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Introduction

What Is Retirement Security?

While the meaning of a secure retirement varies by individual, it can generally be viewed as having the ability to fund one’s retirement lifestyle goals and pay bills without worrying about running out of money during one’s lifetime.

A combination of powerful financial and demographic forces has made retirement security a topic of enormous concern in the United States in recent years. Research reports and news headlines shout warnings of the greatest retirement crisis in history as policy makers, employers and households brace for what they fear is ahead. Rooted to a large extent in the baby boom following World War II and improvements in health that have increased life expectancy, the retirement crisis was significantly worsened by the Great Recession and financial meltdown of 2008. The simple realities of human behavior are compounding the situation.

Unless a broad range of actions is taken, the consequences of this crisis will be far-reaching and play out for decades to come. Future retirees carry on their shoulders much more risk and responsibility for their retirement income than many of those already in retirement have experienced. Many people will be forced to work past the traditional retirement age of 65. Poverty rates among the elderly are expected to rise.

The purpose of this paper is to examine the factors that have led to this crisis and the implications for employers, plan sponsors and workers. Understanding the elements underlying the crisis is essential to mitigating the consequences. The other aim of this report is to enlighten U.S. employers and plan sponsors regarding the critical role they can play in helping workers achieve a secure retirement.
I. Retirement Readiness

What happens if one looks at the actual household savings and predicted retirement income of future retirees? Since 2003, the Employee Benefits Research Institute (EBRI) has used data it collects annually from workers to create a retirement readiness rating (RRR). Figure 1 shows the disparity in RRRs when households are examined by preretirement income levels.

According to Fidelity's new Retirement Preparedness Measure, 55% of U.S. households are at risk of not being able to afford essential expenses in their so-called golden years. Baby boomers are on track to reach 81% of their retirement goals—the highest rating among all generations in the analysis. Those in Generation X are on track to reach 71% of their goals, while millennials are the furthest behind at only 62%.

What Employers and Other Plan Sponsors Think

In 2014, the International Foundation of Employee Benefit Plans asked representatives of multiemployer benefit plans and employers in the U.S. to assess the retirement preparedness of their average active worker at normal retirement age (Figure 2). A relatively small proportion of respondents (19%) described these individuals as “very” or “extremely” prepared. The remainder were, at best, “somewhat prepared.”

What Workers Think

How confident are workers regarding their personal preparation for retirement? When AEGON asked U.S. workers (excluding those who are self-employed) how confident they are that they will be able to retire fully with a lifestyle they consider comfortable, 28% reported they are “very confident” or “extremely confident” (Figure 3). It appears many plan sponsors and workers agree that only a small proportion of workers are on their way to the secure retirement that can be described as the "golden years.”
II. Reasons for the Crisis

When trying to understand the traditional underpinnings of retirement security, a three-legged stool is often used as a metaphor for the primary sources of retirement income. The three legs of the stool are (1) government benefit programs such as Social Security, (2) workplace plans and (3) personal savings. This same stool is helpful in understanding the retirement crisis. Two legs of the stool—government and workplace retirement benefits—are eroding. At the same time, households have not been increasing their personal savings to make up for the declines. A confluence of factors has contributed to the instability of the three-legged stool and the decline in retirement security.

Demographics

As World War II ended and economic conditions improved, the United States experienced a 20-year bulge in population called the baby boom. In their heyday, boomers were an unprecedented economic force, pushing up rates of homeownership, consumer spending and employment. It is no coincidence the labor force participation rate hit a record high in the late 1990s when those born between 1946 and 1964 were at the peak of their working lives. As boomers and their children move into retirement, they are once again going to change the world as we know it.

Lower Birth Rates

As the first of the baby boomers entered adulthood in 1965, several social changes were also occurring that changed the population balance between age groups. Women had access to better methods of birth control and were entering the workforce in greater numbers. Furthermore, people were marrying at a later age and waiting longer to have children. The resulting drop in the birth rate created the “baby bust,” or Generation X. Born around the period spanning 1965 to 1984, this generation was greeted by high unemployment and discouraging income levels. Generation X had no incentive to increase the birth rate per family. There was, however, a baby boom “echo”—an increase in babies born to the large number of boomers in the 1980s through the early 2000s.
Just as the “echo boomers,” referred to as Generation Y or millennials, are entering their prime working years, baby boomers are retiring. In 2011, the first of the baby boomers reached the age of 65—the traditional retirement age. The large number of persons who will retire in the relatively short period that follows will be unprecedented before flattening out by about 2030. Not long after, another peak will occur as the oldest of the millennials begin entering their retirement years. In 2014, the share of the nation’s population over age 65 is 14%. By 2050, the figure is projected to be 21%. A shrinking proportion of workers will be supporting benefits for a growing pool of retirees, and an increasing share of federal government spending will be devoted to Social Security benefits.

**Longer Life Spans**

While the size of the baby boom generation is certainly a contributing factor, it is not the only reason the population will continue to age over the next several decades. In the previous century, life expectancy rose dramatically amongst the world’s wealthiest populations, from around 50 to over 75 years. This trend is expected to continue during the 21st century—although at a slower pace. Longer life spans can be attributed to improved hygiene, better nutrition, safer working conditions, declines in behaviors such as drinking and smoking, advances in health care and so forth.

Currently, life expectancy at birth is 79 years in the United States. As persons get older, life expectancy changes. In fact, it gets better. For example, those who live to age 65 will have an average of almost 19 additional years—a life expectancy of about 84.1 years. Table I provides the life expectancies for men and women at different ages. Women generally live longer than men do. Between 2010 and 2050, the life expectancy at age 60 is expected to increase 3.1 years, or about .08 years annually.

**Economic Events and Trends**

As if demographics weren’t enough, market shocks and broad economic trends heightened retirement concerns. Major stock market declines and reduced tax revenue have compounded underfunding problems faced by many retirement benefit programs. The 2008 financial crisis in combination with the Great Recession provides an example of how market downturns can influence the ability of workers to save and do their part in achieving retirement security. Rising health care costs have exacerbated the retirement crisis. For many individuals, the financial repercussions of these events and trends will last throughout their retirement.

**Unemployment and Stagnating Pay**

Millions of people were thrown out of work by the Great Recession. Some older workers were forced to retire earlier than planned. For many who kept their jobs, pay stagnated. An earlier retirement, fewer years of service and reduced income contribute to diminished retirement income for individual workers.

- Social Security ties benefits to lifetime earnings and retirement age.
- Most employer-sponsored defined benefit (DB) plans are also linked to final salary, years of service and retirement age.
- Balances in defined contribution (DC) plans depend on employee and employer contributions, both of which generally are tied to pay and the number of years contributions were made.

The Urban Institute estimates that for adults aged 25 to 64 in 2008, average income until age 70 will be reduced by about 4%—about $2,300 annually (in 2007 dollars)—as a result of joblessness and pay stagnation. Among those aged 55 to 59 and closer to retirement in 2008, the fall in worker income is predicted to be 5%, or $2,500 each year, while the postretirement earnings of these workers will drop 9%. Slow wage growth during the recession doesn’t noticeably affect lifetime earnings for these workers, but the indexing of Social Security to the average wage in the year a person turns 60 means a lower index factor for everyone who turns 60 after 2008.
Individuals aged 25 to 34 in 2008 are also heavily impacted by the economic downturn. Their average annual income to age 70 is predicted to be 5% ($3,000) less because they were the ones most likely to lose their jobs, and the impact of lower wages will accumulate over much of their working lives.12

**Decline in Investment Returns**

When the 2008 global financial crisis hit, banks around the world cut interest rates to record lows to stop the economic free fall—in effect, punishing those who had bonds and other fixed income investments paying interest. Those who had investments in equities were socked even harder. From 1926 through 2000, the stock market (as represented by the S&P 500) had an annualized return just over 11%. In the past 13 years, the annualized return has been less than 4%—well below the historical average of the past century.

Many individual investors responded to stock market volatility by shifting retirement savings into more conservative investments. Even though stocks have recovered, many individual investors have continued to shun stocks—preferring the lower, safer returns of fixed income products. This aversion to risk is expected to continue, as more than half (53%) of employees in AEGON’s 2013 global survey agreed that as a result of the financial crisis, they “will take fewer risks when it comes to saving for retirement.”13

While there is nothing wrong with a conservative approach to investing—and investors are often well-advised to reduce equity exposure as they approach retirement—abandoning equities can seriously shrink the amount and duration of a worker’s retirement income. Despite the higher investment risk, stocks provide yield in the long term that can help offset the risk of inflation.

**Drop in Home Values**

A growing proportion of retirees are seeing the homes they own not just as a place to live, but also as collateral for a home-equity loan or reverse mortgage. Tapping home equity can supplement monthly income that is exceeded by expenses during retirement—especially household and health care expenses that don’t occur every year but could have a catastrophic financial impact. For many, the sale of a home may be a primary source of money to cover assisted living and nursing home care. Three out of every five individuals in the U.S. report they are “somewhat” or “very” likely to use the value of their home as an emergency fund.14

Economic and demographic factors, however, may negatively influence how much home equity retirees are able to tap. During the 2007-2008 mortgage crisis, the price of single-family homes dropped an average of 31% in some parts of the U.S.15 Housing values in many communities have still not recovered, and it is difficult to predict if and when they might. Such declines are especially problematic for those who have to sell their homes while market prices are down.

Even if values recover from the mortgage crisis, the demographics of the baby boom generation continue to loom. For four decades, baby boomer demand drove up U.S. housing prices. In the future, boomer sales may also drive down home prices. Estimates from one global study suggest housing values in the next four decades may decline nearly 1% each year. While a decline in real dollars is not expected, the report suggests home prices will face a much more difficult environment in the years ahead.16

**Rising Health Care Costs**

Medical advances, higher fees charged by providers, insurer profits, fraud, litigation, government regulation, unhealthy lifestyles and an aging population are just some of the factors blamed for the ongoing increases in the cost of health care that are anticipated to continue outpacing inflation. Such costs affect the willingness and ability of employers to provide health and retirement benefits as well as preretiree savings for retirement.

For retirees, the increase in the cost of care is accompanied by an increase in the quantity of care required. During retirement, age and declining health result in retirees using a higher amount of health care services than they used when young.

**Shifting Family Responsibilities**

Retirement is often seen as a life stage where people become increasingly dependent on others for funding their care costs, be it government benefits or family. Longer life spans coupled with a weak economy have changed the game plan for many. Globally, HSBC found nearly a third (30%) of fully retired households are funding or expect to fund their children to a significant extent. Another 8% were supporting or expected to support grandchildren. With the surge in life expectancy, families also face the challenge of having two generations living in retirement at the same time. Half (49%) of those who are fully retired also expected to fund or were funding their parents. Future retirees in the report said they expect these caring responsibilities to grow, not diminish.17
Eroding Retirement Income Benefits From Government

Near the end of the 20th century, as baby boomers moved closer to retirement, federal policy makers began to look at how people living longer and having fewer children would affect Social Security and Medicare. It didn’t take long for the U.S. Congress to realize a financial challenge was looming as to how the federal government would deliver the retirement benefits promised. Around the same time, major stock market declines and popular support for lower taxes helped raise to an even higher pitch concerns regarding the funding of these federal programs. Congress used a combination of strategies to address the funding concerns. A summary of Social Security as it now stands is provided in Table II.

While the financial status of Social Security has improved, more changes will eventually be required. The actions considered to address the funding issues are diverse, but they all boil down to a reduction in benefits or an increase in taxes:

- Reduce retirement benefits for some or all recipients.
- Raise the age when individuals are eligible for full benefits.
- Increase taxation on income to support benefit payments.
- Increase taxation on retirement benefits.

As explained in Exhibit 1, a Social Security check is the only source of income for nearly one out of three married couples/individuals receiving benefits.

Today, fears concerning the solvency of publicly funded state and local retirement plans also have come to the forefront as some of these plans teeter on the brink of insolvency. A few locales stopped cost-of-living raises for public employees already in retirement, while a few others have required employees to work longer to claim benefits. For the cities of Detroit, Michigan and Stockton, California, the unthinkable happened: Representatives of the cities’ retirement plans have had to fight to recover their promised benefits following the municipalities sliding into bankruptcy.

Table II | Social Security 2015

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earliest Age Benefits Can Be Received</td>
<td>62</td>
</tr>
<tr>
<td>Scheduled Changes in Benefit Eligibility Age</td>
<td>Age 67 by 2027</td>
</tr>
<tr>
<td>(Year phased in)</td>
<td></td>
</tr>
<tr>
<td>Benefit Formula</td>
<td>Based on lifetime earnings with some low- and zero-earning years dropped out</td>
</tr>
<tr>
<td>Funding</td>
<td>Payroll tax funding—pay-as-you-go with partial advance funding through a trust fund</td>
</tr>
<tr>
<td>Payroll Tax Rate</td>
<td>12.4% shared equally by employers and employees</td>
</tr>
<tr>
<td>Annual Earnings Taxed</td>
<td>$118,500</td>
</tr>
</tbody>
</table>

Source: Social Security Administration.

Exhibit 1
Many in the U.S. Have a One-Legged Stool

While Social Security was designed to be just one leg of the three-legged retirement income stool, it actually provides 90% or more of the cash income for three out of five beneficiary units* with at least one person over the age of 65.

Close to one out of four (24%) beneficiaries have no other retirement income. Social Security is the only leg of the stool. As beneficiaries age, the proportion totally dependent on Social Security benefits climbs, with 30% of those 80 and older totally dependent on their monthly check from the federal government.

*Data are for “units” consisting of married couples living together with at least one aged 65 or older and unmarried people aged 65 or older receiving Social Security benefits.

Source: Social Security Administration.

Shift in Coverage From DB to DC Plans in the Workplace

There was a time when—after 20 or 30 years of service—a large proportion of U.S. workers could expect a guaranteed monthly pension check from their employer or union for their lifetime and, if desired, the lifetime of the retiree’s spouse. In the private sector, employers almost always paid the full cost of these defined benefit (DB) plans. Many of the same demographic and economic factors that forced Congress to rethink its Social Security retirement income promises spurred sponsors of workplace plans to reconsider their retirement guarantees to workers.

In the last quarter of the 1900s, defined contribution (DC) plans began to emerge with a worker’s benefit dependent on factors such as the contribution amount, the number of years contributions are made, retirement age and investment earnings (or losses). The employer, the employee or both may contribute to DC plans. As workers became more mobile—not staying with one employer their entire work life—DC plans made sense as an alternative approach to ensuring retirement security. DC plans also offer transparent account balances with assets that employees can manage themselves.

Today, DB plans in the private sector have been largely replaced by DC plans. Between 1975 and 2005 (Figure 4), the proportion of private sector workers with a workplace plan that identified a DB plan as their primary retirement plan fell sharply from 88% to 33%. Among public sector workers, coverage by a DB plan has been much more stable, dropping just 6% from 98% to 92% in the same period.18

Looking at all workers age 16 and over who participated in a pension plan in 2012, 78% report their primary plan is a DC plan. Almost all of the rest (21%) report they have a DB plan.19

The shift from DB to DC plans has led to some fundamental changes in how retirement security is achieved:

- An increasing proportion of workers share retirement plan costs with their employers.
- Workers have greater responsibility for planning and managing their retirement resources.
- Many of the risks associated with saving for retirement have been transferred to workers.
- Higher management fees and lower risk strategies on individual accounts reduce the return on plan investments.

Shared Costs

In contrast to many DB plans—particularly those in the private sector—the cost of DC plans is often shared between the employer and the employee. How much, if anything, an employer contributes to a DC plan is at the discretion of the employer within limits established by plan design and government regulation. When employers contribute to a DC plan, the amount may be a percentage of employee earnings or based on company profits. If a percentage is used, it may be increased over time to recognize the length of an employee’s service and/or age. Some employers contribute for all employees, while others make their contributions dependent on employee contributions for a contribution match.
More Employee Responsibility

While DB plans promise a guaranteed retirement income for a lifetime, DC plan retirees are faced with choices that can significantly affect their retirement security. Workers with DC plans must figure out how much they need to save and how they will invest these savings to achieve a comfortable retirement. Upon retirement, 97% of DC plans offer retirees a lump-sum payout and 81% of participants take it. This means new retirees must also figure out how to turn their DC nest eggs into an income stream that will be sufficient to cover daily living expenses and health care costs for the rest of their lives.

When making such decisions, individuals must try to forecast—their lifetime earnings, their health before and after retirement, how long they will be retired, health care costs and other expenses during retirement, investment returns, inflation and the like. The younger the worker, the further he or she must look into the future and the more difficult it is to make such predictions. Even the best financial planner finds predicting these factors a challenge.

Planning becomes even more complicated when an individual has multiple retirement benefit plans. A retiree may have both government and private plans, plans from current as well as previous employers, and a mix of DB and DC plans. Those who are married may also be eligible for some of the benefits for which their spouse is eligible.

Risk Transfers

The shift from DB to DC plans has also transferred risks associated with a retirement plan from employers to employees. To understand the implications, consider the following examples:

- **Investment return risk** is the chance the return on an investment will be less than expected. Since 1987, there have been four major market downturns. It is not unreasonable to expect more downturns in the future. If a DB plan experiences a return less than anticipated, a change in investment strategies or a market recovery usually corrects the plan’s funding shortage. The employer may also have to make additional contributions to the plan. In a worst-case scenario where an underfunded plan has to be terminated, the federal government’s insurance program for DB plans—the Pension Benefit Guaranty Corporation (PBGC)—steps in and pays some of the benefits promised (if not all).

  In contrast, DC plan participants absorb investment risk and its consequences. If the assets chosen by a worker perform poorly, the money available during retirement will be less. One or two bad years—especially in the early years of retirement—can have a major impact on how long savings will last. The market downturn of 2008 provides an example of what can happen for those on the verge of retirement. Many workers had to postpone retirement or resign themselves to living on less.

  Even when workers purchase an annuity providing a guaranteed retirement income stream, they face investment risk. The price of an annuity goes up when interest rates go down, which means the cost of purchasing an annuity is higher in periods with low interest rates. More money is required to generate the same retirement payments.
• **Inflation risk** is the possibility the rising cost of goods and services will erode the value of retiree benefits and savings. When a DB benefits formula is based on a worker’s most recent years of earnings, there is at least some built-in inflation protection because earnings over time tend to reflect inflation. Some DB plans go further and adjust payments after retirement to reflect price increases. DC plan participants have no such protection. If the return on their investments does not keep up with inflation, retirees experience a decline in purchasing power. As for workers who purchase an annuity, the stream of payments is most likely not hedged against inflation.

• **Longevity risk** is the chance a retiree will outlive his or her retirement savings. Individuals do not know how long they will live or how long they will need to rely on their retirement savings. DB plans provide a guarantee that a retiree will receive an income for life. Given improvements in life expectancies, the money set aside for retirement may need to last a long time—potentially 20 to 30 years or more. Unless they buy an annuity, retirees with DC plans must try to estimate how long they (and possibly their spouse) will live, then manage their money so it will not run out before they die.

• **Judgment risk** reflects the possibility a plan participant makes an error or poor choice concerning their retirement resources. When it comes to figuring out how much to save for a comfortable retirement, most DC participants are on their own. Moreover, once they stop working, they must manage their nest egg so they have enough money to last the rest of their life. In contrast to DB plan sponsors, DC participants rarely have a cadre of professionals (e.g., lawyers, investment managers, benefit consultants) guiding them in making plan choices. Making the right choices can determine whether participants are able to experience a stress-free retirement and, if they wish, pass assets to others as part of an estate.

Judgment risk is heightened by some investment advisors and scam artists who offer to help but are focused on personal gain versus the best interests of the person they are advising. Add to this the possibility a retiree is no longer able mentally or physically to manage his or her assets.

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**Lower Investment Returns**

Studies of investment returns consistently have found that returns earned by DB plans exceed those earned by DC plans. One study of DC plan participants found that even when plan sponsors provide efficient investment menus, poor investment decisions by participants led to a 20% reduction in retirement wealth.

DB plans have a larger pool of funds to invest, which means they are able to diversify investments among a multitude of asset classes, including some not available to individual investors. DB plans also have a longer investment time frame. These factors yield a broader base upon which to spread risk and make it possible for DB plans to choose riskier investment strategies with the potential for higher returns.

In addition, DB plans are more likely to have professional money managers who are more patient in achieving investment goals and who avoid many common investment biases. As for the cost of using professional managers, the management fees associated with DB plans tend to be less than the mutual fund management fees associated with individual DC plan accounts.

**Limited Access to Workplace Retirement Plans**

Of course, not all workers have access to a retirement plan in the workplace. EBRI estimates only about half (51%) work for an employer or are a member of a union sponsoring a plan. When the self-employed and those who typically have a looser connection with the workforce (i.e., individuals under age 21 and older than 64) are removed, the proportion covered increases, but only slightly, to 56%. Public sector employees in this latter group are much more likely to have a workplace plan (82%) than private sector employees (51%).
Inadequate Retirement Savings and Increasing Debt

Given the number of persons who say they are less than “very” confident they will have sufficient funds for retirement, government benefit cuts, the declining proportion of workers who will have a guaranteed retirement income and the other factors just discussed, one would think workers would be taking steps to better prepare for their future retirement. Unfortunately, this is not the case.

With the exception of a brief increase during 2009, EBRI data indicates the proportion of workers and/or their spouses who have saved for retirement has slowly declined. Excluding employer-provided contributions to a retirement plan, slightly less than two-thirds (64%) of workers report they have saved money for retirement.24 More disturbing is how little workers have set aside. Among workers providing information to EBRI on how much they have saved, 60% report they have less than $25,000 (not counting home equity)—This includes 36% of workers who report less than $1,000 in savings.25 For a look at why many workers aren’t saving more for retirement and why some workers are saving more than others, see Exhibits 2 and 3.

Exhibit 2 | Why Workers Aren’t Saving More

**What Workers Say**

Workers know they need to save for retirement, but many don’t. Among those who do not save (or save more) for retirement, 53% cite the cost of living and day-to-day expenses.26 When PricewaterhouseCoopers asked those who are saving nothing why they are saving nothing, the proportion saying they had too many other expenses was 70%. Almost half (49%) said they had debt to pay off.27

**What Behavioral Economists Say**

A 2010 ING survey of plan participants suggests the reasons people do not save more are more complex than the lack of money being claimed. A stunning 87% of plan participants who were not contributing the maximum to their employer-sponsored plan admitted they could afford to increase their annual contribution by 1% of their salary. In fact, 59% confessed they could boost their contributions by 3%, and 32% felt they could afford an extra 5%.28

What explains this contradiction? In recent years, behavioral economists have been trying to find an answer. They are learning the reason people don’t save for retirement is about more than whether they can afford to do so—People’s emotions are involved. Two human behaviors are in play.

1. **Future discounting.** People have a tendency to focus on the short term versus the long term. Given a choice, they usually select a smaller payoff now versus a bigger payoff later. They are more likely to buy something for today or set aside money for a vacation in a few months rather than save for retirement. The short-term purchases are more tangible—It is easier to envision the benefits of the immediate purchase over something often decades away. The more time a person has until he or she retires, the less influence retirement has on decisions today.

2. **Inertia and procrastination.** Stop and think about it—People who don’t enroll in their retirement plan are making a choice. They are choosing to do nothing. Failing to do something (inertia) and putting off doing it (procrastination) impede action even when people know it would be in their best interest to do something. Not only do people fail to enroll in their retirement plan, they don’t take time to assess how much they will need to achieve a secure retirement. Inertia and procrastination are also the reasons many people fail to increase the amount they are saving and rebalance the investments in their portfolios. A lack of knowledge combined with the complexity of the retirement planning process are viewed as the roots of these behaviors. Many individuals perceive the process of beginning and participating in a retirement plan—especially a DC plan—as tedious, time-consuming, confusing and overwhelming.
Higher Mortgage and Consumer Debt

Using credit to make purchases—especially large purchases such as a home and education—can be an extremely valuable tool when used responsibly. However, debt accumulation can hinder retirement security. In 2014, one in five workers (20%) reported their level of debt is a major problem; another 38% described it as a minor problem.31 One out of every two workers says debt is the reason they are not saving for retirement. In addition, 22% of U.S. workers say too much debt is the reason they are going to delay retirement.32

What gets less attention is the amount of debt households are carrying into retirement. It used to be that retirement freedom meant more than not having to go to work; it also meant no mortgage and other debt payments. For many, this is no longer the case. Between 1998 and 2010, the share of adults aged 62 to 69 with debt increased from 48% to 62%. Moreover, the median value of the money owed by these persons grew 68%—from $19,020 per person to $32,130 per person.33 One-third of retirees expect to still be paying their mortgage at age 70. Another third reports they don’t know when they will be able to pay off their mortgage.34

Leakage

During difficult times, many workers turn to their retirement funds to pay pressing short-term expenses. For some, cashing in or borrowing from a DC plan is a cheap source of money for making a down payment on a home or paying educational expenses.

In 2013, Aon Hewitt surveyed DC plan participants and found 7% of respondents had initiated a hardship withdrawal the previous year. About one in four (27%) participants had an outstanding loan.35 In a similar survey of 401(k) participants, Fidelity asked participants why they were making a hardship withdrawal. The most common reasons given were to prevent eviction or foreclosure (53%) and for medical expenses (25%). While half of the Fidelity borrowers had taken out just one loan, the other half had borrowed multiple times.36

Exhibit 3 | Some Workers Save More Than Others

A closer look at who is saving and how much reveals substantial disparities among workers. In 2010, U.S. households with earnings in the top fifth income group accounted for 72% of total savings in retirement accounts. This was the only income group that had more than its annual income saved in these accounts.39 This finding should not be particularly surprising given higher income workers tend to have more disposable income, larger tax breaks from the U.S. government and the ability to take on higher investment risk. Several other factors listed below are also likely coming into play. For example, persons with higher income are also more likely to have a retirement plan available through their workplace and more generous employer contributions to their plan.

The factors, besides income, found to positively impact retirement savings are:

- Full-time employment versus part-time employment, self-employment and unemployment
- Employment by an employer that sponsors a retirement plan
- Employment in manufacturing, transportation, utilities, information and the financial industry versus other service occupations
- Attaining a higher level of education
- A better health status
- Having health insurance through one’s employer
- Being married versus not married
- Being white or black versus Hispanic, and native-born versus non-native Hispanic
- Being aged 45 and older compared with workers aged 25 to 45
- Having planned for retirement or at least made an effort to calculate retirement savings compared with those who had not
- Using a professional advisor for planning.

In general, female participation in a retirement plan is lower than that of males. However, when one controls for earnings and level of employment (e.g., full- versus part-time), females have a higher rate of participation.90
Not all plan leakage stems from financial hardship or borrowing for a major purchase. When DC plan participants move from one employer to another, they must choose what to do with the funds remaining in the account set up by their previous employer. Among participants who terminated employment in 2012, 43% took a cash distribution versus rolling funds into a new account. According to a 2014 study by EBRI, cashouts when workers change jobs has a much more serious impact on 401(k) saving than either hardship withdrawals or loan defaults.

Over one-quarter of households with a DC plan take money out of their plans for a purpose other than retirement expenses at some point. In 2010, they pulled out a total of $60 billion—a big chunk of the $293 billion in employee and employer contributions that went into these accounts annually. Almost one in ten (9%) households who had saved money via a DC plan paid a penalty to take money out.

**Worker Failure to Plan**

An essential element in preparing for retirement is simply having a plan. In fact, research indicates persons who plan save more than those who don’t plan (Exhibit 4). The planning process involves not only figuring how much to save through one’s working years, but also determining how to tap resources during a retirement that can last many years.

Given the effort and uncertainty involved, it is not surprising few workers have enthusiastically embraced the retirement planning process. In AEGON’s 2014 global survey of employees (excluding the self-employed), not quite two-thirds (61%) had developed some type of plan (Figure 5). When the Society of Actuaries (SOA) asked preretirees more specifically whether they had a plan for how much

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**Exhibit 4 | The Retirement Planning Premium**

People who take the time to develop a financial plan for their future retirement experience a “planning premium”—more savings. An HSBC study found that 44% of those who say they have a financial plan report they increased their savings. Of those who used a professional advisor for planning, 61% saved more. The proportion saving more increased to 72% among those who consulted with a financial planner and prepared a written plan. The planning premium was highest among those nearing retirement—persons who were 55 to 64 years old.
money they would spend each year in retirement and where that money would come from, the proportion saying they had a plan dropped to 36%.42

The EBRI retirement confidence survey conducted in 2013 asked workers whether they and/or their spouse had made some effort to determine what they would need for retirement (Figure 6). Almost half (46%) said they had. Among these, 18% did their own estimate, 18% asked a financial advisor and 8% used an online calculator. Another 8% read or heard how much they needed. A striking 45% said they had tried to guess how much they needed versus doing a systematic calculation.43 Are those closer to retirement more likely to make an effort to determine their retirement needs? A study of U.S. baby boomers found that just 51% had done so—only a few percentage points more than the general population of workers.44

**No Contingency Planning**

Retirement and life in general are full of uncertainties. Failing to plan for the unexpected can blindside retirees during what are supposed to be their golden years. The SOA asked individuals whether they had considered how they would respond to a number of major life changes that might occur in retirement such as losing a spouse or no longer being able to do certain activities (Table III). Few had made plans for how they would respond in these scenarios. Only 23% of married preretirees had considered and made plans for the death of their spouse or partner. Even after retirement, the proportion that had planned for such a scenario was relatively small at 31%. The percentages planning for declines in the ability to do routine physical and mental activities were no better and, frequently, less common.45

<table>
<thead>
<tr>
<th>Event</th>
<th>Preretirees</th>
<th>Retirees</th>
<th>Preretirees</th>
<th>Retirees</th>
<th>Total Considered*</th>
</tr>
</thead>
<tbody>
<tr>
<td>You lost your spouse/partner</td>
<td>23%</td>
<td>31%</td>
<td>42%</td>
<td>45%</td>
<td>66%</td>
</tr>
<tr>
<td>You were physically no longer able to work</td>
<td>15%</td>
<td>29%</td>
<td>52%</td>
<td>40%</td>
<td>66%</td>
</tr>
<tr>
<td>You were less able to move around</td>
<td>10%</td>
<td>24%</td>
<td>53%</td>
<td>50%</td>
<td>70%</td>
</tr>
<tr>
<td>You were less able to manage your money</td>
<td>15%</td>
<td>31%</td>
<td>43%</td>
<td>36%</td>
<td>68%</td>
</tr>
<tr>
<td>You were less able to do household chores</td>
<td>10%</td>
<td>23%</td>
<td>48%</td>
<td>48%</td>
<td>58%</td>
</tr>
<tr>
<td>You were mentally no longer able to work</td>
<td>9%</td>
<td>20%</td>
<td>44%</td>
<td>39%</td>
<td>59%</td>
</tr>
<tr>
<td>You were no longer able to drive</td>
<td>9%</td>
<td>19%</td>
<td>44%</td>
<td>47%</td>
<td>65%</td>
</tr>
<tr>
<td>You were less able to provide caregiving</td>
<td>9%</td>
<td>18%</td>
<td>44%</td>
<td>41%</td>
<td>59%</td>
</tr>
</tbody>
</table>

* Some percentages will not total 100% due to rounding.

Unrealistic Expectations
One reason individuals do not have contingency plans for their retirement is very likely unrealistic expectations regarding their working lives and retirement. Physical and mental decline are inevitable consequences of aging, yet many individuals do not believe these things will happen to them. In the same SOA survey of U.S. preretirees and retirees, sizable percentages of both groups say they will never become:

- Less able to manage their money (38% and 54%)
- Mentally unable to work (34% and 46%)
- Unable to drive (19% and 33%)
- Less able to provide caregiving (15% and 30%)
- Less able to do household chores (18% and 28%).

In addition, 23% of married preretirees and 32% of married retirees report they will never lose their spouse.

Retirement May Not Be When Planned
The age a person plans to stop working is a critical factor in retirement planning. Retirement age is the point when an individual starts to rely on promised retirement benefits and accumulated savings for the remainder of his or her life. The longer a DC plan participant remains in the workforce, the more savings he or she will be able to accumulate. Delaying retirement a few years can also significantly affect the size of retirement income from Social Security and DB plans. Regrettably, retirement timing is not always within a worker’s control.

When the SOA asked preretirees when they expected to retire or begin to retire from their primary occupation, the most common response was the traditional age of 65. Among retirees, however, the median age for actually doing so was age 58 (Table IV). Noteworthy is the 15% of workers who say they never plan to retire.

According to AEGON’s 2014 survey of retirees, almost half (45%) left the workforce sooner than they planned. Of these early retirees, 34% retired due to their own ill health, 25% cited a job loss/unemployment and 9% identified family responsibilities such as becoming a caregiver as a cause. Just 11% reported they retired early because they had enough money to retire.

Incorrectly Assuming Work After Retirement
A large proportion of preretirees plan to transition into retirement gradually rather than the “cliff edge” approach of stopping work altogether. Though many say they want to work because they want to stay active and involved (90%) or they enjoy working (82%), there is a considerable number who say finances plays a role in their decision.

- 82% want money to buy extras.
- 81% need the money to make ends meet.
- 74% want to keep their health insurance or other benefits.

Two out of every three retirees (65%) say they plan to work, but data from those who have already retired suggest that only about one in four (27%) will actually be able to do so.

Underestimating Income Needs
Most individuals think they will be able to get by with only a fraction of their preretirement income. Some experts recommend a minimum of 70% to 90%, but a much larger percentage may be needed depending on an individual retiree’s circumstances. A 2014 TIAA-CREF survey of preretirees found a meager 21% think they will need more than 75% of their preretirement income to be comfortable. Another 33% think they will need just 50% to 75%. Most of the rest (40%) believe they can survive on 50% or less.

<table>
<thead>
<tr>
<th>Table IV</th>
<th>Expected vs. Actual Retirement Age</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Preretirees</td>
</tr>
<tr>
<td>Younger than 55</td>
<td>1%</td>
</tr>
<tr>
<td>55 to 59</td>
<td>9%</td>
</tr>
<tr>
<td>60 to 61</td>
<td>8%</td>
</tr>
<tr>
<td>62 to 64</td>
<td>15%</td>
</tr>
<tr>
<td>65 to 67</td>
<td>38%</td>
</tr>
<tr>
<td>68 or older</td>
<td>15%</td>
</tr>
<tr>
<td>Don’t expect to retire/Don’t consider self retired</td>
<td>15%</td>
</tr>
<tr>
<td>Median</td>
<td>65</td>
</tr>
</tbody>
</table>

Underestimating the Number of Retirement Years

Just as important as estimating one's retirement replacement income need is predicting the number of years this income will be necessary. How long a person lives after retirement can add significantly to a retiree's resource requirements, but many individuals underestimate their longevity. A common error is to use one's average life expectancy at birth and give little attention to the considerable probability one might live longer. Take another look at Table I on page 6, which reveals the probability of living to various ages as one grows older.

About one-fourth (28%) of preretirees aged 45 to 80 have no idea how long they might live. A similar proportion (26%) do not expect to reach their group's median life expectancy of age 85. Interestingly, among those preretirees who reported knowing (or having known) a family member who lived over 90 years, most do not expect to live as long as this family member.52

Failing to Consider Inflation

Once someone starts receiving Social Security retirement checks, the benefit amount automatically increases each year to keep pace with inflation—helping ensure beneficiaries do not fall into poverty as they age. In contrast, most private pensions and annuities are not adjusted for inflation or are only partly adjusted. Even though many workers (71%) express a high level of concern whether their savings will keep up with inflation, only 36% report they have calculated the effects of inflation as part of their retirement planning.53 Inflation of just 3% annually can reduce by half the real value of benefits in 23 years.

Underestimating the Cost of Health Care and Long-Term Care

Preretirees also express concern about health care costs in retirement, but it appears the problem may be greater than they realize. The cost of long-term care can be hefty and is particularly hard to predict. Many workers greatly underestimate the amount they will need to cover their future health care costs.

Fidelity predicts the average individual will spend more than $220,000 for health care during retirement (excluding long-term care).54 In contrast, just 20% of preretirees expect they will spend $250,000 over the length of their retirement—66% expect to spend less. Almost half (48%) of this latter group expect to pay less than $100,000.55

Government figures indicate nearly seven in ten individuals will need long-term care at some point after they reach the age of 65. This care may be provided by a relative, home health aide, assisted living facility or nursing home. On average, individuals need care for three years.56 How much care costs varies greatly with the type of care, type of room and geographic location. Highlighting some of the figures in Table V:

- The most common rate for homemaker/home health aide services is $19/$20 per hour.
- Residing in an assisted living facility can cost $30,000 to $82,674 annually.
- Nursing home care ranges from about $50,735 to $240,900 per year.57

### Table V | 2014 U.S. Long-Term Care Costs

<table>
<thead>
<tr>
<th>Care Type</th>
<th>Median Rate</th>
<th>Low</th>
<th>Annual Cost</th>
<th>Med</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homemaker Services</td>
<td>$19 per hour</td>
<td>$32,032</td>
<td>$43,472</td>
<td>$56,125</td>
<td></td>
</tr>
<tr>
<td>Home Health Aide Services</td>
<td>$20 per hour</td>
<td>$34,320</td>
<td>$45,188</td>
<td>$57,772</td>
<td></td>
</tr>
<tr>
<td>Adult Day Care</td>
<td>$65 per day</td>
<td>$6,500</td>
<td>$16,900</td>
<td>$35,100</td>
<td></td>
</tr>
<tr>
<td>Assisted Living Facility</td>
<td>$3,500 per month</td>
<td>$30,000</td>
<td>$42,000</td>
<td>$82,674</td>
<td></td>
</tr>
<tr>
<td>Nursing Home Care: Semiprivate Room</td>
<td>$212 per day</td>
<td>$50,735</td>
<td>$77,380</td>
<td>$237,250</td>
<td></td>
</tr>
<tr>
<td>Nursing Home Care: Private Room</td>
<td>$240 per day</td>
<td>$58,765</td>
<td>$87,600</td>
<td>$240,900</td>
<td></td>
</tr>
</tbody>
</table>

Source: Genworth 2014 Cost of Care Survey.
Some persons mistakenly believe Medicare will pay for all of their long-term care in a skilled nursing facility. The reality is that Medicare helps pay some of the costs for up to 100 days of skilled nursing facility care only if the person receiving care meets all of these conditions:

- Had a recent prior hospital stay of at least three days
- Was admitted to a certified nursing facility within 30 days of the prior hospital stay
- Needs skilled nursing services, physical therapy or other types of therapy.

For more information on the various Medicare programs and how they are funded, see Exhibit 5.

Medicaid—the federal program covering health care expenses for low-income persons—does cover nursing home and home health care services for those who meet the program's qualifications. In addition to a low-income requirement, there are limits on the assets of the person receiving care. These limits vary from state to state.

States that use the federal Supplemental Security Income (SSI) standards limit assets to $2,000 for single persons and $3,000 for married persons. This limit does not usually count a person's home (up to a certain amount of equity, $525,000 to $750,000 depending on the state) if the person or his/her spouse lives in the home or the person may return to the home. Many people enter a nursing home or assisted living facility paying for their care out of their own pocket, then apply for Medicaid when they have spent down their savings to the point that they meet Medicaid's eligibility guidelines.

**Setting Unsustainable Rates for Withdrawals**

Upon retirement, individuals face the daunting task of managing their money so that it provides for their remaining years. One approach is to withdraw a small amount of assets each year. In a Wells Fargo survey, middle-class pre-retirees were asked what percentage of their nest egg they expect to withdraw annually when retired. The median withdrawal was 10%. The sustainable withdrawal rate—one that offers retirees a high probability of making their savings last for life—has been the subject of considerable analysis and debate, but no credible advisor would ever suggest a rate as high as 10%.

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**Exhibit 5 | Medicare Eligibility and Benefits**

Subsidized and operated by the federal government, Medicare benefits are available to (1) U.S. citizens and permanent legal residents over the age of 65 who have worked long enough to be eligible for Social Security or railroad retirement benefits; and (2) government retirees over the age of 65 who did not pay Social Security but who paid Medicare taxes while working. Spouses of these eligible workers can also receive benefits. The benefits are provided regardless of a retiree's income level.

Medicare Part A provides for inpatient hospital services and post-hospital care. Most retirees enroll in Medicare's Supplementary Medical Insurance (also known as Medicare Part B), which pays for medically necessary physician services, outpatient hospital services and a number of other medical services and supplies not covered by Part A. Part B premiums are deducted from a retiree's Social Security checks. Retirees can elect Medicare Advantage (sometimes referred to as Part C) as an alternative to Parts A and B if they prefer to have their coverage through a health maintenance organization (HMO) or preferred provider organization (PPO).

Individuals also have the option to purchase Medicare Part D, which provides prescription drug coverage. Part D plans are run by insurance companies and must provide at least a standard level of coverage set by Medicare. Premium costs vary with the coverage options chosen by the individual purchasing protection.
Financial Illiteracy

Achieving retirement security requires a grasp of concepts such as inflation and the time value of money along with the basic principles of investing. Also essential are abilities such as making mathematical calculations and managing several forms of risk. Unfortunately, studies reveal few individuals have this knowledge. In AEGON's 2014 survey, only about two in three preretiree respondents said they are “able” or “very able” to understand financial matters related to retirement planning. A similar survey by PricewaterhouseCoopers, LLP, found just half of workers reporting they are comfortable selecting investments that are right for them. This second study had a striking gender difference—men (63%) were much more comfortable than women (36%) were.

A national survey of persons aged 60 to 75 with at least $100,000 in investable assets (excluding the value of their home) confirms these self-assessments. When these preretirees and retirees were asked questions to determine their retirement literacy, a lack of knowledge was revealed concerning:

- Investment products
- How to preserve assets in retirement
- What preretirement actions would improve the prospects for financial security in retirement.

Given the substantial portion of retirees who depend on Social Security as a major source of their retirement income, a basic understanding of Social Security retirement benefits is without a doubt important. When given eight true-false questions to assess their Social Security literacy, only one in twenty people aged 55 to 70 were able to correctly answer all eight (Figure 7).

Of course, financial literacy encompasses a wide array of subjects that goes far beyond retirement planning and investment management. Other topics include debt management, home mortgages, taxes and insurance. Any and all of these can affect a person’s ability to save and achieve a secure retirement. Persons who have the knowledge and skills to manage their personal financial resources in general are more likely to have thought about retirement. They are more likely to use formal planning tools (e.g., attend a retirement seminar, use a calculator/worksheet and consult a financial planner). Furthermore, financially literate persons are more likely to invest in stocks and other complex assets that provide a higher return in the long term, and they also set aside more for their future retirement.

Unfortunately, financial literacy of individuals in this broader sense is no better than the financial literacy associated with retirement. A multitude of surveys has been conducted to assess the economic and general financial literacy of the nation’s population and specific subgroups. Reports have consistently documented very low levels of literacy in both areas. In addition, a survey of financial practices revealed:

- Not quite half (49%) of households had an emergency fund that would cover their expenses for three months.
- Just 54% paid their credit cards in full during the past year.
- In the same one-year period, 23% were charged a late fee for a late credit card payment.
- Only 34% collected information about different credit cards before they obtained their most recent card.
- Of respondents with insurance coverage, 31% rarely or never reviewed their coverage.
III. The Impact of Delayed Retirement

The solution for many individuals who need to fill the gap between what they have and what they need for retirement will be working longer. Employment in later life is making a comeback, with 40% of people aged 55 and older working—a level of employment for this group not seen since the 1960s. Moreover, the number of retirees who work is expected to increase in the years ahead, with 72% of preretirees aged 50 and older saying their ideal retirement includes work in some form.70

Workers
While there are workers who view working longer as a positive, this is not the case for everyone. As they pass their anticipated retirement age and are still in the workplace, many will be disappointed they do not have the time and money to enjoy their later years as they had hoped. For workers doing manual labor, personal health and safety may become an issue. While older workers tend to experience fewer workplace injuries than their younger colleagues do, aging workers are at higher risk of severe injury and death.71

Of course, another difficulty is that not all who want to work will be able to do so. Retirement for these persons may be filled with financial challenges, mental stress and an unwelcome dependence on other family members. Certain groups of retirees have a higher risk of ending up in poverty when compared with their counterparts, for example:

- Retirees without advanced education—particularly high school dropouts72
- Widows and those who have never been married73
- Blacks and Hispanics74
- Persons suffering acute health conditions such as cancer, lung disease, heart problems and strokes75
- Persons aged 85 and older.76

Employers and Plan Sponsors
Beyond concern for the financial well-being of retirees, are there other reasons employers and plan sponsors should be concerned about the retirement security of workers? Yes—Those who delay retirement may affect benefit costs and an employer’s bottom line:

- **Limited opportunities for younger workers.** Employers often depend on the retirement of older workers to allow the hiring, development and upward movement of younger workers. Some younger employees will decide to move on to greener pastures with another employer that has opportunities for growth and advancement.

- **Low morale.** Workers who have no choice but to continue working are more likely to be less engaged and perform poorly. Additionally, younger workers unable to move up the career ladder may be less motivated to optimize their own productivity.

- **Less productivity.** There are a number of reasons for waning productivity as workers age (e.g., poor physical health, a decline in cognitive abilities, failure to keep up with rapid technological changes). The extent to which productivity decreases depends on the individual and the type of work they do. There are circumstances where education and experience make up for some or all of the decline in other abilities. Nonetheless, the probability of a decline in physical and mental abilities rises as workers age.

- **Higher compensation and compensation-related benefit costs.** Older workers have higher salaries and wages that lead to higher costs for payroll and compensation-related benefits such as retirement plan contributions. At some point, pay continues moving upward while productivity declines. The value of a worker’s production may even be less than pay—especially when the cost of benefits is factored in.

- **Increased health care costs.** In general, older workers have more health issues than younger workers. According to a report by Apex Management Group, annual health care claims average $2,888 for workers younger than 25. For workers 65 or older, the number jumps to $10,264.77 An increase in the proportion of older workers translates into higher health benefits costs.

- **Longer and costlier workers’ compensation claims.** According to data from the National Council on Compensation Insurance (NCCI), workers’ compensation medical claims become longer and costlier as workers age. Claims rise from an average 53 days’ duration and $5,073 in medical payments for employees aged 20 through 34 to an average of 66 days and $7,649 for employees aged 45 through 64.78

- **Higher absenteeism.** According to the U.S. Bureau of Labor Statistics, workers aged 20 to 24 miss an average of five days a year. This figure rises to 11 days when workers reach ages 45 to 54 and an average of 14 days a year for workers aged 65 and older.79
With so many factors contributing to the retirement crisis, it should not come as a surprise that fixing it requires a multipronged approach. The performance of financial markets and other macroeconomic events contributing to the crisis cannot be controlled, but government programs and policies can be modified and will continue to be altered to ease the situation. Plan sponsors and employers have a stake in helping workers achieve a secure retirement and are increasingly giving attention to what they can do to help. The good news for those offering workplace benefit plans is that many steps can make a difference for workers and their families at minimal cost.

As retirement benefit programs increasingly shift from DB to DC plans, a critical element will be participant engagement and education—driving increased retirement planning and savings by workers. With a more mobile workforce, households are receiving a hodgepodge of retirement benefits from multiple sources. There is a need to help workers coordinate these diverse benefits and maximize their value. Employers and plan sponsors are also a natural source of products, information, education and other support to help workers develop their retirement plans, reach savings objectives and transition into retirement.

Setting Goals

As evidenced by the diversity of workers and existing retirement benefit programs, there is no one-size-fits-all solution for employers and plan sponsors that want to take a more active role in promoting the retirement security of workers. There are a variety of actions to choose from that can help achieve one or more of these five interrelated goals:

1. Help workers determine their retirement needs and where they stand.
2. Get workers enrolled and saving for retirement.
3. Help workers make prudent investment decisions.
4. Help workers stay on track to meet their retirement objectives.
5. Assist those near retirement to make the transition.

The actions chosen by an employer/plan administrator depend on what actions are already in place, the needs and desires of workers and a variety of other factors that may be unique to the workplace where efforts are going to be taken. There is no specific order in which strategies must be deployed. For example, employers with a workplace plan that permits voluntary employee contributions often choose to automatically enroll new workers at the time they are hired to get these workers on the path to retirement saving as soon as possible. Later, they provide information and tools that will help each worker determine personal savings needs. This may seem backwards to many, but the impact of autoenrollment is so great that its early implementation may be a wise choice.

In selecting strategies to pursue, also keep in mind these two keys to helping workers:

1. **Human behavior.** People are not as rational as many believe. As a result, the promotion of retirement security is not always what would appear to be most rational or logical. Many of the suggestions that follow are based on the insight of behavioral economists on motivating behavioral change. Fundamental throughout each step is making action by workers as simple as possible.

2. **Worker abilities and desires.** Shlomo Benartzi, a professor of behavioral science and chief behavioral economist for the Allianz Global Investors Center for Behavioral Finance, has proposed DC plan members fall into three categories. See Figure 8 on page 22. Conservatively, 90% of workers are *delegators*—They have neither the knowledge nor the desire to be actively involved in managing their retirement savings and would prefer professionals do it for them. For those in this group who need to set aside more for retirement, automatic investment in a one-stop, professionally managed, well-diversified investment portfolio may be the optimal approach. Another 9%—the *fine-tuners*—want to be involved with the management of their savings, but not deeply involved. A menu of five to nine core funds from which they can choose that includes a target-date fund is a nice fit for this group. The remaining 1% are *customizers* with extensive knowledge of investing. Persons in this group want to be extensively involved in the management of their retirement investments and prefer a much broader menu of investment options from which to choose, including specialty funds.
The Path to Retirement Security in the U.S.: How Employers and Plan Sponsors Can Help

Getting Started
A good place to begin for an organization that wants to improve the retirement security of workers is an assessment of (1) what programs are already in place and (2) how well these initiatives are working. The Appendix provides a checklist of key strategies described in this paper that employers and plan administrators have used successfully to promote the retirement security of workers. As for how well current programs are working, Exhibit 6 suggests metrics used to gauge success.

Goal 1: Help Workers Determine Their Retirement Needs and Where They Stand
Winning athletes and successful businesspersons envision what they want to accomplish and then identify what they need to do to achieve their vision. The same approach can help individuals prepare for retirement. An increasing number of retirement plan sponsors and vendors are providing planning tools and other resources to help participants determine how much income they will need at retirement to achieve their retirement goals and whether they are on track for success.

Encourage Participants to Picture Their Retirement
As part of an education program or in another appropriate setting, encourage workers to envision their future retirement—where they want to live, what they want to do, etc. Most people know they “should” save for retirement, but they find themselves doing something else instead.

Young persons, especially, view retirement as something far in their future. Having their own personal retirement picture helps them avoid temptations to spend today that might derail their retirement. As workers get closer to retirement, their retirement picture will be developed more fully—providing the foundation for determining how much it will cost to make their retirement dreams a reality.

Though they may not realize it, creating a picture of their retirement also forces workers to consider what is most important to them. Desires to be self-sufficient, stay active, care for loved ones, learn new things, spend more time on personal interests—All of these reflect a person's core values and beliefs. They are intrinsic motivators that spur workers to make sure they have saved what they will need when they retire. While sponsors can (and should) use extrinsic motivators such as contribution matches and competitions to jump-start employee savings behaviors, it is intrinsic motivators that most likely will have the more lasting impact.


Figure 8 | The Investment Solutions Pyramid


Figure 8 | The Investment Solutions Pyramid
Exhibit 6 | Measuring the Success of a Retirement Security Initiative

Gauging the success of efforts to promote the retirement security of workers varies with the type of retirement plan(s) offered. DB plan sponsors have a fiduciary responsibility to monitor certain factors to ensure participants receive the benefits promised:

- **Contribution level**—whether current plan contributions are sufficient to pay future obligations
- **Investment performance**—whether the return on fund assets is being maximized while minimizing risk
- **Management fees**—the reasonableness of investment management fees given the investment return and services provided
- **Liquidity**—the ability of the plan to meet anticipated cash flow needs.

DC plan sponsors are typically concerned with:

- **Investment performance**—the return on investment options provided participants
- **Plan fees**—how much participants pay for various investment choices
- **Participation rates**—the proportion of eligible employees actually contributing to the plan
- **Participant deferral rates**—how much workers are setting aside for retirement through their plan
- **Savings to employer match**—the proportion of participants who defer sufficient funds to capture the full employer matching contribution (if there is a match)
- **Asset allocation**—whether plan participants have a diversified retirement portfolio. For example, the sponsor might investigate how many participants are invested in at least three different asset classes or an asset allocation fund (e.g., a target-date fund).

While all of the items identified so far are important, the true benchmark of a plan’s success—particularly DC plan success—is whether each participant will have an adequate income at retirement. Metrics that can be used for this purpose are:

- **Projected retirement income replacement**—the percentage of worker income just prior to retirement that will be replaced during retirement.
- **Projected monthly retirement income**—the amount a retiree can expect to receive or draw out of retirement savings each month for the rest of his or her life.

Sponsors are encouraged to dive into plan data to examine differences among various demographics (e.g., age, income, race, gender). Benchmarking data with others in the same industry can also be extremely valuable. Vendors can be quite helpful in providing this data and, sometimes, specific recommendations to improve outcomes.

Plan sponsors also should seek feedback from workers. It is helpful to examine:

- **Worker satisfaction**—How do workers perceive their retirement benefits and the various efforts to promote their retirement security?
- **Worker use of information, education, advice and other tools offered**—What kind of support do workers consider most valuable, and which delivery methods are most effective?
- **Worker ability and desire to be actively involved in planning and saving for retirement**—It is important at the outset to recognize that substantial differences exist among workers with respect to their financial literacy, interest in managing their retirement savings, etc.

See “Know the Audience” on page 45 for questions and strategies to gather this and other worker information, including their skills and knowledge pertaining to retirement planning and their desires for help preparing for retirement.
Be aware that not everyone is able to come up with positive scenarios for retirement. When several thousand people were asked (1) what they feared most about retirement and (2) what was their best-case scenario for their retirement, two out of five admitted they were unable to see anything positive about retirement. What is positive about getting old? Benartzi, the behavioral economist who discovered this obstacle, suggests giving workers a few minutes to suppose they have saved adequately for retirement and will be able to live comfortably without worrying about paying bills or health expenses. Follow up by asking each person to write down everything that comes to mind in terms of both their tangible lifestyle and how they feel about this scenario.81

Benartzi also suggests, as soon as individuals complete one of these exercises, directing workers to check a box indicating they wish to increase their savings rate. Alternatively, there might be four boxes offering rate increases of 3%, 2% and 1%, with the fourth box blank for another rate of their choice.82

Offer a Retirement Planning Calculator
Workers who have calculated how much they must save to meet their retirement needs tend to have higher savings goals than workers who have not done a calculation. When workers have used an online calculator to determine their retirement savings targets, the likelihood they will save enough for a sufficient retirement income also increases. The magnitude of the increase ranges from 9% to 18% depending on the respondent’s gender, marital status and income. In general, the lower the income of the worker, the higher the impact of using a calculator. Individuals who merely guess at their retirement savings target tend to underestimate their savings needs—reducing their chance of a sufficient income by as much as 9%.83

The best retirement planning calculators allow workers to factor in assets and income from multiple sources; for example, benefits due a spouse, assets from past employers and personal savings as well as expected government payments. Some of the newest calculators are able to access savings accounts from other sources and automatically enter the information needed to make calculations. Users should also have the ability to link investment returns to specific investments. The return on a money market account should not be projected to be the same as a stock mutual fund.

If a participant’s desired retirement age or income does not work given current savings and investment choices, a good calculator suggests adjustments to help bring the user closer to achieving his or her goals. Some calculators have a sliding scale that allows participants to see how their monthly retirement income will change if they save more money, adjust the asset mix in their retirement portfolio or delay retirement.

When selecting a calculator, be mindful of the assumptions being used. Assumptions for inflation rates, tax rates and health care costs can cause results to vary widely. Retirement projections should show a range of possible results, reflecting both the upside potential and downside of risks. The advantage of this approach is that participants can see the ups and downs that may occur with different choices they make and the risks they face.

With so many unpredictable factors associated with retirement planning, tools that provide Monte Carlo simulations are worth considering. Named after the city in Monaco where the primary attraction is casinos, these calculators predict the probability of a certain retirement outcome much like a gambler might consider the chance of winning. A Monte Carlo analysis involves multiple trial runs, called simulations, with random variables that affect retirement such as life expectancy, inflation, wage growth and investment returns. Users are provided the likelihood they will achieve their retirement goals.

Sponsors providing access to a calculator must keep in mind that many workers are not able to use this tool without substantial guidance. Instructions for data entry must be clear, especially when it comes to making assumptions regarding interest rates and investment return. If users are asked to select an income replacement rate for their retirement years, they need to be given information as to what might increase or decrease the percentage they need. For example, having a home with a mortgage paid in full lowers how much income is needed. Users should also be reminded they will no longer be setting aside a portion of their income for retirement. On the other hand, their health costs may increase. In some cases, a counselor may be required to take a user step by step through the process—helping locate data, entering it and, ultimately, interpreting the results.
Workers who have calculated how much they must save to meet their retirement needs tend to have higher savings goals than workers who have not done a calculation.

**Provide Access to Financial Advisors**

If plan sponsors—with support from actuaries, lawyers, investment managers, etc.—view the management of a DB plan as complicated, imagine how individual workers with savings in DC plans or other individual retirement savings accounts feel when they have limited financial knowledge and access to advice. In a 2012 survey of DC plan participants:

- 40% expressed uncertainty about the risk and return characteristics found in their plans.
- 67% knew adjusting their investments over time is important, but only 30% said they know how to do so.
- More than half admitted they did not know what a target-date fund is or were not familiar with how they work.84

Default options, professionally managed accounts, benefits information and education programs help address these problems, but even they cannot provide all the guidance needed to achieve a secure retirement. Sometimes, there is simply no substitute for personalized and objective financial advice. Unfortunately, not all workers can afford or will seek out advice on their own.

Plan sponsors that provide access to and encourage the use of financial advice help workers make smarter decisions that keep them moving in the right direction—to toward a secure retirement. When DC plan participants use employer-provided professional investment advice, they greatly outperform those who invest on their own. An Aon Hewitt study of 401(k) plan participants found those who used one or more professional tools (e.g., professionally managed accounts, online advice, registered investment advisors) had a median annual return 3.32% higher (net fees) than those who didn’t receive help.

To grasp the impact of this difference, consider two people who invested $10,000 for 20 years: The person who received help would have a portfolio worth 79% more than that of the person who did not receive help—$58,700 versus $32,800.

Furthermore, Aon Hewitt found that 61% of those persons who had not received help had inappropriate risk levels for their portfolios. Almost two-thirds of these were taking on too much risk, leaving them vulnerable to market downturns, while the remaining third were taking too little risk, potentially jeopardizing their ability to retire as desired.85

A Schwab study of 401(k) plan participants using independent professional advice found:

- **Increased savings**—70% of participants increased their retirement savings contribution rates.
- **More diversification**—Participants invested in at least eight assets, compared with an average of 3.7 assets for those who chose to manage their portfolios on their own.
- **Periodic rebalancing**—Those with a plan that annually rebalanced the assets in their portfolio had a higher annualized rate of return than those who never rebalanced their assets.
- **Increased likelihood of staying the course**—Participants were more likely to stick with their investment objectives and be less reactive during a market downturn or high volatility.86

Given there are substantial differences in how individuals prefer to receive information, it is wise to deliver financial advice using multiple strategies. While educational materials, seminars and one-on-one guidance all have value, case studies make it clear that a retirement plan tailored to each participant with ongoing personalized attention by an advisor is especially effective.

While plan sponsors are often optimally situated to make retirement planning information and advice available to workers, not all are willing or able to do so. Some are concerned they could be held liable if workers later claim the advice harmed their financial position. To avoid liability and increase participant use of information, professional advice and planning tools should be comprehensive, personalized and provided by a certified third-party advisor who is not selling products or services. Delivery through an independent advisor removes the conflict-of-interest concerns of some sponsors. Employees get the unbiased help they need, and employers do not incur the legal liability associated with specific investment recommendations. Exhibit 7 on page 26 offers tips for choosing an independent, third-party advisor.

To encourage use of a financial advisor, some sponsors arrange for an advisor to come to the workplace. A sign-up sheet can be posted with a list of scheduled times for meeting with the advisor. All workers have to do is put their name on the sheet and show up for the meeting. Consider letting workers meet with the advisor during paid work hours.
Provide a Regular Retirement Income Statement
The idea of projecting a lifetime income for each worker is catching on among DC plan sponsors and vendors. In fact, the U.S. Department of Labor (DOL) is considering mandating such a statement. At minimum, each year a plan sponsor should provide plan participants a clear, concise retirement income statement projecting a range of possible monthly income amounts the participant might receive during retirement given the current balances, asset allocations, various contribution rates and years to retirement. Plan participants can quickly and easily add the monthly income estimate from their workplace plan(s) with the monthly estimate the federal government provides for each person’s Social Security benefit to have a figure that is much more meaningful than an account balance. Projections that reflect how increases in contributions positively impact benefits could also help motivate participants to raise their savings levels.

By law, plan sponsors are required to provide workers with participant-directed DC plans the status of their account quarterly. There is, however, no requirement that quarterly performance and account balances must be prominently positioned on the first page of the statement. Plan sponsors can place monthly income projections on the first page of the statement and the required information closer to the end of the report. Not only does this structure make it easy to find the income projections, it also helps calm those participants most likely to overreact and chase investment returns. In addition, this approach to reporting can reduce the anxiety of all participants regarding the return on their investment.

Exhibit 7 | Selecting an Independent Financial Advisor
When looking for a third-party advisor, seek someone who:

- **Holds a credible designation.** The Certified Financial Planner® (CFP) designation has become the gold standard for financial planning. Other credentials that provide evidence of knowledge on a wide range of financial planning topics include Chartered Financial Analyst® (CFA), Certified Public Accountant–Personal Financial Specialist (CPA–PFS) and Chartered Financial Consultant® (ChFC). When an advisor’s credentials focus on asset investment and accumulation, consider asking whether he or she has any special training or expertise in generating retirement income; for example, designation as a Certified Retirement Counselor® (CRC), Retirement Management Analyst® (RMA) or Retirement Income Certified Professional® (RICP). The Certified Employee Benefit Specialist® (CEBS) designation ensures an advisor knows the benefits industry and fiduciary limits when providing investment advice in the workplace.

- **Is willing to sign a fiduciary oath agreement.** The advisor should be willing to sign a document that includes the word “fiduciary” and language indicating he or she is looking after the best interests of participants.

- **Generates revenues on a fee-only basis.** An advisor who earns money based on commissions versus a flat fee could have an incentive to steer investment choices in a particular direction. There are also advisors who charge a percentage of assets managed—These professionals are not likely to recommend annuities and other solutions that reduce the assets under their management.

- **Has significant work experience.** Look for an advisor who has or is currently working with plan participants. He or she will be more likely to know what works and what doesn’t with respect to changing worker behavior.
Goal 2: Get Workers Enrolled and Saving for Retirement

Offering a workplace retirement plan plays a crucial role in motivating workers to save for retirement. In a national survey by ING, nearly two-thirds (64%) of workers said the retirement plan provided through work accounted for all or most of their retirement savings. In addition, more than two out of five (44%) said they probably would not be saving for retirement if it weren’t for their plan at work.87

For employers offering DC plans that give participants the responsibility for saving some or all of the funds needed for retirement, however, more effort is needed. On average, those sponsoring a DC plan report more than one in five eligible workers (22%) do not participate. Among those who do participate, many save too little.88 Attention to plan features and encouraging workers to participate are imperative.

Many financial planners suggest people who start saving in their 20s should set aside at least 10% to 15% of their income annually. For those in their 30s, 15% or 20% may be more appropriate depending on how much they saved previously. These figures reflect what participants are setting aside on their own as well as money their employer provides as a match.

Offer a Workplace Retirement Plan

Despite evidence that a workplace retirement benefit plan encourages employee saving, almost half of workers in the U.S. do not have a retirement plan available via their workplace.89 Hence, for many, the first step in helping workers achieve a secure retirement is to provide a plan. Changes in government policies and new retirement savings options may have made it easier than many employers think to offer a retirement savings plan providing tax advantages to both the employer and employees.

Employers that do not want to design a retirement plan on their own for employees can use one of the 401(k), 403(b) or 457(b) prototype plans now offered by many financial institutions. The prototypes considerably reduce the administrative burden on employers while offering workers the means to set aside money regularly for retirement via payroll deduction. The tax advantages of such plans for employers and employees are the same as those available when plans are designed by the employer.

Many people think of an individual retirement account (IRA) as something persons establish on their own, but an employer can also help employees set up and fund IRAs. The employee makes the decisions whether, when and how much to contribute to the IRA. While employees can wait until the end of the year to put money in an IRA, smarter employers encourage savings by offering payroll deductions that allow workers to set aside a regular amount each pay period—increasing the likelihood money is actually put into the account. The role of the employer is to arrange for the employee payroll deductions and to transmit these funds to the IRAs. There is no annual filing requirement for employers.

Get Life Partners Involved

For workers with spouses/life partners, the input of both individuals is essential to achieve a secure retirement. Having partners involved in the process not only introduces them to the choices available, it can increase the likelihood couples will have a joint retirement plan and work together to achieve their goals. Encourage partners to become informed and actively involved throughout the retirement planning process.
Relax Plan Eligibility

Some DC plans require a waiting period (e.g., 12 months) before employees can start contributing. Relaxing this requirement allows new hires to participate and start saving for their retirement right away.

Plan sponsors with high worker turnover concerned about the hassle of dealing with the accounts of workers who don’t last a full year might have workers complete retirement plan enrollment forms at the time of hiring but simply delay participation for six months or a year.

Offer a Stretch Match

Most employers match worker contributions to DC plans to encourage retirement savings. The availability of a match, the size of the match and the match cap (the maximum amount that the employer will match) can all positively affect DC plan participation and the amount workers save, but some of these design features are more effective than others.

With respect to participation, the availability of a match has been found to positively impact participation in the range of three to ten percentage points. The effect of the match rate on participation has been mixed—At best, it has been relatively small and positive. While any increase is welcome, the impact of offering a match and the size of the match on participation has not been nearly as dramatic as the universal 15% to 25% participation boost created by automatic enrollment discussed on page 29.

While the match cap has little or no impact on participation, its effect dwarfs the effects of the other two factors with respect to the amount participants save. Figure 9 shows how employee contribution rates changed when one company introduced an employer match with a cap of 4%. When there was no match and no cap, the participants’ contribution rates clustered around 5%, 10% and 15%. Within six months after the introduction of the cap, almost 30% of participants shifted to a 4% contribution rate—lower than the rates they had chosen on their own.

Figure 9 | Contribution Rates Before and After a 4% Match Cap

A no-cost way to boost participant savings is to *stretch the match* to a higher rate. As an example, consider the most common default contribution rate of 3%. Instead of offering a 100% match of up to 3% of an employee's pay, an employer might stretch the match by offering a 50% match on up to 6%. Employees who save up to the cap would have total savings of 9% contributed to their plan.

An employer might offer a 50% match on up to a 10% employee deferral to hit a savings target of 15%. This amount provides a good starting point until a worker delves more closely into his or her retirement needs using a calculator or financial planner. If an employer is struggling financially yet wants to encourage workers to save, a lower match such as 25% would still provide employees with 12.5% savings if they select the 10% match cap as their contribution rate.

**Use Automatic Enrollment and Escalation**

For those workers who have little interest in taking their retirement future into their own hands and/or do not have the ability to do it well, automatic enrollment and escalation are key. With automatic enrollment, a plan sponsor reframes the decision to contribute to a DC plan. Instead of asking workers to enroll in their workplace plan, the plan sponsor determines what percentage of an employee's salary or wages will be contributed to the plan and automatically enrolls employees. The employee must take action to opt out of enrollment, change the percentage contributed and adjust how it is invested. Essentially, the same human behaviors that result in a failure to enroll—inertia and procrastination—are exploited to promote enrollment. In 2014, Aon Hewitt found the average participation rate across companies offering a DC plan with automatic enrollment was 85%, compared with a rate of 62% among companies without automatic enrollment.95

While automatic enrollment seems to be a natural strategy to use with new hires, it also can improve the retirement savings of nonparticipants. Plan sponsors are now conducting a one-time “back-sweep” or ongoing sweeps to autoenroll nonparticipants. If they don’t want to enroll immediately, ask them when they would like to enroll in the future. At the beginning of the new year? One year from now?

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**Exhibit 8 | Qualified Default Investment Alternatives**

The Pension Protection Act of 2006 (PPA) established safe harbor provisions for qualified default investment alternatives (QDIAs). Sponsors that do not implement a QDIA may be legally responsible if their retirement plan fails to produce adequate results for participants. Each alternative has pros and cons related to price and level of service.

1. **Balanced funds.** These mutual fund products usually provide a diversified portfolio focused on a steady income, asset safety and capital appreciation.

2. **Target-date funds.** These products invest in a mix of assets (e.g., stocks, bonds and cash) considered suitable for individuals retiring in a given time frame. As retirement nears, a professional manager automatically resets the mix of assets to reduce risk and provide a more stable fund value. The primary appeal of a target-date fund is the professional rebalancing as the individual investor ages, which is not provided by a balanced fund.

3. **Managed accounts.** Owned by an individual, these accounts are looked after by a professional money manager. While the cost of these accounts is higher than that of the other options, the manager makes decisions based on the specific needs of the individual investor, who can be involved in the decision process.
Because workers tend to stay with the default chosen by plan sponsors, the contribution rates and asset allocation in an automatic enrollment program must be chosen very carefully. Low default contribution rates and investment in conservative assets can result in workers not achieving a secure retirement.

The default investment option accompanying automatic enrollment should be a professionally managed, well-diversified, single-option solution for participants who cannot or do not want to make asset allocation and rebalancing decisions on their own. See Exhibit 8 on page 29 for a brief explanation of the qualified default investment alternatives (QDIAs) permitted in the United States. Target-date funds have become the most popular default option. For additional information concerning these mutual funds, see page 34.

Shlomo Benartzi at the Allianz Global Investors Center for Behavioral Finance shows that an initial default rate of 6% for an automatic enrollment program can work. Given so many workers report household expenses and debt are obstacles to saving, many plan sponsors may be concerned as to how workers will accomplish a contribution rate greater than 3%. A 2012 survey of DC plan participants suggests this concern may be unwarranted. A surprising 83% of survey respondents said they could cut their household budget by at least 5% to save more for retirement—including 64% who said they could reduce their budget by 10% or more.

The experience at one U.S. company that introduced autoenrollment suggests what workers are saying about increasing their contributions is true. When the company initially introduced autoenrollment, the default contribution rate was 3%. A year later, the contribution rate for new hires was increased to 6%. Throughout this process, the employer had a dollar-for-dollar match for employee contributions up to 6%. Contrary to what anyone probably expected, the participation rate at 6% was essentially identical to when the default was 3%—about 95%. The experience at this company also reinforces the conclusions of other research that the match cap has more influence than either the availability of an employer match or the rate at which the employer matches employee contributions. For plan sponsors that still think 6% is too high, Benartzi suggests 4% as the initial default rate.

Plan sponsors shouldn’t stop with automatic enrollment. Once workers are enrolled, automatic escalation of the participant default contribution rate over time can increase the proportion of a worker’s salary or wages saved. In the same 2012 survey in which plan participants said they thought they could save more, 52% said they would be willing to increase their savings rate to as high as 10% if their employer automatically increased the rate by 1% a year. With an initial default savings rate of 6%, an annual savings increase of 1% would mean participants reach a 10% contribution rate in four years. To boost participant savings more quickly, sponsors might consider a 2% annual increase to boost participant savings to 10% in just two years.
When escalation occurs at the same time as a pay increase, participants are less likely to miss money they didn’t receive previously. If synchronizing the contribution increases with pay increases is not possible, consider implementing the savings increase in January. A study by Vanguard asked plan participants which month they would prefer their first automatic savings increase to take place. The overwhelming top choice was the month of January, at 37%. No other month received more than 10% of the votes. It appears participants consider increasing their plan contributions at the start of a new year as part of their traditional resolutions for change. The advantage of this particular change when compared with other resolutions such as cutting calories or exercising is that no effort is required on the part of the participant—Automatic escalation, like automatic enrollment, takes advantage of the human tendencies to postpone or not take action despite the best of intentions. For new hires who are hesitant to start having money deducted from their first paychecks, giving them the option of postponing their first contribution until January is another option.

**Simplify Decision Making**

While automatic enrollment and automation of other parts of the retirement decision process have been proven to get results, not everyone is a fan of this approach. When individuals do not actively participate in making choices, it is likely they don’t know the options available to them and which choices best fit their personal circumstances. Few experts would advise taking out a mortgage or credit card without investigating product terms and costs, yet this is precisely what automatic enrollment is doing. Plan sponsors that share this view may prefer a process that combines retirement benefit education with simplifying enrollment.

During orientation, new workers complete important forms concerning their health benefits, direct deposit of their pay and taxes. Workers can be asked to fill out retirement plan enrollment forms at the same time and hand them in before they leave the orientation. Alternatively, ask workers to respond within a certain amount of time—perhaps two weeks or a month. Communication prior to the deadline should remind workers they must make a choice and that the date for response is nearing. While the deadline may be nonbinding, it may be enough to nudge some employees to take action.

To help workers make enrollment choices, break the enrollment decision process into several small steps—providing individuals with information and directions for what to do at each stage. For example, the process might have these stages:

- **Encourage enrollment and saving.** Communicate using graphics and text to motivate individuals to enroll and save for retirement.
- **Choose how much to save.** Give workers the minimum and maximum amounts they are permitted to save along with an explanation of how the sponsor match works.
- **Choose where to save.** To help enrollees decide where they will put their retirement funds, describe the pros and cons of each investment option, including a default target-date fund chosen by the sponsor.

A simple enrollment card with check boxes reflecting each decision made by the worker can be effective. Another approach is a one-page sheet with step-by-step instructions that includes a time frame for how long each step will take. For persons for whom English is a second language, materials in other languages may be needed.

**Leverage Competition**

Some people are motivated by competition. Principal Financial Group challenges its plan participants to defer at least 10% of their annual salary for retirement. Those who accept the challenge are eligible to win a Fitbit Flex™ or other activity tracker as a prize. Other prizes that might be used are gift cards, lunch parties and vacation days. If 10% seems too high a target for some workers, the bar might be set lower—say, 5% of their compensation. Alternatively, consider giving each worker one chance at a prize for each percent deferred.
Goal 3: Help Workers Make Prudent Investment Decisions

Participant investment decisions are a critical determinant of long-term retirement savings growth. In addition to providing access to a financial advisor, what can plan sponsors do to help workers make investment choices that optimize their portfolio’s risk and return? While the advice here is focused primarily on participant-directed DC plans, some of this information might also be shared with employees considering or already invested in an individual retirement account.

Limit the Investment Choices

Sponsors of participant-directed DC plans must offer enough fund choices to meet the various needs of participants but not so many choices that participants become overwhelmed. People find it easier to make decisions when they have a small menu of choices. The unintended consequences of a large number of investment choices are participant inertia and procrastination—in other words, choice avoidance. One study found that for every ten new investment options offered, plan enrollment drops between 1.5% and 2%. Among those workers who do enroll, increasing the number of funds offered may also cause participants to shy away from equities and select simpler, easier-to-understand bonds and bond equivalents. For every ten funds offered in a plan’s menu, participants reduced their exposure to equities by 3.28%. A consensus of experts recently surveyed by the TIAA-CREF Institute suggests the appropriate number of funds in a menu should be between five and ten.

Structure the Menu of Investment Options to Encourage Appropriate Choices

How a list of investment options is structured is as important as the choices offered. When creating a menu of investment choices for participants, it might seem logical to list investments from least to most risk or alphabetically. However, it has been learned that when provided a list of items, people tend to choose the first choice they are given. If the list is very long, another behavior kicks in—choosing the last items because these are the items that stick in a person’s mind.

Consider the implications of these two behaviors when a list of investment choices is ordered from least to most risky. Participants may choose an option that is too conservative for their needs. At the other extreme, a very long list might result in individuals selecting inappropriate aggressive investments. As a result, the top of the investment menu should be the funds that are most appropriate for the widest range of participants—very likely a target-date plan.

An optimal investment menu for a DC plan might have a “basket of funds” such as a balanced fund or target-date fund at the top of the list that is appropriate for a majority of workers who prefer to delegate the management of their retirement portfolio. The remaining choices could be a small group of core funds that permit those who want to have some control over their investments to create a well-diversified portfolio.

Promote Diversification

While stocks get the most media attention, those saving for retirement shouldn’t ignore bonds and other fixed income investments. Diversification of assets doesn’t ensure a profit or guarantee plan participants will not experience a loss, but it does reduce the volatility of their investment portfolios. Participants must be educated on the need to diversify and how it is accomplished.
When choosing the menu of investment options to offer DC plan participants, plan sponsors must provide choices that include several asset classes (e.g., domestic and foreign stocks, bonds and short-term investments). The financial industry offers a multitude of mutual funds that can help small investors achieve diversification—with index funds, balanced funds and target-date funds among the most popular solutions.

There is some evidence the higher the number of lines on the plan enrollment form, the higher the number of investment options selected. A sponsor may want to test whether changing the number of lines affects the investment choices made by new enrollees.

The vast majority of participants choose a small number of funds (three or four) and then divide assets equally among them. At the extreme, some participants select all the funds offered and divide their contributions equally among all the choices. Both approaches are misguided attempts to diversify, as some investment choices may be quite similar with respect to risk and return.

While target-date funds can help participants achieve diversification, many individuals are not using these funds as they are intended. An Aon Hewitt study of DC plan participants found only 38% were using these funds as a “one-stop” investment. Almost three out of four (74%) with a target-date fund held less than half their assets in the fund. Participants tended to misallocate the remainder of their portfolios, with 62% having an inappropriate risk level for their overall portfolio.

For plan sponsors including company stock in workers’ DC plans, it is essential participants be informed of the risk associated with concentrating their retirement savings in one stock. If the company stock takes a beating, so will their retirement savings. In a worst-case scenario, employees could lose their job and a substantial part of their retirement savings. The Save for Tomorrow program based on the principles of behavioral economics goes a step further by encouraging employers to limit participant exposure to 10%. The program then recommends the automatic and gradual divestiture of excessive company stock to this ceiling. This approach reduces concern that the stock will be sold at the wrong time and the possibility the stock’s price will be driven down if everyone sells at once.

**Discourage Chasing Returns**

When a particular investment is doing well, it is human nature to want to put more money into it. When something is doing poorly, investors are tempted to get out before they lose more. The problem with chasing returns is that “hot” investments don’t usually stay hot. In fact, they often crash and burn right after everyone starts buying them. As for investments that aren’t doing well, it is very possible they will make a comeback and the investors who sold them will miss out on their recovery.

Plan sponsors should educate participants on the importance of establishing and sticking with their investment plan with respect to asset allocation, level of risk and so forth. Sponsors must help participants understand that past returns rarely are a good indicator of future returns. Moreover, people who try to “time” when they buy and sell assets tend to (1) end up with portfolios with more risk than is appropriate and (2) lose more money than they gain.

Experience shows few individuals take these common cautions to heart. Providing participants with an example such as the painful consequences individual investors experienced in the 2008-2009 stock market crash may get plan participants’ attention. When the market crashed, many future retirees experienced devastating declines in the value of their retirement accounts. In an effort to stop the free fall, they sold the stocks in their portfolios. When the market recovered, they lost out again because they owned no stocks. Had they stuck with their original investment objectives and waited out the downturn, they would have more than recovered their initial losses.

As stated previously, placing long-term monthly income projections prominently on the first page of required plan statements and moving short-term information (i.e., quarterly and annual returns and account balances) closer to the back of statements can also discourage the chasing of returns by participants.

Another strategy that can be used to discourage efforts to time the market is to restrict the number of fund transfers a participant can make within his or her portfolio during a month. Some DC plans allow participants to make transfers on a daily basis. Permitting only two transfers per month, for example, would restrict this activity. Alternatively, some plans allow daily trading but thwart excessive trading by prohibiting *round-trip transactions*—fund purchases followed by a sell or exchange sell within 30 calendar days in the same fund and account.
**Promote Rebalancing**

While buying and selling portfolio assets to time the market is a bad idea, buying and selling stocks, bonds, etc. to rebalance a portfolio's asset mix is a central tenet to investing for retirement. Asset values rise, fall and grow at different rates. While the relative value of one asset in a portfolio booms, the values of another asset may shrink. Over time, the result is a collection of assets out of sync with the mix initially established by the plan participant. In addition, as participants age, they should be moving into more conservative investments that have less risk than what was acceptable when they were younger.

Rebalancing is how investors make sure their portfolios maintain a level of risk within their comfort zone. Rebalancing annually also forces investors to take profits from investments that are doing very well and to put money into other good investments that are not doing as well.

Despite the advantages of rebalancing, it appears few plan participants with self-directed DC plans do so. During the years 2009 through 2013, Vanguard found just 29% of plan participants initiated a trade. In any one of these years, only about one in ten participants made a fund transfer.111

Encourage participants to establish a plan for rebalancing their portfolios once or twice a year. Participants can choose an easy-to-remember date or dates when they are most likely to take any action required. Several of the investment firms that offer DC plans now offer automatic rebalancing. Look for a firm that offers this option and encourage participants to take advantage of it.

**Offer Target-Date Plans**

The investment industry’s solution to helping plan participants make prudent investment decisions is target-date funds, also referred to as age-based funds and lifecycle funds. Target-date funds are hybrid mutual funds that invest in a mix of assets (e.g., stocks, bonds and cash) that put retirement savings on autopilot.

Participants choose the fund with the date nearest when they plan to retire. The target year is identified in the name of the fund; for instance, a person who plans to retire in or near 2050 would pick a fund with 2050 in its name. The mix of assets in the fund is automatically rebalanced as the fund date approaches and typically becomes less risky so investors have more stable values and returns as they near the time when they will begin withdrawals.

Plan sponsors choosing a target-date fund should be aware that great diversity exists in products on the market. It is essential to understand what the specific target-date fund’s glidepath (asset allocation over time) is designed to accomplish. Some products feature a glidepath that matures at the participant’s projected retirement date, while others carry the investor well into retirement. Some funds are actively managed while others use index funds with a passive management approach. Target-date funds also vary in risk, ranging from conservative to aggressive.

**Provide Model Portfolios**

For investors who want a little more control over their retirement portfolio than that provided by a target-date fund, some plan sponsors, vendors and online calculators are providing model investment portfolios that suggest a mix of assets based on where an individual is in the lifecycle. A few calculators go a step further and consider the risk tolerance of the user.

In general, assets in model portfolios have less and less risk as persons age. Figure 10 provides a sample of model portfolios designed specifically for those in the California Teachers Association (CTA). Notice how risk declines as individuals move from early in their career to midcareer, near retirement and, eventually, retirement.

**Pay Attention to Investment Expenses and Other Costs**

Administrative, investment and other expenses associated with a retirement account can have a sizable impact on retirement savings. A U.S. Government Accountability Office report showed how a 1% expense could result in a 17% reduction in asset value over 20 years in a hypothetical investment account.112 Plan sponsors should negotiate with service providers to reduce the negative effect of fees on worker retirement savings.
No law requires plan sponsors to select plan investment options with the lowest fees available, but sponsors do have a responsibility to make sure the fees charged are reasonable in terms of the quantity and quality of services provided. Benchmark fees with those charged to plans that are similar in size, number of participants, employer industry, employer match and asset allocation. Once investment choices have been made, monitor the fees regularly to ensure they remain competitive.

A good place to start an examination of fees is investment expenses. Low-cost index Funds might be an appropriate replacement for more costly actively managed funds. Index Funds are mutual funds composed of securities selected to mirror a designated market index (e.g., S&P 500, Barclays U.S. Long-Term Bond Index). Historically, passively managed index funds have outperformed the majority of actively managed mutual funds.

Beware of the wide range of payments for different asset managers and investment vehicles; there are situations where a minority of workers is paying the majority of plan costs. Even participants with the same account balances may be paying significantly different amounts for plan administration. Plan expenses should be distributed across the plan population in an equitable manner. Conducting a detailed analysis of plan fees helps a sponsor determine whether certain workers are shoulder ing a larger percentage of fees than others are. Ideally, sponsors can select a set of funds with no reimbursement for administration included and, instead, deduct the fees needed to cover administrative expenses equitably across all asset classes.

Sponsors that have or are considering annuities as lifetime income generators should not overlook the special fees associated with these accounts. Participants pay a fee referred to as a mortality and expense risk charge to compensate the insurance company for various risks it assumes under the annuity contract such as the life expectancy of the annuitant. While immediate fixed annuities that provide an income during retirement are available for a relatively low cost, fees for deferred variable annuities used to accumulate assets before retirement can be much more costly than those of comparable mutual funds.

Any fees that add little value in terms of investment return or service might be lowered or eliminated. Perhaps the plan is paying for features or services that participants are not using.
Goal 4: Help Workers Stay on Track to Meet Their Retirement Objectives

During a person’s life, any number of events can result in failing to implement steps in a retirement plan or getting off track. Employers and plan sponsors should review their total benefits package to consider what changes might significantly impact the ability of workers to achieve their retirement objectives. Expanding worker education regarding retirement plan features, assistance with plan rollovers and instruction on general money management may also have a positive impact.

Curb Loans and Hardship Withdrawals

Though the reasons plan participants take out loans and make hardship withdrawals can be compelling, these actions can have a major impact on retirement savings outcomes. Plan sponsors can reduce the chance of such an impact if they:

- **Limit the number of loans and establish a waiting period between loans.** Restricting the frequency of loans reduces the number of serial borrowers—the group most likely to default on their loans.
- **Limit the dollars available via loans and withdrawals.** A sponsor might restrict loans and withdrawals to employee savings—not permitting access to employer contributions. Such a policy limits access to some funds while retaining some flexibility and access for workers. Reducing the maximum allowable dollar amount eliminates some of the largest loans and withdrawals.
- **Automatically restart contributions after a hardship withdrawal.** Plan sponsors often prohibit participants from making contributions to workplace retirement plans for at least six months after a hardship withdrawal. An automatic restart at the end of this period can help participants get back on track saving for retirement as soon as possible.
- **Permit the posttermination repayment of loans.** Many employers do not accept loan repayments after employment termination because payroll deductions can no longer be made. If an employee does not have the funds to repay the loan in full at termination, the loan becomes a withdrawal with all of the associated taxes and penalties. Allowing individuals to continue making payments through the term of the loan encourages repayment and maintenance of the funds in the retirement account.

Assist With Rollovers

Leakage is also a problem when DC plan participants change jobs. These participants typically have three choices for retirement savings from their former job:

1. **Take a lump sum.** For many, the worst option is taking funds out as a lump sum and spending it or investing it in a nonretirement savings account. With this decision, the participant pays taxes on the funds and, too often, an early withdrawal penalty. The amount set aside for retirement is reduced and the long-run opportunity for money to compound tax-free is taken away. The ultimate consequence is that the amount the worker needs to save during the remainder of his or her working years increases.

2. **Leave savings in the former employer’s plan.** While this option may make sense for those who have been covered by a plan for many years, there are disadvantages for workers with small account balances and those who have multiple jobs and plans. Leaving the funds with former employers can result in several small retirement accounts to track. Furthermore, since most plans are priced on the average account balance, a collection of small accounts may result in higher management fees than if savings were all in one place.

3. **Move to a new plan.** The third option is to roll funds into a new employer’s retirement plan or an individual tax-advantaged account. Wide variations in plan rules and policies governing how rollovers are handled can make the transfer of funds complex and frustrating for workers (and sponsors).

Plan sponsors can help workers use the third choice by making it easier to transfer retirement savings to another tax-advantaged retirement account. Similarly, sponsors can simplify the process for new workers who wish to transfer funds from accounts established by previous employers. Plan sponsors as well as current and former employees can benefit when help is provided with rollovers. Sponsors reduce the number of plan statements they must disseminate and the chance they are going to have difficulty keeping track of former employees.
Offer Other Benefits That Help Workers Manage Risk and Increase Savings

It is easy to overlook the substantial impact that elements of a worker’s benefit package other than a retirement plan can have on the ability to save for a secure retirement. Such benefits typically support retirement planning in one of two ways: (1) helping workers cope with life’s surprises that can wreak havoc on their personal finances and (2) providing funds for other financial goals that often compete with workers achieving their retirement goals.

- **Life insurance** or another type of death benefit is a relatively low-cost way to help a surviving spouse stay on track saving for retirement if a worker dies before retirement. Many workers are provided basic life insurance in the workplace at no or a limited cost. Workers may be given the option to purchase additional coverage for themselves and their spouses at group rates lower than what would be available if they tried to purchase protection on their own.

- **Disability protection** provides periodic payments to workers who are unable to perform the regular duties of their jobs. These payments may be paid through a life, disability or workers’ compensation plan. Protection may also be provided as part of a retirement plan if a plan participant is totally and permanently disabled prior to normal retirement age.

- **Medical, vision, dental and hearing benefits** help workers and their dependents deal with unpredictable but inevitable health expenses. Medical coverage is especially important given the catastrophic possibilities that can destroy not only a retirement plan but also one’s general financial security. Employers that offer high-deductible health plans can set up health savings accounts that offer workers the ability to set aside pretax dollars within federal limits for medical expenses. Money not used at the end of a year can be left in the account for medical costs in future years—offering some workers a means to also save for retiree medical expenses.

- **Long-term care (LTC) insurance** is offered by some large employers that recognize the financial consequences workers and retirees face if they need long-term health care. While some employers pay for the benefit, others give employees the option of purchasing their own coverage through their employer. In the latter case, coverage may be offered not just for the employee, but also the employee’s spouse/partner, parents and in-laws. A group policy opens up opportunities for LTC coverage with a lower premium.

- **Emergency loan programs and hardship funds** can help workers in financial crises who have exhausted other means of obtaining financial assistance—avoiding loans or hardship withdrawals from their retirement savings.

- **Employee assistance programs** increasingly offer services and resources to help workers deal with financial issues. Assistance ranges from coaching and consultations concerning budgeting, loan repayment and debt consolidation to advice on financial planning and investment options.

- **Education assistance plans** partially or fully reimburse employees for education and training expenses. Given so many young workers are burdened with substantial college debt, an employer might consider an employer match for loan repayments versus a retirement contribution for workers under a specific age—say, 30 or 35. The development of a worker’s skills is the foundation for ongoing employment, career advancement and meeting retirement savings goals. Such a program can also help workers garner knowledge and skills that will enhance their chance of employment after retirement. Some plan sponsors also help fund the college education of a worker’s dependents. Every dollar given for a child’s education represents a dollar a worker can shift to a retirement savings account.
Provide Personal Financial Information and Education

Until recently, the focus when educating retirement plan participants was limited to introducing plan features and how to get enrolled. Sponsors are starting to realize achieving retirement security cannot be isolated from other parts of a person’s financial life. Workers who are on track to retirement have a much stronger personal financial foundation than those who are not on track. These individuals are able to weather emergencies without tapping their retirement accounts, pay off debt before it affects their ability to save and manage expenses to free up cash for retirement savings.

An increasing number of plan sponsors are embracing a more holistic approach to promoting retirement security that includes personal financial education. Areas that often have the greatest impact on retirement savings and for which there is the greatest need for education include:

- Creating and managing a budget
- Managing credit/debt
- Acquiring sufficient insurance coverage
- Saving and borrowing for the purchase of a home
- Saving for a child’s education
- Saving and investing for retirement
- Reducing taxes.

Another potential role of financial education is to help individuals assess their abilities to make personal financial decisions, including those related to retirement preparedness. To help participants maximize the benefits from financial professionals, sponsors can also provide participants with:

- Characteristics of a good advisor
- Recommendations when to seek advice
- Common questions they might ask an advisor.

Goal 5: Assist Those Near Retirement to Make the Transition

How workers move into retirement has a major impact on their future financial well-being. Decisions on when and how to retire affect (1) when they stop saving for retirement, (2) the income they receive from both workplace and government benefit programs and (3) when and how they start drawing on their retirement savings. There are specific actions plan sponsors can take to help those near retirement understand the options available and make informed decisions. Plan sponsors must do more than distribute a statement of the benefits to be provided and generic retirement information.

Help Preretirees Assess Different Retirement Scenarios and Risk Management Strategies

Many aspects of retirement planning are not fully understood by preretirees—After all, most individuals make the decision to retire only once in a lifetime. When poor choices are made, they can’t always be corrected and the consequences may affect retirees—as well as their life partners—for the rest of their lives. Making the right choices can also be the difference whether individuals are able to pass some of their assets to others as part of an estate.

Plan sponsors must make a concerted effort to ensure those closest to retirement have a realistic, comprehensive plan that takes into consideration different life scenarios. Exhibit 9 offers a checklist of issues to address as part of this endeavor.

Offering a mix of programs and services is usually the best choice. Some employers provide preretirement seminars to workers who are 5-10 years from retirement. Print worksheets, online modeling tools and one-on-one meetings with a financial advisor are among the other tactics that can be used depending on the characteristics, needs and preferences of the workers. For plan participants who feel comfortable making their own decisions, independent study materials may be the right approach. Other participants may prefer working with a financial advisor who can help them make choices.
Create Opportunities for Transitional Employment

For individuals who have insufficient funds set aside for retirement, working longer than the typical retirement age may be critical. Other people want to continue working on a part- or full-time basis just to stay active. To help these employees, consider modifying workplace practices and policies to permit a gradual transition into retirement. Organizations that have people near retirement with knowledge and skills that are in short supply may benefit from the policy changes as much or even more than employees.

Whether phased retirement is a formal program or an informal arrangement, it might include any one or a combination of the following features:

- Retraining or updating worker skills
- Employees working on a reduced or modified basis as they approach retirement
- Work more suitable to older workers (e.g., less stressful or physically demanding)
- Permitting employees to collect some portion of their retirement benefits while continuing to work.
- The reemployment of those who have retired
- Employer-provided health care coverage

Some employers will want to keep their own employees while others will be tapping employees who worked elsewhere.

Exhibit 9 | Preretiree Checklist

Before an individual retires, employers and plan sponsors should help workers:

- Determine their retirement expectations with respect to work, leisure, care for loved ones, etc., during retirement.
- Analyze how much retirement income it is reasonable to expect from their workplace retirement plan(s), Social Security benefits and personal savings/investments.
- For those who plan to work during retirement
  - Assess what job opportunities will most likely be available to them.
  - Identify the skills they will need to update or develop to be employable.
  - Forecast the income they will be able to generate from this work.
  - Examine the tax and other implications employment may have on other retirement income.
- Consider how changing their retirement date, when they claim benefits and the amount of time they work during retirement might affect their income.
- Assess the risks associated with retirement—particularly longevity, investment and inflation risk. Identify what strategies can be used to manage these risks, including the pros and cons of each.
- Identify and assess the impact of any debt that will carry into or be incurred during retirement.
- Develop a contingency plan if they find a cognitive or physical decline impacts their ability to handle their finances and other day-to-day activities.
- Create an expense plan that takes into consideration the additional costs they may incur during retirement—especially health care and long-term care—and how expenses may fluctuate over time.
- If they have a spouse, life partner and/or dependents
  - Examine what savings and benefits these other persons will contribute.
  - Assess how income and expenses would change for survivors if any of these persons die.
  - Identify any death benefits available to survivors.
Offer Lifetime Income Options and Guidance

In the early years of the shift from DB to DC plans, the bulk of the attention given to achieving a secure retirement was directed at accumulating sufficient retirement resources. Today, there is a growing realization that more consideration must be given to decumulation—managing and spending DC retirement accounts after retirement. Like the accumulation of plan assets, decumulation requires plan participants to make complex decisions involving the unknown—their future health, longevity, return on investments, inflation, etc. An increasing number of DB plan participants are facing similar choices as more of these plans now offer retirees a one-time lump-sum payout as an alternative to a monthly payment for life.

For workers who want to turn retirement savings into a guaranteed stream of income, a diverse selection of retirement income generators (RIGs) are now available with features that continue to evolve. See Exhibit 10 for a brief introduction to the three different approaches to generating retirement income. Each RIG has pros and cons—and the income retirees receive significantly depends on the strategy chosen. No single lifetime income choice is appropriate for all individuals. Unfortunately, the number of options for generating an income stream after retirement is so complicated that too many individuals choose nothing. Plan sponsors can help overcome this barrier by providing participants with a limited menu of prescreened options for decumulation.

When selecting which RIGs to offer, plan sponsors are in a strong position to negotiate group pricing to deliver more income and/or protect the remaining wealth of participants than individuals would be able to get on their own via the retail market. A competitive bidding process for the selection of annuities from insurance companies can increase the annuity income of retirees by as much as 5% to more than 20% for the same amount of savings. The one exception is annuities for males purchased through DC plans—Federal law requires these annuities be priced on a unisex basis that doesn’t adjust for the fact that on average, women outlive men. For this reason, males with a DC plan may be able to purchase single life annuities at a lower price outside their workplace retirement plan than within their plan.

Exhibit 11 on page 43 suggests questions for a plan sponsor to ask when evaluating different income-generating options to offer. The options plan sponsors provide should reflect the needs of participants.

For some retirees, choosing a combination of RIGs is the best route. Plan sponsors may want to permit workers to select a mix of options so they are not forced to commit 100% of their assets to one strategy. Sponsors might also consider allowing participants to purchase annuities throughout retirement. Retirees might keep some of their savings invested in equities so they can benefit from the higher expected rate of return on stocks versus fixed income assets early in their retirement. Gradually, they could reduce their investment in equities and increase the amount that is annuitized. They might make a small annuity purchase each year, gradually replacing the phased withdrawal of assets with income from annuities. For workers who are phasing into retirement, this strategy makes it possible to reduce work-related earnings over time. Retirees who have a higher risk tolerance can also postpone the start of annuitization.

By offering information and guidance regarding lifetime income options, plan sponsors increase the likelihood plan participants will make decumulation decisions appropriate to their individual circumstances. Information that is particularly useful includes:

• The pros and cons of RIGs offered by the plan
• The risks associated with each
• The amount of retirement income it is reasonable to expect under different scenarios.

In addition, education may be required to help workers overcome the perception of annuities as investments that require people to give up a lot today with an uncertain return. Framing annuities as buying insurance that guarantees lifetime payments versus investing can positively affect how many individuals are willing to purchase annuities.
A retirement income generator (RIG) is a strategy that turns all or part of a worker’s accumulated assets into income after retirement. There are three basic approaches for generating income from an employer-sponsored retirement plan and/or individual savings. Each method can be implemented using a variety of financial instruments and/or tactics:

1. **Investment earnings.** Invest the assets, leave the principal intact and spend just the interest and dividends received on the assets. Realized capital gains are typically reinvested but are available to be spent if needed. Types of investments used to generate this income are:
   - Bank deposits
   - Direct investment in individual stocks and bonds
   - Mutual and exchange-traded funds with stocks, bonds and/or cash investments
   - Real estate income property
   - Real estate investment trusts (REITs).

While this may be an appropriate strategy for those who want to leave funds to their heirs, very few retirees have sufficient money set aside to generate the income they will need without dipping into principal at some point during retirement. Individuals must also have the knowledge and willingness to manage their investment portfolio or seek the assistance of professional management.

2. **Systematic withdrawals.** Invest the assets, then use a structured approach to draw down the principal and investment earnings so there will be a lifetime income stream. A common strategy is withdrawing a fixed dollar amount (with or without adjustments for inflation) or a fixed percentage of assets. The latter is often referred to as a 4% withdrawal program, but the percentage should be adjusted to factor in variables such as the retiree’s age, anticipated market returns and investment volatility. A 4% withdrawal rate assumes a relatively aggressive investment portfolio that includes stocks. For retirees heavily invested in fixed income vehicles such as bonds and certificates of deposit (CDs) that provide a lower return, a rate of 2.5% or even lower might be more realistic. With systematic withdrawal, some retirees may manage their assets on their own while others employ the services of a professional manager.

A downside to this approach is that poor investment returns or high longevity can cause the invested assets to be depleted during the retiree’s lifetime; there is no guaranteed income stream. On the plus side, retirees are able to maintain some control over the funds—a feature not available when an annuity is purchased.

3. **Annuity purchase.** With an annuity, an individual transfers some of his or her savings (and longevity risk) to an insurance company that guarantees a lifetime income. A common strategy is for retirees to annuitize what they estimate they will need for basic living expenses, which leaves other assets available for large purchases and emergencies. Annuities are the only one of these three RIGs that can guarantee a retiree a monthly income payment for life. Available for purchase before, at or after retirement, annuities can be any combination of immediate or deferred, fixed or variable, and for life or a fixed period. Examples of annuities offered include:
   - **Fixed income annuity**—A guaranteed income is provided for the life of the policyholder.
   - **Period certain annuity**—Payments are for a specific period. This option provides a higher monthly income, but there is the risk the policyholder will outlive the benefit period.
   - **Inflation-adjusted income annuity**—A guaranteed stream of income for the life of the policyholder is provided with the payment amount tied to changes in a consumer price index. These annuities initially provide a lower monthly income amount than a fixed income annuity, but the amount has the potential to surpass that of a nonindexed annuity with the adjustments for inflation.
   - **Variable income annuity**—The policyholder receives an income for life that varies with the performance of the underlying investment portfolio managed by the insurer.
   - **Longevity insurance annuity** (a.k.a. advanced life deferred annuity)—The policyholder is paid a monthly benefit if (and when) he or she reaches a preestablished future age such as 85. The advantage of this type of annuity is that a person may be able to use nonannuitized resources in their 60s and 70s knowing this insurance will provide an income if they live longer than they expect. Longevity insurance is less costly than other annuities.
• **Long-term care protection** (a.k.a. *life care annuity*)—The policyholder is allowed to withdraw money for LTC needs without incurring surrender charges. Bundling an annuity with this form of LTC insurance reduces the adverse selection problem in the market for annuities (i.e., those who expect to live longer are those who purchase annuities) and, as a result, increases the income stream by about 5%. In addition, many of the people whom insurance companies exclude from LTC policies can qualify for a life care annuity and, thus, get LTC protection.

Riders and variations to an annuity sometimes offer a guaranteed income or payment amount when there might not have been one otherwise.

• **Guaranteed lifetime withdrawal benefit**—promises the policyholder can withdraw a certain percentage (typically 2-8%). Such access to annuity funds is not available with a traditional fixed annuity.

• **Guaranteed minimum income benefit**—promises a base amount of lifetime income regardless of how the underlying investments in a variable annuity have performed. Payments are based on the amount invested, then credited with an interest rate.

• **Guaranteed minimum accumulation benefit**—promises a variable annuity’s value will be at least a minimum percentage (usually 100%) of the amount invested after a specified number of years (typically 7-10 years), regardless of actual investment performance.

• **Guaranteed minimum withdrawal benefit**—a promise that a certain percentage (usually 5-7%) of the amount invested can be withdrawn annually until the contract’s value is completely recovered, regardless of market performance. Reducing withdrawals in one year does not allow for increased withdrawals in subsequent years. However, if a contract owner defers withdrawals and the account value grows, the amount of subsequent withdrawals permitted may be larger. If the underlying investments perform well, there will be an excess amount in the policy at the end of the withdrawal period. If they perform poorly and the account value is depleted before the end of the withdrawal period, the policyholder can continue to make withdrawals until the full amount of the original investment is recovered. The investor also has the option to terminate the contract before the end of the withdrawal period and get a cash surrender value established in the contract. Recently, a step-up feature has been introduced that periodically (e.g., annually or every five years) locks in higher guaranteed withdrawals if investments do well.

Survivor benefits may be available through these additional contract provisions:

• **Joint and survivor annuity**—issued to two or more persons; payments are promised as long as either person lives.

• **Single life with term certain**—guarantees payments for the life of the retiree. If the retiree dies before a prespecified period, payments continue to the retiree’s beneficiaries for this period.

• **Cash refund feature**—provides a refund of any principal remaining at the death of the policyholder to the retiree’s spouse or other beneficiaries.

It is important to realize that the more guarantees and flexibility provided by an annuity, the higher the fees or the lower the retirement income. In addition, not all options may be available everywhere.

Lifetime income choices may be inside or outside a retiree’s savings plan. With an *in-plan option*, assets are held by the plan as either invested assets or group annuity contracts. Retirement income is paid from plan assets to retirees, and the underlying assets are included for government reporting. For example, a DC plan might offer a fixed monthly or quarterly payout feature.

With an *out-of-plan option*, the plan sponsor facilitates the transfer of participant assets to a financial institution or institutions. Typically the institution is an insurance company, mutual fund company or brokerage firm that generates retirement income for the retiree. The sponsor identifies these institutions and publicizes their availability to plan participants. Once assets have been transferred, the sponsor has no relationship with the retiree and assets aren’t included in government reporting. The financial institution invests the assets and delivers the income to the retiree.
Exhibit 11 | Choosing Retirement Income Generators and Their Providers

When choosing lifetime income solutions to offer plan participants, the process for the plan sponsor is much the same as with any other fiduciary decision. A rigorous and documented process for evaluating and monitoring offerings must be established. The primary difference is the type of information reviewed. While factors to assess also vary with the type of RIG and its source, these are some common questions to ask:

- How much income is provided to retirees? How does this income compare with that from other sources?
- Who determines the amount provided as income?
- Can the income amount be affected by investment volatility or changes in interest rates before or during retirement?
- Is there a potential for an increase in income to counter the impact of inflation?
- Is the income guaranteed for life?
- Is there an option that guarantees income for at least a set period?
- Who controls the investment of assets used to provide the income?
- What has been the historical return on the investments providing the income relative to the risk?
- Can savings be accessed by the participant after retirement income has started?
- Can any assets remaining at the death of the retiree be passed to survivors?
- What types of services are provided to workers, retirees and the plan sponsor (e.g., administration, communication, education) by the financial institution providing the product? What is the quality of these services and are there any restrictions on their use?
- Are the fees, commissions and other costs of the product and associated services reasonable? How do they compare with those from other sources?
- What has been the financial institution’s experience with similar products?
- How long has the institution offering the product been in business?
- Overall, is this option appropriate for both the plan and the participants served?
- When a professional will manage the assets and no income guarantees exist, there are special concerns.
  - What are the experience and credentials of the investment management team?
  - How stable is the management team?
- When the RIG provider is an insurance company promising to provide an income to participants for as many as 30, 40 or even more years, the financial soundness of the company is essential. A plan sponsor must evaluate whether the company will be able to make all of the future payments.
  - What is the company’s level of capital, surplus and reserves?
  - How has the company been rated by the various insurance rating services over several years and economic cycles?
  - If the company experiences financial difficulties making payments at some point in the future, what protections are available from a state insurance guaranty association?
Make a Retirement Income Generator the Default Option

Just as autoenrollment has been effective in increasing DC plan participation, making an RIG the default distribution option for a DC plan can discourage lump-sum payouts at retirement. Many DB plans already do this—making an annuitized income stream the default option. In fact, not all DB plans offer a lump-sum option.

Systematic withdrawals. A professionally managed account with systematic withdrawals is the most popular in-plan RIG used with DC plans. This approach allows retirees to stay in their plan and receive a stream of income. The principal downside is that longevity and/or low investment returns may result in retirees outliving the assets in the account.

Annuities. Annuities address both of these risks—providing a guaranteed income stream for the life of the retiree (or in the joint and survivor context, for the life of the retiree’s spouse/partner as well).

When a DC plan participant purchases an annuity at retirement, he or she gives up a relatively large sum of money today to receive a stream of income tomorrow. For some workers, the loss of financial flexibility along with the perceived loss of value if they were to die early creates a psychological barrier to making a purchase.

Behavioral economics suggests that if the annuity amount is small and the commitment to future annuity purchases is reversible, workers will be more willing to accept an annuity.116

A plan sponsor might permit workers to start purchasing deferred annuity units with a portion of their DC contributions each pay period after they reach a specific age (e.g., 50). Workers would be allowed to stop purchasing additional units at any time. Besides increasing the likelihood workers will purchase annuities, workers benefit from dollar cost averaging with units purchased over time at different interest rates. This strategy lessens the conversion risk that occurs when an entire annuity is purchased at retirement.

414(k) provisions. If a DC plan sponsor has an affiliated DB plan, another option is to transfer some or all of a participant’s DC funds to the DB plan under Internal Revenue Code section 414(k). The money from the DC plan is converted to an annuity payable from the DB plan. Given the current low interest rates used by insurance companies when pricing annuities, the 414(k) transfer approach can provide a substantially higher lifetime retirement income for the participant without adding any measurable risk to the DB plan’s funding.

Target-date funds with a decumulation feature. A relatively new choice for DC plan sponsors to consider is target-date funds that include a decumulation feature—an effort by the financial industry to address multiple accumulation and decumulation issues with one product.
V. Effective Communication: A Key to Success

A thread that runs through all workplace strategies to promote retirement security is communication. How information and new initiatives are framed and delivered can make or break the most well-intentioned efforts. Effective communication is optimistic and action-oriented—inspiring people to plan and save for their retirement.

Fortunately, plan sponsors don’t have to go it alone in the communication process. Investment fund managers and third-party administrators often have education specialists and financial advisors on staff who can offer services for little or no charge. They may also have content that can be used as is or with minor modifications. Other potential sources of help include benefit and communication consultants, public relations and advertising people, audiovisual producers, editors, tech personnel, those who directly supervise workers and even some plan participants.

When developing communications tactics, begin with an analysis of the objectives. Establishing objectives that are clearly understood makes it easier for everyone involved in implementation and increases the likelihood of success. Sample objectives might be to:

- Inform individuals how to enroll in their workplace retirement plan
- Encourage more participation and higher savings in the organization’s retirement plan
- Increase the number of individuals using a retirement program or service
- Involve spouses/life partners in the retirement information and decision process
- Raise the number of workers who achieve a secure retirement
- Meet federal disclosure laws and other government mandates
- Develop increased worker appreciation for their retirement benefits.

Know the Audience

Knowing the target audience of any communication endeavor is essential. Plan sponsors can work with recordkeepers to harvest data concerning plan participation and current retirement savings. Ideally, data can be broken down by gender, age, income, education, language, ethnic background, etc., so the sponsor can identify specific groups for messages motivating those in the group to take the appropriate steps. Questions that might be asked are:

- Who is eligible but not enrolled in the retirement plan?
- Who is participating, and how much are they saving?
- Who is saving enough to get the full organization match?
- How frequently are participants making fund transfers or rebalancing their accounts?
- Who has recently borrowed money from their retirement savings?
- Which participants are “serial borrowers”?
- Who is invested in poorly performing funds?
- Who has a portfolio that is not diversified, and where are they putting their money?
- Who is at risk of not achieving a secure retirement?
- Who is probably within ten years of retirement?

Getting to know an audience also involves listening to workers. What do they already know? What misperceptions do they have? What do they want to know or need to know? How do they want to get information? Among the ways to learn about workers’ knowledge, attitudes and needs are:

- Interviews
- Focus groups
- An advisory group
- Questionnaires—administered by mail, e-mail or in person
- Analysis of inquiries that come to HR or the plan office
- Tracking use of website content and other information/education efforts
- Discussion and questions at meetings.

Workers have life experiences and knowledge that have the potential to enhance or thwart communication. Former experiences can make a message more meaningful. Conversely, a bias or negative experience can impede efforts to help participants. Communication strategies and educational programs must acknowledge and build on the interests, knowledge and experiences of plan participants.
Target Messages

One-size-fits-all efforts rarely work. To be effective, communications must consider worker differences. Groups that might be targeted for specific messages include:

- **Ncenrollees.** Persons eligible for a plan but not yet enrolled should be targeted with messages encouraging plan enrollment. For workers in their 20s, the emphasis might be on the value of starting to save early for retirement. With older and higher paid workers, messages might emphasize pretax savings. Recent immigrants may need help understanding and trusting financial products and/or institutions.

- **Contributors with low savings rates.** Messages designed to boost savings should be aimed at those who are not saving enough for a secure retirement—especially those who are not contributing enough to take full advantage of a sponsor match. Telling workers over the age of 50 that they can make catch-up contributions is another good idea.

- **Participants whose assets are not diversified.** Persons who appear to have an inappropriate mix of assets should be educated on the benefits of diversification and the options available to them to diversify, such as automatic rebalancing and the selection of a target-date fund. Young persons who have a large proportion of their assets in low-risk/low-return investments should be cautioned they are on a path that may result in insufficient retirement resources. Individuals near retirement with an extremely conservative or aggressive mix of assets in their retirement portfolio can be cautioned regarding inflation or investment risk, as appropriate.

- **Serial borrowers.** Participants who frequently use their retirement savings as an emergency fund may need education regarding the costs of borrowing as well as general personal finance education, advice and/or counseling to help them deal with their financial challenges and make better decisions.

- **Women.** Given women often live longer than men and spend more time as retirees, messages that point out they must factor in extra years when planning for retirement are important. Other topics that may be appropriate are discussions regarding divorce, widowhood and caregiving—issues that tend to affect women more than men.

Exploit Multiple Delivery Channels

In the past, communication regarding saving for retirement was primarily print materials including an annual retirement plan statement. A group seminar might have been offered for those close to retirement. Communication routes have dramatically expanded in recent years, and plan sponsors must take advantage of more of these channels to reach workers effectively. The availability of the Internet and mobile technology makes it possible to reach workers no matter where they are located all day and every day. Among the communication choices now available are:

- Quarterly or annual retirement plan statements
- Print brochures, fliers, newsletters and mail stuffers
- Podcasts
- Blogs, text messages and other social networking
- Websites
- Mobile apps
- Webcasts and in-person workshops
- One-on-one meetings or phone calls with a professional advisor.

Keep in mind that factors such as an employee’s age, education, income, etc., can affect his or her preferences for information delivery.
Tap Multiple Messengers

Plan sponsors should consider cultivating employees who are “centers of influence” within their organization to encourage others to join the plan and save for retirement. Managers, union representatives and peers respected by fellow workers might share why they think it is important to save for retirement and help create a culture that makes saving for retirement the right thing to do.

A small number of individuals from a targeted group might be trained and given materials to reach out and educate others in the group. Not only may workers be more receptive to information from these influential persons, these persons can serve as role models demonstrating that those who plan and save can achieve a secure retirement.

Testimonials by trusted individuals are especially effective. Many people think statistics are the way to get people to change attitudes or behaviors, but testimonials almost always trump eye-popping numbers and logic.

Tapping outsiders may also be helpful. Some employees think they already have heard what their plan sponsor has to say. They may think a plan sponsor or vendor has an agenda that is not in the best interest of workers. In these situations, an independent, unbiased third party that doesn’t sell products can increase employee confidence in a message and the retirement plan. Outsiders can also reduce an organization’s liability with respect to providing financial advice.

Keep It Simple

Oral communications often are easier for participants to understand than written ones. There are occasions, however, when providing written information is the only realistic option; for example, the law requires a written format for benefit statements. To increase the likelihood those targeted will (1) actually read/listen to what is presented and (2) comprehend it, it is essential that information be presented in a way that can be understood by the typical participant.

• Keep it short and focus on a few key points.
• Avoid jargon and legalese whenever possible.
• When technical terms must be used, include clear and simple explanations.
• Provide examples and real-life stories that support the main points.
• Insert simple graphics to make presentations more interesting.
• If English is the second language for a significant portion of the target population, communicate in their native language.

People have difficulty focusing on complex topics for more than seven to ten minutes. Keep this in mind for workshops, seminars, webcasts, etc. For longer programs, occasionally switching presentation tactics helps keep participants engaged. Use multiple presenters, look at a video clip, break into small groups to discuss an important topic or have participants complete a worksheet. All of these techniques help break up the program.
Find the Right Time

Benefit statements and other required notices give sponsors regular opportunities to communicate with participants. They can be used for anything from providing information on new plan features to reminding participants to rebalance assets. Nonetheless, this should not be the only communication between a plan sponsor and participants. Information is often set aside or forgotten when it is not provided at a point when a participant needs it. The right time to provide information tends to be when individuals are faced with a decision. For example:

- **New hires.** When new employees are asked to enroll in their workplace retirement plan, they need information on plan features, any employer match and the tax implications of their choices. This is also a good time to encourage workers to save and to provide information on how much financial experts suggest they should save.

- **20- and 30-somethings.** Emphasize the importance of saving early (compounding) and increasing the amount saved.

- **40-somethings.** Four in ten retirees (42%) say they began to plan for retirement 20 years or more before they retired. Almost three in ten more report they started planning 10 to 19 years before retirement.117 Target these early planners and encourage them to assess their progress toward retirement. If they haven't already done so, this is also a time to consider what they want to do in retirement, adjust savings levels, rebalance the asset mix in their portfolio and so forth.

- **Age 50.** The federal government permits “catch-up” contributions to DC plans and IRAs. Notify individuals the year they turn 50 that they can increase their retirement savings and encourage them to start making a more detailed retirement plan if they haven't already done so. Tell them it would be wise to confer with a financial advisor.

- **50-somethings.** Given the majority of people look at their future with greater depth and intensity by this age, this is the obvious time to provide information and programs that can help them make the transition into a secure retirement.

Letting workers access information and educational programs at their convenience and/or when they decide they need them is also effective. Delivery methods that do this well include recorded educational programs, employee hotlines and websites.

Put Worker Concerns First

Closely related to the timing of messages is focusing on the issues that most interest the target audience. Are workers more concerned about paying current expenses? Managing debt? Funding the education of children? Some goals may conflict with saving for a secure retirement. Offer solutions that might make it possible for workers to accomplish both—For example, suggest sources of debt counseling or alternative sources for college funding. In some situations, it may be more effective to offer a program on personal finance (e.g., eight ways to stretch your paycheck) and weave in a message or two on saving for retirement versus trying to get people to attend a program solely on retirement planning.

For those who say they don't have time to think about retirement or are intimidated by the process, tell them why it will take as little of their time as possible. Emphasize how simple the process can be and who is available to help them.

Stress What Will Be Gained or Lost

One of the chief tenets of behavioral economics is that people are loss-averse. People are highly motivated to avoid what they consider a loss. In fact, losing hurts worse than winning feels good. To spur action, frame messages so workers will clearly understand how they might “gain” by taking action or “lose” if they don't do something. For example:

1. **Planning for retirement is how dreams become reality.** (Gain frame)
2. **Give your retirement savings a boost—Five ways to increase your savings that will cost you nothing.** (Gain frame)
3. **Make your money work for you—Let it compound!** (Gain frame)
4. **Would you like a 5% pay increase? Take advantage of your retirement plan match.** (Gain frame)
5. **Just say NO! Stop missing out on your retirement plan match.** (Loss frame)
6. **Would you rather pay yourself or Uncle Sam? Increase your retirement savings and cut your taxes.** (Loss frame)

Messages 4 and 5 show how the same point can be made using either a gain or a loss frame. Some people may be motivated by one type of frame and not another. Consider using them in different messages, but don't use them in the same message.
Point Out What Others Are Doing

When making choices, people tend to do what they think most other people are doing because they believe there is less chance they will make a mistake. They are also influenced by what they think is expected or socially acceptable. Using these social norms can help drive people to take specific actions. Consider these two messages to induce employees to save for their retirement:

1. 80% of ABC employees contributed to their retirement plan last year.
2. Nine out of every ten new hires say “yes” to saving 15% of their pay for their retirement.

The more similar the people described in a message are to those being targeted (e.g., co-workers in the same building), the more likely people are to copy the behavior desired.

What happens if an organization doesn’t have positive statistics? Use a message that says the behavior is the right thing to do. Just as companies have forbidden employees from smoking in the workplace and using cell phones while driving, an organization can tell workers that saving for retirement is something that is valued. For example:

*ABC Inc. is committed to supporting our employees on the road to a secure retirement. We will provide quality savings choices, information, education and the other tools that will make it possible for our employees to achieve a life after employment that is gratifying and financially secure.*

Contrary to what many believe, facts and figures on bad behaviors are rarely helpful. Consider this recent news headline:

*1 in 4 Americans is saving nothing for retirement: Do you want to eat cat food in your golden years?* (Chuck Jaffe, May 25, 2014)

Using such messages is an attempt to shock the audience into taking action, but it frequently has the opposite effect: “A lot of other people like me aren’t saving for retirement, so I don’t have to do anything either.” Another element of this headline is the effort to scare people—People who don’t save for retirement are going to eat cat food. Scare tactics should be used cautiously if at all. Framing choices in terms of freedom and independence are more likely to get the desired result.

Offer Incentives

Even after following all of the advice above, it may still be a challenge to get some workers to take advantage of the programs and materials offered to help them achieve a secure retirement. People have busy lives with competing priorities. Some may still be overwhelmed by the process. Some simply may not care.

One successful program pays workers to attend a half-day event that includes breakfast and a raffle of practical items—T-shirts, jackets, fishing gear, winter gloves and work tools. By the end of the morning, workers sign up online for their retirement plan using laptop computers provided by their employer. Benefit counselors are available to help guide workers through the process.

Another option is to divide workers into groups and sponsor a competition. The group with the most individuals attending a program or using a retirement planning tool might be recognized with a mention in a staff newsletter, gas cards, a half day of vacation and/or a free lunch. Better yet, ask workers to read a brochure, watch a webcast or attend a program and then take a quiz. The group with the highest average score is rewarded.

A mandatory program is another path to consider. Such a program has parallels with requiring people to get a driver’s license before they are allowed to drive on their own. A “financial license” might be required before workers make their retirement plan choices. Requiring a “license” is an opportunity to introduce the features of the retirement benefit plan offered as well as other basic financial information that may help workers make their retirement choices.
Conclusion

The trend is clear. Demographic changes, the shift from DB to DC plans, an uncertain global economy, budget constraints, etc., are leading to a shift in the costs and risks of funding retirement from the government and employers to workers and their families. Distressingly, as the burden shifts, too few households are saving enough to achieve a secure retirement.

Individuals must step up and create a plan for achieving financial security in retirement including contingency plans for the unexpected. Of course, they must also implement their plan—starting early and saving continuously through their working lives.

Though the retirement savings burden increasingly rests on individuals, employers and other plan sponsors still have a responsibility to help workers achieve a secure retirement. In fact, the responsibility is greater. Besides contributing on behalf of employees to government and workplace retirement plans, employers and other plan sponsors must provide information and educational programs that will help workers acquire the skills essential to planning for and achieving a secure retirement. Participants must be motivated to calculate retirement needs, save sufficient funds, invest appropriately, make necessary asset adjustments over time and construct a decumulation strategy. Changes in plan design and enrollment along with access to financial planning tools and guidance have been proven essential to overcoming human behaviors that create barriers to action.

Given the number of workers who now want to (and, in some cases, must) work beyond the typical retirement age, employers also need to consider what they can do to make working longer a positive scenario for both the employer and the employee.
Appendix | Retirement Security Strategies Checklist

Check which strategies your organization is presently using to promote the retirement security of workers. Next, consider which ones you might adopt. Some strategies will be more appropriate than others depending on factors such as the benefits you currently provide workers, the characteristics of your organization, and the wants and needs of workers. Major changes can feel overwhelming to those implementing change as well as those affected by the changes. Start with a few small changes that are fairly easy to make happen. “Small wins” can give everyone the confidence they can succeed. Often, it is through small changes that big things happen.

Goal 1: Help Workers Determine Their Retirement Needs and Where They Stand

☐ Encourage participants to picture their retirement to establish their retirement needs and motivate plan participation.

☐ Offer a retirement planning calculator to help them determine what they must do to achieve their retirement goals.

☐ Provide individual access to independent and objective professional retirement advisors at a reduced or no cost.

☐ Provide participants quarterly or annual retirement income statements that emphasize the long-term monthly income projections they can expect from their benefit plan.

Goal 2: Get Workers Enrolled and Saving for Retirement

☐ Offer a workplace retirement plan.

☐ Reduce the waiting period for plan enrollment.

☐ Offer a stretch match for DC plans.

☐ Use automatic enrollment for DC plans.

☐ Use automatic escalation for DC plans.

☐ Simplify enrollment and making DC plan decisions.

☐ Conduct a program to introduce workers to their retirement benefits and enroll them in their plan.

☐ Leverage competition to motivate worker participation in a DC plan.

Goal 3: Help Workers Make Prudent Investment Decisions

☐ Limit the number of investment choices in a DC plan to between five and ten options.

☐ Structure the menu of investment options to encourage appropriate choices.

☐ Promote diversification of assets in DC accounts.

☐ Discourage participants from chasing investment returns.

☐ Promote the regular balancing of assets in DC accounts.

☐ Offer target-date plans and/or a balanced mutual fund that automatically diversifies and rebalances assets.

☐ Provide model portfolios that suggest a mix of assets appropriate for individuals at different points in the life cycle.

☐ Check/monitor DC plan investment expenses and other costs to ensure they are fair and reasonable.

Goal 4: Help Workers Stay on Track

☐ Restrict how often participants are permitted to borrow from their plan.

☐ Restrict plan loans and withdrawals to employee contributions.

☐ Place limits on the dollar amount a participant may borrow or withdraw.

☐ Allow employees with a loan to continue repaying their loan after termination.

☐ Automatically restart contributions at a set point in time after a hardship withdrawal.

☐ Make it easy for workers to transfer retirement savings from other tax-advantaged accounts and benefit programs.

☐ Make it easy for a terminating worker to transfer retirement savings/accreted benefits to a new retirement benefit program or other tax-advantaged accounts.

☐ Offer other workplace benefits that help workers manage risk and increase retirement savings (e.g., life insurance, long-term care insurance and education assistance).

☐ Provide personal financial information and education on topics such as creating a budget, managing debt, purchasing insurance coverage, planning and saving for retirement, and reducing taxes.

Goal 5: Assist Those Near Retirement to Make the Transition

☐ Help preretirees assess different retirement scenarios and risk management strategies.

☐ Educate participants regarding the pros and cons of lump-sum and lifetime income options.

☐ Create opportunities for transitional employment.

☐ Offer lifetime income options for the decumulation of retirement assets.

☐ Check/monitor the fees, costs and risks associated with lifetime income options.

☐ Provide participants with the information they will need to choose between various lifetime income options and the providers of these products.

☐ Establish systematic withdrawal, an annuity or another retirement income generator (versus a lump-sum payout) as the default option at retirement.
Endnotes

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31. Supra note 24, Helman et al., p. 8.
32. Supra note 27, PricewaterhouseCoopers.
34. Supra note 14, Greenwald, p. 55.
37. Supra note 35, Aon Hewitt.
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42. Supra note 14, Greenwald, p. 64.
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82. Ibid., pp. 159-160.
87. Supra note 28, Wadron, p. 17.
89. Supra note 23, Copeland, pp. 9-11.
92. Supra note 80, Benartzi, p. 48.
95. Supra note 88, Aon Hewitt.
96. Supra note 80, Benartzi, p. 48.
97. Supra note 84, State Street.
98. Supra note 80, Benartzi, p. 44.
99. Supra note 80, Benartzi, p. 118.
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110. Supra note 80, Benartzi, pp. 185, 189.
117. Supra note 24, Helman et al., p. 23.