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Retirement Planning Isn't Just About Saving

During National Retirement Security Week, industry sources remind plan sponsors that education should include all factors in the realm of retirement planning.

NATIONAL Retirement Security Week highlights the importance of saving and investing for an employee's retirement years. Yet, it's so much more than that.

Not exclusively affixed to participant savings, the week teaches the importance of retirement security—how plan sponsors can shift education towards preparing for the post-employment future. Traditionally, participant education has focused on the accumulation of assets rather than full retirement planning, notes Jim Poolman, executive director of the Indexed Annuity Leadership Council (IALC). It makes sense—plan sponsors are providing retirement plans, so top participation among employees is ideal. But engagement shouldn't stop there, he says.

"What's important is to talk about lifetime income—outliving your income or your retirement savings. Talk about expenses or educate about unforeseen expenses in retirement," he emphasizes.

"Unforeseen circumstances," such as sudden medical costs and health care expenses, can set participants back over a quarter of a million dollars or more during retirement, Poolman says. A 2018 Retirement Healthcare Costs Data report from HealthView Services estimated total lifetime retirement health care expenses for the average, healthy 65-year-old couple can add up to $363,946. Given that participants already struggle with health care costs pre-retirement, employers should feel a responsibility to implement education surrounding medical security for later years.

Employees don't even know what to question about their retirement planning. According to Robert Scheinerman, president of Group Retirement at American International Group (AIG), a survey conducted by VALIC, an insurance company from AIG, reported one in four employees do not know what to ask about retirement.

"There were various qualitative responses which demonstrate a large population of people who don't really feel comfortable doing the retirement planning on their own," Scheinerman says.

He recommends plan sponsors utilize a three-pronged approach when distinguishing three certain types of participants: those who understand their retirement preparation; those who believe they have some idea but continue to need support; and those unfamiliar with retirement planning. "Recognizing all three approaches is critical," he says.

Employers have the opportunity to be less hands-on with those better aware of their retirement planning future. Communication via email is one way to touch base with participants on that level, Scheinerman says. But for those requiring additional support, introducing retirement counselors makes a world of a difference. Should plan sponsors or participants express concern with investment portfolios, for example, a retirement plan counselor can analyze investment profiles and pinpoint which participants are investing too aggressively, or vice-versa.

"VALIC is working with the plan sponsor to target education programs so the employee can understand what their decisions have been relative to their investment profile, and how to get them into a range that's appropriate for their age, their goals and their risk tolerance," Scheinerman says of the counselors at VALIC.

Aside from shifting how education is presented or adding professionals when needed, plan sponsors should consider developing timely follow ups and benchmarks with their participants, suggests Poolman. Investment risk profiles change as employees age, and as participants go through lifecycles, educating themselves, modifying risk and time tolerance, or following up on portfolios is not at the forefront of their thoughts. This kind of postponement can then affect participants at unexpected moments, such as downturns in the market or during market volatility. During the financial crisis of 2008, those who hadn't balanced their portfolios appropriately were forced to delay retirement, Poolman says.

"Retirement plan participants found themselves on the short end of the stick and had to work longer because they may have not balanced their portfolios to correspond with their age," he adds.

Sponsors who provide retirement plan mechanisms are right in encouraging employees to participate, but where they fall on is the continuation of education. The job of a plan sponsor does not end once the recommended 10% of salary is added to a participant's 401(k) account. It's the continuous education that can push this growth.

"Participant education occurs throughout the lifecycle of the plan participant. Getting somebody to contribute 10% to their 401(k) should not stop there," Poolman says. "It should be continuous education about how important it is to be financially literate throughout your entire life, so that you make those necessary changes."

Utilizing yearly benchmarks incites accountability for both plan sponsors and participants, drives dedication to the company's workforce and retirement plans, and backs the notion that retirement preparation doesn't just account for an employee's 40-year-work career, but rather, his whole life.