MAKE the TURN

GCSAA Education Conference

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GCSAA

Automating Financial Wellness through Your Employer's Retirement Plan

401(k), 403(b) and 457 Plans

Three key ways employers have embraced financial wellness in the workplace as a company benefit:

1. Auto-Enrollment reverses old employer thinking
2. Auto-Escalate eliminates employee inertia
3. Target-Date Portfolios = "The Smart Button"

Today's Financial Realities Facing So Many Americans in the Workplace

- 70% of Americans are living paycheck to paycheck
- 64% can't cover a $1,000 emergency without borrowing money
- 84% of employees report having some degree of financial stress
- Financial stress is the #1 cause that negatively affects our health and the #1 reason for divorce
- Those with financial stress have healthcare costs that are 24% higher than those without financial stress
- The IRS limits for employer-plan contributions are $18,000 annually or up to $24,000 (age 50+)

Sources: Financial Finesse, Smartdollar

Tomorrow's Financial Reality May Seem Like a Challenging Course

- A 35-year old earning $50k today will need to have nearly $1 million saved by the age of 67 to retire.
- If you don't want to count on social security, that number becomes more than $1.5 million needed to retire.
- Financial Wellness through our employer is critical to stay on par.

Auto-Enrollment Feature

Employers have learned employees need help

Automating Success

62%

Participation Rate**

60% of plans **without** auto-enroll*

40% of plans **with** auto-enroll*

85%

Participation Rate**

* PlanSponsor Defined Contribution Survey, 2014.

** AonHewitt 2014 Universe Benchmarks, Measuring Employee Savings and Investing Behavior in DC.

Auto-Enrollment Best Practices Now Being Implemented by Employers

- New employees should be auto enrolled at whatever rate captures the full match of the retirement plan
  - ie: auto-enroll 6% when the match is 50% of 6% of pay
  - Allow employees to opt-out (rethinking the opt-in mentality)
- Every 3-5 years, employers should re-enroll all active employees into the auto-enrollment feature
  - Allow employees to opt-out
- Combine auto-enrollment **WITH** auto-escalation of contributions…

Auto-Escalate Feature

Employers remember that employees need help

Auto-Increasing Contributions Help Employees Reach Wellness Goals

- Auto-enrollment is only the first step of a successful process
- Auto-escalate automatically increases employee contribution rates annually by 1%, 2% or more
  - Allow employees to opt-out or modify increase amount/frequency
- Inertia, procrastination and the financial realities mentioned earlier often keep us from staying on par
- For the $50k salary, a 1% increase would be approximately only ***$15*** less per semi-monthly paycheck, after taxes

Auto-Escalate Example

	Normal Contributions	With Contribution Accelerator
Gross pay per period	$1,924	$1,924
Pay period	Every other week	Every other week
Annual salary	$50,024	$50,024
Current account balance	$10,000	$10,000
Annual rate of return	6%	6%
Current age	35	35
Age of retirement	67	67
Years to retirement	32	32
Expected annual salary increase	2%	2%
Current employee contributions	10%	10% with a 2% Contribution Accelerator annual increases up to a maximum of 30%*
Your first year contribution*	$5,002.40	$5,002.40

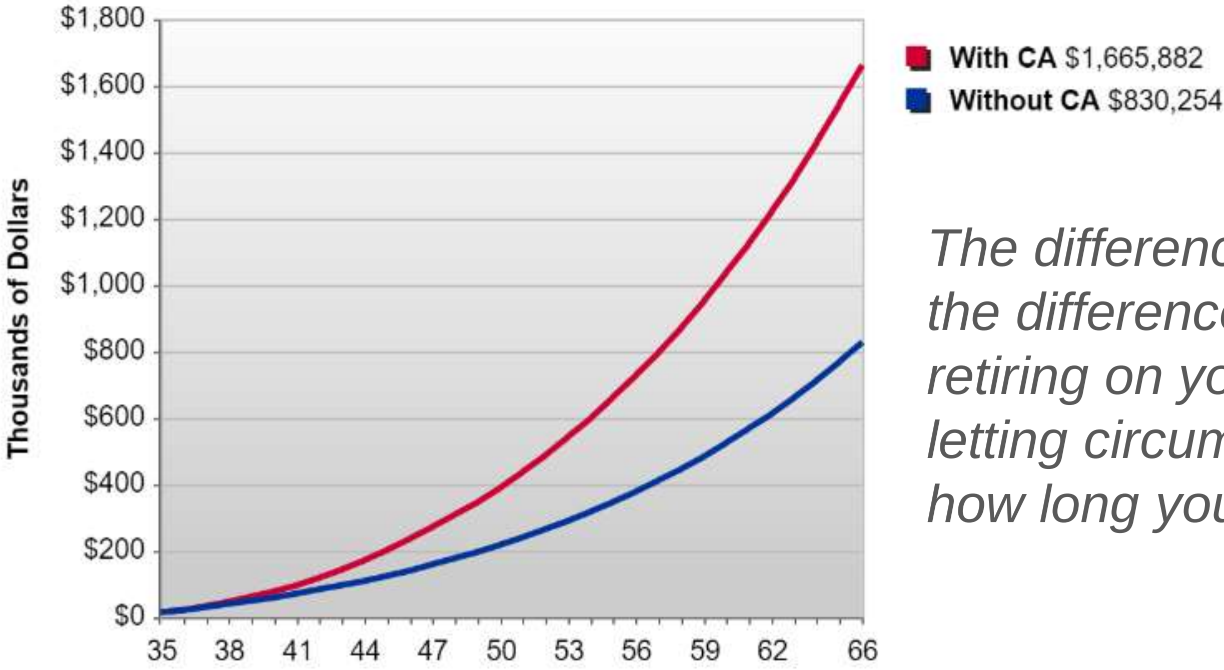
*Staying within the IRS contributions limits

Auto-Escalate Example

	Normal Contributions	With Contribution Accelerator
Gross pay per period	$1,924	$1,924
Pay period	Every other week	Every other week
Annual salary	$50,024	$50,024
Current account balance	$10,000	$10,000
Annual rate of return	6%	6%
Current age	35	35
Age of retirement	67	67
Years to retirement	32	32
Expected annual salary increase	2%	2%
Current employee contributions	10%	10% with a 2% Contribution Accelerator annual increases up to a maximum of 30%*
Your first year contribution*	$5,002.40	$5,002.40
Total you will contribute	$221,241.28	$584,885.08
Total at age 67	**$830,254**	**$1,665,882**

*Staying within the IRS contributions limits

Auto-Escalate Example



The difference of $835k is the difference of ultimately retiring on your own terms or letting circumstances dictate how long you work.

- The extra $15 or $30 per paycheck is up to all of us to find. It's there for all of us to find if we budget our expenses and hold ourselves accountable to our financial wellness.

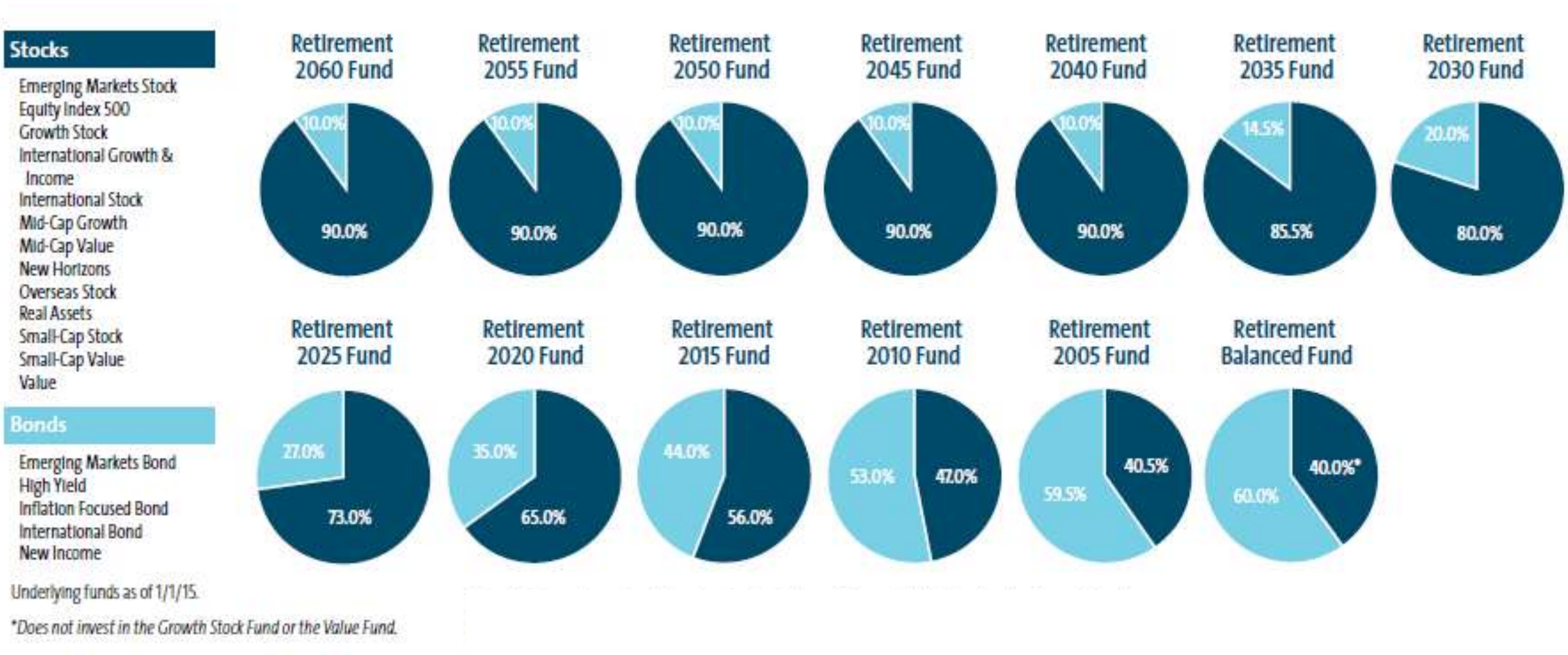
Staying On Course

Using "target date" portfolios in retirement plans help maintain financial wellness… and sanity

Target-Date Portfolios: Purpose & Objective to Benefit Employees

- Professionally managed portfolios (usually as a single mutual fund)
- Convenient for retirement investing
- Diverse portfolios combining stocks and bonds
- Automatic adjustments of portfolios can be for up to 30 years <u>after</u> the target retirement date
- The funds' investment in many underlying funds means they will be exposed to the risks and returns of different areas of the market

Target-Date Portfolios: Sample of How Portfolio Construction Varies



Target-Date Portfolios: Features and Key Benefits for Employees

- Professionally managed "do it for me" solution for financial wellness
- Compare a GPS device vs. using a traditional map
- Takes the "thinking" out of maintaining ongoing financial wellness
- Takes the "emotion" out of managing financial wellness
- Better than an "easy button," it's a "smart button"

Prescription for Wellness

Next steps you can take for your wellness

Financial Wellness in Your Employers Plan: Summary and Next Steps

- Take full advantage of your employer's retirement plan
  - In your 20s, save > 7% of your salary as a minimum
  - In your 30s, save > 10% of your salary as a minimum (shoot for the IRS max)
  - In your 40s, save > 15% of your salary as a minimum (shoot for the IRS max)
  - In your 50s, save > 20% of your salary as a minimum (shoot for the IRS max)
  - In your 60s, save > 25% of your salary and shoot for the IRS max
- Increase your contributions by 2% per year if not plan-automated
- Consider utilizing "target date funds" for professional diversification
- Speak to a licensed financial professional for advice and guidance