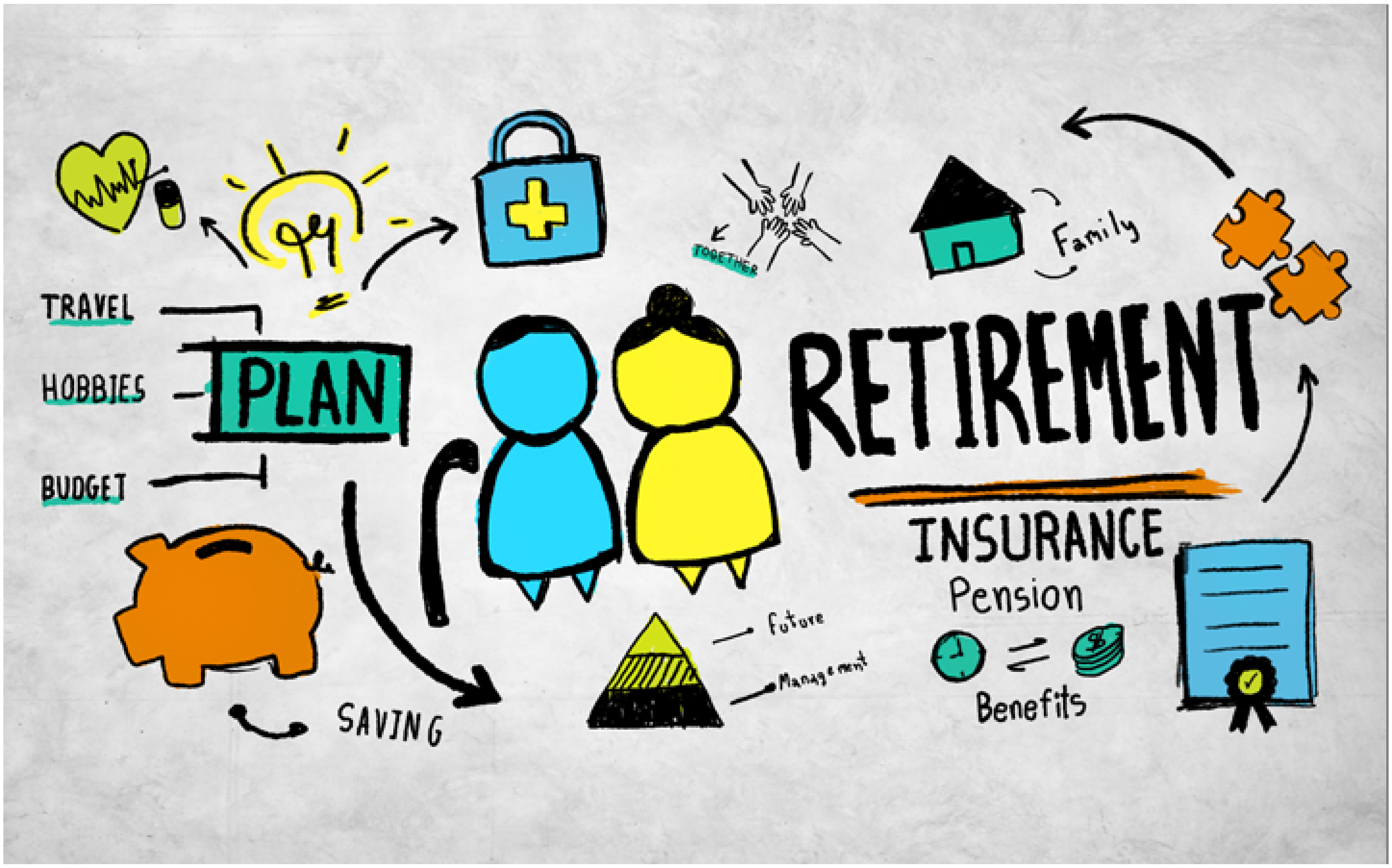
Pandemic Heightens Need for Retirement Planning



By Joanne Sammer, Freelance Writer, SHRM HR News

The COVID-19 pandemic has wreaked havoc, even on retirement plans. While the Coronavirus Aid, Relief and Economic Security (CARES) Act provided important financial relief by [allowing people to withdraw or borrow more money from their retirement plans] without penalty, the negative effect of these withdrawals on future retirement income is likely to be significant.

Given the ongoing volatility in the financial markets, chances are good that plan participants' needs will keep changing. The challenge for employers is to find ways to make sure retirement planning feels accessible and relevant to employees.

In the best of times, "retirement planning is an intimidating topic," said David Fairburn, associate partner in retirement solutions practice with consulting firm Aon in Los Angeles. "Employees have more immediate concerns, and it can be hard for them to take action if the topic feels too overwhelming."

Here are four areas where retirement planning experts advise fresh thinking to help workers save for their golden years.

Help Employees Save for Emergencies and Retirement

The pandemic showed how at-risk retirement funds are, as financially strapped retirement plan participants withdrew money from their 401(k) plans to pay their bills. Employees who earn good salaries but have limited savings also borrowed from their plans, according to a survey by Edelman Financial Engines, a provider of financial advice. More than a quarter of the 2,000 respondents—who were ages 40 to 65 and had annual household incomes over $100,000—made early withdrawals from their retirement plans due to the pandemic. They said they expect it will take six years to regain those funds.

When employees feel compelled to raid their 401(k)s, it's a sign that they need help planning for financial emergencies. According to a Voya Financial study of 63,000 retirement plan participants, individuals without an emergency fund that is equal to at least three months of living expenses were 13 times more likely to take a hardship withdrawal from their retirement plan than those with a fully funded emergency fund.

"If employers can help employees establish an emergency fund with liquid assets that they can use in the short term, that can help lead to greater retirement fitness in the long term because employees will be less likely to use their retirement plan assets for those needs," said Jeff Cimini, senior vice president of retirement product management at Voya Financial in Windsor, Conn. To encourage participation and savings, employers can offer access to emergency savings accounts funded through payroll deductions and provide an incentive to participate, such as offering to match a certain amount of employee contributions to these accounts.

Leverage All Available Tools and Resources

The first place to look for retirement planning support is existing retirement plan vendors. Digital financial platforms, education, budgeting guidance, emergency savings accounts and financial wellness resources can all help start the conversation about retirement planning and how it fits into the employee's overall finances. Ideally, any advisors or coaches would incorporate the employer's benefit offerings into these discussions.

> **"The key is to start the conversation and help get employees on the right path."**

The advice can be "tailored to the benefits that are available to the employee in addition to general education about financial issues," Fairburn suggested. "The key is to start the conversation and help get employees on the right path."

Automatic retirement plan features, such as automatically enrolling new hires into the plan and annually increasing the percentage of pay workers contribute, can also ease the decision-making burden on retirement plan participants.

"The role of the employer is to be the biggest cheerleader for retirement planning," Cimini said. "Plan designs like auto-enrollment can lead to much higher participation rates and makes it easier for participants to reach their retirement targets for total savings."

Focus on Health Care Costs

As employees approach retirement age, they will need specific information and guidance on critically important topics, such as retiree health care costs. Consider these relevant issues:

- How can employees plan for health care costs during retirement?

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- What should they do about health insurance until they are eligible for Medicare at age 65?
- How can they leverage in retirement what they've accumulated in a health savings account (HSA)?

"More employers are focusing communication around integrating HSAs with long-term retirement savings," said Steve Vernon, a research scholar with the Stanford Institute on Longevity in Palo Alto, Calif. "There is the potential to use HSAs to fill in gaps in retirement planning."

Retiree health care costs should also factor into discussions with younger employees, who may choose to use some HSA funds for immediate health care costs and save others for use in retirement.

Move From Retirement Saving to Retirement Income

Retirement planning should support employees as they face decisions such as:

- When to start claiming Social Security benefits.
- How inflation and longevity affect retirement security.
- Whether they want or need to work part time during their retirement.

"This is about planning financial security for 20 or 30 years," said Vernon, who contributed to a series of essays on retirement planning for the Society of Actuaries. "They need to know what to expect in retirement and what steps they can take to trigger good decisions about retirement."

if they work in a public-facing job, some older workers may be contemplating early retirement because of the health risks from the pandemic. In this case, those employees need to make sure they know and understand the consequences of retiring early. Social Security claiming strategies

can show employees the financial effect of receiving payments starting at age 62 instead of waiting until full retirement age or until age 70 to receive maximum benefits. This is also the time for employees to explore the pros and cons of using their plan assets to purchase an annuity for retirement income to supplement Social Security benefits.

Finally, there's the role of work during retirement to consider: Employers that offer part-time work for older workers can provide information on potential opportunities during retirement planning.

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