ebri.org
Employee Benefit Research Institute

New from EBRI

1100 13th St. NW • Suite 878 • Washington, DC 20005
(202) 659-0670 • www.ebri.org • Fax: (202) 775-6312

May 29, 2018

Examining the Role of the Employer in Workers' Financial Security

At a number of meetings I have attended recently, I've noticed an interesting bifurcation in views about the role of the employer when it comes to work force benefits.

On the one hand, many plan sponsors are embracing a more active role in securing the overall financial wellness of their workers. EBRI's Financial Wellbeing Research Center is conducting employer focus groups around the country, and we're learning that many employers see the value of undertaking initiatives to reduce workers' financial stress—even when they are not necessarily sure what these initiatives should look like or how to measure success. As one plan sponsor put it, "Every year we hear the same thing about stress and financial wellbeing being the biggest issue that we have ... it affects [people's] ability to come to work every day, [their] presentee-ism, and the attitudes [they have] toward their work. We understand we need to do something about financial wellness, but we really haven't started to tackle that."

Student debt is a particular source of concern. At the Employee Benefit Research Institute's 38th Policy Forum earlier this month, EBRI's Craig Copeland discussed new research showing that not only Millennials, but also Gen Xers and even Baby Boomers can be burdened by student debt—which can cause financial fragility and impede retirement savings. EBRI's *2018 Retirement Confidence Survey* finds that more than 4-in-10 workers say their debt negatively impacts their ability to save for retirement and 6-in-10 workers with a debt problem say that employer-provided, consumer-debt counseling or credit-consolidation services would help them better prepare for retirement.

At EBRI's Policy Forum, Cindy Silva, Head of Financial Wellness Strategy for Fidelity Investments made the case that helping employees manage their student debt was an effective way for employers not only to retain and attract talent, but also to potentially increase retirement savings. Silva noted that since implementing a student-debt repayment program, Fidelity has seen turnover for those participating in the program decline. But she's also hoping that: "The quicker we can get [associates] out of their debt, the sooner they are going to be able to bump up their deferral rate [to their retirement plans]."

Health Savings Accounts (HSAs) also have a potential role. In a recent EBRI employer focus group, one employer described an initiative to encourage employees to contribute more to their HSA and to think about the account as another retirement vehicle, with messaging such as: "just because you get a cold and go to the doctor to pick up a prescription, don't use your HSA money, let that sit there and let that grow, and you can take that with you." The employer even gave workers extra seed money if they participated in a program to learn more about their HSA. However, the employer noted: "I always tell people, 'Don't get too excited about the number of people contributing, because you have to look at what they are contributing, because they'll put a dollar in the plan.' " During the Policy Forum, EBRI's Paul Fronstin showed evidence that few HSAs are being used as investment vehicles. Of HSAs that were opened in 2016, only 1 percent had investment funds other than money market funds—that number grew to only 12 percent for those opened in 2004 or earlier.[1] And, both the likelihood of having a distribution and the size of the average annual distributions were actually higher among accounts that had investments versus those that did not.[2]

But, I said earlier that there is a bifurcation. And indeed, some employers and providers are clearly questioning their role in offering core benefits such as 401(k) and health care plans. They note the changing nature of the employer/employee relationship—which in some industries is already far more transactional than paternalistic. This trend, such proponents contend, will only accelerate with the emergence of the gig economy. At the Policy Forum, EBRI's Jack VanDerhei presented analysis showing the potential impact of a growing gig economy on net retirement savings surplus. Today, T. Rowe Price finds that 9 percent of Millennials and 19 percent of Gen Exers qualify as "gig workers." Prudential finds that only 16 percent of gig workers have access to employer-sponsored retirement plans. That translates to a 4 percent decrease in net retirement savings surplus, or the present value of simulated retirement surpluses less retirement deficits at retirement age.[3] Should the proportion of gig workers double, the projected decrease is 7 percent or potentially just under $1 trillion in reduced retirement account balances.

One approach that is being given a lot of attention is buttressing the employer-sponsored system with open multiple-employer plans. In an upcoming *Issue Brief*, Jack VanDerhei models the impact on projected savings shortfalls of various initiatives to improve retirement plan coverage such as Auto IRA programs. The results are promising, but what is impossible to factor into any model is the impact of greater availability of open multiple-employer plans on the existing employer-sponsored, defined-contribution system. Will some employers use such plans as an opportunity to reduce their traditional role in helping workers save for retirement—especially in light of the proliferation of 401(k)-fee lawsuits, for example?

And, is the current employer-sponsored system worth preserving? In his *Issue Brief,* "The State of Employee Benefits: Findings from the 2017 Health and Workplace Benefits Survey," Paul Fronstin shows that 82 percent of workers who say they are very or extremely satisfied with their work force benefits report a high level of job satisfaction. Nearly two-thirds also report excellent or very good morale. That compares to only 26 percent of those who say they are not satisfied with their benefits reporting high job satisfaction, and only 22 percent reporting excellent or very good morale.

What is certainly undisputable is the critical role of defined contribution plans—whether employer sponsored or not—when it comes to workers' financial security. According to Craig Copeland's *Issue Brief* "Individual Account Retirement Plans: An Analysis of the 2016 Survey of Consumer Finances," at the median, assets in individual account (IA) retirement plans constitute two-thirds of the financial assets among families having IA assets. Further, those with IA assets have substantially higher levels of net worth than those families without: the median net worth for families that owned IA assets was $249,950 in 2016 compared with $19,200 for families without IA assets. As Craig notes, it is critically important to "recognize that any policy that alters this system could have consequences—either positive or negative—for Americans' ability to fund a comfortable retirement."

So, as we consider the role of the employer in helping workers secure their financial future, it behooves all of us—employers, providers, policymakers, and pundits—to consider carefully not only the impact of

---

[1] https://www.ebri.org/pdf/briefspdf/EBRI_IB_434_HSAs.11July17.pdf
[2] https://www.ebri.org/pdf/briefspdf/EBRI_IB_438_HSAs.19Sept1.pdf
[3] The Retirement Security Projection Model simulates 1,000 alternative life-paths for each household, starting at 65. It assumes a deterministic modeling of costs for food, apparel and services, transportation, entertainment, reading and education, housing, and basic health expenditures, and a stochastic modeling of longevity risk, investment risk, and long-term care (LTC) costs.

our initiatives on workers' financial lives, but on the employee/employer relationship. What do we want it to look like in the future? And what will be the consequences on work force productivity and ultimately the American economy?

Lori Lucas

President and CEO