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3RD QUARTER 2019

Financial Literacy: Employees Who Know More Save More

Financial wellness is important for individuals and their employers, in part because of the role it may play in retirement. Individuals benefit when they are financially healthy, because it makes them more prepared to retire on time and with enough money. Companies benefit, too, because along with the potential for better-controlled benefit- and other employment-related costs, on-time retirements make room for promotions, new hires, and fresh ideas.

One aspect of financial wellness is financial literacy. The former can be defined as a state wherein the individual has control of his or her ongoing finances, can absorb a financial shock when one arises, is on track toward meeting financial objectives, and maintains the financial ability to make choices in life.

Financial literacy is more basic. It involves understanding concepts underlying financial wellness — and may therefore be the starting point of an effective financial wellness program. After all, like the attainment of any goal, reaching a state of financial wellness is the final step in a series; understanding why the goal is important has to come first.

Recently, the link between financial wellness and financial literacy was explored, using a sampling of US adults. The findings showed that people with a greater understanding of financial concepts are more likely to save for retirement. The data was collected using a series of questions, resulting in a score the study calls a Personal Finance Index, or P-Fin.

Among those whose P-Fin score was between 76% and 100% correct, 88% were saving regularly for retirement. For people with a P-Fin score under 26% correct, just 37% were doing so.

The study found a strong link between financial literacy and indicators of financial wellness. For example, as the P-Fin scores rose with correctly answered questions, respondents were more likely to track their spending, to have non-retirement savings (in addition to dedicated retirement savings), and to be less financially fragile.

One interesting result from the study (which came from TIAA and the Global Financial Literacy Excellence Center at the George

Washington University School of Business), was that a strong majority of respondents (62%) showed good understanding of borrowing. More than half also understood saving (58%), earning (53%), and consuming (52%).

However, fewer than half (48%) of the survey's respondents answered correctly on questions about investing. Other trouble spots were insuring (46%) and comprehending risk (38%).

Survey results varied based on gender, income, age, and other demographic factors. Men scored higher than women about their personal finances, and older, wealthier people scored higher than younger, less affluent individuals. Keeping these variances in mind could be helpful when addressing the financial education needs of your own workforce.

Read more results from *The 2019 TIAA Institute-GFLEC Personal Finance Index: Wellness* at https://tinyurl.com/TIAA-2019-Pfin.

Source: https://www.plansponsor.com/people-greater-financial-literacy-save/

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Where They Stand, Where They Are Headed: Can You Help Employees Save (or Save More)?

How realistic are employees about the true state of their retirement savings? While many among the three primary generations that make up today's workforce are feeling pretty good about the future, all three may be seeing things a little optimistically.

Even if their vision is a little rosy, there are things employers can do that may make a difference in retirement savings for Millennials, Generation Xers, and Baby Boomers alike. Recently, Natixis Investment Managers checked in on about 1,000 US workers spread across the three generations to find out how they are feeling about their savings habits and their future financial prospects. These workers were also asked what incentives would help them start saving, or to save more.

A quick summary, by generation:

Millennials, the eldest of whom are now 38 and the youngest 23, have a great start on saving for the future. Forty-three percent of them express cautious optimism about being comfortable in retirement, although they admit they will need to be careful with their money. On average, Millennials began saving at age 25, and have saved about $80,000 already. They estimate they will need a little over $980,000 to fund retirement, a figure the report says is a little low. And they should factor in their targeted retirement age of 61 to make sure their savings last long enough. Many among this group have already taken money out of their plan balances: 30% have taken a loan, and 26% took a withdrawal.

Generation X is more financially worried than their younger coworkers. This group now ranges from 39-54, and just 18% of them believe they will have saved enough money to fund the retirement they want. Almost one-quarter (23%) of them believe they will never be able to retire. This group appreciates auto-escalation in their 401(k) plans, taking advantage of it at higher rates than their older and younger coworkers do. But, their belief that they will need $988,000 to retire is likely too low, especially considering they have fewer years to increase their current average savings of a little over $166,000.

Baby Boomers have a more realistic retirement savings goal, at $1,018,488 — but they have much less time to reach it from their current point of under $307,000. Currently 55 to 73 years old, their average contribution rate is 8.5%, and they are targeting, on average, a retirement age of 69. It will take about $142,000 in annual savings to reach their goal, on average.

Among the 1,000 people participating in the 2019 Defined Contribution Plan Participant Survey, 700 participated in the plan available to them. When asked why they aren't saving more, daily expenses were cited by 65% as the major barrier, followed by general debt at 43%. One sobering response to the question was "I'd rather spend money to enjoy life now," cited by 25%.

Of the 300 respondents who are not participating in their available plan, about one-third said their employer doesn't offer a match or that the match isn't enough. The match seems to be an important factor for those who are participating, too. Overall, 56% of respondents report that their employer's matching contribution is the top reason they are saving in the plan.

Learn more about the actions employers can take that employees say would encourage them to join the plan or save more by viewing the full report at https://tinyurl.com/Natixis-2019-DC. ■

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

Department of Labor,
Employee Benefits Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

PLANSPONSOR Magazine
www.plansponsor.com

BenefitsLink
www.benefitslink.com

Plan Sponsor Council of America
www.psca.org

Employee Benefit Research Institute
www.ebri.org

Plan Sponsors Ask…

Q: In reviewing employment data at our company, we were surprised to find the average time our employees stay with us to be about six years. Considering that many employees who leave us take a lump sum distribution from their 401(k) accounts, it made us wonder what we can do to help more transient employees prepare for the future.

A: First, congratulations. Your average tenure is slightly higher than that of the overall workforce, based on the January Current Population Survey (CPS) from the US Census Bureau, as cited in an Employee Benefits Research Institute (EBRI) issue brief, Trends in Employee Tenure, 1983-2018, February 28, 2019. The issue brief reports that, according to CPS, over the past 35 years, a five-year employment tenure is about average. It seems the idea of holding one job for an entire career is a bit of a myth. The EBRI brief also points out the concern you have, that changing jobs (or even careers) every five years could have a negative impact on retirements. Shorter tenures may result in a lack of defined benefit plan vesting (when a defined benefit plan is even offered), reduced defined contribution savings, and as you mention, lump sum payments at times of job changes. While you may not be able to keep employees longer, you may be able to impact their savings and withdrawal decisions, thereby improving their future retirement prospects. First, implement regular and high-quality financial education, including specifics about the retirement plan. And second, enlist longer-term employees who do understand the plan to help give "on the ground" information to newer employees. Read the EBRI issue brief here, https://tinyurl.com/EBRI-IB-83-18.

Q: We know that emotion plays a role in money, and therefore retirement. What are some ways we can help employees offset less-than-rational emotion and thus make better decisions about their retirements?

A: Behavioral economics have been the subject of much discussion in recent years, as you know. Money is a deeply personal subject for most people, and we often view it as a big factor in our security. That's why it is difficult to get people to take a rational, rather than emotional, look at their own financial behaviors. There are a few areas where employers and plan providers can help employees make decisions that are more rational, though. PIMCO recently published an article[1] with four suggestions you may be able to use. First, make sure employees receive education about the consequences of taking Social Security benefits at the earliest possible age, and the benefits of beginning payments at (or after) full retirement age. Second, consider including education about annuities in your pre-retirement sessions. These can help overcome fears about running out of money. Such fear may lead people to underspend in the early years of their retirement; PIMCO claims that 18 years into retirement many people have spent only 20% of their nest egg. For retirees who remain uncomfortable with annuities, PIMCO recommends education about how a conservative asset allocation may be used to provide some relative stability and hedge against longevity risk. Read the article for more useful information.

Q: Our 401(k) plan is relatively small. Do we need to be concerned about fiduciary issues and lawsuits? It seems like there are bigger fish to fry!

A: If your plan does not hold much money in assets, you are correct that ERISA enforcement agencies have bigger fish to fry. However, that does not mean you won't find yourself in the frying pan. All it may take is one participant complaint — or even none in the event of random chance — and you could find yourself subject to a plan review by the Department of Labor's Employee Benefits Security Administration (EBSA). That's when the fun begins. According to the EBSA fact sheet for 2018[2], the DOL recovered $1.1 billion from enforcement actions against plans last year. Another $443.2 million was recovered through information complaint resolutions. EBSA closed over 1,300 civil investigations, about two-thirds of which resulted in some kind of corrective action, such as monetary recovery. The agency closed 268 criminal cases in 2018 as well, including indictments against 142 individuals. Eighty-seven of those corporate officers, plan officials, and service providers were convicted or pled guilty. The takeaway here is that NOW is the time to make sure you are dotting the I's and crossing the T's when it comes to your plan. Talk to your plan attorney or advisor to measure how you're handling your compliance matters and what you could do to improve. ■

Pension Plan Limitations for 2019

401(k) Maximum Elective Deferral (*$25,000 for those age 50 or older, if plan permits)	$19,000*
Defined Contribution Maximum Annual Addition	$56,000
Highly Compensated Employee Threshold	$125,000
Annual Compensation Limit	$280,000

[1] PIMCO Behavioral Insights, Rationality and Retirement: Mutually Exclusive?, Richard Fulford, Steve Sapra, April 2019, https://tinyurl.com/PIMCO-rationality-retirement

[2] https://tinyurl.com/EBSA-2018-fact-sheet

American Retirement Expectations Vary by Ethnicity and Culture

It seems that expectations about retirement are not the same for Americans of every background. In fact, they can vary widely depending upon ethnicity and culture.

When asked whether or not they had calculated how much they would need to retire, about half of the respondents to a recent survey said yes. But breaking the responses down by culture and ethnicity, differences emerged. On the high end, 61% of Asian Indians had performed the calculation, compared to 39% of Korean respondents, the fewest among the surveyed groups.

In terms of the retirement age they project for themselves, 30% of African Americans feel extremely confident. Of this group, 25% plan to retire at age 60 or before. Twenty-six percent of Chinese respondents plan on 60 or earlier, too, but just 13% feel extremely confident about it.

How do respondents to the MassMutual State of the American Family survey expect to pay for retirement? Fifth-four percent of them overall said they expect to receive a pension. By group, 63% of African Americans plan on receiving a pension, followed by 63% of Asian Indians, 59% of Hispanic people, and on the low end, 10% of people who are Chinese. Overall, 33% of respondents said they expect their 401(k), 403(b), or IRA to provide their biggest source of retirement income, with Social Security taking second place at 22%.

Read the full results on MassMutual's website, https://tinyurl.com/MassMutual-retirement-spectrum. ■

Source: https://www.massmutual.com/about-us/news-and-press-releases/press-releases/2019/04/the-retirement-spectrum-ethnicity-and-culture-influence-views-on-retirement

PLAN SPONSOR'S QUARTERLY CALENDAR

OCTOBER

- Audit third quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between July 1 and September 30 received and returned an enrollment form. Follow up for forms that were not returned.
- For calendar year safe harbor plans, issue the required notice to employees during October or November (within 30–90 days of the beginning of the plan year to which the safe harbor is to apply). Also, within the same period, distribute the appropriate notice if the plan features an EACA (Eligible Automatic Contribution Arrangement), QACA (Qualified Automatic Contribution Arrangement), and/or QDIA (Qualified Default Investment Alternative).

NOVEMBER

- Prepare to issue a payroll stuffer or other announcement to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R to be mailed in January for reportable plan transactions in 2019.
- Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure that they are up-to-date.

DECEMBER

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing (calendar-year plans).
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during the year and if using an IRS or DOL self-correction program would be appropriate. ■

Consult your plan's financial, legal, or tax advisor regarding these and other items that may apply to your plan.

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