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Alight insights: What more can be done to help today's workers save, invest and plan?

American workers are facing a financial crisis.

Spending is up

— According to data from the Federal Reserve, the aggregate American household debt stands at a record high of more than $13 trillion —18 percent higher than 2013.[1]

— While food prices have increased by 22 percent and medical costs have increased by 34 percent on average over the past decade, income has grown by only 20 percent.[2]

Saving is down

— The average personal savings rate in 2017 was 6.7 percent. As recently as 2012, the average personal savings rate stood at 8.9 percent—a drop of 25 percent in just five years.[3]

— More than half of Americans say that they don't have enough savings to cover a $500 surprise expense, yet 45 percent of Americans say they or a family member have had such an unplanned expense in the past 12 months.[4]

Retirement is threatened

— Half of U.S. workers, who are at least 60 years old, don't think they will be able to retire before age 70 and another 20 percent believe they will never be able to retire.[5]

— Roughly one-quarter of 401(k) savers has a loan against their account.[6]

With sobering statistics such as these, **the time is now for innovation in retirement plans to help workers save, invest and plan smarter**. As we see it, there are three main problems facing American workers today:

1 Federal Reserve, *Household Debt and Credit,* 2017:Q4 https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2017Q4.pdf
2 Nerd Wallet, *American Household Credit Card Statistics,* 2017 https://www.nerdwallet.com/blog/average-credit-card-debt-household/?trk=nw_gn2_4.0
3 Bureau of Economic Analysis. https://www.bea.gov/system/files/2018-07/pi0618_hist.pdf
4 Bankrate pulse survey. https://www.bankrate.com/finance/consumer-index/money-pulse-0117.aspx
5 Career Builder, *Half of mature U.S. workers will wait until at least age 70 to retire or won't retire at all,* 2017 https://www.prnewswire.com/news-releases/half-of-mature-us-workers-will-wait-until-at-least-age-70-to-retire-or-wont-retire-at-all-300432256.html
6 Alight Solutions, *Universe Benchmarks,* 2018

Problem 1: Lack of clarity

People's financial information is typically fragmented.

- Spending is handled in banking or budgeting apps. More than three-in-five people say they use a mobile banking app.[7]
- Short-term savings for goals like a home down payment or a vacation are often handled in savings accounts at banks. Just under half of Americans have at least $1,000 cash in a savings account.[8]
- Medium-term goals like 529 plans, stock accounts, and student loan payoff are handled by unique vendors specific to each goal. According to data from Sallie Mae, 16 percent of families use 529 plans to help pay for college.[9]
- Long-term savings goals like retirement are handled in retirement plans. However, these plans are varied and diverse. According to ICI, 33 percent of retirement assets are in defined benefit plans, 31 percent in IRAs, 28 percent in defined contribution plans, and 8 percent in annuities.[10]

We believe that this disjointed approach to managing finances can inhibit people from making data-driven decisions based on real insights. Workers want and need their employers to help them with their finances, especially for topics outside of saving for retirement.

According to Alight's data:

43%

of workers say they are often intimidated by financial matters.[11]

62%

of workers want their employers to provide them with tools for investing and financial planning.[12]

54%

of workers want their employer to provide them with online tools for general finances, debt management, and budgeting.[13]

Fortunately, many employers are hearing this message loud and clear. Helping workers improve their financial wellbeing has been the number one goal for employers for the last several years, ahead of other topics such as making sure their retirement plan is competitive, according to Alight.[14]

But despite this focus, more can be done. Only 35 percent of employers have budgeting tools available to their workforce and just 25 percent offer debt management assistance.[15] When these options are offered, they are typically added alongside existing benefits programs and are very rarely provided in a way that is integrated comprehensively into the overall benefits program.

Because every worker's financial situation and needs are unique, creating something that fits every worker's situation is challenging, but employers can help workers get a better view of the big picture when it comes to their personal finances.

7 Bank of America, *Trends in Consumer Mobility Report,* 2017 https://promo.bankofamerica.com/mobilityreport/assets/images/BOA_2017-Trends-in-Consumer-Mobility-Report_Wave2_FINAL_8_2.pdf
8 GOBankingRates 2017 survey, https://www.gobankingrates.com/saving-money/half-americans-less-savings-2017/
9 Sallie Mae, *How America Pays for College,* 2016 http://news.salliemae.com/files/doc_library/file/HowAmericaPaysforCollege2016FNL.pdf
10 ICI, *Defined Contribution Plan Participants' Activities, First Half 2017,* November 2017 https://www.ici.org/pdf/ppr_17_rec_survey_q2.pdf
11 Alight Solutions, *Financial Mindset Study®,* 2017
12 Alight Solutions, *Financial Mindset Study®,* 2017
13 Alight Solutions, *Financial Mindset Study®,* 2017
14 Alight Solutions, *Hot Topics in Retirement and Financial Wellbeing,* 2017
15 Alight Solutions, *Hot Topics in Retirement and Financial Wellbeing,* 2018

Problem 2: Lack of strategy

People's financial situations are quite diverse, which significantly influences their saving, investing and planning needs.

Each worker has a unique story and a unique financial picture that lays the foundation for their ability to save for the future. A financial strategy for one worker could and should look quite different from that of another worker. Also, a strategy that is appropriate for someone today may look vastly different than one for five or ten years from now.

Workers must be able to interact in an efficient and nimble way with their financial life, and be able to adjust appropriately as the facts and circumstances dictate.

An ideal long-term financial strategy would consider a variety of factors that impact a worker's ability to adequately save, including:

A family's full financial picture

Balances across all saving, investment and retirement accounts, including spousal accounts

Alignment to short and long-term financial goals

Other income streams like social security, pensions, and inheritance

While there is an ever-expanding set of financial tools available for workers, these tend to focus on a given problem (e.g., budgeting, emergency savings, etc.) and do not offer a **comprehensive** way to help balance competing short-term and long-term needs. For example, within retirement plans, target date funds have become ubiquitous.[16] However, target date funds are clearly not the silver bullet for solving worker's retirement savings challenges. While target date funds are often a simple and inexpensive investment vehicle for 401(k) investors, they cannot be tailored enough to meet the unique and varied financial situations of workers. Target date funds often come up short for the following investors:

- **Anyone with retirement assets outside the 401(k) plan.** Currently, roughly half of people who participate in a DC plan also have an IRA earmarked for retirement.[17] However, target date funds cannot adjust the glide path for these outside assets, nor incorporate the IRA's investment portfolio when setting its investment mix.
- **Anyone due a benefit from a defined benefit pension plan.** More than half of companies (56 percent) in the *Fortune 500* have a defined benefit plan that covers at least some of its salaried workers.[18] According to the Bureau of Labor Statistics, 41 percent of companies that have a pension plan have either closed or frozen it,[19] meaning that within a single company there are some workers who have a pension benefit, while others do not. Even among companies with open pension plans, there is no guarantee that workers of the same age will have the same benefit since many benefit formulas are based on service and not age.
- **Anyone who is part of a dual-income family.** Among 61 percent of married couples with children, both spouses work.[20] Furthermore, roughly one-quarter of all couples have an age difference of more than five years,[21] which is problematic since most TDF glide paths are in five year increments.[22] Among working dual-income couples, two different retirement ages need to be taken into account. A TDF fails to consider that broader view of the overall household retirement picture, from either an asset or spending requirement perspective.

16 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2017
17 ICI, *Investment Company Fact Book,* 2017
18 Willis Towers Watson, *Retirement Offerings in the Fortune 500: A Retrospective,* 2018 https://www.towerswatson.com/en-US/Insights/Newsletters/Americas/insider/2018/02/evolution-of-retirement-plans-in-fortune-500-companies
19 BLS, *National Compensation Survey: Health and Retirement Plan Provisions in the Private Industry in the United States,* 2015.
20 BLS, *Employment Characteristics of Families,* 2016 https://www.bls.gov/news.release/pdf/famee.pdf
21 U.S. Census Bureau, *America's Families and Living Arrangements,* 2013 https://www.census.gov/prod/2013pubs/p20-570.pdf
22 Alight Solutions, *Trends & Experience in Defined Contribution Plans,* 2017

Problem 3: Lack of knowledge

Understanding financial needs and implementing financial planning is challenging for many—and often difficult without help.

Of course, not every worker needs help. There will always be workers who can seamlessly weave their financial picture together in an integrated way. However, we believe that these types of workers are in the minority for four main reasons.

1. Most workers lack a basic understanding of real-life finances. FINRA recently tested the financial intellect of the workforce and found some serious deficiencies. According to FINRA:

> **"Americans demonstrate relatively low levels of financial literacy and have difficulty applying financial decision-making skills to real life situations. In the study, participants were asked five questions covering aspects of economics and finance encountered in everyday life. In the U.S., 63 percent are unable to answer more than three of the five questions correctly."[23]**

2. Most workers are not investment experts. TDFs are designed to provide a solution that is simple for participants to understand and complex behind the scenes, and they are readily available.[24] However, despite their "simple" approach and widespread use, participants do not understand the solution: Over 60% of participants note that they "don't know anything about TDFs" and only 6% can respond correctly to 5 simple questions regarding TDFs.[25] Also, TDFs are often not used as they were intended, with only one-half of participants using them as a single fund solution as they are designed.[26]

3. Most workers do not devote the time needed to research investments. When it comes down to it, workers spend little time making 401(k) investment choices. On average, workers spend more time researching vacation spots and home appliances than they do their retirement savings.[27] Two-thirds say they spend less than two hours annually researching retirement investments, including almost 30 percent who say they spend less than one hour.[28]

4. Most workers aren't sure what they need to do. Even if workers realize that they need to do more, they don't always know how. Among workers who are at least 21 years old, 74 percent agree with the statement that they should be doing more to prepare for retirement, but four-in-ten say they "simply don't know what to do."[29]

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23 FINRA, *Financial Capability in the United States,* 2016 http://www.usfinancialcapability.org/downloads/NFCS_2015_Report_Natl_Findings.pdf

24 TDFs are the largest asset class with 28% of the total and receive 42% of monthly contributions (more than double the next largest category). Source: Alight Solutions 401(k) Index, March 2018

25 Alight Solutions, *Financial Mindset Survey,* 2017

26 Alight Solutions, *Target Date Funds: Who is using them and how are they being used?,* 2017

27 Charles Schwab, *401k Participation Survey,* 2017 https://aboutschwab.com/images/uploads/inline/Schwab_2017_401(k)_Survey_Media_Deck_FINAL.pdf

28 Ibid.

29 Prudential, *Retirement Preparedness Survey Findings,* 2016 http://research.prudential.com/documents/rp/2016-Retirement-Preparedness-Survey.pdf

Proposing a solution

We believe there is an easier and smarter way for people to manage their finances today and save and invest for tomorrow. Offering workers **a more comprehensive solution** to plan, save and invest could make a dramatic difference for many.

An improved solution that could truly help workers should include:

An easy-to-use set of tools that would allow individuals to see their full financial picture—from daily budgets to debt management to future savings for retirement, health care and other important family needs, such as children's education or eldercare.

An investment option that would take into account their full financial picture and help manage investing including retirement plan assets, personal and spousal assets, and other potential sources such as pensions and Social Security.

Tools that encourage individuals to actively engage in personal financial management and planning as they move through each life stage and into retirement.

Introducing WealthSpark™

As a leading provider of benefits administration solutions, Alight Solutions is committed to helping organizations and their people thrive.

Alight has recently introduced **WealthSpark**™, an innovative solution that combines personalized investment portfolios with a comprehensive financial platform delivered through innovative technology that can help workers save, invest and plan smarter—and is supported with a fiduciary construct that makes sense for plan sponsors.

Alight delivers this simple yet sophisticated new solution through a combination of customized investment portfolios, designed in partnership with AB, plus a comprehensive suite of digital wealth management tools powered by Personal Capital to offer greater insight into a worker's full financial picture.

To find out more about how WealthSpark™ can potentially help your employees save, invest and plan smarter, visit **alight.com/wealthspark**.

About Alight Solutions
As the leading provider of benefits administration and cloud-based HR and financial solutions, we enhance work and life through our service, technology and data. Our dedicated colleagues across 14 global centers deliver an unrivaled consumer experience for our clients and their people. We are Alight. Reimagining how people and organizations thrive.

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