RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

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RetireReady: Nudging Participants Toward Retirement Success

Only with a target in mind can employees of all ages properly plan and sequence the steps necessary to ensure that they won't outlive their income in retirement. But most individuals have only a vague idea of how they want to live during their golden years. According to the 2015 Retirement Confidence Survey conducted by the Employee Benefit Research Institute, fewer than half of employees in the U.S.—48 percent—have even tried to figure out how much they will need to retire comfortably. Why may that be so?

Today, only 37 percent of Americans say that they can live comfortably and save an adequate amount for retirement or other needs. A recent article, "A Rising Tide Benefits Advisers" (*Planadviser*, January 27, 2016), reported that a significant number dip into their retirement savings or reduce retirement plan contributions to cover other expenses:

- Nearly half (46 percent) of Americans say they can get by every month but find it difficult to save and invest, whether for retirement or other purposes.
- More than 15 percent find it hard to make ends meet every month.
- Almost one-third (32 percent) report that, in the past 12 months, they have withdrawn money from savings or pension funds to make ends meet.
- And 30 percent have reduced contributions to a 401(k) or other pension or retirement fund, so they can pay day-to-day expenses.

With all of this in mind, a comprehensive workplace financial wellness program—in conjunction with retirement plan advisors or consultants—can fulfill two important needs. Employees can learn to set clear and definable goals according to their unique needs, financial situations, and time horizons, which can help them arrive at a clearer picture of what they want their retirement years to look like, and they can get a better handle on current financial needs at the same time. Through a financial wellness program, employees gain access to professional guidance and customized education to manage debt, save for their children's education, help aging parents, cover daily living expenses, pay taxes and insurance premiums, and put aside money for retirement.

By implementing a financial wellness program in the workplace, employers can also help employees prepare for and adjust to unexpected life events, such as a divorce, a long-term illness, or a spouse's death. Financial Finesse, which specializes in developing financial wellness programs, reports in its 2015 Year in Review of its Fortune 1000 clients that employees who have repeatedly engaged in workplace financial wellness programs are making progress in several areas. For example, among repeat users of these programs:

- 66 percent are comfortable with their debt, up from 63 percent in 2014
- 39 percent are confident that they are on track for retirement, up from 34 percent in 2014
- 55 percent are confident that their investments are allocated appropriately, up from 52 percent in 2014
- 31 percent report having taken a retirement plan loan or hardship, down from 33 percent in 2014

But more can be done. In this age of technological opportunity, incorporating "digital nudging" (connecting relevant, actionable financial insight at the exact point when an employee is about to make a decision) in retirement plan design, financial wellness program efforts, and overall communications are paramount to tackle the longevity challenge head on. Employers should be aware that many retirement plan providers offer impactful tools and resources in the form of videos, mobile apps, and financial calculators.

Maintaining Plan Compliance: The Department of Labor's Conflict of Interest Rule

A years-long saga came to a resolution on April 6, 2016, when the U.S. Department of Labor (DOL) announced the finalization of its much anticipated Conflict of Interest Rule. The rule, which broadens the definition of fiduciary advice on qualified retirement accounts, including workplace retirement plans and IRAs, represents one of the most impactful developments since the establishment of the Employee Retirement Income Security Act (ERISA) in 1974.

What are the key takeaways? In brief, the new DOL rule:

- **Expands the types of retirement plans subject to fiduciary rules.** Most significantly, the DOL's fiduciary rules now cover IRAs, directly affecting employees who receive advice about IRA rollovers from their plans.
- **Refines the definition of who is a fiduciary.** Under the new rules, a fiduciary is any individual who receives compensation for providing advice that is individualized or specifically directed to a particular plan sponsor (e.g., an employer with a retirement plan), plan participant, or IRA owner and who intends to help a client make a retirement investment decision.
- **Modifies fiduciary exemptions** that advisors can use to receive compensation for retirement plan services. Being a fiduciary means that an advisor must provide impartial advice in the client's best interest and cannot accept any payments that create a conflict of interest, unless the advisor qualifies for an exemption. One of these exemptions, known as the Best Interest Contract (BIC) exemption, allows firms to continue to set their own compensation practices provided that they, among other things, commit to putting their clients' best interest first and disclose any conflicts that may prevent them from doing so.
- **Allows advisors, plan sponsors, and service providers to provide general education on retirement saving** without triggering fiduciary status. Education, in the context of the rule, is defined as general plan information, general financial or investment information, asset allocation models, and interactive investment materials.

The expanded fiduciary definition will take effect in April 2017. Other aspects of the rule will be phased in by January 1, 2018.

We Can Help

Contact us if you would like to discuss how a financial wellness program could help your employees, or about the potential impact of the DOL rule on your company retirement plan.

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