JOURNAL of PENSION BENEFITS

Issues in Administration, Design, Funding, and Compliance
Volume 32 • Number 3 • Spring 2025

Plan Distributions

Financial Wellness Programs in the Workplace

Financial wellness programs are not new. Yet, as workers continue to be challenged by the economic setbacks of recent years, the need for financial wellness programs in the workplace is arguably at its highest at this time. Employers should take the time to design a financial wellness program that is tailored to their employees' needs, assists them in alleviating their financial stress, and sets them on a course to financial and overall well-being.

By Michelle Capezza

Michelle Capezza is Of Counsel with Mintz in the Employee Benefits & Executive Compensation practice. For more than 25 years, she has represented a range of clients in ERISA, employee benefits, and executive compensation matters including qualified retirement plans, ERISA fiduciary responsibilities, nonqualified deferred compensation arrangements, employee welfare benefit plans, equity/incentive programs, and benefits issues that arise in corporate transactions, across various industries. She also advises clients on the implications of increased automation and artificial intelligence in the workplace and the related employee benefits and compensation considerations for a changing workforce. Ms. Capezza is a Fellow in the American College of Employee Benefits Counsel and has been recognized for her work in Chambers USA, The Legal 500 United States, *The Best Lawyers in America®,* and selected to the New York Metro Super Lawyers.

Personal financial matters are a main source of stress for the American worker. Many individuals continuously find themselves struggling to manage budgets, pay expenses, and meet short and long-term financial goals. The accumulation of retirement savings often is a matter that is last on the list and viewed as a nice-to-have rather than a necessity. The overall financial stress leads to mental stress and makes it difficult for workers to bring their best selves to the workplace when they are distracted by personal issues at home, especially financial or health-related issues.

Employers that grasp the magnitude of their employees' financial challenges, and the impact that this has on their health and well-being, have increasingly considered ways to assist their workers overcome these stressors. Employers have taken note that financial wellness programs as an employee benefit can assist workers in addressing their financial issues, to remain focused in the workplace, maintain their state of overall well-being, and improve morale in the workplace. While retirement planning is only one part of overall financial wellness, employers often combine financial wellness programs with, or offer them through, the employer-sponsored retirement plan program. The purpose of this article is to highlight considerations for employers in designing a meaningful financial wellness program.

Assist Workers with their Financial Literacy

A state of financial well-being can be defined in different ways, but the ability to manage finances and acquire meaningful savings requires a certain minimum level of financial literacy. In a 2017 "Financial well-being in America" report by the Consumer Financial Protection Bureau (CFPB), the CFPB defined financial well-being as a state of being wherein a person can fully meet current and ongoing financial obligations, feel secure in their financial future, and able to make choices that allow them to enjoy life. Moreover, the CFPB found that an individual's financial well-being corresponds to the extent to which the individual feels that he or she: (1) has control over day-to-day and month-to-month finances; (2) has the capacity to absorb a financial shock; (3) is on track to meet his or her financial goals; and (4) has the financial freedom to make the choices that allow one to enjoy life.

In a May 2023 Federal Reserve Report on the Economic Well-Being of U.S. Households in 2022 (the Federal Reserve Report), "doing okay" appeared to be a measure of financial well-being. The Federal Reserve Report noted that the share of adults doing at least okay financially fell sharply in 2022 across the populations, was among the lowest observed since 2016, and was the first time since the survey began that adults with at least a bachelor's degree saw a decline in well-being, but existing gaps by education and by race and ethnicity remained large. Further, the Federal Reserve Report noted that at the end of 2022, 73 percent of adults were doing at least okay financially, meaning they reported either "doing okay" financially (39 percent) or "living comfortably" (34 percent). The rest reported either "just getting by" (19 percent) or "finding it difficult to get by" (8 percent).

A person's lack of financial literacy, and failure to plan for retirement years, undoubtedly negatively impacts financial well-being and their ability to "do okay." In a 2022 Pension Research Council Working Paper, the researchers found, based on various data sets, that many older Americans fail to think about, and plan for, retirement despite the importance of this crucial life change for their financial well-being, and many older persons exhibit problematic financial behaviors because many are not financially literate and potentially are influenced further by cognitive decline. ["Financial Literacy and Financial Behavior at Older Ages," Olivia S. Mitchell and Annamaria Lusardi January 9, 2022, Pension Research Council Working Paper, Pension Research Council (the 2022 PRC Report)].

These researchers developed an easy way to evaluate an individual's financial literacy based on three basic questions designed to ascertain the ability to do some simple calculations and knowledge of some fundamental financial concepts: (1) the capacity to do calculations related to interest rates, (2) an understanding of inflation, and (3) an understanding of risk diversification. Using this test in 2018 National Financial Capability Study (NFCS) surveys, the researchers found low financial literacy in the overall population and that less than 40 percent of older respondents age 55–59 knew these three basic concepts. As additional research questions also were developed over time, the researchers found that the respondents could answer about half of the financial literacy questions, with even lower correct answers among women and minorities. Moreover, the researchers found that there is a very strong relationship between financial literacy and the ability for retirement planning.

Over the years, the Advisory Council on Employee Welfare and Pension Benefit Plans (ERISA Advisory Council) has also studied different topics with a common element regarding how participants receive, understand, and act on information about their retirement plans and financial needs. Financial literacy has been cited as an issue by the ERISA Advisory Council in prior years' reports when examining the efficacy of mandated disclosures and the level of participant understanding related to them (2017 Report), the role of employers in assisting participants with financial literacy (2007 Report), and its review of disparities for women and minorities in retirement savings (2010) Report. Financial literacy also was one of the cited reasons contributing to lack of retirement preparedness in the ERISA Advisory Council December 2021 Report to the US Secretary of Labor Martin Walsh, entitled Gaps in Retirement Savings Based on Race, Ethnicity and Gender (2021 Report). The 2021 Report examined the extent of gaps in retirement savings by people of color, ethnic minorities, and women. While access to retirement plans, wage inequities, and breaks in service were also key factors involved in retirement savings gaps, financial literacy was noted as a continuing challenge.

In light of the foregoing, a meaningful financial wellness program will provide employees with access to tools and educational materials to assist them with their financial literacy and understanding of basic financial concepts and aid them in the development of necessary skills for personal financial management (including budgeting, investing, and borrowing money). Without a grasp of financial basics, it is difficult for an employee to manage their finances, understand the importance of retirement savings or the technicalities of plan terms, investment materials, notices and disclosures. While financial education is important throughout one's life, including the early educational years, employers can play a key role when it comes to assisting workers with their financial literacy to understand financial issues and achieve sufficient retirement savings.

Establish Parameters of the Financial Education to Provide

In the 2022 PRC Report, the researchers stressed that education should be widely available to the adult population and the workplace can be an excellent place to provide such education because employers have an incentive to help protect their employees from financial stress, provide incentives to plan and save for retirement, and educate on the range of financial decisions people face, including debt and debt management. Yet, as noted in the ERISA Advisory Council deliberations related to the development of the 2021 Report, a potential challenge to workplace retirement plan education is that employers may be reluctant to provide financial education services due to the uncertainty of crossing the line between merely providing educational information and providing investment and financial advice, which can invoke fiduciary liability. In this regard, it would be helpful for the Department of Labor to consider updating Interpretive Bulletin 96-1 to expand on what is considered permissible examples of education that would not expose a retirement plan sponsor to fiduciary liability, especially as the meaning of an investment advice fiduciary continues to evolve as reflected in the Department's continued efforts to amend the definition of an investment advice fiduciary.

Under Interpretive Bulletin 96-1, examples of education include plan information (such as general descriptions of the benefits of plan participation, benefits of increasing plan contributions, impact of pre-retirement withdrawals on retirement income, descriptions of investment option objectives and risk and return characteristics), general financial and investment information (such as general financial and investment concepts, effects of inflation, estimating future retirement income needs, assessing risk tolerance), general asset allocation models, interactive materials, and questionnaires that enable a participant to make their own estimates of future retirement income needs. These are only a few examples, however, and the Department of Labor (DOL) notes in the guidance that there may be other types of information, materials, and educational services that would not constitute investment advice.

Certainly, designing a financial wellness program to include the basics of financial literacy and the types of information and services outlined in Interpretive Bulletin 96-1 is a reasonable place to start. Education concerning basic financial concepts and management of financial resources can dovetail to education regarding savings in general, importance of establishing budgets and paying down debts, and saving for retirement in an employer-provided retirement program and other individually selected programs. Financial wellness programs offered in the context of the employer-provided retirement plan can assist plan participants in achieving better outcomes in plan participation and contribution rates.

Employers should consult with their plan service providers who often offer financial wellness programs and related services to their retirement plan clients. Program services and communications can be tailored to speak to the specific needs of the employees, and also can address the other benefits programs available through the employer, such as health and welfare and fringe benefit programs in which the employees can save money, avoid taxable income, and plan for various types of expenses. Plan fiduciaries also should review these programs and services and be mindful to prudently select and monitor any service provider to provide financial wellness and investment education services to plan participants, and address the cybersecurity considerations of any tools, apps, and services where employee data is collected, transmitted, processed or stored to mitigate any cybersecurity risks.

Offer Meaningful Features in Retirement Savings Plans

Ensuring employee access to employer-provided retirement savings programs with meaningful features that aid in the accumulation of retirement savings and plan distributions in retirement is a separate challenge. Disparities in access to retirement plans certainly contribute to the lack of retirement preparedness for many US workers, in addition to a lack of financial literacy and educational background in financial matters. Without the ability to obtain a defined benefit pension with annuity payments from an employer-provided pension plan upon retirement, then, at a minimum, it is important for employers to offer eligible employees not only a retirement plan that allows them to defer and save their own compensation, but one with the right mix of plan features, tools and resources that can assist workers accumulate retirement savings and manage retirement distributions. Employers that opt for other alternative routes in lieu of sponsoring their own plan, including participation in any mandated state payroll individual retirement accounts, may not be able to provide employees with access to robust plans with meaningful features that can support the attainment of such goals.

Employers should revisit their retirement plan designs to ensure that they include, or establish new plans with, meaningful features. Required meaningful plan features have evolved with recent laws such as the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), and the SECURE 2.0 Act of 2022. Employers that sponsor 401(k) Plans, for example, must include certain required features in their plan design such as access for long-term part-time employees, and, for plans established on and after December 29, 2022, an eligible automatic contribution arrangement feature is required for plan years commencing after 2024. Safe harbor plan designs also require certain minimum employer matching or nonelective contributions to participant accounts.

Yet, there are many other optional features that can enhance the robust nature of the plan and accumulation of savings, such as providing employer matching contributions based on eligible student loan payments (pursuant to some helpful interim guidance for doing so in IRS Notice 2024-63), providing an employer matching and/or nonelective contributions in a non-safe harbor plan, providing an auto-escalation feature for salary deferral contributions, potentially considering making digital assets or alternative types of investment options available if deemed prudent to do so, and offering plan distribution options in the form of lifetime income options. In fact, the 2024 ERISA Advisory Council's work includes developing recommendations to the DOL to issue guidance related to selection of plan decumulation and lifetime income options, qualified default investment arrangements, and financial literacy regarding these issues. It will be important to monitor the outcome of this report.

It is also important to note that there are a multitude of optional types of plan withdrawal features that are also available to include in plan designs, but plan sponsors should evaluate the scope of such features to make available in the plan and take the time to educate employees on the impact that taking various types of in-service withdrawals will have on their ability accumulate sufficient retirement savings.

To make the most of the effort and responsibility associated with sponsoring a retirement plan, employers should strive to assess the available plan features to incorporate into their plan design and offer employees a program that can provide the most meaningful ways to accumulate retirement savings and manage distributions in retirement. In addition, the employees should receive clear, understandable communications that explain the retirement plan features, as well as the features of their other compensation and benefit programs, and how participation in these programs can work to their advantage.

Concluding Thoughts

A lifetime of uncontrolled debt and lack of savings can certainly cause financial stress and hinder an individual's retirement preparedness. Employers can help employees overcome such stressors by providing financial wellness programs that educate on basic money management skills and improve financial literacy, enhance understanding of the value of all of the employer's benefit programs, and provide access to retirement plans with meaningful features to accumulate retirement savings and manage distributions in retirement.

When a robust retirement plan design in particular is combined with an appropriate financial wellness program, employees are well positioned to achieve greater financial security and retirement preparedness. By also promoting a culture of fiscal responsibility and financial wellness, organizations can encourage employees to save money, pay down their debts, and show them how to get into position to "do okay"!