

# Perspectives on Retirement

## Convergence of Health & Wealth

A few times a year, Axia Advisory sits down with an expert in the retirement field to discuss trends, research and other findings important to retirement plans in America.

In this issue we speak with Shelby George, Practice Leader of Manning & Napier's Benefit Solutions Group, about their goals in helping employers take a different approach to their benefit plans. She describes the changes taking place in retirement plans in response to changes taking place in health plans. She also discusses "Plan Failure Risk," and how plan sponsors can adjust their thinking and move toward a more holistic benefit approach.

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**Axia:** Thank you for joining us. Can you tell us about your group's role at Manning & Napier?

**Shelby George:** As an investment manager, Manning & Napier's core philosophy is that environments matter. These are shaping the risks that investors face, as well as the risks that impact plan sponsors. With this in mind, we are constantly monitoring both the economic environment and the broader market environment. Our group's role is to specifically view the retirement landscape and, most importantly, how it is changing. Namely, the risks these changes present to the plan sponsors and their participants.

**Axia:** In your opinion, what's the biggest change affecting retirement plans?

**George:** In today's environment, health care reform and rising health care costs are among the biggest changes

affecting retirement plans, making a plan sponsor's objective setting strategy all the more important.

**Axia:** Historically these two benefits [health insurance and retirement plans] have stayed somewhat separate in the eyes of employers. How has that changed today?

**George:** For employers, it has changed because of increased health care costs and, more recently, health care reform. Ultimately, a primary reason it has changed is because employers have limited benefits dollars, and they must decide how to allocate those dollars among health plans, retirement plans, and other benefit plans to meet their objectives. With health benefits taking up a bigger piece of the pie, retirement and other benefits can suffer ripple effects.

**Axia:** How has the Affordable Care Act (ACA) affected retirement plans?

**George:** At a strategic level, employers are thinking more about what they want to do with their health plan long-term. Do they want to maintain the plan? Do they want to continue to shift more costs to employees? Some employers want to eliminate offering health care benefits all together. With all of these significant changes to their health plans, how are employers going to meet their overall employee benefits objective? The retirement plan can be a useful tool.

**Axia:** Can you provide an example of how the retirement plan can be a tool?

**George:** For example, some small business owners have decided that they do not want to offer a rich health benefit going forward, but still need to offer tax-advantageous benefits for employees. Therefore, these employers may consider offering a retirement plan such

as a cash balance plan, to allow their owners and executives to save more money for retirement. This type of plan is usually found more in professional service firms, like attorney and accounting practices. For other organizations, utilizing a Health Savings Account (HSA), with a high deductible plan (HDHP), is another opportunity for employees to save for retirement-related health expenses..

**Axia:** One of the big ideas your group refers to is “[Plan Failure Risk](#).” Can you expound on what this means?

**George:** Plan Failure Risk is the risk that, despite all the time and money employers spend on their benefit packages, the benefits still fail to meet the company’s business objectives. For example, employers spend, on average, 31% of their total compensation dollars on benefit plans, but most of them feel that these benefits don’t live up to the money spent. The risk there is that ultimately the employee benefit will not meet their objective; whether that is recruiting and retention, or a long-term cost management strategy. Employers need to think about having a holistic benefits objective in order to align their plans (both their dollars spent and plan design) with that objective.

**Axia:** Your group has identified some main objectives employers have as it pertains to benefit packages. Can you go through each one and speak a little on the differences?

**George:** Many employers have long-term cost control as an objective. They are committed to offering benefits, but are interested in having sustainable costs over time. On the health side, those employers have shifted many of the costs to employees, utilizing HDHPs, paired with an HSA. On the retirement side, how does an employer contain costs but still offer a great benefit? Options include stretching the match, consistently reviewing plan fees, or implementing a financial wellness program.

For an employee satisfaction objective, employers are seeking ways to offer the best benefit possible to their employee base. While health benefits are often viewed as most valuable to employees, they are also the most

expensive. So there is an opportunity for the retirement plan to become a larger focal point of the benefit package. Employers can look to allocate money away from the health benefits and toward the retirement plan. Examples include enhancing the match, adding financial planning tools, or adding a profit sharing contribution. This can be communicated to the employees in a way that the employer creates a closer alignment than would occur with the health benefits.

Lastly, for an employer focused on recruiting and retaining executives, we see employers moving away from rich health plans toward HDHPs with an HSA. This frees up employer benefit dollars to spend on a profit sharing contribution, a cash balance plan, or offering additional ancillary benefits. Another way is to offer financial planning for executives.

**Axia:** Have you seen employers struggle with which objective is the most important to them?

**George:** Yes, we run into it often. We see it especially with an employer that is focused on cost control for their health plan, but employee satisfaction on the retirement plan. This leads to an important conversation with the employer about how the two plans can work together to achieve a prioritized objective.

**Axia:** How do Financial Wellness programs fit into this discussion?

**George:** At an employer and employee level, financial wellness and physical wellness are two parts of an overall healthy financial outlook. When we talk about physical wellness, it directly relates to health plan costs, which then have an impact on the participant being able to save for retirement. Likewise, financial wellness helps participants make better consumer decisions as it pertains to not only their financial life, but also decisions on health care. While financial wellness and physical wellness are often thought of as different ideas, in actuality, they are quite related.

**Axia:** Are plan sponsors taking risks by keeping these separate?

**George:** Yes. The more coordination between health planning and retirement planning, the better off the employer will be. In practice, though, it can be difficult. Both benefits are complex and time-consuming, so it's tough to have a handle on both sides. Employers must take a holistic view when setting objectives.

**Axia:** Have you been surprised by any of the conversations you've had?

**George:** What has been most surprising has been the speed at which this idea has evolved. We've been talking about this for several years now. In the first year, this was a foreign concept to many employers and consultants. Today, most people we speak with understand what we mean when we say, "health and wealth are converging." The bigger issue is what we do with the information. How do we have a more holistic perspective? The environment is evolving so quickly that now we're seeing innovations from consultants and recordkeepers that play on these ideas.

**Axia:** Interesting. What is holding back plan sponsors from thinking more holistically?

**George:** I think it's because it's a new and different conversation. Employers have historically taken a siloed approach to their benefits. That is changing. The more resources that are offered to help guide employers to a more coordinated strategy, the better off they'll be. A few years ago, employers would never have thought about how retirement plans are affected by health care reform. Today, employers are asking which recordkeepers can help to address health benefits.

**Axia:** Has the idea of holistic planning led to plan sponsors focusing more on education and engagement?

**George:** Absolutely. Health Savings Accounts are fueling that trend. As employers shift costs onto employees, the health plan is beginning to look like retirement plans. The biggest difference on the health side is they don't have the luxury of being disengaged. Health costs affect them today, while the idea of retirement is off into the future. So any new tools employers have to help educate and engage employees in this new era of

consumerism [as it pertains to HSAs], both in financial, as well as physical well-being, are highly valuable.

**Axia:** Are companies beginning to consider a benefits committee overseeing everything instead of just a retirement committee and health benefit committee?

**George:** We see that as a trend in the future, but we're not there yet. Fiduciary due diligence is still the cornerstone for retirement planning decisions. While the ideas apply to health benefits as well, it is not front-and-center today. With further alignment of the two benefits, we believe we'll see more coordination.

**Axia:** Have these discussions led employers to think about their benefit dollars in a different way?

**George:** Yes, these discussions are beginning. The finance department of a company is becoming more involved with health benefit decision making, due to the cost. As finance becomes more involved, they begin to have a more holistic perspective to benefits. Then the question is asked, "Are we spending our money in the best way?" Those conversations, though, are not widespread at this point. We believe this will change over time, as employers have access to additional resources to help manage benefits in a more holistic manner

**Axia:** For plan sponsors, what is the most important takeaway?

**George:** Begin by identifying a coordinated objective for your benefits offering. Think about the retirement plan, health plan, and other benefits, and then set your prioritized objective for all.

**Axia:** Thank you for your time, Shelby.

**George:** Thank you.

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