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Employee Engagement Edition

- **Helping Early-Career Employees Navigate the Saving Maze**
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Helping Early-Career Employees Navigate the Saving Maze

Ways to boost financial confidence and loyalty for Gen Z employees.

Have you ever found yourself pondering the classic "If only I could rewind the clock and share some pearls of wisdom with my younger self" scenario? As an employer, you have the chance to share this knowledge with your employees, especially when it comes to saving for the future.

The Impact of Early-Career Saving Hurdles

While everyone encounters challenges, certain obstacles tend to affect individuals early on in their careers more than their senior counterparts. Factors such as inflation, the cost of living, student loans, and impulsive 401(k) cash outs can significantly influence their financial well-being.

Gen Z employees, aged 18-24, emphasize that their overall well-being significantly influences their productivity. Many hold high expectations of their employers, expecting them to take responsibility for their financial wellness, provide retirement income, and offer guidance on investing in their 401(k) plans.[1]

Let's explore some of the challenges faced by employees in their early careers and discuss practical solutions we can help implement to empower them.

Combating the Burden of Education Debt

Now that the student loan freeze has ended, some individuals are encountering this issue for the first time, while others are readjusting. The weight of education debt can hinder the employee's ability to contribute to their retirement savings, delaying their progress toward financial independence. Under the new rules in SECURE 2.0, employers can match contributions to retirement plans based on employees' student loan payments. This benefits individuals with student loans who might have refrained from contributing to a retirement plan, thereby missing out on employer matches and potential long-term savings. This simplified approach removes the complexity associated with previous non-elective contribution programs, which were subject to strict design and compliance requirements.

1 Bank of America. "2023 Workplace Benefits Report." Aug 2023.

Saving in the Face of Inflation

Additional forces such as high cost of living and inflation serve as barriers to retirement savings, but younger employees seem to have the desire to save.

To encourage saving, the IRS provides a special tax credit, offering low- and moderate-income earners an additional incentive to save for retirement. If employees qualify for the Retirement Savings Contributions Credit, or Saver's Credit, they might reduce their tax bill by up to $1,000 ($2,000 for a married couple filing jointly).

The Gift of Time in the Market

With time on their side, even small savings increments will have time to compound. This is where automatic plan design can be a very powerful tool to nudge savings.

- **Auto-enrollment** ensures that employees are automatically enrolled in the 401(k) plan. This enhances participation while maintaining flexibility, as employees have the option to opt out at any time.
- **Auto-escalation** gradually increases employees' contribution rates over time, typically by 1 – 2% per year. This feature not only instills a savings habit but also helps employees grow their retirement savings without requiring active involvement.
- **Preventing cash outs** is another way to keep employees invested. This can be done by limiting loans at the plan level. Additionally, it is an opportunity to educate employees on their roll-in and rollover options when joining or leaving the company.

Encourage younger employees to save, keep saving, and roll over their 401(k) assets, no matter how small. This habit will help them develop a continuous savings pattern which can set them up for a financially secure future.

Increasing Financial Literacy

Because many employees look to their employers for help with financial wellness, an opportunity exists to make an impact. By offering employee education resources or one-to-one meetings, we can help employees build financial confidence. This empowers them to make smart choices, affording them a feeling of control over their financial future.

Elevate Savings

Addressing the early-career savings hurdles requires a multifaceted approach. Employers who invest in their employees' financial well-being not only contribute to a more secure retirement but also foster a workforce that is engaged, focused, and motivated. By exploring these solutions, companies can play a vital role in empowering their employees to overcome financial challenges, which can set the stage for a prosperous and secure future.

Overcoming Mid-Career Retirement Savings Hurdles

Practical tips for Gen X and Millennial workers to save for retirement

Life in the middle can be a pickle—just ask any mid-career employee. They're often caught between a rock and a hard place, or, more accurately, a kid's college fund and an aging parent's medical bills. Add to that the rising cost of living, and you've got a perfect storm for financial stress.

Money and Happiness

Did you know that 59% of Americans think money can buy happiness? With the magic number being $1.2 million. Interesting though, for a significant portion of your workforce, financial happiness is tied to timely bill payments (67%), being debt-free (65%), and maintaining a healthy work-life balance (44%), thus highlighting the connection between financial security and happiness.[2]

Of note, 73% agreed that a solid financial plan leads to greater happiness.[1] Here are some ways you can help your mid-career employees through life challenges and assist them in pursuing their retirement savings goals.

Confirm Retirement Savings are on Track

Mid-career employees still have time on their side. By encouraging them to review their retirement contributions and plugging their information into a financial calculator, it could make the difference between retirement stress or retirement success.

- **1 - 5% deferral** | Potentially insufficient to replace future income needs
- **6 - 8% deferral** | Better but below recommendations
- **10 - 15% deferral** | Recommended by industry experts

Leverage Financial Wellness Platforms

We live in a digital age where there's an app for everything, even financial wellness. By offering access to these platforms, you can empower your employees to take control of their finances. These platforms often include features like budgeting tools, financial health scores, and savings goal trackers. Adding these financial wellness apps to your employee benefits may greatly improve job satisfaction, retain employees longer, and increase workplace productivity.

2 Empower. “Financial Happiness.” Jan 2024.

Consider Family Caregiver Support Programs

Research shows that 56% of employees consider themselves caregivers.[3] Many mid-career employees are part of this "sandwich generation," simultaneously raising children and caring for aging parents. Offering family caregiver support programs can help reduce this burden. This could be as simple as flexible work hours to accommodate morning drop-offs and afternoon pick-ups for children. It could also include more comprehensive support like resources for affordable care, aging-in-place, legal advice, and/or help with financial planning.

Because Education Isn't Cheap

For employees who have children, one of the significant financial burdens for mid-career employees is saving for education. By offering information and access to 529 plans—tax-advantaged savings plans designed to encourage saving for future education costs—you can help reduce this stress.

However, a word of caution: as much as parents value their children's education, it's important to remember that while loans are available for college, the same cannot be said for retirement. So, encourage your employees to save for themselves first.

Emergency Savings, Withdrawals, and Loans

The SECURE Act 2.0 has introduced two new employee options aimed at enhancing financial flexibility:

1. **Payroll deducted emergency savings or "sidecar" emergency savings accounts:**

   Non-highly compensated employees can contribute up to 3% of wages into a capped $2,500 Roth-like account. Excess contributions spill over into their Roth 401(k). Notably, the first four yearly withdrawals from this emergency savings account are free.

2. **Penalty-free emergency withdrawals:**

   Another provision allows any participant to make a one-time, non-loan withdrawal of up to $1,000 from their retirement savings for emergencies, without the usual 10% tax penalty. The process requires minimal paperwork and can optionally be repaid within three years. Because this is not a loan and requires minimal paperwork, it could save busy HR professionals and 401(k) administrators time and streamline the distribution processes.

While it's advisable to leave retirement savings untouched, life happens. Providing options for loans or hardship withdrawals from retirement accounts can be a lifeline for employees facing financial difficulties. However, it's crucial to educate employees about the potential impact on their retirement savings to help them make informed decisions.

Leveraging Empathy

Empathy is key when helping your mid-career employees overcome these hurdles. Establish a relationship with a specialized retirement plan advisor to help understand their unique challenges. Listen to their concerns and provide them with the tools and resources needed to achieve their retirement savings goals. Remember, a financially secure employee is likely to be more engaged, productive, and loyal—factors that can significantly contribute to your company's success.

3 Bank of America. "2023 Workplace Benefits Report." Aug 2023.

Boosting Retirement Confidence for Near-Retirees

Employees late in their careers need information that helps smooth the transition into retirement

We are entering the "Great Retirement" era, where tens of thousands are hitting retirement age daily. By 2030, the entire baby boomer generation will be 65 or older. These hard working and resilient employees were the first to experience the shift from guaranteed pension plans to defined contribution plans such as 401(k)s. With retirement in sight, near-retirees are a key target audience for financial wellness programs.

Older employees are likely to experience heightened financial stress and anxiety as they transition from work into retirement. The bad news is that financial stress can have a corrosive effect in the workplace. The good news is that near-retirees are likely to be open to, and may actively seek, information that helps transform retirement uncertainty into retirement confidence.

The information can be delivered in a variety of ways, including through education programs and communications strategies. Having a professional offer individual financial advice or coaching can make it easier for employees to apply what they've learned. As you consider how best to convey the value of your workplace benefits, here are four topics that should resonate with near-retirees.

Saving in the Home Stretch

It's good to start with the basics, reminding employees that they have opportunities to set aside tax-advantaged savings in traditional and/or Roth workplace retirement plan accounts. If your plan permits them, discuss the value of catch-up contributions.

- Plan participants who are 50 or older can save more with catch-up contributions. The IRS adjusts this each year; but for 2024, the limit is $7,500.
- The SECURE Act allows a new level of catch-up contribution in 2025. Participants aged 60 to 63 can make catch-up contributions equal to the greater of $10,000, adjusted annually for inflation or 150% of the 2024 catch-up contribution amount (indexed for inflation).
- In 2026, catch-up contributions made by participants earning $145,000 or more annually must be Roth contributions.

The Incredible Versatility of HSAs

Healthcare costs can be a big financial burden for older workers. However, relatively few employees have confidently saved for healthcare expenses, even those who participate in qualifying high-deductible healthcare plans (HDHP) paired with health savings accounts (HSAs). It's a missed opportunity.

HSAs give employees another tax-advantaged way to save and invest for retirement. HSAs offer a triple-tax advantage.

- Eligible employees contribute pre-tax dollars
- Any investment earnings grow tax deferred
- Withdrawals used for qualified medical expenses are tax-free

Of note, after age 65, HSA savings can be withdrawn for any purpose without a penalty (although distributions used for non-medical purposes may be taxable). The funds can be used to reimburse premiums for some Medicare costs, as well as healthcare costs not covered by Medicare. Typically, eligible employees can continue to make HSA contributions until they apply for Medicare or Social Security.

A Primer on Social Security and Medicare Benefits

Almost half of employees want employers to educate them about Social Security and Medicare benefits.[4] Employers can provide programs that offer insights on how to optimize Social Security benefits and make Medicare decisions, or they can hire a knowledgeable professional to provide individual counseling.

Either way, it's important to manage expectations of Social Security. The most recent Trustees Report estimated that Social Security Trust Fund reserves will be depleted in 2034. Unless Congress acts, benefits may be reduced by 20% in the future.[5] Since Social Security benefits are one of the few guaranteed income options available, it may be beneficial to discuss other guaranteed income options as well.

The Advantages of Account Consolidation

It is not uncommon for adults to have held 12 or more jobs throughout the course of their careers. If they left assets behind in former employers' workplace retirement plans, account consolidation could help clarify how much they've saved and how their savings are invested. In addition, if your workplace retirement plan allows roll-ins, account consolidation could potentially lift average plan balances and lower plan expenses.

The Future is Bright

Near-retirees are receptive to education and communications about saving for the future. Employers who offer programs that help smooth the transition from work to retirement often realize benefits, including greater employee loyalty and improved productivity. If you would like more information, please get in touch.

4 Bank of America. "2023 Workplace Benefits Report." Aug 2023.

5 Social Security Administration. "Status of the Social Security and Medicare Programs." 2023.

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Our team understands that in today's world the demands on your time and energy have never been more pressing; therefore having a financial advocate to focus on your needs with the attentiveness it deserves is vital. Not only do we deliver personalized financial expertise, but we are committed to making certain we understand your goals. That is why our services are customized according to your needs and aspirations.

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