Rebuild and enhance:

How employers can help get Americans' retirement savings plans back on track

We've closed the book on 2020, but the disruptive impacts of the COVID-19 pandemic continue. Americans' finances are still threatened by unpredictable markets, rising unemployment and economic uncertainty. Employees' retirement savings plans have taken a hit, and the magnitude of the impact differs based on each individual's retirement goals and proximity to entering retirement.

Last year, many retirement plan participants reduced—or even completely stopped—saving for retirement in an attempt to solve short-term cash-flow needs. Others, uneasy after witnessing the sharp economic downturn, reconsidered their retirement savings investment strategy. Employers can take a number of actions to help employees refocus on retirement saving this year.

The financial consequences associated with COVID-19 have contributed to a shift in savings goals. Many employees are now in a position where current financial needs and saving for emergencies must be prioritized above saving for retirement.

Although tapping into retirement savings in an emergency is typically a last resort due to potential tax penalties and restrictions around loans, the CARES Act provided temporary relief from these restrictions in 2020. As a result, employers were allowed to both expand the permitted dollar amount for 401(k) loans and offer qualified individuals the ability to take a tax-penalty free Coronavirus Related Distribution (CRD). To be eligible for an expanded loan or CRD, employees were only required to self-certify that they experienced negative consequences related to COVID-19, whether health- or finance-related. Check out our recent Insights piece for more detail on the CARES Act.

Though the CARES Act provisions were not mandatory, many employers welcomed the opportunity to provide relief to employees. Among Ayco's corporate clients, about 45% of companies allowed employees to take a CRD of up to $100,000 and just under 25% allowed for greater loan amounts of up to $100,000. Almost instantly, participating employers started raising resulting concerns.

Some employers witnessed immediate and full draining of retirement savings plan accounts, while others worried about educating employees on CRDs and loan repayment requirements. Employers also faced challenges creating the appropriate infrastructure to help employees fulfill these requirements. It is clear that employees took advantage of these provisions, but not at the rate originally expected. A study by the International Foundation of Employee Benefit Plans showed that 25% of employers have seen an increase in loans and withdrawals due to the pandemic. However, the majority of those saw only 1%-5% of employees using these features. [1]

At a time when employees were increasingly withdrawing money from their retirement accounts, the economic hardship of the pandemic was also hindering regular methods of employee retirement savings. Close to 20% of Ayco's corporate clients temporarily suspended their 401(k) and/or Deferred Compensation Plan employer matching contributions for a period of time in 2020. Not receiving a match deterred some employees from contributing as much, or in some cases at all, over the course of the past several months. The same survey found that 15% of employers reported an increase in employees decreasing or stopping contributions in 2020. [1]

1 International Foundation of Employee Benefits – Employee Benefits in a COVID-19 World, Six-Month Update, January 2021

Setting Every Community Up for Retirement Enhancement (SECURE) Act

Passed into law at the end of 2019, the SECURE Act was designed to provide greater access to retirements savings for those currently without a qualified retirement plan and to improve plan provisions for existing plans. Heading into 2020, the SECURE Act was shaping up to be a major focus for employers. Many planned to review the provisions and adopt those that made the most sense for their company. The COVID-19 pandemic changed that, shifting both employers' and employees' attention to the support offered in the CARES Act.

The SECURE Act included a variety of provisions ranging from the repeal of the Cadillac Tax, to restrictions on plan loans via credit cards. However, the majority of provisions applied to qualified retirement plans. Some of the major changes will affect most (if not all) plan participants.

- Annual disclosure of the Monthly Lifetime Income Value of retirement accounts
- Increased age to start RMDs from 70½ to age 72
- Greater access to employer-sponsored 401(k) plans for part-time workers
- Penalty-free withdrawal of up to $5,000 for birth or adoption of a child
- Increased auto-enrollment safe harbor cap to 15%
- Greater availability and portability of Lifetime Annuity Options within qualified plans

For many of these provisions to go into effect, employers must actively amend their plans to allow for the change. Some of the provisions were required changes, while others were optional. While many employers may have had the intention of including at least some of the provisions from the SECURE Act in their plan offerings, many were unable to make any updates before the COVID-19 pandemic began and the CARES Act was passed. As we move into 2021, we expect to see employers considering implementation of SECURE Act provisions.

Many employees ended 2020 with a worse retirement outlook than they started. There appears to be bipartisan consensus in Congress that more must be done to aid recovery. A new bill, dubbed SECURE Act 2.0, was introduced in the House of Representatives late last year and included several provisions which look to build on the flexibility provided under the SECURE Act.

Although the bill must now be re-introduced in the new Congress and may go through changes before it is put to a final vote, there may be more help on the horizon for employees concerned about their retirement. Employers may have the opportunity to leverage these bills to make substantive changes and provide employees with greater security when it comes to retirement.

For additional information on potential changes in 2021 under the Biden administration, check out our recent webinar, The Path Forward.

Retirement outlook and COVID-19's impact by generation

Commonly, an individual's financial needs and savings goals are driven by their life and career stage. Those nearing retirement tend to be more conservative with their savings, while those in early career stages have room to act more liberally. The pandemic has added another layer to the various complex factors that impact financial plans. Recent research on the American workforce's outlook on retirement savings and preparedness supports the idea that attitudes and perspectives vary by generation.

Baby boomers

As a result of the pandemic, many of those closest to retirement have decided to delay or abandon plans to retire. On the other hand, various companies are providing voluntary (or involuntary) early retirement programs, where the baby boomer generation typically makes up a majority of the eligible population.

Know the Facts

- Acvcording to the Transamerica Center for Retirement Studies, 32% of baby boomers have lost some confidence in their retirement savings since the beginning of the pandemic[2]
- In 2020, Boomer retirements increased by 3.2 million, compared to the average annual rate of 2 million[3]

Born 1946 | Born 1965 | Born 1981 | Born 1997

Generation X

Many Gen X employees are balancing competing priorities, like raising children and taking care of aging parents. As a result, this generation is generally less focused on retirement savings.

Know the Facts

- According to the Transamerica Center for Retirement Studies, 25% of Gen Xers have lost some confidence in their retirement savings since the beginning of the pandemic.[2]
- The Transamerica Center for Retirement Studies found that 15% of Gen Xers have or plan to dip into their retirement savings for assistance.[2]

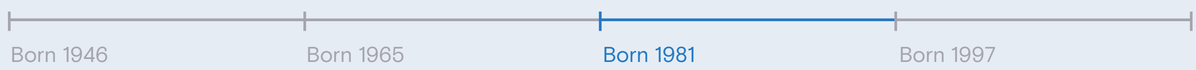
Born 1946 | Born 1965 | Born 1981 | Born 1997

Millennials

For many millennials, this is the second set back that they have faced in their relatively short careers. Many entered the workforce in the midst of the 2008 recession with high levels of student debt and are still getting back on their feet.

Know the Facts

- According to the Transamerica Center for Retirement Studies, 20% of millennials have lost some confidence in their retirement savings since the beginning of the pandemic[2]
- 72% of millennials plan to prioritize retirement savings once the COVID-19 pandemic is over, according to a COVID-19 Retirement Survey conducted by the Harris Poll[4]



Generation Z

Members of Gen Z are generally known to be responsible savers. After witnessing the effects of recent crises, Gen Z employees are more likely to prioritize emergency and retirement savings. Although this generation feels the same uncertainty about retirement as the other cohorts, they are creating a plan to ensure retirement readiness down the line.

- According to the Center for Generational Kinetics, 35% of Gen Zers plan to begin saving for retirement in their 20s—and 88% are already proactively saving for retirement[5]
- 80% of Gen Z respondents are concerned about their financial stability[6]

2 https://transamericacenter.org/docs/default-source/retirement-survey-of-workers/tcrs2020_sr_retirement_security_amid_covid-19.pdf
3 Pew Research Center, November 2020
4 The Harris Poll on behalf of TD Ameritrade June 2020
5 https://genhq.com/gen-z-driven-to-save/
6 Society for Human Resource Management Survey, April 2020

Potential Solutions

Despite an uncertain outlook for many approaching retirement, there are potential solutions employers can look to. COVID-19 led many employers to make cuts to retirement benefits out of necessity in 2020. As we move forward in 2021, there are several steps employers can take to help their employees financially recover and take steps toward a successful retirement.

Auto-enrollment and auto-escalation features in 401(k) plans

- 80% of our corporate= partners offer an auto-enrollment feature
  - Contributions at 3–6% of salary are the most common auto-enrollment rates
- Almost half of those companies also offer an automatic increase feature
- These features can increase employee participation in 401(k) plans
- They also help ensure that employees are taking advantage of employers' matching contributions as well as saving their own dollars for retirement

Creative 401(k) match and employer contributions

- Companies that are still struggling financially have started to match employee 401(k) contributions in company stock rather than cash
- Proposed Congressional bills would allow employers to provide 401(k) matching contributions based on an employee's student loan payments, thereby enabling the employee to keep up with loan payments and capture the full company match

Greater availability and portability of Lifetime Annuity Options

- Among Ayco's corporate partners:[7]
  - Only 13% offer a form of lifetime income option
  - 22% partner with an external platform that allows employees to roll all—or a portion—of their balance into a variety of annuities.
  - 7% offer an asset allocation option with a guaranteed income feature, which are either a proprietary model or a retail option. These are typically structured as:
    - A target date fund that provides employees the benefit of investment growth and a lifetime income stream in retirement
    - The plan gradually becomes more conservative over time
    - At retirement, it provides a steady lifetime income stream—typically offers single life and joint life payment options
  - 59% allow participants to purchase a commercial annuity

    - Employers must perform due diligence to select insurance company alternatives
  - 30% provide an option to roll 401(k) balances into pensions to access annuity options

Offer a comprehensive financial wellness program that includes retirement planning to help employees gain clarity and confidence over their decisions:

- Make educational resources available to employees that help identify steps to better prepare for retirement, like this article produced for Ayco's corporate clients: Retirement planning for all ages
- Provide employees with access to financial planning professionals for one-on-one conversations about their retirement needs and how to prepare
- Provide tools to help employees gain a better understanding of their finances and take action to improve their financial position
- Educate employees on how to leverage other benefit offerings for retirement, including Health Savings Accounts, Employee Stock Purchase Plans and non-qualified deferral plans

7 Based on data from 225 companies as of January 2021

Conclusion

For employees already nervous about the prospect of retirement, COVID-19 exacerbated those concerns. Many employees who previously thought they were on track for retirement faced renewed anxiety. Despite the increasingly difficult circumstances, both employees and employers can take steps to improve their retirement outlook in 2021. The options available to employers for enhancing retirement benefits can help employees weather economic uncertainty and encourage them to start taking steps now to prepare for retirement. Each generation will have different needs, but it is never too early to start preparing for retirement and improving financial wellness.

At Ayco, we believe that companies best serve their stakeholders when their employees' financial lives are clear, understood and in their control.

What we do

For corporations: Ayco serves as an extension of the human resource and benefits team. By partnering with these groups, we help drive utilization of organizational programs and use metrics and feedback to provide a deeper understanding of employee populations.

For employees: Ayco offers holistic financial counseling services tailored to each stage of a career cycle—from entry-level to c-suite. Our unique approach to comprehensive financial counseling combines benefits and compensation planning with streamlined digital solutions to provide a path to financial well-being for everyone at an organization.

Value we bring

A comprehensive financial counseling program can positively impact corporate ROI through:

- Increased employee focus and engagement
- Better understanding and usage of benefit programs
- Reduction of reputational and regulatory risk

We help create a more productive, financially well and engaged workforce at all levels.

Key highlights

- Over 425 corporate programs*
- Work with over 50 of the Fortune 100†
- Advise over 13k executives*
- 90k+ phone coaching sessions‡

Read about the benefits of workplace financial counseling for your employees.

*As of February 2019.
†As of February 2019. Includes corporate accounts who have Financial Wellness/Executive Financial Management programs.
‡‡Data from 2018.

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