Heartland Institute of FINANCIAL EDUCATION

The Heartland Institute Of Financial Education

2851 S. Parker Road **Aurora, CO 80014**

Phone: 303-597-0197 **Fax: 303-369-3900**

NEWS REVIEW

May 2013

In Spite of the Recovery, More Workers Are Borrowing From 401(k)s

Karen Weise, Bloomberg Businessweek

One statistic about U.S. household finances is so startling that it deserves its own post: Nearly one in three employees say they took a hardship loan or distribution from their 401(k) retirement accounts last year, up from one in four in 2011. Considering that hardship loans and distributions can trigger penalties or other costs, this is an expensive proposition.

Then there are the ripple effects: Borrowers miss out on any investment gains, like the market's big rally over the past four years, and—as Nick Summers and I reported in our mega financial planning flow chart below —it's wise to shore up retirement savings before paying for other things, such as buying a house or saving for a child's education.

To understand what's driving the increased desperation, even as the U.S. economy recovers, it helps to break down the data (see below). The financial-education firm behind the study, Financial Finesse, provided *Bloomberg Businessweek* with additional stats that shows three groups struggling more than others:

Women. 34 percent of female employees said they took 401(k) loans or hardship distributions, compared to just 23 percent of men—a wider gap than in 2011.

Lower-income employees. 45 percent of employees earning from $35,000 to $60,000 said they had to tap their 401(k)s, compared to 11 percent of people earning more than $200,000.

Younger workers. Those aged 30 to 44 reported a big increase in hardship loans and distributions, going from 27 percent in 2011 to 37 percent in 2012.
Whether these trends continue depends on how much more the economy rebounds. If it continues to grow unevenly, more Americans will need to raid their retirement funds to make ends meet.

Copy and paste in browser: http://www.businessweek.com/articles/2012-12-20/the-financial-planning-flowchart

Copy and paste into browser: http://www.financialfinesse.com/wp-content/uploads/2013/03/2012_Year_in_Review_Research.pdf

Heartland Institute of FINANCIAL EDUCATION

NEWS REVIEW

Senators' SEAL Act Would Ease 401(k) Loan Paybacks

Sens. Nelson and Enzi reintroduce Shrinking Emergency Account Losses

By Melanie Waddell, Advisorone March 19, 2013 (Reprint)

Two senators reintroduced legislation Tuesday that would give those who borrow against their 401(k) plans more time to replenish their accounts after leaving a job.

The bipartisan proposal, the Shrinking Emergency Account Losses (SEAL) Act, sponsored by Sens. Bill Nelson, D-Fla. and Mike Enzi, R-Wyo., would give workers who leave their jobs the opportunity to repay money they've taken out of their company's retirement plan prior to filing their federal taxes.

Under current law, workers have 60 days to repay any loans or withdrawals following their separation to avoid paying tax penalties. According to a 2011 study by the consulting firm Aon Hewitt, nearly 70% of employees default on outstanding retirement account loans after leaving a job, the senators said in reintroducing the bill.

"We need to give folks more incentives to continue saving for their retirement," said Nelson, who chairs the U.S. Senate Special Committee on Aging. "Giving them extra time to restore money owed to their 401(k)s is one way we can help cut down on lost retirement savings."

Enzi added in the same statement, "A secure retirement is a secure future. By giving people greater flexibility in repaying money they borrowed from their 401(k) accounts, we can help promote responsible savings and a better retirement for today's workers."
The bill would also allow employees to continue to contribute to their 401(k) plans during the six months following a hardship withdrawal, a practice currently prohibited. Letting workers fund their accounts after a withdrawal would allow them to receive a company's matching contributions.

Brian Graff, CEO of the American Society of Pension Professionals and Actuaries (ASPPA), said in a statement that more Americans save at work through an employer sponsored retirement plan than in any other way.

"The power of their compounding retirement savings is weakened when the individual takes a hardship withdrawal from retirement savings or does not repay a loan from a 401(k) plan because it came due when employment was terminated," Graff said. "We are mindful that some employees have serious immediate financial needs. Therefore, we believe it is important to minimize the harm that comes from accessing retirement funds for nonretirement purposes. The SEAL Act would be an important step toward addressing this problem."

NEWS REVIEW

Heartland Institute of FINANCIAL EDUCATION

Employer, Employee 401(k) Participation Holds Steady

By Brian M. Kalish March 13, 2013

The number of employers offering a sponsored retirement plan slightly increased in 2012 from four years prior, while matches and employer contributions remained near constant, according to a survey released today by WorldatWork and the American Benefits Institute.

In 2012, 94% of employees said their company provided a 401(k) plan, compared to 91% in 2008, according to the "Trends in 401(k) Plans and Retirement Rewards" report involving about 500 employees nationwide. However, the survey summary says these numbers may be skewed due to the fact that more than 71% of companies involved, employ more than 1,000 people and because of the report's name, it may have signaled to potential participants that only those who offer a 401(k) plan should participate.

While the number of companies offering plans is high, participation remains high as well. Seventy-three percent of the respondents say that greater than 70% of their eligible employees participate in the employer-sponsored plan. And of those participating, 77% say the average employee contribution was greater than 5% of salary per paycheck, with 53% of companies reporting an average contribution of 5-7%.

In fall 2011, the Internal Revenue Service announced that it was raising the maximum contribution allowed to $17,000 in 2012, up from the $16,500 limit in 2011.
Further, the study found that the 2008 financial crisis did not significantly alter 401(k) contributions. Almost nine-out-of-ten companies report their company neither suspended nor eliminated their company matching contribution during the previous five years. In fact, for 77% of companies surveyed, there was no change in the 401(k) matching formula, and they are not considering a change in the future.

WorldatWork and the American Benefits Institute saw room for continued education on retirement plans due to employees not contributing the maximum to their retirement plan and not taking advantage of the full employer match being offered.

"Employers may be able to help improve employee contribution rates by implementing automatic escalation features in which participant contributions gradually rise over time or with salary increases," the study suggests.

The future of 401(k) plans remains unclear as Washington eyes their tax-favored status. They are among the costliest tax breaks.

Heartland Institute of FINANCIAL EDUCATION

Middle-Income Boomers Not the Retiring (planning) Type

By Maria Wood MARCH 12, 2013 • REPRINTS

Many middle-income Americans are woefully under-informed about Social Security and have yet to calculate how much monthly income they will need in retirement or given much thought to their probable lifespan.

Those perceptions came to light in a recent study, "Longevity Risk and Reward for Middle-Income Americans," sponsored by the Bankers Life and Casualty Company Center for a Secure Retirement and conducted by independent research firm the Boomer Project. For the Internet-based survey, 500 Americans between the ages of 55 and 75 with an annual household income of $25,000 to $75,000 were polled in November.

Some key findings of the survey which have major implications for retirement planning were:

Social Security

Although nearly three out of four (72 percent) middle-income Americans who receive Social Security benefits said that the program accounts for at least half or more than half of their retirement income, many are misinformed about how Social Security actually works. For example, 34 percent of those over age 55 did not understand that by delaying the start of Social Security payments, they can vastly increase future benefit amounts. Further, 36 percent incorrectly believed that full Social Security benefits start on their 65th birthday. However, full retirement age for baby boomers born in 1946 is now age 66, while younger boomers born in 1964 will not reach full retirement age for Social Security payments until they reach age 67. Also, roughly half (47 percent) falsely thought that annual cost of living increases in Social Security payments were guaranteed, when in fact, no COLA (cost of living adjustment) hikes were made in 2010 and 2011.

"Most Americans will rely on Social Security to fund their retirement years, but the program was never designed to replace all of [their] income," stated Chris Campbell, vice president of marketing and business development at Bankers Life, in a release about the study. Therefore, it's important for consumers to know their full retirement age and explore other income options. "Many products and services exist for people with virtually any level income and assets that can help ensure [they] will not out live their money."

NEWS REVIEW

Heartland Institute of FINANCIAL EDUCATION

Longevity

While longevity plays an important role in retirement income planning, 87 percent of middle-income Americans age 55 and older said they spend little time thinking about it. Only 21 percent have discussed life expectancy with a professional advisor. Just half have broached the subject with their doctor.

Two-thirds contend life expectancy is dependent upon genes and is out of their control. They did not view factors they could control, such as eating right and exercising, as having as much an influence as genetics and family history. Yet on average, the respondents with a median age of 65 estimated that they would live to 86, which isn't far off from statistics from the Centers for Disease Control and Prevention that project a 65-year-old will live until age 84.

Declining health was the No. 1 longevity concern for middle-income Americans (38 percent), trumping inadequate retirement savings (10 percent) and outliving savings (9 percent).

Retirement planning

Many pre-retiree baby boomers express concern over how they will finance their retirement. Nearly two-thirds (62 percent) of middle-income pre-retirees reported some level of anxiety about retirement, and one in four (28 percent) said they were "anxious" or "very anxious."

Despite those apprehensions, only 21 percent of middle-income retirees and pre-retirees had calculated a monthly retirement income goal; and, only one in 10 (13 percent) had estimated a total retirement savings target.

To make up for any retirement income shortfalls, 63 percent said they would reduce spending, while 41 percent said they would get a part-time job.