TIAA CREF

Plan Sponsor Challenges Series

Part 2: How to engage employees and build confidence

In Part 1 of our Plan Sponsor Challenges Series, we showed how a well-designed investment menu can make it easier for your employees to make decisions and think about retirement planning. But offering good investment choices is not enough to ensure successful outcomes. You must also encourage employees to participate in the plan, save adequately and invest properly for their unique needs. In fact, studies have shown that engaging employees through targeted, relevant education can potentially increase participation, savings rates and net worth.[1]

Article highlights

- The importance of employee engagement
- Seven steps to engaging employees
- Tips and techniques to encourage retirement planning

To engage employees you need to know who they are: what matters to them most, how they think about finances and how their needs evolve at every stage of their financial journey. These insights into employee needs go beyond the simple demographic overviews of age and income, diving deeply into the psychology of attitudes toward saving and investing.

By building your knowledge about the things that matter to employees, you can build their confidence about financial issues. Doing so will encourage them to take an active role in managing their finances to achieve a safe and secure retirement. There are three key elements to keep in mind when it comes to employee engagement.

- **The message –** what you tell your employees – should be objective, clear and action-oriented, giving them the tools to choose investments based on their needs and manage their savings accordingly.
- **The method –** how you communicate with employees – should address their issues and concerns at every life stage, from asset accumulation to guaranteed lifetime income options.
- **The medium –** where you reach your employees, whether in print, online or by email – should have the greatest impact possible on your particular employee population.

These elements should all be part of your communications and education program, as well as any guidance or advice you may offer.

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[1]Pension Research Council, October 2010, *Financial Counseling, Financial Literacy, and Household Decision Making.*

Seven steps to engaging employees in your plan

Keeping the message, method and medium in mind, here are seven steps you can take to help your employees make the most of their retirement plan:

Step 1

Encourage goal setting. Your employees must define their retirement savings goals in order to save at the right level and invest appropriately to achieve them. This means envisioning what they want to do in retirement, estimating expenses and determining a way to achieve income they won't outlive. And for younger participants, or those with lower incomes, the goals may be more short-term. If they face immediate needs to pay down credit card debt, tackle student loans or save for a home, your advice should be tailored to address those goals. Employees who can begin to achieve financial well-being in the short term will likely be more prepared for retirement in the long run.

Step 2

Illustrate the value of enrolling in the plan. To get your employees to engage in the plan, you have to show them what they'll get out of it. Participation can provide employees with important benefits.

- It helps them pay themselves first and provide for their own retirement income as other resources – like Social Security and pensions – become less certain.
- It helps them potentially save money on taxes – both current and future – through pre-tax contributions that lower current taxable income and tax-deferred growth that could boost the size of their nest egg.
- It helps them save even more through employer matching contributions (where applicable). If you offer a match, remind your employees to contribute at least enough to earn the full amount so they don't leave money on the table.

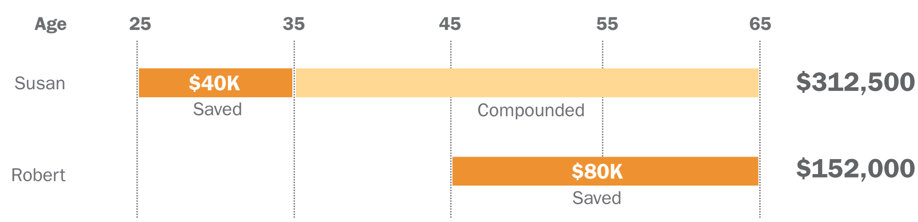
Step 3

Introduce time as their biggest ally. As you know, the earlier your employees start saving, the greater the benefits of tax-deferred compounding – when investment returns are applied not just to the original invested dollars but also to the returns those dollars have generated.

To help your employees see how dramatically compounding can accelerate their savings growth over time, illustrate with concrete examples. You might use a chart like the one below to show how much more a younger investor could accumulate over time by starting to save earlier, compared to another investor who put away twice as much but ended up with less.[2]

[2]Figures based on a 6% annual interest rate, compounded monthly, with contributions made at the beginning of the month. This rate of return is hypothetical and does not reflect possible expenses. If expenses were shown, net returns would be lower. This chart is not meant to represent the performance of TIAA-CREF accounts. Your actual return may be greater or less. This chart is for illustrative purposes only.

Sometimes less equals more



Susan saves half as much as Robert, but ends up with twice as much money at age 65.

Step 4

Offer tips for saving more. Because your employees likely have many expenses competing for their hard-earned dollars, they'll need help learning how to squeeze more savings out of their budgets.

Try suggesting some minor lifestyle changes to free up their disposable income. Then show your employees how even small contribution increases add up over time.

For example, if an employee saved $18 a week by bringing lunch three times, rather than buying it, and invested that money in a tax-deferred retirement savings plan, he or she could have an extra $50,000 after 25 years.[3]

Once you've driven home the value of small contribution increases, suggest ways for your employees to implement them. That could mean setting aside part of a bonus or salary increase, or setting up annual, automatic contribution increases where available.

Step 5

Promote additional tax-deferred savings. While your employees should maximize their workplace plan contributions first, encourage them to set aside added tax-deferred savings, perhaps through tax-deferred annuities and/or individual retirement accounts. Remember, a workplace savings plan is just one component of a well-rounded retirement savings plan.

Tax-deferred annuities allow your employees to make virtually unlimited contributions that will grow tax-free until withdrawn, at which point they are taxed at ordinary income tax rates.[4] Tax-deferred annuities do not require distributions until age 90. Most important, annuities provide your employees with a lifetime source of income — which helps reduce the risk of outliving their savings. Remember that lifetime income is a guarantee subject to the claims-paying ability of the issuing insurance company.

Retiree healthcare costs are escalating at a rapid pace. Depending on your and your employees' needs you may want to offer a retirement healthcare program. This can give your employees a tax-advantaged way to save now for their healthcare expenses in retirement, while preserving their retirement savings for other needs.

[3]Figures based on a 6% annual interest rate, compounded weekly, with contributions made at the beginning of the month. This rate of return is hypothetical and does not reflect possible expenses. If expenses were shown, net returns would be lower. This chart is not meant to represent the performance of TIAA-CREF accounts. Your actual return may be greater or less. This chart is for illustrative purposes only.

[4]Withdrawals made prior to age 59 ½ could be subject to a 10% penalty as well as current income taxes.

How to engage employees and build confidence

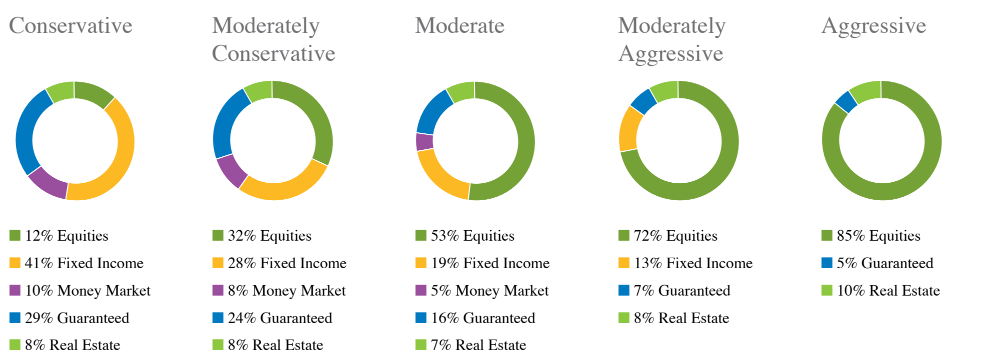
Through an individual retirement account (IRA), employees who are under age 50 could put away up to $5,000 and those age 50 and over could save up to $6,000 each year. IRA contributions also grow tax-deferred, and may be tax deductible depending on the individual's adjusted gross income.

Step 6

Remind employees to invest specifically for their needs. To invest appropriately for their individual situations, your employees should understand three important concepts: asset allocation, diversification and rebalancing.

Asset allocation is simply the idea of matching the mix of stocks, bonds and cash investments to an individual's time horizon and risk tolerance. By showing your employees sample investment portfolios like the ones below, you may help them better understand what constitutes a conservative, moderate or aggressive mix.

Sample Asset Allocations*



Your investment portfolio will tend to become more conservative as you get closer to retirement. If you are a younger worker, your portfolio is more likely to be more aggressive.

Diversification is spreading savings over a variety of investments that perform differently over time. Diversifying can help lower risk by reducing the potential volatility in a portfolio.

Rebalancing is returning a portfolio to its original mix of stocks, bonds and cash after shifts in the market. This can help an individual lock in gains and avoid an overly risky mix of investments. If your plan offers automatic rebalancing, encourage your employees to take advantage of this feature to keep their target investment mix intact.

These concepts will help your employees choose a proper mix of investments (or premixed strategy) for their goals, as well as monitor and adjust their portfolio as needed.

Step 7

Offer guidance and advice where possible. Many employees want and need help. Offering them professional, objective advice and guidance based on their circumstances may not only trigger better saving but also keep them on the right track to meet their goals.

Advice and guidance offerings could also help you fulfill your fiduciary responsibility to help your employees achieve better retirement outcomes.

We believe that a quality advice offering takes a consultative approach with five steps:

How to engage employees and build confidence

1. Assess the individual's financial needs.
2. Analyze their goals and objectives.
3. Recommend solutions.
4. Implement their strategy.
5. Review their progress.

This approach can lead to more appropriate decision-making by plan participants. An advice session can also overcome participant inertia. Based on advice sessions TIAA-CREF conducted in 2010, we found that 68% of participants took an action that enhanced their retirement readiness after receiving advice. What's more, 53% increased their contribution rate and 38% increased their savings rate by 10% or more.

Coming soon
Part 3 in our Plan Sponsor Challenges Series: Helping employees build savings and achieve lifetime income

Take action to meet the challenge

Successful engagement begins with knowing your people. Plan sponsors should dig into the data about employees to understand how individual needs are changing and whether the workforce is sufficiently prepared for retirement. As you take the steps suggested here to engage your employees in your plan, make it as easy as possible for them to take action. Whether that means suggesting ways to save more or giving them tools to evaluate and adjust their investment mix, you want to help your employees take charge of their financial future.

Just as important, make sure they treat retirement planning as an ongoing process – not a one-time event. Remind them to revisit their investment menu selections/strategy at least annually to make sure their choices still make sense for their goals.

Where possible, consider offering your employees an opportunity for an annual review, whether through online tools or one-on-one advisory services.

Implemented thoughtfully, employee engagement serves two purposes. One is to help you fulfill your fiduciary responsibility to act in the best interest of your plan participants. The other is to help your employees plan confidently for their financial well-being as well as a safe and secure retirement.

Visit tiaa-cref.org for more information on how plan sponsors and fiduciaries can address the challenges they face.

Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Rebalancing does not protect against losses or guarantee that an investor's goal will be met.

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