ADAMS WEALTH MANAGEMENT GROUP

Research shows that employees have better retirement outcomes when plan sponsors provide greater support. We developed this special guide to help sponsors improve employee engagement and savings behavior.

STRATEGIES FOR INCREASING EMPLOYEE SUCCESS

How Plan Sponsors Can Help Participants Save For Retirement

INTRODUCTION

The evidence is clear: employers who take an active role in helping their employees plan for retirement have happier, more productive, and more loyal employees.[1] The retirement landscape has changed, and defined contribution plan participants need more guidance, support, and education in order to help navigate volatile markets and change problematic financial behaviors. Today's employees face many challenges to success in retirement, and many are not doing enough to financially prepare for the future.

Studies show that a significant number of baby boomer employees are behind in saving for retirement.[2] Many plan participants do not understand how much they need to live comfortably in retirement, and are not doing the calculations they need to find out. As an increasing number of retirement-age workers postpone retirement for financial reasons, plan sponsors need to think about the negative impact insufficient employee savings can have on the firm's bottom line. Delayed retirement can drastically increase healthcare costs, salary inflation, and diminish workforce productivity. One report estimates that workers cost their employers between $10,000 and $50,000 each year that they work past normal retirement age.[3]

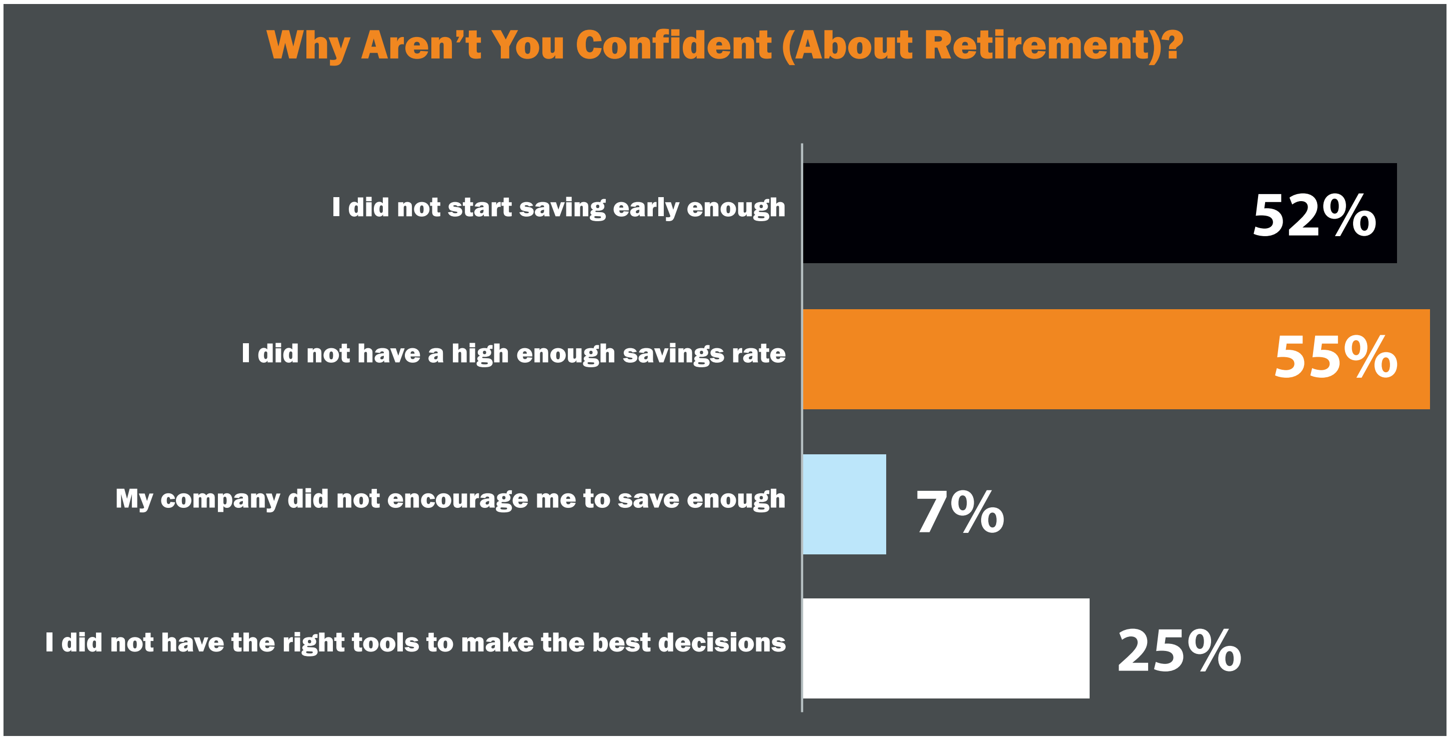
Providing guidance, support, and financial education for your employees is a low-cost way to help satisfy your fiduciary obligations, increase employee participation, and improve retirement outcomes for your employees. This whitepaper was designed to provide 401(k) plan sponsors with some strategies for helping their employees improve their long-term retirement prospects.

Plan Sponsors Can Increase 401(k) Participation By:

- **Shortening or eliminating waiting periods for new employees and enrolling them during orientation**
- **Providing loans or hardship withdrawal provisions**
- **Increasing employer matches**
- **Considering auto-features for enrollment and contribution escalation**

ENCOURAGE MORE SAVING AMONG PLAN PARTICIPANTS

An important way that employers can help their workers with retirement is to encourage better savings behaviors. Research suggests that the average baby boomer is about $500,000 short in their retirement savings, and that many workers cannot retire on time because of a lack of adequate savings.[4] Across the board, most plan participants need to boost their savings rates by at least 5-10 percent to meet their future retirement goals.[5]



Source: State Street Poll of Defined Contribution Plan Participants 2011

Research shows that one of the best ways to get participants to save more is to leverage automatic features. A 2010 study by EBRI found that plan options like contribution limit increases, auto-escalation of contributions, and auto-enrollment had dramatic effects on employee retirement savings, particular among non-highly paid workers.[6] Improving savings behavior among lower-paid employees may make it easier for your plan to satisfy non-discrimination testing.

The Pension Protection Act of 2006 (PPA) introduced several safe harbor provisions for implementing auto-enrollment and auto-escalation of contributions. Plan sponsors who wish to seek protection under ERISA 404(c), QDIA, or QACA safe harbor provisions are free to implement auto-enrollment and auto-escalation features, subject to certain limits.[7] Your plan vendor or financial representative can provide guidance on designing enrollment features that help meet your employees' needs.

A major financial breakdown for many plan participants occurs when they leave a job. Many plan participants, ignorant of the financial consequences, simply cash out their plan instead of transferring or rolling over the money. Vanguard research suggests that three in ten retirement age employees cash out in this manner.[8] These early withdrawals can be very detrimental to participants' retirement savings and employees frequently regret their decisions in hindsight. Better education and more streamlined rollover options can help avoid critical errors when employees exit.

PROVIDE FINANCIAL EDUCATION & GUIDANCE

Financial literacy also plays an important role in improving saving behaviors. Many plan participants may not understand the importance of setting aside a significant portion of their income for the future. Along with a well-designed retirement plan, education and guidance can help make a big difference to long-term retirement success.

As a plan sponsor, you are in a position to educate your participants and help them make wiser financial choices. Research shows that employees need and want financial education; over 70 percent of respondents to a 2010 survey were not confident in their abilities to make financial decisions.[9] However, most adults are not proactive in seeking to improve their financial knowledge.[10] One of the major reasons cited for this lapse is the perceived complexity of financial issues and the time involved in getting educated.

Financial education doesn't just benefit your employees. Research shows that it contributes to your firm's bottom line by improving morale, reducing financial stress, and increasing employee productivity.[11] A documented education program can also help satisfy your ERISA fiduciary obligations.

In order to help improve your employees' financial literacy, it's important not to focus just on the retirement benefits your firm provides, but to also give workers a framework for making better long-term financial decisions.

A comprehensive financial wellness program would cover topics like:

- Budgeting and basic personal finances
- Long-term investment strategies
- Risk management
- Healthcare planning
- Taxes
- Retirement income strategizing
- Eldercare and issues related to aging parents

As financial representatives, we're highly experienced at interpreting complex financial topics for ordinary investors. We regularly offer seminars and one-on-one education sessions to our clients and can assist you in creating a financial wellness program that helps meet your employees' needs.

PROMOTE RISK AWARENESS

Many investors are unaware of the importance of balancing risk and potential investment growth. Research into asset allocation choices among DC plan participants indicates that many investors have an imperfect understanding of portfolio risk and diversification strategies*. Even when participants are presented with age-appropriate allocations, many overconcentrate in "trendy" investment options or choose allocations that are potentially too risky for their desired time horizon. A TIAA-CREF Institute study found that the median number of changes to portfolio allocation over participants' lifetimes was zero, meaning that more than half of investors never changed their initial allocations even as their age and financial goals changed over time.[12]

One way for sponsors to address this issue is to review asset allocations among plan participants and look for extreme allocations that suggest a lack of understanding about risk. Targeting these investors with communications about investment risk, the importance of diversification*, and steps for addressing these issues may be an effective way to combat the problem.

ENGAGE PARTICIPANTS THROUGH MULTIPLE CHANNELS

Plan sponsors face many challenges when attempting to change employee behavior. Inertia, procrastination, and distrust of markets can all make change difficult. However, better marketing of plan enrollment details, financial education, and regular communications can help increase employee engagement.

Research shows that group meetings, one-on-one sessions, and emails are all successful ways to reach employees.[13] Group meetings give your employees the opportunity to hear from multiple experts, while personal sessions allow them to dig deeper into their personal finances with a representative. Some participants prefer communications that they can review on their own time, such as emails, and online presentations. The bottom line is that firms that engage employees through a variety of channels are likely to see better results.

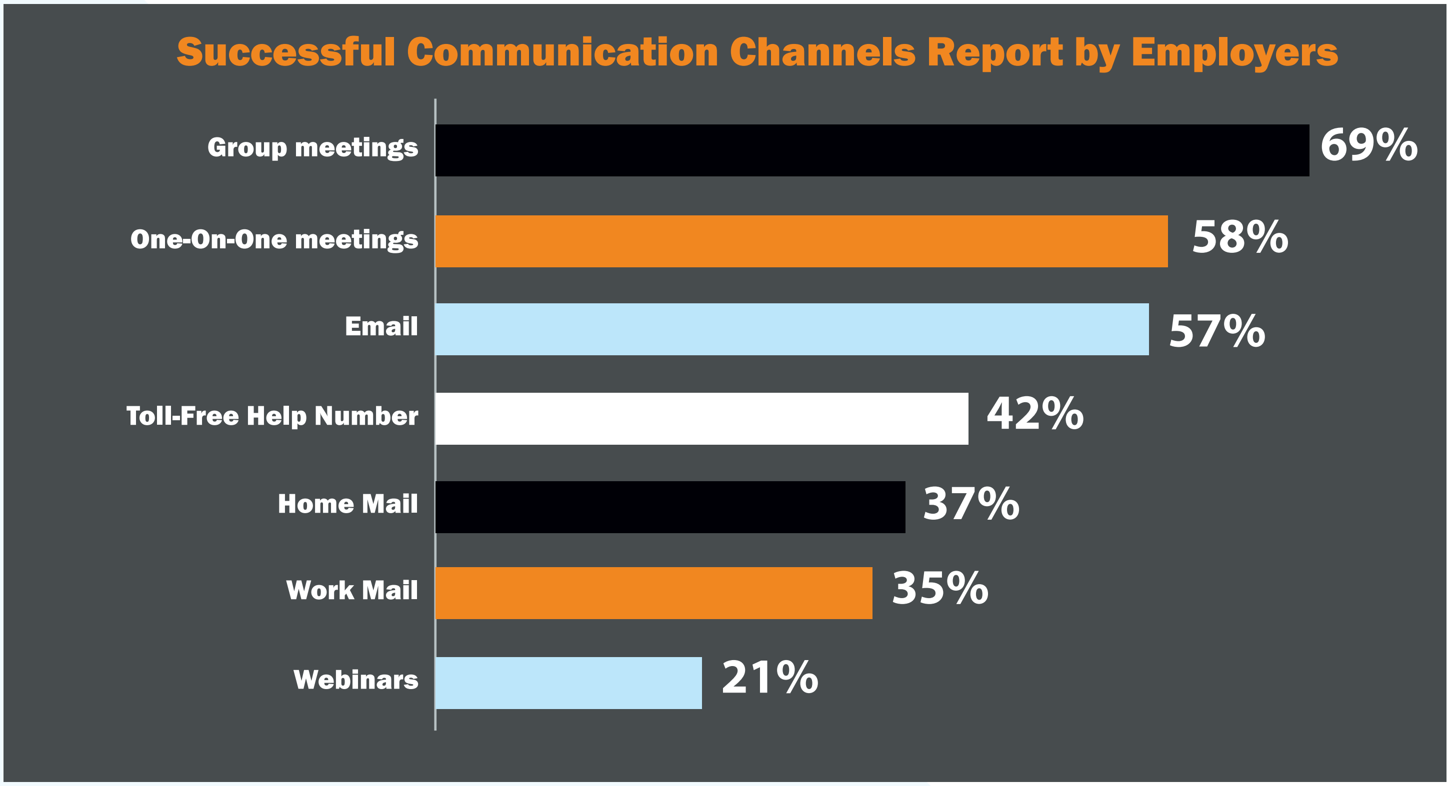
*Diversification cannot guarantee a profit or protect against loss in a declining market.

58% of employers believe that financial stress contributes to employee absenteeism.

Source: MetLife's 9th Annual Study of Employee Benefits Trends

Less than 5 out of 10 workers have estimated how much they need to save for a comfortable retirement.

Source: Employee Benefits Research Institute 2010 Retirement Confidence Survey



Source: Prudential 2012 Study of Employee Benefits & Beyond

We recommend that plan sponsors:

- Use company-wide events like open enrollment, all-hands meetings, and company social events to discuss benefits and specific financial topics.
- Use simple examples and illustrations to explain topics like compound interest, tax-deferred growth, and the potential effects of increased contributions on savings.
- Leverage relationships with financial representative partners to develop creative content, host seminars, and offer one-on-one sessions.
- Reach employees through multiple channels, using printed collaterals, social media campaigns, and internal communications to increase engagement.

FOCUS ON SIMPLE STEPS

Research into behavioral finance shows that irrational human behaviors have a major impact on the financial decisions that plan participants make. By understanding and confronting these behaviors, plan sponsors can create programs to help workers overcome their natural inertia and biases. To increase the probability of long-term retirement success, sponsors should focus on breaking processes down into small, concrete steps that are easy to implement.

- Make it easy for employees to enroll and increase their deferrals.
- Consider setting higher default contribution rates, even as high as 8% or 10%, depending on your plan document.
- Help employees define their long-term financial goals with worksheets, one-on-one sessions with a representative, and group meetings.
- Show employees how to help increase their savings rate through better budgeting and control of their finances.
- Follow up with employees at least quarterly to check in on their progress.
- Offer additional guidance to those who need it.

HOW A FINANCIAL REPRESENTATIVE CAN HELP

We hope you've found this special report interesting and informative, and that you've come away with some ideas to implement with your own plan. While DC plans can offer employees valuable advantages in planning for the future, long-term success is heavily influenced by your employees' financial and investment decisions.

Many plan sponsors find that partnering with a financial representative can help their employees have better financial outcomes and reduce the stress of administering a plan. Research suggests that employers who work with a representative to educate, and serve plan participants see improvements in deferral rates and employee satisfaction.[14]

As independent financial representatives, we have no potential conflicts of interest with 401(k) providers and can offer completely objective information and services to your employees. We can offer assistance in creating a financial wellness program, customized financial seminars, one-on-one consultations, and free educational materials that cover a range of issues. We can also assist you with compliance reviews, fee analysis, and other aspects of required due diligence.

If you have any questions about the information included in this report, or would like more information about our services and experience, please contact us at (866) 513-2099. We would be delighted to meet with you or your employees.

Sincerely,

Dwayne E Adams, CFP®, RFC®

Footnotes, disclosures and sources:

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Call Us Toll Free: (866) 513-2099
E-mail Us:
dadams@adamswealth.com
Fax: (937) 433-4139
www.adamswealth.com