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Perspectives from Anna: Retirement Advice and the Employer

By Anna M. Rappaport

BACKGROUND

Every year, the Society of Actuaries (SOA) Committee on Post-Retirement Needs and Risks (CPRNR) selects some major topics for new projects. In 2014, the committee decided to explore employer approaches to retirement advice, and commissioned a research paper on that topic. Michael Finke, then at Texas Tech and now the dean of the American College, was commissioned to write this paper. Step two of the project was to develop a guide for employers.

It turned out that this project was more interesting and challenging than expected, and more challenges surfaced along the way. While there was a lot of literature on retirement advice and planning, we found that there was very little that identified and sorted out the approaches employers might consider and use to support planning and help employees make better decisions. We also learned that the community of planning professionals includes a very diverse population with different business models, as well as education and qualifications. That situation was complicated because some of the professionals were paid for providing advice, others for selling financial products and some a combination of the two. We learned that different types of professionals were regulated very differently by different agencies, depending on their business model and role. We also knew that there is no consensus about the right solutions and approaches to some retirement planning questions. All of that made it confusing to sort out the issues and clearly define the choices for the employer community. I believe the SOA research makes tremendous strides in advancing the literature on employer advice that is available to employers, particularly if the two reports are looked at together.

During the time that the SOA was doing this work, the Department of Labor was working on new fiduciary regulations. There has been a great deal of controversy surrounding these regulations, but final regulations were issued in April 2016. The new regulations expand the definition of fiduciary. They respond to concerns about conflicts of interest and retirement advice that was not always in the best interests of participants. My hope is that the new rules will help participants get a positive result more often.

One of the big questions going forward is how middle income individuals will get help when they need it. One of the concerns expressed in the CPRNR's 2012 Report: *The Impact of Running Out of Money in Retirement*[1] roundtable discussion was the limited supply of impartial and readily available financial advice for people who are not affluent. This is a group of individuals who are usually not prepared to pay for such advice and who have different challenges than the affluent. While much of the advice for the affluent relates to helping with investment management, the less-than-affluent often have little money to invest, and most of it may be part of a 401(k) plan, at least until they retire. However, this group faces many financial challenges, and many people need some help and support. It is unclear how the new environment will impact the options available to middle income individuals and couples. In any case, the efficient delivery of impartial services will be important if the advice is to be available at a cost that matches the likely available resources. Employer-sponsored programs and automated services offer two possibilities for decision support for this group.

THE ROLE OF EMPLOYERS

Employers have long been fiduciaries with respect to the retirement plans they sponsored. And as such, they are required to consider the interest of the participants in the management of the plans. The U.S. Department of Labor regulates these plans and it released final rules on April 6, substantially revising the definition of ERISA fiduciary for both defined contribution and defined benefit plans.[2] The new rules, which become effective on April 10, 2017, may accelerate changes in the provider marketplace. For a review of the employer issues related to the new rules, see the Plan Sponsor Council of America (PSCA) analysis.[3] The rule is long and complex, and plan sponsors will want to review their strategies with their attorneys.

Employer programs continue to be a very important part of the retirement savings opportunities for many people. Middle income Americans put most, if not of all, of their retirement savings in plans sponsored by their employers, and many of this group do not have access to independent financial advice. Employer programs are a major source of communication about financial security and information to help employees make better decisions and benefit plans.

The types of communication support offered by employers is evolving. Aon Hewitt's *Hot Topics in Retirement 2016*[4] show that nearly all employers (89 percent) indicated they are very or moderately likely to add tools, services or communications to expand their financial well-being focus. When asked why they are doing this, 85 percent said it was the right thing to do. The top three tools to be offered in 2016 are basics of financial markets (43 percent), budgeting (34 percent) and debt management (33 percent). All of these topics illustrate the growing appreciation of the importance of having a good foundation for financial education.

The SOA publication *Retirement and Investment Advice: A Guide for Employers*[5] identifies a range of approaches that are available to employers to help employees make better retirement decisions. The approaches range from completely personalized approaches and somewhat personalized approaches with target date funds and guidance, to general education and plan design, which are not personalized at all. Advice can be found in the form of robo-advice, one-on-one, or managed accounts. Most of the approaches are helpful to those who are "do-it-yourself" type individuals, whereas managed accounts offer a "do-it-for-me" approach.

HOW THE RULES MAY IMPACT EMPLOYEE BENEFIT PLAN SPONSORS

I have been listening to others and thinking about the new rules and how they might impact individuals and employer offerings of advice. Several key points come to mind:

- Absolutely nothing has changed with respect to the individual's need for advice, and the level of financial and retirement literacy. The SOA research regularly has shown that individuals' retirement planning time horizons are too short and there are major gaps in planning. However, public awareness of the issues surrounding retirement advice, as well as employee interest in having access to more help, may change as a result of these rules. These issues have gotten a great deal of attention. The new rules are likely to focus more attention on the importance and value of employer-sponsored advice and decision support.
- Many employer-sponsored plans offer good investment options and low fees. Employee interest in leaving their funds in their employer's plan may increase, and vendors supporting defined contribution plan management may increase their offerings of payout options and support for the post-retirement period. I predict that more money will stay in employer plans longer after retirement.
- Plan sponsors were fiduciaries prior to the new rule and they will still be fiduciaries. There could be some changes in how they execute that duty. At a minimum they will need to make sure that their vendor contracts are in compliance with the new rules.
- Products in the IRA market will get a lot more scrutiny and attention. If people or administrative firms connected to the employer plan are offering IRAs, the employer will likely be interested in understanding the offer and making sure that it is reasonable, that the arrangement is in compliance with the new rules, and that it is well disclosed. I would expect that some IRA products will be modified—new ones will appear and some will disappear.
- The minimum standards for education and qualification of representatives dealing with IRAs and other retirement matters may well go up. Many of them will be subject to fiduciary requirements for the first time.
- Some companies will change the way they compensate the people who are representing their IRA products.

EXAMPLES OF SHORTER-TERM STRATEGIES FOR EMPLOYERS

Remember that many of the methods employers can use to help employees make better decisions and secure good retirement outcomes are unaffected by the change in the rules. Financial wellness programs that help employees understand how to manage their finances but do not involve the sale of any product and are not connected to any financial product offer a good solution to helping employees. And as indicated by Aon Hewitt, financial wellness programs are rapidly growing in popularity.

Employers can also concentrate on specific issues. For example, Social Security claiming decisions are a huge issue for many middle income families. There can often be a very large difference in outcome depending on the strategy chosen. Employers can start by telling employees that this is an important issue and maybe pointing out the options. They could also offer access to a tool to help employees evaluate the alternatives. Many record keepers and providers offer such tools, and the employer will probably want to review the tool before recommending it. Alternatively, the Consumer Financial Protection Bureau offers a tool[6] to help employees understand social security claiming alternatives. That tool focuses on the individual rather than the household, but it offers considerable help compared to where many people are. And the SOA offers a decision brief on Social Security claiming.[7]

At a minimum, employers can support employees by helping them ask the right questions, as well as helping them with a path to do the analysis. Some of the employee questions with regard to defined contribution plans include:

- Can I leave my money in the plan after I retire?
- What investment and payout options are available and what expense charges apply?
- Which options offer guaranteed income for life?
- What risks are connected to each option?
- Are they a good deal for me?
- If I roll over my money to an IRA, what are my investment and payout options?
- What charges apply?
- Which payout option is best for me?
- Should I use a combination of several options?

CONCLUSION

As more employees are reaching retirement age and more attention is being focused on helping them get a good result in retirement, plan sponsors can offer tremendous value and support in this area and I encourage them to think about whether or not they wish to offer advice and how. I also encourage them to revisit what options their plan offers for the retirement period, and whether or not they wish to expand their offerings. The SOA research report, *The Next Evolution in Defined Contribution Retirement Plan Design*[8] should be helpful in setting up a framework for the evaluation of plan design options.

I am very proud of the work of the Committee on Post-Retirement Needs and Risks and hope that it's work will help lead to a better result for many Americans.

ENDNOTES

1 https://www.soa.org/Research/Research-Projects/Pension/Running-Out-of-Money.aspx

2 https://www.dol.gov/ebsa/regs/conflictsofinterest.html

3 http://www.psca.org/uploads/govt_affairs/2016/PSCA_Fiduciary_Rule_Final.pdf

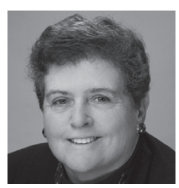
4 http://www.aon.com/attachments/human-capital-consulting/2016-hot-topics-retirement-financial-wellbeing-report.pdf

5 https://www.soa.org/Research/Research-Projects/Pension/2015-investment-retirement-advice.aspx

6 http://www.consumerfinance.gov/retirement/before-you-claim/

7 https://www.soa.org/research/research-projects/pension/research-managing-retirement-decisions.aspx

8 https://www.soa.org/Research/Research-Projects/Pension/research-2013-next-evol-dc-design.aspx



Anna M. Rappaport, FSA, MAAA, is an actuary, consultant, author and speaker, and is nationally and internationally recognized expert on the impact of change on retirement systems and workforce issues. She can be reached at *anna.rappaport@gmail.com*.