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Your Retirement Plan Partners

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401(k) Fears: What's a Plan Sponsor to Do?

Sound investment decisions are rarely made under the weight of worry. The field of behavioral finance points to a number of cognitive distortions that feed on investor fear and can plague participants' decision-making while compromising their retirement readiness. Here are some that can send shivers down participants' spines — and ways sponsors can help them cope.

- **Loss aversion and sunk costs**. Many investors' fears of realized losses surpass even the desire for gains — and can lead to holding onto underperforming investments for too long, in the hopes of an unlikely rebound.

- **Herd mentality.** Fueled by excessive FOMO, investors often tend to follow the crowd, which can potentially lead to asset bubbles or mass selloffs — and undermine portfolio performance.

- **Fearful framing and the availability bias.** The way financial information is presented to the public, especially in a clickbait-driven news media, can spook investors. A downturn framed as a "crash" evokes more fear than a market "correction." The abundance of foreboding headlines can lead investors to overestimate the likelihood of negative events.

- **Regret avoidance.** The fear of future regret can paralyze decision-making, causing employees to put off enrolling in their retirement plan — or making adjustments to their portfolio. Consequently, participants may miss out on employer matches, tax advantages and the benefits of long-term compound growth.

Help Participants Fight Back Their Financial Fears

Financial anxieties can cast long shadows, but they need not darken participants' retirement journey. With the right strategies, sponsors can help light the way to retirement readiness.

- **Counter fright with insight.** We tend to fear what we don't understand. So provide comprehensive financial education around the cyclical nature of market downturns and recoveries, diversification, adjusting risk exposure over time and the common cognitive biases that can lead to fear-based decision-making.

- **Pivot from panic to planning**. Being prepared can help participants fight fear. In wellness content and group sessions, stress the importance of having an emergency fund to provide a safety net during financial hardships.

- **Harness emotion constructively.** Help participants recognize and address emotional responses to financial stress, including market volatility. Encourage them to look at the origins of any unhelpful money beliefs, help them understand triggers and provide stress management tools to help break destructive patterns of behavior.

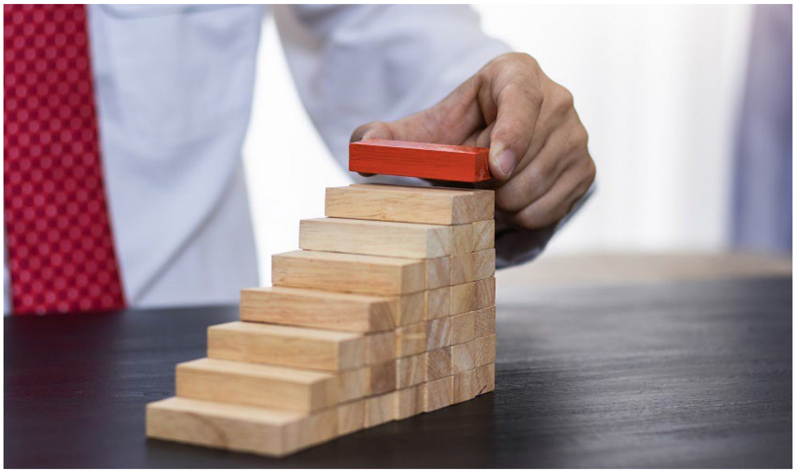
- **Lean into expert advice**. Facilitate group or individual sessions with financial advisors who can assuage fears with expert guidance and help participants reevaluate goals, discuss changes and reaffirm prudent, long-term investment strategies.

- **Bypass bias with autopilot advantages**. Plan design features such as auto-enrollment and auto-escalation can reduce the emotional component (including fear) of financial decisions.

There's no silver bullet to conquering financial fears, but helping participants deal with troubling thoughts, feelings and behaviors around financial decision-making can help them avoid facing retirement haunted by regret.

Fed Rate Decision: Implications for Sponsors

In September, the U.S. Federal Reserve announced it would hold interest rates steady for now but signaled at least one more hike may lie ahead before the end of the year. Moreover, rates are likely to stay elevated, as the Fed also indicated it expects fewer cuts than previously forecast for 2024. Plan sponsors can provide participants with options and tools to assist them during a protracted inflationary climate.



Offer diversified investment options. Consider providing a mix of options in the investment menu, and within target date funds (TDFs), that cater to different inflationary environments and risk levels. Discuss the potential inclusion of inflation hedges as appropriate, which might include TIPS, commodities funds or REITs. But at the same time, try to avoid overcomplicating the menu. And if you do include such asset classes …

Educate participants. Employees may not understand how to incorporate inflation-sensitive instruments into their portfolios so they're not misused or overused. An informed participant is more likely to make investment decisions that align with their long-term goals, even during periods of inflation. Regularly offer workshops or informational sessions about such options and the importance of maintaining a prudent, long-term strategy.

Tailor communication. Customize your messaging — and delivery channels — appropriately for different generational cohorts, as inflation affects near-retirees differently than younger workers. Addressing these distinctions helps ensure that each demographic receives advice that's pertinent, and actionable, for their specific life stage.

Provide digital tools. Online tools and calculators can help participants assess the future impact of inflation on their retirement savings. For example, an interactive simulator can allow participants to input various financial scenarios with inflation-adjusted projections so they can consider strategy modifications to offset any anticipated shortfalls.

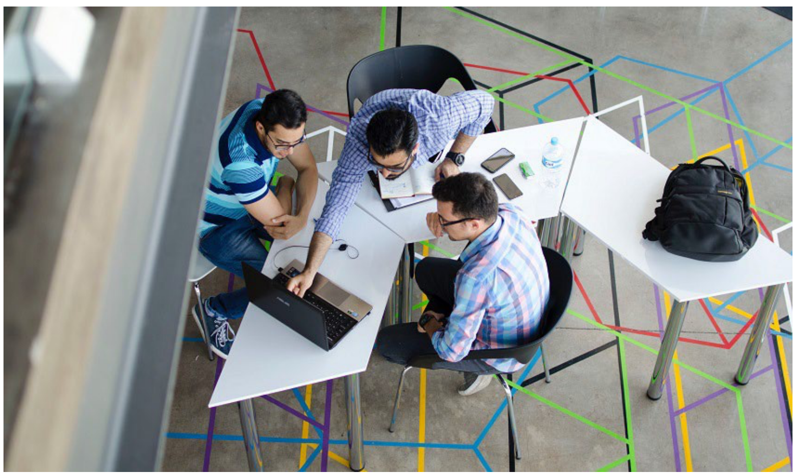
Engage expert guidance. Encourage participants to engage a financial advisor who can guide them on inflation-protective strategies tailored to their specific situation and suited to their personal risk tolerance and retirement timeline.

Encourage higher contributions. To combat inflation's erosion of participants' purchasing power, clearly communicate the benefits of boosting contributions and making catch-up contributions, if eligible.

Sponsors Must Rise to the Challenge of Inflation
In times of sustained economic challenge, it's essential for plan sponsors to remain vigilant and supportive. As the weight of inflation continues to press on the minds — and squeeze the wallets — of employees, sponsors can play an indispensable role in equipping participants with the resources and knowledge they need to adapt. No matter how long a given worker's path to retirement, they can approach their journey with greater confidence and resilience with their employer's thoughtful guidance. Plan sponsors hold a responsibility that extends beyond funds to shaping workers' financial futures with foresight and fidelity.

The Top Three Reasons to Outsource Fiduciary Services

Many companies are outsourcing more and more activities, mainly because outsourcing can provide cost savings and increase productivity. Outsourcing allows companies to focus more on their core businesses, rather than spending time on areas outside their expertise. For retirement plan sponsors, outsourcing services makes sense for these reasons as well as others.



Reduced Risks. As a plan sponsor, you and your company are plan fiduciaries, and can be held legally responsible for the plan's administration and performance. Many sponsors outsource some or most responsibility. A 3(21) investment fiduciary assumes part of the risk, functioning as a co-fiduciary that provide prudent and objective advice. A 3(38) investment fiduciary accepts total responsibility and the lion's share of potential liability for selecting, monitoring and replacing investment options, which helps the plan sponsor manage the risk of legal action concerning investment decisions. A true 3(16) outsourcing of the plan administrator role means offloading not only the day-to-day mechanics of plan administration, but the ultimate fiduciary responsibilities attendant thereto. That said, when plan sponsors contemplate outsourced 3(16) services they need to dive in deep in contract review to understand what is actually being outsourced and what might remain in their hands.

Increased Objectivity. Independent third-party plan administration and fiduciary services help your retirement plan by managing conflicts of interest, biases or self-interest. As set out in the Employee Retirement Income Security Act of 1974 (ERISA), both 3(21) and 3(38) investment fiduciaries, as well as 3(16) plan administrators, are required to act solely in the interest of plan participants and must act prudently when making decisions about, or administering, the plan. These actions provide plan sponsors and plan participants with a greater level of risk management and confidence in the retirement plan.

Increased Service Level. Typically, a third-party plan administrator or fiduciary can devote much more time and attention to the support of your retirement plan than can employees. Employees often 'squeeze in' plan-related tasks around their regular duties, and may lack the skills, training and resources that an outsourced provider offers.

For information on outsourcing fiduciary services, contact your plan advisor.

PARTICIPANT CORNER

Gobbling Up Good Financial Habits

Holidays are all about spreading cheer and giving, but sometimes people tend to go a bit overboard, which can later result in financial stress. According to a survey conducted by Country Financial, 32% of folks feel the most financial pressure during the holiday season.[1]

1. **Create a Budget:** Start by setting a clear budget for your holiday spending. List all the expenses you anticipate, including gifts, decorations, travel, and food. According to credit bureau TransUnion, the average credit card debt per household rose to $5,805 by the end of 2022.[2] Having a budget will help you stay on track and avoid overspending.

2. **Make a Gift List:** Rather than buying gifts on impulse, make a list of the people you want to buy gifts for and brainstorm thoughtful, budget-friendly gift ideas for each person. This prevents overspending on last-minute purchases.

3. **Shop Smart:** Look for sales, discounts, and deals both in physical stores and online. Take advantage of Black Friday, Cyber Monday, and other holiday sales events. According to the National Retail Federation (NRF), the average amount Americans planned to spend on gifts, food, and decorations in the 2022 holiday season, was $832.84.[3] Consider using cashback and coupon apps to save even more.

4. **DIY and Handmade Gifts:** Get creative and make some of your gifts or decorations. Handmade gifts often have a personal touch and can be more meaningful than store-bought items. Plus, they can save you money.

5. **Plan Your Travel Early:** If you're traveling during the holidays, book your flights or accommodations well in advance to secure lower prices. Be flexible with your travel dates, if possible, as this can lead to significant savings.

Please access your retirement plan provider's website or consult with your financial professional, Kevin Donahue AIF®, CRPC at 813.512.2746 or email kevin@risensonfinancial.com

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To remove yourself from this list, or to add a colleague, please email us at kevin@risensonfinancial.com or 813-512-2746. ACR# 6006449 10/23

Sources:

[1] https://www.countryfinancial.com/en/about-us/newsroom/waiting-for-a-holiday-miracle-santa-needs-to-leave-nearly-60k.html
[2] https://www.investopedia.com/financial-edge/1109/6-reasons-why-you-need-a-budget.aspx
[3] https://www.investopedia.com/articles/pf/08/speding-holiday.asp

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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.

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