

THE RETIREMENT TIMES

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Increasing 401(k) Balances Can Bring Increased Risk



By the second quarter of this year, the number of “401(k) millionaires” rose 2.5% from Q1, marking a record high according to Fidelity. At the same time, retirement savers overall experienced three consecutive quarters of growth — and that’s good news for many investors. However, a Vanguard analysis of its plans also shows a concerning trend: The percentage of savers who took hardship withdrawals from retirement accounts increased twofold over a three-year period, climbing from 1.7% in 2020 to 3.6% in 2023. Moreover, new rules introduced this year make accessing those funds even easier, allowing participants to withdraw up to \$1,000 annually from a qualified retirement plan or IRA, without penalty, to cover self-defined urgent needs.

Rising 401(k) balances can lead to financial overconfidence for some participants, tempting them to view their retirement account as a quick fix during economic challenges instead of exploring alternative strategies for managing emergency cash flow. Here are ways employers can help.

Promote Goal-specific Savings and Solutions

Encourage participants to view their retirement plan as one part of a holistic financial strategy that includes building emergency savings, managing debt and setting short- and mid-term financial goals. Provide tools and resources that emphasize creating greater financial security through emergency funds, PLESAs or goal-based savings accounts.

Provide Data to Drive Decisions

Educate participants on the risks of dipping into their 401(k) for non-retirement needs. Offer clear examples and online tools that illustrate long-term impacts of loans or early withdrawals, clearly demonstrating potential risks to their retirement readiness. Empowering participants with data can encourage them to search for alternative solutions.

Offer a Human Touch

Give workers the opportunity to schedule one-on-one sessions with a financial advisor ahead of any loan or early withdrawal.

Personalized advice can facilitate understanding of the long-term consequences of prematurely accessing retirement savings. Advisors can review the employee’s full financial picture and offer tailored solutions that might make an early 401(k) withdrawal unnecessary.

Leverage Financial Wellness Programs

Many participants dip into their 401(k) due to overwhelming financial pressures, especially high-interest debt. Offering specialized financial wellness programs that focus on debt management, consolidation strategies, nonprofit credit counseling or low-interest refinancing can give employees alternatives to raiding retirement accounts.

Carefully Consider Plan Design

As a plan sponsor, you have flexibility in determining whether your plan offers loans and hardship withdrawals and, if so, how much and under what conditions. Additionally, implementing a tiered vesting schedule can help discourage excessive borrowing while promoting steady participation.

Help Participants Reframe and Reprioritize Retirement Savings

Just as the broader economy is experiencing record highs in both stock market values and personal debt levels, participants are facing a similar dichotomy with growing 401(k) balances and rising loan and hardship withdrawal activity. While it's encouraging to see participants accumulate wealth, it's also crucial to address the potential pitfalls of borrowing against or depleting those funds. With a multi-faceted approach, you can help employees avoid sacrificing tomorrow's financial security to meet today's needs.

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IRS Issues Guidance on Student Loan Matching



The Federal Reserve's recent 50 basis point interest rate cut, with more reductions expected by year's end, may leave employees wondering what it means for their retirement savings — and their overall financial picture. Younger workers might question how this reduction compares to the significant pandemic-era emergency rate cuts in 2020, while those nearing or already in retirement will likely have different concerns. Employers can play a critical role in helping to guide their workforce through changing economic conditions by providing tools, personalizing communications — and promoting long-term investment strategies.

Help participants understand the impact. Many employees may not fully grasp how rate cuts might affect their own financial situation. Offering clear, concise explanations about how lower interest rates influence saving and investing strategies, borrowing costs and long-term financial health can help reduce confusion and concern. Tailor messaging to employees' individual financial circumstances, offering insights on things like refinancing, borrowing, and retirement savings contributions that empower them to make more informed decisions.

Provide clear communication across multiple channels. Timely, transparent communication is crucial during any period of economic change. Use a variety of channels — including email, printed materials, videos, webinars and in-person meetings — to ensure participants can access information in the format of their choice.

Encourage a long-term financial mindset. Advise employees against making reactionary changes to long-term investment strategies out of fear or uncertainty. Reinforce the importance of appropriate diversification and staying the course to maintain financial stability, even amid economic fluctuations.

Promote holistic financial reviews. Because interest rate changes can impact numerous aspects of one's personal finances, this is a good time to encourage employees to take a comprehensive look at their overall financial health. Reviews should encompass not just retirement savings, but also debt management, refinancing options and investment diversification strategies.

Help Employees Remain Vigilant About Fraud

Rapid economic changes can create opportunities for bad actors. Caution workers to be wary about potentially fraudulent refinancing offers or other schemes designed to exploit confusion. Increase awareness and offer resources to help employees avoid falling victim to scams.

Facilitate access to one-on-one advising. Participants nearing or already in retirement may feel the most pressure in this economic climate, prompting questions about whether they should adjust their asset allocation, savings, and retirement income strategies. Offering one-on-one financial counseling allows them to ask specific questions and get personalized advice based on their unique situation.

Stay Calm — and Stay the Course

Remind employees of the value of employer contributions to their retirement plan, even during a changing interest rate environment. Emphasize that market fluctuations and rate cuts are a normal part of economic cycles — but employer contributions to their retirement plan can remain a steady source of savings as they remain focused on long-term financial goals.

Protecting Benefit Plans from Cybersecurity Threats



Many plan sponsors focus on external cybersecurity threats, such as hackers attempting to breach their systems, but disgruntled employees can also pose a risk.

Recently, the Department of Labor (DOL) extended the scope of its cybersecurity guidelines to include all Employee Retirement Income Security Act (ERISA) plans, which include retirement, health, and welfare programs. This means that plan sponsors now have considerably more private information to safeguard.

Sean Fullerton, senior investment strategist at Allspring Global Investments, says that fortunately, most workers do not have direct access to sensitive data like participant account passwords or retirement funds, which are handled by recordkeepers and custodial banks. According to the Verizon 2022 Data Breach Investigations Report, internal threats make up about 20% of security breaches, making them less common than external cyberattacks. Jenny Eller, principal in Groom Law's retirement services practice, notes that in her 25 years of practice, she's only encountered one case where an employee attempted to commit fraud by creating a fake account.

Nevertheless, certain employees, such as those in HR, IT, or treasury, may have access to sensitive plan information or personal data. However, there are ways to mitigate the risks posed by disgruntled employees.

Limiting Access. The Department of Labor advises plan sponsors to follow several best practices, one of which is restricting access to the plan administration. Sentinel Group's Julie Doran Stewart, head of fiduciary advice services, emphasizes the value of having written internal control procedures. These policies outline how HR or IT teams should deactivate employee access and how soon they should notify vendors of these changes. "If we have a client that doesn't tell us that this happens, then we're only as good as the information we have," she says.

Sentinel ensures access points are routinely verified by conducting routine audits of who has access to the plans they manage. Fullerton also advises plan sponsors to review their service providers' information security standards to ensure comfort with how these organizations handle cybersecurity.

To verify their cybersecurity practices, Doran Stewart advises submitting an annual due diligence questionnaire to advisors, recordkeepers, and third-party administrators, the questionnaire should specifically ask about access limits. "The Department of Labor obviously has made this a priority from a fiduciary governance perspective, so they are going to be looking for

procedures and records related to that due diligence being done,” she says.

The threat of fraud increases with the number of people who have access to plan data, according to Tim Rouse, executive director of the SPARK Institute, which contributed to the development of several of the DOL’s suggested cybersecurity procedures.

At the advisor level, SPARK is cautious about allowing advisors too much access to participant accounts, including using tools like screen-scraping, which have the potential to be misused.

Leveraging Technology. Plan sponsors should encourage employees to log into their accounts regularly and use security features such as multi-factor authentication. This is particularly important following a change of recordkeepers because inactive accounts expose themselves to hackers. Stewart notes that while some participants might think that keeping their accounts unlogged keeps them secure, doing so actually makes it easier for malicious actors to access them.

There is also the potential for disgruntled employees at the sponsor level to embezzle funds before they reach participant accounts and internal controls, such as audits, can help prevent this, Rouse adds.

As an alternative to emailing spreadsheets for data transmission, SPARK is collaborating with a committee of third-party administrators to standardize file formats for Application Programming Interface (API) connectivity. Additionally, APIs are less susceptible to attackers.

Using detective controls to monitor data usage can help IT departments identify suspicious activity, such as logging in at odd hours or large data downloads, according to Lou Steinberg, founder and managing partner of CTM Insights LLC, a cybersecurity research firm.

Given that employee benefit plans can be accessed via phone, computer, or mobile apps, plan sponsors should ensure both their benefits and IT teams collaborate during vendor due diligence. “Those are two different skill sets ... so keeping an open line of communication [about] how they can mutually assist each other ... is important,” Doran Stewart concludes.

Sources :

<https://www.plansponsor.com/insider-threats-are-disgruntled-employees-a-cybersecurity-risk/>

PARTICIPANT CORNER

Harvesting Financial Lessons

Thanksgiving offers more than just family gatherings and meals—it encourages reflection on finances with gratitude. The holiday can inspire better financial habits, such as managing holiday expenses wisely and practicing mindful spending. Here are a handful of tips that can alleviate any financial burdens you may face during the upcoming holiday season:

1. **Manage your Expenses by Creating a Budget** - Establishing a clear budget beforehand can help you prevent one of the most common pitfalls of overspending during the holidays. Not only is this a great way to set healthy financial boundaries for your future, but it also alleviates any potential financial stress that may accompany the holidays.

2. **Practice Mindful Spending** – A great way to maintain a healthy financial status during the holidays is by avoiding impulsive purchases. Practicing mindful spending helps prevent any potential financial pitfalls and helps prioritize financial discipline. Creating a shopping list and sticking to it can prevent unnecessary spending.
3. **Gratitude and Invest** - An approach to investing that is less emotionally oriented and more rational can result from acknowledging and appreciating what you already have. Instead of making quick decisions based on fluctuating market changes, this way of thinking pushes you to concentrate more on your long-term goals.
4. **Maximize Seasonal Investment Opportunities** - Certain market segments frequently experience a spike in activity around the holidays, offering the chance for profitable investments. For instance, the holiday shopping rush usually correlates with the growth of retail, e-commerce, and hospitality. To help you make well-informed judgments that could result in profitable outcomes, look for trends in customer behavior and industry performance.

Focusing on long-term goals, managing risk, and making informed financial decisions can build a strong foundation for year-round financial health.

Sources :

<https://www.forbes.com/sites/truetamplin/2023/11/14/grateful-for-growth-financial-lessons-to-learn-this-thanksgiving/>

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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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.