CABLE HILL PARTNERS
Workplace Retirement Solutions

2024

*The leaves are falling so you know what that means—retirement plan limits are rising! Welcome to our 4th quarter edition of CHP Retirement Times. As participants prepare for any year-end updates to their retirement plan, Cable Hill Partners is here to help. Feel free to contact Nicholas, Ryan or Parham at 503.765.1223 or at retirement**team**@cablehill.com*

INSIDE THE EDITION:

IRS Raises Limits on Retirement Benefits and Compensation

The annual contribution limit for employees who participate in 401(k) is increased to $23,500, up from $23,000. The IRA limit remains $7,000. The catch-up contribution limit that generally applies for employees aged 50 and over who participate in most 401(k) is $7,500 for 2025. Therefore, participants in most 401(k) plans who are 50 and older generally can contribute up to $31,000 each year, starting in 2025. A higher catch-up contribution limit applies for employees aged 60, 61, 62 and 63. Click here for more information.

IRS Limits on Retirement Benefits and Compensation

As published in IRS News Release IR-2024-285, Nov. 1, 2024

	2025	2024	2023
401(k), 403(b), 457 Elective Deferral Limit (calendar year)	$23,500	$23,000	$22,500
401(k), 403(b) & 457 Catch-Up Contribution Limit (calendar, plan or limitation year)	$7,500	$7,500	$7,500
401(k). 403(b) & 457 Higher Catch-up Contribution Limit (calendar, plan or limitation year for ages 60-63)	$11,250	N/A	N/A
Annual Compensation Limit (Plan year BEGIN)	$350,000	$345,000	$330,000
Defined Contribution Limit (limitation year END)	$70,000	$69,000	$66,000
Defined Benefit Limit at ages 62-65 (limitation year END)	$280,000	$275,000	$265,000
Definition of Highly Compensated Employee (HCE) (plan year BEGIN)	$160,000	$155,000	$150,000
Key Employee Compensation Threshold (plan year END)			
5% Owner	All	All	All
Officer	$230,000	$220,000	$215,000
IRA Contribution Limit	$7,000	$7,000	$6,500
IRA Catch-Up Contributions	$1,000	$1,000	$1,000

See www.irs.gov for more information.

Increasing 401(k) Balances Can Bring Increased Risk

By the second quarter of this year, the number of “401(k) millionaires” rose 2.5% from Q1, marking a record high according to Fidelity. At the same time, retirement savers overall experienced three consecutive quarters of growth — and that’s good news for many investors. However, a Vanguard analysis of its plans also shows a concerning trend: The percentage of savers who took hardship withdrawals from retirement accounts increased twofold over a three-year period, climbing from 1.7% in 2020 to 3.6% in 2023. Moreover, new rules introduced this year make accessing those funds even easier, allowing participants to withdraw up to $1,000 annually from a qualified retirement plan or IRA, without penalty, to cover self-defined urgent needs.

Rising 401(k) balances can lead to financial overconfidence for some participants, tempting them to view their retirement account as a quick fix during economic challenges instead of exploring alternative strategies for managing emergency cash flow. Here are ways employers can help.

Promote Goal-specific Savings and Solutions

Encourage participants to view their retirement plan as one part of a holistic financial strategy that includes building emergency savings, managing debt and setting short- and mid-term financial goals. Provide tools and resources that emphasize creating greater financial security through emergency funds, PLESAs or goal-based savings accounts.

Provide Data to Drive Decisions

Educate participants on the risks of dipping into their 401(k) for non-retirement needs. Offer clear examples and online tools that illustrate long-term impacts of loans or early withdrawals, clearly demonstrating potential risks to their retirement readiness. Empowering participants with data can encourage them to search for alternative solutions.

Offer a Human Touch

Give workers the opportunity to schedule one-on-one sessions with a financial advisor ahead of any loan or early withdrawal. Personalized advice can facilitate understanding of the long-term consequences of prematurely accessing retirement savings. Advisors can review the employee’s full financial picture and offer tailored solutions that might make an early 401(k) withdrawal unnecessary.

Leverage Financial Wellness Programs

Many participants dip into their 401(k) due to overwhelming financial pressures, especially high-interest debt. Offering specialized financial wellness programs that focus on debt management, consolidation strategies, nonprofit credit counseling or low-interest refinancing can give employees alternatives to raiding retirement accounts.

Carefully Consider Plan Design

As a plan sponsor, you have flexibility in determining whether your plan offers loans and hardship withdrawals and, if so, how much and under what conditions. Additionally, implementing a tiered vesting schedule can help discourage excessive borrowing while promoting steady participation.

Help Participants Reframe and Reprioritize Retirement Savings

Just as the broader economy is experiencing record highs in both stock market values and personal debt levels, participants are facing a similar dichotomy with growing 401(k) balances and rising loan and hardship withdrawal activity. While it's encouraging to see participants accumulate wealth, it's also crucial to address the potential pitfalls of borrowing against or depleting those funds. With a multi-faceted approach, you can help employees avoid sacrificing tomorrow's financial security to meet today's needs.

Sources

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https://corporate.vanguard.com/content/dam/corp/research/pdf/how_america_saves_report_2024.pdf

https://www.kiplinger.com/taxes/new-early-withdrawal-tax-rules

Protecting Benefit Plans from Cybersecurity Threats

Many plan sponsors focus on external cybersecurity threats, such as hackers attempting to breach their systems, but disgruntled employees can also pose a risk.

Recently, the Department of Labor (DOL) extended the scope of its cybersecurity guidelines to include all Employee Retirement Income Security Act (ERISA) plans, which include retirement, health, and welfare programs. This means that plan sponsors now have considerably more private information to safeguard.

Sean Fullerton, senior investment strategist at Allspring Global Investments, says that fortunately, most workers do not have direct access to sensitive data like participant account passwords or retirement funds, which are handled by recordkeepers and custodial banks. According to the Verizon 2022 Data Breach Investigations Report, internal threats make up about 20% of security breaches, making them less common than external cyberattacks. Jenny Eller, principal in Groom Law's retirement services practice, notes that in her 25 years of practice, she's only encountered one case where an employee attempted to commit fraud by creating a fake account.

Nevertheless, certain employees, such as those in HR, IT, or treasury, may have access to sensitive plan information or personal data. However, there are ways to mitigate the risks posed by disgruntled employees.

Limiting Access. The Department of Labor advises plan sponsors to follow several best practices, one of which is restricting access to the plan administration. Sentinel Group's Julie Doran Stewart, head of fiduciary advice services, emphasizes the value of having written internal control procedures. These policies outline how HR or IT teams should deactivate employee access and how soon they should notify vendors of these changes. “If we have a client that doesn’t tell us that this happens, then we’re only as good as the information we have,” she says.

Sentinel ensures access points are routinely verified by conducting routine audits of who has access to the plans they manage. Fullerton also advises plan sponsors to review their service providers' information security standards to ensure comfort with how these organizations handle cybersecurity.

To verify their cybersecurity practices, Doran Stewart advises submitting an annual due diligence questionnaire to advisors, recordkeepers, and third-party administrators, the questionnaire should specifically ask about access limits. “The Department of Labor obviously has made this a priority from a fiduciary governance perspective, so they are going to be looking for procedures and records related to that due diligence being done,” she says.

The threat of fraud increases with the number of people who have access to plan data, according to Tim Rouse, executive director of the SPARK Institute, which contributed to the development of several of the DOL's suggested cybersecurity procedures.
At the advisor level, SPARK is cautious about allowing advisors too much access to participant accounts, including using tools like screen-scraping, which have the potential to be misused.

Leveraging Technology. Plan sponsors should encourage employees to log into their accounts regularly and use security features such as multi-factor authentication. This is particularly important following a change of recordkeepers because inactive accounts expose themselves to hackers. Stewart notes that while some participants might think that keeping their accounts unlogged keeps them secure, doing so actually makes it easier for malicious actors to access them.

There is also the potential for disgruntled employees at the sponsor level to embezzle funds before they reach participant accounts and internal controls, such as audits, can help prevent this, Rouse adds.

As an alternative to emailing spreadsheets for data transmission, SPARK is collaborating with a committee of third-party administrators to standardize file formats for Application Programming Interface (API) connectivity. Additionally, APIs are less susceptible to attackers.

Using detective controls to monitor data usage can help IT departments identify suspicious activity, such as logging in at odd hours or large data downloads, according to Lou Steinberg, founder and managing partner of CTM Insights LLC, a cybersecurity research firm.

Given that employee benefit plans can be accessed via phone, computer, or mobile apps, plan sponsors should ensure both their benefits and IT teams collaborate during vendor due diligence. “Those are two different skill sets … so keeping an open line of communication [about] how they can mutually assist each other … is important,” Doran Stewart concludes.

Sources:
https://www.plansponsor.com/insider-threats-are-disgruntled-employees-a-cybersecurity-risk/

The High Cost of Financial Stress in the Workplace

According to the results of a 2024 American Psychiatric Association mental health poll, 43% of adults reported higher subjective feelings of anxiety than they did the previous year. Respondents indicated feeling anxiety related to a number of issues, but high on the list were the economy (77%) and paying bills or expenses (63%). These concerns were on par with worries about their health (63%), keeping themselves or their family safe (68%) and gun violence (69%).

According to ComPsych, the world's largest provider of employee assistance programs, anxiety is the No. 1 presenting issue of employees seeking counseling, exceeding self-referrals for depression, stress, relationship issues, family issues, addiction and grief. The direct consequences of untreated anxiety impact both employees and employers alike.

Referencing MetLife's annual U.S. Employee Benefit Trends Study, SHRM notes that "financial concerns and a persistently high cost of living — which other reports suggest are causing a significant number of employees to live paycheck to paycheck — are the top reasons for poor mental health among employees in 2024, cited by 45 percent." As a result, costs for employers are rising as well. According to ComPsych, employee leaves of absence resulting from mental health issues have surged by an astounding 300% from 2017 to 2023, with durations ranging from just a few days to several weeks. Absenteeism and resulting losses in productivity can be significant for organizations.

These alarming statistics underscore the critical need for employers to prioritize financial wellness programs as part of a holistic benefits offering. This can include financial planning workshops, budgeting tools and debt management programs. In particular, access to one-on-one sessions with financial advisors can provide personalized guidance and support for employees struggling with financial stress.

To further support employees' financial well-being, organizations can also consider offering resources such as emergency fund assistance programs and student loan repayment plans. The SECURE 2.0 Act authorized the establishment of pension-linked emergency savings accounts (PLESAs), or short-term savings accounts maintained as part of a worker's retirement plan. Available for plan years beginning after Dec. 31, 2023, plan sponsors may auto-enroll their employees into PLESAs, make employee contributions to PLESAs through payroll deductions and provide matching contributions. Employers may set a contribution limit of up to $2,500, which participating employees can withdraw without the penalties associated with drawing funds from their retirement account.

By equipping workers with the necessary resources to manage their finances effectively, employers can help alleviate some significant drivers of poor mental health in their employee pool. This investment not only supports the well-being of employees but also benefits organizations by fostering a more engaged and productive workforce and helping to reduce costs associated with mental health-related absences.

Sources

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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.

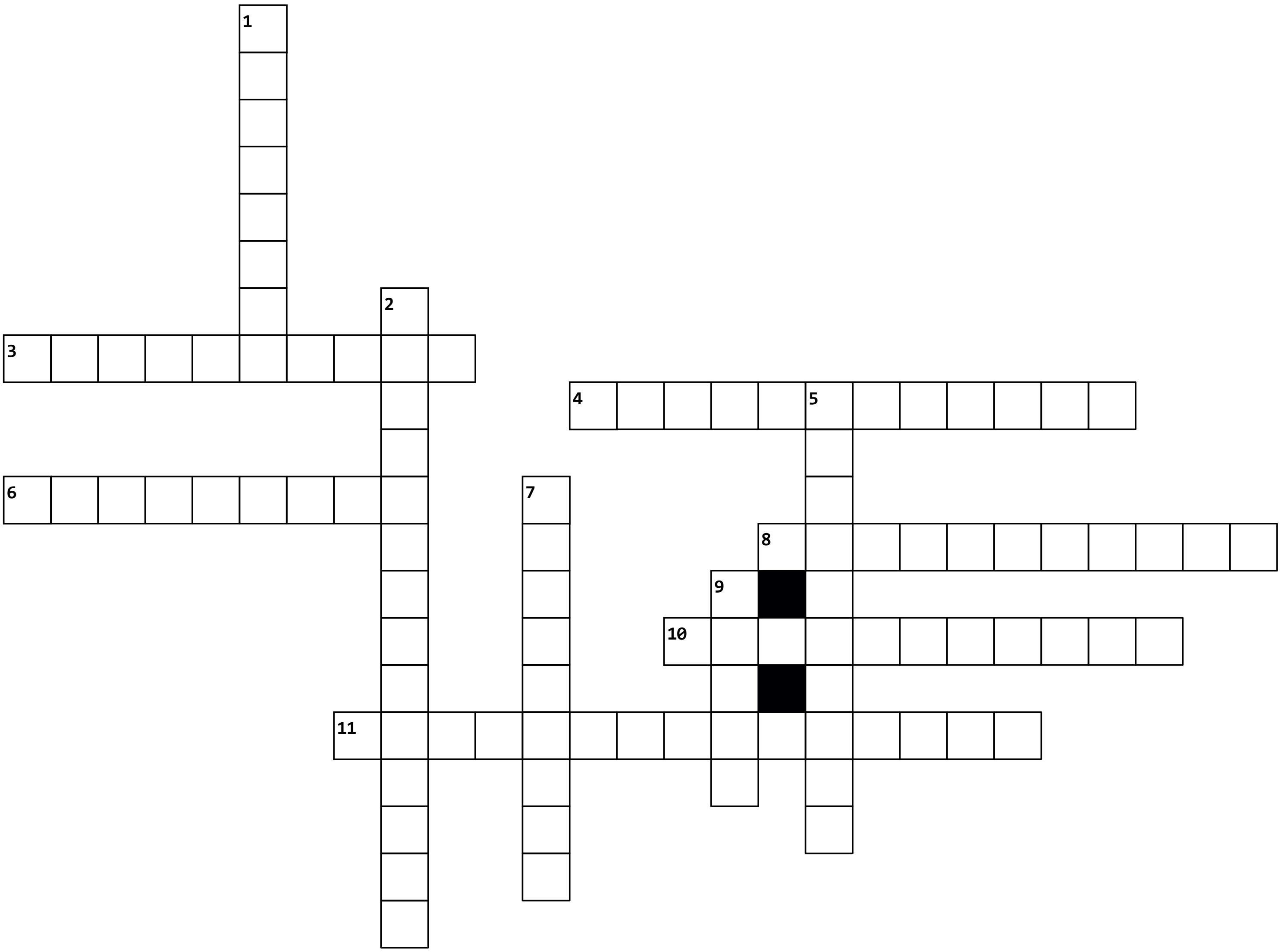
The Standard's assistant vice president of retirement plan services, Ted Schmelzle, says "Some of the more successful PEPs are leveraging that tax credit to allow small employers to maybe start up a plan with no cost at all." Higher plan participant fees for small plans reduce savings further, but experts 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/

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 financial professional Cable Hill Partners at 971.940.7354 or www.cablehill.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

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