Employer Guide to Promoting Employee Financial Independence

Employee financial wellness has become one of the favorite buzz phrases in the industry over the past decade; and the COVID-induced economic challenges over the past few years are making it more of a necessity. However, financial wellness should not be viewed as product, rather a benefits mentality that needs to be embraced by both the HR and finance departments.

Employer-sponsored retirement plans play a pivotal role in employee financial wellness initiatives. In this article, we will put forth a working definition of employee financial wellness, explore why employee financial wellness programs have become a key focus of employers and understand how participating in the optimal retirement plan can help employees on the path toward financial wellness. We end with actionable ideas for next steps.

BACKGROUND

What is employee financial wellness and how is it measured? Is it a point-in-time or a continuum or both? Is it measured by a credit score, bank statement, retirement plan account balance or other? When is someone "financially well?" While there is no single, agreed-upon definition, there are several common characteristics that surveys, researchers, and companies use in practice.

The Financial Health Network (FHN) is a not-for-profit organization that pioneered financial wellness research starting in 2004, and continues its work.[1] Over the years FHN has come to define financial wellness as, "… a composite measurement of a person's financial life. Unlike narrow metrics like credit scores, financial health assesses whether people are spending, saving, borrowing, and planning in a way that will enable them to be resilient and pursue opportunities over time."

Following the Great Recession of 2007-2009, the Consumer Financial Protection Bureau (CFPB) turned up the magnification on employee financial wellness. It found that in the wake of the recession, many employers saw how financial distress reduces worker productivity, increases absenteeism, and undermines employees' health. The CFPB sees financial wellness is a comprehensive approach. Industry surveys define financial wellness programs as those that assess and support an employee's "complete financial picture" or the "overall financial health of an individual."

[1] Financial Health Network

The distinction here is that financial wellness programs do not take a snapshot approach, focusing on a single aspect of financial planning such as retirement or college savings. Financial wellness programs look at how all the pieces of an individual's financial life fit together.

FHN focuses on eight indicators of financial health that relate to spending, saving, borrowing and planning. Those indicators are

EIGHT INDICATORS OF FINANCIAL HEALTH

SPEND	SAVE	BORROW	PLAN
1 Spend less than income	3 Have sufficient liquid savings	5 Have manageable debt	7 Have appropriate insurance
2 Pay bills on time	4 Have sufficient long-term savings	6 Have a prime credit score	8 Plan ahead financially

Initially, employers thought a financial wellness program meant providing financial education. But numerous studies have shown that financial education alone does not equate to improved financial behaviors and outcomes.[2] Financial stress is at an all-time high for workers, with the majority of workers (67 percent) financially unwell.[3] The old ideas, methods and media of financial education are not working. Financial wellness goes beyond mere investment education, financial wellness encompasses all the relevant areas of a worker's financial health, including not only retirement planning, investments and insurance, but credit, debt, budgeting, cash flow, and the decision-making process involved.

These concerns have been on the minds of employees for decades. Therefore, financial wellness as a goal is not revolutionary. However, the way these initiatives are embraced and delivered can be thanks to advancements in technology. Employers are able to offer more at a reasonable cost, perhaps by maximizing the offering from existing or new service providers.

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[2] "So Many Courses, So Little Progress: Why Financial Education Doesn't Work—And What Does," Martha Brown Menard, PHD

[3] U.S. Financial Health, PULSE 2020 Trends Report

IMPORTANCE OF THE WORKPLACE

Ideally the core tenets of financial health (saving early, living within your means, managing debt and investing wisely) would be taught long before the first paycheck is ever received. However, according to Standard & Poor's Global Financial Literacy Survey, less than 60% of Americans are considered financially literate, let alone an expert.[4]

We know that many of the most important financial decisions individuals make happen at the workplace, for example, saving for retirement, securing health and life insurance coverage, setting aside funds for healthcare and childcare expenses, and saving for emergencies. The United States workforce is dealing with financial stress, leading to billions in lost productivity costs for employers.[5] So not only is a financial wellness program essential for the worker—but also for the employer. Plan sponsors use "value of investment" to measure the intangible outcomes of financial wellness programs such as employee productivity, engagement and overall job satisfaction, as well as costs associated with absenteeism, disability claims and turnover. Companies who are silent on financial wellness topics are at risk of losing employees for the allure of a higher salary. Financially unhealthy people think that more money will solve their problems, when in fact financial stressors can span income levels if spending, budgeting and debt management skills are lacking.

A retirement plan which, in most cases, is a 401(k) or 403(b) plan, is often the keystone to a business's financial wellness strategy. Let's first acknowledge that retirement may not be the #1 goal of all your employees. In fact, it has been showed that our employees' collective mindsets about work is evolving. 84% of workers say that the idea of "financial independence" resonates more than the traditional concept of retirement.[1] If that is the case, we need to speak to employees in terms they understand. Instead of waving the traditional retirement carrot, employers and their partners need to flip the narrative, meet employees where they are and get back to basics. Coupling competitive financial benefits with financial literacy fundamentals helps employees make progress towards financial independence.

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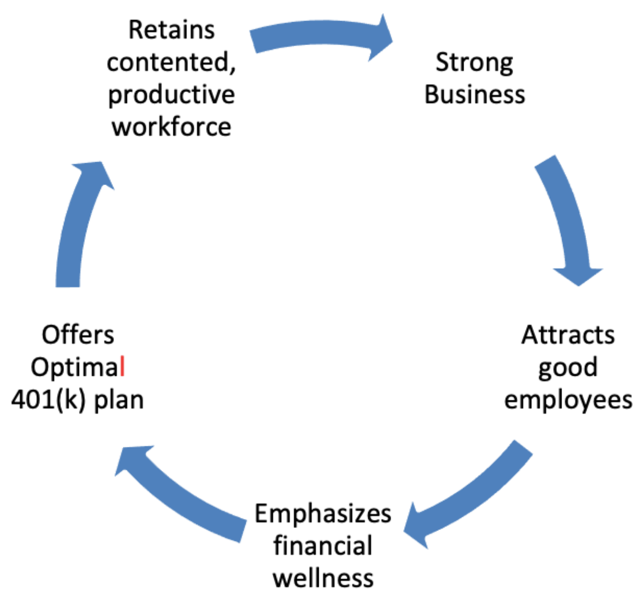
[4] Global Financial Literary Excellence Center (gflec.org/initiatives/sp-global-finlit-survey)

[5] https://www.worldatwork.org/workspan/articles/employees-financial-stress-costs-employers

DESIGNING THE OPTIMAL RETIREMENT PLAN FOR FINANCIAL WELLNESS

American workers are facing a retirement income shortfall, putting their financial wellness at risk. In order to encourage broader coverage of workers by workplace retirement plans, Congress has given employers even more plan design options through a series of law changes (be on the lookout for future potential options as the conversation on Capitol Hill continues to explore even more ways to improve overall financial security). As a result, plan sponsors may elect plan designs with automatic enrollment, automatic escalation and automatic investment options.

As the following graphic illustrates, good plan design leads to employee financial wellness and employee financial wellness leads to business success.



For business owners with existing retirement plans the first step in designing the optimal retirement plan for financial wellness is to conduct a thorough plan design analysis and/or plan suitability study.

ADDRESS THE THREE PHASES OF AN INVESTMENT JOURNEY

In order for a 401(k) plan to facilitate financial wellness, it should address the three phases of a participant's investment journey. **Phase 1 is accumulating wealth, which is a 40-45 year period that covers 9-10 market cycles during which the objective is. to amass wealth.**
The main ingredients for accumulating wealth in a retirement plan are overall access, coverage, high participation levels and employer contributions. The options that business owners have in plan design related to accumulating wealth include the following.

- Liberal eligibility requirements,
- Auto participation,
- Auto escalation,
- Catch-up contributions,
- Employer matching contributions,
- Designated Roth contributions,
- Standard after-tax contributions
- Diversified investments,
- Automatic investments [Qualified Default Investment Alternatives (QDIAs), guaranteed lifetime income products],
- Screening to minimize investment risk and maximize investment return,
- Limiting early access to retirement plan assets (e.g., limiting plan loans and in-service distributions before age 59 ½.)
- Financial and investment education (e.g., regarding the wonders of compounding interest or the need for a rainy-day fund), and
- Investment advice.

Some of the more inventive angles for promoting the accumulation of wealth in retirement plans include

- Making employer matching contributions based on student loan payments and
- Requiring all participants to contribute $500 to an after-tax account (i.e., Designated Roth or standard after-tax).

Phase 2 of a participant's investment journey is Protecting Wealth. When the participant is close to achieving his or her funding target, the objective shifts to protecting the wealth that has been accumulated in order to pay for the desired outcome. In the retirement journey, this is typically a 5-10 year period that covers 1-3 market cycles. Sponsors have plan options to help protect participants' wealth, including the following

- Asset reallocation and rebalancing,
- Limiting early access to retirement plan assets (e.g., plan loans and in-service distributions before age 59 ½.)
- Continued investment education on preserving wealth,
- Access to investment advice related to preserving wealth, and

Here one must understand that a solid retirement strategy includes the "Transition" phase where protection of accumulated balances coupled with a reasonable growth rate and continuing contributions will position participants to better achieve their objectives.

Finally, Phase 3 is generating income. This is a 30-40 year period of the retirement journey that covers 8-10 market cycles during which the objective is to have continuous income generated by the capital that has been accumulated. With respect to plan design options, plan sponsors must evaluate their plans with an eye on the following:

- What should be the plan's distribution options (lump sum, partial withdrawals, systematic withdrawals, distribution of dividend and interest income vs reinvestment, etc.)?
- What is the income generating potential of underlying investment options?
- Does the plan use income sufficiency and predictability-type screening to select investments?
- Where do annuities fit in the above screening methodology?
- Is the income need satisfied by 1) interest and dividend income, 2) realized capital gains distributions, 3) unrealized gains/price appreciation and/or 4) a return of capital/asset drawdown?
- Does the advice model offer retirement income guidance?
- Does the income plan look beyond retirement plan assets to consider other assets? to create retirement income plan
- Does the plan consider the growth of retirement income products, including guaranteed and non-guaranteed options inside a "Retiree-Tier?"

NEXT STEPS

As an HR professional, challenge your organization to take action over the next 12 months to help your employees make their "next right decision" on their personal path of financial progress.

Here are **four action steps to consider:**

1. There is no such thing as a "one size fits all" financial wellness solution. Each organization has unique employees with unique needs so step one needs to be taking inventory of where you are today.
    - As the employer you can do this by measuring such factors as retirement plan leakage (i.e. loans, hardships), workforce management (demographics, turnover, and recruitment success), financial readiness (i.e. plan participation rate, average deferral rates), health and wellness (usage of employee assistance programs, health care claims, engagement).
    - Survey your employees on what concerns them most & where they could use support.Historically, money and finance has been a taboo topic, akin to politics and religion. However, Generation Y and even some Millennials are becoming increasingly comfortable addressing, discussing and even seeking help on financial topics. Employee insights are a great way to prioritize financial wellness initiatives.

2. Over the last few years, technological advancements have allowed for personalized support, messaging and even advice.
    - Meet annually with existing benefit partners and new vendors to learn about tools and resources you can leverage and promote with employees. There's a lot more out there today. You may currently have access to tools and resources that could be a great foundation for a financial wellness mentality without even realizing.

3. Speak to employer sponsored benefits holistically.
    - During open enrollment, remind employees about employer sponsored savings plans (aka Financial Independence plans).
    - Consider adding a "financial checkup" to your health assessment required to receive a financial incentive.
    - Lack of emergency savings and debt management are two of the most significant impediments to long term financial success. There are more tools and resources than ever before on this front, and your employees need help tackling these growing issues.

4. Review plan design to promote positive behaviors
    - Incentivized employer match, automatic enrollment, and immediate plan entry may be low hanging fruit.
    - Ask your service providers for suggestions on how to optimize your plan – this is not something you need to do by yourself.

CONCLUSION

Embracing a mentality of employee financial wellness can help workers reduce financial stress and live better lives. It promotes employee satisfaction and productivity, which, in turn, help owners build more resilient and successful companies. A company's retirement plan is often the key stone of a workplace employee financial wellness program.

Let's close with an inspiring Chinese proverb, one that applies both to employers and employees:

"The best time to plant a tree was 10 years ago, the next best time is today!"

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