



Retirement Advice: Help Employees Conserve Their Assets

By Bob Shier, MullinTBG Advisors, July 2007

HR professionals have often worked with financial planners to help employees accumulate retirement assets. However, not many have paid attention to how these assets should be managed going forward. But the dwindling away of defined benefit pensions coupled with a troubled Social Security system has increased concerns about whether employees can achieve their retirement income goals and maintain their assets over the long-term.

If the reduction or potential elimination of retirement benefits wasn't enough cause for alarm, financial planners are talking about another factor employees must consider when evaluating the adequacy of retirement savings—"longevity risk." As employees live longer and retire to more active lives, their financial assets will have to be sufficient to last throughout an extended period. Meanwhile, the Employee Benefit Research Institute predicts that only one-third of a retiree's income will come from Social Security and pensions (assuming that Social Security remains solvent), leaving a huge retirement income gap for the employee to fill.

Add in higher health costs over the typical course of a longer life, and there's little doubt that today's employees face the danger of outliving their retirement assets.

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Professionally Managed Pensions Recede

Today, most employees entering the workforce will not benefit from the defined benefit pensions that previous generations were offered. (See, for example, [More Employers Cut Defined Benefit Plans, Add to 401\(k\)s.](#)) More and more, companies have shifted retirement savings risks (asset accumulation, growth to overset inflation, longevity) to their employees.

Do employees have the necessary resources to cope with this risk burden? While traditional defined benefit plans would typically employ any number of expert managers to advise and sub-advise on the investment strategy of the pension funds, employees generally are not afforded access to advisers with the same level of expertise. The majority must engineer their own strategy to ensure their benefits are successfully managed over time to meet their retirement income goals.

Wanted: Sound Advice

As companies shift the burden of retirement asset accumulation to the employee, they need to consider providing educational tools and access to objective financial advice. The additional cost of providing

this benefit represents only a fraction of the overall savings derived from the elimination of retirement pensions and other benefits.

Furthermore, giving employees the resources to support their overall financial well-being delivers peace of mind about their financial situation increases the chance that they become more productive workers.

A true financial adviser can help employees "engineer" their retirement with a sound financial game plan. However, there are several factors that HR, in considering the services of an adviser, should bear in mind, as noted in the box below.

What HR Should Look for in Financial Advisers

A professional financial adviser who is well matched to a company can make HR's job easier by helping to promote the value of benefits offerings, educating plan participants on how to integrate their benefits into an overall financial plan and providing specific, objective advice.

A true financial adviser is an individual who accepts "fiduciary responsibility" for the client. This means that the adviser is looking out for the client's best interest and will reveal any potential conflicts. HR should look for a professional financial adviser to work with employees who demonstrates the following:

- 1. Registered with the Securities and Exchange Commission (SEC)** as a registered investment adviser (RIA) representative. This places the adviser under federal jurisdiction for compliance issues.
- 2. Offers objective advice and transparent fees.** Fee-based services differ from commission-based services, which create an incentive to recommend one investment or product brand over another. Fee-based advisers are not limited to offering only a "brokerage house" product line up.
- 3. Extremely knowledgeable about all of a company's benefit plans** and how they interact with each other. Employees will appreciate having a better understanding of how to use their benefit plans as wealth-building tools to increase net worth, and HR will save time and effort having a professional resource available to answer employees' questions.
- 4. Able to take a comprehensive view of an employee's total financial situation.** Providing specific and relevant advice requires understanding how a particular benefit might coordinate with another most effectively, and how it operates in the context of helping an employee meet short- or long-term financial goals. This is especially important when dealing with complex executive benefit packages.
- 5. Has more than five years of experience** offering objective advice on the financial components of employee benefit packages.

It's preferable to engage only one or two advisory firms to provide services. The reasons: ensuring consistency of message, and minimizing HR's time commitment.

Advisers, Not Salesmen

Employees need access not only to sound financial advice but also to investment and insurance products that will meet their specific requirements. A financial adviser should be able to identify what the client needs and match these with the appropriate instruments to help offset the financial, inflation and longevity risks (more on this process follows below).

But be mindful of the difference between financial advisers and salespersons. The steps discussed above can help determine whether the adviser is merely opening a brokerage account and selling retail mutual funds (with front-end sales charges and high annual fees!), or is a true professional adviser looking out for the employees' best interests.

Executing a Game Plan

The first task of an adviser should be to identify the sources of an employee's financial capital. This can consist of numerous employee benefits: 401(k), deferred compensation, stock options, as well as current salary.

Next, the adviser should assign the sources of capital to specific retirement needs, such as mortgage payments, children's college education funds and general living expenses. Identifying the employee's specific continuing expenses will help determine the best way to use retirement income resources.

Example: Assume an employee will use her funds to meet yearly post-retirement living expenses of \$72,000 per year. One might come to the conclusion that a total retirement nest egg of about \$1 million after tax, earning 6 percent per year, would last for 40 years. But what happens if there is unexpected inflation? Or if a down market occurs sometime during the first five years of retirement?

Thinking beforehand of the issues that could affect the performance of retirement assets can lead to better-informed decisions as an individual heads into retirement. Holding hard assets and some inflation-protected securities in an investment portfolio, for instance, can hedge against the risk of high inflation.

Planning for an employee's retirement should include these actions:

- Determine capital needs.
- Define risk tolerance.
- Conduct asset allocation.
- Implement portfolios.
- Rebalance portfolios
- Monitor and report on the portfolio's status.

Beyond Investments

Other than the employee's investment portfolio, there are many other areas in which financial advisers can provide guidance to their clients. To help address the longevity issue, an adviser could help determine whether part of an employee's retirement capital should be used to purchase an annuity. Annuities come at a cost, however, and a good financial adviser can help the client shop for favorable rates.

What about long-term care coverage? Again, as people live longer, the probability of requiring supplemental care increases as well.

Helping employees to work with a financial adviser who will analyze retirement planning issues and put in place a sound investment strategy does not eliminate risks, but it positions employees to manage risk and execute a plan designed to maximize assets for lifelong financial security.

Managing Assets in Retirement

In July 2007, the U.S. Department of Labor held hearings on "Financial Literacy and the Role of Employers." In her [testimony](#) on behalf of the American Benefits Council, Melissa Kahn, vice president of Metlife, noted the following:

For a long time, the public policy focus has been solely on the pre-retirement accumulation phase. . . . With increased life expectancies and the decline of defined benefit arrangements, however, it is essential that financial education also address how individuals can protect themselves against post-retirement uncertainties, such as how long one will live and what health care and long-term care needs one will have. Individuals also need help determining how long they need to work to achieve their postretirement goals. We need to heighten awareness of the post-retirement issues, and at least refer to this issue in all education efforts regarding the pre-retirement period.

Bob Shier is president of MullinTBG Advisors, a registered investment adviser and [MullinTBG](#) company.