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401(k) Plans

A Lifetime of Savings

Retirement savings is most effective when employers offer a savings plan in the workplace. How can we, as retirement professionals, encourage savings education at an earlier age and in addition to the common 401(k) plan?

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If there is one thing the coronavirus pandemic has taught us, it is the need to prepare for the unexpected. It has been quite some time since a crisis or catastrophe has affected every one of us so profoundly. Many people have endured recessions and hurricanes, but the Covid-19 pandemic has affected every individual in this country, as well as the world, in some way. This pandemic is different because not only has it been a natural health disaster, taking lives and wreaking havoc with massive waves of illness, it is an economic disaster resulting in lost jobs and dwindled savings. Even those most prepared were caught off-guard with the very sudden and far-reaching effects to our financial stability. In the past, it was uncommon for those in basic service roles, such as waitresses and waiters, hair stylists, and even dental hygienists to be laid off due to economic downturns, yet those are just a few of the industries hit hard by lost jobs and furloughs. Even when previous recessions or downturns in the market have occurred, people still went out to eat, got their hair cut, and visited the dentist. This has been a truly different experience.

What were these people suddenly without jobs and in similar situations to do? Fortunately, the government realized the severity and wide-reaching effects of this situation and quickly enacted legislation to provide more options for those affected. Many people qualified for unemployment benefits and Economic Impact Payments (*a.k.a.*, stimulus checks), but in some cases, it was not enough to cover their lost wages. Some people did not qualify for either of the government benefits, so they tapped into their savings and began looking at their 401(k) plans as a possible means to weather this storm.

Emergency Access to Long-Term Savings

While professionals in our industry set up and maintain retirement plans as a means to save for retirement, it is acknowledged that, while not ideal, people may need to access their retirement funds early for unexpected expenses or for large purchases. Those emergencies are the purpose for hardship withdrawals and loans being built into plan design. However, the financial hardships related to the pandemic have not fit the standard 401(k) plan definitions.

With the CARES Act provisions that employers and their providers scrambled to put into place quickly, many people who normally could not access their funds because the law or their plan did not permit it had a saving grace. Even people who would never think to touch their retirement plans could rest easy knowing that they could access their 401(k) money if their situation worsened. While no one in our industry even ventured to guess how the Coronavirus-Related Distributions (CRDs) and loans would play out, at our firm, we received fewer CRD requests than originally anticipated. However, the pandemic and its effects are far from over, so it remains to be seen if there will be a continued uptick in CRD requests. It seems to come in small waves now, for example, the week after the federal unemployment benefits ended saw an increased demand for CRDs and loans. While generally our firm joined the "Don't touch your face. Don't touch your 401(k)" mantra, we also felt the need for compassion and desired to help our clients and their employees survive this crazy situation.

Run for the Money

One thing that has been a little bit surprising is the number of plan participants who are seeing the CRD as an opportunity to withdraw from their 401(k) to reinvest in other vehicles. Many have been encouraged by investment advisors to do so in order to take advantage of different or riskier investments than their 401(k) might provide. It has been somewhat troubling that the understanding of the purpose of CRDs—giving access to withdraw funds to those who are suffering financial hardship due to coronavirus-related issues—has not been taken to heart in some circumstances. The participant must attest to having experienced financial hardships in order to take a CRD and also will need to complete their tax filings in such a way that attests to the same. Yet, we have had conversations with a gentleman who wanted a withdrawal so he could "invest" in his collectibles. This is not meant to be a new vehicle for in-service withdrawals without cause, but a response to emergency funding needs.

Saving as a Way of Life

Now more than ever we see the importance of having money set aside for unexpected expenses, disaster, or otherwise. While saving for retirement is important, so is having regular savings that can be accessed quickly for emergencies and without additional regulations or restrictions imposed on the individual. In our industry, we try to encourage businesses to sponsor a retirement plan so more people can save for retirement, and we lobby Congress to ensure that proposed laws benefit participants. Congress continues to create initiatives to expand retirement savings coverage, and recently even states have begun creating their own state-sponsored programs to provide additional broad-based coverage. But what is being done to promote saving in general?

Someone once said, "Common sense isn't so common." The same can be said for knowing how to save and budget. Saving for the future is a learned skill, not one that necessarily comes naturally. We are consumers at heart. The same way that many of us need to learn portion control with our dining habits as children, we need to begin our saving habits as children. It is a particularly difficult habit to learn when one does not grow up in a household with parents who are savers, or if there is little income to save with, but this skill can be taught in school.

It is most effective to begin teaching children at a young age as they can learn simple concepts that are meaningful to them. Then, they can learn more complex concepts as they progress through their school years. The advantage to teaching these concepts over a number of years is the repetition which will hopefully help to engrain savings skills. Some would argue that teaching about saving belongs in the home and not the school, however, the role of the schools would be to present the *concept* and *mechanics* of saving without expressing opinions and viewpoints. The value of saving is one that is either taught overtly or learned subconsciously at home, so schools will only provide methods and theories. At a certain point in their lives, children will start to form their own opinions and values, and they will have basic concepts and key information that they can use throughout their lives.

Introduction to Retirement before High School Graduation

Even though retirement plans get a fair amount of exposure in the media and in the workplace, it is geared towards adults. If we agree that the concept of saving could be taught from a young age in the schools, why couldn't we do the same for retirement plans? Retirement plans are more complicated than simple savings accounts, but young children can learn basic concepts. We can teach them about regular savings accounts and retirement accounts hand-in-hand. Put those two concepts together, and those future adults will have valuable information and a good foundation to help them throughout their lives. Since retirement plans are complex, it is especially important for the concepts to be presented at a level appropriate to their ages. It does no good to teach eighth graders about eligibility requirements or vesting or even the difference between a 401(k) and a 403(b) plan because they have no frame of reference, but they will understand and retain broad concepts rather than specific terms. However, they may rather enjoy hearing about QACAs, QDROs, and QDIAs and all the fun that pension nerds have with acronyms!

Teaching about savings and retirement accounts has immediate practical applications that can easily lend itself to hands-on and visual learning. Wouldn't actual piggy banks or nest eggs bring the concepts to life? Not only is it more engaging than a boring presentation with charts and graphs, but it is easier to see how one's nest egg grows with contributions and diminishes with withdrawals when working with physical examples. And if we can work with a captive audience, all the better!

In the state of Indiana, there are financial literacy classes that are part of middle and high school curriculums. It is a fantastic start to preparing students for financial decisions they will make as they get older. You may find there are opportunities in your local schools to educate students either about the professional role you play in the retirement industry or on how to plan on saving a little bit at a time, as well as teaching about saving for a day in the very distant future when they might be able to retire! I borrowed an idea from an advisor with whom I did enrollment meetings many years ago and spoke to a high school class while passing around ball bearings and a 12-pound shot put. At the end of the session, I asked the students if they thought they could put the ball bearing in their pocket and carry it around the rest of their lives. They agreed that yes, they could do that. When asked if they could do that with the heavy shot we had passed around, there was an uproar and much laughter about pockets and anatomy, but of course it would be a more difficult task. We then had the opportunity to discuss that starting to save with their first job would be like carrying around that tiny ball bearing. Starting to save for retirement at age 50 would be like carrying that heavy shot.

Beyond the Formative Years

As part of their general education requirements, there are some colleges and universities that require students to take a financial literacy class. If "Gen Ed" classes are meant to make students well-rounded and to broaden their horizons, then it also can be argued that being financially literate will contribute to their overall knowledge and well-being. If it is important for college students to learn ancient history or a foreign language, it also is important to learn how to handle finances that may impact the rest of their lives.

The National Football League (NFL) has a four-day program mainly geared toward first-year players called the NFL Personal Finance Camp, *a.k.a.*, Personal Finance Boot Camp. For many of these football players, playing in the NFL is their first full-time job. Moreover, the minimum starting salary for an NFL player right out of college is $610,000! Twenty-one-year-olds become millionaires overnight. There is no doubt that one can see why these young players need financial planning and education.

The majority of people do not earn nearly as much as these young players, but it does not mean that they could not benefit from the same information. A person who earns $61,000 or $30,000 needs the same savings skills, if not more so, as a person who earns ten times that amount. Whether a person learns these valuable life lessons in elementary school, high school, college, or the workplace, it is important that everyone has the opportunity to learn and see the results of a lifetime of saving.

Saving in the Workplace

While professionals in the 401(k) arena focus on the complexities and regulations governing 401(k) plans, administration and the investments in the 401(k) world, we can be mindful that there are ways that employers can help their employees save outside of their retirement plans. A recent survey found that employees who have emergency savings set aside are more than twice as confident in their future finances than those who have not. They are prepared for the unexpected. Many employers have taken the opportunity to assist employees by making savings easy with payroll deductions into a savings account that can be withdrawn as needed. That can easily be added to a company's program for financial wellness, regardless of whether the employer has a 401(k) or not and is a low-cost benefit for the employer that contributes to the overall well-being of employees. A win for employer and employee.

The best outcomes for employees and their lifetime savings will be when our focus as an industry is on education and outcomes. That means not just educating employees in our client 401(k) plans about their eligibility requirements or investment options, but by stepping into education as part of our culture, across the board, young and old, those with no substantial assets or those coveted high wealth management clients. We provide hope for the future for everyone when we provide tools and education that enable people to see a bright outcome ahead, regardless of catastrophic world events. Because one person at a time, we can provide the opportunity to hear that story that sticks in their mind or the example that hits home about saving. Really our job is not only to teach that saving a little bit for a long time is a whole lot easier than carrying around a 12-pound shot later in life, but also to ensure that everyone has opportunities throughout their lives to learn why and how to save for both emergencies and retirement. ■

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