Winning Financial Wellness Strategies

Dean Clune & Michael Levin
Arthur J. Gallagher Retirement Plan Consulting
Current Diocesan Retirement Landscape
Current Diocesan Plan Environment

- Retirement Plan Design Trends
  - Shift from Defined Benefit to Defined Contribution
    - How long will the DB continue to be active?
    - Who will be impacted by DB accrual changes?
  - Transformation on DC/403(b) employer contribution strategy
    - Is there a strategy?
    - Flat dollar vs. Matching contribution
- Incorporation of Pension Protection Act of 2006
- Compliance with IRS 403(b) Rules
- Consolidation of 403(b) providers
- Implementation of Fiduciary processes
- Widespread employee population and workforce
- Migration to centralized payroll/HRIS
Financial Wellness Impact
Definition

Financial wellness is the balance between having a healthy state of well being today while preparing financially for tomorrow. It is not necessarily about being wealthy, but it is a state of psychological well being in which one feels they have control over their current finances and financial future.
Challenges

Today

❖ Behavioral Finance Principles
  ➢ Inertia
  ➢ Loss aversion
  ➢ Myopia

Future

❖ Behavioral Finance Principles
  ➢ Inertia
  ➢ Loss aversion
  ➢ Myopia

❖ Additional defined contribution benefit decisions
Retirement Readiness

Figure 31
Workers Expecting to Retire Later than Planned

Do you now expect to retire later, at an older age than before? (2014 Workers n=1,000)

Why should you care.....?

- Increased healthcare costs
- Increased Workers Compensation Costs
- Increased Wage Costs
- Increased lack of productivity
Employer Impact

A look at some numbers

- 15% postpone retirement
- Annual Compensation = $50,000/$30,000
- Annual Health & Welfare = $15,000/$9,000
- 400 Employees
- Differential - $26,000 (60) = ..... 
- $1,560,000 per year
Question…

Why is the Labor Force Aging?
64% of workers have saved for retirement
- 38% less than $25,000
- 36% have less than $1,000
46% of workers have calculated what they need for retirement
18% of workers are very confident they will have enough to retire
65% of workers are not confident they’ll have enough money to live comfortable in retirement
Worker confidence in affordability of medical and basic expenses is higher
Average debt level has increased over 5 years ago

Source: 2014 EBRI Retirement Confidence Survey
Figure 32
Trend in Workers’ Expected Retirement Age

Defined Benefit to Defined Contribution
Shifting Retirement Plan Landscape

- 1875 – The American Express Company established first private U.S. pension plan*
- 2006 – IBM announces freeze of DB plan, citing a $2.5 - $3 billion dollar savings by 2010*
- 2013 – Most recent DOL statistics indicate there were 654,469 defined contribution plans as 2010**

*Employee Benefit Research Institute  
**American Benefits Council, April 2013
Labor Force Participation Rate

Source: U.S. Bureau of Labor Statistics
## Healthcare Claims
### Aging Workforce – Health Spend Impact

<table>
<thead>
<tr>
<th>Age</th>
<th>Current</th>
<th>Younger Workforce</th>
<th>Older Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>60+</td>
<td>30%</td>
<td>10%</td>
<td>55%</td>
</tr>
<tr>
<td>40–60</td>
<td>45%</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>&lt; 40</td>
<td>25%</td>
<td>55%</td>
<td>10%</td>
</tr>
<tr>
<td>Cost</td>
<td>$6.73 million</td>
<td>$5.06 million</td>
<td>$8.10 million</td>
</tr>
<tr>
<td>Increase/ Decrease</td>
<td>n/a</td>
<td>-33%</td>
<td>+20%</td>
</tr>
</tbody>
</table>

**Assumptions:**
- 1,000 Employees
- Avg. annual health expense per employee age 60+ = $10,000
- Avg. annual health expense per employee age 40 – 60 = $6,500
- Avg. annual health expense per employee age < 40 = $3,250

*Source: APEX.HRM-Gallagher Benefit Services, A Division of AJG*
Days Away From Work
Injury or Illness

### Aging Workforce - Days Away From Work Injury or Illness

<table>
<thead>
<tr>
<th>Age</th>
<th>Current</th>
<th>Younger Workforce</th>
<th>Older Workforce</th>
</tr>
</thead>
<tbody>
<tr>
<td>60 +</td>
<td>30%</td>
<td>10%</td>
<td>55%</td>
</tr>
<tr>
<td>40 − 60</td>
<td>45%</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>&lt; 40</td>
<td>25%</td>
<td>55%</td>
<td>10%</td>
</tr>
</tbody>
</table>

| Days Missed | 10,450 | 8,750 | 11,900 |
| Work Years Lost | 28 | 23 | 32 |

**Assumptions:**
- 1,000 Employees
- Avg. annual days missed per employee age 60+ = 14
- Avg. annual days missed per employee age 40 − 60 = 10
- Avg. annual days missed per employee age < 40 = 7
- Work year = 250 days

## Retirement Decisions

### Employer → Employee

<table>
<thead>
<tr>
<th>Defined Benefit</th>
<th>Defined Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollment</td>
<td>Enrollment</td>
</tr>
<tr>
<td>Benefit Level</td>
<td>Contribution Rate</td>
</tr>
<tr>
<td>Investment Management</td>
<td>Investment allocation</td>
</tr>
<tr>
<td>Income stream options</td>
<td>Distribution options</td>
</tr>
</tbody>
</table>
## Health & Welfare Benefit Decisions

### Defined Benefit
- Pay 80%, 90%, 100% of premium
- Plan design options provided
- Employer paid/voluntary dental & vision benefits provided
- Employer sponsored STD & LTD

### Defined Contribution
- Provide lump sum $ to purchase
- Employee decides best plan
- Employee choice to purchase ancillary benefits
- Employee choice to purchase STD & LTD
## Financial Wellness Opportunity

### Employee → Hybrid

<table>
<thead>
<tr>
<th>Defined Contribution</th>
<th>Defined Contribution 2.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enrollment</td>
<td>Auto Enrollment</td>
</tr>
<tr>
<td>Contribution Rate</td>
<td>Auto Escalation</td>
</tr>
<tr>
<td>Traditional 403(b)/401(k)</td>
<td>Roth 403(b)/401(k) Option</td>
</tr>
<tr>
<td>Investment allocation</td>
<td>Target Date Funds/Advice</td>
</tr>
<tr>
<td>Distribution options</td>
<td>Annuitize?</td>
</tr>
<tr>
<td></td>
<td>Longevity?</td>
</tr>
<tr>
<td></td>
<td>Income stream education?</td>
</tr>
</tbody>
</table>
### Health & Welfare Benefit Decisions

#### Today vs Future

<table>
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<th>Defined Benefit</th>
<th>Defined Contribution</th>
</tr>
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<tbody>
<tr>
<td>Pay 80%, 90%, 100% of premium</td>
<td>Provide lump sum $ to purchase</td>
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<td>Employee choice to purchase ancillary benefits</td>
</tr>
<tr>
<td>Employer sponsored STD &amp; LTD</td>
<td>Employee choice to purchase STD &amp; LTD</td>
</tr>
</tbody>
</table>

#### Future Financial Wellness Challenge?

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Why Should My Leadership Team Care?

Costs of an aging workforce

- We’ve covered that earlier…

Costs of a disengaged workforce

- Only **13%** of employees worldwide are engaged at work
- **63%** of employees are **NOT** engaged
- **24%** of employees are actively disengaged

*Source: 2013 Gallup State of the Global Workplace Survey*
Costs of Disengagement

So... What Do We Do?

Engagement
Engagement – Total Wellbeing

Align Employer Rewards

Identify Workforce Needs & Preferences

Coordinate, Prioritize, & Customize Communication

Engagement
Life Stage Needs & Preferences

Financial Priorities

Steady Income

Affordable Health Insurance

Time with Family

Entry - Level
- Career growth
- Income
- Recognition

Mid - Career
- Income
- Time off/flex time
- Career growth

Established
- Time off/flex time
- Health & wellbeing
- Savings & income protection

Pre-Retiree
- Health & wellbeing
- Savings
- Career accomplishment
Evaluate Life Stage Needs & Preferences

SAMPLE DATA FOR PURPOSE OF DISCUSSION

Average Retirement Plan Participant Income Replacement by Tenure

<table>
<thead>
<tr>
<th>Tenure</th>
<th>Under 50%</th>
<th>50% - 80%</th>
<th>80% and Over</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 3 years</td>
<td>88%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>3 - 6 years</td>
<td>87%</td>
<td>11%</td>
<td>2%</td>
</tr>
<tr>
<td>6 - 9 years</td>
<td>75%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>9 - 12 years</td>
<td>60%</td>
<td>30%</td>
<td>10%</td>
</tr>
<tr>
<td>12 - 15 years</td>
<td>62%</td>
<td>31%</td>
<td>8%</td>
</tr>
<tr>
<td>15 - 20 years</td>
<td>33%</td>
<td>47%</td>
<td>20%</td>
</tr>
<tr>
<td>20+ years</td>
<td>32%</td>
<td>53%</td>
<td>16%</td>
</tr>
<tr>
<td>Aggregate</td>
<td>74%</td>
<td>22%</td>
<td>4%</td>
</tr>
</tbody>
</table>
Aligning Rewards

Organizational Culture
Business Strategy
Human Resource Strategy

Total Rewards Strategy
Compensation
Benefits
Work-life
Performance & Recognition
Development & Career Opportunities

Attract
Motivate
Retain

Employee Satisfaction & Engagement
Business Performance & Results

Preferences
Investments
Engagement
Results

*Source: World at Work, Total Rewards Model

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Aligning Rewards

SAMPLE DATA FOR PURPOSE OF DISCUSSION

Current Employer Resource Allocation

- Compensation: 41%
- Health & Wellness: 28%
- PTO: 8%
- Retirement: 6%
- Mission Fulfillment: 6%
- Recognition: 5%
- Social: 6%
- Fringe Benefits: 4%

Employee Values

- Employee Values: 37%
- Compensation: 24%
- Health & Wellness: 17%
- PTO: 11%
- Retirement: 4%
- Mission Fulfillment: 4%
- Recognition: 2%
- Social: 1%
Coordinate Financial Wellness

- Health Benefits
- Consumerism
- Debt Management
- Employer Match
- Savings Rate
- Voluntary Benefits
- Long Term Care
- Asset Allocation
- Short Term Savings
- College Savings Plans
- Income Replacement
- Defined Benefit Plan
- Nonqualified Deferred Compensation
- Budgeting
- Income Stream Education
- HSA/FSA
Coordinate Communication

Healthwi$e
The Power to Stretch Your Healthcare Dollar

Healthcare costs are continuing to rise, but making the most of your healthcare dollars can actually be easier than you think.

Your employer is invested in you.
For that reason, your employer wants to equip you with resources and knowledge to increase your awareness of healthcare expenses, enhance your opportunity to save more money and allow you to get the most out of your healthcare plan.

What is Healthwi$e?

Healthwi$e is a communication campaign aimed at helping you keep your healthcare costs down. Lower healthcare costs mean more money in your pocket. Healthwi$e will provide you with tips, tools and ideas to stretch your healthcare dollar. Healthwi$e features themes including:

- Utilizing in-network providers
- Reviewing medical bills
- Using freestanding diagnostic centers
- Managing prescription drugs
- Understanding health plans
- Knowing where to go, and when
- Asking questions
- Taking advantage of wellness programs
- Living a healthy lifestyle
- Practicing Prevention
### Sample Employee

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Projected annual salary at age 65 (pre-retirement income):</td>
<td>$73,580</td>
</tr>
<tr>
<td>Estimated 401(k) Plan Balance at age 65:</td>
<td>$371,992</td>
</tr>
<tr>
<td>Estimated annual income from 401(k) Plan:</td>
<td>$31,651</td>
</tr>
<tr>
<td>Estimated annual Social $ Benefit:</td>
<td>$25,241</td>
</tr>
<tr>
<td>Total estimated annual income at age 65:</td>
<td>$56,893</td>
</tr>
<tr>
<td>Percentage of pre-retirement income replaced:</td>
<td>77%</td>
</tr>
<tr>
<td>Income replacement goal:</td>
<td>80%</td>
</tr>
<tr>
<td>Shortfall:</td>
<td>3%</td>
</tr>
<tr>
<td>Additional percentage of income that needs to be saved each year in the 401(k) Plan to make up shortfall:</td>
<td>2%</td>
</tr>
<tr>
<td>Current 401(k) Plan deferral rate:</td>
<td>4%</td>
</tr>
</tbody>
</table>
Prioritize Financial Wellness

Get Buy-in from the top

Make it mandatory

54% of employees concerned about financial security; 53% need more help understanding their benefits

Work only with partners that are capable of helping you execute a holistic strategy

Source: 2014 12th Annual MetLife Benefit Trend Study
Customize Communication

Gen Y/Early Career
- Expects technology
- Prefers multiple focal points in presented information
- Needs guidance and structure

Gen X/Mid-Career
- Prefers summarized, visually appealing information
- Seeks advice of peers in similar life stage

Late Gen X/Boomers/Established Career
- Prefers practical and factual information
- Prefers individual attention
- Expects to be asked for feedback
Thank you
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