



FALLING *in the* HOME STRETCH

ARE U.S. WORKERS CAPABLE OF MAKING SOUND DECISIONS
ABOUT THEIR LAST MAJOR FINANCIAL UNDERTAKING?

*U.S. benefits directors weigh in on retirement
transition and the organization's role in getting
employees across the finish line*

 **TRANSAMERICA**
RETIREMENT MANAGEMENT



ARE U.S. WORKERS CAPABLE OF MAKING SOUND DECISIONS *about their last major financial undertaking?*

Most discussions of employee retirement preparedness quickly gravitate toward the common and central question, “Are employees saving enough?” Yet, with nearly 76 million baby boomers projected to retire over the next 20 years, little discussion is devoted to the other major hurdle an employee faces when he or she is about to retire: namely, the complexity of the retirement transition process.

The challenges that today’s pre-retirement employees face is far more complex than for previous generations. Human resources and benefits departments are often the first, and sometimes, the only point of contact for employees seeking answers on how to effectively transition to retirement.

HR professionals can play a central role in helping employees provide for a successful retirement. They also can provide keen insight into the state of retirement in the U.S. Do they think employees have the wherewithal to provide for their retirement? The savvy required to successfully navigate the transition into retirement? Do they believe their organizations sufficiently prepare employees for retirement?

Transamerica Retirement Management recently commissioned a national survey to better understand how human resources managers and benefits decision-makers view the retirement transition challenges that employees face and their organizations’ supporting role in this process.

This survey uncovered some critical — and troubling — contrasts in attitudes. The survey data revealed that benefits decision-makers:

- See significant problems on the horizon for those about to retire
- Feel employees are not well equipped to successfully provide for retirement
- Feel employees are incapable of navigating the complexities of planning for retirement
- Say their organizations are not doing enough to help
- Believe that organizations share — almost equally with the individual — the responsibility to support individuals in retirement.

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TAKING A CHANCE *on Success*

Employers have devoted decades of benefits resources, matching retirement plan contributions, employee education efforts, and the like, toward the goal of helping their employees enjoy positive retirement outcomes. Of course, many organizations provide 401(k) and other retirement savings plans, as well as an array of educational materials and encouragement.

But, while these kinds of plans are instrumental in helping people get to retirement, they fall short of helping them transition through retirement. This reality forces many people to scale back their standard of living, some to return to the workforce and others to live in poverty.

Employees entering retirement go from the relative ease of steadily accumulating retirement savings and the protection of employer-sponsored benefits, to the uncertainty and confusion of going it alone. And unlike previous generations, today's workers must factor in a complex series of variables to live successfully in retirement, particularly with regard to life expectancy, inflation and an uncertain economy.

“Often we treat employees at the end of their career as if they were terminated like any other employee, which is unfortunate,” says Sarah Ree, director of employee benefits at technology and entertainment products retailer, Best Buy. “As an employer, focusing on the transition is important – it’s almost a societal measure. It’s the right thing to do for them and their families. We are going to have more and more people exiting the workforce who need to be prepared and need to have a sound financial foundation and transition period.”

The retirement transition process is the period approximately two years *before* and two years *after* retirement (leaving a primary career). It’s the time when an employee needs to make the critical decisions necessary to re-establish the income and benefit framework they enjoyed as an employee.

The average length of retirement in the United States is 18 years, according to the U.S. Census Bureau. This figure has been increasing as people live longer. Stanford University researchers report that the average length of retirement for the median

male retiree was 13 years in 1965. By 2003, it was 19 years. Roughly half of the additional years were due to improvements in life expectancy and half were due to earlier retirement.

“There is no question they [employees] look to their employer for help — as the employer is viewed as knowledgeable and as having the employees’ best interests at heart,” says Warren Cormier, president of Boston Research Group and co-founder of RAND Behavioral Finance Forum. “Also importantly, as people age, they tend to rely more on their intuition to make decisions. Making decisions based on what or who ‘feels’ right is at best sub-optimal, and at worst extremely dangerous.”

“Employees want to feel they are in control, but when it comes to retirement they are woefully ill-equipped to steer their own ship,” adds Cormier. “Add in the complicated dimensions of providing for their health care and lifestyle, the average employee is truly overwhelmed. There is essentially nobody at the helm. This is as true for decumulation, when a retired employee is deploying their retirement assets, as during the accumulation phase.”



DISTILLED *findings*

ACCORDING TO THE 2010 BENEFITS DIRECTOR SURVEY

- A very large majority of respondents (81 percent) are concerned that employees don't have the resources to adequately provide for their retirement.
- Most (80 percent) are either unsure, somewhat disagree or strongly disagree that their organization sufficiently prepares employees to successfully manage their financial resources in retirement.
- Only 20 percent of those surveyed believe employees are capable of planning for retirement.
- The most frequent mistake employees make when retiring is doing so before being financially ready to leave the workplace.
- The organization shares the responsibility to support the individual in retirement — almost equally — with the individual.
- Information is not necessarily the answer — the most valuable benefit, beyond what their organization provides, is access to a financial advisor.
- Nearly half of U.S. organizations have no affiliation with an outside resource that can support employees with the retirement transition.

IT'S *all about* OUTCOMES

“When they retire from the organization, [benefits program] support goes away, but the need doesn’t,” Ree says. “Then it’s up to the employee to seek help on their own — some do and some don’t. The question is, do they know where to go and who can help them? Do they know they’re getting good, sound advice versus someone who just wants a cut? It’s time, energy and effort they probably spend worrying about these things that they could spend elsewhere.”

All it takes is a few misguided decisions by the employee or some bad advice to compromise — even destroy — the opportunity for positive retirement outcomes.

“For a segment of the population, I don’t think it’s a conscious plan to say, ‘in order to retire, I need \$2,000 a month,’” says a human resources professional of 35 years, and currently senior vice president of human resources with a global medical device company. “It’s, ‘I’m going to retire at 65 and I’m going to collect my Social Security and I will have saved a few dollars in my 401(k), and I’ll use that.’”

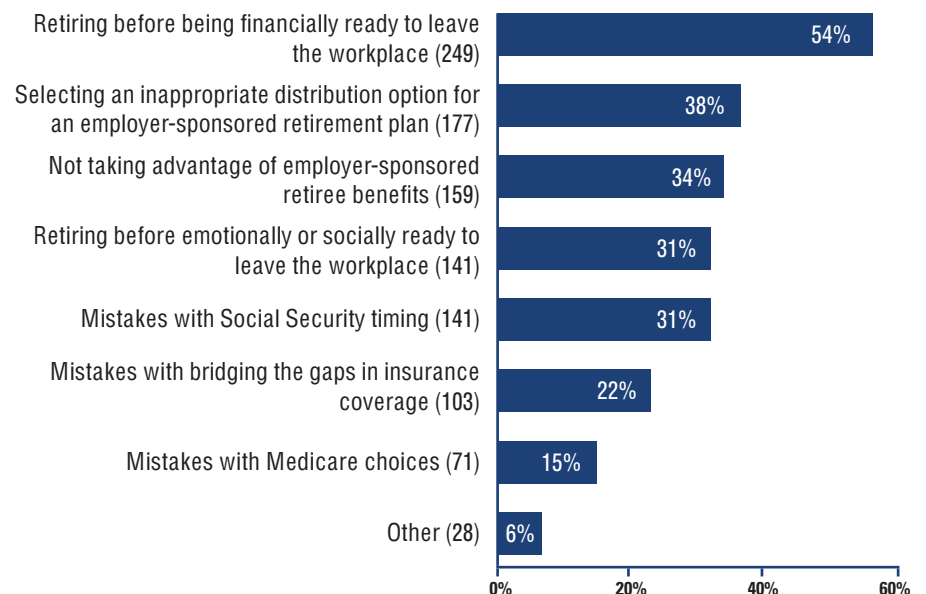
For the average U.S. worker, Social Security benefits replace only about 40 percent of pre-retirement earnings, according to the Social Security Administration. Furthermore, roughly half of all American workers have no pension benefit, and few have the needed savings for a secure retirement, according to AARP.

In other words, without a realistic plan in place, the risk of retirees outliving their money is real.



MAKING DECISIONS AT THEIR OWN RISK

Left to their own choices, employees are making mistakes in retirement planning.



THE *do-it-yourself* DILEMMA

The digital age has delivered an unprecedented amount of retirement planning information in the form of articles, planners, calculators and other resources — an Internet search for information yields more than eight million links.

Yet, despite the abundance of information, U.S. benefits directors said too many employees don't understand how to use information and resources without guidance, or they fail to realize how critical using it is. Oftentimes, employees nearing retirement lack the requisite understanding and financial know-how to successfully plan and transition. In other words, they don't know what they don't know.

"There's just too many pieces, so instead of trying to wade through it, some people tend to shut down and avoid it," says Jeremy Zajicek, acting benefits manager for Hennepin County Human Resources, Benefits Unit, in Minnesota. "Then they're ill-prepared for retirement."

Some organizations — like Hennepin County, the largest county in Minnesota with nearly 10,000 employees — provide tangible, hands-on resources for employees in the way of access to third-party expertise and educational seminars, online tools and handouts. But others are far behind.

In fact, 81 percent of human resources and benefits directors are concerned their employees don't have the resources to adequately provide for retirement, according to the survey.

Furthermore, the survey revealed the majority of benefits directors agreed that organizations share — almost equally with the individual — the responsibility to support people in the transition to retirement. This finding is a major shift from the common perception that benefits directors care only about active employees. While employers do not have a legal obligation to help employees transition into retirement with adequate knowledge or nest eggs, benefits directors generally agree they have a moral responsibility to "do the right thing."

Zajicek agrees: "Employers are asking their employees to invest in the organization, and they should care in return. We ask them to manage their work-life balance. We ask them to work on weekends. We ask them to do what they can to help our organizations. To provide anything less than helping them prepare for retirement would be disingenuous — otherwise, the attitude is 'we'll use you while you're here and then discard you.' It's about helping employees along the way."

VIEWS ON RESPONSIBILITY FOR FINANCIAL SUPPORT IN RETIREMENT

41%

EMPLOYEE RESPONSIBILITY,
I.E. PERSONAL SAVINGS

37%

EMPLOYER RESPONSIBILITY,
I.E. 401(K), PENSION, ETC.

21%

GOVERNMENT, I.E. SOCIAL
SECURITY, MEDICARE, ETC.

HELPING EMPLOYEES *see what's ahead*



Unlike decades ago when most organizations provided pension plans and employees felt confident they'd be taken care of in retirement, today the responsibility to make sound retirement decisions falls primarily on the individual. These people face a series of complex decisions and problems to solve in generating and managing their own retirement.

Generally, retirees need to ask themselves questions related to five important areas of retirement:

1. Lifestyle – What does this next phase of life look like for me? Do I plan to maintain or scale back my lifestyle? How much can I spend?
2. Investments – How much do my investments need to grow in retirement? How much risk can I take on? What products are best for my situation?
3. Health Care – What will traditional Medicare cover? What options make the most sense for me? What do I do if I retire before age 65?

4. Protection – What is beneficiary planning? Does everyone need an estate plan? How do I cover long-term care costs if the need arises?
5. Retirement income – How do I build guarantees into my income plan? When do I take Social Security? How do I allocate my resources to best meet my needs?

Survey respondents agreed that many employees are ill-equipped to answer these questions on their own and evaluate the trade-offs they may need to make.

The vast majority of benefits directors surveyed lacked confidence in how capable employees are at financial planning for retirement — 35 percent rated employees as either “somewhat not capable” or “not at all capable,” while 45 percent rated employees’ capabilities as “neutral.”

Benefits directors surveyed said many seasoned employees lack knowledge because they don't understand the basics about Social Security, Medicare and how

much money they'll need in retirement. Others said employees don't have the resources to educate themselves and “nobody teaches the average person,” as one respondent put it.

Furthermore, nearly half of the respondents said their organizations fail to sufficiently prepare employees to successfully manage their resources during retirement.

Why does it matter? Because without realistic and adequate plans in place, retirees face the serious consequences as they move through retirement.

In fact, 44 percent of retirees work for pay at some point after retirement, due to either monetary needs or other reasons, according to AARP. Furthermore, only 36 percent of baby boomers (ages 40-58) and 47 percent of Americans (ages 59-70) are confident they will have enough money to live comfortably in retirement.

The most common mistake employees make is retiring before they are fiscally ready to leave the workplace, survey respondents said.

SO WHAT SUPPORT *would be the most* HELPFUL?

How could employees who can't adequately provide for their retirement affect your organization?

The increase in the number of employees who delay their retirement is the top issue for half of the organizations surveyed.

Nearly one-third fear an increase in retiree requests to return to work.

Nearly half are concerned with either the demand on resources or impact on company reputation.

"Doing the right thing builds the employer's brand of choice perception," states Cormier.

"Employer brand of choice gives

employers access to the best labor in the pool, as well as builds loyalty and cuts attrition, thereby reducing hiring and training costs. It also improves product and service quality."

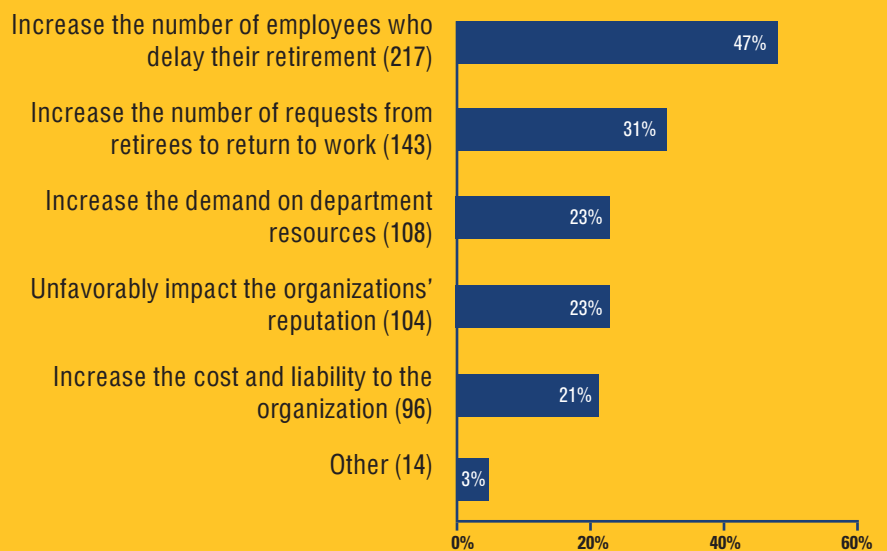
The largest portion of respondents stated having advisors to assist employees in planning would be the most helpful for their organization. Responses ranged from advice related to Social Security and Medicare, to teaching people how to budget and wade through the red tape. These respondents wanted experts available to provide their employees with the advice and counsel appropriate to an individual's needs.

Ideally, an expert would be in place to pick up at the retirement transition point to help employees where the employer leaves off.

"Everyone's personal financial situation is unique," Zajicek says.

"The bigger picture is needed. People want expert advice and we don't want to be stuck in that position. We want to put them in touch with an expert to help them know what to do when."

CONSEQUENCES OF INACTION



SUPPLY AND DEMAND – *are you prepared?*

Interestingly, 36 percent of organizations expect a moderate-to-large increase five years from now in the number of retirees at their organization. Yet, of those surveyed, 20 percent reported their organization is taking no steps to prepare.

Planning for the transition is not natural or easy for most Americans. For example, some feel it often requires a “CFO-like” mentality and skill set; that is, the ability to obtain sufficient capital to achieve one’s goal, as well as to forecast and manage risk. Where should they turn for help? For most Americans, employers — benefits departments, specifically — are the



de facto planning resource and the closest they ever come to formal advice.

Many employers provide planning brochures and booklets to employees. The type and number of resources available often depend on the size of the organization. But, at least two-thirds of employers do not offer pre-retirees any other internal or external resources.

That means, less than one-third of organizations provide employees with resources for hands-on, personalized help. And, unfortunately, planning for retirement is not a one-size-fits-all proposition.

Consistent with findings from the field of behavioral finance, even for those organizations that do provide resources, their employees generally do not know how to apply the information to their individual situations. In other words, many employees need help connecting the dots and filling in the gaps.

OVERCOMING *employer roadblocks*

Approximately 76 million employees will “punch the clock” for the last time in the coming years, and many will face substantial financial risks. As the baby-boomer generation moves toward retirement, organizations increasingly will find themselves pressured to help employees navigate the retirement transition process. Helping employees make sound decisions at the point of transition demands that benefit directors and their organizations commit to providing advice-based resources that can mitigate this risk and help maximize the opportunity for positive outcomes. It also insists organizations tackle this issue in the same spirit of corporate social responsibility they exhibit with other issues that are central to their sense of stewardship.

“When employees retire, we want them to be enjoying their lives, not navigating financial planning,” Ree reflects.

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The findings presented are the result of a national, random-sample online survey commissioned by Transamerica Retirement Management and conducted in October 2010 by Padilla Speer Beardsley Research. The survey analyzed results from a total of 461 benefits directors at U.S. companies, of which 401 completed the survey. The sample represents a diverse range of industries from banking and legal services to consumer products, retail, health care, food, manufacturing, construction and government. Margin of error is +/- 5 percent.



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