Regions Insights Podcast

Episode 7: When Should We All Retire?

In this final episode of the Regions Insights Podcast, trusted Regions retirement and financial planning specialists—Sean Toebben, John Kibbe, and Cindy Campbell—return to guide you through the key factors that should shape your retirement decision. Whether you're nearing retirement or haven't even started thinking about it, we'll provide valuable ideas to help you figure out what retirement means to you, what you hope it might look like – and when to begin the transition.

Episode Transcript

Chris Blose: Let's start with the stats. $95,776: That's the amount the average American household has in retirement savings, according to the Economic Policy Institute.

If that number seems low, consider this: Nearly half of American households have no retirement savings at all. I bring this up not to alarm our listeners, but to bring home a point you'll hear again and again on today's podcast: It's never too late to start thinking about retirement planning.

Welcome to The Regions Insights Podcast. I'm your host, Chris Blose, and on this show, we look at trends, tips and triumphs around your money.

Today, as you've likely guessed, we're talking about retirement. Later in the show we'll hear from more advisors from the Regions team, John Kibbe and Cindy Campbell. But first, we have a repeat visitor joining us: Sean Toebben, a financial advisor based in the St. Louis area.

To start, we asked Sean, how did the COVID-19 pandemic affect how people approach retirement planning?

Sean Toebben, Regions Investment Solutions financial advisor: COVID-19 scared a lot of people. It scared a lot of people for a lot of reasons, but finances specifically, obviously we saw the market drop, the sharpest that it's ever dropped in history. And it really was a one-time flash in the pan, but we haven't shut down the world for a hundred years. And with all the technology that we have now, it was in our faces every single day, so it truly was a gut check on folks, their long term retirement plans, their risk tolerance, all sorts of goals in mind. And, you know, it made people really think about, you know, am I on track? What am I gonna do now?

Chris Blose:

So, tell me a little bit about what is the difference in your mind between risk tolerance and risk capacity when it comes to investing and, and how can individuals determine, you know, what is their risk tolerance and what is their risk capacity?

Sean Toebben:

I would say risk tolerance is more of a short-term reflection or measure of a specific moment in time or an event or kind of a section of time. And we kind of analyze that and say, how would you have felt during this time? We go through risk questionnaires all the time with folks that are doing investing in financial planning. And I ask them all the time, you know, if the market does this, how would you react if your account value went from 400,000 to 300,000 in a year. How would you feel?

Whereas risk capacity is more calculated. It's a long-term reflection of how much risk that you need to take to get to your financial goals long-term. I'd love <laugh> even for myself to take no risk and still meet all of my financial goals long term. But that's just not in the cards. I mean, it could be, I could let everything sit in a savings account and we have folks that do that at the bank. But I think the more prudent financial plan long term is to really find out what your risk capacity needs to be to make sure that you can hit your financial goals, whether it's retirement or paying for a child's wedding or saving for a new car or what have you. Find out what risk that you need to take to get to that goal in an efficient manner.

Chris Blose:

So let's go back to some of the basics for people who maybe aren't as informed or looking to expand their knowledge about this. How does compounding work in terms of long-term growth and what strategies can individuals employ to make sure they're making the most of it as opposed to just leaving money, for example, in a savings account?

Sean Toebben:

The analogy that I use for compounding interest is gonna be, think of it like a snowball. All of us, or at least most of us at some point in our lives have been, you know, out there bundled up as a kid or even as an adult trying to roll a snowball. And those first few rolls, it's not picking up anything, but all of a sudden you hit this inflection point and all of a sudden, you know, every single turn you're getting more snow in one turn than you did in the first 15 turns. Compounding interestand consistency is everything when you're trying to hit your goals long term. You know, if you've got a hundred thousand dollars that you invested in, it made, you know, $10,000...

And in a market where we're up 10% and then the market does the same thing the following year, you didn't make $10,000 that year, you made $11,000 the second year. It's interest earning interest, earning interest.And so you have to put in less to reach your financial goals long term. And that's key. And the key to making sure that you can compound the interest is to start early, and be consistent.

Sean Toebben:

and how people can really utilize that I would say 401ks and IRAs are key. Those are the simplest and most tax efficient ways to do it. So you not only get your principal earning interest, but if you're in a 401K or IRA, a lot of the times the money that you should have been paying Uncle Sam you get to take the money that should have been in the IRS's pocket for the year, and you get interest on that too. So when you get a pre-tax contribution to a 401K or IRA you're kind of triple dipping but again, you gotta start early.

Chris Blose:

Yeah. That advice of starting early leads me to wonder at what age or stage of life should those younger generations start thinking about saving for life their financial future?

Sean Toebben:

Because of how compounding interest works, the earlier the better. I would say 25 is when they need to make sure they've started by. I've got folks that are in high school and college who have their savings or are getting their first IRAs going or started, you know, their first jobs and ask questions about 401ks. And that's fantastic. And, you know, they're gonna see the benefit that the last couple roles of the snowball are really gonna help them have a much healthier and happier retirement.

And I would say you can play some ketchup into your thirties but once somebody comes to me in their forties or fifties and says, Hey, I'm looking to get caught up we have a pretty open and honest conversation that, okay, it's gonna be tough to get there. You might have to take more risk, you might have to give up some lifestyle choices right now, or you're just gonna have to accept the fact that when you do retire your amount of opportunities are gonna be a little bit more limited as far as your hobbies and big purchases and helping your family out and donating to your church or charity of choice and so on.

Chris Blose:

I know a lot of times, obviously the investment opportunities are tied to your employment, whether it's a 401K or something, something else similar. But are there other specific savings or investment products that are particularly advantageous to those younger people looking to save?

Sean Toebben:

Absolutely a Roth IRA or if you have the option in a 401k as well, to kind of touch on that a lot of employers are offering the option to make Roth contributions to a 401k as well. But the Roth IRA, I am a huge, huge, huge proponent of for young folks. Right now we're near historical lows as far as federal income taxes go. And as we saw here, <laugh>, you know, this past year with all the headlines, the government's hard up for, for tax revenue right now. And I bet if you poll a hundred financial advisors right now in a room, I bet at least 95% of 'em would say that a decade from now taxes will be higher. And I anticipate that, you know, we're gonna see that continue, the population didn't boom, so everybody's gonna have to chip in a little bit more to make sure that the ship keeps moving.

And same thing with social security. It's not gonna go away. If it does, I get, you know, an extra six or 7% back on my paycheck because I'm not gonna have to pay that tax anymore. But I don't think any of us are gonna get that lucky, you know, it's gonna be here. But there's a serious chance that social security takes a little bit of a pay cut. So if that's a big part of your retirement plan now that could be in the form of an actual freeze on future raises. It could be in the form of then pushing the full retirement date back. It could be an actual cut but they're gonna need to do something with that. And so the reason I'm such a big fan of the Roth IRAs all the writing on the wall is you're gonna need to save more and you're gonna need all of it later and you're not gonna want to pay the tax bill later when rates are higher. And so if you can start contributing now, and have the ability to do it consistently where you're not having to do it in big jumps and miss out on some tax benefits, now just go into that Roth IRA, you won't get the deduction. But if you start early and you start small, that snowball really, really builds up for later and you get to keep the entire snowball tax free.

Chris Blose:

So that's one, you know, kind of use case for younger people looking to start saving. Let's talk about the basics of asset allocation and its role in investment strategy. How can people at different stages of life determine, you know, how their, what their optimal allocation is?

Sean Toebben:

Most of your returns long term are gonna be because of your asset allocation. It's probably one of the most overlooked facets of the financial world. A lot of people say, you know, just buy an index fund, hang onto it, buy something, hang onto it. And that's true for the long run. Buying and holding can definitely pay off, but depending on what stage in your life you're in, you can't just hold it forever. You need to put it into action to actually spend the money, enjoy the money, and know are you too risky or are you not risky enough? So for instance, I'll give you an example. Last year the Dow Jones, you know, was down about, eight, 9%. The NASDAQ was down 33%. So if you just bought and held something, well, which you know, if you're preparing to retire, if you didn't care about asset allocation and you were in the NASDAQ the whole time and you were supposed to walk out December 1st, it was hurting...

If you didn't have anything allocated towards bonds, towards something safer to help take the edge off. For folks that retire, different areas of the market are focused on dividends and stability versus growth. And so folks want dividends, they want that income and maybe a little bit of growth, but they're more focused on companies that share their profits in the form of a dividend. And so that way they can rely on that and live on their nest egg versus focusing on growth, which younger folks probably should focus more on growth. And that's not the end all be all if, you know, there are portfolios that I manage that other financial advisors here manage, where we try to be tactical and make sure last year we shifted a lot of folks over to dividend payers. It doesn't mean that we didn't lose money, it just means that we lost less.

And I joke with my customers all the time and use the analogy. I can't control the weather, but I can bring the right umbrella with me. We're all going to, you know, see badge years, but if you can make sure that when there's a clear cut trend that we need to be here or there that really can help your financial plan long term. And especially when you come up to a life event like retirement or buying a home that you've been saving for something like that, you need to have the right allocations so you don't shoot yourself in the foot.

Chris Blose:

And how do you explain the concept of diversification to the people you work with, and how that might differ for stages of life?

Sean Toebben:

So diversification is just smoothing out the edges and rising and falling with the tide rather than trying to say, I'm gonna live and die by this one particular stock or maybe these few particular stocks and, and let it go from there. The majority of your retirement savings and investments should be in something that's fairly well diversified. So that way you do rise and fall with the tide. You know, you can try to improve what kind of boat you're in by picking the right stocks, but just in case you pick the wrong stocks, at least if you have the vast majority in a good mutual fund TF in indexed fund, something like that, you're not gonna miss out on on making sure you're keeping up with the times and you're not actually ruining that lifestyle that you hope to just waltz into whenever you do retire.

Chris Blose:

You know, I want to take another look at a different kind of use case. Let's say somebody is approaching retirement and they're also a business owner. What are the different sorts of considerations for them in terms of succession or transition of a business as well as their just individual retirement planning? What are the different factors that come into play there?

Sean Toebben:

Sure. Whenever you've got somebody that's gonna retire that is a small business owner the type of business is gonna be huge. All right. Some folks, they may run something that's very heavy on the inventory and the equipment and, and they're able to make a turnkey decision if they're just selling the whole lot and walking away. There are folks out there that have very much, very much intellectual property based businesses, and that would be something like you know, an attorney or a cpa, even though they have returning clients, there's not anything but an office and a name and a client list that, that, that are getting bought up. And so people really need to make sure to get a few different business valuations done. There are ways to get that access from CPAs and attorneys for free under certain circumstances.

But you need to figure out let's run a few different types of business valuations. Once you get a grasp on what the business is actually worth, your next step you need to get with a financial planner and you need to get with a CPA because before you sell that business, you need to understand what your net benefit will be when you take that you know, money making machine that you've been running, your baby that you've been running for years, and how you're gonna transition from that to, okay, now I need to put this into cash investments stocks, mutual funds, CDs, bonds, all sorts of investments to then produce some sort of return and income I can live on. But before you can figure out what the net benefit to you is, uncle Sam is gonna get his piece. And there are a lot of different facets to that. So make sure that you find yourself a really good CPA so you can figure out what the bottom line is. And then, you know, in tandem that triangle works with the financial planner and the CPA to figure out, okay, now I know what taxes are gonna look like, here's my net benefit. What sort of lifestyle can I anticipate living on now?

Chris Blose:

Yeah, we've talked a lot about the sort of retirement. I'm curious about the when too, you know, based on your interaction with clients and what you're seeing kind of out there in the market in general, is it still mostly people aiming for that classic 65 year retirement age? Are you seeing more people aiming for earlier retirement? What are the trends that you're seeing there?

Sean Toebben:

I'm seeing a lot of folks shoot for 65 just because healthcare is so expensive that if you're not one of the fortunate lucky ones to be able to retire with some sort of employer sponsored healthcare benefits I mean, your, your average out of pocket's gonna be $13 to $15,000 per person. So a couple is looking at spending, you know, $25,000 plus on premiums, deductibles, prescriptions, so on and so forth. And then when you tell somebody who was planning on retiring on, you know, investments and maybe drawing social security a little early at 62, and you tell 'em, Hey, if you retire early, you better be prepared for this extra expense. Medicare for all the flack it gets it's fairly affordable. All things considered when you see what it's like trying to go to the private sector and, and get your own insurance.

Chris Blose:

One more question for you on retirement, Sean, now that we're kind of beyond the core era of the pandemic, what trends are you seeing coming in the future in the retirement space, whether that's new products, new approaches, or is it just business as usual?

Sean Toebben:

Mostly business as usual. Like I kind of mentioned earlier, I think that volatility is gonna be here to stay. Technology has come so far where if you think, think back to and I didn't, you know, I'm an eighties baby, so I didn't have a Roth IRA <laugh> in in 1990, but in 1990 I'm willing to bet that, that people just, you know, they got their monthly statement, maybe they saw an update on the nightly news on what the, the big indexes the Dow, the s and p and the Nasdaq did for the day. But there it was, it was kind of one of those, it was easier to set it and forget it. There wasn't a ton of trading done on an, on a retail individual level because it wasn't in our face every day. I have a best friend of mine who is a teacher and said that they've got kids that sit around the table while they're eating lunch and just showing each other their phones and showing each other what stock did you buy, what stock did you buy? They're having a conversation at the lunch table as a 16 year old about stocks.

So since it's in our faces every single day and people can get in and out and in and out I believe that volatility is here to stay. I think that trend is here. I think the moves up and down will be quicker. The reactions to different news will be quicker and, and that's gonna create volatility that people need to gut check themselves on. But it also creates some buying opportunities that whenever you do see a dip, feel free to buy it. <Laugh>, you know, I think that they're gonna be frequent enough where you don't have to hit every single one, but when something drops, it's gonna come back a little bit quicker than maybe it did in the past.

And there's also a huge, huge trend moving towards lifetime income guarantees. That's the number one concern in almost every poll they do with retirees is, you know, what's your biggest concern? And it's running outta money. And since pensions were a thing of the past, unless you're fortunate enough to be in a specific industry, most pensions are gone. And so it's all on you to make sure that you do things properly and plan for longevity. And so, and annuities are, you know, they were a four letter word back in the nineties and early two thousands because there were a lot of annuities that were high fees and the benefits weren't very good for a lot of clients.

For a lot of years, they weren't as competitive. Now that space has become unbelievably competitive and it's growing by leaps and bounds each year because people want that lifetime income. And so they're willing to take a part of their portfolios and move it over there to make sure that, hey, at least if my investments start to run low, I can always, for my lifetime, rely on x, y, z annuity. And now they've got ones with low risk, high risk they're all over the place now. That industry has just exploded. And you know, I've heard mumblings of them trying to get annuities inside 401ks to let people be able to basically buy their own personal pension within their 401k. And so if they don't have an advisor, they'll have some basic options to buy their own annuity. And I think that's also gonna be a huge trend going forward

Chris Blose:

Also what I'm hearing from you is even if people are working with a professional financial planner a lot more people, particularly in the younger generations, are a little more knowledgeable maybe about the options or taking a little bit more control of what their allocation is across the board. Is that accurate?

Sean Toebben:

Yeah definitely. I think that rather than go in and see Joe's investment shop down the street, everybody's on their phones. That may have been the way through past generations, but now there are so many resources at everybody's fingertips and, and most of the generations that are under the age of 30 right now, <laugh>, we'll be living on the screen looking at the screen 24 * 7. They want something that's low cost automated, easy to understand. And I think that's gonna be a big trend going forward as well, is they want things that are available now and they want 'em on their phone.

Chris Blose:

Great. Well, thank you so much for joining us, Sean. We really appreciate your time.

Sean Toebben:

Thank you.

Chris Blose: Low cost. Automated. Easy to understand. On your phone. Those are all critical bits of information for anyone who helps people plan for retirement. They're consumer expectations today, and the more we meet consumer expectations, the more likely people are to participate in planning.

For more insights, we turned to Cindy Campbell, a senior wealth strategist who works with Regions clients in the state of Florida. First, I asked Campbell, what are the biggest challenges people face when planning for retirement?

Cindy Campbell, senior wealth strategist at Regions: It's hard to know what things are gonna cost in the future. We don't know what the taxes will look like. So in a sense, it's a gamble in terms of setting aside money today versus money you might want to use for, you know, expenses or fun you wanna have before retirement. So it can be a challenge to figure out what's the amount that you actually need when you get to the point where you're not working anymore and you have to rely on that retirement account for essentially all of your income.

Chris Blose:

Now, what are some of the factors that go into how people strike that balance, right? Think about what they're gonna need in the short term versus how much they should set aside for the future. What are some of the questions that you might ask with a client?

Cindy Campbell:

We always like to start from what the goals are for the client. So if they know specific things they would like to do in retirement, such as travel or work part-time or, or be able to set aside funds for, let's say education for grandchildren, for example. We're always starting from that place when we talk about clients. So once we have an idea of what their goals are and how much we might need to fund those goals, we could start getting a better idea of how much money needs to be set aside to do that. Now we can never be exact, obviously cuz things can happen, you know, with the economy of course we just went through the pandemic with so many changes there. In their own personal situation, what if someone passes away or someone has an accident or something like that. So many things obviously we can't anticipate. We can certainly try to plan for those goals and what the potential disruptions can be towards those, those goals. It's hard to predict the future. But as long as you know where their goals are, we can always start from planning there and continue on and adjust their retirement planning for those goals.

Chris Blose:

And what are some common goals and how might they differ from individual to individual based on their circumstances?

Cindy Campbell:

For some people, they just really need that assurance that they're gonna have the income they need to take care of their daily expenses, make sure their cash flow is adequate for what they need. For some people they really, for example, wanna travel to certain places, maybe to Europe or maybe they want to go across country in an rv. A lot of it has to do with parents and grandparents wanting to not only provide for themselves but also provide for their children and grandchildren. Make sure that they're taken care of. And for some people it's charity. They want to make sure that they're giving to and they wanna be able to balance their own needs versus what they can do in terms of philanthropic planning.

Chris Blose:

So how might a plan differ for someone who, for example, just wants to make sure that sort of usual income is covered in retirement versus someone who has one of those larger goals, like establishing a foundation or making sure that they're leaving something behind for their kids or their grandkids.

Cindy Campbell:

For someone who just wants to make sure they have the adequate cash flow they need in retirement, we're probably talking about smaller sums and a much more long-term kind of investment that meets those goals. Or what is the cash flow they need? For somebody who has adequate resources, but you know, sort of looking for ways to use their retirement to do something beyond just taking care of their day-to-day expenses. We might look at different kinds of investment strategies for them. We might look at how much is set aside for them in their retirement accounts. Oftentimes the people who are in a situation where they wanna use those retirement funds for, for things other than just their, their daily expenses may not be in a situation where they're limited to the amount that they can contribute based on income taxes. So we kind of have to balance that as well when it comes to thinking about what we wanna set aside for retirement.

Chris Blose:

Yeah. I'm glad you brought up income taxes. So I know tax planning, that's something that you deal with obviously. What role does tax planning play when you're looking at a retirement strategy and how do you help people adjust as the tax landscape changes as well?

Cindy Campbell:

So we can only plan for what we know right now. And typically the expectation, and this is not true in all cases, but we, when we're planning for people, this is mainly what you talk about is that very likely your retirement, your income taxes are gonna be lower. You're gonna be at a lower income tax bracket when you're in retirement cause you're not working and earning a salary versus, you know, what the income taxes are for you today. So basically it has to become this balancing act of are we putting away enough today to make it a benefit from an income tax perspective, knowing that potentially in the future when we take the, the distributions out from retirement accounts, the tax landscape might be very different. But the nice thing is we can do that planning throughout their lifetime and figure out as things change, income, taxes change, we can change the, the investment strategy where, where we hold the money, we can do a lot of things with that. And that's a big part of what I do as a wealth strategist within private wealth planning, is planning to make those kinds of adjustments as things change in people's lives.

Chris Blose:

Yeah. And how, how often typically should someone stress test their plan or kind of revisit and, and say, okay, this is what the landscape looks like now, so we need to make these adjustments?

Cindy Campbell:

You know, ordinarily I'd say probably every two to three years in the last year or so though, I will say that we've been doing a lot more stress testing for clients and that's because of inflation and we wanna make sure that, you know, what they're putting aside, setting aside in retirement keeps pace with what inflation could potentially be because, you know, things are <laugh> in terms of your investments, things are worth less than they were before. We know prices are higher for things, but you know, with the, the investments you have are worth less as inflation goes up. So we wanna make sure we're keeping pace with that. And so in the last year or so, there's been a lot of, a lot more stress testing that we work with our clients on when it comes to their retirement planning.

Chris Blose: I'm curious too if you noticed, you know, a change in people's risk tolerance or sort of risk aversion in the last few years too, and how does that just affect the way that you might work with them through that software and, and try to kind of reassure people about the long-term planning process?

Cindy Campbell:

That's definitely true. I mean, I think people are more timid about investing in stocks because of the uncertainty we've had in the last couple years. There's more of an interest investing in long-term bonds and US treasuries. They're considered safer, you know, not subject to the variabilities of the market. I think the challenge that arises with retirement planning is we're not thinking about investing for, you know, where we are in terms of the economy right now. We're thinking about, you know, 20, 30, 40 years in the future. So those investments that might make sense from an economics perspective today might not really work for their retirement plans, may work for their taxable investment accounts for where we are today, but the same philosophy might not apply to the retirement accounts when they're gonna be taking them out much later in life. The need goes way up if something happens medically or health-wise to, to our clients.

Chris Blose:

I'm curious too, could you share a story of, you know, someone who you've helped either through a tricky time or who you just think is a particularly successful plan that helped them get to where they wanted to be in retirement?

Cindy Campbell:

There's been a lot of tax changes with respect to retirement accounts in the last couple years. Specifically there used to be this ability for somebody who inherited a retirement plan to be able to take that retirement plan, the distributions required for that retirement plan over their lifetime. So let's say a grandmother who passed away who had an IRA or a 401k gave it to their grandchild who's, let's say 25 before the laws changed in the last few years, they used to be able, the grandchild would be able to take distributions out of their lifetime so they wouldn't have to pay as much an income taxes every time they took a distribution cuz they had a long lifespan to live.

The law changed a few years ago and it's continued to change where that situation I described where the grandchild is 25 years old and they're inheriting that IRA or 401k, they only have 10 years after the deceased owner, the grandparent passes away. So they're gonna have to pay income taxes in a lot shorter period on the distributions from the IRA or the 401k than they did in the past when they were able to take it out over their lifetime. So we've been doing a lot of talking with clients about planning for that. If they, it basically arises in a situation where we're pretty sure the client's not gonna need the entirety of their retirement account. They're not gonna, you know, distribute all of it during their lifetime and they're definitely gonna plan to pass it on as a legacy asset. What do we do about that? Because that's been a big change in the law. Cause it used to be that people thought, well, this is great. My, you know, younger relative or my younger friend can inherit this account and they will have to take out minimal distributions throughout their lifetime, but now they gotta take it out within 10 years. So that's been the biggest change we've been working with, with clients to apply those. And that's part of what we call the secure act, which there's been two versions of it that was passed the last few years.

Chris Blose:

And what are some of the possible solutions to that, to work around that and, and maximize what you're getting out of that?

Cindy Campbell:

Ideally? it, it would be, we'd have a situation where perhaps the, the person who's inheriting the IRA or the 401k would be in a much lower income tax bracket than the, the owner of the, the account who's passed away. So that way, even though they're gonna have to pay income taxes in a shorter period of time within this 10 year period, perhaps we can minimize what those income taxes are from year to year that they would have to pay. We talk a lot with people about charitable giving at their deaths when it comes to IRAs or 401ks. The reason being that if a charity received a retirement account, like one of those, the charity doesn't have to pay income taxes on the distribution. So if we're in a situation where we can find other assets to pass to that, you know, hypothetical 25 year old grandchild, like an investment account or real estate instead, we'll try to see if we can choose that and maybe set aside the, the IRA or the 401k for charity so that way the charity doesn't have to pay income taxes on it, but we can satisfy whatever we wanna give in terms of distributions or requests to the, to the, the 25 year old grandchild, but in a more income tax efficient way.

Chris Blose:

That's great. Well, thank you so much for joining us today. Cindy, we really appreciate the perspective.

Cindy Campbell:

Thank you, Chris.

Chris Blose: Cindy Campbell rightly pointed out the need to start thinking about retirement at a younger age, and the numbers you heard at the top of the show reinforce that point.

She also talked about taking advantage of employer-based benefits and contributions when thinking about retirement planning. For more on that, we also spoke with John Kibbe, a member of the institutional services team at regions who focuses on employer-based retirement services. First, we asked him what he’s seeing on the employer side of things.

John Kibbe, VP Institutional Trust at Regions: With over almost 30 years in this business, I've seen these trends move and shift over the years. And what's really amazing now, especially coming out of covid, is how we've seen organizations shifting the way they utilize and the way they engage with these types of programs and their participant bases. But what we're seeing now is a shift in two different areas. We're seeing a pretty significant shift in focusing on how are these programs affecting retirees' outcomes? And when I say outcomes, how are these programs providing an income stream in retirement for their participants? And what does that look like, number one? And then number two, because of the current landscape in the business world where we're seeing so much competition for talent and for employee bases, right? The ability to attract and retain key people has forced benefit advisors, benefit consultants and HR teams to really focus in on how do we provide added value enhancements to the benefit programs that we've employed? So you've got employers that are looking at things like, how do we impact student loan repayment programs? How do we affect emergency savings programs? For example, how do we integrate programs? So how do you integrate an HSA savings component that's more healthcare focused with your 401K retirement benefits? So it's really been how do we create a much more holistic approach to driving better outcomes for participants that will also help us attract and retain key people.

Chris Blose:

Along with that, you have to obviously market those programs or sell those programs to either prospective employees or existing employees, you know, what has worked well to get the word out about those options?

John Kibbe:

Employee engagement is probably the most difficult component of that value statement as HR teams are looking at how they engage with participants. But technology's really provided us some pretty significant enhancements and ways to go about doing that. In addition, things like what we're doing here, we're utilizing video technologies, conferencing technologies that may not have been prevalent four or five years ago because of covid, has created a new media for us to present and deliver information. So what you're seeing is more of a multimedia, heavy technology-focused approach to driving better engagement. You see things, I mean, QR codes are a new development. We've come out of covid, right? We're all used to going into our menus, going into our restaurants, and nobody wants to hand us a paper menu anymore.

But at the end of the day, Chris, as great as technology is, there's still a human component inside most of us where we still want to have that direct interconnectivity. And so it's the marriage of technology, but still finding a way to have meaningful interactions with people that can sit down and take people through this process, educate them on the different tools that are available to them and help them engage with it.

Chris Blose:

And let's talk about some of those tools specifically. You know, what is maybe increasingly popular with either employers or more attractive to potential employees? You know, what sort of options are out there now that maybe weren't out there a decade ago?

John Kibbe:

Sure. So there's a lot of great planning options that have come available. Most 401K providers, so your Dels, your Vanguards, your powers of the world have created a pretty strong suite of tools that once participants know how to engage with them, can have a real meaningful impact on their future, on their retirement income stream. So I think you see a heavy focus is actually put on tools that are already readily available that most people just haven't engaged with. I mean, interestingly enough, Chris, if you look at it statistically speaking, anybody who has access to a retirement plan in today's world, all those programs have a website that you can go to that you can interact with. But if you look at, I think it was Vanguard put a study out not too long ago where it showed only about 50% of the employees that have access to Vanguard's systems actually go out to the website to use it.

It's remarkable. So we have all these tools and resources available, but they're not readily engaged by participants on a typical basis. So you can get a huge lift by just helping people go out and look at some of the tools, some of the calculators, for example you know, using Empower is a great example. As soon as you log into Empower Site, you actually get to see what your income stream is, what you're on track to receive in retirement based on your current savings rates. And they have a very easy to use tool that allows you to make minor changes that shows how that will then subsequently impact in a positive way your retirement savings and your outcomes.

I think more importantly, you're starting to see a lot of tools come out from the various providers in this space, both from them and from individuals outside, where if they can help with things like emergency savings, that's become a really big trend in the marketplace today. It is estimated about 45% of people today have a thousand dollars or more saved for emergency savings. And if you think about financial wellness in general, you think about the impact that finances have on individuals throughout their day, throughout their lives, how they're interacting at work, how they're interacting at home, when there's financial stress, there's stress everywhere. And these emergency savings programs can provide a way for people that may not normally save, may not be comfortable with trying to engage with the complexities of a retirement program to put money away for when they really need it, so that it's there. They have asafety net and they can be a lot more comfortable. And I don't think this is surprising to anybody, but when you have that financial safety net, it's amazing how different other things in your lives can be when that stress dissipates. We're seeing that play out in a lot of spaces, Chris.

Chris Blose:

I'm curious about the benefits that are provided, how do they maybe vary from someone who's just entering the workforce and what appeals to them versus somebody who's maybe getting toward their retirement age? You know, what, how are the offerings different among the generations?

John Kibbe:

So, you know, I think the offerings have evolved over time. So I go back to, you know, things around emergency savings, things around student loans, in particular student loan payment support processes. That's probably in that younger generation coming outta college, that benefit is far more valuable than a retirement savings program is today to them, right? It's unfortunate, but it's a reality today when you look at the cost of school, you look at, you know, four year college and what you're paying for that most people are coming out of school and they've got debt that they need to manage.

And as you know, that's not something we teach in school for some reason. And so they walk out in the workforce, they're excited, they want to get going, but they've got this weight over their shoulders. So employers have, you know, not traditionally stepped into this arena, have now significantly started shifting and stepping into this arena. But I think that your question, Chris, is student loan debt management has probably become one of the fastest growing benefits out there today that are, that's affiliated with traditional retirement savings programs.

Chris Blose:

Once you get somebody to that state where they're maybe feeling a little bit more financially stable, they've started working on their student loan repayments, they've maybe built up a little bit of an emergency fund. How do you shift the mindset to think about that longer term planning for retirement?

John Kibbe:

Well, and what's fascinating about that too, there's been a pretty significant change in culture. We've seen a pretty significant shift to people wanting to buy packages, engage with packages. How do you do this for me? Can you create an environment where you can do all the heavy lifting for me and then help me move on down the path of what's best or what's in my best interest? And so I think it's twofold, Chris, as we've seen, as that shift has kind of taken place within our culture, you've seen a bigger shift to how do you build these programs to automatically help employees make that next best step.

So if you can automate, hey, we're gonna automatically enroll you into the program, we're gonna automatically enroll you at a very particular savings rates. We may even increase how much you're saving every year, coinciding that with maybe a bonus payment or a growth or cost of living adjustment, for example, right? But automating things, automating the investment side of it. So you've seen this shift away from sitting down with individuals and trying to educate the individual on everything they need to know about retirement planning and when to engage. And you've seen more of a shift, kind of a paternalistic shift of we're going to create this option for you, if you'd like us to automate this savings process for you with a focus on creating the best outcomes for you in retirement. Here's your box, check your box here, and we're gonna automate that program for you.

If you wanna more of do-it-yourself environment, here's how we can engage with you and those engagements, Chris typically are anywhere. That's where you'll see people still go in, set a time period to sit down with an individual advisor that will come in and do exactly what you just described. It's interesting as you don't see as much time spent on big holistic meetings talking about these benefits, it's really, like I said, it's shifted to this kind of on demand type structure. Do it for me or help me do it.

Chris Blose:

John, you know, obviously you're working with institutions and, and companies primarily, but you know, for folks who are in a less traditional sort of employment environment, somebody who's a freelancer, somebody who's an independent contractor what sort of retirement options should they be considering? What's available to them that may be comparable or even a little bit different from what's available in an employer-based program?

John Kibbe:

Sure. And, hat is again, probably the biggest challenge in the world of providing savings benefits or retirement program benefits to people in this country is when you are a freelancer, it's very difficult. You're very limited in what you have access to. You can set up an IRA for savings purposes. You do have what, what I would say retirement, not lookalike programs, but let's just use the term lookalike programs where you've got a thing called a SEP IRA, which if you're an independent contractor, you can set up your own savings program through whether it's your organization, however you've incorporated, you can set up retirement programs that way. And you can set up traditional retirement programs. I think the beauty of recent legislation that was passed is that the government is trying to make it easier for independent contractors to set up similar savings type programs for that meet their needs far better than the traditional sense would.

So there are tax credits that have been put in place, there are structures that have been put in place to make it far more cost effective to put some of these programs in place. And then honestly, if you're fortunate enough to live in one of the states that have begun to build out retirement programs, there are some states today that currently offer retirement savings vehicles that are really designed for those that do not have access to the traditional 401k plan, plan or company retirement plan, or you are an independent contractor that you can tap into.

Chris Blose:

So I'm curious too, for folks who are maybe on the latter end of their work career, they're maybe approaching retirement age or even thinking about early retirement, how are people sort of redefining retirement in this modern workspace that, that we have and what has arisen from the, the shift in perspective?

John Kibbe:

You know, it's funny because I would've answered that question very differently three years ago now, right before Covid coming into Covid, then I may answer that question today. I think, you know, right before Covid the challenge was, I think, the statistic is the average retiree or person within 10 years of retirement right now has about $280,000 saved up for retirement in the median numbers, about $86,000. So prior to covid, I think what you saw was you saw a workforce that was getting closer to retirement, re recognizing that retirement was not gonna mean for me, I get to shut down and I'm gonna go do something else for the rest of my life. I think that shift suddenly focused into, I don't have enough money saved up, I'm gonna have to work longer. And the work longer was the, the most recognized and probably most utilized decision for folks that were trying to retire or close to retiring prior to Covid.

I think coming outta Covid though, what has changed is people's perspective on, on life, on engagement, on what is important. And I think what you're starting to see now is where most people just thought, you know what? I'm close to retirement. I'm just gonna stay here at Regions where I'm employed today. I'm just gonna stay here another 3, 4, 5 years until I feel a little bit more comfortable with where my savings is. Now what you're seeing is a shift too, but you know what, Chris, honestly, I'd really like to teach. So maybe, maybe it's time for me to take a step away from my career, but it's not time for me to stop working. And so you know what, I'm gonna go, I'm gonna go teach part-time or, and so you're starting to see this shift, this mindset shift of what traditional retirement was to what I think retirement is now is how do I begin to engage with things that I'm passionate about and how can that continue to support me over my retirement years?

Chris Blose:

So I want to examine a couple of other, you know, use cases basically. So what, what if, you know, I'm a business owner and I'm a approaching that sort of retirement age, what sort of different considerations might I have than the average person if I'm also thinking about either succession or business transition, you know, how does that factor into the overall grand scheme of retirement planning?

John Kibbe:

Great question. And you know, it's interesting, I always kind of look at this for the closely held business owner that has your own company. I think the biggest challenge is when it, when you hit that point, is one thing you have to understand is in some form or fashion, unless you are lucky enough to be in an industry where you could, you could readily package up your company and sell it to another competitor, sell it to a third party, right? At the end of the day, in most cases, you are gonna be funding your own retirement in some capacity. You're gonna be funding your own exit in some capacity. I think it's important for business owners to begin to look at this as early as possible because the earlier they begin to focus in on what their options are with their organization and how they're gonna ultimately exit the organization, gives them the greatest flexibility in the long term, right?

I mean, you get the opportunity to pass it down to family members, you've got an opportunity to sell it to key employees, you could sell it to a third party, right? Or the worst thing, the worst case scenario is you shut everything down and you walk away and you move on from cash. I think the current environment, one of the things that's very interesting that I think business owners should pay attention to is a strategy called an employee stock ownership program. Or how do you, an employee stock ownership or an ESOP is a way for a business owner to sell the business to his current employees. The employees become owners of the company and it provides an exit strategy for the employee or for the owner. Today, the government has put an immense amount of focus on these types of programs in a very positive light, providing various credits, various structures where this is a way that a business owner can get up to 90% of the value of their company out tax free.

But yeah, so, so Chris, a great example that there's a, there's a very large national grocery chain that is an employee-owned program. So it's good, oh, let me start that again. So Chris, there's a very large grocery chain in the country that is an ESOP owned company, meaning the employees own that organization. The amazing thing about that, it allowed the founders and the family that started this particular chain to do a couple of things. One, it allowed them obviously to exit this business in a meaningful way for them, in a very tax efficient way for them. But number two, it allowed them to reward those people that helped them grow that business to show how much they cared about the people that helped them build that business to where it was. And number three, it allowed them to leave the legacy that was so critically important to them. But to give you an example, Chris, if you stayed with that organization, so if you started as a, as a young person, you were bagging groceries and you stayed with that grocery chain until you retired you'd have over a million dollars in retirement dollars available to you at that point.

Chris Blose:

So managing volatility, obviously that's a challenge. What are some other common pitfalls or challenges that individuals face when they're coming to their retirement planning, and then also from the perspective of businesses, what are some common challenges that they face, especially in this environment we have right now?

John Kibbe:

Well, you know, volatility is obviously one of those two. The other biggest pitfall that I see is making decisions too quickly for the individual. The individual says, I'm gonna retire and this is what I'm gonna go do. There's a learning period, there's a growth period, that you need to plan for that says, I need to get accustomed to living in a world where I am living off of my savings. I'm living off of my social security and my savings, and what does that look like and what does that mean to me? And I think one of the biggest pitfalls we see is people have an idea of what retirement means to them, and when they retire, they jump straight into that, not knowing what that life in that world is going to look like or what that's really gonna mean.

And what I mean by that, Chris, is most of us would say, okay, or most financial planners would tell you when I get to retirement, you're gonna need somewhere between 70 and 80% of your current income. I don't know how true that really is. Depending upon what you want to do in retirement, you might need the exact same amount of income you were, you were you had while you were employed in retirement. You may be shifting what you're doing with your time. But I think it becomes really important to really understand your cash flow needs which is often overlooked because I think there's this perception that says, I'm gonna retire so I'm going to need less money. Well, the reality is you freed up eight to 12 hours a day, times five days a week with something to do <laugh>. And a lot of those times, those things do have capital consequences.

The other thing, Chris, that I would say when you're looking at common pitfalls is the closer we get to retirement, the more and more financial companies, financial advisors, intermediaries, people are going to be reaching out to you with various strategies in various ways to invest your money in various ways to create income stream. And I think there's a, the common pitfall is to do one of two things in my opinion. One is you ignore all of it because it becomes noise and you don't know how to, how to deal with it. And, number two is being caught up into things that may not be in your best interest. And so I encourage everybody that's getting very close to retirement to do a couple of things. But number one is to find out who your friends are working for, who do your friends go to for advice?

Who are your friends working with? But sit down with a number of people and get different perspectives on how they can help you manage your retirement. Because savings is one thing, and it's one, it's, it's one avenue to all of this, but learning how to create an income stream in retirement, that is the most challenging thing for any individual. It's the most challenging thing for advisors in our business is to create those income streams. And I think the biggest pitfall outside of not really having a good perspective on what your needs are when you do retire, is not getting help. And I encourage everybody when you're getting close, when you're, you know, if you've not had help before, not worked with a financial advisor before, but if you're inside of that 10 years to retirement and you're in retirement, getting help is gonna be extremely beneficial to your long-term success.

Chris Blose: So, John, I mean, you know, employee outreach, education engagement, that's something you've mentioned as being hugely important. So, you know, what are the kind of resources or tools that either companies can point their employees toward or that people can go visit on their own as well?

John Kibbe:

Well, I think what's great, Chris, to that question is, you know, the retirement business has evolved so much over time. If you think back, which is fascinating, go back to 1999, there weren't even employer websites associated with these retirement benefits and now we've got mobile apps that people can access to. So when I think about resources that employees have access to that can really help them in their retirement journey from how do I get started to how much income should I be taking? The first place that I think everybody should go to is to their provider's website. The great thing is all of the providers of retirement benefits in the country have created extremely robust experiences for people to engage with to help them through that journey. Websites and mobile apps being probably the best resources. Most of your websites and mobile apps now, as soon as you log in will tell you, Hey Chris, you know what?

You're on track to receive this much money in retirement based on what you're doing today. And then they'll put right there some very easy next best steps or, or sliders or things that you can look at that can say, Hey Chris, you know, what, if you would make this change, here's the positive impact it would have on your income stream. Or here's how quick, how much sooner you could retire. So there are some amazing tools available to you through your employer sponsored programs and the providers that provide those benefits that will allow participants to really hone in on their journey to and through retirement.

Chris Blose: John's note about taking that step of working with a professional or asking others about their own retirement planning is key. And it applies whether you're new to retirement planning or someone who started decades ago and simply wants to keep up with the latest options. A good plan always requires fine-tuning over time, and chances are your plan, your portfolio and your process will look quite a bit different decade by decade as you work toward an end goal.

Thank you to Sean Toebben, Cindy Campbell and John Kibbe for joining us as today's guests, and thank you for listening.

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