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SPOTLIGHT ON

Secure Futures: Rethinking Retirement Planning for Tomorrow's Workforce

It is imperative that policymakers focus on three critical aspects of retirement readiness – affordability, adoption, and accessibility. It is in these three areas that federal policy can help – or hinder – employers' ability to encourage retirement savings among their employees.

By Megan Wolf

About this Series

HR Policy Association (HRPA) represents nearly 400 of the largest companies worldwide. Members employ more than 10 million individuals in the U.S. This report articulates the perspectives of our members regarding the trajectory of work in the U.S. and the need for specific changes in both corporate and public policies to effectively advance the future of the American workforce.

HR Policy Association's "Advancing the American Workforce" series equips policymakers and business leaders with insights from Chief Human Resource Officers (CHROs) of major companies. The profound changes employers and society have experienced over the past five years have transformed the way large employers and their employees think about work, the workforce, and the workplace and how each needs to be structured for long-term success. HR Policy provides the perspective, not only from employers, but from CHROs who bridge the goals of their companies with the talents and needs of its greatest asset: employees.

New technologies, evolving demographics, and shifting political winds demand a strategic approach to HR. Chief Human Resource Officers are at the forefront of navigating these changes, and their perspective provides invaluable insights for policymakers. This multi-part series offers practical experiences and perspectives on the critical trends shaping the future of work, and suggests policy approaches to ensure the American workforce remains at the vanguard of global excellence in the years to come.

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EXECUTIVE SUMMARY

Secure Futures: Rethinking Retirement Planning for Tomorrow's Workforce

Financial concerns are pushing Americans to delay retirement, often working well beyond the age their parents or grandparents did. For many workers in the U.S., the means to save for retirement comes primarily from their employer.

Lifespans are trending upwards in the U.S. and around the world. As older adults experience improved health, they're equipped for extended careers, and many are choosing that path.

The health of the Social Security fund and the ability of Americans to rely on SSA payments in retirement has been a source of anxiety for years, leading to changes in the law to maintain solvency. As a result of changes enacted in 1983, benefits are now expected to be payable in full on a timely basis until 2035, when the trust fund reserves are projected to become exhausted which could result in reduced benefits beyond that point.

Large employers play a critical role in complementing Social Security to help individuals build reliable retirement savings, with 91% of employees working for large employers having access to retirement benefits compared to just 57% of employees in the smallest businesses.[1] As we look to 2030, HR Policy Association urges policymakers to focus on recommendations to increase the ability of employees to save, increase access to retirement savings, and increase financial education.

U.S. Worker Retirement Savings Fall Short

The emergence of defined contribution plans shifts the responsibility of managing retirement savings on the individual employee, many of whom are not saving enough to retire comfortably – or at all.

Over the past decades, employers have moved away from defined benefit plans toward defined contribution plans primarily due to the straightforward administration of defined contribution plans and the increase in employee mobility, allowing employees to take their retirement savings with them when they change jobs.

However, the emergence of the defined contribution plans (primarily 401(k) plans) put the responsibility on the individual employee to manage their retirement including contribution levels, investment returns and participant fees.

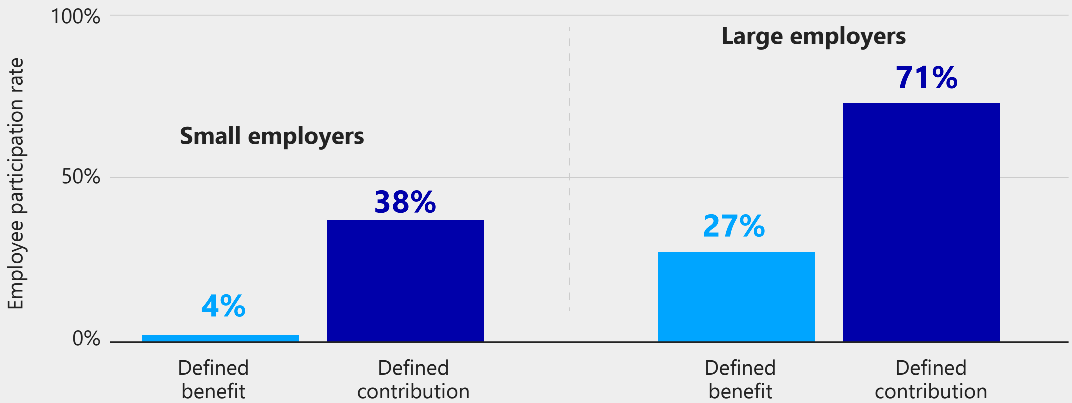
A key challenge of a 401(k) plan is that participants, on their own, do not always save enough money to meet their retirement needs. According to Fidelity, the median retirement savings account balance for U.S. workers in their 50s for the 4th quarter of 2023 is just $60,900, far short of what is required to live comfortably during the retirement years.[2] Indeed, AARP predicts Americans need 80% of pre-retirement income to live comfortably in retirement, and the average couple will need $315,000 to cover medical expenses over the course of their retirement.

CHROs and Total Rewards leaders have a unique perspective on the arduous task of providing a holistic employee benefits package that helps people wherever they are in their life's journey and career milestones. For long-term goals like building a secure future for retirement, a holistic approach means providing employees with the tools, education and resources needed to accumulate meaningful savings.

To this end, employers focus on three critical aspects of retirement readiness – affordability, adoption, and accessibility. It is in these three areas that federal policy can help – or hinder – employers' ability to encourage retirement savings among their employees.

FIGURE 1

Percentage of U.S. employees participating in employer-sponsored retirement plans



SOURCE: BUREAU OF LABOR STATISTICS

Employers focus on three critical aspects of retirement readiness:

AFFORDABILITY

ADOPTION

ACCESSIBILITY

Affordability: Lack of Savings for Immediate Financial Hardships

For decades, employers have examined the primary barriers to retirement savings which often include competing needs, such as emergency expenditures, high debt levels, and student loans.

Many defined contribution plan participants are not saving at adequate levels to enable a path toward retirement. For example, the need to cover financial emergencies often takes priority over retirement savings. Many individuals lack emergency savings resulting in the need to take on additional credit card debt or rely on a 401(k) loan to cover their emergency need creating a vicious cycle.

The Employee Benefit Research Institute (EBRI) conducted a study in partnership with JP Morgan Chase and found that more than 1 in 3 households could not cover "spending spikes" (which nearly every household incurs at least once annually) with current income and cash reserves, resulting in higher credit card utilization.[4]

EBRI's 2023 Retirement Confidence survey also found that nearly two-thirds of workers said their debt was a problem and half indicated their debt is negatively impacting their ability to save for retirement. This lack of emergency savings resulted in lower 401(k) contributions and increased reliance on 401(k) loans.

These loans are often modest relative to account balances, indicating that many participants use plan loans to meet short-term financing needs. However, the downstream impact of leakage from the plan has a profound impact on a participant's overall account balance in both the short and long-term.

Similar to emergencies, student loan repayment can take priority over retirement savings for many employees. Another EBRI study showed that employees with student loans contributed less to the 401(k) each year, which over time would result in $175,000 less in their account balance.[5]

Americans at risk

A 2024 Bankrate survey found that 56% could not cover an emergency expense of $1,000 from their savings.[3]

Employers have taken a paternalistic approach to helping employees avoid using their 401(k) in emergencies by:

- Establishing loan waiting periods;
- Education on the pitfalls of borrowing against a 401(k) through loans and in-service withdrawals;
- Incentivizing employees by adding an employer match/incentive for keeping a minimum balance geared towards an external cushion account;
- Providing education on investing; and
- Partnering with socially responsible fair credit companies for better loan options to help employees avoid both 401(k) loans and the more dangerous "pay day loans" that can propel them into years of financial struggle.

Adoption: Barriers to Participation Prevent Retirement Readiness

Poor financial literacy among U.S. adults is a substantial barrier to retirement readiness and a major contributor to wealth inequality.

While participation rates vary based on generation, gender, education, cultural differences, and personal influences that shape an individual's attitudes about money, there are two major barriers to participation in retirement savings plans: a nationwide lack of financial literacy; and cultural influences and attitudes on spending and saving habits.

The lack of knowledge to make informed decisions around saving and investing among U.S. adults is not only a substantial barrier to retirement readiness but a major contributor to the wealth inequality gap.

According to the National Financial Educators Council, Americans estimate they lost an average $1,818 per person in 2022 due to lack of financial education. Financial stress is linked to health concerns such as heart disease, diabetes, sleep issues, and depression and is a leading cause of divorce.[6]

Many employers provide third-party education sessions, tools, and resources to build financial knowledge, but large-scale progress on this problem cannot be accomplished without help from policymakers.

In addition, targeted approaches are needed to improve retirement outcomes for segments of the workforce. For example, Latinos represent the largest and fastest growing ethnic population and will fill 78% of net new worker positions between 2020 and 2030. Asians and Latinos in the U.S. live longer than other ethnicities, which means more healthcare costs in old age.[7]

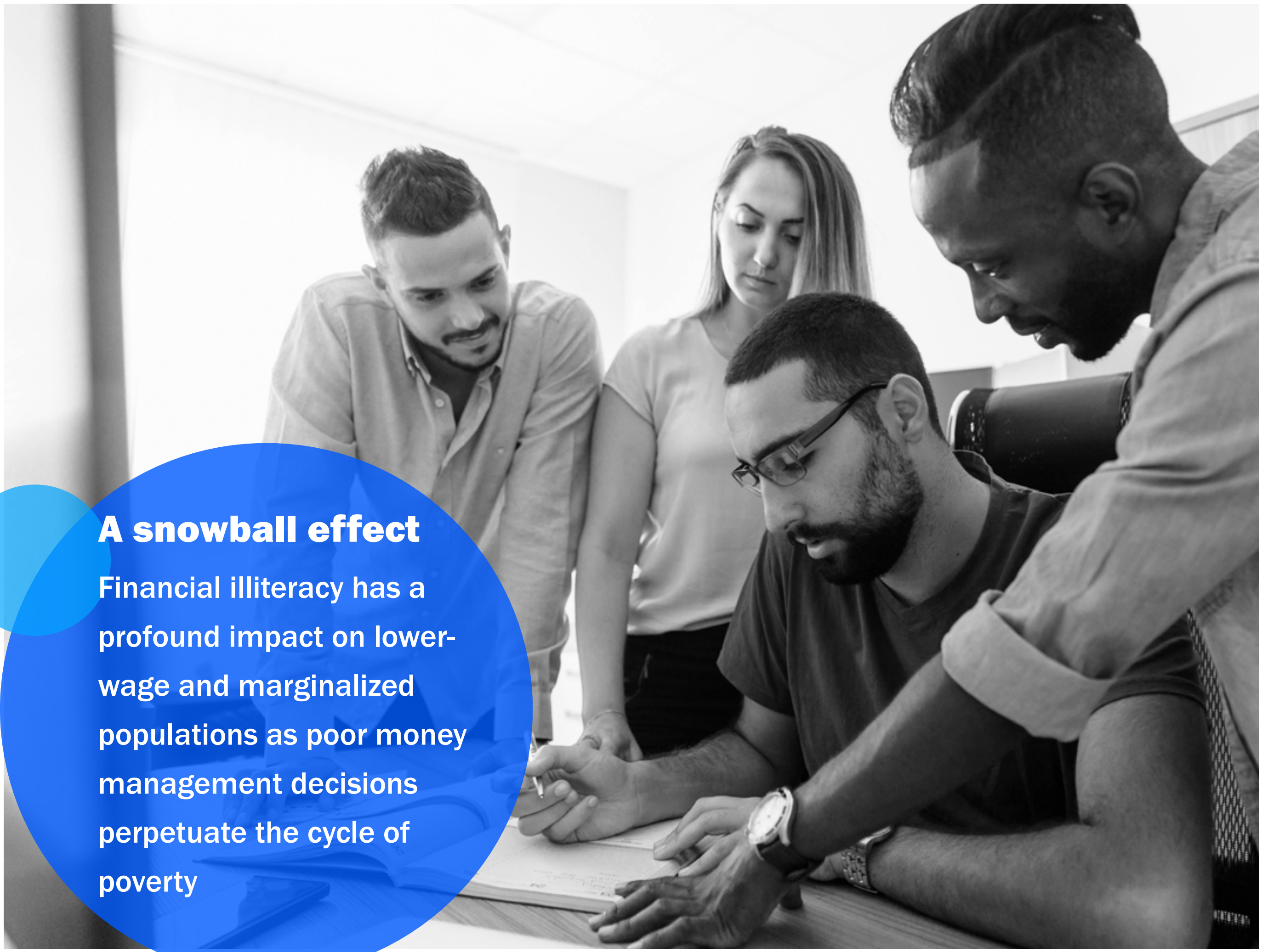
Access to retirement plans is a concern, as only three of every 10 Latino workers participate in an employer-sponsored plan. Latinos often hold jobs in the service industry where traditional defined contribution plans are not available.

Retirement outcomes are improved when employers take cultural influences into consideration. For example, our Latino Workers Project study found that in the Latino culture, money decisions are often made as a family and culturally there is an expectation that the younger working generations will financially support their parents in retirement.

Generational differences also affect retirement outcomes in the workplace. As older generations approach retirement age, companies need to be able to offer flexible options like part-time work or employment even when receiving pension benefits (currently not possible without a break in service for many pension plans). On the other end of the spectrum, Generation Z employees are often burdened with student loan debt (which makes it difficult to save) yet concerned about the level of benefits from Social Security in their old age (which makes saving critical).

One in four Black Americans, Hispanic Americans and Native Americans have no household liquid investable assets as compared to 11% of white Americans that have no investible assets.[8] These statistics highlight the importance of utilizing automatic features, like auto enrollment, auto-sweep and auto-escalate, in their 401(k) plan designs to drive participation for all employees.

Additionally, many recordkeepers and plan sponsors consider how they deliver financial education and resources in a bicultural way that will resonate with all employees and build knowledge and trust.



A snowball effect

Financial illiteracy has a profound impact on lower-wage and marginalized populations as poor money management decisions perpetuate the cycle of poverty

> AS ONE TOTAL REWARDS LEADER EXPLAINED:
>
> **More education is needed nationwide for personal finance to level the playing field for all.**
>
> These concepts should mirror the financial decisions that anyone must make during life's milestones as actions taken outside the retirement plan have a direct impact on retirement."

Accessibility: A Growing Gig Economy Requires Creative Solutions

The rapidly changing workplace and the large-scale transformation of how work is performed present additional barriers.

While most large employers offer 401(k) plans to eligible employees, it is critical to understand the rapidly changing nature of the workplace and the large-scale transformation of how work is performed including:

- Recent workforce transformation to the gig economy and non-traditional roles; and
- Lack of plan access for small businesses, part-time employees, and the service industry.

While recent legislation has made it easier for small business employers to establish retirement plans and eligibility for long-term, part time employees to participate, there remains a significant population where access needs to be enhanced.

According to McKinsey's 2022 American Opportunity Survey, 36% of Americans identify as independent workers.[9] The gig economy is growing three times faster than the U.S. workforce as a whole and is an attractive employment path for a diverse candidate pool because of its work-life flexibility, increased mobility opportunities and ability to supplement income.

The rise of the gig economy and non-traditional workforce have transformed the role of a CHRO and sparked a paradigm shift in how leaders think about talent – how to attract, motivate, reward and retain the workforce in different ways. These leaders understand that creative solutions and new vehicles for retirement savings plans will be required to meet the needs of this group.

A shifting workforce

The gig economy is growing 3 times faster than the U.S. workforce, with 36% of Americans identifying as independent workers[6]

HR Policy Association Supports the Following Reforms:

1. **Enhance key components of SECURE 2.0**
Government incentives for employers to offer affordable and effective retirement options are critical. Continue to develop tax policies that support employer contributions as well as policies that further encourage today's workforce to save long-term.

2. **Increase limits for retirement-linked emergency savings**
Increase the $2,500 contribution limit for the SECURE 2.0's Pension-Linked Emergency Savings ("PLESA") provision and carve out these contributions from the annual employee salary deferral limit. Additionally, automatically transfer an individual's income tax refund to the PLESA in full or partial amount as designated by the employee.

3. **Normalize company matching for student loans**
Policies that help employees pay off student loans while simultaneously contributing to their 401(k) will significantly boost Americans' financial futures. 42% of workers not currently contributing to a 401(k) say they will participate when student loan matching benefits are available.[10] Delaying retirement contributions until student repayment is met has detrimental effects on retirement readiness.

4. **Continued increases to catch-up contribution limits**
Older workers may have greater urgency and ability to save for retirement once milestones such as children's tuition and home expenses are met. Thus, increasing catch-up limits will have a lasting impact on their non-working years. Additionally, lowering the age threshold for catch-up contributions to better align with the AEDA's older worker definition could significantly help workers over 40 save for retirement.

5. **A mandated national financial literacy curriculum**
A financial literacy curriculum for all middle and high school students is imperative to help individuals make better financial decisions. This early step will empower Americans from all backgrounds to make sound financial decisions and enable them to achieve their short- and long-term financial goals. Students will enter the workforce with the foundation needed to make sound financial decisions earlier in their careers.

6. **Customize savings vehicles to accommodate the non-traditional worker**
Savings vehicles focused on portability, simplicity, and automation will ensure gig and other non-traditional workers are better prepared for retirement. This may include approaching IRA tax policies differently and increasing contribution limits to match those of 401(k)s. Look to the healthcare exchanges model under the Affordable Care Act for an example of how new architecture can be designed to enable accessibility and portability for the future.

Endnotes

[1] U.S. Bureau of Labor Statistics, Retirement benefits: Access, participation, and take-up rates, September 21, 2023.

[2] https://www.cnbc.com/2024/03/28/median-401k-balances-for-americans-in-their-50s.html

[3] 2024 Bankrate survey, https://www.bankrate.com/banking/savings/emergency-savings-report/

[4] https://www.ebri.org/docs/default-source/ebri-press-release/pr-1336-spendingshocks-14sept23.pdf?sfvrsn=296e062f_4

[5] https://www.ebri.org/retirement/publications/issue-briefs/content/student-loans-and-retirement-preparedness

[6] https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/cost-financial-illiteracy

[7] https://www.hrpolicy.org/initiatives/council-on-inclusion-and-diversity/the-latino-worker-project/

[8] https://www.tiaa.org/content/dam/tiaa/institute/pdf/insights-report/2024-01/state-of-financial-preparedness-in-a-diverse-america_ti_iposos-kolluri_january-2024.pdf

[9] McKinsey's 2022 American Opportunity Survey https://www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-the-gig-economy

[10] https://www.plansponsor.com/employees-favor-secure-2-0-mandates-larger-matches/

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HR Policy Association

For more than 50 years, HR Policy Association has been the lead organization representing Chief Human Resource Officers of major employers. HRPA consists of nearly 400 of the largest corporations doing business in the United States and globally. These companies are represented in the organization by their most senior human resource executives. Collectively, HRPA member companies employ more than 10 million employees in the United States, over nine percent of the private sector workforce, and 20 million employees worldwide. These senior corporate officers participate in the Association because of their unwavering commitment to improving the direction of human resources policy. To learn more, visit hrpolicy.org.