401(k) savings 'isn't enough' for financial security

By

- **Paula Aven Gladych** **May 01 2017, 5:05pm EDT**

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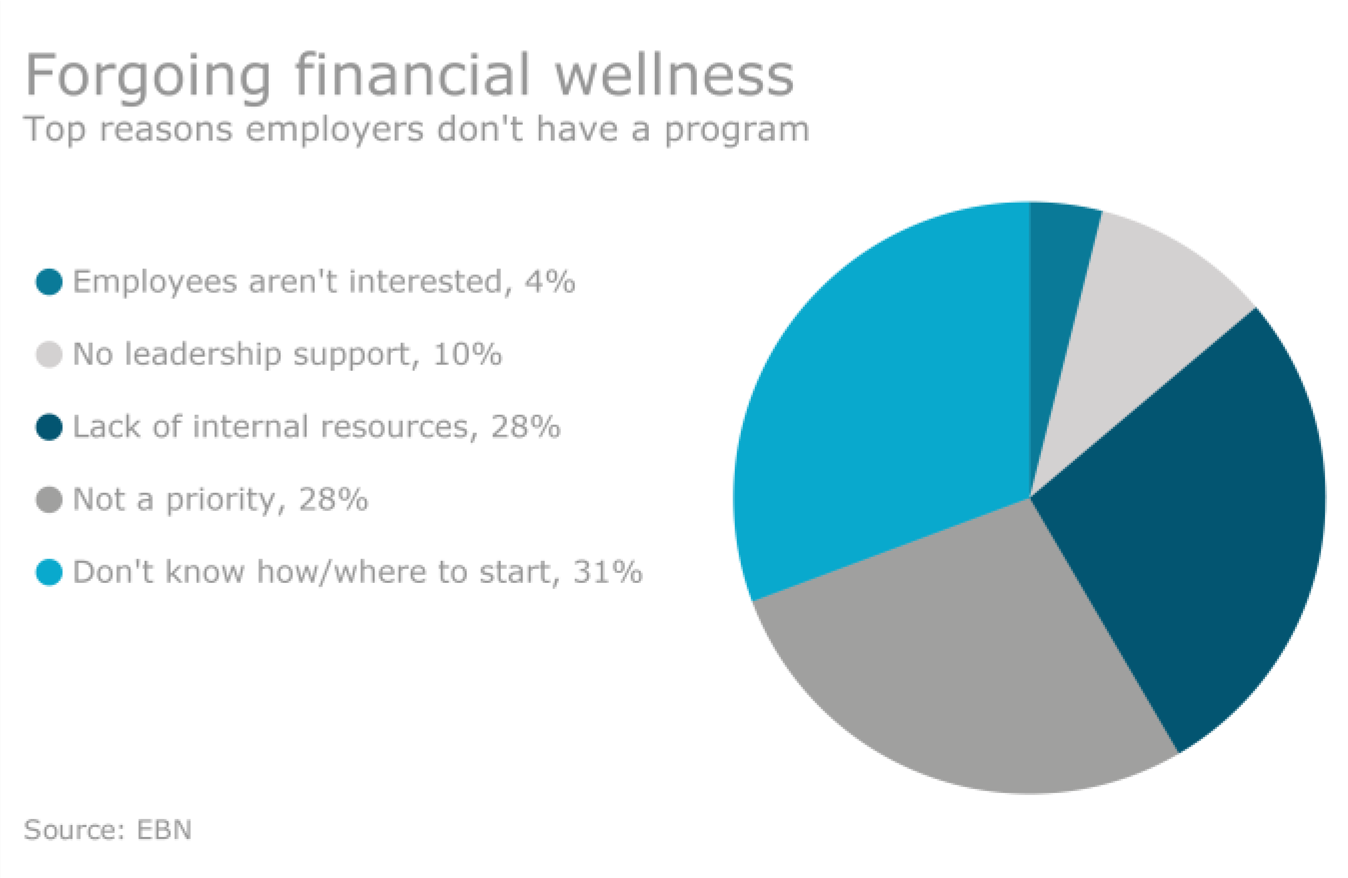
Financial wellness programs have gained traction in the past few years as employers realize that education programs that focus on retirement alone aren't enough to ensure their workers have a financially secure future. Experts say employers need to dig deeper into employee financial problems that have nothing to do with retirement.

More than 98% of respondents to a recent study by advisory firm AFS 401(k) Retirement Services saved money in a retirement plan, but 71% claimed they didn't have an emergency fund to cover three months of expenses. And, 62% of respondents said they carry a credit card balance and 35% said they have student loan debt, the retirement plan advisory firm found.

"Our research shows that saving in a 401(k) plan is not enough; employees need to be shown how to use all the tools in their financial tool box in order to navigate life's hurdles and milestones," according to AFS 401(k).

Alex Assaley, managing principal at AFS 401(k) Retirement Services, says he would like to see financial wellness programs become the "self-driving car of financial life."

"[We want to] get people on auto-pilot on all areas of their financial life like they have done with retirement savings, with auto features like auto enrollment and auto escalation," he says. "We're looking at taking the next step for someone's entire financial picture, which is critical in ensuring the next several generations of workforce are able to reach retirement and have a very bright financial future if we can achieve what we are trying to do."



All benefits providers need to work closely together to make sure that each employee's needs are being met, he adds. Companies need to know that they will achieve a return on their investment in financial wellness and other benefits so it's imperative that they find ways to measure the impact these benefits are having.

It's easy to measure the benefits employees experience when they participate in these types of programs, Assaley says. Automatic features in retirement plans have ensured that more people are participating in their workplace plans and saving more for their future, but "if they have zero or only $1,000 in emergency savings and their car breaks down or they have a major repair they need to do to their house, they are basically stuck with two options: take on debt or take a loan or distribution from their 401(k)," Assaley says.

Either one of those scenarios will make it harder for them to meet their medium-term and long-term financial goals.

"The advice we are providing is you can't ignore short-term financial needs to contribute to 401(k) savings only," he says.

In its 2016 Financial Wellness Assessment, AFS 401(k) asked participants basic questions about their financial priorities and found that debt, budgeting and savings are the top priorities of most respondents.

See also: Debt should be priority in financial wellness programs

“The effect financial stress can have on productivity and work product has been quite thoroughly researched and it is clear that there is a connection between experiencing financial difficulties and job performance, as well as overall health and happiness for individuals,” the report found.

The goal of financial wellness programs is to get employees to change the financial behaviors that are negatively impacting their ability to save for retirement.

More than 500 employees were surveyed for this study. The organizations they work for range from 20 to 4,500 employees and represent a broad range of industries, including nonprofits, trade associations, educational institutions and professional services firms.

Consumer debt is at its highest level since 2011 at $11.52 trillion, according to data provided by the Federal Reserve Bank of New York. That debt includes mortgages, car and student loans and credit card debt. The average U.S. household owes $132,158.

Of those surveyed, 38% said they weren’t comfortable with the amount of debt they were carrying. Sixty-two percent said they don’t pay off their credit cards in full every month and 71% said they don’t have an emergency fund to cover three months’ worth of expenses. Only 55% said they had a handle on cash flow, according to the AFS 401(k) study.

Between 38% and 45% of all age groups are saddled with student loan debt, while younger people, ages 20 to 29, have the most credit card debt. Those between the ages of 40 and 49 are most likely to not pay off their credit cards every month and those 30 to 39 are most likely to struggle with student loan debt, the study found.

What can employers do to help employees get a better handle on their debt, money management and savings?

“I think really focus on reviewing and analyzing the benefits and programs they are offering to employees holistically,” Assaley says.

The way benefits programs operate currently, each type of benefit is its own silo, he adds. Employees learn about their health benefits and in a separate meeting they learn about retirement benefits.

But, he says, “the future of benefits is consultants and advisers working together, whether they are a specialist and only work in one area of benefits, or deliver many different areas of benefits. [They’ll] work strategically with consultants to advise clients about the benefits they are offering.”

At the end of the day, the employee has one theoretical dollar they can spend. How they divide it across their 401(k), health premiums and HSA account, student loan repayment, credit card debt and day to day living is up to them.

“At the employer level, and as advisers, we can do a better job of refocusing the lens on the entire benefits offering and how the different pieces of the puzzle work together and ultimately use data to do that,” Assaley says.