



2018 Special Report:
The ROI of Improving Employee
Retirement Preparedness

October 2018

Abstract

Inadequate retirement preparation has a measurable impact on employers from the costs of delayed retirements for employees who would like to retire but are financially unable to do so. In this report we propose best practices for workplace financial wellness programs to offer retirement guidance across an employee's full career. Additionally, we analyze the positive impact of financial coaching on improving retirement outcomes. We offer a model for measuring the ROI of reducing the costs of delayed retirement for these employees.

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Executive Summary

Comprehensive financial wellness programs that repeatedly engage employees can effectively mitigate current and future costs associated with delayed retirement. Even modest improvements in employee financial wellness generate meaningful cost savings. For a typical 50,000-life employer:

- An upward shift in the average workforce financial wellness score¹ from 4.0 to 5.0 can generate **\$33 - \$49 million** in annual cost savings.
- An upward shift in the average workforce financial wellness score from 4.0 to 6.0 can generate **\$65 - \$97 million** in annual cost savings.

This report builds on our 2016 ROI Special Report,ⁱ which offers a predictive model for measuring the cost savings of reduced delayed retirements. The 2016 study found that as financial wellness scores increased, so did retirement plan contribution rates. Over time, the collective increase in retirement plan contribution rates improves workforce retirement preparedness and reduces the average projected retirement age. Reductions in projected retirement age occur across all career stages.

Age Range	Financial Wellness Score (4 - 5)	Financial Wellness Score (4 - 6)
	Reduction (years)	
<35	1.33	2.67
35-44	1.17	2.25
45-54	0.83	1.58
55-64	0.58	1.17
65+	0.50	1.00

Repeat engagement in financial wellness programs drives improvement in overall financial health, so this isn't a "one-and-done" process. Improvements are incremental and increase with the number of interactions. Companies that offer financial wellness benefits should focus on creating multiple channels to reach employees and develop techniques that encourage continuing engagement in the program. Retirement plan design practices, such as auto-enrollment and auto-escalation, are foundational, and should be incorporated with an easy-to-use retirement calculator and unlimited access to financial coaching.

¹ See [About the Financial Wellness Score](#).

The Cost of Delayed Retirement

Employers face expensive challenges when retirement-eligible employees delay retirement for financial reasons. These challenges include:

- Lower velocity of talent that blocks promotions for younger employees;
- Higher compensation and benefit costs associated with longer-tenured employees;
- Reduced productivity among employees who would prefer to be doing something else other than continuing to work; and
- Increased absenteeism.

The cost of delayed retirement can be substantial. According to a 2017 Prudential study,ⁱⁱ the cost of a one-year delay in retirement exceeds \$50,000 per employee. For an entire workforce, a one-year increase in the average retirement age results in an average annual increase of 1.0%-1.5% of workforce costs.² Based on these estimates, a one-year increase in the average retirement age of a 50,000-life employer could cost over \$30 million a year.

Employers continue to look for ways to improve employees' retirement preparedness to reduce the likelihood of delayed retirement. Though much has been done in the way of enhancements to retirement plan design—such as auto enrollment and auto escalation of deferral rates—only 31% of employees that completed a Financial Wellness Assessment in 2017 indicated they were on track to achieve their retirement income goals (Figure 1). Enhanced retirement plan design by itself is not enough to address the issue of delayed retirement.

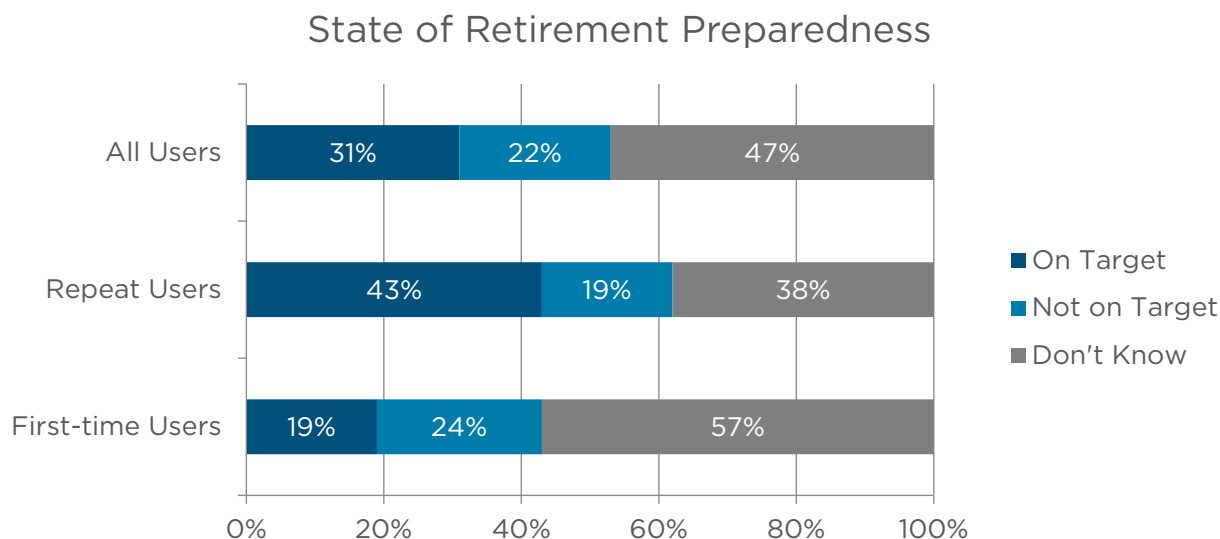
THE HIGH COST OF DELAYED RETIREMENT

- The cost of a one-year delay in retirement exceeds \$50,000 per employee.
- A one-year increase in the average retirement age results in an average annual incremental run rate of 1.0%-1.5% of workforce costs.

Source: Prudential Financial, Inc. 2017. "Why Employers Should Care About the Cost of Delayed Retirements". Prudential. http://research.prudential.com/documents/rp/SI20_Final_ADA_Cost-of-Delayed_1-4-17.pdf

² Workforce costs include, but are not limited to, wages, health, disability, life insurance, retirement benefits, and paid leave.

Figure 1: Repeat users exhibit higher levels of retirement preparedness



A more effective way to improve retirement preparedness is through repeat engagement in a financial wellness benefit. As noted in our 2017 Year in Review report,ⁱⁱⁱ repeat users improved their overall financial wellness score by over one point between their first and last financial wellness assessment. Further analysis found that every one-point increase in overall financial wellness scores equated to an approximate one-point increase in average deferral rates (Figure 2). This improvement contributed to higher levels of retirement confidence among repeat users. In 2017, repeat users were more than twice as likely as first-time users (43% vs. 19%) to report being on track to achieve their retirement income goals (Figure 1).

Calculating Return on Investment (ROI)

To estimate how a financial wellness benefit can help reduce the cost of delayed retirement, we analyzed the length of employment needed for the typical American worker to save enough to replace 80% of their income at retirement using current and projected contribution rates. For example, at current median contribution rates, we estimate the average workforce retirement age at 68 years and 11 months (Table 1).

Table 1: Analysis of average retirement age by age range

Age Range	<35	35-44	45-54	55-64	65+
Percentage of Workforce	35%	21%	21%	17%	6%
Median monthly earnings	\$3,441	\$4,208	\$4,273	\$4,303	\$4,316
80% income replacement (in future dollars)	\$8,217	\$7,477	\$5,650	\$4,234	\$3,453
Lump sum needed (after Social Security)	\$754,298	\$742,813	\$564,170	\$423,771	\$345,950
Average deferral rate ^{IV} (with 3% employer match)	9.3%	10.1%	10.6%	11.6%	13.2%
Median retirement savings ^V	\$12,020	\$37,000	\$82,000	\$120,000	\$120,000
Age when goal is reached	64.67	68.50	70.50	73.67	76.67
Average age (weighted)	68.95				

Small Improvements Make a Big Difference

As employees' overall financial wellness levels increase, so do contribution rates to retirement plans (Figure 2). When we increase contribution rates by the observed improvement when financial wellness scores move from 4.0 to 5.0, the estimated average workforce retirement age drops to 67 years and 11 months. That one-year decrease equates to over \$33 million a year in savings, or over \$50,000 per employee (Table 2).

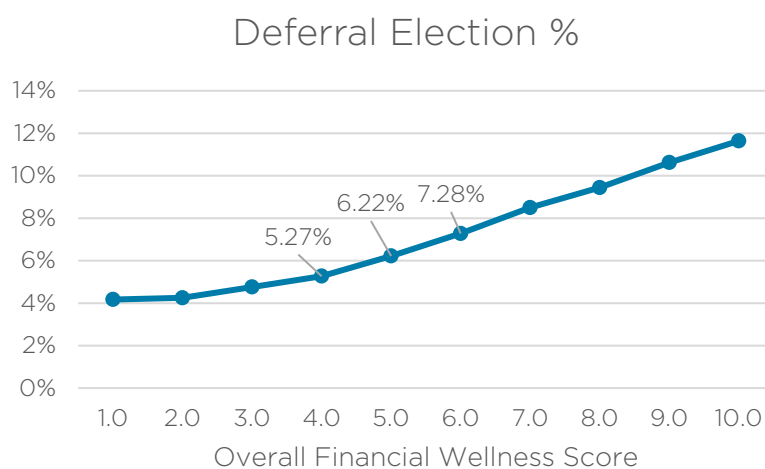


Figure 2: Relationship between employee financial wellness and retirement plan deferral rates

Table 2: Projected cost savings in reduced delayed retirements (Financial Wellness Score: 4.0 – 5.0)

Age Range	<35	35-44	45-54	55-64	65+
Projected deferral rate (with 3% employer match)	10.4%	11.4%	12.0%	13.1%	15.0%
Median retirement savings ^v	\$12,020	\$37,000	\$82,000	\$120,000	\$120,000
Age when goal is reached	63.33	67.33	69.67	73.08	76.17
Average age	67.94				
Reduction (years)	1.33	1.17	0.83	0.58	0.50
Average (weighted)	1.02				
Estimated cost savings when an employee retires 1.02 years earlier					
\$50,750					
Annual estimated cost savings of a 1.02-year reduction in average retirement age					
\$33 million – \$49 million					

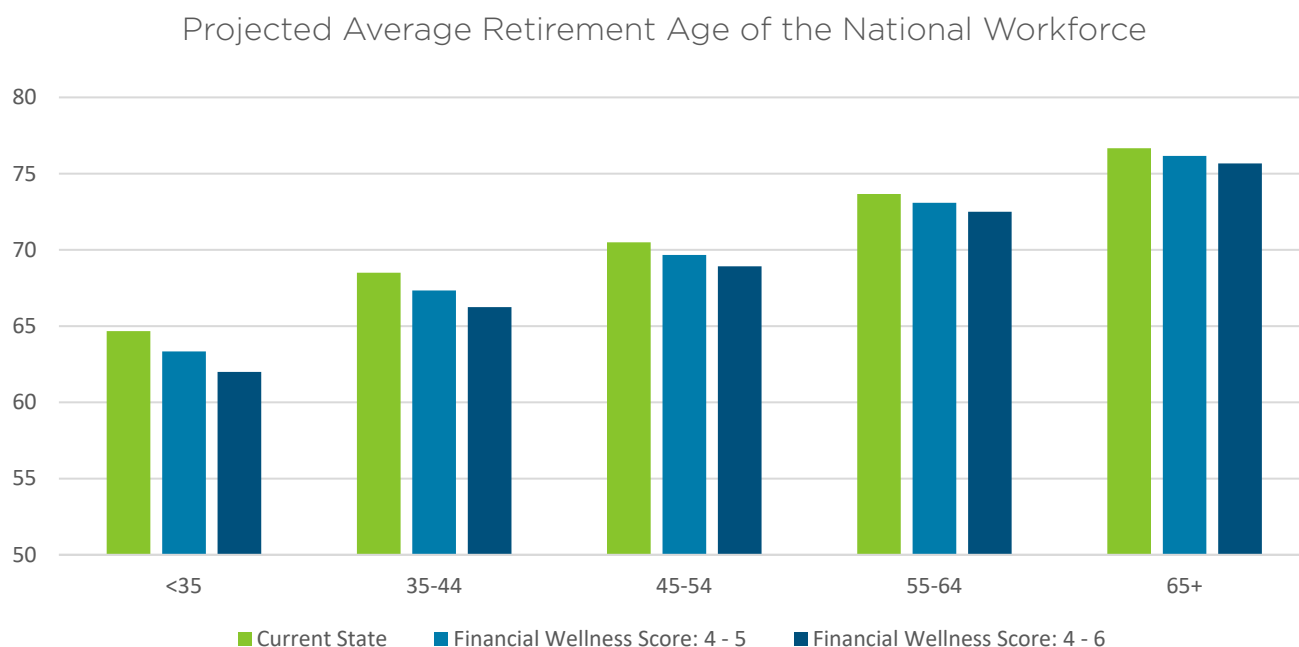
When we increase contribution rates by the observed improvement when financial wellness scores move from 4.0 to 6.0, the estimated average workforce retirement age drops to 66 years and 11 months. When applied across an entire workforce of 50,000 employees, that equates to over \$65 million a year in savings, or nearly \$100,000 per employee (Table 3).

Table 3: Projected cost savings in reduced delayed retirements (Financial Wellness Score: 4.0 – 6.0)

Age Range	<35	35-44	45-54	55-64	65+
Projected deferral rate (with 3% employer match)	11.7%	12.8%	13.5%	14.9%	17.1%
Median retirement savings ^v	\$12,020	\$37,000	\$82,000	\$120,000	\$120,000
Age when goal is reached	62.00	66.25	68.92	72.50	75.67
Average age	66.96				
Reduction (years)	2.67	2.25	1.58	1.17	1.00
Average (weighted)	2.00				
Estimated cost savings when an employee retires 2.00 years earlier					
\$99,750					
Annual estimated cost savings of a 2.00-year reduction in average retirement age					
\$65 million – \$97 million					

The more time an employee has until retirement, the greater the reduction in projected average retirement age as financial wellness improves (Figure 3). What is interesting is the general increase in projected average retirement ages from younger to older employees. Younger workers (i.e., those under age 35) have a projected average retirement age under 65, but pre-retirees (i.e., those age 55+) have a projected average retirement age over 70.

Figure 3: Reduction in average retirement age is greater for younger workers



For some pre-retirees, the problem is debt, retirement plan leakage, and lack of investment confidence. In 2017, more than one in four (27%) pre-retirees that completed a Financial Wellness Assessment indicated feeling uncomfortable with debt, one in five (20%) had taken a retirement plan loan or hardship withdrawal within the last 12 months, and nearly four in ten (38%) lacked investment confidence (Table 4).

Table 4: Some pre-retirees struggle with debt, pre-retirement withdrawals, and investment confidence

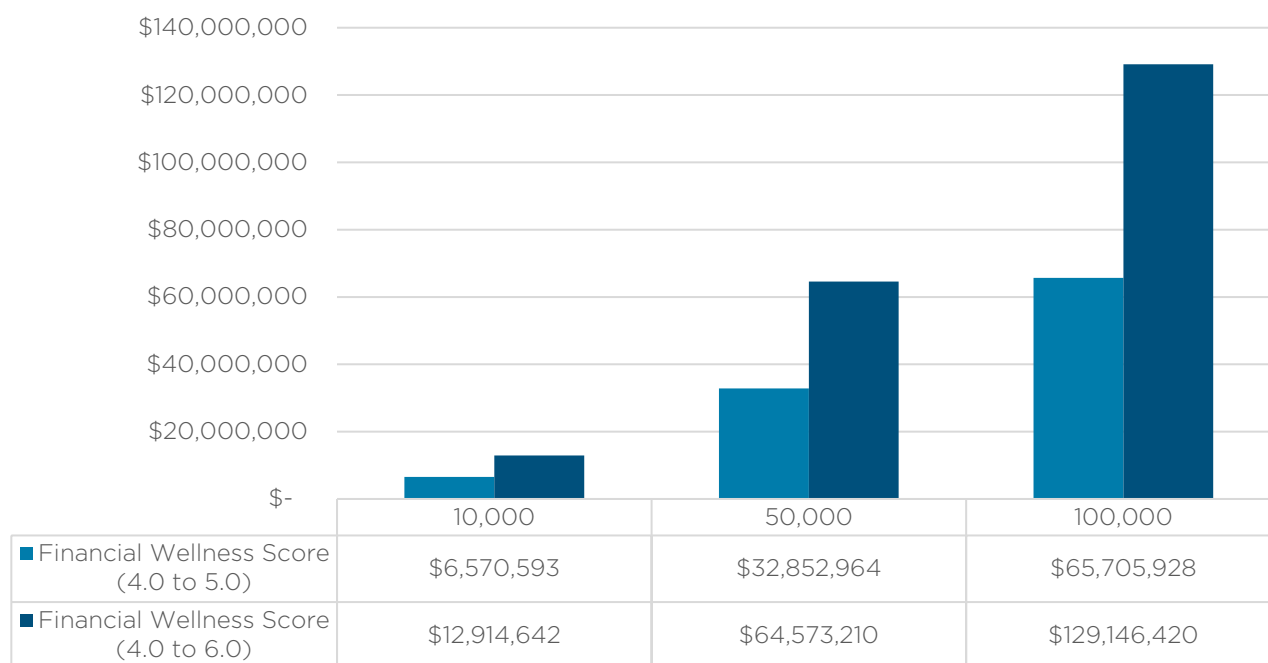
Age Range	<45	45-54	55+
I am uncomfortable with my debt	48%	40%	27%
I have taken a retirement plan loan or hardship withdrawal within the last 12 months	19%	29%	20%
I lack confidence in my investment strategy	56%	46%	38%

Projected Employer Savings from Reducing Delayed Retirements

A look at the annual savings associated with reducing delayed retirements proves to be even more momentous when considering employer size. Employers with 100,000 employees can save over \$65 million when overall financial wellness scores increase from 4.0 to 5.0, and over \$129 million when scores increase from 4.0 to 6.0 (Figure 4).

Figure 4: Projected cost savings for employers of various sizes when Financial Wellness Scores improve

Projected ROI from Reducing Delayed Retirement with Incremental Shift in Workforce Financial Wellness Score (By Employer Size)



Tools for Reducing Delayed Retirement

A Retirement Calculator

The first step for employers to reduce delayed retirement begins with a simple and inexpensive tool: a retirement calculator. Nearly half of employees (47%) that completed a financial wellness assessment in 2017 did not run a retirement calculator to see if they are on track for achieving their retirement goals. While older employees are more likely than younger employees to take stock of their retirement preparedness, nearly four in ten (38%) pre-retirees age 55 and older still haven't run the numbers to see if they are on track to retire comfortably. Employees who run a retirement calculator and discover they are underprepared can take steps to get on track, while those who discover they are on track gain the confidence to retire at their target age.

Auto-Enrollment and Auto-Escalation

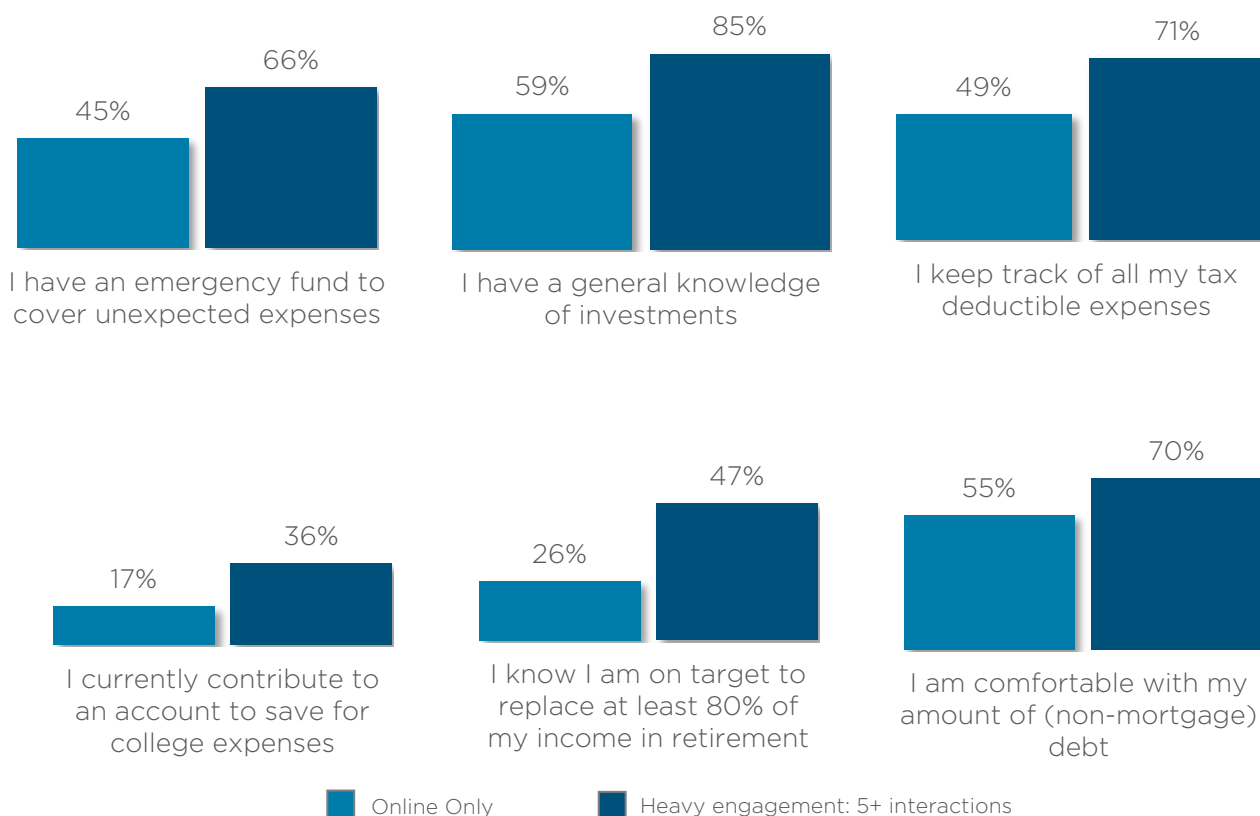
Employees not yet saving enough for retirement will benefit from default retirement plan features which make higher rates of saving automatic. Employers that offer a matching contribution should automatically enroll new employees at a contribution rate enough to capture the full company match. If available, employers should also automatically enroll employees in automatic-rate escalation.

The case for the effectiveness of automatic enrollment is compelling. Research from Vanguard showed that after three years, 57% of participants who were automatically enrolled in a retirement plan with an automatic increase feature remained in the original automatic plan design, and about 9 in 10 took some action that resulted in deferral rates above the initial default design.^{vi}

1 x 1 Financial Coaching

Based on our analysis of repeat users of workplace financial wellness programs, financial coaching may help employees get financially “unstuck.” While technology was helpful in increasing employee awareness of their financial vulnerabilities, online interactions alone did not prove as effective in changing behavior as multiple interactions with a financial coach. We observed a similar pattern in this year's analysis, finding that increased engagement resulted in improved cash flow behavior, higher confidence in retirement preparedness, and higher knowledge of investments.

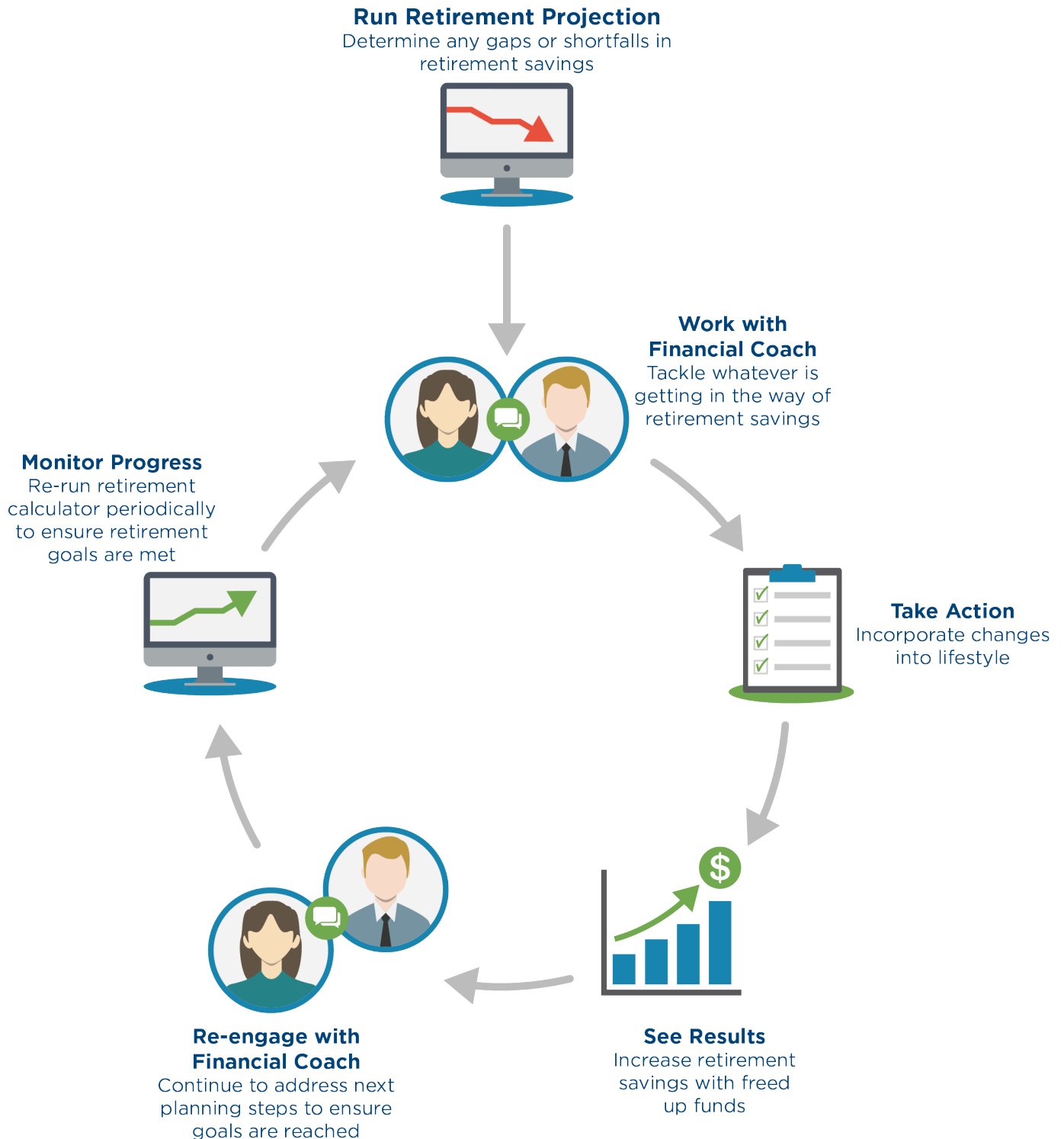
Figure 5: Behavior change in Online only interactions vs Heavy Engagement interactions with a financial coach



Our findings are consistent with research commissioned by the Consumer Financial Protection Board, which concluded that among participants who wanted to take steps towards their financial goals, those with access to financial coaching did better than those without access.^{vii} Participants who met with a coach just once improved their money management skills and saw an increase in financial wellness.

For those companies whose employees have predictable day time work schedules, coaching can be offered in person at the worksite. In certain industries with 24-hour work schedules, such as health care or manufacturing, workplace financial wellness programs will reach more employees if financial coaching is offered by telephone and computer screen-sharing.

How Financial Wellness Coaching Reduces Delayed Retirement



Methodology

This report uses data gathered from various sources to estimate the age at which the typical American worker will have enough saved to replace 80% of their income. It relies on industry research on the cost of delayed retirements and builds on the Financial Finesse ROI model reported in the 2016 ROI Special Report. Financial wellness data is compiled by tracking employees' usage of Financial Finesse's Online Financial Wellness Assessment and Learning Center, which provides employees with a personalized financial education plan and analysis of their current financial wellness.

This report is based primarily on the analysis of 18,148 employees that participated in their employer-sponsored financial wellness benefit from 2011 to 2016. Results have a +/-1% margin of error at the 99% confidence level.

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About the Financial Wellness Assessment

The Financial Wellness Assessment is a proprietary tool designed and developed by our Think Tank of CERTIFIED FINANCIAL PLANNER™ professionals used to measure employees’ financial wellness. To get a realistic assessment of wellness in each category, planners determined the most important criteria for achieving financial success in that specific category. By asking key questions that determine employees’ progress on these different actions, we are able to approximate their financial wellness in those areas.

ABOUT THE FINANCIAL WELLNESS SCORE

The Financial Wellness Score is measured on a scale of 0 to 10, with 0 indicating minimal financial wellness and 10 indicating optimal financial wellness. Scores are adjusted to consider age and income and determine how well employees are managing their finances based on these factors and the needs associated with different life stages and income levels. Employees who achieve a Financial Wellness Score within a specified range exhibit financial behavior as outlined in the following chart:

Wellness Score	Financial Behavior
9.0 or above	Employees have excellent financial skills and habits and have achieved an optimal level of financial wellness. They are on track to meet their goals and fully prepared to weather unexpected challenges that arise.
7.0 to 8.9	Employees have good financial skills and habits and are in a fairly good position to reach their goals, but there are additional actions they need to take to fully prepare for their goals and protect themselves from challenges that may arise.
5.0 to 6.9	Employees are demonstrating some personal financial skills but have significant gaps in their overall financial planning and behaviors, and really need education and guidance to make decisions and develop financial habits that will allow them to achieve their goals.
3.0 to 4.9	Employees may be sabotaging their own goals through poor personal financial skills and are in need of more basic information.
Below 3.0	Employees are in dire need of guidance around basic personal financial skills to help keep them from experiencing serious financial consequences.

About Financial Finesse

Financial Finesse is the largest independent provider of unbiased workplace financial wellness programs in the country, delivering holistic financial coaching and guidance that helps employees improve their financial wellness. The firm's programs cover every area of financial planning – from basic money management to advanced estate planning – and cost employees nothing out of pocket, since they are fully paid for by their employers. Financial Finesse's programs are proven to change lives, provided through a variety of channels such as mobile financial coaching, live events, interactive webcasts, one-on-one financial counseling sessions and a financial helpline staffed by Certified Financial Planner™ professionals who do not sell any financial products or manage assets. www.financialfinesse.com.

End Notes

ⁱ Financial Finesse Think Tank Research. 2016. "ROI Special Report 2016". Financial Finesse, Inc. <https://ffinesse.box.com/v/2016-ROI-Report>

ⁱⁱ Prudential Financial, Inc. 2017. "Why Employers Should Care About the Cost of Delayed Retirements". Prudential. http://research.prudential.com/documents/rp/SI20_Final_ADA_Cost-of-Delayed_1-4-17.pdf

ⁱⁱⁱ Financial Finesse Think Tank Research. 2018. "2017 Year in Review" Financial Finesse, Inc. <https://ffinesse.box.com/v/FWTrends2017YrInReviewReport>

^{iv} "Family Head Employee Contribution." 2018. Employee Benefit Research Institute (unpublished).

^v Copeland, Craig. 2018. "Individual Account Retirement Plans: An Analysis of the 2016 Survey of Consumer Finances". Employee Benefits Retirement Institute. https://www.ebri.org/pdf/briefspdf/EBRI_IB_445.pdf

^{vi} Clark, Jeffrey, Stephen Utkus, and Jean Young. 2015. "Automatic Enrollment: The Power of The Default". Vanguard Research. https://institutional.vanguard.com/iam/pdf/CRRATEP_AutoEnrollDefault.pdf?cbdForceDomain=true.

^{vii} Theodos, Brett, Margaret Simms, Mark Treskon, Christina Stacy, Rachel Brash, Dina Emam, Rebecca Daniels, and Juan Collazos. 2015. "An Evaluation of The Impacts And Implementation Approaches of Financial Coaching Programs". Urban Institute. <https://www.fdic.gov/news/conferences/consumersymposium/2015/presentations/theodos.pdf>