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Financial Wellness: What's Next?

Financial wellness programs are getting bigger and better. Beyond worksheets, workshops, and webinars, the blue-ribbon standard is providing practical, personalized advice to employees. Employers are winning, too, from decreasing employee turnover and sick days to increasing confidence and loyalty.

Many Americans are walking a financial tightrope. Living paycheck to paycheck and using a credit card to pay for an unplanned expense are common experiences. The COVID-19 pandemic and its economic impacts have exacerbated these circumstances, with more than half the adults in the American Psychological Association's 2020 Stress in America™ survey saying the pandemic has wreaked havoc on their financial lives. While companies may not be equipped to assist employees with managing the demands of home schooling or speeding up the vaccination process for aging parents, 89 percent of employers report they are taking steps to expand financial wellness programs. Akin to mainstream wellness programs that can enhance an employee's lifestyle and physical health, providing a robust financial wellness program is now a strategic imperative.

According to Bob Melia, executive director of the Institutional Retirement Income Council, CEOs get it.

"Ask any business leader about their strategic goals. You will likely hear increasing market share, quality, profits, and stakeholder value," says Melia. "When workers are under financial duress, it negatively impacts their reliability, productivity, and loyalty. The likelihood of achieving winning outcomes is hampered."

So, what constitutes a robust financial wellness program—and what's on the horizon?

Staples of Financial Wellness

"An advice desk is the hub of an effective financial wellness program," says Abigail J.C. Russell, a retirement plan advisor at CAPTRUST in Raleigh, North Carolina.

Through one-on-one discussions, dedicated financial professionals can guide employees across the financial continuum—starting with the nuts and bolts of budgeting and debt management and culminating with the goal of retiring on time.

Experts say retiring on time is a central tenet of financial wellness initiatives, and if an employee delays retirement by just one year, it is estimated to add $50,000 of expense for the employer.

CAPTRUST's advice desk has experienced an 18 percent increase in call volumes over the past two years. During the initial phase of pandemic-induced market volatility, the desk witnessed a flurry of activity with some participants inquiring about the potential impact of making withdrawals or taking a loan from their retirement account.

Courtesy of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, people impacted by COVID-19 could withdraw up to $100,000 out of retirement savings accounts without an early-withdrawal penalty in 2020—and borrow up to another $100,000—before the end of September 2020. "This proved a superb opportunity to dig deeper with participants regarding the longer-term perspective of protecting their nest egg," Russell says.

Economists at the Boston College Center for Retirement Research report that hardship withdrawals, 401(k) loan defaults, and cash-outs can reduce a person's wealth by 25 percent when compounded over 30 years. In addition, income taxes due the following year are often overlooked, the report says.

Ideally, people need to save 15 percent of their income—year-in, year-out—to replace 70 percent of their income during retirement, says Susan Shoemaker, a retirement advisor working in the Southfield, Michigan, CAPTRUST office. "Any compromises, including hardship withdrawals or loans, can delay retirement readiness."

Moreover, the amount of time that an individual spends as a working professional now rivals the amount of time they'll spend as a retiree, says Shoemaker. "Regardless of income, a physically and mentally fit couple need to earmark at least $250,000 of their nest egg for healthcare expenses during retirement."

With retirement readiness as the destination, let's look at some of the core mile markers that employers and plan sponsors are adding along the way.

Establishing Emergency Funds

Rather than people entering a credit card debt spiral in the aftermath of Hurricane Katrina, policy makers in Washington permitted retirement accounts to serve as a source of penalty-free emergency funds. Since 2005, Congress has relaxed certain restrictions on 401(k) hardship withdrawals and passed legislation permitting parents to withdraw up to $5,000 penalty-free after a birth or adoption. And, as mentioned above, in response to the pandemic's economic devastation, Congress permitted larger loan amounts and penalty-free hardship withdrawals during 2020.

But experts say those withdrawals should only be considered as a last resort—and that it's critical to weigh the immediate benefits versus the longer-term consequences of tapping your 401(k).

To avoid using a 401(k) as an emergency account, some plan sponsors are offering participants a sidecar after-tax account as an emergency savings solution. While the setup of these accounts can vary by employer, generally, the account is funded via automatic payroll deduction up to a target amount. After-tax amounts can be withdrawn penalty-free at any time, but earnings are subject to taxation and a 10 percent penalty if withdrawn before age 59 1/2. Further, plan sponsors should consider any impact this feature may have on nondiscrimination testing.

“Sometimes, the most effective solutions are the most basic,” Shoemaker says. “While it takes time, encouraging a participant to save enough to cover at least three months’ expenses is the most practical approach to heading off an emergency.”

Managing Student Loan Debt

Student loan debt is crushing many Americans. The Federal Reserve Bank of St. Louis reports that more than 44 million people collectively owe $1.6 trillion in student loans. About 65 percent of that debt belongs to people under age 40, and seven out of ten recent college graduates, on average, owe $37,172. Yet, this is not strictly a millennial issue. There are nearly seven million student loan borrowers between ages 40 and 49 who owe $33,765 each, on average.

While borrowers have temporary respite from interest accrual and payments for federal education loans, employers can help. Through 2025, employers can contribute up to $5,250 per employee annually toward eligible education expenses, like tuition or student loan assistance, without raising the employee’s gross taxable income.

Additionally, the Securing a Strong Retirement Act of 2020 (SECURE Act 2.0), which is still pending with lawmakers, includes a provision that would allow student loan repayments to be considered as elective deferrals for purposes of matching contributions made by the employer.

“This concept can be a great way to attract and retain talent, but it is still in the early stages and there are a number of open issues,” Russell says. “Tracking the payments to the colleges or universities has its challenges.”

Shoring Up Longer-Term Financial Security

There are several ways for plan sponsors to position their retirement plans to be more retirement-friendly, particularly for those nearing or in retirement. These could include implementing managed account programs, financial wellness and advice initiatives focused on life stages, more distribution options for participants, or adding annuities.

“Most plan sponsors are thinking about financial wellness and advice programs as the foundation for retirement readiness in their retirement plan,” says Shoemaker. “And then they are identifying solutions and products to build upon that foundation and create retirement income.”

There is even a growing trend toward DC plans becoming destination accounts where employees accumulate assets and keep them there throughout their retirement. “In this capacity, DC plans serve as decumulation vehicles that participants may draw down throughout their retirement,” Shoemaker says.

Another solution getting a lot of attention recently is in-plan annuities. By adding annuities to the menu of available securities, a defined contribution plan account can morph into a pension equivalent. As Yogi Berra once observed, “It’s déjà vu all over again.”

This shift in perception and practice of considering annuities is being prompted by the SECURE Act, which makes it easier for plan sponsors to offer guaranteed lifetime income solutions to participants through a new safe harbor. In the past, employers were concerned about liability if an annuity provider they had selected ran into problems down the road.

The safe harbor makes annuity selection very mechanical, very prescriptive, and very easy to comply with. The SECURE Act also mandated that participants receive an annual lifetime income disclosure expressing their balance in terms of annuity payments.

Focus on Highly Compensated Employees

Setting objectives, developing a clear picture of financial assets, understanding your risks and time horizon, and measuring progress toward goals are key pieces of the wealth planning process for everyone. But employers, more and more, are finding ways to initiate financial advice and education that caters to the complex planning needs of high earners.

Some high earners don't realize how much they may have amassed. "Often, these are busy executives with little time to focus on their own finances. Yet they have more complicated payment packages that can include benefits like bonuses, partnership distributions, deferred compensation, stock options, and restricted stock," Shoemaker says.

"What we see is that the vast majority of retirement plan services fall short of providing adequate advice for executive-level needs," says Russell. "High-net-worth employees need help looking at all the different layers of compensation and their entire existing pools of assets, regardless of where they are held or who may have recommended the specific investment," Russell says.

One way to position executives favorably against the possibility of a retirement income gap is to have these individuals complete a retirement needs calculation that truly encompasses their full financial picture.

This exercise will help high earners determine how much they have amassed in different accounts and what they need to save to meet their goals. Armed with this crucial information, they may be motivated to save more, take advantage of other company-sponsored savings programs, and more accurately calibrate their retirement expectations.

While a high income gives people a distinct advantage when it comes to building wealth, that advantage can only take them so far, says Shoemaker. "Customized advice and planning, enhanced risk protection strategies, and optimization of benefit and savings opportunities can make a big difference."

Achieving Winning Outcomes

"No matter where a person is on his or her financial journey, we aim to help them realize their long-term goals," Russell says. "It goes beyond income, timeframe, and risk appetite. For people who truly desire financial security, it's the result of hard-won discipline—and we serve as their wellness coach along the way."

Melia closes with the observation that a financial wellness program with staying power is not one that benefits only the participant's bottom line. "To optimize return on investment, CEOs, CFOs, HR departments, plan sponsors, and recordkeepers should be working hand in glove," he says. "Strategic alignment across the value chain can yield both tangible and intangible benefits, evolving from decreasing turnover to increasing pride. This is the true and lasting value of offering employees a robust financial wellness program."

Author(s)

Jennifer Doss, CRPS®, QKA

https://www.captrust.com/people/jennifer-doss/

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