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Your Retirement Plan Partners

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The Gen X Savings Crisis: How Plan Sponsors Can Help

According to a December 2023 survey from Schroder's, nearly half of non-retired Gen Xers, those born between 1965 and 1980, have not done any retirement planning whatsoever. Moreover, they report a savings gap of over $450,000 between what they say they'll need and what they project they'll have. Amplifying these concerns, a separate study by the National Institute on Retirement Security earlier last year found that the typical Gen X household has only $40,000 in total retirement savings. So how can employers help their MTV Generation workers save?

Flexible work arrangements. Recognize that Gen Xers may look to pursue nontraditional retirement paths — such as phased retirement or working in encore careers — and provide support for these choices. Flexible work arrangements, such as part-time or remote work options, can allow employees to stay in the workforce longer and postpone their full retirement date. Tailor custom roles based on their new work schedule and availability.

Emergency savings opportunities. Effective this year, SECURE 2.0 paves the way for employers that provide a defined contribution plan to offer an emergency savings account for non-highly compensated employees. The provision could go a long way toward helping circumvent hardship withdrawals, allowing workers to be automatically opted in at up to 3% of their salary as Roth after-tax contributions — capped at $2,500.

Mid-career financial checkups. Offer personalized financial consultations focused on where Gen X employees are in their financial journey, emphasizing mid-career corrections and available savings acceleration strategies such as catch-up contribution to employee-sponsored retirement accounts.

Support for "Sandwich Generation" challenges. Provide resources and support for those in the "sandwich generation," including elder care assistance, childcare benefits and flexible spending accounts that can be used for dependent care needs.

Plan sponsors have a critical role in bridging the retirement savings gap for Gen X employees. Initiatives such as SECURE 2.0 are steps in the right direction, but they must occur within the framework of a holistic and individualized approach to employee financial well-being. By incorporating measures such as those listed above into your company culture and benefits structure, you can demonstrate a serious commitment to the long-term success and stability of your workforce. It's important to engage with employees early and often. Plan sponsors that proactively address these needs can expect not only to aid their employees in securing a more stable financial future, but also to potentially benefit from a more productive and loyal workforce.

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Steering Participants Through Market Mania

Conversations on market volatility often conjure up nail-biting narratives about panicked sell-offs, as jittery investors rush to liquidate positions to avoid incurring further losses. However, it’s important to acknowledge that market volatility has two faces. And while upturns are certainly more welcome than their counterparts, they carry their own psychological challenges for investors. The intoxicating rush of a tech surge or a post-crisis rally can be as disorienting as a market seemingly in freefall. As stocks soar and portfolios swell, investors may find themselves grappling with a different set of emotions, but the end result can be equally detrimental to long-term financial health when certain biases set in.

Overconfidence. Investors riding the wave of a bull market can develop a skewed perception of their own investment acumen. It can lead to ignoring diversification, failing to assess new information objectively and taking on excessive risk, presuming that past success guarantees future results.

Herd mentality. This collective behavior can amplify market movements, both upward and downward, as prudent analysis gives way to mob psychology. The tech bubble of the late 1990s and the housing market crash of 2008 serve as stark reminders of how herd mentality and “irrational exuberance” can distort market valuations and inflate bubbles until they eventually burst.

Recency bias. Weighing recent events more heavily than historical ones can distort an investor's perception of the market, causing them to expect the continuation of current conditions. After a prolonged market rally, investors might neglect the potential for a downturn, overlooking the cyclical nature of markets.

Underestimating market risk. It’s easy to view investments through rose-colored glasses during periods of growth, but volatility can return with little warning. Adequate risk assessment includes preparing for the possibility of market corrections and ensuring that investment decisions align with one's risk tolerance and long-term objectives.

Fear of missing out (FOMO). This insidious fear can push investors to make impulsive decisions, such as entering a soaring market at its peak out of fear of missing further gains, only to be caught in the inevitable downturn.

All of these biases cloud judgment, potentially leading to risky investment behaviors that undermine long-term financial goals. But plan sponsors can help mitigate some of the downstream negative impacts of raucous rallies. Potentially helpful strategies include offering education around the ebb and flow of historical market cycles, encouraging regular one-on-one financial advising and including instruments in the investment lineup that take a lot of emotion out of the portfolio management equation — such as target date funds. Implementing automatic rebalancing can help keep investments aligned with target allocations based on an individual’s risk profile. Email alerts to employees during periods of high volatility (both up and down) can help educate participants about the nature of market fluctuations and underscore the importance of adhering to a prudent, long-term investment strategy.

Plan sponsors have the opportunity to help cultivate a holistic understanding of finance and the markets, providing a framework for

participants to make informed choices and navigate the complexities of investing with greater confidence and clarity. A proactive approach can help foster a culture of financial wellness that transcends market cycles.

Balancing Competitive Benefits in Budget Constraints for Plan Sponsors

It is crucial for companies to regularly benchmark and compare their benefits packages to their peers within the industry in order to maintain their competitive advantage and status. Offering a competitive benefits package, however, can be challenging for plan sponsors due to budgetary constraints; putting an excessive financial burden on an employer or the employee can lead to negative effects on the business, resulting in an increased difficulty when it comes to attracting and retaining employees.

Maximizing Potential with Regular Performance Checks

Financial insurance provider Unum Group's, Carl Gagnon, assistant vice president of global financial well-being and retirement programs, says Fidelity, Unum's record keeper, regularly benchmarks the company's 401(k) plan.

According to Gagnon, Unum usually carries out benchmarking in late February or early June since that's when the business begins discussing the budget for the upcoming year. Furthermore, Unum starts its yearly investment review in late April or early May. At this stage, Fidelity and the benefits committee assess whether the investments are underperforming and whether there are any other products on the market that would be beneficial to add to the lineup.

Fidelity’s head of workplace, Shams Talib, speaks on how the frequency of benchmarking depends on the organization and the plan sponsor. Talib says, “Some plan sponsors may need to review their portfolio annually to ensure their business objectives are met, while others can withstand longer review periods,” he continues, “When considering compensation, our team recommends that companies review their structure and approach annually.”

The senior director of retirement at WTW, Mark Smrecek, says most organizations go through some form of cost management exercise that involves identifying the population they are serving's primary concerns. Smrecek states that, “A lot of what we’re seeing in terms of cost management includes being able to correctly allocate in a way that makes sense not only for your population, but your prospective population, and then filling the gaps with low- or no-cost solutions, which provide that out-of-plan support that, quite frankly, employees who are struggling financially would really value.” He adds that employers have been conducting benchmarking that goes beyond their investment lineups and 401(k) plans and are now combining benchmarking for health and retirement benefits to ensure that their total rewards package aligns with the organization's needs

Innovative Financial Planning

Gagnon compares the process of budgeting and figuring out how to provide a competitive benefits package without placing an excessive financial strain on the business or the employees to splitting a pie. “The pie doesn’t get bigger, and it doesn’t necessarily get smaller,” Gagnon says. “So don’t try to add to it or subtract to it—use the pie more efficiently.”

According to Gagnon, a prime example of "making the most of the pie" can be seen in Unum's student loan repayment program, which allows workers to exchange money for student loan debt repayment for up to 40 hours of unused paid time off per year. To put it simply, Unum is making use of a benefit that they currently provide—paid time off—while giving employees flexibility over how they choose to use it. After being suspended for almost three years due to the COVID-19 pandemic, federal student loan repayments resumed in October, making the extra flexibility especially helpful at this time. Gagnon says he intends to grow the

program in the future so that employees can exchange paid time off for contributions to their 529 college savings accounts.

The pandemic put a temporary stop to many innovative methods, but things are starting to change. Gagnon supports a change in accounting practices, redirecting money from customary benefits like paid time off to assist staff in repaying their student loans. The goal is to provide flexibility in the approach while optimizing resources for employers and employees.

Gagnon highlights that the company's goal is to give its workers flexibility through both this program and its newly introduced emergency savings program, which allows members to fund an emergency savings account through their 401(k) plan with up to $10,000. Contributed after-tax, these funds are available for withdrawal at any time to cover unforeseen costs without resorting to credit card debt or retirement fund exhaustion.

According to Talib, a plan sponsor should ideally reflect the investment "necessary to attract and retain the talent needed to drive business success" in their "total rewards budget," which includes both benefits and compensation. The "right" amount of budget, according to him, will depend on a number of factors:

- What is revealed by the benchmarking data?
- Are overall rewards costs being properly managed?
- Is the company drawing in the right kind of employees? Does the company find it difficult to fill important positions or develop certain skills?
- What can be inferred about the capacity to retain staff from turnover statistics? and What is the company able to afford?

Engaging Senior Leaders with Innovative Benefit Funding

Furthermore, according to Gagnon, it is critical for plan sponsors to convince upper management of their business of the benefits they wish to provide and construct innovative means of funding.

Gagnon presents results from a survey on well-being that demonstrates that stress at work ranks highest among employees' concerns, followed by three of the five financial stressors. The primary focus is on making the most of current benefits to help staff members handle money issues like debt repayment and emergency savings. According to Gagnon, he "doesn't win all the battles" when it comes to improving benefits because he is in competition with those around him who manage leave and health benefits for the same funding.

He continues by saying that Unum regularly compares its benefits packages to those of its insurance industry rivals. According to Gagnon, he looks at benchmark grids that contrast Unum with its competitors in the market, including MetLife Inc., Prudential Financial, Standard Life, and Lincoln Financial Corp., to see how they are doing in terms of retirement and financial well-being.

Although benchmarking is usually done once a year, Gagnon admits that there are times when he may decide to conduct additional benchmarking if he discovers of another company doing something unique or creative that could impact hiring.

“We don’t want to be at the top scale, we don’t want to be at the bottom—we want to be competitively in the middle,” Gagnon says. “Sometimes that can mean a more generous PTO program, more generous 401(k), more generous medical. … In the aggregate, we want to be at that very competitive level.”

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PARTICIPANT CORNER

Strategies for Maximizing Workplace Retirement Benefits

Considering that more than 40% of employers now match employee contributions to retirement plans, taking advantage of this opportunity is crucial for improving your financial security. Even if your employer's contribution is modest, neglecting to participate means leaving money on the table. Before enrolling in your company's retirement plan, it's essential to understand how to optimize its benefits.

Here are some tips to guide you in making the most of this valuable perk:

1. **Gain Insight into the Program Details:** It's never too late to explain the ins and outs of your company's retirement plan if you haven't already. Speak with your HR representative to discover the advantages of the plan and how to get the most out of your savings. Certain employers match 50% of your contributions, while others match dollar for dollar. Determine the maximum match contribution allowed by your employer and determine if you want to save up to or over that amount.

2. **Consider Contributing Beyond the Match Limit:** Even if your employer only matches up to a certain amount, there's no obligation to limit your contributions to that point. Over time, every dollar you save will compound tax-free, providing a healthy financial buffer for your retirement. Although the IRS sets contribution caps, these are usually high, so there's fewer concerns about breaking the limit.

3. **Verify Your Enrollment Status:** New employees might assume automatic enrollment in the company's retirement plan, particularly if the employer emphasized the match during the pre-hiring process. To avoid any assumptions, inquire about the enrollment process for the retirement plan and take steps to secure the match. Obtain comprehensive program details and pay special attention to any vesting schedules. If your employer's program involves vesting requirements, you may discover that the full benefits only accrue after a specified period of employment.

Securing every possible benefit from your work-sponsored retirement program is a vital aspect of financial wellness. Capitalize on the employer match in your retirement plan to gain a significant head start on building savings for your future.

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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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.

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