

Financially Preparing For Retirement

New studies continuously show that the American workforce is inadequately preparing for retirement. These go on to claim that poor retirement preparation adds to an employee’s financial stress. Further, the combination of these two factors is impacting employee work productivity, resulting in costs to employers. Are these studies accurate? If so, what can be done to improve the situation? This white paper explores what is driving retirement preparation in America and the reasons behind financial stress in the U.S. workplace.

Financial Stress

It is easy to make a broad statement that Americans do not begin saving early enough for retirement, or save enough once they begin. Although the statement may be true, it does not provide insight as to why that may be true or offer solutions to the problem. Our analysis of retirement preparation in the U.S. starts by exploring the effect financial stress has on the ability of employees to prepare for retirement. There is a direct relationship between financial stress and retirement preparation. Financial stress limits the ability of employees to adequately save for retirement, and inadequate retirement preparation adds to employee financial stress.

The American Psychological Association reported that 6 in 10 adults identify money as a significant source of stress¹. Personal financial stress is the largest source of stress for employees at work regardless of generation or gender (Exhibit 1), and it is taking its toll on employee mental and physical wellness as well as their work performance.

Exhibit 1: Workforce Financial Stress²

Population Segment (Birth Years)	Percent of Workforce	% Claiming Financial Stress
Millennials (1981-1996)	35	53
Generation X (1965-1980)	33	50
Baby Boomers (1946-1964)	25	35
Female	53	59
Male	41	41

Note: The total workforce by generation does not add to 100% because Post Millennials (born 1997-2012) and the Greatest Generation (born before 1946) who represent 5% and 2% of the workforce respectively, were not included in the study.

Each generation and gender faces its own unique set of financial stresses making it difficult to create a one-size fits all solution. For example, Millennials worry over student loan debt, Generation X is supporting their parents and children (the sandwich generation), and Baby Boomers are anxious about retirement readiness. All generations worry about having enough emergency savings for unexpected expenses.

Financial Wellness

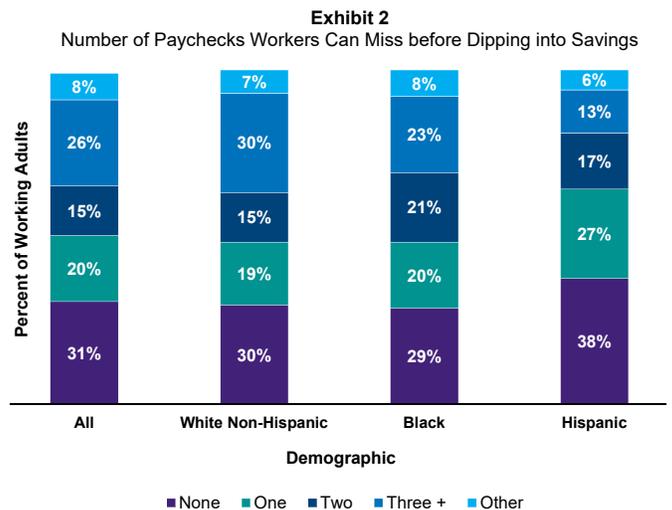
The number one issue in the U.S. that crosses all demographics is debt. About 60% of workers say their level of debt is a problem, and 70% say their non-mortgage debt is impacting their ability to save for retirement³. It is difficult to save for retirement when a large percentage of pay goes to servicing that debt. In addition to struggling to pay their monthly bills, employees are having difficulty paying relatively minor unexpected expenses.

Statistics released by the Federal Reserve in May 2019⁴ revealed the state of personal finances in the U.S.:

- Approximately 40% of adults, if faced with an unexpected expense of \$400, would either not be able to cover the expense or would cover it by selling something or borrowing money.

- 17% of adults are not able to pay all of their monthly bills in full, and another 12% would be unable to pay their current month's bills if they had an unexpected \$400 expense to pay.
- A quarter of adults skipped necessary medical care in 2018 because they could not afford the cost.

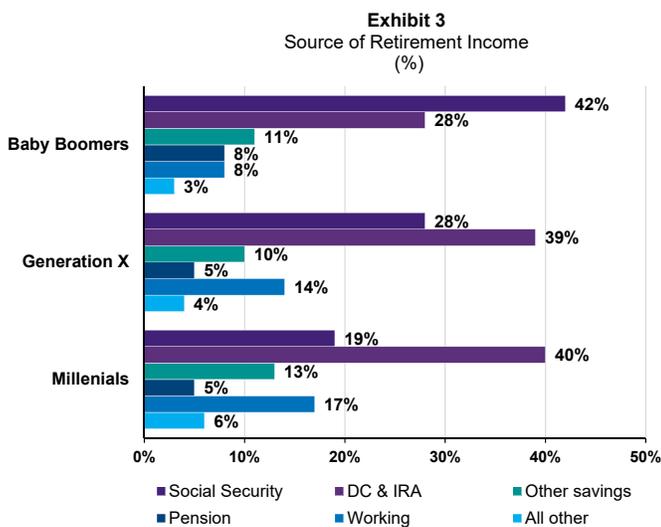
A University of Chicago study⁵ released in May 2019 reported similar results to those found in the Federal Reserve Report. The survey found that about a third of American adults (see Exhibit 2) could not cover necessities if they missed a single paycheck, and another 20% could only miss one paycheck before needing to find other sources for funds to pay bills. The Federal Reserve and University of Chicago studies provide valuable insight as to why preparing for retirement is such a struggle for many employees.



Source: University of Chicago, NORC. AmeriSpeak Spotlight on Personal Finance:

Retirement Savings

These issues have impacted the ability of the American workforce to save for retirement. No generation has set aside adequate retirement savings. It is interesting to see in Exhibit 3 what each generation believes will be their sources of income in retirement. Only Baby Boomers are counting on Social Security as a meaningful contribution to their retirement income. All three generations believe their participation in a 401(k) or similar plan will provide a significant portion of their retirement income, but as discussed in the next section, no generation is currently participating in their defined contribution plans at a level that supports the income expectations shown in Exhibit 3.

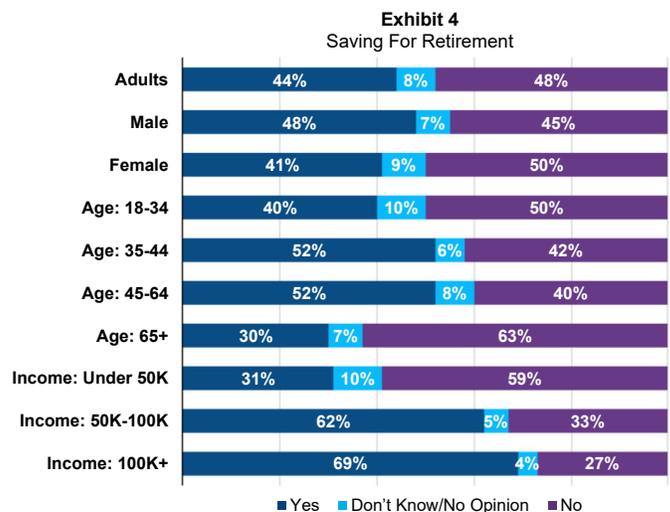


Source⁶: What is "Retirement"? Three generations Prepare for Older Age 19TH Annual Transamerica Retirement Survey of Workers - April 2019.

Financial Preparation for Retirement

The American workforce may be experiencing financial stress and struggling with their finances, but two-thirds of employees surveyed said they are confident in their ability to live comfortably in retirement⁷.

Less than half of adult employees are actually saving for retirement (Exhibit 4) or allocating part of their paycheck to a savings account. Half the workforce acknowledge they live pay check to pay check, and over half of the workforce (up from 37% in 2015) say they are anticipating delaying their retirement because of their financial situation⁹.



Source: CFP Board Retirement Presentation, Morning Consult, April 15, 2019.

Saving for retirement continues to be a challenge for many employees. These challenges have contributed to a lack of financial preparedness for retirement as

well as contributed to the already substantial financial stress reported by employees. In fact, three of the top five financial concerns employees mention, including those employees who state they are confident about their finances, relate to retirement (Exhibit 5).

Exhibit 4: Top 5 Sources of Employee Financial Stress⁷

Source of Financial Stress (Retirement Concerns are in Italics)	% of Employees Acknowledging
<i>Being able to afford healthcare in retirement</i>	72%
<i>Outliving retirement savings</i>	68%
Having enough money to pay bills if someone loses their job	67%
Having money to cover out-of-pocket medical costs	67%
<i>Ability to rely on Social Security/Medicare in retirement</i>	66%

Source: MetLife's 17th Annual U.S. Employee Benefit Trends Study 2019

Contributing to the poor level of retirement savings is the willingness of employees to take a loan or withdrawal from their 401(k). About a third of Millennials and Generation X and a fifth of Baby Boomers have taken a loan, early withdrawal, or hardship withdrawal from their 401(k) plan⁶. These distributions materially impact the ability of plan participants to accrue retirement savings.

About 7% of workers have taken a hardship withdrawal from their 401(k). The most common reason for taking the hardship withdrawal was to avoid eviction from their principal residence. The number one reason plan participants are taking loans from their 401(k) is to pay off debt, with a third of the loans taken for that reason. However, more troubling is that a meaningful percentage (17%) of plan participants are taking out loans to pay for everyday expenses⁶.

Financial Impact on Employers

The cost to employers from employees not adequately preparing for retirement and financial stress is staggering. Financial stress reduces employee productivity as employees worry about and deal with their personal finances while at work. About a third of workers are distracted at work by their personal finances, and about half of the distracted employees spend three or more hours per week on their personal finances¹⁰. The cost of financial stress in the workplace for the average employer is estimated to be 11%-14% of their total payroll expense¹¹ and the cost of financial stress for all U.S. employers is estimated to be about \$250 billion annually⁷.

Financially stressed employees are also more likely to have troubled relationships with colleagues and to be looking for a new job⁸. Employee turnover resulting from financial stress can be very expensive for employers. A Harvard Kennedy School Working Paper calculated the cost of losing an employee to be about 16% of annual salary for lower paying jobs and 20% of annual salary for midrange positions¹¹. Most of the cost components of turnover relate to the cost of recruiting and training new employees.

- The cost of hiring and onboarding a new employee
- Lost productivity—getting a new hire to the same level of the departed employee may take as much as one to two years
- Cultural impact and lost engagement—other employees seeing high turnover tend to disengage
- Reduced customer service levels and increased errors—new employees take longer and are often less adept at solving problems.
- Training cost— business can invest 10 to 20 percent of an employee’s salary in training

Conclusion

Employees continue to inadequately prepare for retirement, and they are financially stressed. Both of these problems reduce productivity, resulting in a substantial cost to employers. Finding solutions for poor retirement preparedness and employee financial stress are urgently needed.

The diverse U.S. workforce share similar goals for improving their retirement preparation and reducing financial stress, but they have dramatically different desires, expectations and approaches for how to achieve those goals. There is no “one-size fits all” solution to assisting employees improve their financial wellness. However, employees want guidance to help them prepare for retirement as evidenced by 80% of respondents in one survey⁷ saying they want access to financial advice.

References

¹American Psychological Association, *Stress In America*, November 2019.

²PWC, "Employee Financial Wellness Survey: 2018 Results," May 2018.

³EBRI & Greenwald & Associates, *2019 Retirement Confidence Survey, Summary Report*, April 23, 2019.

⁴Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2018*, May 2019.

⁵University of Chicago, NORC. *AmeriSpeak Spotlight on Personal Finance*.

⁶What is "Retirement"? *Three generations Prepare for Older Age 19TH Annual Transamerica Retirement Survey of Workers-April 2019*.

⁷MetLife's 17th Annual U.S. Employee Benefit Trends Study 2019.

⁸Salary Finance, *The Employer's Guide to Financial Wellness-2019*.

⁹CFP Board Retirement Presentation, April 15, 2019 (saving for retirement graphic).

¹⁰PWC, *Special Report: Financial Stress and the Bottom Line*, September-2017.

¹¹M-RCBG Associate Working Paper Series|No. 88, Harvard Kennedy School, MOSSAVAR-RAHANI CENTER for Business and Government, May 2018.

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