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Issue BRIEF

"Crisis" Management: Uncertainty and the Workplace

By Nevin Adams, J.D., and Dallas Salisbury, Employee Benefit Research Institute

AT A GLANCE

While the nation is now a few years removed from the financial turmoil that led to the so-called Great Recession, "crisis" is a word still much bandied about. Crisis is, after all, something that cries out for swift and decisive action—and the industry of employee benefits has had its fair share of crises.

Whether it's the looming retirement crisis some see (or see for some) on the horizon, the crippling impact of college debt on the finances (and future financial security) of younger Americans, or the health care crisis that the Patient Protection and Affordable Care Act of 2010 (PPACA) was designed to forestall (or that some say is destined to create), those at nearly every point of the political spectrum are challenged with the urgency of the need to address the "crisis."

But do current circumstances actually constitute a "crisis"? A review of the dictionary definitions of crisis reveals the following perspectives: "A crucial or decisive point or situation; a turning point"; an "unstable condition, as in political, social, or economic affairs, involving an impending, abrupt or decisive change"; a "sudden change in the course of a disease or fever, toward either improvement or deterioration."

With that background in mind, each year, the Employee Benefit Research Institute (EBRI) holds two policy forums that bring together a cross-section of national experts in the benefits field, congressional and executive branch staff, and representatives from academia, interest groups, and labor to examine public policy issues affecting health and retirement benefits. This *Issue Brief* summarizes the presentations and discussions at EBRI's 74th Policy Forum held in Washington, DC, on May 15, 2014.

Titled "'Crisis' Management: Uncertainty and the Workplace," the symposium featured expert panelists who, along with about a hundred in attendance, examined the current and projected future state of retirement readiness, employment-based health care, and the role that approaches like financial wellness can play in alleviating the strains of uncertainty. Topics included:

- *Never Let a (Retirement) Crisis Go to Waste: What's Broken, What's Not, and What to Do About It (or Not).*
- *Be Careful What You Wish For: The Impact of the ACA on Employment-Based Health Benefits.*
- *Healthy, Wealthy, and Why—In the Midst of Uncertainty—Can Financial Wellness Work?*

More information on this, and previous EBRI policy forums, including presentation materials, agendas, and links to webcast recordings are available online at www.ebri.org/programs/policyforums/

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"Crisis" Management: Uncertainty and the Workplace

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Introduction

Kicking off the EBRI 74th Policy Forum, Nevin Adams, director of Education and External Relations for the Employee Benefit Research Institute (EBRI), recounted the experience of the ill-fated Apollo 13 moon mission and a quote made famous by the Ron Howard movie, "Houston, we have a problem."

"Here you had three astronauts stuck in space, hundreds of thousands of miles from home, running out of air, running out of water, stuck in a cabin where the temperature was plunging, and one of the crew really ill," he said. "Arguably, they would have been well within their rights to call it a 'crisis,' even though they called it a 'problem.'"

Adams noted: "'Crisis' is a word that gets used a lot today, and there are a lot of reasons for doing so. More recently, it has been famously said, 'Never let a serious crisis go to waste.' But what is a crisis? The dictionary offers several perspectives: 'A crucial or decisive point or situation; a turning point,' or 'an unstable condition, as in political, social, or economic affairs, involving an impending, abrupt or decisive change.'"

"Regardless of your definition," Adams said, "the focus of this policy forum, 'Crisis' Management: Uncertainty and the Workplace,' is, as the title suggests, on 'crisis,' or the perceptions thereof, as it relates to the workplace; the implications for retirement savings; health care in the aftermath of the implementation of the Affordable Care Act; and the prospects for an expanded focus on financial wellness in the workplace."

Leveling the Playing Field

Fronstin

Paul Fronstin, who heads the health care research team at EBRI, noted that PPACA "levels the playing field like it's never been changed before" and that "one could argue workers won't need their employers any more for health benefits once the law is fully implemented and health exchanges become a viable option to job-based health benefits. That raises real issues about the future of employment-based health coverage," he said.

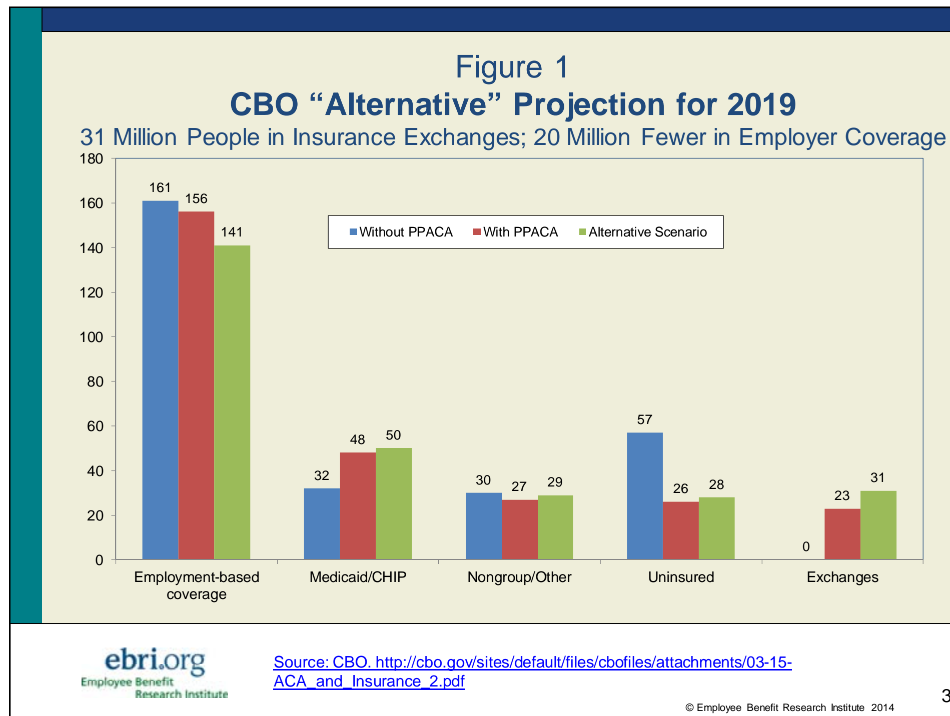
"There's an issue of affordability," he said, "but any worker could go to a health exchange and get coverage without worrying about pre-existing conditions, without paying more because of pre-existing conditions, without being denied coverage because of pre-existing conditions." He cited a projection scenario from the Congressional Budget Office (CBO) indicating that, by 2019, there could be 20 million fewer people with employment-based coverage (Figure 1). "Employers are just not sure if they'll be offering coverage in the future," he said.

He noted that when Towers Watson and the National Business Group on Health asked employers in 2007 if they were confident they'd be offering coverage a decade later, 70 percent indicated they were. But by 2011, that same employer survey found that only 23 percent were confident they'd be offering coverage a decade hence. "This doesn't necessarily mean employers think they're going to drop coverage," he said, "but what it does mean is the Affordable Care Act raises questions among employers. They're not sure what the world is going to look like in 10 years."

What Workers Want

Turning to findings from the EBRI/Greenwald & Associates 2013 Health and Voluntary Workplace Benefits Survey, Fronstin noted that 70 percent of workers rated health benefits as the most important, while another 10 percent rated it as second-most important. He also noted that, of the 60 percent of workers who reported rising health care costs, one-third reduced their contributions to their retirement plan—evidence they are trading off retirement benefits to maintain their health benefits. Moreover, the EBRI study found that when considering a specific job, 77 percent of

workers rated their health benefits as most important, while only 11 percent rated their retirement savings plan as most important benefit.



Fronstin also noted that 90 percent of workers were confident that the benefits they purchase through their employer were less expensive than what they could purchase on their own, and nearly as many (80 percent) were confident that their employer had picked the best plan for them.

"There's still a lot of confidence in employers picking health plans vs. workers going out on their own and doing so," he said. The vast majority (90 percent) were satisfied with their current health coverage, and while 75 percent were satisfied with the mix of health coverage and wages, he noted that a quarter would prefer a different mix, perhaps more pay and less benefits. Additionally, the EBRI survey found that 90 percent of workers were interested in more choice in their health plans, which may explain the interest in the health care exchanges. EBRI's most recent survey found that 45 percent preferred something along the lines of a defined contribution health offering, higher than past readings.

While workers still value health care benefits more highly than any other benefit, they generally like that their employers are picking the plan on the workers' behalf, and think they're getting a better deal than they would on their own, Fronstin said. "It's going to be interesting to see what happens down the road as workers understand more about the benefits of public exchanges and as employers introduce private exchanges," he noted. "We'll see what kind of shift there is and whether it's employer-driven or worker-driven."

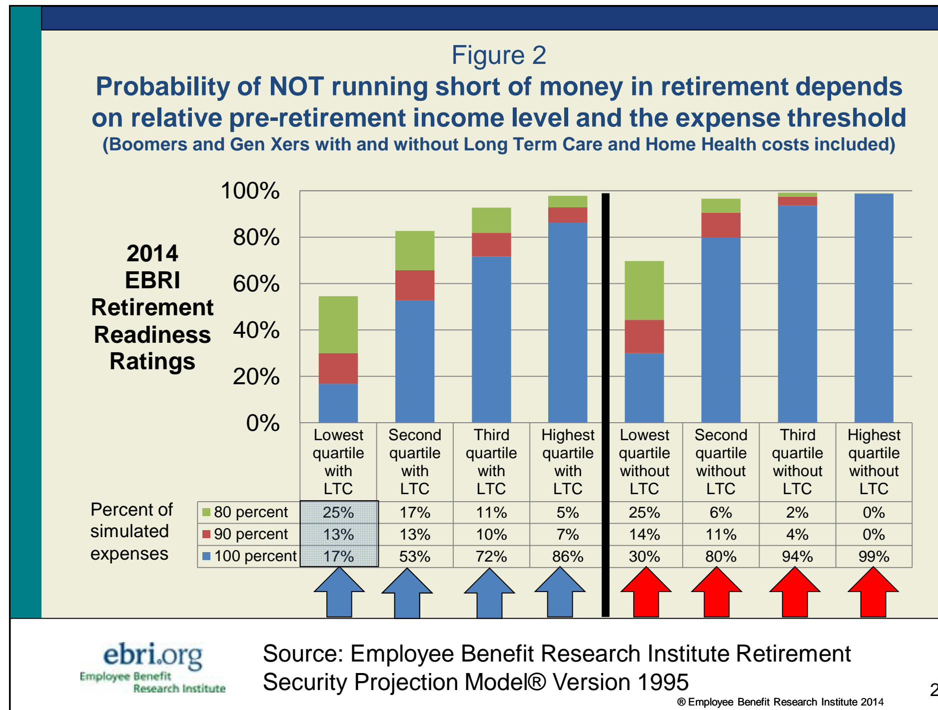
Is There a Retirement Crisis?

Setting the stage on the retirement side, EBRI Research Director **Jack VanDerhei** shared data from EBRI's Retirement Security Projection Model® (RSPM) to address the question: Is there a retirement crisis for the Boomers and Gen Xers? "The answer," he explained, "after thousands and thousands of different simulations is—it depends."

VanDerhei

Focusing on income levels, VanDerhei showed data with results for various income quartiles, using three different criteria on which to assess retirement income adequacy. He noted that if the threshold for retirement income adequacy is determined to be having enough money to cover 100 percent of all day-to-day expenses like housing, food, and transportation, plus the

potentially catastrophic expenses like long-term care, RSPM shows that only 17 percent of the lowest-income households would have enough. Not surprisingly, the situation improves dramatically for higher-income quartiles, such that 86 percent of the highest-income quartile is projected to have sufficient money to clear the 100-percent-expense threshold. Applying less-stringent expense thresholds, such as 90 percent or 80 percent of retirement income adequacy, produces significantly different results, he explained (Figure 2).



VanDerhei also illustrated how ignoring the impact of long-term care costs, as some retirement models do, produces significantly more optimistic results—even though he cautioned that such costs "can be the biggest factor in whether a household that looks like it has adequate financial resources for retirement is actually going to run short of money or not."

One of the most important factors in predicting future retirement income adequacy is how many future years an individual will be working for an employer that offers a defined contribution (DC) plan, such as a 401(k), VanDerhei said. Assuming a need to cover 100 percent of simulated expenses, he found that Generation Xers who are not lucky enough to work for an employer that sponsors a DC plan have only a 2 in 5 (40 percent) chance of having adequate retirement income. "That jumps by 50 percent if you look at those with one to nine years of eligibility," he noted, 73 percent for those with 10–19 years of future eligibility, and 86 percent for those with at least another 20 years of working for an employer with a defined contribution retirement plan.

"One of the things to keep in mind as we talk about the retirement crisis, whether it exists or not, is there is a tremendous amount of heterogeneity among U.S. households," VanDerhei concluded. "It's going to depend on your income quartile. It's going to depend on how many years you're eligible to participate in a defined contribution plan. It's going to depend on whether or not you look at long-term costs. And it's also going to depend on exactly where you set that bar."

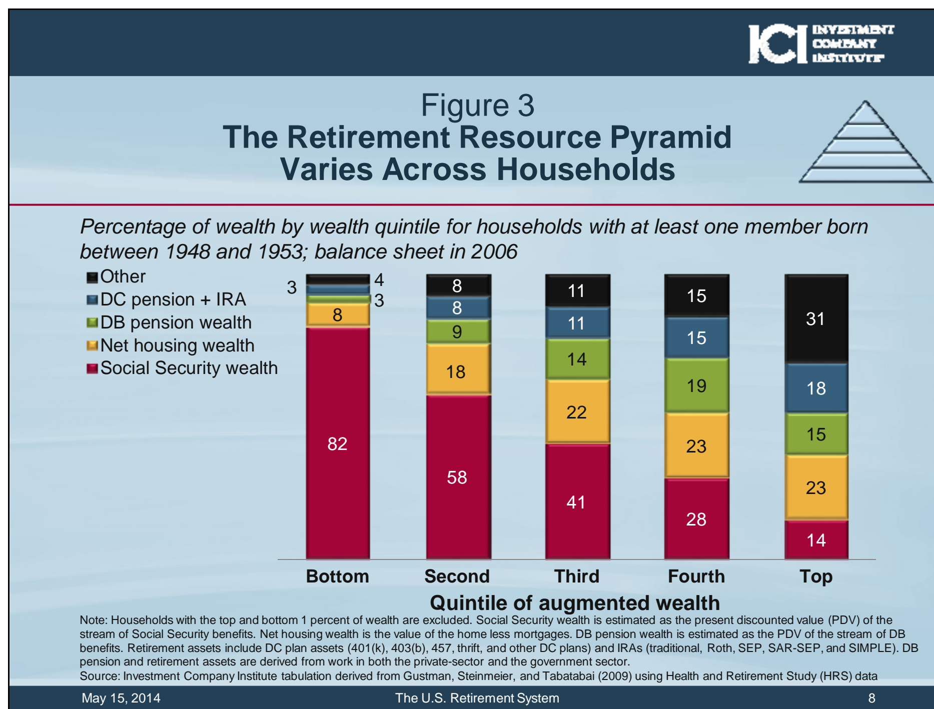
Never Let a Retirement Crisis Go to Waste: What's Broken, What's Not, and What to Do About It (or Not)

The policy forum's first panel, moderated by EBRI Research Director Jack VanDerhei, included Sarah Holden, senior director of Retirement Investor Research at the Investment Company Institute (ICI); Doug Fisher, senior vice president of Policy Development and Thought Leadership for Workplace Investing at Fidelity Investments; Diane Oakley, the

executive director of the National Institute on Retirement Security; and Peggy Collins, personal finance reporter for Bloomberg News and Bloomberg Business Week.

Holden

Sarah Holden began the discussion by suggesting that, rather than relying on the concept of a three-legged stool of retirement income, a better way to understand those resources might be a pyramid, with Social Security as its base upon which home ownership, employer-sponsored retirement plans, and individual retirement accounts (IRAs) can rest (About half of all IRA assets have been rolled over from an employer-sponsored plan, either defined benefit (DB) or defined contribution, according to Holden). Walking through the layers of this pyramid (Figure 3) she noted that Social Security is designed to replace a proportionately higher amount of income post-retirement for lower-income households compared with higher-income individuals, while housing spending has a life cycle of its own, with home ownership increasing with age, and the mortgage burden typically declining as individuals get older.

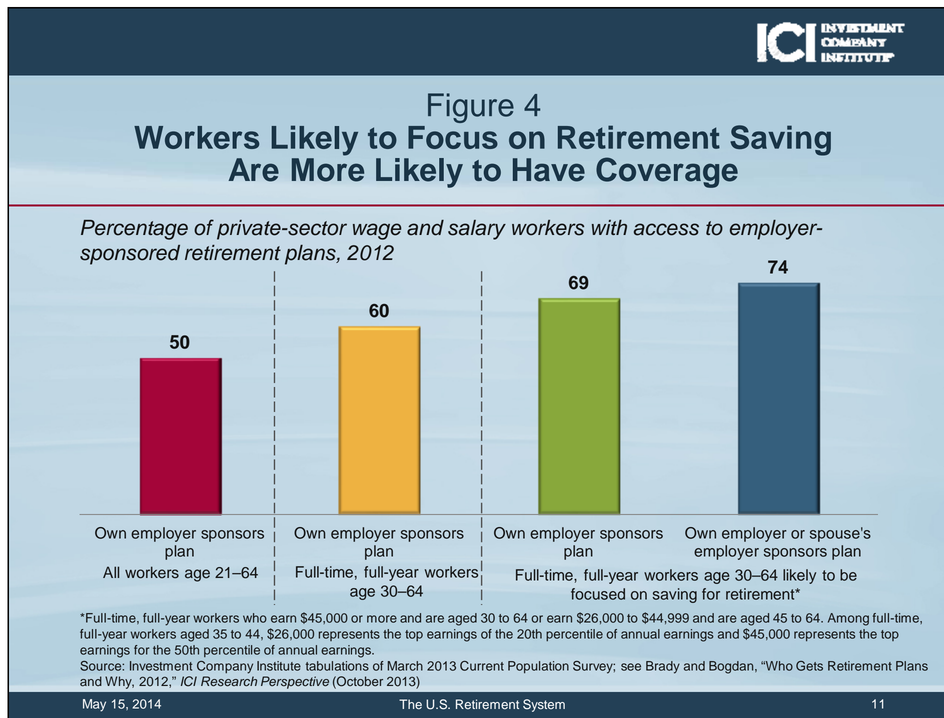


Holden noted that about 8 in 10 households near retirement have members who have participated in employment-based retirement plans at some point in their working careers. By income, lower-income households are less engaged with these programs; and yet she noted that, even in this group, nearly half have some form of DB/DC or IRA accumulation as they approach retirement. As for the retirement system at large, she noted that, at year-end 2013, ICI reported a record high of $23 trillion earmarked for retirement, with more than half (54 percent) in accounts that are managed by individuals: $4.2 trillion in 401(k) plans; $1.7 trillion in "other" DC plans; and IRAs (the largest component) with $6.5 trillion in total assets. Holden went on to note that there is currently $3 trillion in defined-benefit-plan assets and another $0.2 trillion promised but not funded. Federal plans have as much in assets as they do in unfunded liabilities—about $1.8 trillion each. State and local plans have nearly $4 trillion in assets, but $1.1 trillion in unfunded liabilities.

A Savings Cycle

Looking at retirement savings by income quintiles, Holden pointed out that 82 percent of the wealth of the lowest quintile came from Social Security, but among the higher-income quintiles, employment-based plans accounted for about 20 percent of people's retirement resources. "There is a life cycle to saving," she noted, "and there's a life cycle

to saving for retirement." Citing results from the Survey of Consumer Finances (SCF), she noted that the primary reason for saving among younger households is not retirement: "It's not until you get older that retirement becomes the primary thing," Holden said (Figure 4).



Doug Fisher started off by acknowledging that the United States currently is in what he called the "third generation" of defined contribution plans. In the first generation, he said, the DC plan was personal savings, supplemental to the defined benefit plan. DC's second generation occurred as defined benefit design began to change and shrink, undergoing freezes (both hard and soft), while many plan sponsors shifted to cash balance plans as a step toward what sometimes resulted in termination of the plan. During that period, employers adjusted (and often increased) their DC plan designs. In today's third generation, Fisher said that employers are now working with DC plans that in some cases are 15 years old in design and delivery—the first generation of auto features (Figure 5).

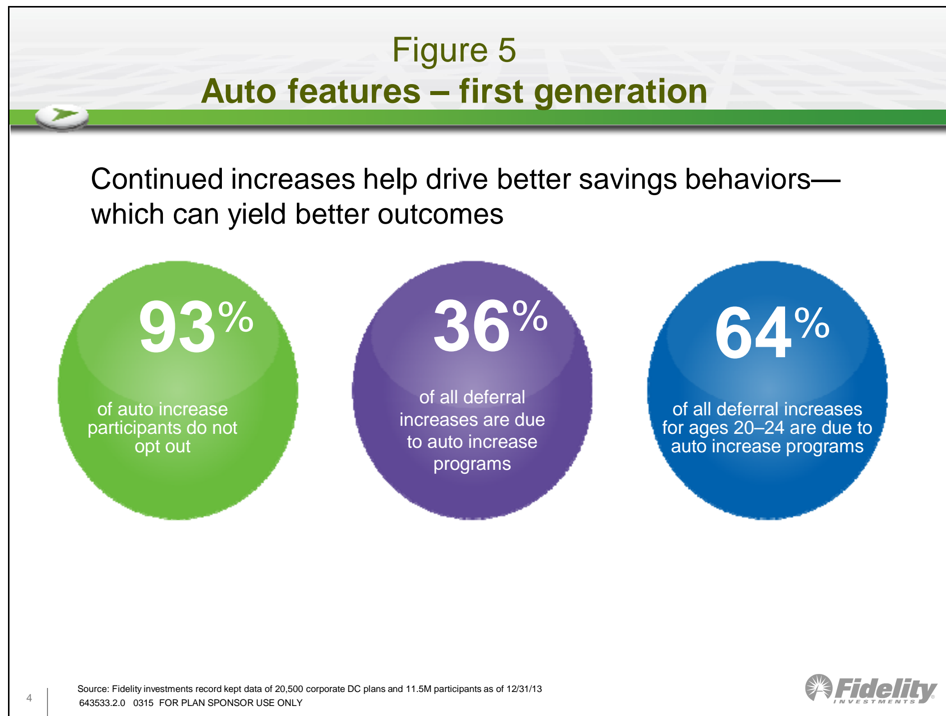
Fisher

Fisher acknowledged the impact of health care on retirement benefits, with employers having to devote a tremendous amount of "mind share" on that issue regarding current costs and what health care might become in the future. "As health care moves towards a consumer-driven decision in many employers, I think it's going to have an impact on how employers design and deliver retirement," he said, although he noted that it's too early to tell if that will be a good or negative impact.

Echoing comments made earlier, he acknowledged the importance of Social Security and Medicare and the "luxury" those programs provide in terms of designing and engaging participants in a different way than would be otherwise possible, and whose absence—or reduction—would impact the level of retirement security.

Workplace Generations

With the Baby Boomer generation starting to retire but still working, Fisher noted that today's work force may have five generations of employees, each with very different needs, expectations, and attitudes toward retirement and health benefits. For employers sponsoring those benefits, this raises the stakes: "Imagine designing and delivering benefits through the defined contribution system and health care through education, guidance, and engagement for five generations—each of which thinks very differently," he said.



He also noted that a large number of employers are trying to regenerate their work force because the economics of their businesses are changing so rapidly. "Different products are needed for the market, and they need different kinds of talent to do that," he explained. That process includes helping older workers near retirement gain the confidence that they can afford to leave the work force and go on to their next phase in life, as well as helping young, new workers figure out how to budget, decide whether to buy or rent their housing, and how to save for retirement.

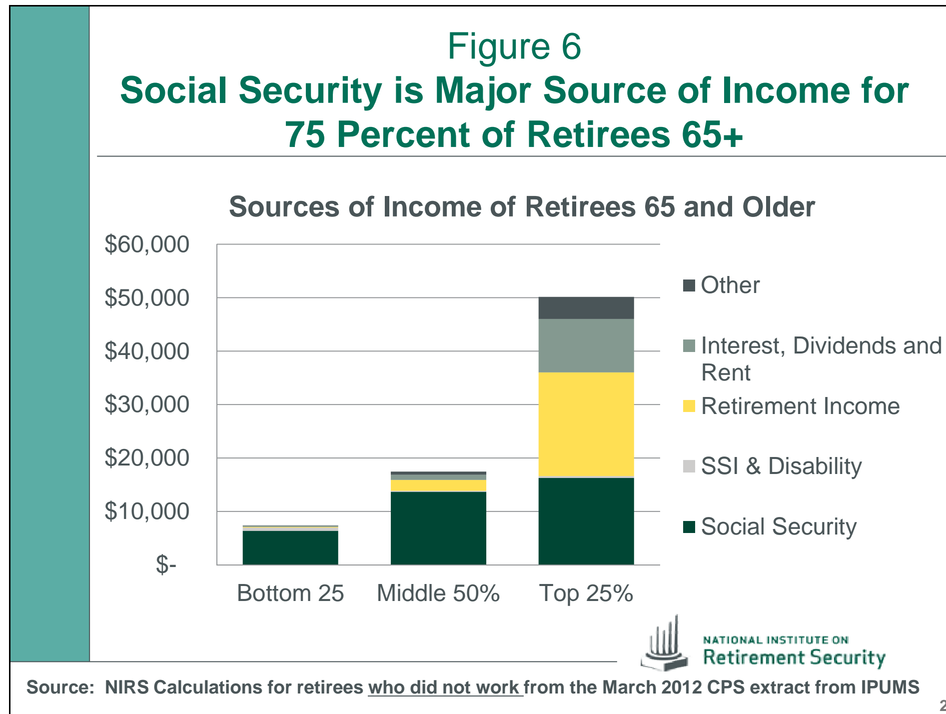
Fisher closed by noting that with the 40th anniversary of the Employee Retirement Income Security Act of 1974 (ERISA), it is important to remember that the federal government's primary pension law was designed to solve a very important pension problem at a very different time in the nation's history. The challenge for today—and tomorrow—requires changing the debate to something that would actually drive better outcomes from the U.S. retirement system, and "is not going to happen overnight," he said.

"Jump" Straits?

Oakley

Diane Oakley began with the analogy of a frog that, when placed in boiling water, jumps out. "The frog knows it's in a crisis," she said, but stays in the pot and becomes "soup" if the water temperature is slowly raised over time. As for whether or not we're facing a retirement crisis today, she said, "Maybe not," but the incremental changes being made in the nation's retirement system are having a profound impact on individuals.

For instance, about 30 percent of workers currently stay in their jobs beyond traditional retirement ages, a figure that Oakley said was up from 10 percent about 20 years ago, and is a trend that is likely to continue. She cited a study by James Poterba of the Massachusetts Institute of Technology (MIT) that found an 85 percent reliance on Social Security among the lowest-income quartile of workers, compared with about 57 percent for the third-income quartile. "It's really only in the top quartile where we see the mixture of the 'three-legged stool,' with retirement income from Social Security, personal savings, and from a retirement type of program," she said. As various data show, she added, "what clearly comes across is Social Security is the foundation" source of retirement income (Figure 6).



Citing a National Institute on Retirement Security (NIRS) analysis of reported savings by income and age, Oakley noted 4 out of 5 households had savings amounting to less than one year of their annual salary. She also cited a 2006 report from the Government Accountability Office (GAO) that concluded the retirement of the Baby Boomer generation would not cause stress in the financial markets—only because the financial assets of that group were extremely concentrated at the upper-income levels. She also noted that NIRS had recently conducted a similar analysis and found that the bottom-income half of the Baby Boomers owned just 4 percent of the assets, while the top 25 percent controlled 83 percent of Boomer retirement assets.

She also cited SCF data showing that having a retirement account tends to drive both wealth and retirement planning: those who have a retirement account tend to have five times the amount of assets of those who don't have a retirement account. "If they're not planning for retirement, most of them don't have that kind of savings," she said. "People save today in their retirement accounts."

Finally, regarding the iconic three-legged stool of retirement, she cited Poterba's analysis of the 2010 SCF that looked at individuals ages 55 to 64, which found that nearly three-quarters had some kind of retirement plan account; however, it also found the defined benefit plan had the greatest value—a significant factor because this generation is the last age cohort that is likely to have significant retirement benefits come from traditional DB pension plans.

"One of the things we found about defined benefit plans when we look at the overall economy is that individuals who had them continued to spend their retirement income," she said. This was not the case with 401(k)s, which had owners who tended to cut back on spending because the value of their accounts declined so sharply during the Great Recession. "We have to think about how retirement fits into our broader picture, because it's not just a benefit," she explained. "It really is an important source of income for a lot of Americans."

"Different" Strokes

Bloomberg's **Peggy Collins** offered insights not only from her perspective as a personal finance writer, but also from those of readers and the questions they ask. She noted that some want to know why their retirement plan may look so different from that of their neighbors' and spoke to the huge potential disparities based on employer size, industry, and

even location. She pointed out how differences in plan design, such as the rate of the employer match, can make a big difference in outcomes, even for workers of the same age who make the same salary and start saving at the same time.

Collins

Two other potentially major considerations are vesting, particularly for younger, more mobile workers, and "leakage" of retirement savings by workers in their 20s or 30s who job-hop and cash out their relatively small 401(k) balance when leaving an employer. Bloomberg heard from many readers after publishing a report on the issue of leakage, and Collins noted that most said the decision to cash out was a "tough, tough decision for them." In a lot of cases, Collins said she heard from families where there had been a job loss and there was no other choice but to tap retirement savings. "For a lot of people, the only savings that they have now is in the 401(k)."

"Overnight" Sensations?

Asked if they could make one change overnight in the current retirement system, Holden said she'd be inclined to make the rules simpler and less complicated—certainly concerning universal access to IRAs, and in ways to make it easier for small employers to offer retirement plans to workers who don't currently have access to one in the workplace. "The voluntary system is working," she said. "It was designed to be, and it is, a complement to Social Security, and whatever we do, we want to be sure that we don't damage that system, that we continue to allow it to work and foster innovation," she said.

Oakley noted that the United States lacks a national retirement income policy, and instead has "a patchwork of things that were created for one purpose and have evolved." She noted that "we've evolved from the employer-*provided* retirement system to an employer-*sponsored* matching system," and might be heading to a system where employers outsource even more responsibility for retirement savings as regulatory costs and risks of offering a plan continue to increase. "Employers have certainly stepped way back from where they were," she said.

Echoing those thoughts, Fisher said he'd like to see innovation in the policy debate in Washington, where those focused on the budget get together with those focused on taxes, as well as those working on retirement, and set a national retirement policy. "We are in a different generation of workers and benefits, and our economy is changing," he said. Secondly, Fisher said he would modernize ERISA because the heavily amended, 40-year-old law "stifles innovation," especially as health benefits undergo dramatic change. "It doesn't allow the innovation or creativity to design retirement plans, and design benefits in general, as we integrate them between health and retirement," he said.

Collins said she would improve the transparency in the current retirement system, specifically regarding 401(k) fees. "I think that more transparency in the industry would do two things: It would make people feel more confident about what they're doing and be more engaged, and it would improve their results," she said. Finally, she noted that younger workers today are asking a lot more questions about the particulars of the retirement benefit. In the past, many stopped at just knowing that there was a 401(k) plan, but today she gets more pointed questions: "How long do I have to vest? How much is your match? And can you actually tell me how much I am paying for that benefit, or is it all baked into the investment fees in the plan?"

Be Careful What You Wish For: The Impact of ACA on Employment-Based Health Benefits

Moderated by Paul Fronstin, director of EBRI's Health Research and Education Program, the second panel of experts included Chris Jennings, president of Jennings Policy Strategies and senior advisor for the Bipartisan Policy Center, who recently served as President Barack Obama's deputy assistant for Health Policy and coordinator of Health Reform; Joe Antos, the Wilson H. Taylor scholar in Health Care and Retirement Policy at the American Enterprise Institute and an adjunct professor at George Washington University; and Noam Levey, who covers national healthcare policy for The Los Angeles Times/Tribune Washington Bureau.

Jennings

Chris Jennings led off by noting that he expected a slow change in the mix of employer contributions to their workers' health insurance vs. individuals going into health exchanges on their own, although he predicted many employers will choose to go into private exchanges, and, via those platforms, continue their health insurance contributions as they had previously. As long as there is a federal tax incentive for employers to provide health coverage—and probably more importantly, as long as it remains a competitive advantage for employers, since workers want to have health care—employers generally (and larger employers particularly) will likely continue offering coverage, he said.

"Small businesses, retail work forces, people with low-income work forces that are part-time, that are very volatile in terms of a population staying in and out of employment, will probably be the ones more likely to go into the exchanges," he said. Other demographic groups, especially most Americans who work for larger employers, will probably not see that change immediately. While many employers will be considering private health exchanges, Jennings said, "we simply don't know what's going to happen. Employers are slow to react. They want to see what's happening. They want to see how the exchanges are operating. They want to see satisfaction rates," and it's going to take a few years for all that to shake out, he said.

However, Jennings also predicted that if there is a major resurgence in healthcare-cost inflation, employers will have a greater incentive to look at alternatives and make more "aggressive interventions" than might have otherwise been the case. Jennings noted that larger employers are already beginning to prepare for the so-called Cadillac tax and high-cost plan assessment, so he didn't anticipate an abrupt reduction in benefits going forward.

Antos

Joe Antos began by clarifying that PPACA expanded health *insurance,* not health *care,* noting that many people had unrealistic expectations about what was going to happen under the law, and that those expectations are being confronted by realities as the law and its structures take effect. He characterized health policy as being "perfectly schizophrenic" when it comes to employer-sponsored coverage, a problem that he doesn't expect to be resolved any time soon.

Questioning why the employer mandate to provide health insurance was in the law in the first place, Antos offered two possibilities: First, it might have been an attempt to force employers to do the right thing, to fulfill somebody's idea of employer responsibility to their employees, or secondly, it might have been what he called a budget "gimmick" to get a good budget score from the Congressional Budget Office, either via the penalty on employers or in pre-empting individuals who might otherwise have been eligible for the exchanges. Antos called the mandate a "fundamentally bad idea that introduces serious distortions in the labor market." Specifically, he pointed out that the mandate doesn't really affect higher-income workers (because they already buy insurance and are generally employed by organizations that already offer coverage) but primarily affects lower-wage workers—what he described as the target population of PPACA.

While higher-wage workers have a greater ability to adapt to changes in the labor market, lower-wage workers are going to be affected by the mandate in ways from which they cannot recover—especially because they have a tough time getting jobs to begin with, Antos said. "If you're a part-time worker and you're working 32 hours a week, and you might drop to 29 hours because your employer doesn't want to get caught in all of this, are you going to be able to make up those hours? Are you going to be able to get another job?" he asked.

He cited a recent study by the Urban Institute that called for eliminating the employer mandate based on its conclusion that relatively few people will not have insurance. On the other hand, Antos cited another report that argued that big firms could save as much as $689 billion over the next 10 years if they dropped employment-based coverage and moved their workers to health exchanges, assuming that the savings weren't reinvested in some other form of compensation.

Antos predicted it is highly unlikely that the federal government will enforce the employer mandate, for what he saw as an obvious reason: It's not a popular thing to do, and it's certainly not going to be popular in an election year. He suggested a shift to "defined contribution" health plans (such as through health exchanges) is inevitable, given that such a shift has already happened with retirement benefits; Defined contribution retirement plans (notably the 401(k)) have largely supplanted defined benefit plans, since "traditional" company-provided pensions with generous benefits are "simply not practical."

In defense of private exchanges, Antos cited an Aon Hewitt study of workers in its own private exchange which found that 58 percent selected a different level of coverage from one year to the next. "What that says is that having somebody else decide what your coverage should be probably isn't going to suit a lot of people," he said. A private exchange gives people more choices. "It's an opportunity to find out what people really want and not pour more money into something that may not be of such great value," he said.

Noam Levey noted the irony of how employer-provided coverage—the largest and most important part of the healthcare system in many ways—gets the least amount of coverage by the news media. This reflects the fact that most of the dramatic action is in the nongroup market and that most national attention is focused on public entitlement programs, he said, and also reflects the reality that employer-provided health coverage is a slow-moving, gradual kind of storyline for journalists.

While Levey expects some changes will draw attention, he describes many of the predictions about PPACA's impact as being quite hyperbolic. "It is interesting to hear what people in Washington think is going to happen with employer-provided coverage," he said, "and then you talk to people in the benefits world, and you get a very different picture. The simple fact of the matter is that employer-provided health coverage clearly has a value for employers."

Levey

Levey said that he is watching not just the private exchanges but also how employers are interacting with health care providers and with benefit plans to "tier" their benefits, at different levels for different workers. Additionally, he noted that the "narrow-network" discussion, currently focused primarily on PPACA marketplace plans, is beginning to trickle over into employer-provided plans. The real wild card with health benefits is the federal tax treatment of health coverage and how Congress may change it, he said: "The Cadillac tax obviously is going to be something that's going to get a lot of debate here, and when it actually goes into effect, I'll guarantee you we're going to have some fireworks in Washington."

EBRI's Fronstin asked whether workers might play a role in driving change faster, such as by demanding the greater breadth of options available in the exchanges, especially during a time when the unemployment rate is trending lower. Jennings said employers that need to attract and retain skilled workers will likely be responsive to those demands, if they do occur, either through private exchanges or some kind of subsidized participation in the public exchanges. "Most small businesses are exempted altogether from the health mandate, which seems to get lost in the rhetoric around the impact on small business," he said.

Jennings added: "The real benefit of ACA lies in its ability to stabilize the health insurance market overall so that insurers aren't going to be competing on their ability to exclude populations, but rather to manage cost and quality in a way that's much more responsive to both employers and employees alike. That was really the intent behind the law, and I think it's happening."

Antos noted that for workers to negotiate with their employer for change, they first need to actually understand what the options are, even though most employees do not fully understand the insurance they currently have beyond the level of co-pays and premiums.

"One of the challenges here—and I think this is the reason why employer-sponsored coverage is here to stay, at least for the foreseeable future—is that a lot of people need more help than is possible," he said. "We haven't figured out a way to actually get people to understand what their options are."

Healthy, Wealthy, and Why—In the Midst of Uncertainty—Can Financial Wellness Work?

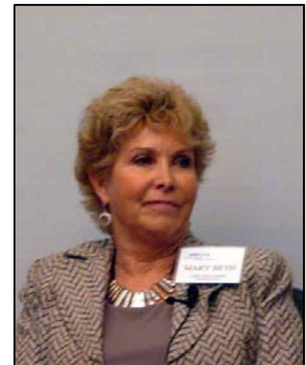
The final panel of the policy forum focused on the issue of financial wellness. Nevin Adams, EBRI's director of Education and External Relations, noted that wellness as a health concept has been both very popular and very well received in the work place by employers and workers alike. Consequently, the extension of the concept to encompass a more universal view toward individuals' well-being has been a topic of growing interest. To discuss the issues, impact, and opportunities involved, the panel of experts included Kent Allison, national leader of PricewaterhouseCoopers'(PwC) Employee Financial Wellness Practice; Mary Beth Franklin, contributing editor at InvestmentNews; Joleen Workman, assistant vice president in the Individual Investor segment of the Retirement and Investor Services for the Principal Financial Group; Suzanna de Baca, vice president of Wealth Strategies at Ameriprise Financial; and Liz Davidson, CEO of Financial Finesse.

What is Financial Wellness?

Davidson

"Financial wellness is a result. It's a state of financial well-being, while financial education is a process," said **Liz Davidson.** "Financial *literacy* is a knowledge-based term: how much do you know about finances? Financial *wellness* means you have your finances under control and the associated stress; it means that you are on track to achieve your financial goals."

Mary Beth Franklin noted, "For most of modern American history, people have gone to work with the expectation that their employer is going to take care of their health care and take care of their retirement. Over the last 30 years, as we've moved from an emphasis on DB plan designs to DC, workers have gotten more skin in the game, reluctantly so. We were 20 years into this process before plan sponsors said, 'Well, maybe we should tell them how to do it.'"


Franklin

She added: "I would like to see us learn from the mistakes of what we did in retirement savings and apply them to this very new era of getting employees involved in consumer-driven health care—because they're going to pay more for it, they're going to have more responsibility. Let's tell them how to do it, because financial concerns are the biggest stressors in the workplace. It's costing productivity. It's costing dollars."

Suzanna de Baca said, "I like the fact that you're really talking about stress in this whole situation, because the research that EBRI, among others, has done shows that people do not know how much health care costs are going to be in retirement. They don't know how to estimate health care costs before retirement, and that is causing stress in their life." She noted that by combining the topics of financial preparation and health care, employers and benefit providers can improve their communications with consumers and help those experiencing stress.

de Baca

Kent Allison cited a recent PwC report showing GenXers and Baby Boomers are feeling some financial relief from the recession. "This year, the Generation Ys did not feel that sense of relief, despite the upticks in the market and housing values, he said. "Those who had assets in equity and homes are feeling better, while those who are relying on their current income are not, because income wages have been roughly flat."

What Concerns are Individuals Expressing Today?

"We're seeing a movement from crisis-oriented questions to questions about solutions," said Davidson. "For example, movement from, 'Do I declare bankruptcy?' or, 'I'm being evicted,' to, 'How do I better manage my debt?' They're both about debt, but one is reactive, from someone in deep trouble, and the other is being proactive. They're in that phase of acceptance, realizing their finances are not up to par, and then transitioning into, 'Okay, I have to figure this out myself, and then I'm going to take control.'"

Allison

Franklin said, "The biggest challenge there for employees is they're grappling with debt. Most of the financial management issues are debt issues. People have to be taught how to manage the debt and at the same time save for the future, whether it's for a short-term emergency fund or long-term retirement savings." She noted that many people are unable to grapple with the notion of doing both at the same time and view it as "either/or," but part of the financial-wellness focus is giving them the tools to deal with problems at the same time.

What About Privacy Concerns?

"It depends on what side of the table you're on," noted de Baca. "If employees feel that you're spying on them, that obviously can add stress to their life and actually inhibit financial wellness overall. However, if you provide tools and resources, that's fine." Much of the value of financial wellness comes from the personalization of the benefits solution employers can offer, but care must be taken to be aware of boundaries, she said.

Allison noted that the top priority for most individuals is one-on-one personal advice. "The need is out there, the want is out there, and I think the employer may need to separate itself from being in between the provider of that service and the employee," he said.

Workman

Franklin noted she sees more employers "getting away from just talking about numbers in retirement plans and talking about the worker's goals." She added: "That allows you to get to the question about 'where do we get the money to pay for these different goals?'"

Joleen Workman observed that what "we're also seeing is that if you have a more targeted, personalized approach, it really helps because it's relevant and timely to what that individual is going through. A one-size-fits-all certainly doesn't work."

Not surprisingly, Davidson noted a significant difference between those who are struggling with money and those who are not. "The least financially stressed are men, age 55 to 64, making $100,000 or more who have no minor children.

"Among that group, just 6 percent said they had high or overwhelming financial stress. But if you look at women under age 30 with minor children, making $60,000 or less—58 percent said they were experiencing high or overwhelming financial stress."

The Business Reason for Financial Wellness

Workman said that both benefit plan advisors and plan sponsors are viewing financial wellness as a valuable tool in work-force management, especially since the recession. "Employers are realizing that more people than expected are retiring sooner than expected because of disability or sometimes unexpected death. On the flip side, if people are not able to retire on time and stay in the work force, many times that is leading to less engagement, less productivity, higher health care costs, etc. All of those factors come into play in evaluating work-force management and highlight the need to help workers become more financially well."

De Baca said "employers have some enlightened self-interest" in offering financial wellness programs. "Employees who engaged in these types of programs generally show higher productivity, higher satisfaction, and higher retention." She added: "If you have a happier workforce, that's the altruistic part of it, and the right thing to do as an employer."

Davidson said her firm had compared health care costs among those who regularly interacted five or more times a year with a financial wellness program with those who didn't, and found a 19.3 percent increase in claims and expenses for those who did not interact with a financial wellness program at all over the 2010-2012 period. For those who did interact regularly (five times a year over the two years), health costs dropped 4.5 percent.

"Financial wellness is potentially a way to reduce healthcare costs if employers can institutionalize it as a benefit," Davidson said. "That is because finances are the number-one cause of stress, and 60 to 70 percent of medical claims are stress related or caused by stress."

Economics of the Programs

Davidson said that in her firm's model, employers pay 100 percent of the cost of a financial-wellness program, typically as an employee benefit. It is available to all employees and specifically marketed as a financial-wellness benefit typically through multiple channels, including online and through webcasts, a personal financial-wellness assessment, phone-based financial coaching, financial workshops, and one-on-one planning sessions. "The economics for large and growing medium-size companies work nicely, because it's a small amount in contrast to what they're paying for benefits, and, especially with employees having to make more choices and come up with more funds for their benefits, it's well worth it," Davidson said. "Since it's free of charge to the employee, those who need it most don't have that financial barrier."

She said participation in the programs tend to be very high when marketed effectively and tied into physical wellness programs, but they have to be institutionalized as a benefit part of the company's culture rather than presented as just a tool or a website of resources.

Utilization Rates

Davidson said participation in financial wellness programs will be low—around 20 percent—if an employer does not provide incentives or support them well. However, if they are supported and integrated health and wellness programs, ongoing utilization can be as high as 85 percent.

"Our range is somewhere between 40 and 93," noted Workman, "but it really depends on what employers are doing to help drive those outcomes." She added that 401(k) plans that have both automatic enrollment and auto escalation have about 20 percent greater utilization of financial wellness programs.

"As you put more of the onus on employees to make financial decisions, the relative cost of making this available as a benefit to your employees is well worth the return," explained Davidson. "It's also very important that whenever we talk about financial wellness, we not forget that it must include the employer benefits as part of the equation," she said. "If it doesn't, you're missing a really important opportunity to help people build wealth."

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