Helping Participants Make Better Decisions

Improving Retirement Outcomes

Going back to the beginning of our series, we stated that the first objective of every retirement plan should be to provide a better retirement for the plan participants. While this goal appears to be straightforward, we often find that sponsors have not developed a corresponding action plan. Within this letter we will focus on four ideas to help you guide your participants:

1) Simplify decision-making
2) Focus on the long-term goal
3) Illuminate the path
4) Provide support to keep participants on track

PARTICIPANT EDUCATION

Recognizing that we all like to avoid difficult decisions, you are more likely to get your participants' committed attention by making the process as simple and straightforward as possible.

Many people believe that building a significant nest egg is beyond their reach. To the contrary, we believe that we can change negative thinking by creating an enrollment process and ongoing education program that is both easy to understand and easy to follow.

Improving Outcomes

1. Simplify decision-making. We have previously referenced the four decisions (at most) that your participants need to make –their contribution amount, investment allocation, pre-tax versus Roth, and beneficiary designation. Now we suggest making each decision as simple as possible, in part by offering prudent guidance regarding appropriate savings levels and investment strategies.

How you handle enrollment can have a long-lasting impact on your participants' retirement future. We recommend strongly encouraging employees to reach contribution levels of 10% or higher (including employer contributions) and developing a plan to steer them to these savings levels. We also believe that target date or lifecycle funds are effective investments for many employees. A key feature of these funds is how they adjust their asset allocation over time without requiring additional employee action beyond their initial election. This can help minimize potential investing mistakes.

2. Focus on the long-term goal. Some of the worst participant decisions occur when short-term thinking gets in the way of long-term retirement planning. While access to loans and hardship withdrawals may help your employees meet emergency needs, the plan should be designed to encourage long-term saving and investing with minimal disruptions.

By providing basic education on the long-term benefits of compounding of interest, you can encourage your employees to both increase savings and improve investment decisions to align with a long-term retirement strategy. *The important message to get across is how consistently saving 10% or more of your income, and investing it in a diversified portfolio over several decades, can enable you to replace your income in retirement.*

When attempting to encourage older employees who are behind on their retirement savings, it may be beneficial to incorporate education on social security benefits strategies into your participant communication plan.

PlanPILOT

Maximizing ROI

3. Illuminate the path. Most plan participants need guidance. A well-designed enrollment campaign and education program will include clear directions on how much to save and how to approach investing. You need to leave investment advice to qualified advisors for your own fiduciary protection, but savings and investment education can be provided without placing yourself at personal risk. Using simple examples to teach key investment concepts like compounding of interest, time horizon, and risk/return tradeoff can help employees follow a proper path to retirement. Most importantly, the guidance you provide should consistently focus on the participant's ultimate retirement goal. As discussed in more detail below, *providing retirement readiness calculations and related recommendations can help participants get and stay on course to a financially secure retirement.*

4. Provide support to keep employees on track. Possibly the most important concept to grasp involves the compounding of interest, and helping your employees realize that their asset growth will not follow a straight line path. It is important that they do not become discouraged by market setbacks, or become impatient waiting for the power of compounding to do its work. This is where retirement readiness calculations can be helpful.

Converting participant savings to projected retirement income amounts can help your employees more easily gauge their progress. Going a step further, showing the impact of increased savings rates on projected retirement income can drive participants to take action. For participants who are behind their target, the primary focus should be placed on increasing their savings amount and/or working longer to catch up.

Recommendations for changes to investment strategy should be reserved only for participants whose investment strategy appears out of line with their time horizon. When appropriate, targeted education and/or investment advice delivered by a qualified investment advisor should be considered to help get participants back on track.

This concludes our five-step series on how PlanPilot works with our clients to achieve their plan objectives. If you would like to review any of the other letters in this series, please visit our company LinkedIn page at https://www.linkedin.com/company/planpilot.

We hope the thoughts we have shared will help you improve the management of your retirement program.

PlanPilot Is Here to Help

We welcome the opportunity to assist you and your retirement oversight committee in managing your retirement program. Please do not hesitate to call us at **(312) 973-4911** to discuss how we can be of assistance to you and your plan oversight committee.