Plan Insight – October 2024

Helping Employees Avoid Retirement Health Care Sticker Shock

Housing? Check. Life insurance? Check. Dining out? Check. For most retirees, these types of line items are fairly predictable and factored into their monthly budget. But when it comes to health care, the situation can change dramatically. These expenses are often unpredictable and underestimated — and this wild card can disrupt an otherwise carefully planned retirement, leaving many seniors vulnerable.

A recent study reveals a troublesome disconnect between what retirees expect to spend on health care and the actual costs they will likely face. According to Fidelity's 2024 Retiree Health Care Cost Estimate, a 65-year-old who retires this year can anticipate spending an average of $165,000 on health care throughout retirement. This estimate has risen nearly 5% from the previous year and has more than doubled since 2002.

Despite these escalating costs, the average American still expects to spend only around $75,000. However, there are strategies to help employees better predict — and plan for — medical costs in retirement.

Fully leverage HSAs. Promote the use of Health Savings Accounts (HSAs) for tax-advantaged savings on eligible healthcare expenses. Consider auto-enrolling employees in HSAs where possible and offer matching contributions to further incentivize saving.

Demystify Medicare. Address concerns and complexities surrounding Medicare plans to simplify decision-making. Offer regular workshops and resources to help employees understand enrollment and coverage options. Online tools can also help guide employees through the process of selecting the best Medicare plan for their needs and budget.

Integrate Social Security planning. Clarify how healthcare expenses can impact the timing and value of Social Security benefits. Health problems can push retirees to claim benefits earlier, reducing their monthly check for life. Provide tools and resources to help them make informed decisions, aligning Social Security timing with individual health care needs.

Encourage participation in preventive health programs. Since early health challenges can lead to an early retirement, promote wellness program offerings such as smoking cessation, fitness programs, and regular health screenings to help reduce long-term health care costs.

Offer one-on-one financial advice. Healthcare planning can involve sensitive topics that employees may be hesitant to discuss in group settings. Offering personalized financial counseling allows employees to receive tailored advice in a more private and supportive environment.

Timing retirement. Employees who choose to work beyond the typical retirement age may face higher healthcare expenses if they delay enrolling in Medicare. While some may assume that staying on an employer-sponsored health plan will suffice, late enrollment penalties can apply if they don't sign up for Medicare during their initial eligibility period. Additionally, working longer could mean higher income, which may increase Part B and Part D premiums.

Begin the Conversation Early

Using a multipronged approach and beginning the discussion about future healthcare costs early can help employees enjoy a more financially secure and predictable retirement.

Sources
https://newsroom.fidelity.com/pressreleases/fidelity-investments--releases-2024-retiree-health-care-cost-estimate-as-americans-seek-clarity-arou/s/7322cc17-0b90-46c4-ba49-38d6e91c3961
https://www.shrm.org/topics-tools/news/benefits-compensation/hsa-health-savings-accounts-automatic-enrollments-growing-trend

IRS Issues Guidance on Student Loan Matching

Thirty percent of adults in the U.S. report having received a student loan to further their education. According to the Federal Reserve, the median student loan debt for those with outstanding balances in 2023 ranged between $20,000 and $25,000. To help ease this financial burden, employers are increasingly offering a match toward student loan repayments as an employee benefit to help alleviate the financial strain. This trend also highlights the increasing focus on addressing student debt within the framework of overall financial wellness initiatives.

Amid these changes, the Internal Revenue Service recently issued interim guidance for plan sponsors that currently offer, or seek to provide, matching contributions for student loan repayments. The guidance is part of the SECURE 2.0 Act of 2022, which includes provisions for contributions to 401(k) plans, 403(b) plans, 457(b) plans or SIMPLE IRAs.

The IRS generally defines a qualified student loan payment as "a payment made by an employee during a plan year in repayment of a qualified education loan incurred by the employee to pay for qualified higher education expenses of the employee, the employee's spouse, or the employee's dependent."

The guidance, presented largely in a question-and-answer format, addresses a range of plan administration issues, including eligibility rules for matching contributions, "reasonable" contribution procedures that a plan may adopt, and special nondiscrimination testing relief.

The guidance also covers requirements for certifying that the criteria for student loan matching contributions have been met. Specifically, the plan must confirm the loan amount, the payment date, and the employee's payment, as well as verify that the loan was used for a qualified education expense for the employee, spouse, or dependent and that it was incurred by the employee. Additionally, employer contributions toward student loan repayments must align with the rate and vesting schedule of the plan's regular matching contributions.

The IRS guidance applies to plan years beginning in 2025. It also notes that, for plans before then, sponsors can “rely on a good faith, reasonable interpretation” of SECURE 2.0. Moreover, the IRS states that it intends to release proposed regulations offering additional guidance on student loan matching, but that plan sponsors can refer to the current notice until those regulations are issued. You can read the full notice here [https://www.irs.gov/pub/irs-drop/n-24-63.pdf].

Helping employees manage student loan debt through education and direct assistance allows them to be more productive and engaged on the job and better prepared for retirement. Financial wellness benefits can play a crucial role in creating a more financially stable and energized workforce — and building a culture that values employee financial health.

Sources
https://www.federalreserve.gov/publications/2024-economic-well-being-of-us-households-in-2023-higher-education-student-loans.htm
https://www.irs.gov/pub/irs-drop/n-24-63.pdf
https://www.pionline.com/regulation/irs-issues-guidance-matching-student-loan-payments-retirement-plans?utm_source=PIDailyWrap&utm_medium=email&utm_campaign=20240820

Navigating Higher Fees and Opportunities for Smaller 401(k) Plans

Although the costs of retirement benefits have generally decreased due to fee compression, smaller plans are still at a disadvantage. Smaller plans pay more per participant due to fixed costs, while larger plans benefit from economies of scale even with greater total costs.

The 2024 edition of the "401(k) Averages Book" states that total bundled charges, which include investing, recordkeeping, and administration fees, average 4.16% for plans with 10 members and $100,000 in assets, compared with 1.62% for plans with 500 participants and $5 million in assets.

Mark Alley, national market president from Alerus states “If you have a small plan with 10 or 20 employees, you still have to do the testing and all that… It doesn’t take much more to test a large plan than a small plan.”

Providers might also be more inclined to reduce variable costs for larger plans, or for plans with higher balances and fewer participants since they perceive a higher chance of cross-selling and other sources of revenue. Of course, small firms also have additional options, like SEP individual retirement accounts and SIMPLE 401(k) plans. The employer's setup of those programs is free at some providers. However, interpreting the intricate details of fees might be difficult for smaller companies that might not have an advisor.

The vice president of small business retirement products at Fidelity, Roger Morrissette, said, “We see general confusion, and folks are overwhelmed because there are a number of different options available.” To help combat this issue, Fidelity created a “Plan Selector” tool that allows employers to understand the difference between their plan options better.

Experts say that for plan sponsors considering a 401(k), the SECURE 2.0 Act of 2022 and the Setting Every Community Up for Retirement Enhancement Act of 2019 have helped lower the cost burden through support for pooled employer plans, which enable even smaller employers to benefit from economies of scale while also outsourcing part of the fiduciary risk and time needed to run a plan, as well as tax credits for new plans. Employers with fewer than 100 workers are eligible for a tax credit of up to $5,000 for the first three years of a new plan. An extra $500 is required to set up automatic enrollment, and each employee receives a $1,000 credit for matching contributions made to non-highly compensated workers.

The Standard’s assistant vice president of retirement plan services, Ted Schmelzle, says “Some of the more successful PEPs are leveraging that tax credit to allow small employers to maybe start up a plan with no cost at all.” Higher plan participant fees for small plans reduce savings further, but experts point out that these costs are still insignificant when considering the post-tax savings and possible long-term gains from investing in the plan. Sean Jordan, head of small- and mid-market segments at Principal Financial Group explains, “You’re talking about investment growth of multiple, full percentage points and fees that are basis points… They’re different scales.”

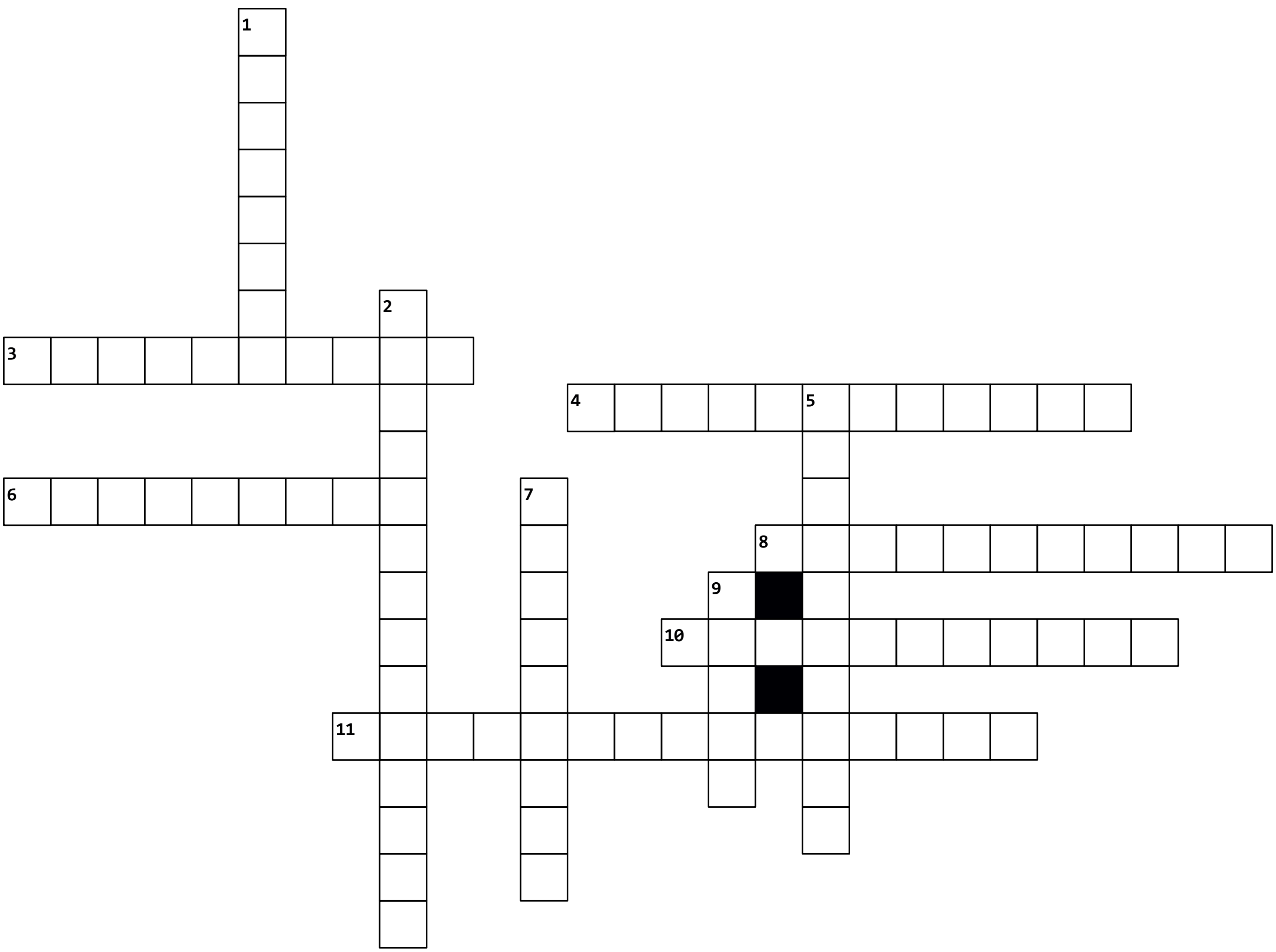
In addition to extra incentives to save in a workplace plan despite costs, individuals can further offset costs with any employer match. According to Joe Valletta, the principal owner of HR Investment Consultants and co-author of the "401k Averages Book," "participants can get things from a plan, such as the possibility to take a loan or make a hardship withdrawal: That might not be available in an if that's the alternative."

Another argument in favor of plan membership despite increased fees is that over time, the plan's cost should begin to decrease as participant assets and the plan both rise, particularly in a rapidly growing PEP. So even if the tax benefits don’t pan out in the first year, they will eventually increase in savings.

Sources:
https://www.plansponsor.com/smaller-plans-larger-costs/

PARTICIPANT CORNER

Retirement Plan Crossword



Across

3. The act of taking money out of your 401(k) account early, will receive penalty.
4. A lump sum paid to a participant or beneficiary.
6. Average age of retirement.
8. The party designated by a participant to receive the retirement plan benefits of a deceased participant.
10. (You) Involving trust, especially concerning the relationship between a trustee and a beneficiary.
11. Determines the portion of a participant's accrued benefit or account balance.

Down

1. Transferring funds from one plan to another.
2. A fund of funds.
5. An asset or item acquired to generate income or gain appreciation.
7. Involving trust, especially about the relationship between a trustee and a beneficiary.
9. An amount of money that an employer chooses to make to participating employees' retirement plans offered by the company.

Please access your retirement plan provider’s website or consult with your Advizrs Retirement Consultant at PlanInsight@advizrs.com.

Answer key:
1. Rollover
2. TargetDateFund
3. Withdrawal
4. Distribution
5. Investment
6. SixtyFive
7. Fiduciary
8. Beneficiary
9. Match
10. Participant
11. VestingSchedule