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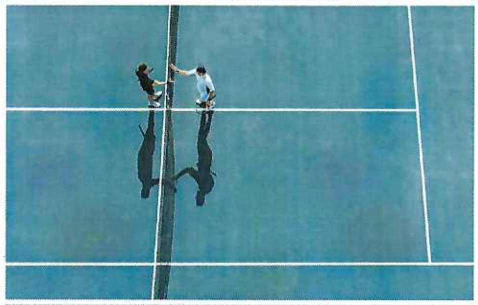
HOW CAN 401K PLAN SPONSORS BEST PREPARE EMPLOYEES FOR POST-RETIREMENT COMPLEXITY?



By: Christopher Carosa - May 11, 2021

As baby boomer retirements accelerate, 401k plan sponsors are finding their employees and former employees have discovered the other side of the retirement savings mountain: decumulation.

For decades, defined contribution plan sponsors have been taught to train their employees to save. This was the most critical avenue to a comfortable retirement. This is what needed to be stressed. It was all about saving. Ask any financial professional and this is invariably the first thing said.

"401k sponsors should focus on achieving three goals," says Paul Tyler, Chief Marketing Officer of Nassau Financial Group in Hartford, Connecticut. "1) Encouraging participants to maximize their contributions; 2) Actively helping members fully consider their personal and financial goals in retirement; and, 3) Connecting employees with qualified advisers to help them create their own unique path."

With all this emphasis on saving, we can often lose sight of the real goal: spending in retirement. This could be a problem. While the retirement saving window is long and forgiving, the retirement spending window could be long but not very forgiving. The fact is, unlike the saving phase, there's not a lot of room for error once you retire (unless you've been incredibly lucky with your savings).

"The focus should be on education about distributions," says Michael Foguth, founder of Foguth Financial Group in Brighton, Michigan. "So many people and employers focus on matching 401k dollars, growing 401k dollars, or what funds are available in 401k plans. But for those at or nearing retirement, the paradigm should be shifted towards the accumulation and distribution of wealth. The focus should be on bringing in experts in that arena rather than the focus being 'grow, grow, grow.'"

Not only is retirement a stickler for getting things right the first time, but there are also far too many choices to know what's best and what's right for you. Compared to saving (which at its simplest, is just that: saving), retirement is a Rube Goldberg-like contraption, an elaborate mechanical system with an unending number of points where something can go wrong.

How do you get employees ready for this? "401k plan sponsors can best prepare employees for this post-retirement complexity by providing reading materials and recommendations that discuss the issues that arise with post-retirement planning," says Ann Martin, Director of Operations of CreditDonkey in Pasadena, California.

Retirement advisers talk a lot about "target date" funds. Maybe plan sponsors should start asking for "target date" education. Employees in their 20s and 30s don't need to know about decumulation options. Those in the 50s and 60s, on the other hand, better start thinking about the choices they're going to have to make once they retire. And plan sponsors can provide the resources they need.

"Education specific to post-retirement is a great way to prepare employees for post-retirement," says Jason Field, financial advisor at Van Leeuwen & Company located in Princeton, New Jersey. "Many plan sponsors focus on how the plan works, how to save in the plan, what the investment choices are, and any other plan specific options that savers in the plan need to know. Having an education system around how to take money out of the plan and distribution options, tax implications of withdrawals, required minimum distributions, and even rollover options would be helpful for people nearing the post-retirement phase."

In fact, when employees feel they are within 5 years of retirement, 401k education programs can be tailored to take a deeper dive into the various scenarios that can arise once you earn your golden watch.

"401k plan sponsors can prepare people for the drastic changes they are about to face with a few in-depth discussions about retirement financial goals," says Ryan Cicchelli, founder of Generations Insurance & Financial Services in Cadillac, Michigan. "Sponsors can ask when people plan to retire, how much they will need to maintain their lifestyle, and the challenges they will face."

This isn't to say younger employees should be left out of this type of education altogether. They shouldn't. It's important the message is drip, drip, dripped from the beginning of the onboarding sequence. It doesn't need to be emphasized, but you want to mention it. The last thing you want to do is surprise near-retirees with a lot of terms they've never heard of.

"The key way to help employees prepare for changes in their planning needs is to focus on communication and education that doesn't end once the employee has simply enrolled in the 401k plan," says Syed Nishat, Partner at Wall Street Alliance Group in New York City. "This could mean making sure employees have access to clear definitions of terms that may seem simple to those familiar with the financial industry but are only jargon to someone without specific knowledge. Helping employees understand what is meant by terms such as 'lifetime income,' 'guaranteed income,' etc., and helping them differentiate so they can plan for their retirement in a knowledgeable way is one step. Another is for plan sponsors to ensure that the terms are applied universally so that the employees are getting a consistent message that will enable them to continue to understand and educate themselves on their own savings."

But here's the important rule: don't assume one size fits all even after you segment your education program by age cohort. Not all near-retirees will want or need the same information. The education program must be designed to accommodate a vast spectrum of circumstances. While plan sponsors might help guide employees towards the right lesson plan, ultimately it's the responsibility of the employee to choose the most appropriate education option (just like how it's their responsibility to choose the most appropriate investment option).

"Plan sponsors may be supporting a wide variety of employees, with vastly different employee wealth," says James DiLellio, Associate Professor of Decision Sciences at Pepperdine Graziadio Business School in Los Angeles, California. "So, the education would need to be tailored to be helpful for the large heterogeneous population of future retiree goals."

As employees move towards a desire (and perhaps a need) for more customized specifics when it comes to the post-retirement period, it may be necessary for them to spend some of that savings and hire a private chauffeur rather than rely on the public transportation they've been accustomed to.

James O'Donoghue, Financial Advisor at BCG Securities in Cherry Hill, New Jersey believes plan sponsors should offer "a financial advisory option to their employees through their retirement plan. Explaining options they have for individual planning and education, or even offering a guaranteed fixed income option in their retirement savings vehicles."

Remember, the goal isn't saving. Accumulating healthy savings represents a mere means to an end. The end is to live a comfortable retirement. And that means knowing what to do once you retire.

"The best gift an employer can give employees is financial wellness," says Ben Soccodato from The SKG Team at Barnum Financial Group in New Rochelle, New York, who, for the past 15 years, has been teaching employer offered workshops on financial management, Social Security planning, estate planning, utilizing a Roth, an HSA, etc. "These programs are typically offered as an add-on to one's benefits package and, in many cases, can come to the employer at no additional cost," he says. "Bringing in a team of experts and fiduciaries who can advise your people on how to get their financial world in order as early as possible is a tremendous benefit that every employer should leverage. COVID has brought additional levels of flexibility through the utilization of webinars where you can touch more people at a given time. There really is no excuse not to provide financial literacy workshops in the workplace."

Live well. Save well. Retire well.

It's a simple mantra. It's just not so simple to implement. People are used to getting coached on how to live and how to save. Why not get coached on how to retire?