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Perspectives

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Employer Review of Retirement Plan Benefit

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What employers can do to help employees to utilize benefits as they near and enter retirement.

For many years, you have helped employees save for their retirement by offering an employer sponsored retirement plan benefit. You have encouraged savings through ensuring education sessions were held, individual consultations were available, and maybe even set up automatic enrollment to increase participation and start employee savings immediately upon eligibility. And perhaps you have provided employer contributions to add to their retirement savings. You feel like you have been focused on retirement readiness for your employees, and to save, save, SAVE.

And suddenly, as you are reviewing your 401(k) plan and workforce demographics, you realize you have many employees who are age 55 plus and nearing retirement. In fact, you may have employees beginning to ask you about their retirement plan withdrawal options, and their potential annual income in retirement. You begin to wonder what you can do as an employer to help employees nearing retirement make decisions, and to have options to hopefully manage their savings wisely in retirement.

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Employees have a lot of information to sort through, and decisions to make when retiring. And often at retirement, employees have many tasks that need to be completed such as signing up for Medicare, finding supplemental health care, applying for Social Security, transitioning their responsibilities to a co-worker and perhaps even moving. If the employee does not need money from their retirement plan immediately, it may give them peace of mind to know they do not have to make a decision right at the moment of retirement. They may leave their money in the retirement plan provided their account balance is greater than the plan established minimum balance.

When the employee is ready to begin withdrawing retirement plan savings, their withdrawal options are dependent upon how the employer has structured the retirement plan document. At times, the plan document is set up where the only option is for the participant to take a lump-sum distribution of their entire account. And, if the participant does not roll the distribution over into an IRA within 60 days, they will have to pay income taxes on the distribution, and they have lost the benefit of tax-deferred compounding by cashing it out all at once.

If a lump-sum distribution is the only option offered within the retirement plan, and the employee rolls over their account to an IRA, there may be a cost disadvantage. Often the investments in an IRA are retail share classes, which have higher annual expenses than institutional share class funds usually offered in retirement plans. There may be transaction or load fees associated with the investments offered with the IRA, and if the employee wishes to have assistance through a financial advisor there may be another fee with the IRA. Also, if the employee retires between age 55 and 59½, there is a 10% penalty fee for withdrawals taken from an IRA that is not applicable to a 401(k) plan. Yet, if the employee desires more investment options, then rolling their account over to an IRA may be the best choice.

However, what if the employee likes the 401(k) plan investment choices, believes the fees are reasonable, values the support and guidance offered through the education team call center, and wants to avoid the hassle of moving their account? Is there an option for the employee to leave their account balance in the 401(k) plan? Yes, if the retirement plan document is written to allow partial or systematic withdrawals from retirement accounts. For example, a partial withdrawal is when a participant submits a distribution request for $2,500 and then comes back at a later date to request another distribution for the same or different dollar amount. A systematic withdrawal is when a participant establishes a specific dollar amount to be distributed periodically, such as quarterly.

In addition to having the retirement plan document written to allow partial and systematic withdrawals, the employer can assist employees nearing retirement decisions by having Greenleaf Trust come on-site to offer a Retirement Readiness education session for employees over age 50 or nearing retirement. This education provides a timeline for preparing for retirement, some Social Security and Medicare information, and withdrawal rate and asset allocation considerations.

Additionally, our Participant Services Team offers individual consultations to provide your employees a private review of their account investments and savings projections. If you wish to have any more information on this topic, please contact the Retirement Plan Division within Greenleaf Trust.