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Employees' Financial Wellness: New Strategies for State-Sponsored Retirement Plans

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In the pursuit of financial security, individuals make many financial decisions throughout their lives, including how much to save for different needs, such as retirement. This is why empowering people to make good decisions has become so important. While setting up a structure that makes it easy for employees to save is essential, so is providing them with the skills and tools needed to make the best decisions to achieve financial security.

Today, an increasingly large number of employees save for retirement using defined contribution (DC) retirement savings plans, and they have to make many more decisions and assume much more of the risk associated with those decisions than is the case for those with traditional defined benefit plans. For example, in a traditional DC plan, an employee needs to decide not only how much to contribute but also how to invest the money. At the time of retirement or separation from an employer, the employee will have to decide what to do with the money saved; whether to place it into an annuity, take a lump sum distribution, or roll it over into an IRA or other savings vehicle.

While state-sponsored retirement plans for private sector workers are designed to utilize tools such as auto-enrollment to make it easier for employees to save, more can and should be done toward the goal of retirement financial security. Employees also must be given the information and tools to help them make the long-term financial decisions that best fit their needs. States can play a game-changing role in making this happen. Research has given us some lessons and best practices states can consider as they design and implement their retirement savings programs.

The Benefits of Financial Education: A Little Help Can Make a Big Difference

Data from FINRA's National Financial Capability Study (NFCS) reveal that most people have very low levels of financial literacy as defined by how well people know the ABCs of finance. However, there is a bright note: the data also show that boosting a person's financial IQ has a multiplier effect. It not only improves retirement planning, but it also strengthens an individual's capacity to manage long-term savings, short-term rainy day savings, and debt.

Private sector employers are becoming aware of how financial distress erodes workplace productivity, contributing to increased absenteeism, turnover, and health problems. This is why more employers have started to offer or intensify financial wellness programs. States also have an opportunity through new retirement savings programs to encourage such efforts.

Studies of employer programs highlight the benefits of designing and using effective financial education programs. At one college, for example, management was concerned about the very low enrollment in Supplementary Retirement Accounts (SRA) among non-faculty employees. By designing a simple planning aid to be given to new hires during orientation, SRA enrollment more than doubled. Our findings about this project are presented in this report, but the main take-away is that when it comes to saving, employees are often at a loss for where and how to start. A little help can make a big difference.

The challenges are even greater for millennial workers. Not only do they have the lowest level of financial literacy, but they also face many more immediate financial challenges, including managing and paying down student loans and other debt. They also do not know about interest compounding or risk diversification, and they are not fully aware of the advantages of tax-favored assets and employers' matches. In other words, they do not fully grasp how time can work in their favor and how to benefit from retirement savings programs.

Another one of our research programs was designed to test ways to improve the financial knowledge of young workers. Our research found that key financial concepts, such as interest compounding, inflation, and employer matches can be taught in simple and inexpensive ways, including through short videos that embed information in stories about financial decision making. We found that such tools significantly improved financial knowledge.

Best Practices for State-Sponsored Retirement Programs

As states take steps to improve the financial security of private sector workers, they need to make sure that financial education and financial wellness are part of their programs. There are some important features to keep in mind in developing the information and tools to help workers better understand the value of saving for retirement:

- **Use Communication Free of Financial Jargon** – Financial literacy is low among the majority of the population and communication needs to be simple, straightforward, and comprehensible.

- **Address Larger Financial Strategies, Not Just Retirement Saving** – Individuals save for many reasons, for example, to buffer against emergencies or for their children's education. They may also carry debt. Balancing various saving needs and debt management strategies will help people better save for retirement.

- **Provide Information When Needed** – Providing information at "teachable" moments makes that information more effective. These moments include new employee orientation, annual open enrollment, and promotions.

- **Tailor for Diverse Populations** – One size does not fit all. Individuals have different needs and preferences, and economic circumstances vary a lot from individual to individual. Tailoring programs to fit different needs and circumstances will result in more effective programs.

- **Provide Programs Both for the Workplace and Schools** – It is important to prepare not only the current generation of employees but also future generations. Moreover, some of the basic personal finance concepts are best learned in school. This is why, when it comes to financial education, it is important to start early and provide it not only in the workplace but also in school.

States designing and implementing retirement savings programs can play a game-changing role to improve the financial security of workers. Research suggests that there are several simple, low-cost ways to provide employees with information and tools that can have a significant impact on retirement savings. Addressing information and educational barriers can contribute to improving financial security in retirement for all workers.

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