RETIREMENT TIMES

IMA Retirement

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Early Retirement: Dream or Dilemma?

For many workers, early retirement is the ultimate goal — carefree days filled with road trips, golf, or time spent with friends and family. Yet, reality often tells a diferent story. Many Americans are retiring years sooner than they expected to, often due to health problems, layofs, or other unanticipated events. According to the 2024 EBRI Retirement Confidence Survey, the median retirement age in the U.S. is 62 — yet the median expected retirement age is 65.

As a result of premature departures, employers may find themselves facing a host of issues, including knowledge gaps and talent shortages. A robust retirement plan offering, combined with holistic financial wellness initiatives, can help address these challenges by supporting recruitment and retention. And while a generous employer match and auto-features can increase participation and encourage higher savings rates, additional strategies can be considered that aim to reduce unplanned early exits and better prepare workers should they face this all-too-common reality.

Health care planning. When employees leave the workforce earlier than expected, nearly a third (31%) do so due to health issues. As such, integrating health care and retirement planning is an important consideration. Offering health savings accounts (HSAs) to employees enrolled in eligible high-deductible health plans (HDHPs) and providing education on Medicare and long-term care planning can help employees better prepare for the unexpected. Additionally, education on health insurance options for early retirees — including COBRA, ACA marketplace plans, and private insurance options — can help many workers bridge the gap until Medicare eligibility.

Flexible retirement options. Allowing employees to gradually reduce their workload while retaining benefits can provide greater financial stability and help them transition into retirement on a timeline of their choosing. Additionally, career development programs for pre-retirement employees, including skills training and even mentorship roles, can help keep them engaged, adaptable, and more financially prepared for their eventual exit. According to Mercer, 38% of companies support later-life working by making project-based or gig roles available to older employees, and 36% are offering part-time, flexible, or phased retirement choices.

Financial wellness programming. Plan sponsors should encourage employees to take an early, proactive approach to retirement planning and help them fully understand how timing affects their Social Security benefit. Even simple changes — like optimizing RMD strategies — can have a significant impact on financial security during retirement.

Guaranteed income solutions. As the retirement landscape continues to evolve, so do expectations around income sustainability. Guaranteed income solutions can help address these issues, but concerns about administrative complexity, fee transparency, and portability remain. Ultimately, determining whether these options are suitable requires careful evaluation of plan objectives, regulatory considerations, and participant needs.

Addressing the Timing Gap. The challenge for employers is clear: Supporting employees in their retirement journey requires a multipronged approach, from plan design to employment policies to financial wellness. By staying ahead of these trends, plan sponsors can not only help employees achieve a more secure retirement but also help strengthen their organization in the process.

Source:
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Rising Hardship Withdrawals Putting Retirement at Risk

A growing number of workers are raiding their employer-sponsored retirement plans to cover emergency expenses, highlighting an alarming trend in employee retirement security. According to Vanguard Group, 4.8% of 401(k) participants took hardship withdrawals in 2024, up from 3.6% in 2023 and more than double the pre-pandemic average of 2%.

Hardship withdrawals can carry significant long-term financial consequences, especially since funds cannot be paid back to the plan. Participants can face taxes, reduced retirement savings, and the opportunity cost of lost compounding growth — particularly if the withdrawal occurs during a market downturn. By implementing proactive strategies, organizations can help workers build financial resilience while preserving retirement funds.

Provide One-On-One Financial Counseling

There's simply no one-size-fits-all solution when it comes to promoting employee financial wellness. Each worker's situation is unique, and the most appropriate and effective strategies will vary. For some, financial stability might be achieved through highly targeted budgeting interventions or lifestyle changes like moving or downgrading a car. Others may benefit more from debt restructuring or negotiating lower rates on high-interest credit card balances. Personalized financial counseling helps ensure employees receive guidance that's tailored to their specific needs. Individual sessions can be particularly helpful for those who might understandingly be hesitant to disclose a financial hardship among their coworkers within a group education setting.

Encourage Health Savings

Since medical expenses are a significant cause of hardship withdrawals, employers can encourage the use of Health Savings Accounts (HSAs) for workers enrolled in qualified, high-deductible health plans (HDHPs). HSAs enable employees to build a fund to help cover future medical costs, while benefitting from triple tax advantages: tax-deductible contributions, tax-free growth, and tax-free withdrawals for qualified expenses. By providing employer contributions to HSAs and educating employees on their benefits, companies can help reduce the likelihood that workers will need to tap their retirement account for a health-related financial emergency.

Promote Emergency Funds

Consider encouraging employees to build emergency savings through pension-linked emergency savings accounts (PLESAs). Under SECURE 2.0, employers can auto-enroll non-highly compensated employees at up to 3% of their salary "unless the participant airmatively elects a higher or lower percentage," according to the DOL. The maximum account balance is $2,500, and participants are permitted to make withdrawals at least once per month. Whether through PLESAs, out-of-plan ESAs, or other personal savings strategies, employees should be encouraged to put aside at least three to six months' worth of expenses in a low-risk, readily accessible account.

A Lifeline for Struggling Employees

The rise in 401(k) hardship withdrawals sends a loud and clear signal that employees are in need of additional financial support to help manage unexpected expenses. By offering personalized advice, promoting emergency savings, and discussing health savings options, plan sponsors can help employees stay on track with their retirement savings while navigating financial challenges. Taking action now not only helps benefit employees but can also foster a more financially stable, engaged, and productive workforce.

Source:
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Don’t Take Forfeitures for Granted

Retirement plans have long subjected employer contributions to vesting schedules, rewarding tenure by increasing the participant’s ownership in those contributions in proportion to their years of service.

However, several law firms have recently challenged this long-standing and common practice, arguing that using forfeitures to offset employer contributions is not in the best interests of participants or beneficiaries, as ERISA requires.

What Are Forfeitures?

“Vesting” in a retirement plan means ownership, according to the IRS. More specifically, this means that workers vest, or own, a certain percentage of their account in the plan each year, depending on a timeline established by the plan. Amounts that are not vested — earned, by virtue of their hours or service — may be forfeited by employees when they are paid their account balance. Vanguard reports that more than half of the plans it administers impose vesting requirements on employer contributions.

Now, when a worker leaves prior to becoming 100% vested in those contributions, those “forfeited” account balances may, according to established regulatory guidance, be either (1) used to offset employer contributions, (2) applied to reduce plan expenses, or (3) reallocated to the remaining participants in the plan.

Committee Considerations

The litigation filed thus far has alleged that the decision on how to reallocate plan forfeitures by the plan fiduciaries was a fiduciary decision and not in the best interests of participants — even though the IRS allows plans to make this decision. In fact, this practice has been common among retirement plans for decades.

While these cases are still working their way through the courts, in view of how many plan committees routinely make decisions on the disposition of forfeitures, careful consideration on those determinations going forward would be prudent. As a result, retirement plan fiduciaries may want to consider the following:

1. Review the plan document to confirm how/if it says forfeitures are to be reallocated (some of the suits have alleged that plan committees have not followed the terms of the plan document).
2. If the plan document leaves the decision to the plan committee, in consultation with an ERISA attorney, consider amending the document to remove that decision from plan fiduciaries — either by spelling out a specific order of reallocation, or by leaving that decision to those not affiliated with the plan (say, the board, as a plan design decision).
3. Consider immediate vesting for eligible participants. Note that this has cost and communication implications. Recent research by Vanguard finds that vesting does not provide a systematic retention benefit, though there is a 2.5% recovery of employer contributions for the average plan.

In short, don't take forfeitures for granted.

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