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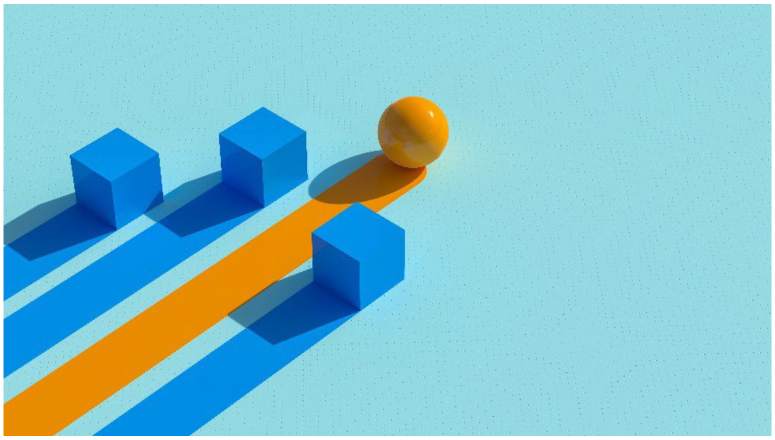
Your Retirement Plan Partners

THE RETIREMENT TIMES

JANUARY 2023

IPS Can Still Add Value for Plans Despite Goldman Sachs Dismissal



Investment policy statements (IPSs) are commonplace among retirement plans — with around 83% providing one. And that number tends to be even higher among bigger plans. Financial powerhouse Goldman Sachs is one of the larger employers that doesn't utilize an IPS. In fact, this was the subject of a recently dismissed lawsuit by a former Goldman employee, whose attorney alleged that the company violated ERISA by, among other things, failing to adopt an IPS.

The federal judge in the Goldman Sachs case reaffirmed that "the Department of Labor has never taken the position that an IPS is required to satisfy a fiduciary's duties." Moreover, the absence of an IPS was not, in and of itself, sufficient cause for the case to proceed. Nonetheless, that doesn't undercut the potential advantages of establishing an IPS.

Roadmap for your plan. An IPS offers guidelines to assist advisors and fiduciaries in selecting and monitoring investments — and provides documentation that serves as an objective framework for various aspects of plan decision-making. In essence, it helps to create evidence of a prudent process.

Clarification of roles. By clearly outlining the roles and responsibilities of parties involved with the plan's investment process, an IPS can help increase plan oversight and accountability. And it offers guidance that can assist both advisors and fiduciaries.

An aid in communication. An IPS can help onboard new committee members more quickly and efficiently. It's also a useful vehicle to provide employees with information about the plan's investments and management.

A tool for improvement. The creation of an IPS requires thoughtful consideration of the plan and investment details. This means that during the process, you may uncover plan weaknesses or find opportunities for improvement that you might not have otherwise.

Potential risk mitigation. In addition to providing valuable information to aid in plan management, having an IPS could help protect your organization. It offers an extra level of oversight in the form of a paper trail that can serve as documentation that you're upholding your fiduciary duty should allegations of impropriety arise.

Talk to Your Advisor About the Advantages of an IPS

Your retirement plan advisor can provide more information about an IPS and how it can assist key stakeholders within your organization and help strengthen your plan. While simply having an IPS can't fully insulate you from the risks of an ERISA lawsuit, it may offer an additional layer of protection, clarify plan decision-making, and help your organization better define and meet business objectives.

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Workers Are Turning to Employers for Inflation Help

With inflation at its highest levels in more than four decades, it's not surprising that nearly three in four American workers report they're experiencing increased stress concerning their personal finances. According to a 2022 survey of more than 1,000 employees conducted by Voya, almost 90% of respondents say that inflation — including the rising cost of food, gas and housing — was their greatest concern.

As a result, many employees (70%), according to the research, are looking to optimize employer-provided benefits, including HSAs, health care, retirement savings, disability income, critical illness and accident insurance during open enrollment. Increasingly, American families are having to reconcile competing budget priorities as they attempt to deal with day-to-day financial challenges and simultaneously work to meet longer term retirement and emergency savings goals.

Inflationary pressures have hit lower income workers harder, with the majority of their paychecks often allocated to purchasing food and other basic household necessities. And with pandemic stimulus and child tax credit cushions gone, the financial impacts are being felt to an even greater degree. Unfortunately, even the benefit of higher wage growth during a tight labor market has largely been outpaced by the combined effects of rent increases and inflation.

In contrast, higher income households, with a greater proportion of disposable income, tend to apportion a higher percentage of their budgets toward retirement accounts, investment accounts and mortgage payments versus everyday expenses. Plus, their more substantial savings and increased home equity, bolstered by the recent run-up on home prices, has helped insulate them from rising costs at the grocery store and elsewhere.

A 2021 Schwab survey found that participants are seeking assistance from employers in the following areas when it comes to retirement planning:

- Determining how much they need to retire (44%).
- Deciding how to invest in their employer-sponsored retirement plan (39%).
- Understanding how to generate retirement income (35%).
- Anticipating retirement tax liabilities (35%).

High market volatility and retirement plan investment losses have further complicated retirement savings as participants have watched account balances diminish. Plan sponsors can provide education around mitigating investment risk as well as saving, budgeting, debt and retirement planning through their financial wellness programming. They might also consider offering lifetime income options in their investment lineup.

Supporting workers through this unprecedented post-pandemic period of historic inflation will require a multipronged strategy, bearing in mind the outsized impacts on lower income earners. That participants are turning to employers for guidance in maximizing their benefits and navigating financial difficulties is an encouraging sign — and one that plan sponsors should not take lightly.

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Speaking of One Percent

Since the contribution limits were recently raised by 10% 401(k), 403(b) and most 457 plans (to $22,500), we thought now might be a good time to share creative ways to communicate to your participants the benefits of increasing contributions to their retirement plan. These new, higher limits could strengthen their retirement goal, but participants might not be too keen on squirreling away too much right now, and that's understandable.

As participants consider their elections at open enrollment, they're likely weighing which benefits they'll keep and what they'll drop as they enter 2023 with a market that continues to fluctuate and grocery prices that remain uncomfortably high. The good news that is inflation seems to be calming down, and some analysts expect it will continue to cool.[1] This means it could be a good time to start contributing to a retirement plan or to increase contributions—even if it's only by 1%.

Communicating the Payoff/Benefit of Just 1%
You can help participants conservatively establish a good habit of regular contribution increases now and down the road by identifying the difference just 1% can make. Here are three talking points:

Some workers may decide to visit their contributions twice per year: they start the New Year off with a win by increasing contributions 1%, and on their birthday, they give themselves an additional gift of contributing another 1%. We've included a 3-slide graphic that really drives home how much 1% can grow over time.

A 35-year-old earning $60,000 per year could have an additional $85,500 in their retirement fund at 67 if they increased their contributions by 1%, according to calculations from Fidelity Investments.[2,3]

That number ($85,000), by the way, is close to what the average American's total retirement savings is today, which is 11% lower than last year's average of $98,000, according to a recent survey that Harris Poll took of 2400 adults over the age of 18.[4] This means that people are dipping into their savings, so promoting the long-term growth potential of retirement account contributions may ease concerns around these dwindling savings numbers.

Translating "Savings Today" into "Comfortable Future"
Finally, you already know how important it is to consider the demographic you're focusing on regarding retirement account contributions based on which generation they represent. One commonality, however, is that the Boomer and Millennial alike are living in the now—the right now—especially after Covid showed us all that our right now can be reorganized without warning. Schroders' head of US defined contribution, Deb Boyden, told EBN that we need to rethink how to "reach investors that have the mindset of living in the moment. … [We] need help translating their savings today into what that means for the future."[5]

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PARTICIPANT CORNER

RETIREMENT WORD SCRAMBLE

Investing your money into retirement savings early is important to setting yourself on the path to your ideal retirement. Whether you plan to travel on vacation with your family or relax on a golf course, having a structured plan until you retire could allow you to do whatever makes you happy in retirement. Do not let your success over the years waste away, save your money now so you could enjoy your freedom later!

Unscramble the words – Need help? The words are embedded in the paragraph above!

AVGSSIN	
RRETIE	
ENYMO	
AIOTANVC	
FOGL	
HPYPA	
RVAETL	
IFYMLA	
CUESSCS	
MDERFOE	

For more information, please contact Kevin Donahue AIF®, CRPC® at kevin@risensonfinancial.com or call 813.512.2746.

RISEN SON FINANCIAL

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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.