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The Gen X Savings Crisis: How Plan Sponsors Can Help

According to a December 2023 survey from Schroder's, nearly half of non-retired Gen Xers, those born between 1965 and 1980, have not done any retirement planning whatsoever. Moreover, they report a savings gap of over $450,000 between what they say they'll need and what they project they'll have. Amplifying these concerns, a separate study by the National Institute on Retirement Security earlier last year found that the typical Gen X household has only $40,000 in total retirement savings. So how can employers help their MTV Generation workers save?

Flexible work arrangements. Recognize that Gen Xers may look to pursue nontraditional retirement paths — such as phased retirement or working in encore careers — and provide support for these choices. Flexible work arrangements, such as part-time or remote work options, can allow employees to stay in the workforce longer and postpone their full retirement date. Tailor custom roles based on their new work schedule and availability.

Emergency savings opportunities. Effective this year, SECURE 2.0 paves the way for employers that provide a defined contribution plan to offer an emergency savings account for non-highly compensated employees. The provision could go a long way toward helping circumvent hardship withdrawals, allowing workers to be automatically opted in at up to 3% of their salary as Roth after-tax contributions — capped at $2,500.

Mid-career financial checkups. Offer personalized financial consultations focused on where Gen X employees are in their financial journey, emphasizing mid-career corrections and available savings acceleration strategies such as catch-up contribution to employee-sponsored retirement accounts.

Support for "Sandwich Generation" challenges. Provide resources and support for those in the "sandwich generation," including elder care assistance, childcare benefits and flexible spending accounts that can be used for dependent care needs.

Plan sponsors have a critical role in bridging the retirement savings gap for Gen X employees. Initiatives such as SECURE 2.0 are steps in the right direction, but they must occur within the framework of a holistic and individualized approach to employee financial well-being. By incorporating measures such as those listed above into your company culture and benefits structure, you can demonstrate a serious commitment to the long-term success and stability of your workforce. It's important to engage with employees early and often. Plan sponsors that proactively address these needs can expect not only to aid their employees in securing a more stable financial future, but also to potentially benefit from a more productive and loyal workforce.

Sources

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Steering Participants Through Market Mania

Conversations on market volatility often conjure up nail-biting narratives about panicked sell-offs, as jittery investors rush to liquidate positions to avoid incurring further losses. However, it’s important to acknowledge that market volatility has two faces. And while upturns are certainly more welcome than their counterparts, they carry their own psychological challenges for investors. The intoxicating rush of a tech surge or a post-crisis rally can be as disorienting as a market seemingly in freefall. As stocks soar and portfolios swell, investors may find themselves grappling with a different set of emotions, but the end result can be equally detrimental to long-term financial health when certain biases set in.

Overconfidence. Investors riding the wave of a bull market can develop a skewed perception of their own investment acumen. It can lead to ignoring diversification, failing to assess new information objectively and taking on excessive risk, presuming that past success guarantees future results.

Herd mentality. This collective behavior can amplify market movements, both upward and downward, as prudent analysis gives way to mob psychology. The tech bubble of the late 1990s and the housing market crash of 2008 serve as stark reminders of how herd mentality and “irrational exuberance” can distort market valuations and inflate bubbles until they eventually burst.

Recency bias. Weighing recent events more heavily than historical ones can distort an investor's perception of the market, causing them to expect the continuation of current conditions. After a prolonged market rally, investors might neglect the potential for a downturn, overlooking the cyclical nature of markets.

Underestimating market risk. It’s easy to view investments through rose-colored glasses during periods of growth, but volatility can return with little warning. Adequate risk assessment includes preparing for the possibility of market corrections and ensuring that investment decisions align with one's risk tolerance and long-term objectives.

Fear of missing out (FOMO). This insidious fear can push investors to make impulsive decisions, such as entering a soaring market at its peak out of fear of missing further gains, only to be caught in the inevitable downturn.

All of these biases cloud judgment, potentially leading to risky investment behaviors that undermine long-term financial goals. But plan sponsors can help mitigate some of the downstream negative impacts of raucous rallies. Potentially helpful strategies include offering education around the ebb and flow of historical market cycles, encouraging regular one-on-one financial advising and including instruments in the investment lineup that take a lot of emotion out of the portfolio management equation — such as target date funds. Implementing automatic rebalancing can help keep investments aligned with target allocations based on an individual’s risk profile. Email alerts to employees during periods of high volatility (both up and down) can help educate participants about the nature of market fluctuations and underscore the importance of adhering to a prudent, long-term investment strategy.

Plan sponsors have the opportunity to help cultivate a holistic understanding of finance and the markets, providing a framework for participants to make informed choices and navigate the complexities of investing with greater confidence and clarity. A proactive approach can help foster a culture of financial wellness that transcends market cycles.

Balancing Competitive Benefits in Budget Constraints for Plan Sponsors

It is crucial for companies to regularly benchmark and compare their benefits packages to their peers within the industry in order to maintain their competitive advantage and status. Offering a competitive benefits package, however, can be challenging for plan sponsors due to budgetary constraints; putting an excessive financial burden on an employer or the employee can lead to negative effects on the business, resulting in an increased difficulty when it comes to attracting and retaining employees.

Maximizing Potential with Regular Performance Checks

Financial insurance provider Unum Group's, Carl Gagnon, assistant vice president of global financial well-being and retirement programs, says Fidelity, Unum's record keeper, regularly benchmarks the company's 401(k) plan.

According to Gagnon, Unum usually carries out benchmarking in late February or early June since that's when the business begins discussing the budget for the upcoming year. Furthermore, Unum starts its yearly investment review in late April or early May. At this stage, Fidelity and the benefits committee assess whether the investments are underperforming and whether there are any other products on the market that would be beneficial to add to the lineup.

Fidelity’s head of workplace, Shams Talib, speaks on how the frequency of benchmarking depends on the organization and the plan sponsor. Talib says, “Some plan sponsors may need to review their portfolio annually to ensure their business objectives are met, while others can withstand longer review periods,” he continues, “When considering compensation, our team recommends that companies review their structure and approach annually.”

The senior director of retirement at WTW, Mark Smrecek, says most organizations go through some form of cost management exercise that involves identifying the population they are serving's primary concerns. Smrecek states that, “A lot of what we’re seeing in terms of cost management includes being able to correctly allocate in a way that makes sense not only for your population, but your prospective population, and then filling the gaps with low- or no-cost solutions, which provide that out-of-plan support that, quite frankly, employees who are struggling financially would really value.” He adds that employers have been conducting benchmarking that goes beyond their investment lineups and 401(k) plans and are now combining benchmarking for health and retirement benefits to ensure that their total rewards package aligns with the organization's needs

Innovative Financial Planning

Gagnon compares the process of budgeting and figuring out how to provide a competitive benefits package without placing an excessive financial strain on the business or the employees to splitting a pie. “The pie doesn’t get bigger, and it doesn’t necessarily get smaller,” Gagnon says. “So don’t try to add to it or subtract to it—use the pie more efficiently.”

According to Gagnon, a prime example of "making the most of the pie" can be seen in Unum's student loan repayment program, which allows workers to exchange money for student loan debt repayment for up to 40 hours of unused paid time off per year. To put it simply, Unum is making use of a benefit that they currently provide—paid time off—while giving employees flexibility over how they choose to use it. After being suspended for almost three years due to the COVID-19 pandemic, federal student loan repayments resumed in October, making the extra flexibility especially helpful at this time. Gagnon says he intends to grow the program in the future so that employees can exchange paid time off for contributions to their 529 college savings accounts.

The pandemic put a temporary stop to many innovative methods, but things are starting to change. Gagnon supports a change in accounting practices, redirecting money from customary benefits like paid time off to assist staff in repaying their student loans. The goal is to provide flexibility in the approach while optimizing resources for employers and employees.

Gagnon highlights that the company's goal is to give its workers flexibility through both this program and its newly introduced emergency savings program, which allows members to fund an emergency savings account through their 401(k) plan with up to $10,000. Contributed after-tax, these funds are available for withdrawal at any time to cover unforeseen costs without resorting to credit card debt or retirement fund exhaustion.

According to Talib, a plan sponsor should ideally reflect the investment "necessary to attract and retain the talent needed to drive business success" in their "total rewards budget," which includes both benefits and compensation. The "right" amount of budget, according to him, will depend on a number of factors:

- What is revealed by the benchmarking data?
- Are overall rewards costs being properly managed?
- Is the company drawing in the right kind of employees? Does the company find it difficult to fill important positions or develop certain skills?
- What can be inferred about the capacity to retain staff from turnover statistics? and What is the company able to afford?

Engaging Senior Leaders with Innovative Benefit Funding

Furthermore, according to Gagnon, it is critical for plan sponsors to convince upper management of their business of the benefits they wish to provide and construct innovative means of funding.

Gagnon presents results from a survey on well-being that demonstrates that stress at work ranks highest among employees' concerns, followed by three of the five financial stressors. The primary focus is on making the most of current benefits to help staff members handle money issues like debt repayment and emergency savings. According to Gagnon, he "doesn't win all the battles" when it comes to improving benefits because he is in competition with those around him who manage leave and health benefits for the same funding.

He continues by saying that Unum regularly compares its benefits packages to those of its insurance industry rivals. According to Gagnon, he looks at benchmark grids that contrast Unum with its competitors in the market, including MetLife Inc., Prudential Financial, Standard Life, and Lincoln Financial Corp., to see how they are doing in terms of retirement and financial well-being.

Although benchmarking is usually done once a year, Gagnon admits that there are times when he may decide to conduct additional benchmarking if he discovers of another company doing something unique or creative that could impact hiring.

“We don’t want to be at the top scale, we don’t want to be at the bottom—we want to be competitively in the middle,” Gagnon says. “Sometimes that can mean a more generous PTO program, more generous 401(k), more generous medical. … In the aggregate, we want to be at that very competitive level.”

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