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# Financial Wellness: An Interview with Greg Ward

During the past few years, the Society of Actuaries Committee on Post-Retirement Needs and Risks has come to realize that employees are called on to make many decisions about their benefits, and increasingly, as more benefits are provided by DC retirement security depends on the decisions they make. During the last two years, the committee has moved into a new area—with two projects on the topic of Retirement Financial Advice. The first is a research paper focused on employer approaches to retirement financial advice, and the second is a guide for employers. Greg Ward, CFP®, Think Tank Director at Financial Finesse, served on the Project Oversight Group for the employer guide and the research paper. Greg works with employers and employees to promote financial wellness. This article offers some perspectives on the SOA reports.

**What is financial wellness?**

Financial Wellness is a state of financial wellbeing whereby an individual is experiencing minimal financial stress, has developed a strong financial foundation consisting of little or no debt, a fully-funded emergency savings fund, and is living below their means, and has an ongoing plan that puts them on track to reach future financial goals, including a comfortable retirement.

**In your experience, what are the questions that employees ask most often? Have the most trouble with?**

By far the most often asked question by employees is "Am I doing enough to prepare for retirement?" This is no surprise. Our most recent research on retirement preparedness found that only 19 percent of employees feel confident they are on track to replace enough income to enjoy a comfortable retirement. That means more than 4 out of 5 employees are NOT prepared for retirement. Even worse, of the employees that are not prepared for retirement, more than three-quarters (76 percent) have not even taken the first step, which is to use a financial calculator to run a retirement projection.

The second most often asked question is "Am I investing appropriately for retirement?" When asked if they felt confident in how their investments were allocated, only 40 percent of employees that completed a financial wellness assessment said yes. Less than half (45 percent) indicated having taken a risk tolerance assessment, and only one-third (33 percent) said they rebalance their investment accounts. Given the importance investing has on an employee's ability to achieve long-term financial goals, this lack of investment confidence coupled with poor investment behavior is contributing to the overall lack of retirement preparedness.

**In your experience, how can the Society of Actuaries Employer Guide help employers sponsoring retirement plans?**

The guide provides a comprehensive overview of the various ways employers can use retirement and investment advice to help employees prepare for retirement. It offers clarity between different levels of advice, and answers some of the most important questions plan sponsors may have when it comes to selecting an appropriate method of delivery.

**What are the key methods, as outlined in the guide, that employers can use to help employees make better decisions?**

The guide outlines nine key methods for helping employees make better decisions.

The first three methods are education, automation, and offering a default investment option. Education is designed to inform employees about plan benefits and features, but may also include education in other areas such as budgeting and investing. Plan design enhancements such as automatically enrolling participants in their retirement plan and automatically increasing employee contributions are an easy and effective way to help employees save more for retirement. Offering a default investment option ensures that contributions are invested even in the absence of the employee making an investment election. Collectively, these three methods make up the foundation of advice.

The next three methods include offering target-date funds as investment options, providing financial calculators for running retirement projections, and offering financial guidance from a financial professional. Target-date funds help employees invest appropriately based on when funds will be needed, retirement calculators are typically offered by plan sponsors and providers, and 8 in 10 plan sponsors believe providing access to one-on-one guidance from a financial professional can have a positive impact on the amount of money employees save for retirement.

The last three methods are managed accounts, automated advice services, and personalized one-on-one advice. With a managed account, employees work with a licensed professional to build a personalized investment strategy. Automated advice services offer investment recommendations to tech-savvy investors. And finally, 68 percent of employees who tapped in-person retirement advice chose to either save more, change their future allocations, or rebalance their portfolios.

**Do you have insights about which are likely to be most accepted?**

When asked what they would have done differently to better prepare for retirement, most pre-retirees said they wish they had started saving earlier. The problem is most young employees face competing financial priorities like paying rent and repaying student loans. That's why foundational education programs that focus on cash flow and debt management are generally well received.

Financial wellness programs that offer holistic financial coaching through unbiased financial professionals average 25-50 percent utilization, but utilization is much higher when communicated as part of a total physical and financial wellness program. Because employees respond so well to these programs, the Personal Finance Employee Education Foundation (PFEEF) estimates that employers that invest in financial wellness programs experience a 3:1 return on investment.

A high percentage of employees are using target-date funds as their primary investment election, and financial calculators are offered by most plan providers, but highly personalized services like managed accounts and automated advice services tend to have the lowest levels of utilization.

**Do you have tips for overcoming barriers or selecting solutions with fewer barriers?**

Some methods such as online financial calculators and automated advice services require computer access, so it is critical to provide access to computers at work when using these types of methods. Methods that include plan design enhancement through automation are relatively simple and do not require the employee to take any action unless they prefer to opt out.

Employers that face limited budgets may be relieved to find out that some employers have used funds from the ERISA budget to help offset the cost of implementing investment and retirement advice programs. Employers should check with their ERISA attorney before using this strategy to help cover expenses.

Employers that are looking to get the most value for the money may want to have employees complete an online Financial Wellness Assessment in order to identify the most common financial vulnerabilities of their workforce. Employers could then use this information to select advice delivery methods specific to those areas of vulnerability.

**How important is it to help employees make decisions? Will helping employees increase the value spent for benefit dollars?**

Roughly 70 percent of the population has less than $50,000 saved for retirement, and concerns over retirement finances continue to grow. Since employees are more likely to trust financial information from their employers than other sources, we believe employers are best suited to help their employees address these issues.

The cost for NOT helping employees is astronomical. Employees that would like to retire but cannot for financial reasons have been estimated to cost their employers between $10,000 and $50,000 for every year they delay retirement. That means if 16 out of 20 pre-retirees had to delay retirement for an average of three years because of a lack of savings, it could cost the employer upwards of $480,000.

Studies have shown that offering a comprehensive financial wellness program that offers investment and retirement guidance and education as a level benefit to all employees have effectively increased plan participation and retirement preparedness. The study found that employees that engaged five or more times in their employer's financial wellness program increased retirement plan contributions roughly 50 percent, from just over 6 percent to just over 9 percent. Employees that repeatedly utilized the service saw a 77 percent increase in the percentage that reported being on track for retirement.

**What might benefit consultants do to help their clients think about this topic?**

The best thing for benefit consultants to do is to be aware of the significance of the problem, and to be informed of all of the various methods available for employers to use to address the problem. Start by identifying the number of employees that may be at risk of not being prepared for retirement. This can be done through a financial wellness or similar type of assessment. Next, ask the employer how important it is to help employees get on track. Share data on the cost of delayed retirement, and discuss how each advice method can help address the problem. Develop a plan for implementing one or more of the advice methods listed in the employers guide. Be sure to also establish success metrics for each method.

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