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Your Retirement Plan Partners

The Retirement Times

MAY 2022

Why Retirement Plan Sponsors Should Care About Employee Student Loan Debt

According to the College Board, the cost of a four-year education increased more than 200% (after inflation) from 1988 to 2018. This has placed a tremendous burden on graduates, with national student loan debt now topping a staggering $1.6 trillion. Surprisingly, while grads ages 25 to 34 are most likely to carry educational loans, the greatest amount of debt is owed by 35- to 49-year-olds, making this a problem not limited to those just entering the workforce.

Whether it's through providing holistic financial wellness programming that addresses this issue or offering a more formal, structured student debt repayment benefit, there are compelling reasons plan sponsors should care about the negative effects of student loan debt on their employees and consider taking action.

Impacts on Employees

High loan balances can delay the achievement of important financial milestones such as home ownership (23%), emergency savings (34%), and retirement savings (29%), according to a 2019 Bankrate survey. And these delays can have serious downstream effects on other areas of financial wellness. When it comes to planning for retirement, student loan payments can keep employees on the sidelines — missing out on valuable early years of compounding returns.

Student loans are also a significant contributor to worker stress, which can lead to mental and physical health issues as well as absenteeism. According to Kiplinger's 2020 Retirement Survey Sponsored by Personal Capital, respondents ages 40 to 74 reported a number of negative health effects due to financial stress, including increased anxiety (35.9%), sleep loss (27.4%), weight gain or loss (21.6%), depressive thoughts (20.1%) and chronic illness (5.5%).

Mutual Benefits

Providing assistance with student loan debt can help address many such issues. But the benefits aren't limited to employees — they can also extend to the organizations that employ them. Offering a student loan repayment benefit may help afford employers an opportunity to stand out, attract top talent and boost their bottom line.

Set yourself apart. As this is a relatively uncommon benefit, student loan assistance can help employers differentiate themselves in a tough labor market. And it could particularly assist companies struggling to hire in sectors harder hit during the pandemic such as health care, leisure, hospitality and travel.

Increase productivity. It's hard to stay engaged and focused on the job when you're having a tough time managing student debt. So, organizations that can help their employees successfully navigate this stressful situation may enjoy improved worker productivity and overall job satisfaction — and the myriad benefits that come with them.

Protect your bottom line. Excessive student loan obligations can siphon off would-be retirement plan contributions and hinder employees' retirement readiness. And that could lead to delayed retirement, which can increase health care costs for sponsors and result in higher turnover due to "promotion blockage."

Attract the right candidates. Student loan repayment benefits offer a potentially outsized advantage for specific subsets of employers. For example, those with workforces with a large percentage of recent grads, older millennials, Gen Xers and employees with post-secondary education (e.g., tech, financial services companies) may want to prioritize offering a student loan benefit.

Why Act Now?

While the legislative fate of SECURE 2.0 and RISE could broaden the range of options for sponsors, employers should consider focusing on this issue in the near term, nonetheless. Student loans are about to become a bigger problem for employees as the moratorium on student debt repayment is set to expire on May 1, 2022.

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Early Withdrawals Can Lead to Tardy Retirements and Problems for Everyone: How to Help

Albert Einstein may not be remembered as a finance expert, but he seems to have had a bead on the power of smart investing. When asked what mankind's greatest invention was, he's reputed to have answered "compound interest," describing it as the "eighth wonder of the world." Compounding may indeed be one of the most potent forces in the universe, but there's one noteworthy caveat — to leverage its awesome power, investors need to stay in the game.

According to a recent Bankrate survey, many are failing to do just that — more than half of those polled reported they took an early withdrawal from their retirement account. Gen Zers were the most likely to tap into their 401(k), with 40%

saying they did so during March 2020 or after; another 18% took a withdrawal pre-pandemic. Baby Boomers were the least likely to touch their accounts during COVID-19, with just 6% indicating they did so during or after March 2020.

When account holders keep money on the sidelines by taking early withdrawals, retirement goals can become elusive — or even impossible to achieve. So how do you convince participants to hold their ground? A strategy that employs a holistic financial wellness offering, optimized messaging and facilitated rollovers can go a long way toward preventing premature cash-outs.

Offer Comprehensive Support

In a study conducted by Kiplinger, nearly one-third of respondents ages 40 to 74 said they took money from their retirement accounts in 2020 due to the CARES Act; another 27% took loans. The withdrawn funds were used mostly for living expenses (63%), but other reasons included covering medical expenses, home repairs and auto costs; paying college tuition; and helping family members.

Regardless of the need or circumstances, participants should be educated about the consequences associated with early retirement plan withdrawals and develop strategies to avoid them. To that end, a holistic financial wellness offering should include broad-based education around debt and credit management, emergency funds, budgeting and goal setting. Prudent planning can help employees reduce the need to tap into their nest egg and help keep them on the path toward retirement readiness.

Tailor Participant Messaging

Communications in a multigenerational workplace can be more effective when delivered in formats targeted to each age cohort. For example, messaging aimed at Gen Zers could be provided through channels they're more likely to engage with — like videos and social media. For Gen X and millennials, email communications and online resources, respectively, may be more effective, while Baby Boomers may prefer written or face-to-face communications.

Reduce Fund Transfer Friction

Set up your plan to accept roll-in contributions and do what you can to facilitate them. The easier sponsors make it for employees to transfer funds, the more likely they'll participate consistently over time. Discourage plan leakage by engaging a service provider to offer guidance, education and support to both newly hired and terminated employees.

Better for Everyone

Helping employees stay on target with their retirement goals by minimizing early withdrawals is a win not only for employees, but for sponsors and the organization as a whole. Because happier, healthier, more productive and more financially secure employees boost everyone's bottom line in the end.

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Fee Litigation with an Odd "Twist"

A recent class action lawsuit highlights an often neglected but important item of fiduciary concern.

The plaintiffs in this case have asserted claims for breach of the fiduciary duties of prudence and failure to monitor fiduciaries. Nothing new so far, but in addition to naming the typical plan fiduciaries as defendants, the lawsuit also targets members of the board of directors, as well as other officers of the firm who serve on the retirement plan's fiduciary investment committee.

The complaint indicates that the "Taylor Corporation, ... is the Plan sponsor, the Plan Administrator (as defined in Section 3(16) of ERISA), <u>and a named fiduciary</u>," (highlights added).

You may be wondering why the board of directors is implicated in this litigation. The reason is that the Taylor Company's plan document indicates that "the company" is the named fiduciary for the plan. The "named fiduciary" identifies the plan's primary fiduciary (the main decisionmaker for the company).

In a corporation with a board of directors, where "the company" is identified as the named fiduciary the board is considered to be the main decision-maker on behalf of the company and thus, as a result, the primary fiduciary of the plan per ERISA. Other co-fiduciaries may also be liable for any fiduciary breaches they may be involved with. This is a concept often misunderstood by many plan fiduciaries and members of board of directors.

Fortunately, there is a simple way to offset this liability, if done prior to a fiduciary breach taking place. The solution is to have the board delegate fiduciary responsibilities to individuals or a committee, as permitted by their plan document. The board should formally delegate responsibilities pursuant to formal board action (may be reflected in board meeting minutes or board resolutions) and adopt a committee charter which identifies the company's intended named fiduciary(ies). Others can be delegated for specific fiduciary responsibilities as co-fiduciaries who should sign on acknowledging their roles and responsibilities. This simple action essentially helps to insulate the board of directors from liability for day-to-day actions taken by delegates that the board may often not even possess knowledge of. That said, the board still remains the named fiduciary under the plan document, so they have a fiduciary responsibility to monitor their delegates. That can be accomplished as simply as reviewing meeting minutes taken by the delegates during the course of the plan year. As long as no action taken by the delegates seems unusual or not in the best interests of participants the board should be relatively insulated from potential liability.

Contact your financial professional for a sample board resolution, Committee Charter, committee acknowledgements, and committee resignation/removal templates. These documents are easily customizable and ready for implementation upon board resolution. It is considered best practices for all plans to utilize these documents as they explicitly identify individuals/entities that are intended to be fiduciaries for the plan's administrative, operational, and investment responsibilities.

The class action complaint can be found at:
https://si-interactive.s3.amazonaws.com/prod/plansponsor-com/wp-content/uploads/2022/02/18145712/FrittonvTaylorCorpComplaint.pdf

Participant Corner

Millennials – The Time to Start Saving is Now!

Typically, younger people don't make retirement savings a priority. Living expenses, student debt, rent or house payments, and other day-to-day expenses mean that retirement savings take a back seat. In fact, research from National Institute on Retirement Security says that 66 percent of millennials haven't saved any money for retirement, and 66 percent haven't started saving.[1] That attitude, however, will make it much more difficult to have a secure retirement later, according to seasoned retirement plan advisors.

The main thing that millennials are sacrificing by not saving now is time. Time allows funds to grow through compounding, and that can turn relatively modest savings into much larger nest eggs. For example, saving $50 each month in a retirement account earning 6.5 percent annually and compounded monthly would generate retirement savings of $226,781 over 50 years. A millennial who starts saving the same amount 30 years later, allowing it to only compound for 20 years, would have only $24,525 at the end of the 20 years.[2]

And $50 each month isn't a huge amount, even for a cash-strapped millennial. Some other retirement savings tips include:

- Take full advantage of employer-sponsored retirement plans, like 401(k) or 403(b) plans. Funds contributed to these tax-advantaged programs grow free of taxes, which means more money stays in the account to generate interest.
- Contribute at least as much as your employer is willing to match. If your employer matches 3 percent of your salary, you should start by contributing that much.
  - Otherwise, you're "leaving money on the table." Your employer match instantly increases your contribution, and your money grows faster.
- Don't worry about not being an investment expert. Many retirement plans now offer target-date funds (TDFs). Also known as lifecycle or age-based funds. TDFs automatically adjust your investment assets as you age, so you don't need to balance your funds yourself.

One common objection millennials have about contributing to an employer-based retirement fund is that they may not stay with that employer. Actually, very few people stay with a single employer for their entire careers, and retirement plan funds can be rolled over into a new employer's plan or rolled over into an IRA if you leave your job.

For more information on joining the plan or increasing your deferral amount, please contact your financial professional Kevin Donahue AIF®, CRPC® at kevin@risenfinantial.com or call 813.512.2746.

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Our Mission

Risen Son Financial strives to help employers reduce the cost of their retirement plans and the liability of their responsibilities by naming ourselves as fiduciaries to the plan and participants. We believe this builds the foundation to help employees reach their ideal financial future, through one-on-one education, risk analysis, and financial planning.

Why Us?

Based in Land O' Lakes, Florida, Risen Son Financial serves as retirement plan partners and investment fiduciaries for large and small businesses across the nation. Fulfilling the duties of good faith and trust, clients choose us knowing we will go above and beyond. As an Independent Financial Advisor, Risen Son Financial represents clients to the marketplace without any bias or conflicts of interest. We're accountable to you and your best interests. Risen Son Financial serves as a named fiduciary for both the plan and participants. As your Plan Fiduciary, we evaluate plan design, mitigate risks, conduct reviews, and offer solutions helping to improve performance. As Participant Counselors, we also serve as fiduciaries providing customizable advice and resources for the participants.

Our Process

At Risen Son Financial, our first step is to review the current cost and value being received by the plan. We can do this by reviewing the 404(a)(5) (participant fees) and 408(b)(2) (plan fees) disclosures that plans are required to distribute and receive from vendors. If these are not readily available, we can also review fund lineups and statements.

We meticulously review the retirement plan, including these 4 costs:

1. **Recordkeepers** – Receive funds from the employer and employee paycheck. Their main responsibility is to keep record of the contributions a participant receives and investment gains. Additionally, recordkeepers do the buying and selling of investments that the participant chooses, while also providing a website and quarterly statements.
2. **Administrators** – Make sure the plan meets the requirements set forth in the IRS code. They handle, testing, compliance, vesting, eligibility, loans, and withdrawals. Many times, administrators are "bundled" with the recordkeeper.
3. **Investments** – Contributions are deposited into investments. They have their normal expense ratio; however, these often come loaded with internal fees like 12b-1, sub-TA, concession and wrap. This is called "indirect compensation" or "revenue sharing." Often, an investment company will pay the recordkeeper a fee to be included in the investment lineup.
4. **Advisors or Brokers** – There is a difference. As a named fiduciary to the plan and participants, Advisors give advice, recommendations, and/or have discretionary control of investments, along with being the quarterback of the plan. This includes benchmarking all fees paid to vendors and shopping plan costs to keep fees reasonable. Advisors are held to the best interest standard. In contrast, Brokers are held to the suitability standard. Brokers can't give advice nor can they name themselves as a fiduciary to the plan. Brokers sell a product as a representative of a larger entity.

Once all fees are known, we benchmark those fees and services being received to the open market. We then use this benchmarking to get the cost of the plan reduced. We accomplish this by either going to the current provider to have them reduce the cost or moving the plan to a platform that will, along with providing for the needs of the plan. Being completely independent we can work with all providers which allows us to provide bias-free advice.

About Kevin Donahue, CRPC®, AIF®

Kevin Donahue is the owner of Risen Son Financial. After serving four years in the United States Navy, he graduated from Florida State University in 2004 earning a bachelor's in Computer Science and a minor in Mathematics. Seeing firsthand, the impact of retirement saving and planning with his own parents, Kevin entered the financial services business to pursue his passion of helping clients meet and exceed their financial goals and visions. Kevin has passed and currently holds the Series 65 license along with obtaining Chartered Retirement Planning Counselor (CRPC) designation from the College for Financial Planning. This designation encompasses pre-and post-retirement needs, wealth management, estate planning, and the entire retirement planning process. Additionally, he holds the Accredited Investment Fiduciary (AIF), which empowers investment professionals with the fiduciary knowledge and tools they need to serve each client's best interests.

Kevin resides in Land O' Lakes with his twin boys Andrew and Noah.