

## Why Workers Leave Matching Dollars on the Table

A 2023 Vanguard study revealed that 25% of participants deferred less than 4% of their income, missing out on the full employer match. While financial constraints play a role for some, psychological factors can also contribute. Understanding these cognitive biases can help explain why workers forfeit free money — and highlight strategies to help.

**Present bias and hyperbolic discounting.** People often prioritize immediate rewards over long-term benefits, driven by two related but distinct tendencies: present bias and hyperbolic discounting. Present bias leads employees to prioritize immediate gratification over future rewards, such as employer matches. Hyperbolic discounting expands on this by showing how people increasingly undervalue rewards as the delay to receiving them grows longer. To help address present bias and hyperbolic discounting, employers can frame matches as “an instant 100% return” on contributions. Tools that reduce the psychological distance of future rewards — like visualizing one’s future self — can also help participants better connect with the long-term value of saving.

**Anchoring bias and the status quo.** Anchoring occurs when employees rely too heavily on initial information — like default rates — while the status quo bias can result in a preference for maintaining the current state, even if better options are available. Defaults often act as psychological anchors, causing participants to believe these rates are adequate, even when they fall short of maximizing their match. Employers can address this by raising default rates and adding auto-escalation features to increase savings over time.

**Paradox of choice.** When employees are faced with too many options — such as fund selections or allocation possibilities — they may feel overwhelmed and avoid making decisions altogether. Streamlining investment options and providing simplified, automated paths to maximize matches can reduce decision paralysis. You can also provide education around target date funds, framing them as a simpler, “one-decision” strategy.

**Loss aversion.** This behavioral tendency leads people to feel the pain of losses more strongly than the pleasure of equivalent gains. For workers, the psychological weight of “losing” immediate paycheck money can outweigh the future benefits of the “free” match. Plan sponsors can counteract this by flipping the script and reframing the real loss as a missed financial opportunity — that is, what participants stand to lose in terms of the company match. Offering employees a personalized projection of missed matching dollars at their current deferral rate can create healthy financial FOMO, making the cost of inaction more tangible.

**Social proof and normative behavior.** Employees are influenced by their perception of the financial habits of their peers. If maximizing the employer match isn’t seen as the norm, participation can suffer. Promoting retirement saving through success stories can help establish higher contributions as the standard more workers strive toward.

### Preventing Retirement Gaps Is Easier Than Closing Them

When employees fail to max out their match, it’s not just today’s dollars they lose. However, proactive steps can help preserve years of compounded growth and prevent a retirement gap before it occurs.

# IRS Private Letter Ruling Allows Employer to Increase Plan Design Flexibility

The Internal Revenue Service recently approved a **private letter ruling** to an anonymous employer that allows its employees to elect where they would like that employer's nonelective contributions to employee accounts to be allocated.

While this ruling only applies to the employer that requested this design, it could serve as an example for other employers who wish to implement a similar matching structure, according to plan consultants at Willis Towers Watson (WTW), which served as the unnamed company's strategic adviser. Other employers interested in pursuing a similar choice program would need to seek their own private letter ruling to get approval.

The unnamed employer, which WTW declined to name, requested the private letter ruling to provide eligible employees with a choice to make an annual irrevocable election before the start of each year to direct employer funds to be dispersed either to the employee's 401(k) plan, a retiree health reimbursement arrangement, an educational assistance program or the employee's health savings account.

The IRS approved that eligible employees would make their election during open enrollment. If no election is made by the employee, the employer contribution would automatically be made to the employee's 401(k) plan. The employer would be required to make the employer contribution in accordance with the employee's election by March 15 of the following year.

In addition, the employer proposed to amend its educational assistance program to provide student loan payments if an employee designates the employer contribution to the educational assistance program. According to the private letter ruling, this would allow for student loan payments—through December 31, 2025—to be paid directly to employees for any qualified education loans.

The IRS also clarified that the proposed amendments do not allow the employer contribution to be paid in cash (or some other taxable benefit) or made to a plan that defers the receipt of compensation.

*Source:*  
IRS Private Letter Ruling Allows Employer to Increase Plan Design Flexibility, PLANSPONSOR, September 2024



# Cryptocurrency in Retirement Plans: Risks and Oversight Challenges

Recent findings from the Government Accountability Office (GAO) highlight critical considerations for employers exploring cryptocurrency as a retirement plan investment option. The GAO report emphasizes that while cryptocurrency assets remain a small portion of the retirement plan landscape, they carry significant risk.

Known for their high volatility, cryptocurrency assets like bitcoin can lead to substantial swings in portfolio value. For instance, a GAO simulation found that allocating 20% of a portfolio to bitcoin resulted in notably higher volatility compared to smaller allocations of 1% or 5%. Such unpredictability underscores the importance of exercising caution.

## Limited Oversight and Data Gaps

One of the major challenges with including cryptocurrency in retirement plans is the lack of comprehensive oversight and data. According to the GAO, the Department of Labor (DOL) currently lacks the tools to systematically measure the presence of cryptocurrency assets in retirement plans. Reporting gaps in plans with fewer than 100 participants and those within self-directed brokerage windows — as well as regulatory blind spots — create uncertainty for fiduciaries trying to assess potential risks.

## Fiduciary Responsibility and Due Diligence

The DOL has previously cautioned employers to act with “extreme care” when considering crypto assets. Despite cryptocurrencies such as bitcoin recently hitting record highs, employers must evaluate whether offering such investments aligns with their duty to act in the best interest of employees. The unique risks associated with crypto — including cybersecurity threats, potential theft and lack of standardized return projections — warrant careful consideration before including these options in investment lineups.

### Sources:

Industry Data Show Low Participant Use of Crypto Assets Although DOL's Data Limitations Persist, U.S. Government Accountability Office, November 19 2024

US Department of Labor Cautions 401(k) Plan Fiduciaries to Exercise Extreme Care as they Consider Cryptocurrencies, US Department of Labor, March 10 2022

## A Call for Greater Oversight

Massachusetts Congressman Richard Neal, a leading voice on retirement policy, requested the GAO report and has reiterated the need for stronger federal oversight of cryptocurrency in plans and robust measures to safeguard participants. “The [GAO] report shows there’s more to do to protect American workers and their retirement savings from the volatile, high-risk environment that comes with cryptocurrencies,” Neal said in a statement.

## Considerations for Employers

For employers considering or already offering cryptocurrency options, it’s advisable to:

- + **Review fiduciary obligations.** Ensure all investment options meet the highest standards of prudence and regularly evaluate potential risks of including cryptocurrencies in the plan lineup.
- + **Monitor regulatory updates.** Stay informed about developments in federal oversight and reporting requirements.
- + **Educate employees.** Provide clear information on the risks and volatility of crypto investments.
- + **Limit exposure.** If offering crypto, consider restricting allocations to a small percentage of portfolios to mitigate risk.
- + **Consult with legal counsel.** Ensure compliance with ERISA guidelines and other relevant federal regulations when considering cryptocurrency investments.

By approaching cryptocurrency with caution and due diligence, employers can better protect employees while navigating the challenges of this rapidly evolving market.

# COMPLIANCE CORNER

with Allison Wright, CFP®, AIF®, CHSA®



Continuing our series of common plan mistakes – incorrect definition of compensation. This common plan mistake can go often for years undetected which makes it one of, if not, the most common plan mistake. While the definition of compensation is often checked to complete the annual year-end census, a check to what compensation employee and employer contributions are actually applied to in payroll is less often checked. A good practice is to spot-check employee and employer contributions in payroll and to recalculate a few various types of compensation included or excluded in the plan definition. The most common compensation issues surround the following:

- + Bonus/Commission
- + Cell phone reimbursements
- + Jury Duty
- + Holiday/PTO Pay
- + Group term life insurance
- + Severance Pay (Never included)

Depending on the circumstances surrounding the error, the plan sponsor may be able to make a VCP submission to the IRS under the Employee Plans Compliance Resolution Program (ERPCS). For corrections occurring after April 19, 2019, plan sponsors may be able to use the Self-Correction Program (SCP) to amend the plan document to conform to the plan’s operation instead of making a VCP submission to the IRS. If you determine you have encountered an error around your plan’s definition of compensation, please contact your IMA Retirement advisor.

For additional information, please visit: [Plan compensation errors - How to correct when your plan definition of compensation is different from plan operations | Internal Revenue Service](#)





# Faces of IMA Retirement

## The Stories That Shape Us

### Meet Blake Fields

Blake Fields recently joined the IMA Retirement family as a Retirement Plan Manager in our Denver office. As a Colorado native, Blake cherishes the mountains and enjoy activities like snowboarding and hiking. One of his passions is giving back to the community by frequently volunteering with Special Olympics Colorado and Gracefull Cafe, which supports homeless individuals. During the winter months, Blake enjoys coaching a 7th grade boys basketball team. We recently sat down with Blake to learn more:

### If you could have any superpower, what would it be and why?

Obviously, teleportation. It'd be nice to be anywhere in the world in a split second.

### Who inspires you the most and why?

My parents are my greatest inspiration. Despite having nothing growing up, they built the life they deserved through hard work, perseverance, and a positive spirit in every situation. Their efforts have blessed my siblings and me with a wonderful life.

### What is your favorite quote or motto?

"I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel." – Maya Angelou

### What is a fun fact about you that most people don't know?

I love to sing and have since I was very young. It helps that I have a very good memory and can learn lyrics to songs very quickly.

### What is your favorite childhood memory?

We used to play ghost in the graveyard (opposite of hide & go seek) with all of my friends and we would play it throughout the whole neighborhood which was huge, and it was the most fun in the world.

### If you could learn any new skill instantly, what would it be?

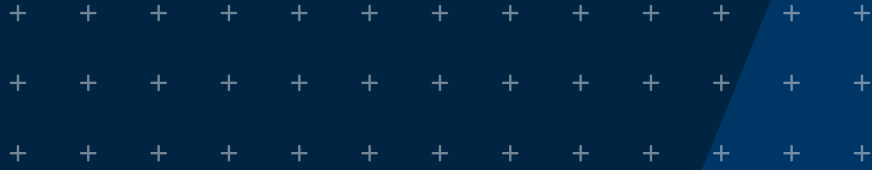
Since buying a home, I have realized quickly I am not handy at all. I would love to learn how to do anything around my house instantly.

### What is your favorite holiday and how do you celebrate it?

Thanksgiving is never appreciated enough. I love the time I get to spend with family watching football, and the food is amazing. My hope for the future is to celebrate it by hosting my favorite people at our house every year.



# Let's Connect



For assistance with your retirement needs, contact an IMA Retirement Advisor at 800.305.1864 or [retirement@imacorp.com](mailto:retirement@imacorp.com)

## SAFEGUARDS FOR YOUR RETIREMENT

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