Crown Risk Management, LLC

The Retirement Times

DECEMBER 2022

How to End the Year on Bright Note

December brings with it an expectation of cheer, hope, and festivities. What your employees do not expect (and, frankly, don't want) are grumpy nudges about enrollment. With the anxiety of the pandemic and lockdowns close behind us, and with the imminent worry over inflation and downturned markets here upon us, participants could use an upbeat message from leadership on how to make the best of imperfect situations. That means it's time to rethink the language we use to encourage participants to save for retirement and optimize their benefits usage.

Lend Your Hand, Don't Wag Your Finger

For example, many firms cite alarming statistics about retiree health-care expenses in well-intentioned efforts to urge participants to enroll in and contribute to their 401(k)s. A recent study, though, by the Defined Contribution Institutional Investment Association found that retirement savers are much more likely to respond to positive messaging than to negative. Not only are open rates higher on emails with an optimistic spin, but employees are also more likely to take action on the information contained within those emails — like logging into their investment portal (21% vs. 12%).

It makes sense—who wants to open and act on an email that feels like scolding or warning? An encouraging, positive communications strategy helps participants really hear the *benefit*—the help—you are offering them. Reaching out to invite questions often prompts employees to take actions necessary to achieve better outcomes—for themselves and for company engagement rates.

Emphasize the Upside

Negative communications can discourage action and even promote investment avoidance. If people get the message that it could be too late to meet their goals, they may figure, "Why even bother trying?" Instead of warnings about retirement readiness, give participants the tools and motivation they need to start catching up. Encourage employees to focus on small, short-term goals that build confidence upon achievement. Identifying new habits and practices that are attainable often lead to long-term financial behavior changes. (It works for Dave Ramsey; it will work for you, too!)

Doll Up the Down Markets

Like the markets, retirement planning is a dynamic, high-stakes issue. When markets are volatile, participants may need a little extra support to stay the course. Help them understand that periodic market downturns are expected and describe how they've played out over time. It's good if you can get them to look at the big picture.

For example, you can point out that during the 2008 financial crisis, a lot of investors were understandably anxious about the future, yet a $5,000 investment in a Dow Jones index fund in 2008 (the heart of the financial crisis) would have been worth more than $20,000 by the end of 2021. Share Warren Buffett's famous advice to "be fearful when others are greedy, and greedy when others are fearful."

Be Practical, Not Pollyanna

Although it's important to bolster participants' spirits during down markets, don't sugarcoat the truth. If you present an overly rosy picture, you risk eroding your credibility and losing trust. Empower employees by giving them the facts they need to make prudent decisions — and useful context to interpret those facts.

December is here to close out another year of unexpected twists and turns. You can help end the year on a bright note by using positive messaging that encourages employees to fight fiscal fears and take hold of their financial future.

Sources:
https://dciia.org/blogpost/1749610/478305/Do-participants-respond-better-to-messages-of-fear-or-encouragement
https://financial-calculators.com/historical-investment-calculator

Provider Consolidation in the Retirement Plan Market: Impacts for Sponsors

Following in the footsteps of many banks and big accounting firms, there's been a growing trend toward consolidation among retirement plan service providers. But for the most part, less competition hasn't translated into higher fees for plan sponsors — at least not yet. If anything, the costs for recordkeeping and administrative functions have tended to trend downward.

Moreover, there's the potential for additional value for sponsors as a result of M&A activity among larger industry players, with the possibility of enhanced resources for clients. For example, plan sponsors may benefit from advanced back-end technology, more robust financial wellness offerings, and improved investment tools.

But the impact of consolidation may also differ depending on the size of your plan, with larger plans potentially having fewer choices available to them. If your service provider has a merger in the works, your advisor can help you navigate uncertain waters and review your agreements to ensure service levels remain consistent. He or she will be familiar with the larger service provider landscape and can help you evaluate the potential impact of any changes should they occur. Networking with other sponsors and communicating directly with your recordkeeper and plan administrator may also help you prepare for what lies ahead in an evolving service provider marketplace.

While it's advisable to put your plan out to bid every three years, a potential merger could call for tightening that timeline should any concerns arise. And if increased consolidation continues to result in more favorable plan pricing generally, it may indicate that lower fees — or higher levels of service for similar fees — might be available for your plan elsewhere. Even if your service provider isn't currently merging with another firm, investigating other options may be beneficial.

A 2021 survey conducted by NAPA to gauge the impact of recordkeeper consolidation on overall service levels found mixed results. Whereas 58% saw comparable service post-merger, 11% reported better or much better service, while 31% said service had deteriorated or reached "OMG bad" levels.

The jury is still out, and sponsors should adopt a wait-and-see approach to determine whether provider consolidation will be a net plus or minus. But even if the overall impact on the retirement plan industry turns out to be positive, a provider's merger may still create some level of disruption within your organization. That's why it's prudent to remain vigilant about any upcoming changes in the marketplace, monitor for continuity of service quality following a merger, keep all lines of communication open and remain prepared to seek out a new provider if necessary. Because in the end, it's the impact of your provider's consolidation on your own plan that matters most.

Sources:
https://www.napa-net.org/news-info/daily-news/reader-poll-whats-impact-recordkeeper-consolidation
https://www.shrm.org/ResourcesAndTools/hr-topics/benefits/Pages/retirement-plan-sponsors-face-a-consolidating-401k-marketplace.aspx

Four Things to Know About Plan Limit Hikes

In October, the Internal Revenue Service significantly raised the contribution limits for 401(k)s and other plans effective in 2023. As plan sponsors begin to think about how to communicate these changes to employees, it's perfect opportunity to educate, demystify, and encourage participation in these plans.

What to Know

1. ***Retirement.*** 401(k), 403(b) and most 457 plans got a 10% increase on the contribution limit, so it's now $22,500. At first glance, employees might say that it's already too hard to set aside money for retirement. Fewer than 15% of Americans who have a 401(k) contribute the maximum amount allowed.

2. ***Health FSA***. The Health FSA was raised to $3,050 (an extra $200) for annual contributions and now $610 of that can be rolled over if it's not used. Participants might not take advantage of this one if they don't have expenses from actual medical visits or if they've experienced losing funds in the past because they didn't use it all.

3. ***Dependent FSA (DCAP).*** The annual limit on employee contributions to a DCAP will remain at $5,000/$2,500 for 2023 and future years unless extended or amended by Congress. But employees sometimes don't realize that these funds aren't just for childcare but also for elderly care. If a dependent elder is claimed on annual taxes and lives with the participant for at least eight hours of the day, then that elder likely has expenses related to care that can be claimed and reimbursed with this tax-free amount.

4. ***Health Savings Account (HSA)***. The IRS bumped this one up by 5% from 2022. That means an individual can now contribute $3,850 and a family can contribute up to $7,750 if the employer sponsors high-deductible health plans.

What to Highlight for Participants

1. ***Retirement.*** Highlight that a bear market means that stocks are cheap and could be the perfect time to invest if history plays out as usual.

2. ***Health FSA***. Direct them to the FSA site and highlight that a slew of new products were recently added to the eligible expenses list. That means they can use their FSA card to purchase things like menstrual care products, pain relievers and first aid creams, cold & flu medications, toothache relievers, gastrointestinal aids, allergy & sinus medicines, and sleeping aids.

3. ***Dependent FSA (DCAP).*** Show them the verbiage in the eligibility section of the DCAP. This means paying a full- or part-time care attendant, paying for assistance getting to and from medical appointments or errands and purchases related to their healthcare needs. You can point out that services such as those found on care.com are easily reimbursable.

4. ***Health Savings Account (HSA)***. Some companies are starting to offer HSA contribution matches, calculating them like the 401(k) matches they offer. Highlight that the HSA is something they can take with them from employer to employer and that they can save it up for retirement on down the road.

Help Them Do the Math

Sometimes, employees don't take advantage of these programs simply because they're busy and they haven't sat down to do the math. It's often hard to see exactly what the savings would be if they were to send just $1,000 to their future selves. Put together an email that briefly shows what the impact would be at various income levels if $1,000 went to each of these programs and what it might mean when tax season comes.

Sources:
https://www.irs.gov/newsroom/401k-limit-increases-to-22500-for-2023-ira-limit-rises-to-6500

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