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WEALTH ADVISORS

RETIREMENT TIMES

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Connection to Future Self Is Key to Retirement Readiness

The relationship we forge with our future selves can greatly impact financial decision making in the present. Research conducted by social psychologist Hal Hershfield using functional magnetic resonance imaging revealed that subjects with a stronger connection to their future selves were more likely to delay gratification and make more prudent financial choices. But how can plan sponsors help employees make the connection? The Consumer Financial Protection Bureau has a "Future Self Tool" with three self-guided exercises.

1. **Letter from Your Future Self.** A letter is written from the present self to the future self (in 10 years), addressing aspirations, achievements, any potential regrets and words of advice. This personal exploration of where participants see themselves a decade down the line offers a platform to express their deeply held hopes and dreams — and helps foster greater emotional connection to their future self.

2. Picture Your Future Self. Participants are asked to vividly imagine and visually represent in pictures or symbols both their current and desired future self (e.g., home, activities and accomplishments) to more clearly appreciate the long-term consequences of present-day financial decisions. This visualization serves as a potent reminder of why it's important to make forward-looking financial choices today, given their potential lifestyle impacts tomorrow. By painting a clear and vivid image of a desired future, participants will presumably be better motivated to do what's necessary to achieve it.

3. Conversation with Future Self. This exercise involves role-playing a discussion between the present and future self, prompting an open and honest dialogue about hopes, fears, expectations and plans on the horizon. By doing so, participants address current concerns and hear advice from a trusted source — themselves. The process can offer clarity regarding the path they should take to secure their future happiness and financial well-being.

Future Self-Visualization Workshop

So how can you encourage employees to foster a greater connection with their future selves? Several activities can easily be incorporated into existing financial wellness initiatives. Consider hosting a "time travel" themed interactive group workshop where participants are guided through future self-visualization exercises. Make it fun and engaging with a "future selfie" booth using one of the many available apps that show what you might look like at an older age. Or use virtual reality or augmented reality demos to let participants experience a vision of the future. Use LED lights, fiber optics or projection mapping to create some sci-fi ambiance alongside fun, futuristic food presentations.

In the end, our collective challenge is to help ensure that the needs of employees' future selves are recognized and acted upon in their current retirement planning strategies and decision making. Giving participants tools and resources to bridge this gap can help them avoid "future shock" and assert greater agency over their financial well-being in the here and now.

Source:
https://files.consumerfinance.gov/f/documents/cfpb_future-self-tool_2021-05.pdf
https://newsroom.ucla.edu/stories/the-stranger-within-connecting-with-our-future-selves

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Beyond the Benchmark: Uncovering Additional Value in RFPs

When conducting three- to five-year live-bids, it can be tempting to hyper-focus on fees. After all, benchmarking is often a primary reason for performing an RFP — and maintaining reasonable fees is a core fiduciary duty of plan sponsors. But a thorough review of qualitative measures can be key to getting more of your organizational needs met. Here are some considerations to keep in mind when assembling — and evaluating — your next RFP.

Data security systems and privacy protections.
Make sure bidders can cite not only cybersecurity measures, such as remote server backups and password-protected computers, but also physical security such as locking file cabinets, on-site shredding and maintaining signed employee confidentiality agreements on file. Ask whether they’ve received a SOC 2 certification, showing they've met the standard guidelines necessary for the Trust Services Criteria requirement of security as defined by the American Institute of CPAs.

Plans for introducing SECURE 2.0 provisions.
Make sure the provider has given careful consideration to the new law and how it might affect your particular plan. How will they help educate participants about SECURE 2.0 and its impact on their retirement planning? What materials, educational resources and tools would they provide?

Direct experience dealing with regulatory agencies.
Does the firm employ ERISA attorneys? What additional resources are available to assist with compliance issues? Evaluate the depth and breadth of their experience and their success rate in dealing with regulatory audits or inquiries. The ability to navigate complex regulatory landscapes can be a key differentiator among bidders.

Insurance coverage.
Does the provider maintain professional liability insurance, errors and omissions or a fidelity bond? For each, ask for the name of the insurer and details about policy limits to ensure coverage is proportionate to the assets managed.

Experience with similar plans.
Determine what expertise they bring to the table that's specific to your plan type and size. It may also be helpful to obtain — and contact — client references. Understanding the bidder's historical performance and success with similar plans can yield crucial insights into the effectiveness of their strategies and processes.

Client support, service and communication.
Assess the provider's communication style and how they plan to collaborate with key stakeholders to achieve plan objectives. Inquire about communication frequency and preferred channels, as well as the firm's approach to sharing industry insights, regulatory updates, or best practices that may impact your retirement plan.

Is That Your Final Answer?
One last overall qualitative "metric" not to overlook is simply how well the bidder addressed all your questions. Did they follow instructions and provide sufficient detail for you to evaluate? Paying sufficient attention to both cost and quality concerns can lead to a more comprehensive understanding of how your organization's specific needs and objectives will be met by a given provider.

Source
https://www.plansponsor.com/what-this-years-rfps-will-look-like/

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SEC Unveils “Swing Pricing” Proposal for Open-End Funds

Public Response to Economic Threat Fuels SEC Proposal

The outbreak of COVID-19 in 2020 instilled a sense of financial fear in market participants. How are humans inherently hardwired to respond to threat? Panic. The threat of economic crisis in 2020 fueled the act of “panic selling” within the market. Massive volumes of individuals redeemed their market shares, causing the underlying value of large funds to be diluted. At a recent conference held by the Investment Company Institute, the SEC proposed the policy of swing pricing to combat the adverse effects of fluctuations in buying/selling activity within the market.

What is Swing Pricing?

When large amounts of people buy and sell at once, the net asset value (NAV) of a fund can be diluted. This is because the cost of such massive volumes of trading are reflected in the price of the underlying fund. Investors who remain in the market are left to bear this burden of price dilution. The goal of swing pricing is to reassign the costs of high-volume trading to those who are creating the problem of devaluation- the buyers and sellers.

How Swing Pricing Works

Swing pricing is only implemented when the number of purchases and redemptions of a fund exceed a maximum threshold. If the proposal is enacted by the SEC, each share bought or sold will adjust the NAV of a fund by a designated swing factor. As a result, individuals saving up for retirement may be adversely impacted by this pricing mechanism.

Additional SEC Proposal – Liquidity Limitations

An additional piece of the proposal that’s of great importance to retirement planners is a new set of liquidity classifications.

A fundamental right of shareholders is the ability to redeem their shares at any moment in time. This redemption is only possible if funds can quickly turn their assets into cash – a property identified as liquidity. Currently, funds are classified into one of four categories depending on the liquidity level that reflects their portfolio. The proposal would not only mandate new minimum liquidity levels for open-end funds, but it would also require that 10% of a fund's holdings are allocated to highly liquid assets.

A New Landscape for Retirement Planners

The SEC hopes to limit future Federal intervention in times of economic instability. During COVID-19, funds had to be bailed out by the Federal Reserve due to an inability to meet the redemption requests of their shareholders. Stricter liquidity classifications, while being a possible solution, would require many funds to endure a complete structural renovation. This means that Illiquid securities frequently used by retirement planners may have to be removed from their fund portfolios.

Future Steps: Staying Updated on Policy Reforms

The goal of the SEC's recent proposal is to protect the funds of long-term investors from dilution, as well as prevent federal intervention in times of economic crisis. While some investors will reap the rewards of such policies, these regulations may be detrimental to retirement planners.

Financial policy reforms have occurred throughout history to meet the changing demands of the economy. COVID-19 was just one historical event that led financial institutions to rethink the policies regulating our market. In a continuously evolving economy, it is vital that new policy proposals are thoroughly evaluated if those saving for retirement hope to foster a stable financial future.

Sources:
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