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Retirement Plans: The Cobbler's Children Have No Shoes

Don't neglect helping your own employees to a financially secure retirement.

By Tom Eckert

Is your credit union so busy helping members improve their financial futures that you're missing opportunities to help your employees do the same? It's all too easy for that to happen, as with the proverbial cobbler whose children have no shoes.

This year, take some simple steps to help your employees use their retirement plans more effectively. This is especially important for employees with gender and generational demographics that are at high risk for retirement income shortfalls.

Women: Falling Short

Sixty percent of women surveyed for a 2015 Filene Research Institute report (*http://tinyurl.com/filenegap*) said they had never taken steps to determine what they need to put away for retirement. This should be of special concern to the CU industry. CUNA Mutual Group estimates about three quarters of CU employees are women.

Failing to calculate adequate retirement savings is just one example of how women struggle to build an adequate nest egg (see box, p. 33). As a result, women have larger projected retirement savings shortfalls than men—as research from the Employee Benefits Research Institute (*www.ebri.org*) shows. EBRI's Retirement Savings Shortfall (*http://tinyurl.com/ebriresearch*) predicts how much more individuals and households still need to save by age 65 to avoid projected income deficits in retirement. EBRI estimated that the RSS for early baby boomers on the verge of retirement is an average of $33,778 for single men and $62,734 for single women. For married couples, the RSS is just under $40,000.

Maybe that doesn't seem like a lot of catching up to do. But those averages include early boomers projected to have enough money for retirement along with those projected to run out. If we just look at the 42 percent of early boomers who are projected to run out of money after they retire, the RSS jumps to $93,576 for single males and $104,821 for single females, with married households averaging about $142,000.

Gen X: Retirement Plans on Hold

The RSS for Gen X, people born from the early '60s to the early '80s, is even higher than for baby boomers. For those projected to have an income deficit in retirement, the RSS is $129,861 for single men, $133,790 for single women, and more than $164,000 for married households.

The EBRI report indicates the reason Gen X RSS values are so much higher than those of baby boomers is the assumption that health care-related costs will increase faster than the general inflation rate.

Gen Xers seem well aware of their poor outlook for retirement, according to Northwestern Mutual's "Planning and Progress 2015" report (*http://tinyurl.com/planningandprogress*)— which surveyed 5,000 U.S. adults spanning four generations.

Some of the troubling statistics include:

- 37 percent of Gen Xers said they don't "at all feel financially secure." This was the highest percentage of any of the generations to feel this financially insecure.
- 66 percent of Gen X respondents expect to work past traditional retirement age out of necessity. Almost two in 10 believe they'll *never retire*.

The Difference a Defined Contribution Benefit Makes

The EBRI report uses Gen X as an example of how important a defined contribution benefit plan, such as a 401(k), is to the retirement income outlook.

The RSS for Gen Xers without access to a defined contribution plan is $78,297. Again, this means these Gen Xers will be nearly $80,000 short of the retirement savings they'd need at age 65 to retire without running out of money before they die.

But that shortfall drops substantially to $52,113 for Gen Xers who have one to nine years of eligibility for a defined contribution retirement plan. Those who have 10 to 19 years of eligibility remaining have a projected shortfall of $32,937, and those who have 20 or more years of eligibility would have a shortfall of only $16,782.

Get the Most Out of Your Employee Retirement Plan

You can dismiss all these statistics and tell yourself that your credit union's employees are in much better shape than the national averages reflected in this broad survey data.

It would be easy, for example, to single out the EBRI data showing the advantages of having access to a defined contribution plan, and reason that if your credit union offers a 401(k), you've given your employees what they need to save enough for retirement.

But as an institution dedicated to financial security, shouldn't you go beyond that basic measure?

Here are some key steps you can take to make your defined contribution plan more likely to provide your employees with the savings they need for a financially sound retirement:

1. Set up defaults to facilitate adequate retirement savings. Make sure employees who take a hands-off approach to retirement savings—and you may be shocked to learn how many of your employees fall into this category—are still contributing enough to their plan. Consider these defaults:

- **Automatic enrollment:** According to the Aon Hewitt 2015 Universe Benchmarks report (*http://tinyurl.com/aonreport1)*, which analyzes the retirement savings behavior for 3.5 million employees, participation in defined contribution plans with automatic enrollment was 86 percent. In contrast, participation in plans without automatic enrollment was 61 percent.
- **Automatic deferral escalation with a stretched matching contribution:** Employees tend to contribute the percentage employers will match. So stretch your match. For example, rather than matching dollar for dollar up to 3 percent, match 50 cents on the dollar up to 6 percent. Then automatically increase the deferral by 1 percent per year up to 10 percent or higher. Through a combination of default deferral, automatic increases and employer match, your goal for employees is to target an 80 percent income replacement ratio.
- **Use target date funds as your plan's Qualified Default Investment Alternative.** TDFs give your employees automatic access to long-term professional management of their investment.

2. Provide personalized guidance. Your typical employees may check the online account summary page of their 401(k) account once per quarter, if that. So when they do, they need to see certain key information at a glance, such as:

- **On track or not on track to generate enough retirement income:** Do this with a simple, prominent yes or no on track, combined with a graphic illustration of the savings arc participants are on—and the arc they need to be on to meet their goal. Express the goal as a percentage of the employee's current income they should be replacing in retirement.
- **The target retirement age:** Set the default so the employee qualifies for full Social Security retirement benefits.
- **Projected account balance:** The *projected* amount should be more prominent than the *current* amount.
- **Monthly income at retirement:** The balance should be expressed as a monthly income based on a reasonable assumption of the annuitized value, as opposed to a lump sum of total savings.
- **Current employee and employer contribution percentages.**
- **Current account balance:** Make this less prominent than projected account balance.

3. Measure results. Measuring participation rates in employee retirement plans isn't enough to be sure you're getting the most from your investment in the plan. You should also be tracking:

- **Average deferral rate:** If deferral rates are clustered around your default rate—and on average employees still aren't on track to meet adequate retirement income targets—your default deferral may be too low. Consider implementing an automatic escalation if you don't have one.
- **Forecasted income replacement ratio:** How many of your participants are on track to replace 80 percent of their projected peak income in retirement? Knowing who and how many aren't on target for a financially secure retirement can be used to create targeted education to help at-risk individuals.
- **Optimal allocation among major asset classes:** Look for participants who appear to have all their eggs in one (overly risky) basket.

Don't Make This Assumption

It isn't fair to assume your employees have a better handle on retirement planning because they work for a CU. It's more important to adopt a culture of taking good care of the folks who take care of your members.

Employees who are on track for a comfortable retirement have one less source of stress, which is certainly positive for their sense of job satisfaction and ability to serve members.

Tom Eckert *is vice president of CUNA Mutual Retirement Solutions, a subsidiary of CUNA Mutual Group (*www.cunamutualgroup.com*), Madison, Wis., a CUES Supplier member and strategic partner. For more information, contact him at 800.356.2644, ext. 665.7032.*

The Retirement Income Gender Gap

The Filene Research Institute's 2015 report, "The Gender Gap: Troubling Financial Capability Findings Among Women" (*http://tinyurl.com/filenegap*), highlights the factors that can create significant retirement savings shortfalls for women. Among the report's key findings:

- **Retirement gap.** Even among women aged 51-61, only two-thirds report that they (or their spouse) have a retirement account.
- **Costly college.** More women than men are earning bachelor's degrees, but that advance also means women are more likely than men to carry education debt.
- **The card trap.** Women are more likely than men to make only the minimum payment on their credit cards and to be charged late fees.
- **No umbrellas.** Only 31 percent of women say they have sufficient funds to cover expenses for three months in the event of sickness, job loss or another emergency.

Resources

Is your retirement plan in compliance? Read more at *cues.org/1215retirement*. Read more articles about retirement benefits at *cues.org/0615execbenefits*, *cues.org/0815benefits* and *cues.org/0315ontrack*.

Check out Executive Benefits Program and CUNA Mutual Retirement Solutions, in partnership with CUES at *cues.org/cunamutualgroup*.