A WHITE PAPER

Building a Better Plan for Employees Nearing Retirement

Adding a specialized plan tier can help support the unique needs of older workers

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Key findings

1 **EMPLOYERS AND ADVISORS MAY WANT TO CONSIDER A RETIREMENT TIER AS PART OF THEIR OFFERING TO EMPLOYEES IN THE WORKPLACE RETIREMENT PLAN**

2 **TAILORED COMMUNICATIONS CAN GREATLY BENEFIT OLDER WORKERS**

3 **PERSONALIZED SOLUTIONS CAN MAKE MORE SENSE FOR OLDER WORKERS THAN TARGET DATE FUNDS**

A growing body of evidence shows that older workers are distinctly different than their younger peers, yet retirement plans often treat the two groups as if they're exactly the same. Instead, employers and advisors may want to consider developing a retirement tier: a suite of tools, services and plan design modifications that help older workers position their finances wisely as they approach retirement. Part of this program may include shifting older employees out of target date funds and into another qualified default investment alternative (QDIA) that is tailored specifically to their needs.

Here's a look at how older employees differ — and how to build a retirement tier to meet their needs.

The challenges faced by older workers

As employees age, their financial needs and concerns shift significantly away from those of their younger colleagues. At the same time, the differences within this group become even more pronounced.

Consider that while the top concern among younger employees is running out of money in retirement, older employees are much more concerned about healthcare. According to a 2019 Franklin Templeton survey, 37% of employees under the age of 55 said they were worried about running out of money compared with just 23% of employees over the age of 55.[1] Among older employees, 34% identified health issues as their top concern while only 21% of employees under the age of 55 felt the same.

1 Franklin Templeton, "Retirement Income Strategies and Expectations (RISE)," 2019. The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults comprising 1,000 men and 1,002 women 18 years of age or older. The survey was administered between January 17 and 28, 2019, by Engine's Online CARAVAN®, which is not affiliated with Franklin Templeton. Data was weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigned a weighting factor to the data based on current population statistics from the U.S. Census Bureau.

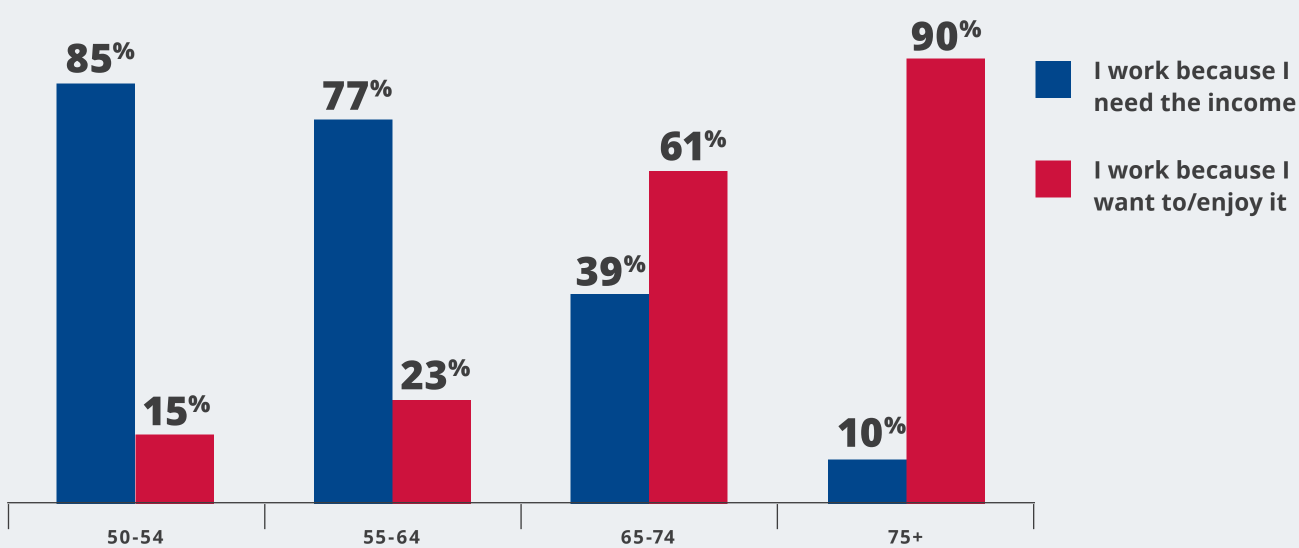
Employee top concerns by age

TOP CONCERN	UNDER 55	55 AND OLDER
HEALTH ISSUES	21%	34%
RUNNING OUT OF MONEY	37%	23%

Source: Franklin Templeton, "Retirement Income Strategies and Expectations (RISE)," 2019.

Older employees' views on work in general support the idea that generating enough savings for a comfortable retirement becomes less of a priority as workers age. For example, a full 85% of employees between the ages of 50 and 54 say they work because they have to. Yet as employees age, that percentage begins to flip. Among those 65 to 74 years old, 61% say they work because they want to; this figure increases to 90% for employees over age 75.[2]

Viewpoints about work change as workers age



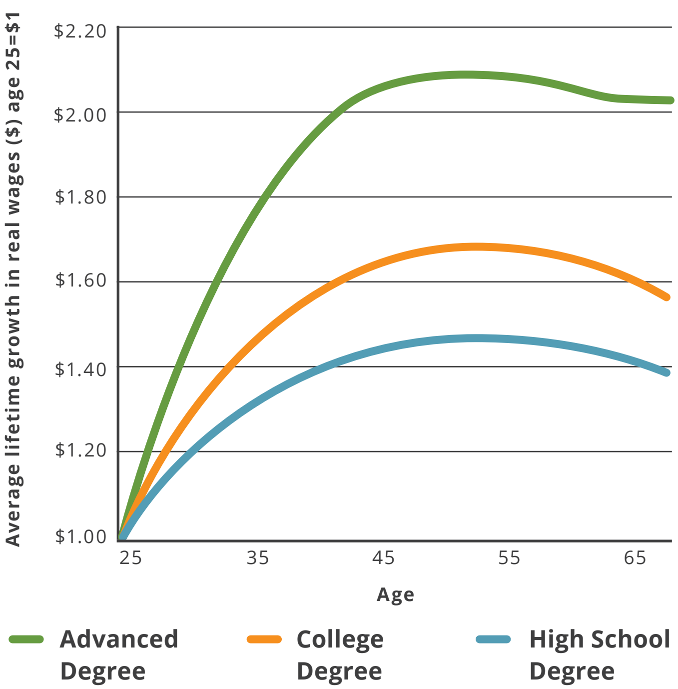
Base = Age 50 or older and currently employed
Source: Franklin Templeton, "Retirement Income Strategies and Expectations (RISE)," 2019.

2 Franklin Templeton, "Retirement Income Strategies and Expectations (RISE)," 2019. The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults comprising 1,000 men and 1,002 women 18 years of age or older. The survey was administered between January 17 and 28, 2019, by Engine's Online CARAVAN®, which is not affiliated with Franklin Templeton. Data was weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigned a weighting factor to the data based on current population statistics from the U.S. Census Bureau.

While younger workers represent a relatively homogeneous group when it comes to their finances, older employees are relatively heterogeneous — they are more financially complicated than their younger counterparts. Consider that among workers age 18 to 34, 28% have only one account and 48% have two to five accounts. Among workers age 55 to 64, only 18% have just one account, and the proportion of people with two to five accounts jumps to 63%.[3]

Complicating matters is the fact that as workers age, their lifetime earning totals start to diverge, especially when controlling for education level. Younger employees tend to have more similar earnings. But as time passes, employees with advanced degrees pull far ahead of those with only a high school or college degree.[4]

Average lifetime earnings by age and education



Source: 2010 Survey of Consumer Finances, the Federal Reserve Board.

Older workers' combination of shifting priorities, complex financial pictures and diverse income situations means that employers and advisors must look beyond one-size-fits-all retirement solutions. Instead, older employees may benefit from solutions that are customized to their unique needs.

A profile in change

The professional and financial path Elisa Robyn has taken through her life illustrates the changes employees may experience over the course of their careers. Robyn, who is now 64 and living in Denver, began her career as an exploration geologist for an oil company. Just out of grad school, she was making more money than she ever had, but she wasn't sure how to invest it. Though she bought a home, she wasn't entirely confident in her financial decision-making.

After a layoff, Robyn went back to school and launched a 20-year career in academia. At that point, she decided to make her personal finances a priority. She built long-term financial security with the help of her employer's retirement plan and a coach she met through her local credit union who helped her make sound financial decisions.

Now, as she prepares to retire, she feels sure of her financial footing, and she's looking to pursue new goals, including starting her own business, while she's in good health. As Robyn moves on to the next phase of her life, she expects to lean on a different set of skills and resources than the ones she used to build financial security early in her career.

3 Franklin Templeton, "Retirement Income Strategies and Expectations (RISE)," 2019. The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults comprising 1,000 men and 1,002 women 18 years of age or older. The survey was administered between January 17 and 28, 2019, by Engine's Online CARAVAN®, which is not affiliated with Franklin Templeton. Data was weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigned a weighting factor to the data based on current population statistics from the U.S. Census Bureau.

4 Survey of Consumer Finances, 2010.

Creating a retirement tier

Employers can use a retirement tier to address the unique challenges faced by older workers. A retirement tier may consist of the following elements:

1. TOOLS AND ADVICE
2. TARGETED COMMUNICATIONS
3. INVESTMENT OPTIONS
4. PLAN DESIGN CHANGES

Strategic communications

Retirement plan communications typically lean heavily on the importance of saving early. Older workers, however, will benefit from targeted messages about topics such as catch-up contributions and Social Security optimization that are more relevant to their circumstances. These communications should include timely content and useful tools and include access to personalized coaching.

To be most effective, targeted communications must deliver the right information at the right time. For instance, communication could be triggered by employee birthdays. When an employee turns 45, for example, they could receive an email reminder that they still have 20 years to impact their retirement readiness. The copy could encourage them to take steps such as increasing their deferral rate. As employees age, the message could shift accordingly. For example, at age 70½, employees could receive a reminder of the need to take required minimum distributions.

In practice, a communication campaign segmented by age can be a resounding success. In one Empower Retirement campaign, open rates were 30% to 45% — much higher than the financial industry average of 23%[5] — indicating that recipients found the messages relevant.

Tools and coaching

Older workers can also benefit from tools that are targeted to their specific needs. Consider offering the following:

- Social Security optimization. Help participants understand how the decisions they make about when to file for Social Security benefits can impact their income for the rest of their lives.
- Expense assessment. Help participants analyze their current spending as a way to understand how much income they may need in retirement.
- Resource center. Employers can use their intranets to provide resources about retiree-specific topics such as reverse mortgages and Medicare.
- One-on-one coaching. Consider plan add-ons such as one-on-one coaching to help address individuals' personal retirement needs.

5 Empower Participants, Milestones Campaign, May 2019.

Plan design changes

Relatively small changes to plan design can provide substantial benefits to older employees. For example, employers and advisors may want to consider:

- Allowing for partial ad-hoc withdrawals.
- Allowing terminated participants to continue loan repayments.
- Inviting mid-career new hires to enroll at their prior savings rate.

Incorporating a personalized strategy into plan design

In addition to the small tweaks described above, employers and advisors may want to consider larger shifts in plan design to address the needs of aging employees. In particular, adding a unique QDIA to the retirement tier can provide the support and guidance that employees need as they approach retirement.

Most plans — about 85% — use a target date fund as their QDIA.[6] Yet while target date funds may work well for the relatively homogeneous segment of younger employees, they don't always address older employees' specific needs. As an alternative, consider a QDIA that defaults younger employees into a target date fund and then automatically shifts older employees into a retirement managed account as their lives become more financially complicated. In essence, the older workers "graduate" from their target date fund to a solution that provides personalized investment choices — a retirement managed account. Often these are called dynamic QDIAs because they dynamically shift employees.

For example, when employees are between the ages of 45 and 50 (or 10 to 20 years from retirement), they could be moved into a managed account that considers key retirement planning variables, such as:

- Account balance
- Asset allocations
- Non-plan assets
- Social Security benefits
- Tax implications
- Marital status
- Family circumstances

Research from the Empower Institute shows that a personalized investment strategy like the one described above can help participants improve their retirement savings outcomes.[7] These outcomes are bolstered by the fact that retirement managed accounts consider outside assets, offer tax-favorable spend-down scenarios based on individual retirement income needs and offer retirement strategy recommendations. As a result, managed accounts provide more personalized asset allocation for later-stage workers at the point when target date fund equity positions and personal investment paths begin to diverge.

Considerations for employers and advisors

1. Because of the heterogeneous nature of older workers, employers and advisors may want to consider a retirement tier composed of services and a QDIA with older workers specifically in mind.
2. A personalized QDIA that takes into account information about other savings and chooses allocations for employees may be just what older workers need.

6 Callan Institute, "2018 Defined Contribution Trends," 2018.

7 Empower Institute, "This Time, It's Personal," March 2019.

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