

# THE RETIREMENT TIMES

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## Help Participants Avoid These TDF Missteps



Target date funds are in high demand these days.

According to a recent Sway Research study, total TDF assets reached \$3.5 trillion in 2023 — a record level.

Moreover, mutual fund target dates began 2024 slightly ahead of collective investment trusts, holding \$1.76 trillion in assets compared to \$1.71 trillion in CITs, TDF assets in CITs are expected to overtake assets in mutual funds this year as fiduciaries continue to look for ways to reduce fees and access innovative solutions.

TDFs offer participants many advantages: a simplified investment decision-making process, diversification by

professional fund managers, automatic rebalancing, a glide path strategy that adjusts risk over time, and much more. Given the popularity of these funds, plan sponsors should help ensure participants understand how their TDF works to maximize their potential benefits — and avoid common missteps that can undermine their retirement strategy.

**Getting mixed up.** TDFs are designed as stand-alone investments. However, some participants may not realize the potential impact of mixing their already diversified funds with other investments, including inadvertently increasing their risk exposure. Understanding the underlying strategy behind TDFs is crucial to maximizing their utility as part of a prudent investment plan and avoiding any unintended consequences. TDFs typically do not transparently indicate their risk level so participants may find it difficult to easily determine if the plan's selected TDF is a good fit for them.

**Some things change.** TDFs are often thought of as a set-it-and-forget-it investment, but retirement time horizons, individual investing goals, or risk tolerance may change over time. Without regular reviews with a financial advisor, the TDF and participant may end up on divergent trajectories.

**Hype hunting.** Participants looking to capitalize on the latest hot market mover, such as AI, may feel they're missing out on their TDF due to a lack of control over individual investment choices. For these types of investors, the selection of a TDF may be based more on its popularity than a full understanding of its operational parameters — and the potential benefits of a well-diversified portfolio. This is partly because, in the short term, diversified investments don't always feel gratifying. In a bull market, for example, they'll typically underperform the S&P 500; and in a bear market, they usually outperform the S&P but may still yield negative absolute returns. Employees should be educated on the benefits of diversification that have been historically born out with solid performance and overall risk reduction when participants maintain a long-term time horizon for their investments.

**When paths cross.** Not all TDF glide paths are created equal. For example, some allocate more heavily to equities resulting in a more aggressive growth-oriented glidepath while others prioritize stability via a higher allocation to fixed income. Investors should also understand how their assets are managed during the accumulation and decumulation phases.

## Targeting Knowledge Gaps

With the tremendous growth and popularity of TDFs, participant education on the topic can be an important and valuable addition to financial wellness programming. By empowering participants with knowledge and guidance, plan sponsors can help them navigate the complexities and nuances of TDFs to make better-informed decisions about their retirement strategy.

### Sources

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## Beyond Compliance: Make Every Comm Count



Effective retirement plan communications do more than just meet DOL requirements; the best ones engage, educate, motivate, and empower participants. Optimize your communications to connect with employees on a personal level, encourage informed decisions, and foster more active engagement with their retirement plan and their financial future. Effective, empathic communications help build a foundation of trust and confidence in the plan benefits — and the employer.

**Break it down.** Offer content in bite-size chunks to increase engagement. Provide useful checklists, guides, decision trees, and action plans to unpack multi-step tasks into concrete action items and checkpoints.

**Once upon a participant.** Story is a powerful medium. A 2021 study in Cell Reports found that narrative stimuli synchronize heart rates among individuals, supporting the ability of stories to connect people in ways other modes of communication cannot. Use storytelling with vivid imagery and examples to make information more relatable and memorable.

**Personalize, personalize, personalize.** Customize messaging to employee demographic and psychographic profiles. The topics, voice, language, and examples you use can all help create common touchpoints and build trust. Whenever you issue a communication, segment messaging across relevant dimensions, whether by generational cohort, stage of career development, or retirement timeline.

**Timing is everything.** Provide behavioral nudges with personalized comms timed to coincide with critical decision points, such as alerts about the opportunity to increase contributions during annual salary reviews or educational content about the benefits of catch-up contributions for employees approaching 50 years of age or older. This empowers employees to make well-informed decisions at pivotal moments in their retirement planning process. Messaging may also be more likely to “land” when timed to milestone events like work employment anniversaries or birthdays. Send emails at times workers are more likely to read them. Use calendar integration for reminders about important deadlines or plan-related events.

**Diversify your delivery.** Use multiple media formats — including videos, podcasts, infographics, webinars, and in-person events — to cater to diverse learning preferences and meet participants where they’re at. Tailor the content to fit the format, making the most of each medium’s unique strengths. Regularly evaluate the effectiveness of each format, adapting your strategy to these insights for maximum impact and inclusion.

**Fine-tune with feedback.** Conduct regular communication audits and solicit employee feedback to assess effectiveness and

identify areas for improvement. Establish key performance indicators for communication to quantitatively measure engagement levels and the impact of the messages being delivered, thereby enabling a data-driven approach to continuous enhancement.

Retirement plan communications serve as a vital link between employers and participants. Done right, they can help lead to better-informed decision-making and enable employees to take control of their retirement planning. Providing clear, thorough information fosters a more financially secure and engaged workforce, ultimately benefiting the organization as a whole.

Sources

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## The Resurgence of the Automatic IRA Act

The Automatic IRA Act of 2024 has been reintroduced by Representative Richard Neal, D-Mass., the ranking member of the House Ways and Means Committee. This measure requires companies with more than ten workers to automatically enroll their workers in IRAs or other comparable automatic contribution plans, such as 401(k)s, if they do not currently offer a retirement plan. After adopting a plan, small firms may be eligible for the current startup tax credit or a recently proposed \$500 tax credit for three years that is only applicable to automatic IRAs.



Exemptions for employers:

- With 10 or less employees
- That are newly developed (Less than two years)
- Who currently offers a retirement plan
- With governmental or religious organization plans

"Building upon, expanding, and improving the private pension system in a manner that explicitly protects and complements employer-sponsored plans and arrangements" is how the bill summarized it.

It's important to note that this is a separate proposal from the Retirement Savings for Americans Act, which seeks to establish a new savings program, "The American Worker Retirement Plan" which would allow access to federally sponsored, portable, tax-advantaged savings accounts.

The summary presented contains information about the Automatic IRA Act, such as:

- Contribution caps
- Lifetime income requirements
- Investments
- Credits for small companies.

If the bill gets approved, it would take effect for plan years that begin after 2026 and apply the new small employer automatic IRA credit to tax years that start after 2024.

Sources :

<https://democrats-waysandmeans.house.gov/media-center/press-releases/what-theyre-saying-neals-automatic-ira-act-2024>

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# PARTICIPANT CORNER

## Tax Tips to Maximize Retirement Savings

Retirement represents a major turning point in one's life. One factor that remains, regardless of this new chapter in your life, is the presence of taxes. If you've followed the advice of retirement plan advisors, you should already be saving in tax-advantaged retirement accounts. Taxes are deferred in these accounts until you take money out in retirement. Taxes on income from other sources, such as Social Security, pensions, and earnings from part-time employment, can potentially be an issue for you. Considering these variables, it makes sense to develop a customized retirement income plan.

**When should you start taking Social Security benefits?** The benefits are increased by delaying withdrawals, ideally until age 70. However, keep in mind that if your annual income is more than \$34,000, you may be required to pay taxes on a significant portion of your Social Security income, up to 85%.

**Understanding your tax bracket in retirement is crucial.** Since there is a chance that the tax bracket will drop, it is critical to track income levels from Social Security, pensions, and annuities as well as withdrawal amounts to make sure you don't accidentally move into a higher bracket.

**Figure out your withdrawal sequence.** Generally, you should take your withdrawals in the following order:

1. Start with your required minimum distributions (RMDs) from retirement accounts since you're already required to take these.
2. Move on to taxable accounts, where you will need to manage them carefully due to tax implications.
3. Next, tap into tax-deferred retirement accounts (e.g., IRAs, 401(k)s, 403(b)s), acknowledging the accompanying income tax implications; do this before touching Roth accounts.
4. Finally, withdraw from tax-exempt retirement accounts like Roth IRAs or 401(k)s. Saving these accounts for last allows you to take withdrawals without tax penalties and can also be used for estate planning purposes.

Navigating these factors can be complicated, consulting with a tax professional can help you apply these tips to your own financial situation. This will allow you to evaluate different strategies and identify which ones can help you minimize the taxes you'll have to pay on your savings and benefits.

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](mailto:kevin@risensonfinancial.com)

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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.