HEAD INVESTMENT PARTNERS

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Cashing Out on Tomorrow: When Personal and Market Economies Diverge

You could say that the past year has been one for the record books. As of January 2024, total U.S. consumer debt reached a historic $17.33 trillion while credit card rates surged to unprecedented levels, topping more than 24%. An all-time-high number of American workers (3.6%) made hardship withdrawals from their 401(k)s in 2023, signaling escalating consumer distress within a persistent, near-record inflationary environment. Moreover, a 2023 study by Paycheck.org revealed that nearly eight in 10 Americans are living paycheck to paycheck. So as the Dow and S&P celebrated all-time highs, boosting participants' account balances, more Americans are — as The Wall Street Journal aptly put it — "treating their 401(k)s like cash machines." In doing so, they undermine the potential gains they could have realized and further imperil their financial future.

For plan sponsors, current market and economic conditions present a pressing imperative to educate participants on alternative strategies to help effectively manage debt and budgeting challenges — without jeopardizing retirement readiness.

Debt management workshops as part of a holistic financial wellness program, for example, can provide employees with practical strategies for managing debt. From prioritizing repayment of high-interest debt to understanding APRs and the impact of making minimum payments, structured learning experiences can offer actionable insights that workers can use to reduce debt faster. These initiatives can be supported by targeted content campaigns via emails, videos, webinars, social media content, and company intranets to provide ongoing assistance and reminders about staying on track with debt management goals.

For more granular information, employers can provide access to interactive debt-payoff calculators that enable employees to input their own specific financial details and receive personalized debt repayment information — or better understand the impact of various debt reduction strategies. Visualizing one's path to debt freedom in a concrete and individualized way can be an incredibly powerful motivator and help employees make more informed financial decisions.

Furthermore, some companies are beginning to offer employee-sponsored emergency savings accounts (ESAs) as an alternative method to pay for unanticipated expenses. This benefit can help employees avoid turning to high-interest credit cards during financial emergencies, while also potentially helping to sidestep retirement plan leakage.

Employers can provide invaluable assistance to those struggling to manage debt obligations, with an eye toward retaining — and building — their retirement nest egg. The unprecedented combination of economic pressures facing many employees today can easily lead to short-term thinking and reactive decision-making that can compromise long-term financial health. But by providing

targeted resources and assistance, plan sponsors can play a crucial role in improving their employees' financial resilience and retirement readiness — and help them live more happy and productive lives both within and outside of the workplace.

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Turning the Tide on Employee Engagement

A recent Gallup survey found that engagement at work has cratered among U.S. employees. According to the research, only 33% of workers were engaged in 2023, representing nearly $2 trillion in lost productivity. The findings show lack of engagement among nearly every group except Baby Boomers, with older millennials and Gen Zers described as being in "dramatic decline." Compared to four years ago, employees report feeling more disconnected from — and less satisfied with — their employers. They also express feeling less connected to the organization's mission and purpose.

With engagement on the decline, that can mean decreased productivity, higher turnover, lower profitability, and a host of other problems for the organization. With this in mind, the company's retirement plan can be leveraged as a powerful tool to help increase engagement and combat many of the negative sentiments among today's workers. A robust plan that incorporates some of the following elements can signify that the company values its employees beyond their immediate output.

- **Recognize individual needs.** Offer customizable plan options that cater to different life circumstances. For example, consider giving employees the ability to allocate matching dollars toward student loans, an emergency savings fund, or a college savings account, depending on their personal preference.
- **Build trust.** Plan sponsors may want to consider increasing their matching contributions or reducing a longer graded vesting schedule. In doing so, employees may perceive more immediate benefit recognition, which can cultivate a sense of being valued by their employer, boost morale, and increase loyalty to the organization.
- **Demonstrate long-term commitment.** Help employees prepare for retirement at all phases of their career progression, from onboarding and enrollment to retirement and beyond. Measures could include stepping up efforts to keep retirees in plan, when that makes sense for the organization, and offering life-stage planning tools.
- **Encourage dialogue.** Regular updates and education about the retirement plan can encourage ongoing communication between employees and management, making employees feel more heard, informed — and engaged.
- **Empower employees with more choice and clarity.** Offering HSA or Roth options can provide employees greater control over their retirement savings. At the same time, it's imperative not to give participants so many investment choices that selection becomes overwhelming for them. Include options that are tailored to participants' time horizons such as TDFs, and organize investment menus around clear, easy-to-understand categories that map to their stage of life and financial goals. Establish multiple channels for participants to access information that helps streamline enrollment and investment decision-making, including one-on-one advising, group sessions, written materials, and online education, as well as tools that cater to diverse learning styles.

Charting a New Course

With employee engagement on the decline, taking proactive steps to increase it can be important to maintaining productivity as well as recruiting and retaining talent. A good first step in determining which of these strategies may be most beneficial is soliciting feedback about the plan directly from employees — both formally and through informal conversation — to ascertain where there might be room for improvement.

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Millennials Redefining Retirement

According to a recent survey by retirement finance company IRALogix Inc., Millennials are changing the way people think about retirement. According to over 50% of Millennials surveyed, obtaining "financial independence" is a more significant indicator of retirement than simply turning 65.

While some Millennials hope to retire at age 65, many see retirement as a stage of greater freedom in their lives rather than a total absence from the workforce.

Based on a study conducted in February, targeting millennials of various household incomes between the ages of 28 and 43, when it comes to retirement plans, 22% of Millennials want to work longer because they "enjoy" their jobs or don't have enough money saved for retirement, while 47% want to retire as soon as they can afford it. The results show that Millennials have a moderate level of confidence, about 47%, in their ability to save enough money for retirement. However, 29% say they are not confident in their ability to save enough money. More than half of Millennials hold themselves accountable for making sure they have enough money saved for retirement; however, 25% place this on their employers, and 20% think the government should pay for their retirement.

Nearly a quarter of those who think their employers should be responsible for retirement savings want a standard defined benefit plan, in which the company assumes all financial risk and agrees to pay a specified monthly amount upon retirement, with investments handled by experts.

Another recent study done by personal finance company Credit Karma also addresses "money dysmorphia," a term describing what happens when people, regardless of the circumstances, feel insecure about their financial condition; it's been used to describe the distorted financial perception that is common among Gen Z and Millennials. Credit Karma reports that 43% of Millennials and Gen Z encounter this issue. It was found that 59% of respondents said they felt financially stable, despite the fact that many admitted to feeling behind. This shows how people's perceptions of their financial stability are often different from their actual circumstances.

Money dysmorphia has a detrimental effect on financial decisions; 40% of those who experience it have difficulties saving money or avoiding overspending and debt buildup.

In contrast to these financial challenges, Millennials manage their debt well. Most have reasonable debt levels; of those with debt, 55% have debts ranging from $0 to $20,000 (not including mortgages).

When it comes to financial priorities, 62% of Millennials try to strike a balance between long-term goals like retirement savings and short-term ones like buying a house. Additionally, 61% of workers consistently make contributions to employer-sponsored retirement plans, like SEP IRAs, SIMPLE IRAs, 403(b)s, and 401(k)s.

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