Q&A with Financial Finesse CEO, Liz Davidson:
The State of U.S. Employee Retirement Preparedness

**Questions are compiled from actual questions we've received from reporters and clients.*

Question: What did this research reveal about the state of U.S. employees' retirement preparedness?

Liz Davidson: Since the recession ended, we've seen a positive trend in employees putting renewed focus on retirement planning. Right now, they are in the early stages; they're making the right moves to plan better for their futures. They're calling our Financial Helpline with more proactive questions about both their short-term and long-term finances, and are improving their day-to-day money management skills.

The problem is that, even with these improvements, they are still very unprepared and the majority of employees are not on track or have no idea whether they are or not. Well over 50% of employees across all age groups have never run a retirement projection to determine how much they'll need in retirement. This is really disturbing considering all of the expenses employees are now being asked to fund because of employer cutbacks in health care and subsidized benefits. If employees don't accelerate the rate at which they're saving and improve their finances, they will be in serious danger of not being able to retire.

Q: As you mentioned, your research has been showing a trend in employees improving their money management skills and putting more focus on retirement. Why, even with this focus, is retirement preparedness still so low?

LD: We believe the reason retirement preparedness is so low in the U.S. is because employees have a much bigger savings burden now than they did even a generation ago when traditional pension plans and full retiree health care coverage were much more common. Employees today are in a position where they need to fund benefits once funded by their employer but they are not adapting at the same rate that this transition is happening. They're still saving far too little, and, in a lot of cases, people are intimidated by all the changes going on with their benefits and the economy and they don't really know what to do. It is an interesting paradox: employees as a whole are becoming more financially savvy and taking better control of their short- and long-term finances, but there are so many other factors at play such as benefits cuts, lower average market returns, Social Security, interest rates… the list goes on and on. It's getting harder and harder to retire considering all of these factors.

Q: With all these new challenges, what should employees be doing to prepare for retirement?

LD: Save, save, save! That's the one aspect employees can control, though it does require sacrifice and sometimes employees have to build up to a higher savings rate over time because of debt or other factors. It's really the best way to build a safety net. Of all the years Financial Finesse has been in business, we have yet to get a call from an employee upset because they've saved too much for retirement. We've gotten plenty of calls from employees who haven't saved enough; those are heartbreaking.

For employees who are older and have less time for their savings to grow, it's about good planning and making decisions about tradeoffs. We're seeing more employees downsize in retirement, and in many cases, this is not a bad thing. It's similar to what a lot of people are going through in today's economy: getting back to the basics, reconnecting with what is important in life, becoming more focused on day-to-day experiences with their friends and family than accumulating material things.

Q: So, if employees do these things, will they be able to redeem their retirements?

LD: The good news as I mentioned is that we've been seeing employees take better control of their finances since the recession, and it seems to be one rooted in behavioral change. Employees seem to understand that times are different—their retirement and their financial wellness are really in their own hands, not their employer's or the government's.

This is definitely a positive shift in mindset, but employees will not be able to redeem their retirements, even with this new mindset, unless they really pick up the pace and save more, invest wiser, and make the right moves in planning for their retirement.

The fact is, even though employees are improving, they're still very far behind where they need to be. A 2010 EBRI survey on Baby Boomers' and Gen X'ers' retirement preparedness after the recession found that nearly half of the oldest group (early Boomers) had a 50% or greater chance of not being able to fund basic living expenses and health care expenses in retirement (assuming a retirement age of 65). That's a startling statistic, especially when you consider EBRI is only calculating basic living and health care expenses, not full income replacement or lifestyle equivalency.

Q: What did you find were the most influential factors related to how prepared an employee was for retirement (outside of the obvious—saving more)?

LD: The most influential factor was how confident they were with their investments. On top of that, there was a significant difference between the employees who had an emergency fund in place, paid their credit card balances in full each month, and had a plan for paying off their debt, and employees who didn't do these things. What was really interesting was that employees who didn't know if they were on track and hadn't run a retirement projection before had poor financial wellness scores—nearly as low as employees who knew they were NOT on track. Overall financial wellness was highly correlated to retirement preparedness. For employees who were on track, they had a wellness score (which is based on analyzing overall financial management) of 7.2 out of 10, while those who didn't know if they were on track had a score of 4.7 and those that knew they were NOT on track had a score of 4.2.

Q: What were the least influential factors?

LD: Interestingly enough, age has no apparent correlation with retirement preparedness for employees under age 55. This is concerning because you would hope as you get closer to retirement your preparedness would improve, but our research found this isn't the case.

Q: Does this impact how employers are communicating employee benefits now?

LD: Employers should be focused on offering employees financial education that encompasses every aspect of financial planning, not just retirement. This helps employees prioritize all of their financial goals in a difficult economy so that they don't raid their retirement savings for other goals like sending their kids to college or buying a home. Financial planning helps employees recognize their goals, and how to free up cash to save more for these goals, including retirement. Our research found that employees who managed their day-to-day finances well also saved for retirement and even other long-term goals such as saving for college. The most important factor in getting employees to save more and prepare for retirement is changing their behavior. Companies that are thought leaders in employee wellness are offering financial planning for employees that helps them manage all the different circumstances they deal with in their personal lives.

They also need to target communication to the different generations within their workforce based on their life stages. They need to be telling younger employees to start saving now so their savings has time to grow, mid-career employees to accelerate their savings, and Boomers to be looking at changes they may need to consider in retirement. It's also important to make saving as easy as possible, so auto-enrollment, auto-escalation, and re-balancing should be standard for every company.

About the Financial Wellness Scale

The Financial Wellness Scale is a proprietary tool designed and developed by our Think Tank of CERTIFIED FINANCIAL PLANNER™ professionals in order to measure employees' financial wellness. To get a realistic assessment of Wellness in each category, planners determined the most important criteria for achieving financial success in that specific category. By asking key questions that determine employees' progress on these different actions, we are able to approximate their financial wellness in this area. Wellness scores are on a scale of 0-10, with 10 representing optimal wellness. A score of 8 or higher means that the employee is likely to achieve their financial goals in that area. A score of 6-7 means employees are at risk of not achieving their goals, while a score of 5 or lower means that employees definitely need to make major changes in order to meet their goals.