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Employee Benefit Plan Review

In Search of True Financial Wellness? Managed Accounts May Be the Retirement Readiness Answer

By Michael Chard

Getting a handle on genuine financial wellness, and in particular on your plan participants' budgeting, is key to freeing up sufficient amounts to grow their 401(k) accounts and ultimately achieve retirement readiness. If a holistic view of one's financial position is critical to achieving this, and I believe it is, including managed accounts within a financial wellness program may be key to providing effective support in pursuit of such goals.

This combination of financial wellness and managed accounts accommodates participants' individual financial vulnerabilities. I believe it is likely to improve an employee's financial acumen overall. Quite simply, when people understand their financial situation and how it can look going forward, they are better positioned to develop an actual strategy, manage it, and make realistic progress toward their goals.

Effective budgeting enables participants to find the cash to contribute an amount to their 401(k) plan that allows them to save what the managed account program suggests will be sufficient to fund their retirement. Standalone managed account programs, in fact, do not really help with budgeting, emergency funds or managing debt unless coupled with a financial wellness program that incorporates preparing for retirement with these other functions.

Financial Wellness Program

Simply put, a financial wellness program can coordinate and prioritize the budgeting, as it can seem daunting for a person to navigate contributing to an emergency fund versus paying off debt versus funding his or her 401(k).

The connection between financial wellness and managed accounts is changing how employees plan for the future, and it is happening just in time. The defined contribution industry has long struggled over the best way to assist participants with electing how much to save. Guidance has taken many forms, including income replacement goals (for example, contribute at least 10% of your pay, every year), informal rules of thumb (contribute at least enough to get the maximum available employer matching contribution level), automatic enrollment into the employer's plan at a static savings rate or accelerating rates over time, and stochastic modeling tools that suggest a savings rate.

Most of these approaches have failed to generate much enthusiasm or widespread participant adoption for a number of reasons. Critically, they have typically ignored one key issue for participants: where to find the recommended savings amounts in their paychecks. In other words, how to budget for the savings. It is a problem I call "divorced siloes," that is, the recommendations are divorced from what employees feel they can comfortably contribute.

The Predictable Response

The response to this has been predictable. Lacking that context, it seems many employees are either too overwhelmed by the savings decision required during onboarding to participate in their employer's plan at all, or they participate at levels that fall short of adequately preparing them for retirement. The Employee Benefit Research Institute reports that only 48% of private industry workers participated in a defined contribution plan in 2022.[1]

Reaching retirement savings goals can seem like an abstract concept when there is not a path to knowing where the money is coming from. It is akin to the old gag about how to become a millionaire. Just go and find a million dollars! Is this truly how we want people to feel when we provide guidance?

Assessing "Retirement Readiness"

Fortunately, managed accounts may be the solution to this problem. What I am seeing anecdotally is that a financial wellness tool that includes a "retirement readiness" assessment shows the ability to help more employees pay better attention and set realistic retirement goals, and take action because said goals seem realistic.

This approach involves an easy-to-use tool that does not require people to do deep technology dives, fill out lengthy questionnaires, or be forced to make continual decisions about how much to invest and where and when, etc. When focusing people's attention instead on their "retirement readiness" as part of their overall level of financial wellness and supporting savings decisions with an effective budgeting tool, I believe employers can better engage their employees than by using the prevailing "divorced silo" methods that have become the industry standard.

Furthermore, if a managed account approach is structured as an automatic election, it requires minimal interaction by participants. Both their savings and investment elections can be determined for them so that they do not have to interact frequently with a tool, beyond the initial assessment during onboarding of whether to remain in the managed account service or opt out.

The financial wellness solution can even be designed to identify additional ongoing 401(k) savings opportunities via its budgeting capabilities and alert participants through push notifications.

Conclusion

I believe this approach best meets the needs of what I call "reluctant investors," i.e., those who do not want to play a significant role in determining what their 401(k) elections should be. This process can put a recommended strategy in place for the saver, rather than the saver deciding that alone. This could play a big role in making an individual better prepared for retirement and improving overall financial health, essentially changing the situation for the better!

Note

1. "Workplace retirement plans: By the numbers," Jan. 19, 2023, available at https://www.ebri.org/docs/default-source/by-the-numbers/ebri_rsrc_facts-and-figures_011923.pdf?sfvrsn=9b6b392f_8.

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