

## PLANNING FOR RETIREMENT: FROM AWARENESS TO WELLNESS

### Introduction

Households increasingly face greater responsibility for their own retirement security. Fewer households will receive guaranteed lifetime income from traditional pension plans, and employer-sponsored retiree healthcare coverage is becoming far less common. Increases in Social Security's Full Retirement Age are being phased in, resulting in a reduction in these benefits as well. In light of these trends, it is critical for households to regularly assess their retirement preparedness and take action to stay on track, if needed.

The National Retirement Risk Index (NRRI), published by the Center for Retirement Research (CRR) at Boston College, measures the percentage of working-age households at risk of being unable to maintain their pre-retirement standard of living during retirement. Based on data gleaned from the Survey of Consumer Finances and leveraging the NRRI, the latest CRR research analyzes how well households are self-assessing their retirement preparedness.

### Research Findings

The CRR's findings indicate that 57 percent of households self-assess their retirement preparedness accurately—their assessment is consistent with the NRRI assessment. More specifically, 33 percent of households believe that they are “at risk” of being unable to maintain their standard of living in retirement, and are also deemed by the NRRI to be “at risk.” Similarly, 24 percent of households believe they are “not at risk,” and the NRRI also deems them “not at risk.”

Conversely, 43 percent of households' self-assessment conflicts with the NRRI assessment. Nineteen percent indicate that they are “not at risk,” while the NRRI indicates that they are. The other 24 percent believe they are “at risk,” while the NRRI indicates that they are not.

[Chart View](#) [Table View](#)

How Accurate Are Households' Self-Assessments When It Comes to Retirement Readiness?		
	57% Are Accurate Consistent with NRRI Findings	43% Are Inaccurate Inconsistent with NRRI Findings
Believe they are “at risk”	33%	24%
Believe they are “not at risk”	24%	19%

## Prudential's Perspective

While it's promising that roughly half of households accurately assess their retirement preparedness, it also reveals that more needs to be done to improve individuals' awareness, and level, of retirement security. According to the NRRI, 52 percent of households are at risk of being unable to maintain their standard of living in retirement. Perhaps even more troubling, nearly one in five households are at risk and don't know it. Individuals' ability to improve their prospects for a secure retirement if they are "at risk," or maintain their security if they are "not at risk," is greatly diminished if they are unaware of where they stand.

One potential reason for this lack of awareness is that individuals don't have adequate financial education, tools, and advice to help them accurately perform a self-assessment. Employer-sponsored benefit programs provided at the workplace are an excellent resource that can help employees address this gap. In fact, employers are increasingly taking a more holistic approach to benefit programs by focusing on employees' financial wellness. Financial wellness is realized when individuals adopt behaviors that help them achieve the foundational elements of financial security: managing day-to-day finances, protecting against key risks, and achieving important financial goals, like retirement preparedness.

Implementing financial wellness programs is an approach employers are taking to help employees become financially well. These programs include benefits that complement traditional benefit offerings with education, tools, advice, and solutions that focus on foundational financial issues. Through this combination of capabilities, financial wellness programs enable employees to take the important first step of self-assessing their financial health, and then take the proper next steps to improve their condition.

The role of employers as trusted providers of solutions that can help individuals achieve and maintain financial wellness is gaining traction among employees. In fact, Prudential's research found that individuals are more likely to use financial counseling services and tools if they are offered by an employer.<sup>1</sup> One key driver likely to increase the popularity of financial wellness programs is digital technology, which allows financial education (e.g., videos, webinars, planning tools, etc.) to be delivered to employees on demand.

There is also growing recognition on the part of employers that helping employees achieve financial wellness is beneficial not only to employees, but also to employers. Employers who help employees prepare for retirement and achieve financial wellness can expect their organizations' wellness to improve, too. For example, by implementing a financial wellness approach to their benefit offerings, employers may be better able to improve employee productivity, optimize their investments in employee benefits, and improve workforce management.

When implementing a financial wellness approach, employers can include data analytics to identify the unique financial needs of their employee base, and then design a suite of benefits that best meets those needs. For example, insights gleaned about employees' retirement readiness can help employers design more effective defined contribution plans, which can then help improve employees' retirement preparedness. Helping employees prepare for retirement, in turn, improves workforce management outcomes, as employees will be more likely to retire when they desire, thereby enhancing employee mobility opportunities for younger workers.

When individuals improve their financial wellness, the benefits are far reaching—a "Wellness Effect" extends not only to the individuals, but to their families, their employers, and their communities. Helping employees create a greater awareness of their financial wellness is an important step toward harnessing the power of the Wellness Effect.

<sup>1</sup> Prudential, Financial Wellness Consumer Research, 2016.

Prudential Research & Perspectives

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