loss (turnover)
- Increase worker productivity

Questions???

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"There's nothing wrong with entering magazine sweepstakes - but have you folks considered any other retirement plans?"