

Retirement Plan

NEWS AND INFORMATION
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Strategic Thinking Edition

You Can't Talk About That at Work: Tackling Financial FAQs

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You **Can't** Talk About That at Work: Tackling Financial FAQs



Financial stress is the 5,000-pound elephant in the workplace. Working with a financial advisor to provide financial guidance and education can help to alleviate workplace stress.

#Finances #Stress #FinancialEducation



Talking about money is tricky, especially at work. While it may seem too personal for work and easier to avoid the conversation, the effects can have a lasting effect on a company.

More and more forward-thinking employers are starting to overcome the stigma that surrounds talking finances at work. They are putting to rest their fear of overstepping boundaries because employees strongly value financial guidance at work. In fact, 87% of employees want help and nearly 9 out of 10 take advantage of financial wellness services when offered.¹

Stress Impacting the Bottom Line

It is well documented that financial stress can cause a myriad of workplace complications. Stress can have a cascading effect; for example, 4 in 10 employees experience health issues or loss of sleep due to financial stress, which in turn leads to a \$400 annual increase in healthcare costs per stressed employee.²

Stress also has a way of consuming productivity; 3 in 10 employees admit that financial stress has impacted their job performance, and they spend three to four hours a week at work dealing with their finances.³ That's 150 hours of lost productivity per stressed employee per year. That's a lot!

The Elephant in the Room

When companies are up against a complex problem like financial stress, how do they start attacking the problem? Well, like the saying goes, you have to eat the elephant one bite at a time, so financial guidance and education can be great ways to start combating the 5,000-pound problem.

One of the most important areas of concern for employees is retirement readiness, so employers need to emphasize communication around the topic.

Good employee communication is a must, especially letting them know there is no such thing as a "stupid" question. Emphasize that they shouldn't be hesitant or embarrassed to ask the questions on their minds. Here are some questions employees might ask about saving, investing and planning for retirement.

¹ PwC. "PwC's 10th Annual Employee Financial Wellness Survey," 2021.

² Prudential. "Wellness Programs Earn Their Place in Human Capital Strategy," June 2019.

³ Prudential. "Wellness Programs Earn Their Place in Human Capital Strategy," June 2019.

When employers demonstrate a commitment to financial wellness, 60% of workers say they are more dedicated, loyal and productive at work.⁴

Tackling Employee FAQs

Why save? First, to help you in the event of an emergency or for large-ticket items such as a house or car. It is also very important is to save for retirement if your goal is to be financially secure when you're no longer working. You don't want to depend on Social Security for your total retirement income.

When should I start saving for retirement? Now. The sooner the better. It's easy to see retirement as something in the future and not an important event you need to start preparing for at an early age. Additionally, if you don't know how to start, what to invest in or understand the power of compound interest, you might feel like putting it off. Ask your 401(k) administrator if you don't understand your plan.

What's compound interest? Compound interest is interest paid not only on the money you've invested, but on the interest you've already earned. Because of compound interest, even small amounts become larger over time.

What's an investment? An investment is a way of putting money aside so you can get a return on it. Investments are often thought of in terms of stocks and bonds. Your 401(k) plan has investments to put your contributions into, so take advantage of them.

What's a stock? A stock is an investment that represents partial ownership of a company. Units of stock are called "shares", which may pay interest and dividends to you as an owner. They're traded on the stock market, where the price can fluctuate up and down.

What's a bond? A bond is an investment where you lend money to a company (or a government); the borrower then pays interest until the bond matures at which time you should receive your money back.

Your 401(k) plan may have a variety of investments such as **mutual funds**, a type of investment in which many investors pool their money in securities like stocks, bonds, and money market instruments. It might also contain **Target Date Funds**, a type of investment, often consisting of mutual funds, structured to grow over a specific time frame and then become more conservative once that target date, usually at retirement, is reached. Like stocks, the value of mutual funds and target date funds can fluctuate.

Teamwork Makes the Dream Work

Speaking with a financial advisor or joining a financial wellness education session can engage and assist employees in being more financially responsible, take better advantage of their 401(k) plan and be more "present" at work.

After all, 82% of employers subscribe to the belief that it is in their company's best interest to help employees become more financially secure. And employees tend to agree: when employers demonstrate a commitment to their financial wellness, 60% of workers say they are more dedicated, loyal and productive at work.⁴ It's a win-win situation for all!

Contact us to discuss common employees FAQs and ideas to reduce workplace financial stress that can elevate savings.

⁴ Prudential. "Wellness Programs Earn Their Place in Human Capital Strategy." June 2019.

The Tale of Two Economies: Promoting Workplace Benefits in a K-Shaped Economy



The COVID-19 pandemic has given rise to a K-shaped recovery, which will impact your employees' finances—and their retirement preparedness—in different ways. They'll need guidance on next steps, and a one-size-fits-all financial education may not cut it. Here's how you can help.

#Retirement #Economy #FinancialRecovery



More than a year into the COVID-19 pandemic, there are signs of recovery in the U.S. Millions of vaccines have been administered, businesses and offices are reopening and life is starting to look more like it did pre-pandemic.

All this is cause for optimism. Simultaneously, however, there's abundant evidence that the pandemic has taken a financial toll on Americans, and it's hit some harder than others. As the economy begins to bounce back, we are experiencing what is called a K-shaped recovery. When plotting the impact of an economic downturn, and its subsequent recovery, on a graph, a K shape is formed, showing some industries and demographics recovering quickly, while other stagnate and may sink further. More financially secure individuals are likely to be on the upward facing arm of the K, falling into the demographic that recovers quickly and continues to grow, while others, on the downward sloping leg of the K, struggle to make ends meet.

Your diverse workforce likely includes both. Chances are, some were even forced to put their retirement in jeopardy, stopping or reducing savings to meet more immediate financial needs.

The Pandemic Recovery Is Uneven

Why the term "K-shaped recovery?" Simply put, not everyone is experiencing recovery at the same pace. Individuals who were prepared for a financial emergency—those with savings or an emergency fund, for instance—fared better than those living paycheck to paycheck. In fact, some Americans were transformed into "super savers" within weeks of the COVID-19 outbreak. In fact, 52% of households dramatically reduced spending.¹ High earners were the most likely to cut back. As a result, America's savings rate soared from just under 10%, where it stagnated for the last two decades, to a record 33.7% in April 2020.²

¹ Royal, James. "Survey: Majority of Americans have cut their spending because of coronavirus concerns." Bankrate. March 31, 2020.

² U.S. Bureau of Economic Analysis. Personal Saving Rate [PSAVERT], retrieved from FRED, Federal Reserve Bank of St. Louis.

For those who were not as prepared, the situation looked noticeably different. Nearly a third of Americans (30%) report that their financial situation is worse now than it was before the pandemic.³ Among them, half said that job loss was a major reason why. In addition, a majority are worse off when it comes to saving for retirement (73%) and emergencies (72%). In addition, 23% tapped into their retirement savings prematurely or stopped saving altogether during the COVID-19 pandemic, putting their future security in peril.⁴

Workers Felt the Impact Differently

The pandemic also impacted workers of different stripes. Many full-time W-2 employees who kept their jobs—especially white-collar workers—were able to transition to working from home when their offices closed. They may have felt little, if any, impact on their household finances.

Contract workers, on the other hand, suffered significant financial setbacks in terms of income, emergency savings, retirement savings and benefits. In fact, 53% of contractors were earning half or less of their pre-pandemic income vs. 14% of traditional workers.⁵ As a result, contract workers may need more help than traditional employees to improve their financial well-being during the pandemic recovery.

The impact of the financial fallout was also felt across income brackets. Both highly-compensated employees (HCEs)—those making \$130,000 or more per year, or those with at least a 5% stake in a business—and non-highly compensated employees experienced retirement savings challenges due to layoffs, business disruptions and delayed or deferred plan contributions. As businesses cut costs to survive, highly-compensated employees might have missed out on employer contributions, such as top-heavy minimum contributions. For their part, non-highly compensated employees might have stopped retirement plan contributions due to job loss, wage cuts or the need to divert funds elsewhere for near-term needs.

Take a Solutions-Oriented Approach

No matter their current financial status, working Americans have a common goal: getting back on track with their retirement savings. To maximize the impact, employers must first understand the disparate nature of a K-shaped recovery. Employees at the top of the K, who tend to be more financially stable, are likely more ready, able and willing to increase their savings or start saving again. Conversely, those at the bottom of the K, who may have had extended periods of unemployment and financial hardship, likely need more help to get back on their feet so they can save for the future. Employers must consider both points of view when evaluating benefits programs.

Employees who are more financially secure may value insights on:

- Increasing net worth
- Purchasing or renovating a home
- Improving their retirement savings
- Diversifying their portfolios
- Capitalizing on market opportunities
- Tapping their home equity

Those still experiencing or emerging from financial insecurity may require guidance and support around:

- Budgeting
- Job loss
- Rebuilding, starting, or delaying retirement savings
- Creating an emergency fund
- Paying down debt
- Managing healthcare costs

In a world irrevocably altered by the COVID-19 pandemic, employers must embrace innovation in the benefits they provide to support employee financial well-being. These benefits should extend beyond their retirement savings plan to include education and mentorship through financial wellness programs. Offering access to personalized financial guidance, along with practical and actionable tips to build savings and wealth, can go a long way to provide support where it's needed most.

³ Brown, Kathi S. "How Financial Experiences During the Pandemic Shape Future Outlook." AARP Research. Updated May 2021.

⁴ Brown, Kathi S. "How Financial Experiences During the Pandemic Shape Future Outlook." AARP Research. Updated May 2021.

⁵ Prudential. Flexible Workers: Impact of the Pandemic. Nov. 20, 2020.

Who's on Your Retirement Plan Committee?



Why is a Retirement Plan Committee important? What's it for? Who's on it? Learn how a financial advisor can help you every step of the way!

**#Retirement #FinancialAdvisor
#HumanResources**



Retirement plan committees are super important; they set the direction and priorities of the company's retirement plan. These actions (or inactions) can have a huge impact on how successful employees are at preparing for retirement.

For some plan sponsors, overseeing an organization's retirement plan can be an overwhelming and taxing exercise. Many companies recognize this and choose to establish groups to manage and make decisions about this important employee benefit. Retirement plan committees play an integral part of managing investment options for plan participants, providing fiduciary oversight and working toward the goal of plan success.

Who Needs a Retirement Plan Committee?

Although retirement plan committees aren't a legal requirement, establishing one allows for a designated group to be tasked with plan management, investment decision-making and fiduciary responsibility.

A retirement committee's collective expertise can also better address the increasing complexity of governing rules and regulations that primarily stem from the Employee Retirement Income Security Act (ERISA), which sets the minimum plan governance standards to provide protection for participants.¹

Understanding Fiduciary Duty

A plan fiduciary must always act solely in the interest of the participants, although there is some confusion about who exactly the fiduciaries are. According to one study, nearly 1 out of 3 plan sponsors do not see themselves as plan fiduciaries,² which is a big problem since a plan fiduciary can be held personally liable for restoring any losses to the plan.

Retirement plan fiduciaries are either named in the plan document or considered as such based on the activities they perform. The primary responsibilities of fiduciaries are the:

1. Duty to act prudently with the care, skill, prudence and diligence under the circumstances that a person acting in a like capacity and familiar with such matters would use.
2. Duty of loyalty to manage the plan solely in the interest of participants and beneficiaries.
3. Duty to diversify the plan's investment options to minimize the risk of large losses.

¹ Department of Labor. "Employment Retirement Income Security Act." [DOL.gov](https://www.dol.gov).

² AllianceBernstein. "Inside the Minds of Plan Sponsors: Fiduciary Awareness on the Rise." alliancebernstein.com. 2020.

4. Duty to follow plan documents to the extent that the plan terms are consistent with ERISA (rules and regulations that govern retirement plans).

Additionally, plan fiduciaries should avoid any conflicts of interest.^{3,4}

Structuring a Retirement Plan Committee

Financial advisors can play a vital role in helping plan sponsors establish and maintain a retirement plan committee. In addition to providing financial investment expertise, they may give operational insight for the committee and recommend experts outside the company for additional support.

A financial advisor may also provide education and guidance regarding fiduciary best practices, regardless of the size of your investment committee.

For many companies, the retirement plan committee will include the plan administrator, members from the company who have financial or benefits responsibility and additional members who provide needed experience.

Lawyers with ERISA expertise can help committees navigate regulation changes that affect retirement plans as well as provide protection from litigation exposure; approximately two-thirds of organizations that have legal counsel participate in committee meetings. However, only half of organizations with fewer than 1,000 plan participants have legal counsel, in contrast to the nearly 92% of organizations with more than 5,000 participants.⁵

Legal expertise is particularly necessary as in recent years, retirement plans have experienced an uptick in legal challenges. In 2020 alone, there was a fivefold increase from the previous year in class action lawsuits challenging 401(k) plan fees.⁶

Other committee members may include third party administrators (TPAs) to provide guidance on plan compliance, administration and related areas; recordkeepers that track plan participants, as well as investment and financial activity and the company's accountant for bookkeeping oversight.

Setting a meeting schedule is dependent on the size and complexity of the plan. Many retirement committees meet quarterly, but nearly 40 percent of small organizations meet semi-annually.⁷

Duties of a Retirement Plan Committee

After a retirement plan committee has been organized, a governing document is established to outline the responsibilities, procedures and processes to follow. Creating an investment policy statement is another key step that will help align the plan's objectives and investment approach.⁸

The committee should consistently monitor the plan's investment performance against benchmarks and also review adherence to compliance processes.

In the 401(k) world, the process that led to your decision may be more critical than the decision itself. Documenting everything from committee meeting discussions to the rationale behind service provider selections to investment policies are all equally important.

Consistent employee communication is a cornerstone of any committee's duty and should cover at a minimum, enrollment periods, contribution limits and matches and plan information and fees.

The success of a retirement plan committee can have a much greater impact than what meets the eye. While it may seem like an administrative obligation, the reality is that the members' efforts are actually playing an active role in helping fellow employees pursue their retirement goals.

³ Department of Labor, "Fiduciary Responsibilities," DOL.gov.

⁴ TIAA, "What it Means to be a Retirement Plan Fiduciary," TIAA.org, 2020.

⁵ PSCA, "Retirement Plan Committees," PSCA.org, April 2021.

⁶ "Bloomberg Law, "401(k) Fee Suits Flood Courts, Set for Fivefold Jump in 2020," Bloomberglaw.com, August 2020.

⁷ PSCA, "Retirement Plan Committees," PSCA.org, April 2021.

⁸ TIAA, "What it Means to be a Retirement Plan Fiduciary," TIAA.org, 2020.

For more information on how we support retirement plan sponsors and participants, visit our website or contact us directly.



This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.

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