ARTICLE

RETIREMENT TRENDS: ARTICLE THREE

The critical path to financial wellness

Retirement Trends, a new article series from Broadridge, explores the major movements that are impacting plan advisors, sponsors, administrators and recordkeepers today.

Rising inflation and falling markets have employees on edge. Financial wellness is of increasing concern. With retirement planning and savings comprising a major component of financial wellness, the U.S. government and individual employers must create better opportunities to help workers save and thrive.

Prior articles in our series, Retirement Trends, explored how effective employee engagement, plans and products can help attract more plan sponsors and participation. This third article focuses on financial wellness—and how its various aspects, retirement included, are increasingly being considered through a more holistic lens.

We explore opportunities that existing and proposed changes from the Securities and Exchange Commission (SEC) and Department of Labor (DOL) may represent. We also offer potential actions to take to boost retirement enrollment and participation now.

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Financial wellness and the bottom line

Early in the pandemic, two-thirds of U.S. workers said they would start to look for another job if their retirement benefits were taken away.[1] Then as the job market became much hotter, more workers sought better opportunities, weighing both the existence and quality of benefits as they assessed opportunities.

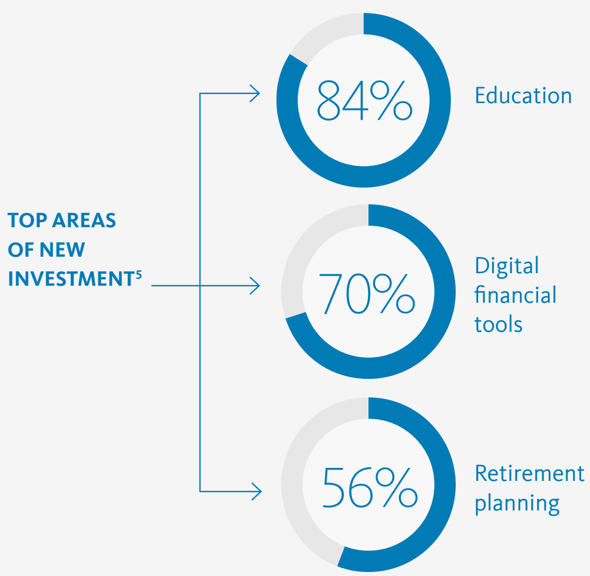
Inflation soared and markets declined, making retirement benefits even more of a concern for workers. Balances dropped precipitously: IRAs were down 17.9% YOY as of Q2 2022 while 401(k)s were down 20%.[2] And retirement continued to be just one piece of the financial wellness puzzle.

Over half of U.S. workers feel stressed about their finances. Most workers expect employers to provide tools and resources to help them with their finances. Many also report a negative impact on their mental and physical health.[3]

Employers are feeling the impact as well in terms of workplace productivity, attendance and turnover.[4] The challenge: Firms need better ways to provide workers with the financial wellness tools, insights and support for retirement and beyond.

FINANCIAL WELLNESS INVESTMENTS

Not surprisingly then, nearly half of employers plan to invest more in financial wellness programs. Few intend to spend less.



Further, 53% of employers report that the importance of financial wellbeing programs has increased for their organization over the last two years, while only 1% indicate importance has declined.[6]

THE KEY QUESTION
How can plan advisors, sponsors, administrators and recordkeepers help?

PRODUCT COORDINATION REQUIRED

As employers and workers think more holistically about wellness, one of the key focal points must be ensuring that different products and programs can work efficiently in concert. A 2021 SPARK survey of plan advisors gave low scores for financial wellness-related products like student loan repayments and HSAs, reporting that "Advisors are frustrated with how difficult it is to coordinate these other products on behalf of their clients."[7] A key challenge will be to integrate systems and workflows across a broader spectrum of financial wellness solutions. This may become increasingly important with new retirement legislation on the horizon.

A BROADER VIEW OF RETIREMENT

The SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) was signed into law in late 2019. A SECURE Act 2.0 is in the works. And the newly introduced Enhancing American Retirement Act (EARN Act) proposes more enhancements designed to help bolster retirement savings, particularly among low- and middle-income workers.[8] Each of these includes provisions that address the trade-off challenges workers face between taking care of the financial needs of today and preparing for those of tomorrow. However, to take advantage of these provisions, greater coordination will be required.

TODAY'S PROVISIONS

The SECURE Act provides permission for parents to withdraw up to $10,000 from 529 plans to repay student loans. This provides an alternative for parents who might otherwise need to draw from their retirement savings, incurring early-withdrawal penalties. After the birth of a child, a parent is allowed to distribute up to $5,000 out of either an IRA or a 401(k) plan without penalty. The SECURE Act also allows for exemption of "qualified disaster distributions" of up to $100,000 from the premature distribution penalty tax under IRC section 72(t). These may be rolled back into a qualified plan or IRA for up to 3 years after the distribution and may be included in income ratably over the three-year period beginning in the year of the distribution.

UPCOMING LEGISLATION

SECURE Act 2.0 and EARN are still under review. SECURE Act 2.0, as proposed, would allow for "treatment of student loan payments as elective deferrals for purposes of matching contributions." The EARN Act proposes to allow certain withdrawals for emergency expenses to be taken without the standard 10% tax for early withdrawal. It also proposes to allow employers to provide small immediate financial incentives to employees who make retirement contributions.[9] There is speculation that these two acts may be combined into a single piece of 2022 legislation. Regardless, what we are seeing is a trend toward proposals that recognize and attempt to better address the trade-offs workers face between retirement and day-to-day life.

LIFETIME INCOME FOR RETIREMENT PLANS

Annuities pose another possibility—and challenge. Increasing access to lifetime income within retirement plans is one of the Department of Labor's top goals for 2022.[10] This could mean more access to annuities funded through pre-tax income. And retirement annuities could be purchased by an employer for an employee under a plan.

Recent surveys of plan participants and sponsors show that they increasingly want guaranteed income in plans. Plus, the DOL sees benefits in the economies of scale retirement plans offer over individual IRAs—benefits that will make plans more attractive and workers better off.

The challenge/opportunity for plan advisors, sponsors, administrators and recordkeepers is at least two-fold. There is an educational element: Adding annuities to sponsored plans could democratize access. Annuities have primarily been a product for the wealthy to augment retirement-plan savings, and many workers may have little or no familiarity with what annuities are or how they work.

There is also significant operational preparation to be done, integrating processes, workflows and compliance measures to accommodate annuities within plan offerings. This is not a small task—in fact, most of the organizations that do not plan to add annuities (67%) cite operational and administrative concerns as a major reason.[11]

PARTICIPATION WHILE PLANS WAIT

With various proposals still under review and economic challenges continuing to rise, there are some key actions to take now to boost retirement enrollment and participation. One is letting psychology do some of the work. Another is increasing access to digital tools that help to engage workers with the right messages at the right time.

1) The power of behavioral economics

Behavioral economics posits that there are two types of decisions—automatic and reflective. Automatic decisions require no thought. By implementing auto-enrollment, plans can take the deliberation out of the enroll/don't enroll decision, and this can provide a significant boost to participation. On the reflective side, workers are looking for guidance on how to invest, how to balance saving for retirement with their needs of today, and more.[12]

2) Offering relevant financial advice

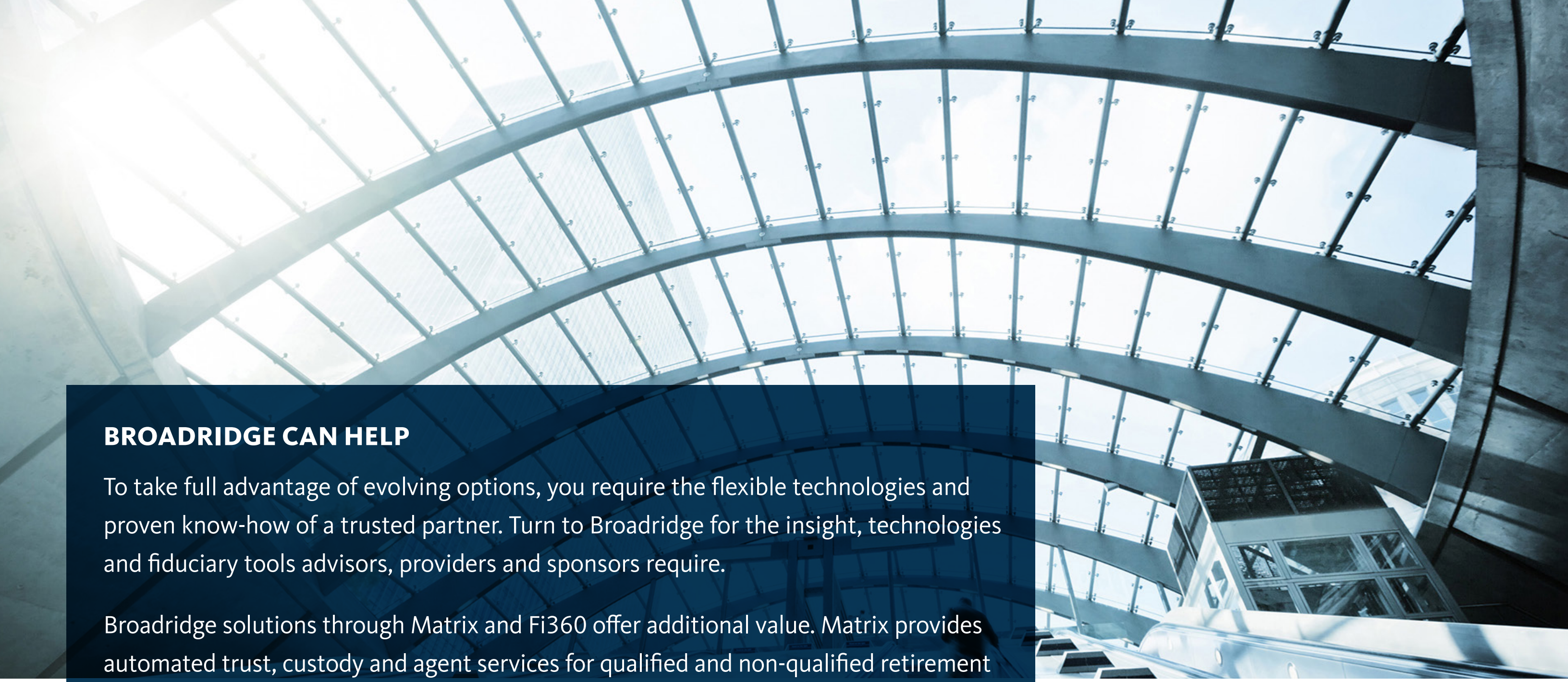
Providing the tools—particularly digital tools—that can help plan advisors, sponsors and employees with better, clearer insight (i.e., the right message at the right time via the right medium) can make reflective choices less painful and potentially more profitable for workers. This requires personalizing content and making it directly responsive to the needs and attitudes of participants at different stages on the journey to retirement. Fortunately, digital capabilities exist today that make data-driven engagement scalable, impactful and efficient.

THE PATH FORWARD

- Plan advisors
- Sponsors
- Administrators
- Recordkeepers

Plan advisors, sponsors, administrators and recordkeepers can differentiate themselves and bring important value through expanded financial wellness options. From navigating the change-management requirements for retirement annuities and other legislative opportunities to optimizing scalable, personalized financial engagement and more, becoming the go-to resource for innovation, efficiencies and insight is an opportunity to drive enrollment, boost participation and expand your client base.

To learn more about the power of greater customer engagement and on retirement product trends, check out these earlier articles from Broadridge.



BROADRIDGE CAN HELP

To take full advantage of evolving options, you require the flexible technologies and proven know-how of a trusted partner. Turn to Broadridge for the insight, technologies and fiduciary tools advisors, providers and sponsors require.

Broadridge solutions through Matrix and Fi360 offer additional value. Matrix provides automated trust, custody and agent services for qualified and non-qualified retirement plans. Fi360 helps financial intermediaries use prudent fiduciary practices to profitably gather, grow and protect investors' assets via software and technology, learning and development, and data and analytics solutions.

For more on ways to diversify plans and grow participation, contact us at broadridge.com or call +1 866 359 0456.

[1] broadridge-financial-wellness-executive-summary.pdf

[2] https://newsroom.fidelity.com/press-releases/news-details/2022/Fidelity-Q2-2022-Retirement-Analysis-Even-With-Market--Economic-Uncertainty-Retirement-Savers-Look-Long-Term-and-Continue-to-Save/default.aspx

[3] www.pwc.com/us/en/services/consulting/business-transformation/library/employee-financial-wellness-survey.html

[4] Ibid.

[5] Wellable Labs, 2022 Employee Wellness Industry Trends Report; https://www.wellablelabs.com/research/employee-wellness-industry-trends-reports/2022#:~:text=Rising%20Stars,19%20vaccine%20programs%20(57%25).

[6] Ibid.

[7] Advisor Survey, SPARK and DCIIA, published December 2021.

[8] www.marketwatch.com/story/senators-introduce-the-next-retirement-savings-proposal-the-earn-act-11662743868

[9] www.finance.senate.gov/imo/media/doc/EARN%20Act%20section%20by%20section%20summary1.pdf

[10] Townsend Outlines DOL's Retirement Priorities | National Association of Plan Advisors (napa-net.org)

[11] 2022 Hot Topics in Retirement and Financial Wellbeing, Alight Solutions, https://www.alight.com/thought-leadership/hot-topics-in-retirement-2022.

[12] The Behavioral Economics Of Retirement (fa-mag.com)