How Employers can Help Employees **Prepare for Retirement**

Retirement is a significant milestone for all employees that often requires careful planning. Unfortunately, many employees have fallen behind in their retirement goals. Costs of living increases, student debt, and low salaries are making it difficult for employees to adequately save for retirement, according to a recent study by financial services provider Teachers Insurance and Annuity Association and global customer agency C Space. Additionally, employees are delaying saving for retirement to focus on current financial needs and expenses, believing they'll be able to catch up later.

For employers, creating a culture of retirement preparedness is not only a responsible business practice but also a vital contribution to the overall well-being of their workforce. As a result, many employers are implementing strategies to help keep employees on track with their retirement savings and, in some cases, aid them in catching up if they have fallen behind.

REASONS EMPLOYEES ARE STRUGGLING TO SAVE FOR RETIREMENT

Over the last few decades, retirement has changed. In the past, workers could rely on their employer to provide them with income as they aged, but now workers must leverage personal savings and other benefits, such as Social Security, to retire. According to a 2023 report on employee financial wellness by professional services firm PricewaterhouseCoopers (PwC), 57% of employees say finances are the leading cause of stress in their lives.[1] Despite this, only 51% of employers take advantage of retirement benefits offered by their employers, according to data from the U.S. Bureau of Labor Statistics.[2]

Moreover, current economic conditions are creating barriers to employee retirement savings. Record-high inflation, rising interest rates, and layoffs are making it difficult for individuals to set aside funds for retirement. Compounding these issues is the fact that most Americans are now living longer. According to the Centers for Disease Control and Prevention, U.S. life expectancy increased from 47.3 years in 1900 to 78.7 in 2018. This means individuals' retirement funds must stretch further than they have in the past.

HOW EMPLOYERS CAN HELP EMPLOYEES PREPARE FOR RETIREMENT

For many employees, future financial security may not seem obtainable. According to a recent survey from investment bank Natixis, 40% of respondents said it "will take a miracle" for them to retire securely.[3] However, there are several strategies organizations are employing to help their workforce prioritize and prepare for retirement, including the following:

Educating employees

Employers can educate employees on topics like budgeting and emergency savings accounts to help them save for retirement. This can include providing graphical depictions of retirement savings or personalized educational opportunities addressing employees' unique needs and situations. Educating employees can help them understand how prepared they are to retire and motivate them to make any necessary changes.

Matching student loan contributions

Some employers are implementing the student loan-matching provisions of the SECURE 2.0 Act—a federal law designed to encourage employers to offer retirement plan benefits—to allow individuals struggling with student loan debt to contribute to retirement savings. Starting in 2024, SECURE 2.0 will allow employers to contribute to an employee's retirement savings to match that individual's payment on a qualified student loan.

Connecting employees with financial advisors

Some organizations offer employees access to financial experts and advisors. These professionals can provide individuals with critical insights into how prepared they are for retirement as well as offer multiple strategies to help them accumulate retirement savings. IMA's low-cost program WellCents connects employees with financial advisors and provides financial well-being programs.

Helping employees catch up

Employers can educate employees on retirement savings catch-up opportunities and encourage them to take advantage of them. Currently, individuals aged 50 and older can make additional catch-up contributions to their retirement accounts. Under SECURE 2.0, individuals making at least $145,000 annually can make a catch-up contribution with after-tax dollars. Additionally, employers can show employees nearing retirement how contributing a higher percentage of their salary (e.g., 12% to 15%) to a retirement plan can help them meet their financial goals.

Enrolling new employees automatically into retirement plans

Beginning in 2025, SECURE 2.0 will require employers to automatically enroll new employees in a 401(k) or a 403(b) plan unless the employee opts out. This will help ensure that employees do not miss out on critical benefits and are preparing for retirement. While SECURE 2.0 does not address current employees, employers can consider making it easy for them to enroll in the organization's retirement plan.

Offering flexible retirement options

Flexible retirement options allow employees to tailor their retirement savings to their goals and lifestyles. This may include target-date funds, nonqualified deferred compensation plans, and other investments, including venture capital, private equity, and real estate. Further, some employers have established retirement plans that automatically increase employee contributions over time to help them meet their savings goals as they approach retirement.

Tailoring employee communications

Providing employees with regular communication regarding retirement benefits and options can often encourage employees to participate in retirement benefits. For example, Microsoft has achieved participation rates of over 90% in its 401(k) program by only sending its 401(k) mailer to individuals who have not enrolled in the program.

Providing meaningful voluntary benefits

Sometimes, employees do not contribute to retirement programs because they must focus their finances elsewhere. For example, many employees must spend their money on caregiving instead of contributing to their retirement accounts. Providing employees with voluntary benefits (e.g., caregiving benefits) that address their needs can empower employees to contribute to their retirement savings.

Granting profit-sharing or bonuses

Some employers offer profit-sharing plans that allow employees to earn a bonus that's automatically contributed to their retirement savings plans when the organization achieves its annual financial targets and goals. This can help employees save for retirement as well as incentivize them to work hard to achieve their employer's goals.

Health Savings Accounts

According to Fidelity Investments Retiree Healthcare Cost Estimate, employees estimate that they will need $41,000 for themselves and their spouses. However, the average couple retiring at 65 will spend an average of $315,000 on healthcare throughout retirement. Medicare alone will not be enough. Companies can help by providing HSA contributions and educating employees about how to effectively use their HSA accounts as investment and retirement vehicles.

Summary

A one-size-fits-all approach to retirement is no longer a workable solution for most employees. Employers have a unique opportunity to create a positive impact on the lives of their employees by taking proactive steps to assist employees in preparing for retirement. Empowering retirement readiness can not only help employers improve their attraction and retention efforts but also demonstrate their commitment to their employees' well-being and improve their bottom lines.

Contact us for more retirement resources and information.

Sources

1. PwC's 2023 Employee Financial Wellness Survey
2. 68 percent of private industry workers had access to retirement plans in 2021
3. 2021 GLOBAL RETIREMENT INDEX