Sibson Consulting

ideas

Insights and Strategies

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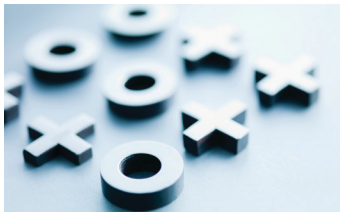


How Can Your Organization Prepare Employees for Timely Retirement?

Strategies to Promote Retirement Readiness

All organizations have employees at various stages of retirement readiness. No matter where they are in their careers, some are well on their way to being financially prepared while others are less so. Organizations have a variety of strategies available to support their employees' retirement planning. By choosing wisely, they can help avoid the problems that result when employees are not on track to achieve this eventual goal.

Successful strategies for promoting retirement readiness are not necessarily groundbreaking. Some tried-and-true tactics — like auto-savings arrangements and creative match formulas — are very effective. Nevertheless, because every organization is unique, a customized workforce analysis can identify the right answers to meet specific needs. In fact, targeted solutions, such as personalized education and communication, are often the most effective strategies. So let's start there.

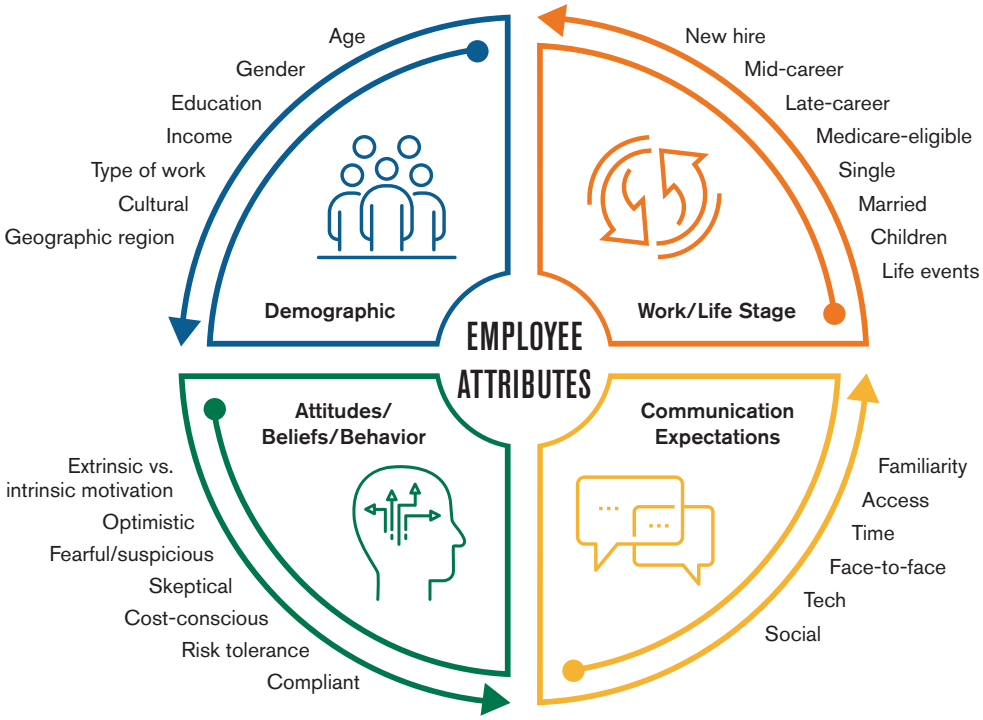
This *Ideas*, the third in a series,[1] focuses on how organizations can prepare their employees for timely retirement.

Targeted Education and Communication

A pivotal factor in helping employees improve their retirement readiness is opening the channels of communication and customizing the messages. To have a meaningful impact, plan-related communication must be actionable and personalized. Except in rare instances, one-size-fits-all is a misnomer; it should be one-size-fits-few. Communication should also be easy to understand and delivered on a regular basis, beginning well before retirement age. Further, the impact of the communication must be measurable, so the results can be monitored.

[1] The first *Ideas* in this series discussed how important it is for organizations to take the "retirement pulse" of their employees. The second covers how organizations can quantify employees' retirement readiness.

Using focused messaging requires identifying the different needs of each segment of the employee audience and then developing messages specifically for them. A common attribute for targeted retirement-readiness messages is an employee's work stage (*e.g.*, new hire, mid-career, those within five years of retirement). However, there are numerous other attributes that organizations can isolate and target. Sibson Consulting can work with organizations to help identify the appropriate employee cohorts. The figure below presents several examples.



Source: Sibson Consulting, 2018

It is important to overlay these attributes with the participant's *plan* characteristics. These include deferral percentage, size of account balance, investment allocation and outstanding loans.

The messages delivered to each employee group should address their specific retirement/financial concerns, explain why saving for retirement is crucial to them and promote how the organization can help. For example, a new hire right out of college will most likely have educational loans to pay off and might want to know more about a debt-servicing plan, while a mid-career employee may be trying to save for a child's education, so a 529 plan could be more attractive. Alternatively, the messaging to those in the engineering department (who have a consistent pay cycle paycheck to paycheck) would be very different from those in sales (whose pay structure leads to a more volatile pay stream). In each case, the messages should take into account the recipient's specific situation and focus on what that individual should understand and do to make smart, efficient choices, which should include saving some money for retirement. Using a variety of delivery channels (*e.g.*, personalized statements, email, videos, apps) can also help retirement messages stand out and capture each employee's attention.

Many organizations rely on communication materials available from their defined contribution (DC) plan recordkeeper. While these "free" offerings can be helpful as supplements, they are not branded for the organization, are usually based on a generic template and lack consistent frequency. They typically have little to no audience segmentation and may not be designed to drive behavior that supports the organization's goals and objectives.

Sibson recommends creating customized materials that put the organization's goals and branding — *not* the recordkeeper's — front and center. The visual familiarity of organization-branded pieces, along with targeted messages, will capture the employees' attention and reinforce the benefits the organization provides.

Auto-Savings Arrangements

While targeted education and communication are designed to combat inertia, other tools use this human tendency to their advantage. Auto-savings arrangements in DC plans (*e.g.*, auto-enrollment, auto-escalate, target-date funds and other Qualified Default Investment Alternatives) help ensure that employees are saving at an appropriate rate and in suitable asset classes, whether or not they actively try to do so. With proper design and implementation, inertia can be a powerful tool.

Although auto-savings programs can be a great way to help employees overcome their natural biases against saving for the future, they are not a solution for everyone. This is partly because they are typically "one-size-fits-all" and do not consider the relative financial wellness or other considerations of individual employees. For example, they may not increase savings quickly enough to help a mid-career employee with a low account balance get on a viable path to retirement.[2] For these employees the other solutions discussed later in this article may be more helpful.

Auto-Savings Success

DC plans with auto-enrollment see an average participation rate of 78 percent, which is 9 percentage points higher than plans without auto-enrollment.

69%
rate for plans without auto-enrollment

78%
rate for plans with auto-enrollment

80%
rate for plans with auto-enrollment and auto-increase

Source: "Inside America's Retirement Plans" by Ascensus. Data from the Ascensus platform, as of December 31, 2016. All rights reserved.

Case Study: Using Auto-Savings to Help Employees Save More

Sibson recently helped an organization reexamine its auto-savings arrangements. The previous auto-enrollment rate was 3 percent, to ensure receipt of the full employer match, and the top auto-escalation rate cap was 6 percent (the annual increase was 1 percent). The organization recognized that these amounts were insufficient, that increasing both amounts would benefit the employees' retirement security, and that, thanks to inertia, most employees would stay at the higher amounts.

However, the organization was reluctant to take on additional cost. As such, Sibson recommended raising the auto-enrollment rate to 6 percent and the top auto-escalation cap to 10 percent, while leaving the match untouched. Participation in the plan remains very high (roughly 95 percent), which means employees are still benefitting from the changes. Moreover, the auto-escalation feature has no additional cost to the organization.

[2] An employee who starts saving at age 35 will need to save 14 to 25 percent of pay in order to likely be able to retire at age 65. See Sibson's November 2017 *Ideas*, "Who Is Ready to Retire — or Not?"

Creative Match Formulas

Employees who find it difficult to overcome savings inertia may benefit from a contribution formula that incentivizes significant deferrals (*e.g.*, a more "stretched" match formula) and provides a larger profit-sharing contribution. Changing a contribution formula can help mid-career employees catch up to where they should be. Also, because an organization may not want to offer such contributions to all employees, it can target critical individuals, as long as it ensures that the plan does not unfairly discriminate in favor of the highly paid.

The table below provides an example of how these types of formula changes can increase total contributions to targeted individuals (without necessarily increasing the cost of the plan in aggregate).

Sample Contribution Formula Change

Age: 55 **Years of Service: 20** **Salary: $100,000**

Goal: To generate faster account accumulation for certain participants by providing an incentive for them to save more (through higher deferrals) and with targeted employer contributions aimed at these participants.

	A	B	C	D	E	A + C + E
	Employee Deferral	**Matching Formula**	**Resulting Employer Match**	**Profit-Sharing Formula**	**Profit-Sharing Allocation**	**Total Deferrals and Contribution**
Before	6%	67% of first 6%	4%	7%	7%	17%
After	8%	50% of first 8%	4%	Age/service-based (4% to 16%)	16%	28%

Source: Sibson Consulting, 2018

Transitioning from Savings to Income

As employees approach retirement, they need to shift their focus from accumulating account balances to generating income. Most employees find this transition confusing and complicated. How much money do they need to have saved? How do they convert savings into income? How long will their savings last? Moreover, how can the organization help them?

Offering income options (*e.g.*, lifetime annuities, Qualifying Longevity Annuity Contracts (QLACs)),[3] either within or outside of the organization's retirement plan, can help employees feel comfortable that they will be able to retire when they want. There are also various spend-down approaches to help protect against running out of money during retirement. A recent paper published by the Stanford Center on Longevity and prepared in collaboration with the Society of Actuaries[4] discusses how DC plan sponsors can make informed decisions about implementing income solutions that will improve the financial security of their plan participants in retirement.

[3] A QLAC is an annuity for which payments are scheduled to begin sometime after the participant's retirement (*e.g.*, age 75) and continue for life. Participants can purchase a QLAC with a portion of their DC account balance without having the purchase amount included in the total that determines their annual minimum required distribution. For more information, see the Sibson *Spotlight* "Helping Participants Manage 'Longevity Risk': New Rules on Qualifying Longevity Annuity Contracts Are Only a First Step and Plan Sponsors Should Proceed with Caution."

[4] Steve Vernon, FSA, "The Next Evolution in Defined Contribution Retirement Plan Design: A guide for DC Plan Sponsors to Implementing Retirement Income Programs," Leland Stanford Junior University, September 2013.

Big-Picture Considerations (Look Beyond Your DC Plan)

Ultimately, employees' account balances are just one component of their overall retirement-readiness solution. They may also have individual retirement accounts, personal savings, and, assuming no radical changes to the program in the future, Social Security.

To fully ensure the organization's employees maximize the effectiveness of their retirement plan and adequately prepare for retirement, consider offering services that address their overall financial wellness. Looking beyond the DC plan to all sources of income — and known or likely expenses — helps employees understand their financial position, how they can improve it and what resources the plan offers. However, this step needs careful consideration because of the legal implications and the potential cost of the services.

There is no single tool that will ensure all employees will be retirement ready and none of the tools are without pitfalls. However, by knowing the best solutions for all its employee segments, organizations can help ensure everyone will be in a good position to retire in a timely fashion.

Measuring the Impact of Changes

Sibson's experience suggests that a best practice is to start by understanding the nature of the challenge (*i.e.*, which employees are having a hard time staying on track toward retirement readiness and what drives their behavior). Once the organization knows this and has considered all potential solutions, Sibson recommends quantifying the relative impact of each tactic to plan for the consequences of a change.

One Significant Pitfall to Avoid

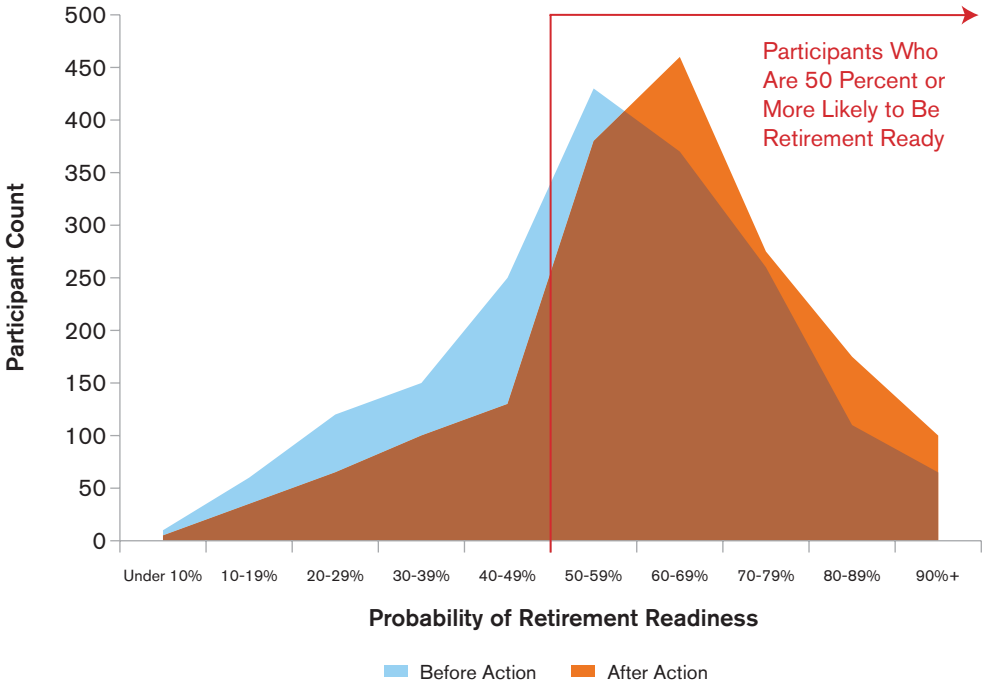
Employees who started saving at an early stage in their careers may view their DC plan as a short-term source of capital. However, by taking loans or hardship withdrawals from their accounts, they undermine their retirement readiness. Amending the plan to limit loans and hardship withdrawals can keep employees from harming their retirement nest eggs. Further, auto-enrolling new employees in post-tax contributions in addition to pre-tax deferrals can allow loans (on the post-tax portion of the account) with less harm to retirement planning by preserving the primary (*i.e.*, pre-tax) portion of the account.

Case Study: Quantifying the Impact of a Targeted Communication Campaign

Sibson's quantitative analysis recently discovered that one organization's proposed alteration to its profit-sharing contribution lacked sufficient impact. To address this, we suggested enhancing the profit-sharing contribution, supplemented by a targeted communication campaign at groups that were deferring an insufficient amount of income and/or sub-optimally allocating their investments. The campaign offered various communication messages, depending on the specific groups identified by Sibson's analytics study. The graph below shows the impact of the combined approach of enhancing the profit-sharing contribution combined with a targeted communication campaign, by indicating how likely individuals are to be retirement ready.

Because of the action, 155 more employees are on now track to be retirement ready. As illustrated in the graph below, almost 1,390 employees are now 50 percent or more likely to be retirement ready. This compares to 1,235 employees before the alteration.

Results of Enhancing the Employer's Profit-Sharing Contribution and Utilizing a Targeted Communication Campaign



Source: Sibson Consulting, 2018

Key Takeaways

Whether they are just starting out or are nearing the end of their career, employees benefit from knowing they are on a path that leads to a financially secure retirement. Targeted education and communication, auto-savings arrangements and creative match formulas are three valuable strategies to consider. Organizations can also help by discouraging employees from borrowing against their accounts prior to retirement, offering tools when it is time to transition from savings to income and addressing their overall financial wellness.

Finally, because of the interplay between various employee factors (*e.g.*, demographics, unique segment considerations) and each possible solution, Sibson recommends using an analytic approach to guiding employees.

Future articles in Sibson's series on the strategic uses of DC plan analytics will cover helping employees understand the importance of asset allocation, using the organization's DC plan to reward the organization's most important roles, and analyzing employee saving patterns.

How We Can Help You

Sibson's strategic deeper dive into DC plan data helps plan sponsors analyze changes in staffing based on growth, unexpected early retirements and aging workforce populations to inform plan design improvements. DC analytics also can assist in workforce planning — from rewarding critical roles and high-potential employees to considering investment decisions and deferral patterns and even integrating employee engagement — and can reveal useful insights that shape your HR recruitment and retention strategy. Sibson uses methodical diagnostics to create customized reports about your plan's patterns that are measurable and actionable.

Questions? Contact Us

For more information about retirement readiness and/or to discuss how Sibson Consulting can help you help your employees prepare to retire, contact your Sibson consultant, the nearest Sibson office or one of the following professionals:

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Important Note

The subject matter of this series involves complex issues that might require consideration under a number of different federal laws including the Employee Retirement Income Security Act (ERISA) and the Age Discrimination in Employment Act (ADEA), as well under the developing area of non-health data privacy protection. Sibson, in coordination with plan counsel, is prepared to help guide you through this maze for the benefit of the plan and its participants, and for the incidental benefits that otherwise may be available to the organization.

Ideas is for informational purposes only and should not be construed as legal advice. On all issues involving the interpretation or application of laws and regulations, organizations should rely on their counsel for legal advice.

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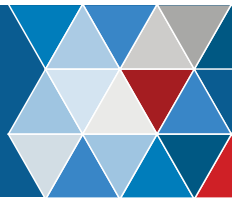
Strategic DC Analytics: Powerful Data for Attaining HR Goals



Analyzing participant-level data strategically can both uncover HR issues in your organization and identify DC plan successes and challenges. The following areas highlight different perspectives of your workforce to examine:

- **Retirement Readiness** Are your employees transitioning successfully into retirement as they approach the latter part of their careers to allow for successful workforce planning?
- **Employee Deferral Patterns** Are certain groups of employees decreasing their deferrals to the DC plan, and, if so, why?
- **Employee Engagement** Have you considered the correlation between employee engagement with the DC plan and overall employee engagement with your organization?
- **Rewarding Critical Roles** While your DC plan benefits all of your employees who participate, are your key employees utilizing the plan appropriately? Are you allocating your retirement contributions in line with your desired performance allocation?
- **Investment Decisions** Do the asset allocations of certain participants indicate that they may not be investing wisely?

Sibson creates customized reports based on your DC plan data to unearth compelling information regarding both HR issues and DC plan patterns. We then partner with you to develop an action plan that can subsequently be measured for success.

We hone in on specific employee groups to see differences in plan behavior, which can help identify cohorts that may or may not be appropriately benefiting from the DC plan, as well as other notable group tendencies.

Learn more about Sibson's Strategic DC Analytics services.

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