

Is Inflation Taking a Bite Out of Participants' Retirement Savings?



While inflation has remained low in previous years, it rose to 6.8% in 2021.¹ One forecast for 2022 is that inflation will be around 2.3% for the year.¹ Even if it is reduced this year, inflation represents a risk to plan participants' savings over the long term.

How to Encourage Participants to Save More

With the current cost of essential items such as gas for the car, groceries, housing, clothing and cars priced higher due to inflation, participants may be struggling to meet daily expenses and take care of emergencies, leaving little left over for retirement savings. However, if they are presented with an estimate of how much monthly income they'll have in retirement, it could spur them to find ways to save more.

How to Help Participants Measure Progress

Plan sponsors will be required to comply with the Department of Labor's (DOL's) lifetime income disclosure rule, which became effective on Sept. 18, 2021, by no later than a reporting period that ends Sept. 18, 2022.² The new requirement is intended to provide lifetime income estimates to participants based on the present value of their account. Estimates are based on assumptions including an interest/discount rate and (assumed) mortality. There is no inflation assumption.

Although it's not part of the assumptions, the DOL did discuss the issue of inflation, noting that, "even with a low inflation rate, the purchasing power of a fixed nominal income stream can easily be cut in half over the remaining lifespan of the typical retiree."

If you have not already done so, plan sponsors and recordkeepers should begin discussions to formulate a plan to provide these illustrations showing how an individual's retirement savings would break down into monthly payments in retirement. This illustration could serve as a wake-up call for plan participants to accelerate savings. The DOL rule assumes that a plan participant will start drawing income at age 67.

It is worth noting that certain assumptions for the estimates are required. These assumptions aim to provide consistency among recordkeepers, but some assumptions may fall short in the illustration.

According to the Employee Benefit Research Institute's 2021 Retirement Confidence Survey, for example, the median retirement age among retirees is 62 years old, although workers said they expected to work until age 65.³

Using Other Tools to Show Retirement Readiness

The lifetime income disclosure rule is intended to help employees determine their readiness to retire, so the rule does permit plan sponsors to use other lifetime income illustrations. To that end, some plans already include lifetime income illustrations or other disclosures designed to illustrate a participant's progress toward retirement.

Plan sponsors may want to contact their recordkeeping partners to understand what tools are being used to model such illustrations. This may help plan sponsors provide participants with more realistic retirement income projections.

How Can Plan Sponsors Help Participants?

Providing information related to inflation and purchasing power as well as how inflation could affect lifetime retirement savings and income in retirement is a good place to start educating plan participants. Another way is by making sure your fund lineup for your retirement plan includes inflation-hedging options, which could include a hedging investment within a target date fund.

As the table to the right indicates, participants do want to be informed about whether they are on track to meet their retirement income goals and are looking for ways to get there.

Consult With Our Retirement Plan Solutions Team

We are happy to schedule one-on-one consultations with your plan participants to review their retirement savings picture and discuss strategies, such as investing in assets that help control inflation, saving more and relying on savings longer so they can delay receiving their Social Security benefit to maximize their monthly benefit.

If you anticipate that participants will panic when they see their monthly retirement income projection, your Retirement Plan Solutions team at Mariner Wealth Advisors is here to help with any concerns.

One in three workers would like more information about how much income their savings will produce in retirement.

Plan Participants Noted Which Improvements They Want to See Most In Their Plan

| | |
|---|---------------------------------|
| Better explanations for how much income my savings will produce in retirement | 33% |
| More fund investment options available | 31% (vs. 22% in 2020) |
| Better explanations for whether I am on track with my retirement savings | 30% |
| More one-on-one, personalized education | 25% |
| More online education tools | 25% |
| More investment options designed for after I retire | 24% |
| More environmental or socially responsible investment options available (ESG) | 14% |

Source: Employee Benefit Research Institute 2021 Retirement Confidence Survey

For more information visit: marinerwealthadvisors.com

Sources:

¹ [Trading Economics, US Inflation Rate](#)

² ["Department of Labor Confirms Effective Date of Lifetime Income Disclosure Rules"](#)

³ [Employee Benefit Research Institute 2021 Retirement Confidence Survey](#)

["Inflation, Retirement Saving and Retirement Income"](#)

["Inflation's Drag on Income Projections"](#)

This article is limited to the dissemination of general information pertaining to Mariner Wealth Advisors' investment advisory services and general economic market conditions. The views expressed are for commentary purposes only and do not take into account any individual personal, financial, or tax considerations. As such, the information contained herein is not intended to be personal legal, investment or tax advice or a solicitation to buy or sell any security or engage in a particular investment strategy. Nothing herein should be relied upon as such, and there is no guarantee that any claims made will come to pass. Any opinions and forecasts contained herein are based on information and sources of information deemed to be reliable, but Mariner Wealth Advisors does not warrant the accuracy of the information that this opinion and forecast is based upon. You should note that the materials are provided "as is" without any express or implied warranties. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Past performance does not guarantee future results. Consult your financial professional before making any investment decision.

Mariner Wealth Advisors ("MWA"), is an SEC registered investment adviser with its principal place of business in the State of Kansas. Registration of an investment adviser does not imply a certain level of skill or training. MWA is in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which MWA maintains clients. MWA may only transact business in those states in which it is notice filed or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by MWA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For additional information about MWA, including fees and services, please contact MWA or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). Please read the disclosure statement carefully before you invest or send money. Securities Offered through MSEC, LLC, Member FINRA & SIPC, 5700 W. 112th Suite 500, Overland Park, KS 66211.