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Four Plan Features Can Boost 'Retirement Readiness'

Plans should embrace key components to help promote workers' financial security

Overview

According to a recent MissionSquare Research Institute survey, just 26% of public employees believe that they will be financially secure in retirement.[1] Although many factors likely contribute to this worker sentiment, plans and employers should explore ways to ensure that workers have access to benefits, education, and tools that can help them be "retirement ready"—that is, prepared to meet their financial needs in retirement.

The Pew Charitable Trusts developed a framework that details four plan components that public retirement systems and public employers can use to help workers build their retirement readiness:

- Plan design.
- Availability of supplemental retirement plans.
- Availability of online participant tools.
- Worker access to financial advisers.

This fact sheet outlines the importance of each component and explains how this framework can enable retirement plans to more effectively ensure that workers in all stages of their careers are on the path to retirement security.

Plan design

The details of how a retirement plan is set up and the benefits it provides affect retirement readiness because they are the core determinants of a worker's income in retirement. Previous Pew research has explored key metrics of retirement security, particularly replacement income ratio—the share of pre-retirement take-home pay that career workers can expect in retirement—and retirement savings rate, which is how much money workers can withdraw from their pension funds when they leave a job before retirement.[2] Based on Pew's research, retirement systems with strong plan designs meet replacement ratio and savings rate goals by providing retirees with 90% or more of their pre-retirement income and permitting withdrawal of at least 10% of retirement savings, the average minimum in the private sector. However, because no one plan design works for all states, plans throughout the country use different models to deliver high replacement ratios and savings rates. For example:

- The Wisconsin Retirement System, a defined benefit plan (i.e., one that provides a guaranteed level of income after retirement) for public employees and teachers, uses two benefit calculations to ensure security for workers at different stages of their careers. Workers receive the greater of a traditional pension formula or a "money purchase" benefit, which calculates an annuity based on total employee contributions plus interest. The former generally serves career workers, while the latter is usually better for early- and mid-career workers who leave public employment before retirement.
- The South Dakota Retirement System (SDRS), also a defined benefit plan, provides retirees with a near-100% replacement ratio and delivers a savings rate above Pew's recommended benchmarks. Workers who choose to withdraw their accounts upon separation have access to some employer contributions as well as their own. Additionally, for separating workers who opt to leave their funds with the plan, SDRS applies an annual cost-of-living adjustment to workers' final salaries, which ensures that inflation does not erode these workers' benefits before they retire.

Supplemental retirement plans

Supplemental retirement plans, such as a 457 plan, are generally voluntary plans that employees can contribute to on top of their primary retirement plan to provide additional retirement income. And these plans fill a critical gap: A recent study by the National Institute on Retirement Security found that typical public sector workers in a defined benefit plan must save an additional 4% of pay to fully cover their needs in retirement.[3] However, although most public retirement systems offer supplemental plans, participation is often low. States that boast high participation rates in their supplemental plans have typically invested in employee education or automatic savings features. For example:

- South Dakota offers a 457(b) plan to provide public workers with supplemental tax-advantaged retirement savings. In 2009, state lawmakers enacted a law authorizing employers to automatically enroll new hires in the supplemental plan, and in 2015, they added an auto-escalation feature, which allows employers to automatically increase the member contribution rate each year.[4] A study by the Center for State and Local Government Excellence (now called MissionSquare Research Institute) found that South Dakota's automatic enrollment feature significantly increased supplemental plan participation. Before the 2009 legislation, less than 3% of new hires enrolled, but by 2016, 94% of automatically enrolled employees chose to remain in the supplemental plan during their first year of employment.[5]
- Similarly, in 2019, Kentucky's Public Employee's Deferred Compensation Authority started automatically enrolling new state workers into the 401(k) supplemental retirement plan, and despite having an opt-out option, 94% of those employees continued contributing to the plan.[6]

Nationwide, adoption of automatic enrollment has expanded over the past 15 years as a strategy for increasing state and local worker participation in supplemental defined contribution plans.[7]

Online participant tools

Research has shown that a variety of online tools that help workers learn, plan, and track their progress can boost workers' confidence in their retirement preparedness.[8] At a minimum, public plans should offer their members personalized calculators or dashboards that present real-time information about employees' replacement ratios, savings rates, and predicted income in retirement. But retirement systems can also provide more robust resources, such as online workshops and webinars, educational materials, and informational videos. In addition, to maximize the value of their offerings, plans should ensure that their websites are user-friendly and accessible. For example:

- The Tennessee Consolidated Retirement System (TCRS) for state employees and teachers has an easy-to-navigate website with a variety of tools and calculators. These include an interactive retirement dashboard where workers can view their 401(k) savings, employer contributions, expected Social Security income, and other assets and see how changes to their contribution rate, retirement age, and other parameters would affect their estimated retirement income. TCRS participants also have access to the Tennessee Financial Literacy Commission's Financial Education website, which includes basic plan information and lessons, modules, and videos on planning for retirement and allows participants to schedule meetings with plan advisers.
- The South Carolina Retirement System for state employees and teachers developed its "Be Aware and Prepare" program to help employees at all career stages plan for retirement. The program website features videos on various financial and retirement topics, budget worksheets and other handouts, thorough and clear benefit information, and a member portal with personal information and a benefit estimate calculator.

Access to financial advisers

Access to retirement or financial planners who provide workers with one-on-one personalized noninvestment financial and retirement-related advice is another important tool for promoting retirement readiness. Most plans offer counselors who provide basic plan information, but this service may not be sufficient to ensure that workers are making informed decisions. But very few public retirement systems provide access to more personalized professional financial advice. For example:

- TCRS provides its members with access to dedicated retirement plan advisers throughout Tennessee who offer one-on-one meetings and retirement readiness reviews to help public employees meet their financial and retirement goals. These licensed professionals are available to meet with plan members at any career stage to review their retirement plans, including assets they may have outside of the plan, and provide advice tailored to each worker's personal retirement goals, financial planning and budgeting, and savings and investment choices.
- The Utah Retirement Systems (URS) offers its participants access to comprehensive retirement planning sessions, which include tailored advice on URS investment offerings, retirement income projections, and how to get or stay on track for retirement. URS advisers must pass the series 65 adviser exam to demonstrate investment competency and are authorized to give advice on URS investments through an agreement with the Utah Division of Securities.[9] URS also offers a broader financial wellness program that includes individualized sessions on topics such as spending, debt management, and budgeting.

Conclusion

Many public employers and their retirement plans excel at supporting participants' retirement readiness, but states and plans can do more to help employees evaluate how well they are set up for retirement. Although well-thought-out plan designs with high replacement ratios and savings rates remain essential to putting workers on the right path, supplemental plans, financial tools, and personalized financial advice are also vital to ensuring a secure retirement.

Endnotes

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