Industry Trends & Insight—a Year in Review

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Overview of Our Firm

• Full-service institutional retirement consulting and advisory firm
• Specializing in all areas of retirement plan and executive benefit consulting
• Nominated for Planadviser Magazine’s Adviser Team of the year 2006-2017
• Headquartered in the Henderson Brothers’ Building, Pittsburgh, PA.
• Supported by the strength and resources of LPL Financial and Global Retirement Partners (GRP)
• LPL Financial Retirement Partners-Top 10 in the country
Disclosure

For Plan Sponsor Use Only – Not for Use with Participants or the General Public

This information was developed as a general guide to educate plan sponsors, but is not intended as authoritative guidance or tax or legal advice. Each plan has unique requirements, and you should consult your attorney or tax advisor for guidance on your specific situation. In no way does advisor assure that, by using the information provided, plan sponsor will be in compliance with ERISA regulations.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment advisory services offered through HB Retirement, a registered investment advisor and separate entity from LPL Financial.
Recently Implemented Changes

- Bipartisan Budget Act of 2018 passed earlier this year.
- Included 3 provisions which will give retirement plans greater flexibility in handling hardship distributions:
  - Change to the Six-Month Suspension Rule
  - Expansion of Available Sources
  - Elimination of Loan Requirement
Legal & Regulatory Update

• Executive Order (EO) signed on August 31 directing the Department of Labor and the Treasury to review and consider issuing regulations regarding increasing access to workplace retirement savings arrangements.

• EO references Multiple-Employer Plans, asking for the DOL to consider issuing new regulations for employers to join such plans.

• EO also addresses:
  – 70 ½ required minimum distributions
  – Life expectancy and distribution tables
  – Plan notice requirements
401k Student Loan Benefit Programs

• IRS recently release private letter ruling:
  – Addressed an employer seeking to offer a student loan benefit program as a part of 401k plan.
  – Proposal allows employer to make non-elective contributions on behalf of the employee conditioned on the employee making student loan repayments.
Proposed Legislation

• **Automatic Retirement Plan Act**
  - If passed, Employee Benefit Research Institute (EBRI) estimates it would reduce the $4.13 trillion retirement savings shortfall for US households by $645 billion, or 15.6%.
  - Act would require all but the smallest employers to offer a retirement plan:
    • 6% automatic enrollment with reenrollment conducted every 3 years
    • Automatic escalation of 1% every year up to a 10% cap
Proposed Legislation

- Automatic Retirement Plan Act
  - EBRI recommending auto-portability be considered as a part of the act.
    - Would help eliminate cash-outs, which are particularly common for plans with low balances.
    - Would further reduce the retirement savings shortfall by an additional $287 billion. Total combined reduction of 22.6% of deficit.
Proposed Legislation

- **Tax Cut 2.0**
  - Rothification—has long been rumored as a possible revenue-raiser to pay for tax reform.
- **Retirement Enhancement & Savings Act (RESA)**
  - Seeks to improve upon existing 401k Safe Harbor plan design by giving small business owners more flexibility to switch to a safe harbor plan
- **Other possibilities include:**
  - Universal Savings Account
  - Increasing Cash Out Limits
  - Annuity Safe Harbor
Financial Wellness
Financial Wellness

“The most important investment you can make is in yourself”

- Warren Buffet
Financial Wellness Discussion Topics:
The potential benefits for your employees and your company

- Definition of financial wellness
- Employer and employee attitudes
- How did everyone become so stressed out
- What does this stress cost the company
- What to consider in a financial wellness program
- Open discussion
Financial Wellness

“Do not save what is left after spending, but spend what is left after saving”

- Warren Buffet
Definition of Financial Wellness

Consumer Financial Protection Bureau (CFPB):

Financial well-being is a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life.

EY:

An individual’s ability to make confident, well-informed money-related decisions resulting in financial security for both the short and long term.

Employer Attitudes

Employers are helping workers improve their financial situations.

- 23% of employers already have a financial wellness strategy.
- 72% of employers either have or intend to create a financial wellness strategy this year.
- 84% of employers believe implementing a financial wellness strategy is the right thing to do.

Source: Aon Hewitt 2017 Hot Topics in Retirement and Financial Wellbeing
Financial Wellness Defined by Employees

Employees say financial wellness means:

- **21%** Freedom from financial stress
- **21%** Freedom from worry about unexpected expenses
- **21%** Freedom from debt
- **18%** Freedom to make choices

Top answer by generation

**Millennials:**
26% being debt free

**Gen X:**
22% not being stressed about my finances

**Baby Boomers:**
24% having enough savings that I’m not worried about unexpected expenses

Source: Employee Financial Wellness Survey, PwC, 2018
According to 2017 PwC survey on Financial Wellness:

53% say they feel stressed dealing with their personal financial condition

By generation:
- Millennials: 35%
- Gen X: 44%
- Baby Boomer: 21%

By gender:
- Female: 59%
- Male: 41%

Gender Differences for Financial Concerns:

52% of women cited not having enough emergency savings for unexpected expenses versus 42% of men

Source: PwC Special Report: Financial stress and the bottom line September 2017
According to 2017 PwC survey on Financial Wellness:

- **What areas of your life are being impacted** (could pick more than one)
  - 28% say health
  - 23% relationship at home
  - 22% productivity at work
  - 12% missing work occasionally
  - 7% other
  - 37% none of these

- 50% spend 3 or more hours/week at work dealing with personal financial stress

*Source: PwC Special Report: Financial stress and the bottom line September 2017*
The impact of financially stressed workers on the bottom line

Surveys show that employees are stressed out and spend an average of 3 – 5 hours per week at work on non-work related issues.

Cost employers $5,000 per year per employee, on average.

Reducing stress with just 10% of employees reduces costs by ~$500,000 per year.

Source: [https://www.kansascityfed.org/publicat/cap/carwp09-01.pdf](https://www.kansascityfed.org/publicat/cap/carwp09-01.pdf)
The true impact of delayed retirement?

What is the potential **unidentified** liability of delayed retirement on a company’s balance sheet

- Potential areas of increased cost
  - Annual salary increase
  - Higher healthcare costs
  - Higher workers compensation costs
  - Higher match costs
  - Higher profit sharing costs
  - More vacation
  - Increased turnover (log jam)
  - Potential loss of productivity

73% of workers over age 50 expect to delay retirement

Studies show that the average cost of a worker who delays retirement can equate to $50,000 annually.


Seeing Potential Warning Signs By Reviewing Plan Data

- Are employees retiring on time with adequate savings?
- Are participants opting out of auto-enrollment and auto-increase?
- Is there a high volume of plan-specific Web traffic or calls regarding loans, hardships, or access to money?
- Do you currently offer a High Deductible Health Plan and an HSA?
Impact on Health Benefits

Poll Questions:

- How many of you offer a High Deductible Healthcare Plan with an HSA?

- Do you view the HSA as more of a healthcare or retirement benefit?
Stressed out employees are more prone to health risks.

1. Financial Stress is the #1 cause of stress-related illnesses\(^1\)
2. 84% of employees report having some degree of financial stress\(^2\)
3. 24% higher healthcare costs in people who are stressed\(^3\)

Impact on Health care costs

Financial stress manifests as:

- **Severe Depression**: 23%
- **Severe Anxiety**: 29%
- **Muscle Tension/Back Pain**: 51%
- **Stomach Ulcers**: 31%
- **Insomnia/Sleep Trouble**: 17%
- **High Blood Pressure**: 33%
- **Migraines/Headaches**: 44%
- **Heart Attack**: 6%
- **Severe Anxiety**: 4%
- **Severe Depression**: 23%
- **Muscle Tension/Back Pain**: 51%
- **Stomach Ulcers**: 31%
- **Insomnia/Sleep Trouble**: 17%
- **High Blood Pressure**: 33%
- **Migraines/Headaches**: 44%
- **Heart Attack**: 6%

**People with low levels of financial stress**

**People with high levels of financial stress**

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Impact on Health Benefits

Better management of chronic conditions can lead to improved retirement savings:

<table>
<thead>
<tr>
<th>High Blood Pressure</th>
<th>Average Annual Pre-Retirement Healthcare Costs</th>
<th>Expected Longevity</th>
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</thead>
<tbody>
<tr>
<td>Poorly Managed</td>
<td>$7,533</td>
<td>84 Years</td>
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<tr>
<td>Average Managed</td>
<td>$6,292</td>
<td>86 Years</td>
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<tr>
<td>Well Managed</td>
<td>$5,299</td>
<td>87 Years</td>
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<tr>
<td>Difference (Poorly to Well)</td>
<td>$2,234</td>
<td>+3 Years</td>
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</table>

<table>
<thead>
<tr>
<th>Type II Diabetes</th>
<th>Average Annual Pre-Retirement Healthcare Costs</th>
<th>Expected Longevity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorly Managed</td>
<td>$7,004</td>
<td>72 Years</td>
</tr>
<tr>
<td>Average Managed</td>
<td>$5,682</td>
<td>76 Years</td>
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<tr>
<td>Well Managed</td>
<td>$5,065</td>
<td>80 Years</td>
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<tr>
<td>Difference (Poorly to Well)</td>
<td>$1,939</td>
<td>+8 Years</td>
</tr>
</tbody>
</table>

Source: Healthy Capital Study – Health & Retirement Savings: Leveraging Healthcare Costs to Drive 401(k) Contributions & Improve Health
Employee Demographics

Does the company have a high proportion of young employees who may have significant debt?

Is the company in an industry (e.g. law firm or medical practice) that may hire young employees with a significant amount of college debt?

Does the company have an aging population that may need assistance with tax strategies, estate planning, etc., as they approach retirement?
Corporate Culture and Philosophy

- Is a primary reason for offering a competitive benefits package to recruit, retain, and reward top talent?
- Is your company paternalistic, wanting to give employees the best opportunity for replacement income ratios that are superior to the industry?
- Are you willing to devote the time and resources to supporting a robust financial wellness program?
- Who will own it (HR, Benefits, Retirement)?
- Should you look to outsource a financial wellness benefit?
Delivering an Effective Financial Wellness Program

A turnkey, multi-channel, holistic approach with coordinated in-person and technology enabled learning opportunities.

Financial coach addresses individual issues and helps them take the steps needed to prepare for the future.

Personalized Programs Designed to Deliver Behavioral Change

Financial Wellness Assessment provides personalized action plan, directing them to your workshops and webcasts.

Workshops & Webcasts

Education sessions delve into key financial topics and offer helpful action items to improve financial habits.

Online Financial Learning Center

Financial Helpline
Five Styles of Financial Wellness Programs

- Tools
- Education and Literacy
- Coaching and Behavioral
- Services and Products
- Enhanced Employee Education Programs
Considerations for Selecting a Financial Wellness Provider

- Budget or Cost
- Business Model
- Communication Frequency
- Data Reporting Capabilities
- Integration with other Benefits
THANK YOU