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SIMPLIFYING THE RETIREMENT PLANNING MESSAGE

Employees need to be taught how to manage finances and save for the future before being advised on how to create an income stream in retirement.

By: Amanda Umpierrez - April 19, 2021

As inevitable as retirement is, why is properly preparing for it so difficult?

It could be that participants are preoccupied with other concerns. Most (70%) of the respondents to a recent Schroders retirement survey said they don't have enough savings to add to a retirement plan, while others reported that they have other financial priorities (60%) or that the future is too uncertain to plan for (50%).

And as industry professionals encourage participants to prepare for their future, many people are reluctant to add what they believe is an insufficient amount to their retirement plans. Instead of adding what they can afford to, they fail to add anything at all, the survey found.

To combat this, Juan Carlos Cruz, founder of Britewater Financial Group in Brooklyn, New York, suggests plan administrators work to simplify the retirement plan message by helping participants monitor living expenses and 401(k) contributions simultaneously.

"One way is to offer a monthly monitoring service to see how the employee is adjusting and handling their living expenses," he recommends. "A more hands-on approach would help the saver make adjustments and will help the employee see that saving is not that difficult."

Robert Dunn, president and managing partner of Novi Wealth Partners in Princeton, New Jersey, says plan sponsors should understand where their employees are financially. Especially during the pandemic, many are looking to grow their emergency savings rather than their retirement accounts, for example.

"Life is difficult, and in the face of COVID-19, certainly unpredictable," Dunn notes. "But once someone has accepted their personal situation, they can begin to evaluate their options, whether it is attempting to earn additional income or spending less."

While it can be difficult to plan during an uncertain period, Dunn suggests that participants look to their futures and understand what expenses may be required. One common example is preparing for any future college expenses, he says.

Cruz says many forego saving for retirement on the common belief that Social Security will provide enough retirement income. Others believe they'll continue working well into their retirement years. The Schroders study found 53% of respondents believe they will continue working during retirement in order to cover basic living expenses.

On top of these common misconceptions, other financial responsibilities, including paying down student loan debt, are likely to take priority over retirement for some workers. These participants might also believe they'll earn more in the future and can save more then, "but that is not always the case," says Dunn. As participants grow their income, their spending needs are likely to increase as well, he contends.

Enabling plan design features, such as a "set-it-and-forget-it" options like automatic enrollment and automatic escalation, along with an emergency savings vehicle, can help participants gradually save over time, suggests Harry Dalessio, head of institutional retirement plan services at Prudential Retirement in Hartford, Connecticut.

Sponsors can also help participants manage short-term money stressors by providing a range of financial wellness tools and resources, including but not limited to student loan programs, debt and credit management tools and budget development programs, Dalessio adds.

Employer communication and education can also contribute to participants' financial wellness. "Sponsors shouldn't underestimate the value of offering communications on plan features, the long-term impact of compound interest and understanding the importance of transitioning their accumulated savings into a guaranteed income stream as they are approaching retirement," Dalessio says.

Communicating with participants on the importance of savings and accumulation, if possible, is key, Cruz says. From there, employers and financial advisers can work with participants to adjust their savings goals.

Additionally, speaking to employees about the basics of retirement planning can ease any apprehensions they may have. He notes that many savers believe that once they save money into a defined contribution (DC) plan, the money is unavailable until retirement. But in the case of an off-chance emergency, the money is still accessible, though withdrawal penalties will apply.

"This can make people more reluctant to save, as they believe the money is gone and never to be seen again," Cruz says. "Explain how these plans can be helpful in case of an unforeseen emergency, and how easily this money can be accessed. An explanation of the taxes and penalties and how withdrawing may impact their savings in the future must also be provided."

Implementing a proper plan design is also imperative to creating a successful retirement income strategy, Dalessio says. Plan sponsors are responsible for enabling individuals with a mechanism to create a steady income stream that will last in retirement, he notes.

"Saving and accumulation should still be a key focus for participants," Dalessio says. "But making sure they understand the importance of creating that income plan for later is also a critical component to successful financial planning."