

# Industry Trends & Insight—A Year in Review

**William Beale**  
Director, HB Retirement  
Accredited Investment Fiduciary®

**Megan Warzinski**  
Manager of Consulting Services  
Accredited Investment Fiduciary®



# 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

planadviser's 2017  
**TOP 100**  
RETIREMENT PLAN ADVISERS



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# Disclosure

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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.

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## 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



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## Financial Wellness



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

- Warren Buffet



# Financial Wellness

## 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):

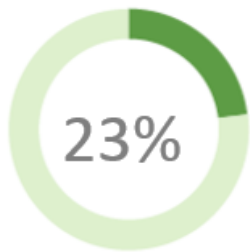
Financial well-being is a state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life.

## EY:

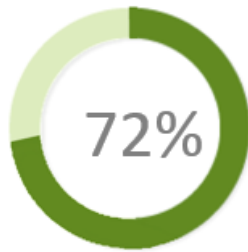
An individual's ability to make confident, well-informed money-related decisions resulting in financial security for both the short and long term.

# Employer Attitudes

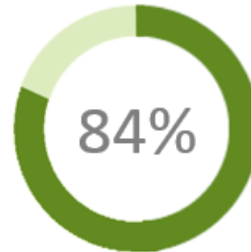
Employers are helping workers improve their financial situations.



OF EMPLOYERS ALREADY HAVE A FINANCIAL WELLNESS STRATEGY



OF EMPLOYERS EITHER HAVE OR INTEND TO CREATE A FINANCIAL WELLNESS STRATEGY THIS YEAR



OF EMPLOYERS BELIEVE IMPLEMENTING A FINANCIAL WELLNESS STRATEGY IS THE RIGHT THING TO DO

# Financial Wellness Defined by Employees

Employees say financial wellness means:



**21%** Freedom from financial stress



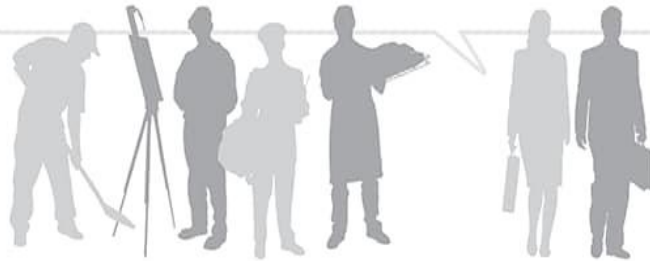
**21%** Freedom from worry about unexpected expenses



**21%** Freedom from debt



**18%** Freedom to make choices



Source: Employee Financial Wellness Survey, PwC, 2018

## 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





# Employees Attitudes

According to 2017 PwC survey on Financial Wellness:

**53%**

say they feel stressed  
dealing with their  
personal financial  
condition

**By generation**

35%  
Millennials  
44% Gen X  
21% Baby  
Boomer

**By  
gender**

59%  
female  
41%  
male

*Gender Differences for Financial Concerns:*



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



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# Employees Attitudes

## 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



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# 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



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Source: <http://www.forbes.com/sites/financialfinesse/2013/06/13/are-you-financially-stressed/>

Source: <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

Studies show that the average cost of a worker who delays retirement can equate to \$50,000 annually<sup>2</sup>.

<sup>1</sup>Source: <https://www.planadviser.com/nearly-three-quarters-boomers-want-delay-retirement/> March 2018

<sup>2</sup>Source: [http://research.prudential.com/documents/rp/SI20\\_Final\\_ADA\\_Cost-of-Delayed\\_1-4-17.pdf](http://research.prudential.com/documents/rp/SI20_Final_ADA_Cost-of-Delayed_1-4-17.pdf) January 2017



# 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

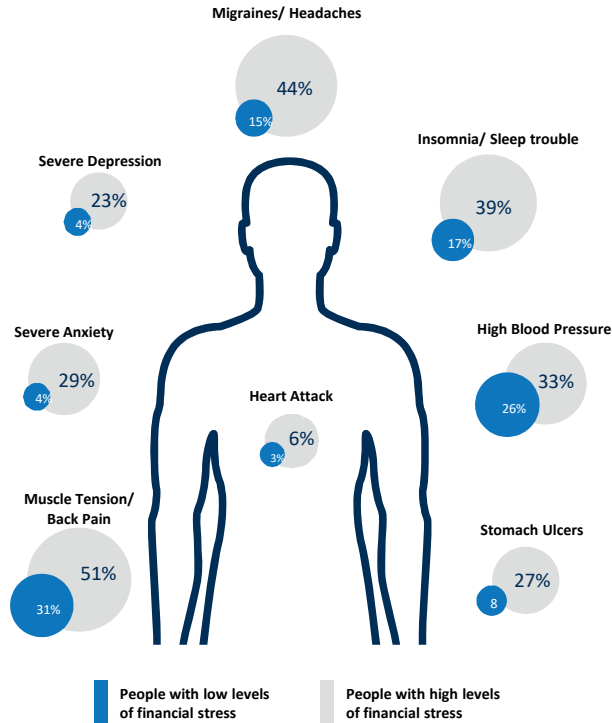
## Poll Questions:

- ❖ 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?



# Impact on Health care costs

## Financial stress manifests as:



## Financial Wellness Matters To Employers

### Stressed out employees are more prone to health risks.

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



1. Research Works: Partnership for Workplace Mental Health report, Feb 2009.

2. Q2 Trends in Employee Financial Issues, Financial Finesse, September 2012.

3. Higher Health Care Costs for Metabolic Syndrome Risk, Disabled World, September 2009.

# Impact on Health Benefits

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

High Blood Pressure	Average Annual Pre-Retirement Healthcare Costs	Expected Longevity
Poorly Managed	\$7,533	84 Years
Average Managed	\$6,292	86 Years
Well Managed	\$5,299	87 Years
Difference (Poorly to Well)	\$2,234	+3 Years

Type II Diabetes	Average Annual Pre-Retirement Healthcare Costs	Expected Longevity
Poorly Managed	\$7,004	72 Years
Average Managed	\$5,682	76 Years
Well Managed	\$5,065	80 Years
Difference (Poorly to Well)	\$1,939	+8 Years



# 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



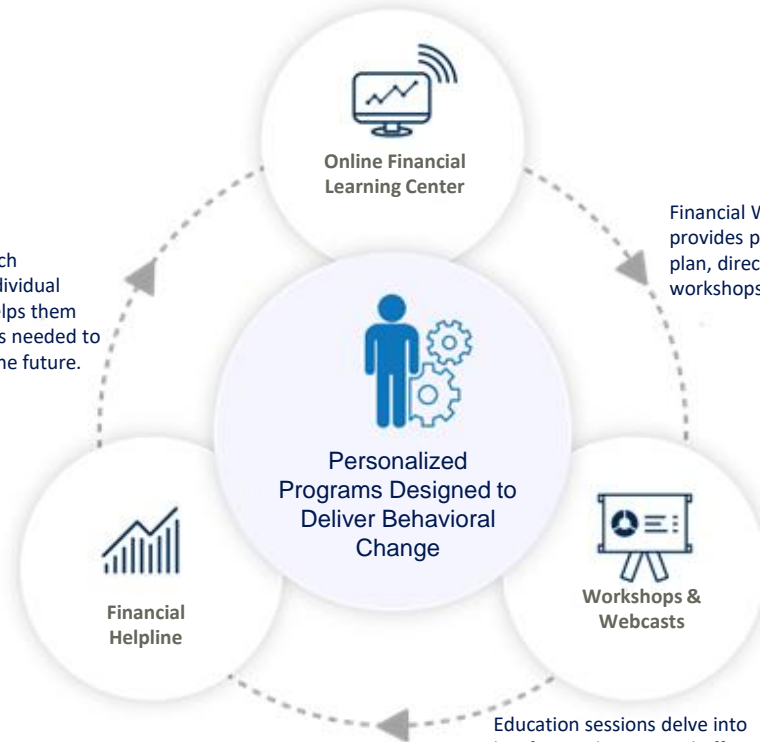
- Is a primary reason for offering a competitive benefits package to recruit, retain, and reward top talent?
- Is your company paternalistic, wanting to give employees the best opportunity for replacement income ratios that are superior to the industry?
- Are you willing to devote the time and resources 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.



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



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# 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



HENDERSON



THANK YOU

BROTHERS