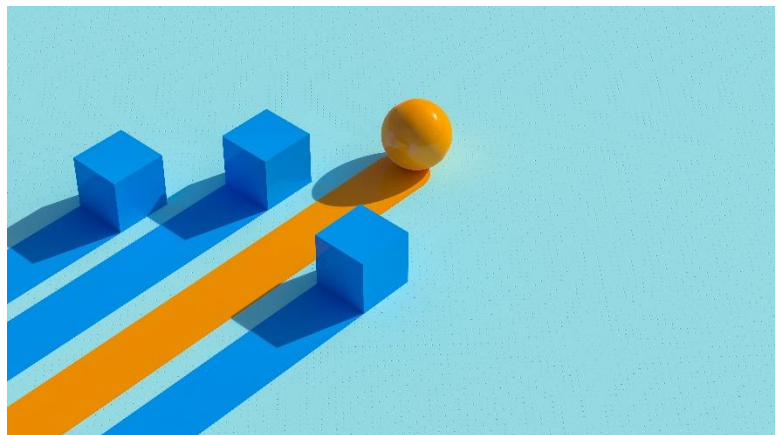


## Plan Insight – January 2023

### IPS Can Still Add Value for Plans Despite Goldman Sachs Dismissal

Investment policy statements (IPSs) are commonplace among retirement plans — with around 83% providing one. And that number tends to be even higher among bigger plans. Financial powerhouse Goldman Sachs is one of the larger employers that doesn't utilize an IPS. In fact, this was the subject of a recently dismissed lawsuit by a former Goldman employee, whose attorney alleged that the company violated ERISA by, among other things, failing to adopt an IPS.

The federal judge in the Goldman Sachs case reaffirmed that “the Department of Labor has never taken the position that an IPS is required to satisfy a fiduciary's duties.” Moreover, the absence of an IPS was not, in and of itself, sufficient cause for the case to proceed. Nonetheless, that doesn't undercut the potential advantages of establishing an IPS.



**Roadmap for your plan.** An IPS offers guidelines to assist advisors and fiduciaries in selecting and monitoring investments — and provides documentation that serves as an objective framework for various aspects of plan decision-making. In essence, it helps to create evidence of a prudent process.

**Clarification of roles.** By clearly outlining the roles and responsibilities of parties involved with the plan's investment process, an IPS can help increase plan oversight and accountability. And it offers guidance that can assist both advisors and fiduciaries.

**An aid in communication.** An IPS can help onboard new committee members more quickly and efficiently. It's also a useful vehicle to provide employees with information about the plan's investments and management.

**A tool for improvement.** The creation of an IPS requires thoughtful consideration of the plan and investment details. This means that during the process, you may uncover plan weaknesses or find opportunities for improvement that you might not have otherwise.

**Potential risk mitigation.** In addition to providing valuable information to aid in plan management, having an IPS could help protect your organization. It offers an extra level of oversight in the form of a paper trail that can serve as documentation that you're upholding your fiduciary duty should allegations of impropriety arise.

## Talk to Your Advisor About the Advantages of an IPS

Your retirement plan advisor can provide more information about an IPS and how it can assist key stakeholders within your organization and help strengthen your plan. While simply having an IPS can't fully insulate you from the risks of an ERISA lawsuit, it may offer an additional layer of protection, clarify plan decision-making, and help your organization better define and meet business objectives.

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## Workers Are Turning to Employers for Inflation Help



With inflation at its highest levels in more than four decades, it's not surprising that nearly three in four American workers report they're experiencing increased stress concerning their personal finances. According to a 2022 survey of more than 1,000 employees conducted by Voya, almost 90% of respondents say that inflation — including the rising cost of food, gas and housing — was their greatest concern.

As a result, many employees (70%), according to the research, are looking to optimize employer-provided benefits, including HSAs, health care, retirement savings, disability income, critical illness and accident insurance during open enrollment. Increasingly, American families are having to reconcile

competing budget priorities as they attempt to deal with day-to-day financial challenges and simultaneously work to meet longer term retirement and emergency savings goals.

Inflationary pressures have hit lower income workers harder, with the majority of their paychecks often allocated to purchasing food and other basic household necessities. And with pandemic stimulus and child tax credit cushions gone, the financial impacts are being felt to an even greater degree. Unfortunately, even the benefit of higher wage growth during a tight labor market has largely been outpaced by the combined effects of rent increases and inflation.

In contrast, higher income households, with a greater proportion of disposable income, tend to apportion a higher percentage of their budgets toward retirement accounts, investment accounts and mortgage payments versus everyday expenses. Plus, their more substantial savings and increased home equity, bolstered by the recent run-up on home prices, has helped insulate them from rising costs at the grocery store and elsewhere.

A 2021 Schwab survey found that participants are seeking assistance from employers in the following areas when it comes to retirement planning:

- Determining how much they need to retire (44%).
- Deciding how to invest in their employer-sponsored retirement plan (39%).
- Understanding how to generate retirement income (35%).
- Anticipating retirement tax liabilities (35%).

High market volatility and retirement plan investment losses have further complicated retirement savings as participants have watched account balances diminish. Plan sponsors can provide education around mitigating investment risk as well as saving, budgeting, debt and retirement planning through their financial wellness programming. They might also consider offering lifetime income options in their investment lineup.

Supporting workers through this unprecedented post-pandemic period of historic inflation will require a multipronged strategy, bearing in mind the outsized impacts on lower income earners. That participants are turning to employers for guidance in maximizing their benefits and navigating financial difficulties is an encouraging sign — and one that plan sponsors should not take lightly.

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## Speaking of One Percent



Since the contribution limits were recently raised by 10% 401(k), 403(b) and most 457 plans (to \$22,500), we thought now might be a good time to share creative ways to communicate to your participants the benefits of increasing contributions to their retirement plan. These new, higher limits could strengthen their retirement goal, but participants might not be too keen on squirreling away too much right now, and that's understandable.

As participants consider their elections at open enrollment, they're likely weighing which benefits they'll keep and what they'll drop as they enter 2023 with a market that continues to fluctuate and grocery prices that remain uncomfortably high. The good news that is inflation seems to be calming down, and some analysts expect it will continue to cool.<sup>1</sup> This means it could

be a good time to start contributing to a retirement plan or to increase contributions—even if it's only by 1%.

### Communicating the Payoff/Benefit of Just 1%

You can help participants conservatively establish a good habit of regular contribution increases now and down the road by identifying the difference just 1% can make. Here are three talking points:

Some workers may decide to visit their contributions twice per year: they start the New Year off with a win by increasing contributions 1%, and on their birthday, they give themselves an additional gift of contributing another 1%. We've included a 3-slide graphic that really drives home how much 1% can grow over time.

A 35-year-old earning \$60,000 per year could have an additional \$85,500 in their retirement fund at 67 if they increased their contributions by 1%, according to [calculations from Fidelity Investments](#).<sup>2,3</sup>

That number (\$85,000), by the way, is close to what the average American's total retirement savings is today, which is 11% lower than last year's average of \$98,000, according to a recent survey that Harris Poll took of 2400 adults over the age of 18.<sup>4</sup> This means that people are dipping into their savings, so promoting the long-term growth potential of retirement account contributions may ease concerns around these dwindling savings numbers.

### Translating "Savings Today" into "Comfortable Future"

Finally, you already know how important it is to consider the demographic you're focusing on regarding retirement account contributions based on which generation they represent. One commonality, however, is that the Boomer and Millennial alike are living in the now—the right now—especially after Covid showed us all that our right now can be reorganized without warning. Schroders' head of US defined contribution, Deb Boyden, told EBN that we need to rethink how to "reach investors that have the mindset of living in the moment. ... [We] need help translating their savings today into what that means for the future."<sup>5</sup>

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