



Crafting the Retirement Readiness Scorecard

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Key Takeaways

- Developed as a collaboration between a cross-functional team
- Focuses on three areas of participant behavior that affect retirement readiness
- Applications in both plan design changes and implementation of financial wellness programs



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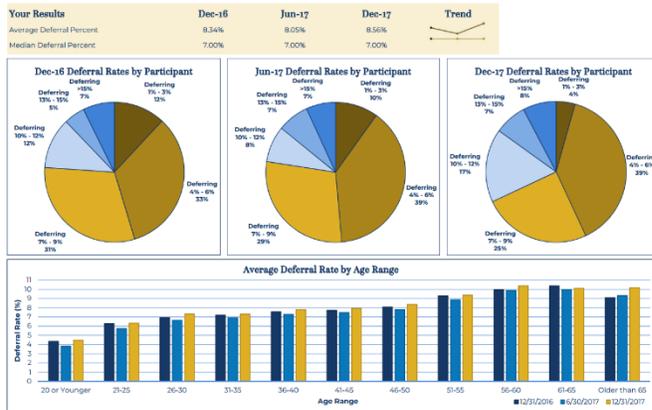
How do you measure whether your participants will be ready for retirement when the time comes? This is the question we were faced with in the spring of 2017. The question was driven by wanting to assess – in a measurable way – the impact of our financial wellness programs for clients. At the same time, our consultants and relationship managers were in the process of major plan design changes for a number of clients. We wanted to find a way to measure whether these changes could measurably improve retirement readiness for plan participants.

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Our CEO put together a team of relationship managers, consultants, analysts, and our innovation manager to see how we could measure the impact of plan design changes and the implementation of financial wellness programs. We wanted to craft a one-pager that contained information on how retirement readiness had changed over time. Right away, we faced three major questions: what to measure, how to gather the information necessary to measure it, and how to present it in a meaningful way to our clients.

Over the course of several meetings, we narrowed down the metrics we would quantify into three buckets: savings rates, investment diversification, and asset preservation. We decided we could gather the necessary information from recordkeepers using a proprietary template—this would make our process repeatable among different clients.



Participant savings rates is the largest component of the score, as research shows that it can have the **largest** impact on retirement balances over the long run. Our original version created a straight scale, but we realized it was more important for employees to contribute to at least an employer's match than it was moving from a relatively high deferral rate to another high deferral rate. We retooled this scale to give greater rewards (or take away more points) at low deferral rates.

The second component we considered was investment diversification. We wanted to make sure participants were not exposing themselves to risk by investing in just one or two strategies within their plan. As we continued to develop the scorecard, we decided to make this option two tiered to account for participants invested in diversified options like target date funds as well as counting whether they are invested in multiple options.

The third component is asset preservation, which we put in place to measure the extent to which participants were eroding their savings. We account for both early withdrawals and loans in

participant scores.

In tandem, these three behaviors come together to create an individual participant score. We view participant scores on the aggregate and their movement across time periods to identify the positive or negative behavior changes made by participants over the course of implementation of a financial wellness program, other education initiatives, or plan design changes.

Retirement Readiness Score - Sample Participant Comparison

Participant	Current Behavior	Projected Retirement Balance	Current Action Plan	Projected Retirement Balance
Chris	This participant doesn't have much retirement savings. She likes to balance carefully expenses while saving what she can for retirement. She enrolls in the plan when she's first hired at the age of 25, deferring 2% of her salary. The employer match is an appropriate target retirement rate. Her Individual Retirement Readiness Score is 65.	\$443,415	Living paycheck to paycheck and not contributing to the participant's financial position would likely erode her projected retirement balance. Her early age will improve her projected balance. Assessing the employer's financial wellness program from a young age could help improve her personal finances to begin saving at a younger age.	\$739,255
Teddy	Teddy likes to pay off his student loans, but doesn't participate in the retirement plan as he has been laid off. He would like to pay off his student loans and eventually enroll in the plan at the age of 30, for the remainder of his career. He contributes up to company match. His Individual Retirement Readiness Score begins at 0, then shifts to 80.	\$616,734	Group educational sessions that help the participant understand the power of compounding savings from an early age will improve his projected balance. Assessing the employer's financial wellness program from a young age could help improve his personal finances to begin saving at a younger age.	\$1,099,364
Henry	This participant enrolls in the plan when he's first hired at the age of 25 and contributes up to the company match. After seeing his savings decline sharply in the 2008 financial crisis, he decides to stock market weighting. He creates a conservative portfolio with 70% in a single stock fund and 30% in a single bond fund. His Individual Retirement Readiness Score is 40 throughout his career.	\$739,255	Educational sessions would help this participant understand his ability to take investment risk early in his career. A more aggressively allocated portfolio throughout his accumulation phase will likely improve his retirement readiness.	\$1,099,364
Katie	This participant enrolls in the plan when she's first hired at the age of 25 and contributes up to company match. She enrolls her savings in an appropriate target retirement date fund. After working for 3 years, she decides to enroll in graduate school. To help pay for tuition, she takes out a 5 year loan of \$5000. She also makes an 8% bonded distribution of \$1000. Her Individual Retirement Readiness Score is 80, but drops to 40 when she takes her distribution.	\$1,099,364	Accepting her employer's financial wellness program would help this participant understand her options for funding her graduate school.	\$1,829,048
Sam	The participant values the importance of saving for retirement. He enrolls in the plan when he's first hired at the age of 25 and defers 10% of his salary throughout his career. He focuses his savings in an appropriate target retirement date fund. His Individual Retirement Readiness Score is 100.	\$1,829,048	Continuing this participant's investment strategy is doing everything right. He could still benefit from engaging with a financial partner to help determine if there are other ways to meet his personal retirement goals and ensure that he's not missing out on any opportunities.	

From there, we have continued to develop new aspects of the scorecard. In addition to a dashboard overview page, the report includes pages that go into detail on each of the three components so plan sponsors can see if their efforts to influence a certain factor have been effective. Additionally, after client feedback, we created an example page with scores for sample participants under various circumstances to contextualize the scores in an otherwise data-focused scorecard.

We started rolling out our scorecard to clients in 3Q 2017. Clients using the card have ranged from those implementing a financial wellness program for employees, to other implementing 401(k) plan re-enrollment. Feedback has been positive so far. As new, unique client needs arise, we expect to continue evolving the scorecard to ensure that it remains a useful tool to measure changes in participants' behavior and retirement readiness.

Retirement Assumptions: All future projections are based on a 7% annual rate of return. The company match formula is 50% on the first 3% and 25% on the next 2%. The projected retirement balance for a participant that has been laid off is the company match plus the participant's own contributions.

Disclosure

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