HEAD INVESTMENT PARTNERS

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Closing the Financial Wellness Engagement Gap

A recent survey from market intelligence firm Cerulli Associates highlights a striking disparity in the financial wellness space. According to the report, U.S. Retirement End-Investor 2024, more than 90% of defined contribution recordkeepers provide financial wellness services and 71% of plan sponsors have adopted such programs. Yet at the same time actual engagement remains low, with usage rates for most resources below 20%. And while 41% of participants find their financial wellness resources "very helpful," a majority (57%) express neutral sentiments.

The gap between availability and engagement suggests the need for a more targeted and tactical approach. To help increase utilization rates, plan sponsors could consider implementing several strategic steps.

Tailor your offering. Gather input from employees through surveys, focus groups and other modes of data collection to understand their specific financial wellness needs, preferences and challenges. This feedback will help tailor programs to align with the organization's culture and address the unique priorities of different employee segments.

Address immediate needs. According to Cerulli analyst Elizabeth Chiffer, around 40% of participants see contributing to their retirement savings as a "sacrifice." Before building for the future, many employees may need to address short-term financial challenges. Providing resources such as debt management assistance, short-term financial planning workshops, access to financial advisors and flexible compensation options can help workers achieve stability and peace of mind, enabling them to focus more effectively on saving for retirement and other long-term financial goals.

Offer life-stage-specific resources. Provide resources tailored to different life stages and events such as buying a home, starting a family or planning for retirement. Customize these resources with detailed guides, checklists and calculators that help employees navigate each stage, ensuring the information is practical and actionable for their specific circumstances.

Spread the word. Use multiple channels — emails, newsletters, webinars, videos — to inform participants about available financial wellness resources. Clearly communicate the benefits of the tools you provide, explaining how they help with budgeting, debt reduction, managing investments and retirement planning.

Mobile-ize access. Provide mobile applications that offer financial wellness tools and resources. This allows participants to more effectively manage their finances on the go.

Integrate with onboarding. Incorporate financial wellness discussion into the onboarding process for new hires, ensuring they're

aware of available resources. This could include introductory sessions on the value of the financial wellness tools provided by the company, setting the stage for long-term engagement.

Use visual aids. Use visual content to break down complex financial concepts and show the benefits in an easily digestible format. Infographics can illustrate statistics such as increased savings rates or reduced debt in a more accessible way, especially for participants with less developed financial literacy.

Incentivize participation. Use gamification and offer perks such as gift cards for completing financial wellness activities. Incorporate financial trivia or a companywide rewards system to encourage sustained involvement.

Closing the engagement gap requires meeting employees where they are on their personal finance journey, while delivering customized support that addresses their specific challenges and reflects their unique lived experiences. By doing so, plan sponsors can foster a more financially secure, satisfied and successful workforce.

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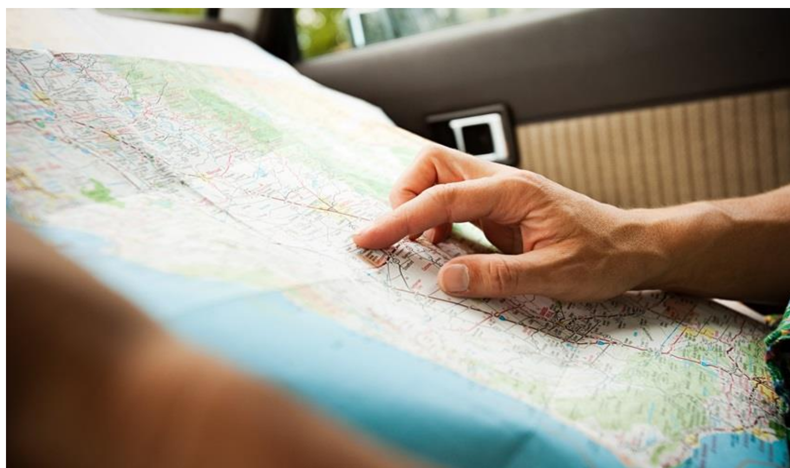
The Road to 15%: Helping Participants Navigate Toward Retirement Readiness



Many advisors recommend saving 15% of pre-tax earnings, including any employer match, to prepare for a secure retirement — but to accomplish this, timing is crucial. According to Forbes, savers need to begin by age 35 to retire comfortably by age 65; to retire by age 62, they'd need to get started by 25. Looking under the hood at participant data allows plan sponsors to better tailor strategies that help participants accelerate savings goals — and avoid financial speed bumps along the way.

Auto Enrollment: Taking the On-ramp

The first hurdle to reaching 15% is participation. Auto enrollment can help move the needle by countering inertia and offering a measure of social proof when employees realize many of their coworkers are participating in the company plan. According to a 2022 Human Interest study, more than 8 in 10 savers would enroll or increase their retirement plan contributions if they learned most of their colleagues were also enrolled.

Moreover, research from T. Rowe Price shows that plans with auto-enrollment boast an adoption rate of 86% versus just 44% for those without it. However, the study also notes that among participants, those not auto-enrolled "deferred almost 3% more of their salary on average (9.3%) compared with those who were auto-enrolled (6.5%)" The firm notes that this could result from an endorsement effect, where employees may conclude the rate set on their behalf is sufficient, causing them to stall in their journey toward retirement readiness. To keep them moving forward, employers can do more.

Auto Escalation: Hitting the Gas

The initial deferral rate set by a plan sponsor can have a significant impact on how long it takes employees to reach 15%. With an enrollment default rate of 2% and an annual 1% auto-escalation, a 25-year-old employee would be 38 years old by the time they ramped up to the 15% target. Increasing the initial deferral rate to 6% or more — a trend that has increased over the last decade, according to Vanguard — gets them there at least four years sooner. Vanguard also reports that 60% of plans with auto-enrollment are defaulting participants in at a rate of 4% or higher.

Prepare to Merge

The best chance for helping participants fast track their retirement savings is by leveraging a variety of tools and resources that touch on both plan design and financial wellness offerings. Adding gas to the tank in the form of a generous employer match can further boost savings efforts.

Key takeaways:

- Getting employees to start saving early is critical.
- Auto-enrollment and auto-escalation both can make a measurable difference — and work better when implemented in concert.
- Communicating the percentage of employees enrolled in the plan to your workforce may enhance both participation and deferral rates.
- Education around adequate savings levels to reach retirement goals may help mitigate any endorsement effects.
- Increasing automatic enrollment default rates can help participants reach optimal savings rates more quickly in plans with auto-escalation.

Helping employees stay on track with savings goals can ensure a smoother ride to retirement for workers — and help drive success for the organization.

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The Arrival of TDFs with Annuities

With participants thinking erroneously that there is a guaranteed paycheck built into their retirement plan, the production of an “Income Target Date Fund” has grown exponentially. Since 2020, some target-date series now include a form of guaranteed income, providing participants with a more predictable future.

What is a TDF with an Annuity?

TDFs with annuities were created to provide a balanced investment strategy with lessened equity exposure as it approaches retirement (like any other TDF) while guaranteeing income over a period of time. It fosters investment growth while maintaining the security of guaranteed payments through retirement. This new approach addresses participant concern regarding outliving their savings. Advantages and drawbacks are:

Benefits

- Security for Participants: Guaranteed income provides financial security without exposure to market volatility and the risk of longevity.
- Simplified Choices: TDFs are already popular in retirement due to their “set-and-forget-it” nature, and adding a guaranteed income component eliminates further income concerns.
- Institutional Pricing: Intended to operate under ERISA, they can be cost effective for participants since they are institutionally priced.

Challenges

- Portability: Lack of portability is a concern. If a participant changes jobs or recordkeepers, the new recordkeeper may not
- be able to offer the same annuity plan or an annuity at all.
- Perception: Annuities have been unattractive due to high fees. Participant education is vital.
- Regulations: Designed to operate within ERISA, they require proper planning and management.

Despite the potential drawbacks, both Fidelity Investments and Empower have announced offering annuities in their retirement plan programs. According to a study by Goldman Sachs Asset Management, 70% of 34 insurers now offer an annuity option. The growth potential of a traditional TDF combined with the stability of annuities, the popularity of TDFs with an annuity element could catapult to the top of the retirement industry providing investors with guaranteed income, helping Americans save for the future.

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