Retirement Planning Software, Inc

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Providing Personalized Financial Advice to Your Retiring and Retired Employees

If you are a medium-to-large employer, and particularly if you sponsor a retirement plan for your employees, you will probably find yourself offering customized personal financial advice to your retiring/retired employees within the next five years. We are not talking about investment advice, such as 401(k) providers offer, but advice about the broader problems that retirees face.* Why is it important for you to offer such advice to your employees – and what should you watch out for?

Taking care of the retiring employee

Most "retirement education" provided to employees focuses on encouraging them to save more and to invest wisely. These are noble aims, but for employees nearing retirement, and for retirees, this advice is too little too late. What they need instead is wide-ranging advice that covers all the key financial decisions they face in retirement. Some employers already help their older employees prepare for retirement, but there have been two major limitations: 1) financial advice has been generic rather than personal, except sometimes for highly compensated employees; and 2) for the most part, only large employers could afford to maintain such programs.

These limitations will soon be obsolete. Sophisticated software is becoming available that can produce highly customized advice at a very reasonable cost.

There are several reasons why employers will want to take advantage of these new capabilities:

- ***Maximizing the value of existing benefits***. Many employers spend enormous sums on pensions, medical plans, and other post-retirement benefits. But much of the value of these benefits is lost if the retired employee makes poor decisions. For just a modest additional cost, the employer can help assure that the retiree is receiving the full value of the investment already made on his or her behalf.

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* "Saving for Your Golden Years: Trends, Challenges, and Opportunities," the Final Report of the 2006 National Summit on Retirement Savings, addresses the need for more "advice and education," and expands this to topics such as what to do with lump sum payments. But it does not recognize that the issues retirees face go well beyond the retirement plan itself, and that advice about plan investments and distributions can be dangerous if it is not made within the broader context of the retiree's finances.

- ***Satisfying the needs of employees nearing retirement***. Regardless of whether your employees are eager or reluctant to retire, almost all of them are daunted, if not panicked, by all the financial decisions they need to make. Offering them solid advice that clearly addresses their particular situation makes the transition less traumatic, which is good for everyone involved. And this isn't just an issue for your highly compensated employees. If anything, the rank and file need such advice even more, since they are more likely to be facing a tight financial future.

- ***Compensating for benefit reductions***. Cutbacks in employee pensions and post-retirement medical benefits are a grievance for retirees who suffer from them and for near-retirees who anticipate their adverse effects. Offering access to financial advice is one way to help make up for other benefit reductions: not only because you are providing something new as a trade-off for what is lost, but also because this advice will help people adapt to the consequences of the cutbacks and use their remaining benefits and other resources more wisely – perhaps even coming out ahead in the exchange.

- ***Driving out bad advice with good advice***. Retirees and near-retirees already have access to advice, but it is not necessarily good advice. There are at least three kinds of bad advice: incompetent advice, biased advice, and generic advice. "Generic advice" is bad because what makes sense in general may not be best for a specific individual or family, and so it leads to mistakes that older people simply cannot afford. By offering a way for employees to get sound, personalized advice, you rescue them from what might do them harm, including materials you may already be providing for them.

What to watch out for

As with any opportunity to do good, providing advice to retirees also brings the opportunity to stumble, or even to do harm. Here are some things you should watch out for when you consider making financial advice available:

- ***Quality***. There is no reliable way to determine whether people or software tools are good, or not. Still, here are some questions you can ask yourself:
    - Is the advice narrow or broad? A service or system that answers a wide range of financial questions has four big advantages: 1) it is more likely to be useful to your employees and retirees; 2) it is more likely to take into account the interdependency among the various financial decisions that must be made; 3) it is less likely to be biased by an excessive focus on just one or two elements of the retiree's financial management; and 4) it is likely to present a more thoughtful, sophisticated approach to the problem.
    - Is the planning tool simplistic or thorough? Decisions are being made that will affect the rest of the individual's life. If the process takes only a few minutes, it's not adequate to the gravity of the situation. The goal should be collecting enough information to provide a detailed and comprehensive plan, not getting the job done quickly.

- Is the source biased or objective? Is the advice being offered mainly to support the sale of financial products, or to get a chance to manage the retiree's money? Or does the provider, by contrast, have no personal or financial stake in what recommendations are made?
- Is the advice general or customized? Again, good generic advice is often bad when applied to an individual situation. Is the provider just relying on rules of thumb, or is there detailed analysis that reflects the individual's family situation, financial situation, and personal goals and attitudes?

- ***Liability***. As an employer and/or plan sponsor, you should be able to disclaim liability as long as your employee benefits staff is not trying to directly play the role of personal financial advisor. The Pension Protection Act of 2006 offers some new legal protections for you, and if necessary, you can have employees and retirees sign a waiver absolving you of additional liability. If you offer them direct access to a good software tool, you, the employer, are out of the loop – and they are more comfortable using it, since a good plan requires the input of personal information that employees and retirees do not necessarily want to share with you.
- ***Cost***. You should be able to obtain a suitable solution for as little as a few dollars per employee – a small fraction of what most benefits cost.

Ready, set, retire!

When U.S. employers began to move from defined benefit to defined contribution plans, they well knew that they were transferring financial responsibility from the pension actuaries to the employees. Responsible employers have tried to fill that gap by providing incentives and education, so that employees would retire with money in their pockets.

But under the defined contribution model, where there is no longer a guarantee of lifetime income, the need for financial savvy does not end when employment ends. On the contrary, financial decisions suddenly become more difficult and more freighted with risk. It only seems right that employers who have helped create this situation should also help resolve it.

Fortunately, there are no longer substantial obstacles to your providing this needed help. Good options exist today at reasonable cost, so all that is needed is your determination to seek them out.

Still River Retirement Planning Software, Inc., provides both web-based and desktop software offering specialized calculations related to retirement plans and retirement planning.

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