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THE RETIREMENT TIMES

January 2024

Proposed Legislation Aims to Help Young Workers Put Time on Their Side

Retirement planning often directs attention toward mid-career 401(k) participants and those nearing retirement — and understandably so, given their tighter timeline to secure post-retirement financial stability. But what about the youngest members of the workforce — the 18- to 20-year-olds, or those even younger? This demographic faces a potentially more challenging economic outlook than their older counterparts, with factors such as increasing student debt hampering traditional financial milestones like purchasing a home.

According to a recent Bank of America Institute study, the impact of higher rent inflation disproportionately affects younger consumers, with median rent payments soaring by 16% year over year in July, compared to just 3% for Baby Boomers. Additionally, the research shows many Gen Zers fall short along several areas of financial preparedness, including emergency savings (56%), investing (29%) and saving for retirement (43%). Financial planning is especially important for this age group, as early contributions could prove most valuable due to the compounding returns of reinvested earnings.

In response to such challenges, a new bipartisan bill in Congress proposes to help young workers take advantage of the additional time on their side. Introduced by Senators Bill Cassidy (R-Louisiana) and Tim Kaine (D-Virginia), the Helping Young Americans Save for Retirement Act aims to decrease the age at which individuals can participate in ERISA-covered defined contribution plans to 18 years old in certain situations. The change would grant eligible workers aged 18 to 20 access to retirement savings plans, even if their employers currently do not extend participation to this age group. However, covered plans would still have the flexibility to establish a minimum age threshold, setting it at up to 18 years old. The proposed legislation also provides an exemption for employees aged 18 to 20 from testing related to retirement funds, which would otherwise escalate the administrative costs of managing retirement plans for participants in this age bracket.

If signed into law, the act could encourage retirement plan sponsors to give workers an opportunity to begin saving for retirement earlier and gain additional, valuable years of compounding returns. Moreover, it could help encourage the development of good savings habits among the youngest members of their workforce, potentially leading to increased long-term financial security when they reach retirement age. It could also enhance the company’s ability to attract and retain young talent by demonstrating a commitment to their long-term financial planning and stability.

Fostering an early savings discipline in younger workers holds the promise of more than mere personal gain; it has the potential to turn the financial tides for an entire generation and enhance their retirement readiness.

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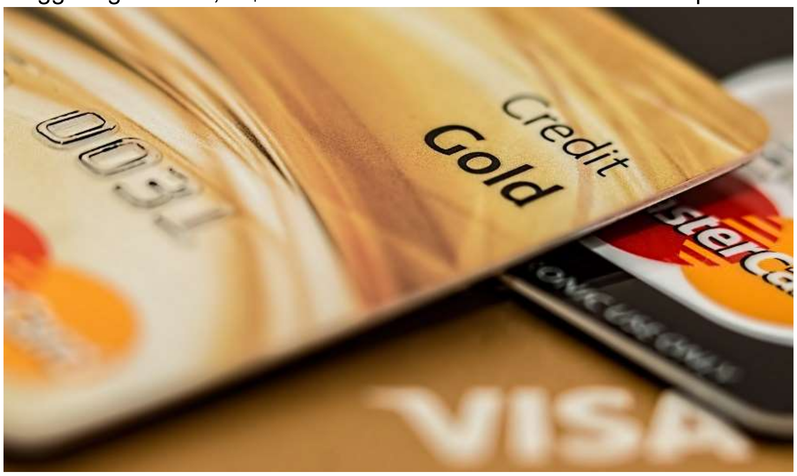
Surging Credit Card Debt: Strategies for Plan Sponsors to Help Bolster Retirement Readiness

With U.S. credit card debt recently soaring to a record high of $1.08 trillion, retirement plan sponsors face a pivotal moment. This staggering amount, a $48 billion escalation since the second quarter and a $154 billion increase year-over-year, is a cautionary signal for Americans' financial stability. The compounding pressures of post-pandemic recovery and inflation have pushed household debt to unprecedented levels, particularly affecting minority groups and those with limited financial literacy. With hardship withdrawals from retirement accounts also on the rise, the role of plan sponsors has never been more essential.



According to a 2022 Financial Health Network report, nearly two-thirds of full-time workers employed at large to midsize companies have at least one of three kinds of unsecured debt: credit card, medical or personal loan. Additionally, half of employees with debt stress spent an average of one hour of work time per week dealing with debt-related issues. Moreover, 62% indicated they would be more likely to remain employed at a company that offered useful debt-related benefits.

Traditionally, employers have focused on helping employees save for retirement, but the landscape is changing. The role of plan sponsors is evolving as they now recognize the need to address more immediate financial concerns that can seriously undermine long-term savings. There is a growing recognition that providing support for non-retirement priorities, such as debt management and emergency savings, is crucial for the overall financial health of employees. It can offer significant benefits for organizations as well, including increased productivity, lower health care costs, enhanced employee engagement and decreased turnover.

To navigate this shifting terrain, employers are adopting a more holistic approach to financial wellness. By offering resources and support that address both present and long-term financial needs, they're helping employees build a more secure foundation for their future. Here are a number of ways employers can help support workers' financial well-being in the face of historic levels of personal debt:

- Offer educational workshops on debt management.
- Furnish content in formats that are highly accessible including videos, audio recordings and infographics.
- Give employees access to one-on-one financial advising.
- Support emergency fund or student loan repayment plans.
- Promote HSAs to avoid medical debt.
- Provide online tools such as debt-payoff calculators.
- Encourage auto-escalation of retirement plan contributions to offset debt impacts.

Employees with higher levels of total debt and lower incomes, as well as women in general, were found to be less likely to have access to debt-related benefits that could potentially assist them. Employers can play a crucial role in leveling the financial playing field, providing equitable access to resources that support debt management and financial stability for all employees, regardless of income level or background. By addressing these disparities, companies can foster a more equitable workplace and a more financially resilient workforce.

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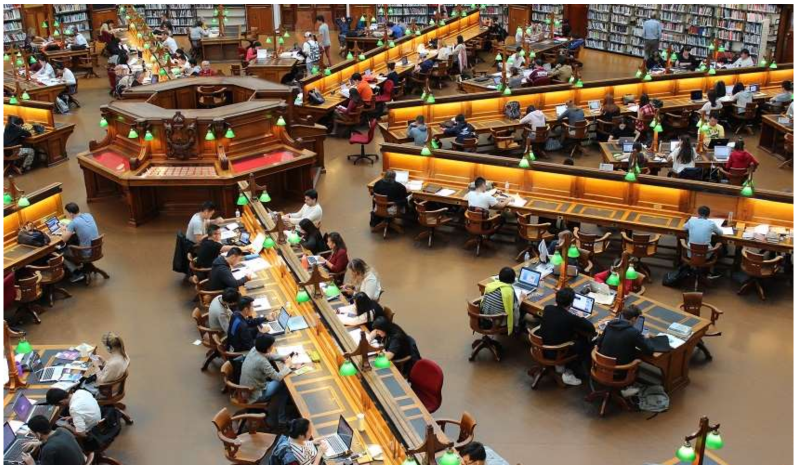
PEPs Demonstrate Benefits for University Plan Sponsors



When it comes to higher education institutions, pooled retirement plan structures offer a wide range of benefits, including exposure, as well as fewer administrative functions and more opportunities to provide educational resources, according to new research. Pooled employer plans are more likely than single-employer plans to enable university faculty and staff, particularly for those who work part-time, to take part in retirement plans; as found in a recent study, "Retirement Plan Trends in Higher Education 2023," by Transamerica Corp.'s. It is primarily due to simplified employee pension plans (SEPS) are less likely to extend to these workers, according to survey results.

According to a survey of 99 respondents from multiple different educational institutions, Transamerica was able to discover that 83% of institutions had a majority of their participants in a single-employer plan, although only 13% reported most of their participants make use of a pooled solution.
The survey included responses from institutions offering 457(b), 403(b), 401(k) and 401(a) defined contribution plans. It was found that 87% of respondents offered a 403(b) plan, while 13% offered a 401(k) plan. Senior Vice President at Transamerica, Laura Gaynor, suggests that there can be an overlap since some providers may be offering more than one type of plan.

Pooled 403(b) Plans Face Slow Acceptance Despite Clear Advantages

Most institutions that offer a SEP responded that they have not ventured the possibility of a pooled solution and have no intentions of doing so despite the benefits that come with pooled plans. A significant factor to consider, stated by Gaynor, is that certain pooled employer plans for 403(b) plans have only been available since last year's passage of the Secure 2.0 Act of 2022.

“Like pooled solutions in the 401(k) space, which took time to get traction, we expect the same here,” Gaynor says. “Additionally, there are some nuances in the 403(b) space that need to be considered, such as individual contracts and information sharing.” It was found that most institutions who have chosen to join a pooled solution did so because of lower costs and less administrative responsibilities. Supporters of pooled plans contend that they can provide workers with lower 401(k) fees, diminish liability, and enable employers to delegate plan operation. Additionally, they may offer features not typically available through a SEP, including both insured and non-insured retirement income options.

Retirement Readiness Concerns | Pooled Solutions Emerge with Urgency

71% of institutions expressed concern about the retirement readiness of their soon to be retirees. This percentage was slightly lower for plan sponsors that provide pooled solutions, though, as 62% of them consider it to be an urgent problem. Meanwhile, 77% of sponsors of pooled solution plans said they were extremely or very concerned about how inflation would affect their retirement savings.

Sponsors of pooled plans have also reported feeling more accountable to participants' financial security than sponsors of SEPs. Furthermore, according to 23% of pooled sponsors, they were worried about the participants' individual debt levels. "Household budgeting, spending and saving level" was identified by the majority of pooled sponsors (62%) as one of the participants' top challenges. The report stated that, “The level of concern expressed by higher education pooled solution sponsors about faculty and staff financial well-being may indicate recognition of the value of pooled solutions in mitigating the fiduciary burden associated with retirement plans.”

Transamerica argued that by choosing a pooled approach to fiduciary concerns, employers could be more free allowing them to concentrate more on offering benefits related to financial wellness rather than worrying about how to manage their retirement plans. Another important document that advisors to the plan often draft is an investment policy statement, which can influence the plan's investment decisions. 65% of the institutions stated they use pooled solutions, even though there are still plans without an IPS.

Since fiduciary support is a common feature in pooled structures, it is not surprising that all plan sponsor respondents in a pooled solution mentioned using a financial advisor or consultant. Transamerica claims that advisors and consultants for plans are essential for universities, beginning with assessing if a pooled solution is appropriate in the first place. Plan sponsors of higher education institutions may want to take into consideration pooled options for 403(b) plans, as they can reduce costs and administrative burdens.

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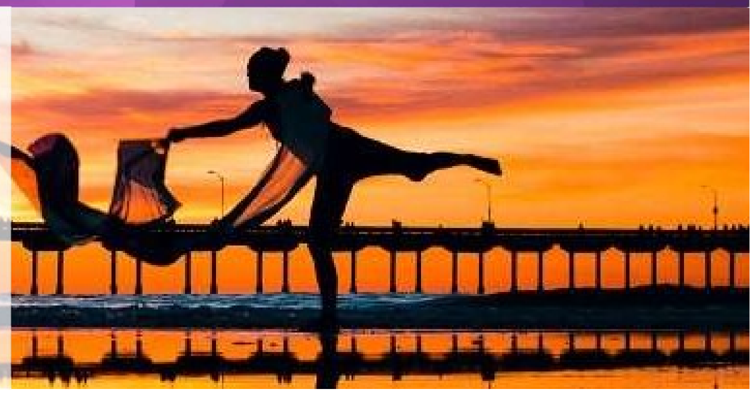
PARTICIPANT CORNER

Navigating Retirement's New Horizons



As we embrace the dawn of a new year, contemplating the departure of a loved one may not be the most festive topic, yet it's an essential consideration for any forward-thinking planner. When you initially chose your retirement plan, you were likely prompted to designate a beneficiary.

Here are some tips tailored for the new year as you update your beneficiary information:

1. **New Year, Fresh Financial Check:** Start the year by reviewing your retirement savings account. Unlike a New Year's resolution that may fade, this commitment ensures your financial affairs are in order. The assets in your retirement account won't follow the notes of your will; they'll dance to the beneficiaries named on the account. Keep this list current for a harmonious financial future.
2. **Spousal Consent Symphony:** It's imperative to obtain your spouse's signature consent, as official as the stroke of midnight, to designate beneficiaries beyond your spouse.
3. **Life's Turning Points:** Acknowledge life's significant events, from the exciting birth of a child to the contemplative aftermath of a divorce. Update your beneficiaries accordingly, with your plan advisor as your trusted guide through life's twists and turns.
4. **Keeping the Financial Score:** Like a New Year's countdown, your beneficiary form requires consistent attention. Plan for your financial future with the precision of a New Year's celebration, ensuring your assets are distributed as intended.

In the spirit of new beginnings, remember that planning for retirement and staying current with your plan is crucial, even in the face of unforeseen challenges.