

Employee Benefit Plan Review

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■ Feature

How to Provide Retirement Financial Planning Advice to Employees



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As evidenced by the growing number of headlines and media debates, the evolving benefits and investment landscape is becoming an increasingly prominent and important part of the national conversation.

Defined benefit plans have continued to give way to 401(k)s and other employee-driven retirement accounts, creating a rapidly growing population of professionals who are taking on more and more of an active role in making investment decisions that will influence the direction of their financial future. That trend is reinforced by numbers from the U.S. Department of Labor, suggesting that today nearly 500,000 participant-directed individual account plans, cover more than 70 million participants. All told, those plans encompass an estimated \$3 trillion in assets.

For many firms, and particularly for benefits professionals on the front lines, this is a trend that is redefining the scope of their professional responsibilities and even changing the nature of their relationship with employees. Companies across the nation in a wide range of industries have grappled to come to terms with how best to serve their employees' best interests in a way that makes logistical and financial sense. More and more, companies are discovering that one of the best ways to add value and adapt to these new realities is to contract with independent financial planning professionals: outside experts who are able to guide employees through the myriad strategic and financial decisions surrounding their wealth management, investment and retirement accounts. But what exactly is the nature of the value companies can provide by doing this—and how can they leverage that added value to benefit both employee and employer in these tumultuous economic times while recognizing sensitivities? Following are some points to consider:

KNOW WHAT YOU KNOW AND WHAT YOU DON'T

When the Employee Retirement Income Security Act (ERISA) was passed in 1974, one of the key provisions of the legislation was the mandatory disclosure of any and all fees related to employee-directed retirement and benefits plans. The intent was—and still is—to provide account-holders with accurate and timely information that enables them to make educated decisions about their investment strategy and sound account management decisions. While disclosure has become an important part of the job description, HR professionals typically do not have the specialized training and expertise required to take things a step further and provide important context and counsel. As a result, the experience and expertise of respected wealth management professionals is becoming an increasingly important arrow in the corporate quiver. By bringing in an outside expert—firms are more able to provide employees with the insight and information needed to make investment and financial planning suited to their personal circumstances.

PRIORITIZE FLEXIBILITY

One size does *not* fit all. Younger employees just starting out with a firm almost certainly have very different financial goals and very different investment needs than older employees looking to position themselves and their families for retirement. Unfortunately, most traditional investment models are not designed for the latter group. Employees approaching and entering retirement should be adapting their savings and investment strategies accordingly, but they are not often given the tools to do so effectively. Even formulas that *do* account for pre-retirement risk reduction typically do not go far enough. Another problem is the common (and potentially problematic) misperception that target-date funds are somehow free of risk. A trained expert can help employees move beyond simplistic formulae and structure their investments in a manner that fits their personal and

professional circumstances; taking into account things like strategic fund allocation, timing, context and portfolio balance.

KNOWLEDGE IS POWER

As most professional financial planning consultants and investment advisors can attest, a lack of quality information is perhaps the biggest obstacle to sound investing in today's uncertain times. Poor decision-making does not happen in a vacuum. Outside experts can help fill in those gaps, reviewing investment options and making employees aware of what's out there for them. By going beyond context-free investment advice and also educating employees about the range of potential options they might not have even known were available to them, experienced outside wealth management professionals can help employees gain valuable perspective. Understanding all of those options is particularly important at a time when cash-balance plans are becoming increasingly popular. Investment decisions are both more complex and significant when dealing with account funds paid in a lump sum and not an annuity.

REALISM, NOT OPTIMISM

Optimism is great, but realism is necessary today. Planning for a rainy day is something we do all the time, and it makes sense to plan our financial futures accordingly. At a time when economic clouds seem to be gathering on the horizon, trusted outside advisers can help employees pick out an umbrella and a raincoat and sidestep the puddles of bad advice. A well-known T. Rowe Price study concluded that, over the course of the last decade, the typical retiree's chances of making their investments last three full decades have decreased dramatically: what was once 89 percent in 2000 dropped as low as six percent in the depths of the recent recession and were still just 29 percent at the end of 2010.

LET THEM KNOW YOU CARE

Experienced outside counsel can potentially pay both literal and figurative dividends, boosting employee morale and underscoring the fact that the employer is truly committed to and invested in the personal and financial health of its employees. Partnering with wealth management advisors to educate and assist employees as they make important decisions about their future not only reduces the burden on the HR team, but also represents a great long-term investment in the overall health and well-being of the company. Also, it is a great opportunity to offer employees a chance at a second opinion—from the company's plan advisor or their independent financial professional outside of the workplace.

THE MORE THINGS CHANGE...

Financial realities are changing all the time. Advice that made perfect sense last month may be obsolete this month, and it's important to stay on top of things by providing employees with a financial and retirement planning resource that stays abreast of these ongoing changes. Regulatory changes mandating even more extensive disclosure for participant-directed investment plans are already in store for 2011; increasing the burden on HR and benefits professionals, who will soon be required to collect and communicate even more detailed information about integrated fees and expenses. It seems inevitable that more and more costs will be transferred to employees going forward, making the relative value of an independent advisor even more apparent and appreciated.

THE BOTTOM LINE IS MORE THAN JUST THE BOTTOM LINE

While bringing in an independent wealth management consultant is optional, companies do have an obligation to provide their employees with timely and accurate information. Working with an experienced financial advisor not only fulfills that obligation, it lightens the burden on HR staff, can reduce exposure and liability, and satisfies the mandates of increasingly rigorous disclosure regulations and best-practices guidelines. Bringing in experienced financial advisors is a proactive step; a way to affordably provide perspective, information and advice for employees who are struggling to understand a sometimes confusing array of options. Straightforward questions about where, when, how and how *much* to invest can seem like formidable obstacles to the average employee. Professional counsel can help answer those questions, explain the sometimes profound long-term impact of decisions that are being made today. For employees, HR professionals and companies alike, the answers to those fundamental questions can not only generate a wide range of immediate short-term benefits, but can also foster a sophisticated understanding of how to move toward a more prosperous and secure financial future. ★

Founded in 1987, Glen Mills, Pa.-based Daniel A. White & Associates is a financial planning firm specializing in asset protection and transitional and retirement planning. Through a team of knowledgeable experts, Daniel A. White & Associates provides comprehensive financial planning for retirees and pre-retirees in estate planning, asset protection, wealth management and wealth transfer strategies. For more information, please call 1.888.690.8820 or visit www.danwhiteandassociates.com.