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America's
Retirement Voice

First Edition

NATIONWIDE RETIREMENT INSTITUTE®

Smart financial moves in your 20s and 30s

Key highlights

- Why employees should start saving for retirement sooner
- Why employees delay saving for retirement
- How plan sponsors, plan providers and employees can work together to overcome savings barriers
- Why workers should consider using their HSA to prepare for health care expenses in retirement

Employees in the United States don't save enough for retirement, and they don't start saving early enough. A new survey suggests they know it, too. From overspending on entertainment to not saving for retirement, most people wish they'd handled their money differently in the past year.[1] The numbers as illustrated by the most recent Employee Benefit Research Institute (EBRI) Retirement Confidence Survey (RCS)[2] are striking:

26% of respondents said that they have less than $1,000 in savings

45% said that they have less than $25,000 in savings

56% said that they have less than $100,000 in savings

Even with a Social Security benefit added to it, $100,000 spread over a retirement of 20 or more years could lead to stiflingly tight budgets. It is no wonder then that Nationwide® found that **just 22% of employees say they feel very prepared for retirement.[3]**

Those feelings of confidence and preparedness may be misplaced. EBRI's RCS data[4] suggests:

- Employees expect to retire later than retirees actually do
- 2 in 3 individuals expect to work for income but only 1 in 4 retirees do
- Nearly 2 in 3 employees call debt a problem; about a quarter of retirees say it negatively impacts their lifestyle

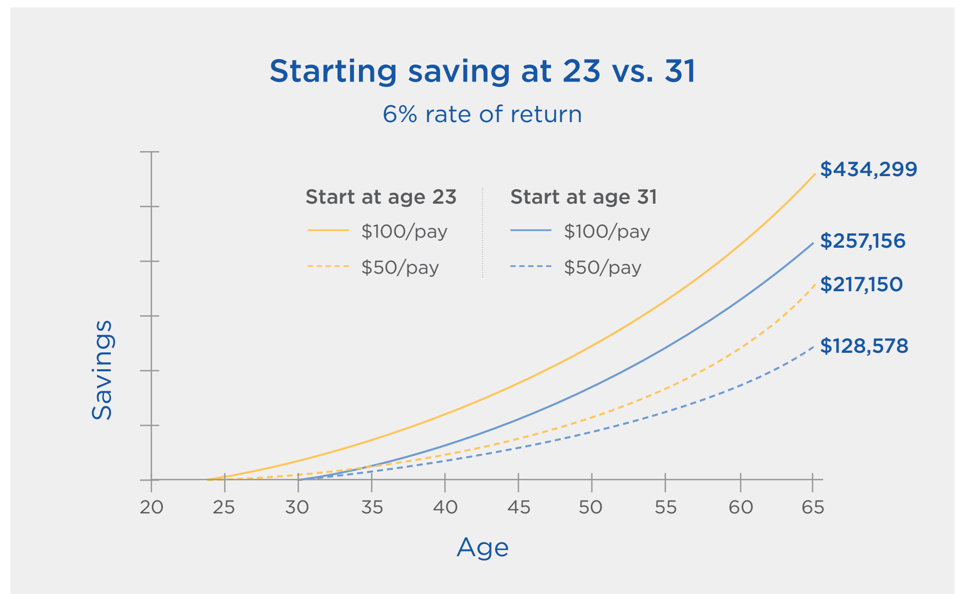
[1] "46% of Americans Wish They'd Done This With Their Money in the Past Year," Student Loan Hero (July 2018).

[2] 2018 Retirement Confidence Survey, EBRI (April 2018); amounts represent the total value of household savings and investments excluding primary home and defined benefit pensions.

[3] Nationwide Participant Messaging Platform and Needs Study, (Q2 2013).

[4] 2018 Retirement Confidence Survey, EBRI (April 2018).

Starting early matters



On average, employees start saving for retirement at age 31.[5] If those employees consistently save until they reach Social Security's normal retirement age, they'd have about 35 years of asset accumulation and potential investment earnings at retirement.

However, if they started saving for retirement eight years sooner, they could have significantly more available for retirement income. Let's say a participant is paid twice a month and contributes $50 per pay to an account that earns 6% annualized return on investment. As the chart above illustrates, if an employee starts at age 23, they'd have $88,572 more than if they started at age 31. At $100 per pay, the difference would be $177,143.[6]

Compounding — the process in which an asset's potential earnings are ***reinvested to generate additional earnings over time.***

The difference is more than just added accumulation, of course. It represents the effect of **compounding,** the process in which an asset's earnings are reinvested to generate additional earnings over time.

All other things being equal, the more time a saver allows their assets to grow, the more compounded growth occurs — and as this chart shows, the growth can become exponential.

The logic seems clear: *Individuals should not delay saving for their retirement.*

So what is getting in the way?

[5] Nationwide Participant Solutions Research Study (2017).

[6] The example assumes a hypothetical 6% annual return and is based on semi-monthly contributions. It's intended to illustrate the effects of time and compounding on investments. It is not intended to predict or project investment results, and doesn't represent the actual performance of any investment or retirement plan program. This example does not reflect any applicable fees or taxes. If these were included, the results would be lower. Investing involves market risk, including possible loss of principal. No investment strategy or program can guarantee a profit or avoid loss. Actual results will vary depending on your investment and market experience.

Impediments to saving

In general, three factors cause Americans to delay saving or saving more for retirement: debt, rising costs and lack of access to a retirement plan.

So while encouraging younger employees to start saving for retirement should be a priority, millennials face road blocks to doing so.

1. DEBT

61% of employees say debt has negatively impacted their retirement savings.[7] At the end of the second quarter of 2018, total consumer debt was $13.29 trillion, roughly $52,000 per adult in America.[8] Two-thirds of employees hold nonmortgage debt, which includes:

Student loan debt
Americans owe more than $1.48 trillion in student loan debt. Spread out among some 44 million borrowers, student debt is about $37,172 per borrower.

Credit card debt
U.S. credit card debt has reached $1.03 trillion or roughly $5,234 per cardholder.[9]

2. RISING COSTS

In general, costs for big-ticket items are rising faster than the overall inflation rate. For example, homes cost more. In the first quarter of 2018, the median sales price of existing homes was up 5.8% over the same period of the previous year.[10]

Home purchases
Rising interest rates and home prices have driven up mortgage rates and depressed affordability. Many potential buyers are also renting longer which is causing rents to rise at the fastest pace in two years.[11]

Child care
According to a new survey, child care is unaffordable for more than 7 in 10 American families. For those who can afford it, costs are jumping. The national average weekly costs of day care for one infant is $211, up 11.8% from 2013.[12]

Health care
The costs keep rising. A typical American family of four insured by the most common employer-sponsored health plan can expect to spend more than $12,378 on health care premiums and out-of-pocket expenses in 2018, an increase of $693 from 2017.[13] The trend for employer medical costs for 2019 appears to be about a 6% increase, the same as 2018.[14]

A quarter of full-time employees in America do not have access to a retirement plan at work.

3. PLAN ACCESS

Of full-time employees in America, 1 in 4 do not have access to a retirement plan at work.[15] This also includes the two-thirds of small businesses who do not offer a retirement plan.[16]

In addition, younger employees are twice as likely than their elders to work part-time or in a gig economy, moving from contract to contract, making them ineligible for many employer-sponsored retirement plans. Research shows that roughly half of millennials have a job tenure of one year or less.[17]

[7] "Only 31 Percent of American Workers with Non-Mortgage Debt Save for Retirement Outside the Workplace," LIMRA (April 2018).
[8] "Household Debt and Credit Report," Federal Reserve Bank of New York (2018).
[9] "A Look at the Shocking Student Loan Debt Statistics for 2018," Student Loan Hero (January 2018).
[10] "Metropolitan Median Area Prices and Affordability," National Assoc. of Realtors (July 23, 2018).
[11] "Rents are rising at the fastest pace in almost two years," CNBC (March 2018).
[12] "This is how much child care costs in 2018," Care.com (July 2018).
[13] "2018 Milliman Medical Index," Milliman Research Report (May 2018).
[14] "Medical cost trend: Behind the numbers 2019," PwC Health Research Institute (June 2018).
[15] "Let's give workers a retirement savings plan at work," Brookings Institute (March 2017).
[16] "2017 Small-Business Owners Survey," Nationwide (May 2017).
[17] "Millennials and Retirement: Already Falling Short," National Institute for Retirement Security (February 2018).

Greater savings potential

The good news is the current economic environment is favorable for solutions that could plow through those roadblocks. The August 2018 unemployment rate was 3.9%, slightly above the 40-year low. These conditions are driving wage increases at the fastest pace since 2010,[18] leading employers to seek alternative means to lure and retain employees.

36% of small businesses

plan to start offering a retirement savings program within the year.

One alternative is adding a retirement savings plan, a benefit that the recent tax cut makes more affordable for employers. In fact, Nationwide's recent businessowners survey found that 36% of small businesses plan to start offering a retirement savings program within the year.[16]

— *Actions you can take now* —

START SAVING. Virtually all employees who are not already doing so, should start contributing to a retirement plan immediately.

PRIORITIZE RETIREMENT SAVING WITH LOAN REPAYMENTS. Employees may be able to reduce their student loan payments, accept a slightly later payoff and contribute the difference to their retirement savings account — allowing compounding more time to work.

PRIORITIZE RETIREMENT SAVING WITH SAVING FOR A HOME. Individuals could reduce their monthly saving for a down payment and contribute the difference to a retirement account. Doing so would delay reaching the down payment, but potentially only by several months rather than several years. Meanwhile, the saver would kickstart their retirement savings.

TAKE ADVANTAGE OF AUTO-ENROLL. Studies suggest that automatic enrollment could reduce the national 401(k) plan nonparticipation rate from about 30% to less than 15%, significantly increasing employees' retirement savings.[19] Perhaps that's why roughly 68% of retirement plans now use automatic enrollment, up from 58% in 2015.[20]

SAVE FOR FUTURE HEALTH CARE EXPENSES. Employees may have access to a Health Savings Account (HSA) which allows for pretax contributions to pay for qualified health care expenses that insurance doesn't cover now or in the future. HSAs offer a triple tax advantage: tax-free employee contributions, tax-free investment growth and tax-free withdrawals for qualified medical expenses.

Tips to balance your debt and savings with your retirement savings.

Review three case studies on the next page that offer ideas for how to balance retirement saving with other financial priorities while still achieving the individual's goals.

[18] "The Employment Situation," Bureau of Labor Statistics (August 2018).

[19] "Automatic Enrollment 401(k) Plans for Small Businesses," joint publication of the U.S. Department of Labor's Employee Benefits Security Administration and the Internal Revenue Service (October 2016).

[20] "More Companies Automatically Enroll Workers in Retirement Plans," AARP (October 2017).

Case studies

Debt

SOLUTION: *Prioritize retirement saving **with** loan repayments.*

Let's consider a hypothetical example[21] of an employee who is paying $500 a month on a 10-year, $35,000 student loan that charges 6% annualized interest. The terms of the loan require a minimum payment of $390. By repaying more than the minimum, she will save $10,594 in interest and cut the payoff period by 1.80 years.

Or, she could contribute $55 per pay ($110 per month) to her retirement account by reducing her loan payment to the monthly minimum. In doing so, she would accumulate $16,267 for retirement over the 10-year period while paying $10,594 interest, a net savings of $5,673.

Scenario 1 $500 per month	
$500	Loan repayment
$0	Retirement savings
8.2	Years to payoff
$10,594	Saved on interest
$0	**Saved for retirement**

Scenario 2 $500 per month	
$390	Loan repayment
$110	Retirement savings
10	Years to payoff
$0	Saved on interest
$16,267	**Saved for retirement**

Desire to purchase a home

SOLUTION: *Prioritize retirement saving **with** saving for a home.*

Employees may be able to accommodate some retirement saving by delaying their down-payment target by several months. Let's consider a hypothetical example[22] of an employee who is saving $300 a month for a down payment, earning 1% interest. At that rate, the employee will have $20,000 accumulated in about 4.20 years.

He could reduce his monthly saving amount by $100 and redirect that amount into his retirement account. In just 5.80 years, he would have $20,000 for a down payment AND $8,608 saved for his retirement, based on 6% return on investment.

Scenario 1 $300 per month	
$300	Bank savings
$0	Retirement savings
4.20	Years till $20,000 saved
$0	**Saved for retirement**

Scenario 2 $300 per month	
$200	Bank savings
$100	Retirement savings
5.8	Years till $20,000 saved
$8,608	**Saved for retirement**

Save for future health care expenses

SOLUTION: *Use a Health Savings Account (HSA) if available*

Employees may be able to save into an HSA. Let's consider a hypothetical example[23] of an employee capitalizing on this triple tax advantage. Saving $20 per pay ($40 per month) into an HSA, he could have $26,920 after 30 years. If the employee increased his savings to $50 per pay ($100 per month), that amount could grow to $67,301.

By increasing to $65 per pay, the employee could have an additional $40,000 of tax-free dollars — more than $100,000 total — to help pay out-of-pocket health care expenses that may arise in retirement.

Saving	for	could grow to
Saving **$20**/pay	for **30** years	could grow to **$26,920**
Saving **$50**/pay	for **30** years	could grow to **$67,301**
Saving **$65**/pay	for **30** years	could grow to **$107,301**

[21] These examples assume a hypothetical 6% annualized interest on monthly payments on a student loan over a 10-year period, and 6% annual return on investments through a retirement plan. It is based on semimonthly contributions over a 10-year period. It's intended to illustrate the effects of time and compounding on investments. It is not intended to predict or project investment results and doesn't represent the actual performance of any investment or retirement plan program. These examples do not reflect any applicable fees or taxes. If these were included, the results would be lower. Investing involves market risk, including possible loss of principal. No investment strategy or program can guarantee a profit or avoid loss. Actual results will vary depending on your investment and market experience.

[22] These examples assume a hypothetical 1% annualized interest on bank account deposits and 6% annual return on investments through a retirement plan. It is based on semimonthly contributions. It's intended to illustrate the effects of time and compounding on investments. It is not intended to predict or project investment results and doesn't represent the actual performance of any investment or retirement plan program. These examples do not reflect any applicable fees or taxes. If these were included, the results would be lower. Investing involves market risk, including possible loss of principal.
No investment strategy or program can guarantee a profit or avoid loss. Actual results will vary depending on your investment and market experience.

[23] This example assumes a 4% ROR for 30 years; https://healthequity.com/calculator/future-balance.

What you can do right now

Regardless of age, virtually all individuals who are not already doing so should immediately start saving as much as they can for retirement.

Nationwide offers an array of tools and resources to assist individuals who want to get started, maintain or increase their savings for retirement, and to assist employers as they encourage their employees to get started, maintain or increase their savings for retirement.

EMPLOYEES SHOULD:

- Start contributing to a retirement plan immediately; if your employer doesn't offer one, establish an IRA
- Make retirement saving a priority while managing debt and other goals
- Use your employer's Health Savings Account to save for future health care expenses
- Use My Interactive Retirement Planner℠ to assess your retirement readiness
- Increase contribution amounts regularly

EMPLOYERS SHOULD:

- Establish a retirement plan
- Promote their retirement plan
- Educate on the advantages of saving through the plan
- Take advantage of educational and promotional resources offered by Nationwide
- Make it easy for employees by incorporating auto- features in the plan

Act now, contact your Nationwide representative.

The Nationwide Retirement Institute® provides practical thought leadership and comprehensive solutions. Through education and insights, employee-ready tools and consultative support, we break down and simplify complex retirement challenges to help advisors, clients, and employees plan for a more secure financial future.

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