October 2023

HHM

WEALTH ADVISORS

RETIREMENT TIMES

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October 2023

Hardship Distributions Surge: Strategies for a Troubling Trend

More and more workers are taking hardship distributions from their 401(k) accounts, a recent report shows. Bank of America's June 2023 Participant Pulse study reveals nearly 16,000 participants withdrew money to cover a financial hardship in Q2 of this year — up 36% compared to the same quarter in 2022. At the same time, the New York Federal Reserve reported in August that credit card debt among U.S. households exceeded $1 trillion for the first time ever, with an increase of $45 billion in Q2 alone. Moreover, the rate of credit card delinquencies rose to 7.2% during the same quarter — the highest rate since 2012.

In this challenging environment, how can plan sponsors support participants who may be struggling with high debt and help them avoid raiding their retirement savings to stay afloat?

Provide tailored financial wellness programming. Offer robust education on topics aimed at helping participants understand how to manage financial challenges or better prepare themselves for potential hardships. Online resources and learning sessions could be offered on budgeting, building emergency savings and managing debt, for example. Cultivating greater financial literacy in these areas can help employees develop stronger financial habits, make more informed decisions and avoid potential pitfalls.

Offer greater flexibility with contribution dollars. Flexible matching programs give employees more control over their contributions by enabling them to allocate money toward non-investment savings and debt repayment. One such program, Thrive, offers participants the ability to assign some or all of their employer's matching funds to student loan obligations, higher education savings accounts or an emergency savings reserve. This innovative approach can help empower employees to keep socking away retirement dollars while using matched contributions to alleviate debt burdens or build savings.

Encourage advisor engagement. Offer regular one-on-one check-ins to discuss participants' financial goals and challenges — and develop strategies to help protect retirement savings from unplanned financial hardships. Individual advisor sessions can also include debt reduction strategies for those struggling with credit card balances, as well as guidance on funding alternatives in the event of a hardship. For example, advisors could counsel participants on government assistance, debt restructuring, nonprofit credit counseling or tapping into home equity through a HELOC, as appropriate.

When debt mounts and options seemed diminished, a sense of fear and hopelessness can set in for those faced with significant financial challenges. And in turn, that can lead to decision-making that doesn't support long-term financial health. But providing the right resources can help employees see their way toward solutions and avoid viewing their financial difficulties through a lens of last resort thinking. Empowered with tools and knowledge to better and more holistically manage their finances, participants will be better prepared to weather financial storms and navigate future challenges while preserving their retirement readiness.

Source:
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Plan Sponsors Can Help Social Security Early Birds Build Their Retirement Nest Egg

Two-fifths of pre-retirees say they plan to start taking Social Security benefits before they reach full retirement age, according to a recent Schroders report. And just 10% intend to wait until age 70 in order to qualify for maximum payments. Nearly half of participants cite fears about the future solvency of Social Security, and 72% say they plan on receiving benefits early despite knowing it will lower their monthly disbursements. But it's unclear to what extent they understand how the reduction in payments may impact their overall retirement readiness.

Reduced Social Security benefits put more pressure on 401(k)s and personal savings to meet financial needs during retirement. Sponsors can assist by helping employees plan ahead and tailor their strategies with an early benefits election in mind.

- Auto enrollment into plans with a higher initial deferral contribution rate and auto escalation may help boost retirement account balances to help compensate for decreased Social Security income, especially when accompanied by a higher employer match.
- Robust financial wellness programming can help participants better understand Social Security, including the financial consequences of claiming early benefits and the potential impact of the Social Security earnings test should they continue working after benefits kick in.
- By providing a broader and more holistic perspective on retirement planning, including health care costs and lifestyle considerations, workers can be empowered to make more informed decisions regarding their Social Security benefits.
- Employers can also encourage utilization of planning resources, including online calculators to project their retirement income. Participants may need to increase contribution rates or reevaluate the timing of 401(k) distributions to make up for potential income gaps and maintain long-term financial stability.
- Engagement with individual and group advisory services can help workers more accurately forecast income from various sources and evaluate the impact of their decision regarding the timing of filing for Social Security benefits.

- For employees aged 50 and over, the IRS allows for catch-up contributions to retirement plans. Plan sponsors can emphasize the importance of these contributions, especially for those who aren't planning to max out their monthly Social Security benefits and encourage eligible participants to take advantage of this provision.

Retirement doesn't bring an end to financial decision-making. Employers may choose to assist by offering continued access to financial advisory services even after employees separate from the organization. While there's additional fiduciary liability associated with continuing to support retirees that should be considered, it can help workers make more informed choices in the distribution phase. With the right tools and guidance, Social Security early birds can still build enough wealth to comfortably feather their nest in retirement.

Sources:
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Empowering Employees through Financial Literacy

In the modern era of numerous investment options and economic challenges, understanding the concept of money, known as financial literacy, holds significant importance. Defining financial literacy can vary slightly among retirement experts and can negatively affect their financial decisions. Some fundamental components of financial literacy include gaining knowledge regarding effective management of money and debt such as Budgeting, Investing, Borrowing, Taxation and Personal Financial Management. Now, where can you gain this knowledge? Written in an article that was published by the Corporate Finance Institute, they listed a few tools an individual can use to gain literacy. EconEdLink is one that has online financial lessons and Money Smart is another that has free financial tools such as podcasts and lesson plans. However, there are unlimited ways and resources that provide beneficial financial knowledge.

While 401(k) plans remain one of the best options for retirement planning, research shows that fewer than 60% of eligible workers contribute to one or have the option to through their workplace. Therefore, not enough people know how beneficial they can be if educated correctly. This requires employers and Plan Sponsors to step in and implement participant education days. By doing this, it would lead to overall financial wellness and independence within a retirement plan and knowledge of participants.

According to the provided statistics from CFI, attaining this literacy is underscored by real world facts such as the high percentage of Americans living paycheck to paycheck (78%), the widespread ownership of credit cards (189 million), and the significant levels of debt; credit card debt, student loans, and overall debts totaling out to $12.58 trillion in today’s financial climate.These statistics should undeniably enable individuals to make better financial decisions, effectively manage money and debt, achieve financial goals, and reduce expenses through better regulation. By doing this, it will alleviate financial stress and have the knowledge to make ethical choices when dealing with loans, investments, and credit cards. Additionally, having this education facilitates the creation of a structured budget and can contribute to overall stability.

To conclude the summary of these articles, gaining the knowledge and skills, individuals have the opportunity improve their standard of living with increased financial stability. By understanding unique individual challenges and starting off small and achievable, anyone can create a stronger relationship with money, which is a lifelong journey of learning.

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