Retirement Times

Closing the Retirement Gender Gap: How Retirement Plan Advisors Can Help

Despite the fact that women tend to live longer, female workers typically have lower retirement account balances than their male counterparts. Many factors may contribute to this disparity, including lower earnings, greater part-time work and time off for child and eldercare, lower levels of financial literacy and lower risk/lower return investment choices.

As a result, women can face significant hardships during their retirement years, which they may have to deal with on their own. Is there anything retirement plan advisors can do to help reverse this troubling trend? A 2015 study by several state agencies in Wisconsin attempted to answer this question.

EMPOWERing Women

Researchers examined the effect of a multimedia education program called Embracing and Promoting Options for Women to Enhance Retirement (EMPOWER), geared toward increasing female employees' retirement savings by providing educational content and increasing motivation for contribution. Data was collected on 31,000 male and female Wisconsin public sector workers.

Over a period of several months, some employees received information, motivation and challenges via multimedia channels including email, webinars and live presentations. Workers were not incentivized to participate and were offered individual financial counseling sessions to address their individual retirement needs. To measure the impact of the program on retirement savings, administrative data over four years compared savings rates between men and women before and after implementation and among agencies that did and did not use the EMPOWER protocol.

The study found that women who received the educational program increased their contributions by 2.6 percent, effectively reducing the gender retirement gap in this sample by more than 50 percent.

Employers Can Make a Difference

These findings suggest that the departments tasked with helping employees improve their financial wellness have a potentially powerful tool at their disposal that can help women increase their retirement preparedness. By improving female employees' financial literacy and motivation for greater participation in retirement savings programs, employers are empowered to close the financial wellness gender gap by a significant margin.

To learn more about closing the retirement gender gap, contact your plan advisor.

Another Way to Save: New Tax Credit for Plan Participants

According to a Transamerica Center for Retirement Studies (TCRS) report fewer than four in ten U.S. workers know about a tax credit that may help them save for retirement, per the IRS. The Saver's Credit is available to eligible taxpayers who are saving for retirement.

The Saver's Credit is a non-refundable tax credit, and can be applied up to the first $2,000 of a participant's contributions to a retirement plan The maximum credit is $1,000 for a single filer and $2,000 for married couples filing jointly. In addition to the tax-advantages of saving for retirement in a 401(k), 403(b) or IRA, the Saver's Credit is an added benefit to reduce federal taxes.

This credit is available to workers ages 18 years or older who have contributed to a retirement plan in the past year and meet the Adjusted Gross Income (AGI) requirements:

- Single tax filers with an AGI of up to $32,000 in 2019 or $32,500 in 2020 are eligible;
- For the head of a household, the AGI limit is $48,000 in 2019 or $48,750 in 2020; and,
- For those who are married and file a joint return, the AGI limit is $64,000 in 2019 or $65,000 in 2020.
- Please note, the filer cannot be a full-time student and cannot be claimed as a dependent on another person's tax return.

Participants who are eligible to claim the Saver's Credit are often also eligible to take advantage of this program that offers federal income tax preparation software for free to tax filers earning $69,000 or less. Ten companies make their tax preparation software available through this program at www.irs.gov/FreeFile, though certain restrictions may apply.

Individuals who are eligible but did not save last year can still contribute to an IRA until April 15, 2020, and may be able to claim the Saver's Credit for the tax year 2019.

To learn more about the Saver's Credit, contact your plan advisor.

Addressing Employee Education Strategically

An educated employee is an empowered employee, especially when it comes to retirement savings and financial wellness. To help employees better understand their fiduciary process, the key features of your company's retirement plan, and the importance of setting aside money for their future, it's crucial to offer financial education. Financial education can come in many forms, but the best way to start the conversation about financial wellness is to follow a few simple points.

Correct Misconceptions

Employees may misunderstand exactly what goes into your retirement plan. To dispel any misconceptions, companies should aim to communicate retirement plan information in simple, easy-to-understand terms. Keep in mind that employees are easily overwhelmed by a surplus of options! Make yourself available to help guide them toward choices that are best for them, and encourage them to approach you with questions. If they don't ask you, there is a good chance they are taking matters into their own hands by searching for answers online or from other employees, which only increases the odds of miscommunication.

Offer Multiple Education Formats

In recent years, nearly one half of companies provided employees with financial education, whether as a large education session, one-on-one meetings, or within an online module. This results in employees with improved financial management skills who better understand budgeting, debt management, and proper savings techniques.

During these sessions, start by discussing the savings basics and why it's important to start saving as soon as possible. Consider reviewing asset classes to help employees understand their options when it comes to investment options such as stock or real estate, and how it ties back into their retirement plan savings through your program. This is also a great time to educate them on asset allocation strategies, especially in a one-on-one meeting. Help your employees learn more about balancing risks and rewards, equities, and fixed incomes, and why it's important to know these things when they decide to invest in saving for retirement.

Discuss Company Match

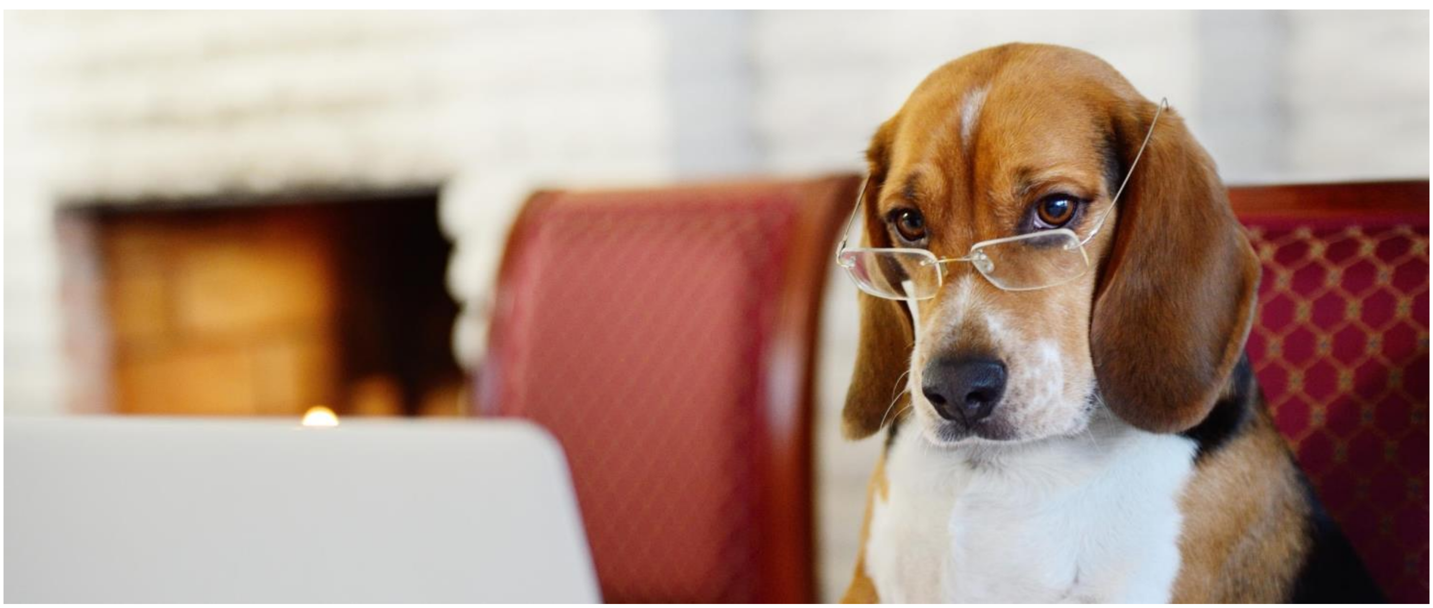
As you focus on clear communication and education, ensure that your employees understand how to receive the highest company match. Reiterate just what that match is, how to receive it, and how it positively affects their savings. Ask a recordkeeper to run a report analyzing which one of your employees aren't contributing enough to receive the highest match — or any match — and then target those specific employees with an invitation to a group or one-on-one education session.

Ultimately, the education strategy you choose should be specific to your company and your employees. Encourage them to ask questions about their fiduciary process so you can help them achieve financial health and stability.

For tips on addressing employee education, contact your plan advisor.

This Month's Participant Memo

Five Key Decisions for a Successful Retirement



Life is a series of decisions, and everyone has to live with the results of the decisions they make. One of the most serious decisions that we all face is how to prepare for retirement, but frequently we don't make the best choices to protect our futures. What are some of the most critical decisions you should make about retirement?

Start saving now. Starting as soon as possible makes saving for retirement much easier, because you can take full advantage of the power of compounding. A 25-year-old that saves $300 each month and earns an average annual return of 6 percent in a retirement plan will have over half a million dollars ($557,153) saved at age 65. If that same person waits until age 40 to start saving the same amount, he or she will only have $197,516 at age 65.

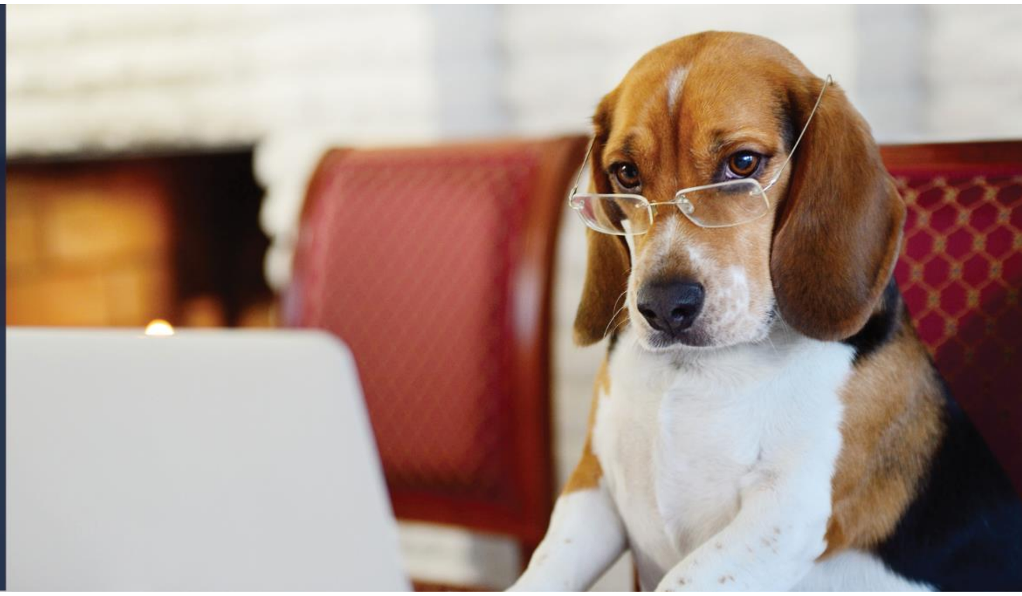
Wait to take Social Security. People who are eligible can start claiming Social Security at age 62, but the payments increase each year to delay filing. According to the Wall Street Journal, each year you delay filing for Social Security up until age 70 adds 8 percent each year to your benefit amount. That's a significant return on your "investment" by delaying.

Delay retirement as long as possible. A person who retires at age 65 may need enough money to fund 30 or more years of retirement. Waiting to retire means you can continue to accumulate funds, plus you're not tapping into your savings. Working two or three more years, or even working part-time, can make a big difference.

Opt for retirement plan matching. Employer contributions to a retirement plan can significantly boost retirement savings. If our hypothetical 25-year-old (above) got a 50 percent employer match on that $300 monthly contribution to his or her retirement plan, he or she would have $835,724 by age 65. That's a difference of $278,571.

Don't touch your retirement plan until retirement. It may be tempting to tap into these funds to finance short-term needs, but cashing out or even borrowing from a retirement plan can seriously impact retirement savings. Once those savings are gone, they can't be replaced. More importantly, you'll never get the time back – time that allowed your returns the potential to compound. And taxes and penalties can be severe, because early withdrawals may be subject to both taxes and a 10 percent penalty.

Five Key Decisions for a Successful Retirement



Life is a series of decisions, and everyone has to live with the results of the decisions they make. One of the most serious decisions that we all face is how to prepare for retirement, but frequently we don't make the best choices to protect our futures. What are some of the most critical decisions you should make about retirement?

Start Saving Now

Starting as soon as possible makes saving for retirement much easier, because you can take full advantage of the power of compounding. A 25-year-old that saves $300 each month and earns an average annual return of 6 percent in a retirement plan will have over half a million dollars ($557,153) saved at age 65. If that same person waits until age 40 to start saving the same amount, he or she will only have $197,516 at age 65.

Wait to Take Social Security

People who are eligible can start claiming Social Security at age 62, but the payments increase each year to delay filing. According to the Wall Street Journal, each year you delay filing for Social Security up until age 70 adds 8 percent each year to your benefit amount. That's a significant return on your "investment" by delaying.

Delay Retirement as Long as Possible

A person who retires at age 65 may need enough money to fund 30 or more years of retirement. Waiting to retire means you can continue to accumulate funds, plus you're not tapping into your savings. Working two or three more years, or even working part-time, can make a big difference.

Opt for Retirement Plan Matching

Employer contributions to a retirement plan can significantly boost retirement savings. If our hypothetical 25-year-old (above) got a 50 percent employer match on that $300 monthly contribution to his or her retirement plan, he or she would have $835,724 by age 65. That's a difference of $278,571.

Don't Touch Your Retirement Plan until Retirement

It may be tempting to tap into these funds to finance short-term needs, but cashing out or even borrowing from a retirement plan can seriously impact retirement savings. Once those savings are gone, they can't be replaced. More importantly, you'll never get the time back – time that allowed your returns the potential to compound. And taxes and penalties can be severe, because early withdrawals may be subject to both taxes and a 10 percent penalty.

For more information on retirement tips, contact your plan advisor at (630) 778-8088 or info@partnerswealth.com.