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Proposed Legislation Aims to Help Young Workers Put Time on Their Side

Retirement planning often directs attention toward mid-career 401(k) participants and those nearing retirement — and understandably so, given their tighter timeline to secure post-retirement financial stability. But what about the youngest members of the workforce — the 18- to 20-year-olds, or those even younger? This demographic faces a potentially more challenging economic outlook than their older counterparts, with factors such as increasing student debt hampering traditional financial milestones like purchasing a home.

According to a recent Bank of America Institute study, the impact of higher rent inflation disproportionately affects younger consumers, with median rent payments soaring by 16% year over year in July, compared to just 3% for Baby Boomers. Additionally, the research shows many Gen Zers fall short along several areas of financial preparedness, including emergency savings (56%), investing (29%) and saving for retirement (43%). Financial planning is especially important for this age group, as early contributions could prove most valuable due to the compounding returns of reinvested earnings.

In response to such challenges, a new bipartisan bill in Congress proposes to help young workers take advantage of the additional time on their side. Introduced by Senators Bill Cassidy (R-Louisiana) and Tim Kaine (D-Virginia), the Helping Young Americans Save for Retirement Act aims to decrease the age at which individuals can participate in ERISA-covered defined contribution plans to 18 years old in certain situations. The change would grant eligible workers aged 18 to 20 access to retirement savings plans, even if their employers currently do not extend participation to this age group. However, covered plans would still have the flexibility to establish a minimum age threshold, setting it at up to 18 years old. The proposed legislation also provides an exemption for employees aged 18 to 20 from testing related to retirement funds, which would otherwise escalate the administrative costs of managing retirement plans for participants in this age bracket.

If signed into law, the act could encourage retirement plan sponsors to give workers an opportunity to begin saving for retirement earlier and gain additional, valuable years of compounding returns. Moreover, it could help encourage the development of good savings habits among the youngest members of their workforce, potentially leading to increased long-term financial security when they reach retirement age. It could also enhance the company's ability to attract and retain young talent by demonstrating a commitment to their long-term financial planning and stability.

Fostering an early savings discipline in younger workers holds the promise of more than mere personal gain; it has the potential to turn the financial tides for an entire generation and enhance their retirement readiness.

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Surging Credit Card Debt: Strategies for Plan Sponsors to Help Bolster Retirement Readiness

With U.S. credit card debt recently soaring to a record high of $1.08 trillion, retirement plan sponsors face a pivotal moment. This staggering amount, a $48 billion escalation since the second quarter and a $154 billion increase year-over-year, is a cautionary signal for Americans' financial stability. The compounding pressures of post-pandemic recovery and inflation have pushed household debt to unprecedented levels, particularly affecting minority groups and those with limited financial literacy. With hardship withdrawals from retirement accounts also on the rise, the role of plan sponsors has never been more essential.

According to a 2022 Financial Health Network report, nearly two-thirds of full-time workers employed at large to midsize companies have at least one of three kinds of unsecured debt: credit card, medical or personal loan. Additionally, half of employees with debt stress spent an average of one hour of work time per week dealing with debt-related issues. Moreover, 62% indicated they would be more likely to remain employed at a company that offered useful debt-related benefits.

Traditionally, employers have focused on helping employees save for retirement, but the landscape is changing. The role of plan sponsors is evolving as they now recognize the need to address more immediate financial concerns that can seriously undermine long-term savings. There is a growing recognition that providing support for non-retirement priorities, such as debt management and emergency savings, is crucial for the overall financial health of employees. It can offer significant benefits for organizations as well, including increased productivity, lower health care costs, enhanced employee engagement and decreased turnover.

To navigate this shifting terrain, employers are adopting a more holistic approach to financial wellness. By offering resources and support that address both present and long-term financial needs, they're helping employees build a more secure foundation for their future. Here are a number of ways employers can help support workers' financial well-being in the face of historic levels of personal debt:

- Offer educational workshops on debt management.
- Furnish content in formats that are highly accessible including videos, audio recordings and infographics.
- Give employees access to one-on-one financial advising.
- Support emergency fund or student loan repayment plans.
- Promote HSAs to avoid medical debt.
- Provide online tools such as debt-payoff calculators.
- Encourage auto-escalation of retirement plan contributions to offset debt impacts.

Employees with higher levels of total debt and lower incomes, as well as women in general, were found to be less likely to have access to debt-related benefits that could potentially assist them. Employers can play a crucial role in leveling the financial playing field, providing equitable access to resources that support debt management and financial stability for all employees, regardless of income level or background. By addressing these disparities, companies can foster a more equitable workplace and a more financially resilient workforce.

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Pooled Plans Demonstrate Benefits for Higher Education Plan Sponsors

For higher education institutions, pooled retirement plan structures offer a plethora of benefits, such as exposure, fewer administrative functions and additional opportunities to provide educational resources, according to new research.

Transamerica Corp.'s recent study, "Retirement Plan Trends in Higher Education 2023," found that pooled employer plans are more likely than single-employer plans to enable university faculty and staff, especially those who work part-time or as adjuncts, to participate in retirement plans. According to survey results, that is largely because simplified employee pension plans—SEPS—are less likely to extend to these workers.

Transamerica found that 83% of institutions had most of their participants in a single-employer plan, whereas only 13% reported most of their participants utilizing a pooled solution, according to the survey of 99 respondents from a variety of higher education institutions.

The survey included responses from institutions offering 457(b), 403(b), 401(k) and 401(a) defined contribution plans. Specifically, 87% of respondents noted that they offered a 403(b) plan, with 13% offering a 401(k) plan. Laura Gaynor, a senior vice president at Transamerica, says via email that there could be an overlap, as some providers may offer more than one type of plan.

Despite Advantages, Uptake is Slow

Despite the benefits of pooled plans, most institutions offering a SEP responded that they have not explored the possibility of a pooled solution and have no plans to do so. Gaynor says certain pooled employer plans for 403(b) plans have only been available since last year's passage of the SECURE 2.0 Act of 2022, so this is a significant factor to consider.

"Like pooled solutions in the 401(k) space, which took time to get traction, we expect the same here," Gaynor says. "Additionally, there are some nuances in the 403(b) space that need to be considered, such as individual contracts and information sharing."

Asked why they had chosen to join a pooled solution, the majority of institutions who reported having done so identified lower costs and less administrative responsibility.

Proponents of pooled plans argue they can offer lower 401(k) fees for workers, reduce liability and allow employers to outsource plan operation. They can also offer some features a company might not offer through a SEP, such as insured or non-insured retirement income options.

Financial Wellness Concerns In Higher Ed

According to the report, 71% of institutions reported concern about retirement preparedness for their near-retirees. However, this figure was slightly less for plan sponsors offering pooled solutions, of whom 62% see it as a pressing issue. Meanwhile, 77% of pooled solution plan sponsors expressed they were very or extremely concerned about the impact of inflation on retirement savings.

Pooled plan sponsors also expressed feeling more responsible for the financial well-being of participants than SEP sponsors. In addition, 23% of pooled sponsors said they were extremely concerned about the personal level of debts of their participants.

The majority (62%) of pooled sponsors also cited “household budgeting, spending and saving level” as one of the most pressing challenges for their participants.

“The level of concern expressed by higher education pooled solution sponsors about faculty and staff financial well-being may indicate recognition of the value of pooled solutions in mitigating the fiduciary burden associated with retirement plans,” the report stated.

Transamerica argued that selecting a pooled solution to address fiduciary concerns may allow employers to focus more on providing financial wellness benefits, rather than spending time worrying about the management of their retirement benefits.

An investment policy statement, often produced by plan advisers, is also particularly important, as it can guide the plan’s investment decisions. While there are still plans with no IPS, 65% of institutions reported that they have one, and among pooled solutions, .

All plan sponsor respondents in a pooled solution cited using a financial adviser or consultant, likely because pooled structures typically include fiduciary support. According to Transamerica, plan advisers and consultants play a critical role for higher education institutions, starting with evaluating whether a pooled solution is a good fit in the first place.

With pooled options now available for 403(b) plans, plan sponsors of higher education institutions may want to consider them to ease administrative burdens and lower costs.

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