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June 2016

In-depth analysis and insights  
to inform your decision-making.



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## Retirement and Financial Education

# FINANCIAL WELLNESS

### EXECUTIVE SUMMARY

#### What is financial wellness?

Financial wellness is the ability of individuals to manage daily finances while setting short- and long-term saving goals so that they can invest in a secure financial future.

In our view, short-term barriers such as debt or a lack of emergency funds can prevent investors from reaching long-term goals, including saving for college and retirement. For many, it makes sense to get their immediate financial situation under control as part of developing a successful, long-term financial strategy.

Financial wellness is the result of healthy saving and investing behaviors that are attainable and maintainable over time.

### WHY FINANCIAL WELLNESS IS IMPORTANT FOR EMPLOYERS

Today's employers are competing to attract and retain qualified employees, endeavoring to keep their workforce focused and productive, and managing limited resources for employee benefits, all while trying to remain competitive in a global economy.

In this challenging environment, employers are taking note of employees facing financial difficulties and drawing connections between employees' finances, overall health and wellness, and job performance. Research shows that financial stress takes an emotional toll; it can adversely affect physical health and well-being, as well as productivity.

Consider:

- 64% of U.S. workers say finances are their main source of stress<sup>1</sup>
- 28% of Americans age 25 and older say they have less than \$1,000 saved outside their workplace savings plan<sup>2</sup>
- 70% of human resources professionals surveyed say that financial problems impact employee performance<sup>3</sup>
- 44% of employers believe that offering some additional guidance on handling finances will decrease the time employees spend at work tending to financial issues<sup>4</sup>

<sup>1</sup>2014 American Psychological Association's "Stress in America" Survey

<sup>2</sup>EBRI 2015 Retirement Confidence Survey, based on Americans 25 and older

<sup>3</sup>SHRM 2014 "Financial Wellness in the Workplace Survey"

<sup>4</sup>Aon Hewitt 2016 "Hot Topics in Retirement Study"

While increasing employee engagement and retention and possibly improving the retirement-readiness of their workforce are some outcomes employers could expect from providing greater financial wellness support, 85% of employers polled in a recent Aon Hewitt study<sup>5</sup> said providing employees some type of offering around financial wellness is also “the right thing to do.” Financial wellness programs offer solutions for employees to create capacities for managing their everyday finances and saving beyond their workplace savings plans.

#### **WHY FINANCIAL WELLNESS FOR EMPLOYEES?**

Over time, employees have come to assume more and more of their own benefit expenses. Take health insurance, for example, where many private employers have employees copay a portion of their overall health expenses. Likewise, as fewer employers are offering traditional pensions, much of the responsibility of saving for retirement has been shifted to employees through plans like 401(k)s. Over the years, employees have spent hours in “enrollment” meetings learning about saving and investing for retirement. Even when employees grasp the importance of saving for retirement, in the end, they also know that their money only goes so far.

T. Rowe Price’s most recent Retirement Saving and Spending Study found that among 401(k) plan participants contributing below the maximum contribution, 48% said they could not afford to contribute more.<sup>6</sup> Consumer debt, student loans, and saving for college education were all cited as barriers to saving for retirement, but to a lesser extent.

The good news is that those surveyed claimed they would save more for retirement if they had the means. Half of plan participants said they were absolutely certain or very likely to increase their 401(k) contributions if they had less debt<sup>7</sup> and 31% said they would

#### **ENGAGING EMPLOYERS IN FINANCIAL WELLNESS CONVERSATIONS**

For more than 30 years of serving retirement plans, we’ve seen changes in plan design and participant communications make significant headway on retirement readiness. In plans of T. Rowe Price’s clients, we’ve observed:

- Plans that participate in auto-enrollment move the needle to an average participation rate of 89%.
- 96.5% of participants who were auto-enrolled in their plan remained in the default investment.
- Auto-increase, along with robust participant education has improved participant savings levels to an average deferral rate of 7.9% (pretax) in full service defined contribution plans that utilize auto-increase.

While automated plans have made it easier for employees to save for retirement, there are instances when employees are still failing to make significant headway in their savings goals. This might be evidenced by multiple plan loans, employees working long past normal retirement age, or participants opting out because of high student loan debt payments. For these employees, a program aimed at developing financial wellness is an additional strategy to further address retirement preparedness.

T. Rowe Price believes that, when engaging plan sponsors in initial financial wellness discussions, plan advisors will want to consider the following:

- Is the retirement plan goal to provide income replacement that is superior to an industry average?
- Is the company challenged with attracting and retaining top talent?
- Is the company in a highly competitive industry?
- Does the retirement plan have below-average participation, below-average savings rates, or above-average loan usage?

T. Rowe Price Retirement Plan Services, Inc. as of 3/31/2016

<sup>5</sup>Ibid.

<sup>6</sup>T. Rowe Price Retirement Saving and Spending Study (2015)

<sup>7</sup>Ibid.

save more for retirement if they had an emergency fund.<sup>8</sup>

However, we continue to see evidence of Americans struggling with fundamental financial challenges that will result in an inability to save effectively for retirement. For instance:

- 24% of Americans' paychecks go to paying off consumer debt<sup>9</sup>
- 64% of Americans can't cover a \$1,000 emergency without borrowing money<sup>10</sup>

Without an emergency fund, some workers are tapping the one place they have been saving—employer sponsored plans. Twenty-four percent of active participants in full-service defined contribution plans have loans totaling \$2.73 billion in plan assets. And we have seen the average loan balance increase for seven straight years.<sup>11</sup> While taking a loan from a retirement plan isn't necessarily a bad idea, it does indicate that employees may be using money earmarked for long-term savings to solve shorter-term financial challenges.

Other participant behavior that may indicate the need for financial wellness education could include: hardship withdrawals, auto-enrollment opt-out rates, and even employees' communications with Human Resources or plan call centers regarding financial distress.

## HOW ADVISORS CAN LEVERAGE FINANCIAL WELLNESS

Eighty-nine percent of companies surveyed by Aon Hewitt are likely to focus on financial wellness “in a manner that extends beyond retirement decisions.”<sup>12</sup> As the defined contribution marketplace has matured, financial advisors continue to look for ways to expand their services and bring value to retirement plan participants and sponsors.

Auto-services (e.g., auto-enroll and auto-increase) and QDIAs (e.g., target date investments) have helped plan sponsors get closer to plan goals for participation, savings, and asset allocation. Beyond the retirement plan and through the lens of holistic overall financial health, the advisor has an opportunity to impact an individual's financial prospects on a level that can positively influence their daily well-being.

The advisor can also position financial wellness as a solution to employers who are concerned about employees under financial stress.

There is a large spectrum of financial wellness providers available in addition to an advisor's ability to provide financial wellness through participant education. For example, an advisor may offer preretirement education that focuses on health care costs in retirement or on navigating the tax implications of different assets used for income. At the same time, an advisor could address (perhaps along with a service) issues of debt management and spending habits.

We do not believe there is a one-size-fits-all solution for every plan or advisor. We encourage advisors to weigh the following criteria when evaluating financial wellness programs:

## HOW WELL DOES A FINANCIAL WELLNESS PROGRAM ALIGN WITH EMPLOYER NEEDS?

Program Content	Does the program's specialization (e.g., budgeting, debt management, general financial knowledge, investment knowledge, large-purchase planning, financial planning, estate planning, or charitable giving) align with the key needs of the employees?
Engagement Experience	Does the program offer a structured format for employees to follow or a different approach? Can the provider show actual adoption rates with existing clients?
Alignment With Current Retirement Recordkeeper	Does the program integrate with the participant services provided by the plan's retirement recordkeeper?
Reporting and Measurement Capabilities	Can the program provide detailed reporting on usage, impact, and progress against agreed-upon organizational goals?

<sup>8</sup>Ibid.

<sup>9</sup>U.S Census Bureau et. al., 2014

<sup>10</sup>MarketWatch 2015

<sup>11</sup>T. Rowe Price Retirement Plan Services, Inc., 3/31/2016 (defined contribution plans on OMNI recordkeeping platform)

<sup>12</sup>Aon Hewitt 2016 “Hot Topics in Retirement Study”

## WHY T. ROWE PRICE?

T. Rowe Price is a valuable resource for financial wellness because we offer future-forward thought leadership and solutions to advisors, plan sponsors, and individuals. Our decades of experience in helping advisors and retirement plan sponsors have afforded us the opportunity to share our insights and recommendations regarding healthy financial behavior.

We want to help advisors confidently explain and offer solutions on wellness programs and providers while working with plan sponsors to improve financial fitness and retirement readiness of plan participants. And finally, we aspire to position individuals to invest and retire confidently.

For more on financial wellness, visit [troweprice.com/wellnessworks](https://troweprice.com/wellnessworks).

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