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GAO on Crypto in 401(k)s: Risks and Oversight Challenges

Recent findings from the Government Accountability Office (GAO) highlight critical considerations for sponsors exploring cryptocurrency as a retirement plan investment option. The GAO report emphasizes that while cryptocurrency assets remain a small portion of the 401(k) landscape, they carry significant risk.

Known for their high volatility, crypto assets like bitcoin can lead to substantial swings in portfolio value. For instance, a GAO simulation found that allocating 20% of a portfolio to bitcoin resulted in notably higher volatility compared to smaller allocations of 1% or 5%. Such unpredictability underscores the importance of exercising caution.

Limited Oversight and Data Gaps

One of the major challenges with including cryptocurrency in retirement plans is the lack of comprehensive oversight and data. According to the GAO, the Department of Labor (DOL) currently lacks the tools to systematically measure the presence of crypto assets in 401(k) plans. Reporting gaps in plans with fewer than 100 participants and those within self-directed brokerage windows — as well as regulatory blind spots — create uncertainty for fiduciaries trying to assess potential risks.

Fiduciary Responsibility and Due Diligence

The DOL has previously cautioned plan sponsors to act with “extreme care” when considering crypto assets. Despite cryptocurrencies such as bitcoin recently hitting record highs, sponsors must evaluate whether offering such investments aligns with their duty to act in the best interest of participants. The unique risks associated with crypto — including cybersecurity threats, potential theft and lack of standardized return projections — warrant careful consideration before including these options in investment lineups.

A Call for Greater Oversight

Massachusetts Congressman Richard Neal, a leading voice on retirement policy, requested the GAO report and has reiterated the need for stronger federal oversight of cryptocurrency in plans and robust measures to safeguard participants. “[The GAO] report shows there’s more to do to protect American workers and their retirement savings from the volatile, high-risk environment that comes with cryptocurrencies,” Neal said in a statement.

Considerations for Plan Sponsors
For employers considering or already offering cryptocurrency options, it's advisable to:

- Review fiduciary obligations. Ensure all investment options meet the highest standards of prudence and regularly evaluate potential risks of including cryptocurrencies in the plan lineup.
- Monitor regulatory updates. Stay informed about developments in federal oversight and reporting requirements.
- Educate participants. Provide clear information on the risks and volatility of crypto investments.
- Limit exposure. If offering crypto, consider restricting allocations to a small percentage of portfolios to mitigate risk.
- Consult with legal counsel. Ensure compliance with ERISA guidelines and other relevant federal regulations when considering cryptocurrency investments.

By approaching cryptocurrency with caution and due diligence, plan sponsors can better protect participants while navigating the challenges of this rapidly evolving market.

Sources
https://www.gao.gov/products/gao-25-106161
https://www.dol.gov/newsroom/releases/ebsa/ebsa20220310

Why Workers Leave Matching Dollars on the Table

A 2023 Vanguard study found that a quarter of participants deferred less than 4% of their income — generally below the threshold to maximize an employer match. While financial constraints play a role for some, psychological factors can also contribute. Understanding these cognitive biases can help explain why workers forfeit free money — and highlight strategies to help.

Present bias and hyperbolic discounting. People often prioritize immediate rewards over long-term benefits, driven by two related but distinct tendencies: present bias and hyperbolic discounting. Present bias causes employees to favor immediate gratification over future rewards, including employer matches. Hyperbolic discounting expands on this by showing how people increasingly undervalue rewards as the delay to receiving them grows longer. To help address present bias and hyperbolic discounting, employers can frame matches as "an instant 100% return" on contributions. Tools that reduce the psychological distance of future rewards — like visualizing one's future self — can also help participants better connect with the long-term value of saving.

Anchoring bias and the status quo. Anchoring occurs when employees rely too heavily on initial information — like default rates — while the status quo bias can result in a preference for maintaining the current state, even if better options are available. Defaults can serve as psychological anchors, leading participants to assume these rates are sufficient — even if they fall short of the amount needed to max out their match. Employers can address this by raising default rates and adding auto-escalation features to increase savings over time.

Paradox of choice. When employees are faced with too many options — such as fund selections or allocation possibilities — they may feel overwhelmed and avoid making decisions altogether. Streamlining investment menu options, and offering simplified, automated paths to maximize matches, can help minimize the role of choice in the equation. You can also provide education around target date funds, framing them as a simpler, "one-decision" strategy.

Loss aversion. This behavioral tendency leads people to feel the pain of losses more strongly than the pleasure of equivalent gains. For workers, the psychological weight of “losing” immediate paycheck money can outweigh the future benefits of the “free” match. Plan sponsors can counteract this by flipping the script and reframing the real loss as a missed financial opportunity — that is, what participants stand to lose in terms of the company match. Providing employees a personalized projection of missed matching dollars at their current deferral rate may stoke some healthy financial FOMO, and make the perceived cost of inaction more concrete and immediate.

Social proof and normative behavior. Employees are influenced by their perception of the financial habits of their peers. If maximizing the employer match isn’t seen as the norm, participation can suffer. Promoting retirement saving through success stories can help establish higher contributions as the standard more workers strive toward.

Preventing Retirement Gaps Is Easier Than Closing Them

When employees fail to max out their match, it’s not just today’s dollars they lose. But with proactive steps, you can potentially preserve years of compounded growth and help prevent a retirement gap before it happens.

Sources
https://institutional.vanguard.com/content/dam/inst/iig-transformation/insights/pdf/2023/how-americans-can-save-more-for-retirement.pdf

PBGC Updates Premium Deadlines for 2025 Plan Years and Beyond

A technical update on the deadlines for premium payments for pension plans with plan years beginning in 2025 and later was issued by the Pension Benefit Guaranty Corporation (PBGC).

The announcement highlighted that premiums for plan years starting in 2025 must be paid one month ahead of schedule in accordance with the Bipartisan Budget Act of 2015 (BBA 2015), as opposed to the PBGC's payment of premiums regulation.

According to Section 502 of the BBA 2015, the deadline for filing premiums for plan years starting in 2025 and later is the 15th day of the ninth calendar month following the start of the plan year. For example, the premium due date for a plan year beginning on January 1, 2025, will now be September 15, 2025, instead of October 15, 2025, as it was under the previous rule.

For 2025 plan years, the BBA 2015 clause overrides the regular and special premium due date regulations. However, it does not override the PBGC's disaster assistance guidelines or the filing rules for deadlines that coincide with weekends or federal holidays.

The revised deadlines for plan years starting in 2025 can all be found on the PBGC website. The premium filing deadlines specified in the current payment of premiums regulation should be ignored by plan administrators. The PBGC states that the 2025 comprehensive premium filing instructions, which are anticipated to be posted shortly, will include the modified premium due dates.

For eight consecutive years, presidential budget proposals have advocated repealing Section 502 of the BBA 2015. The aim is to spare plan sponsors the costs and administrative burdens associated with accelerated premium payments.

The PBGC noted that the fiscal year 2025 budget referred to this removal as "urgent," highlighting the need for Congressional action to repeal the provision prior to fiscal year 2025. During the fiscal year, the repeal is still possible even though it hasn't happened yet. The PBGC will amend premium filing instructions and alert practitioners "as quickly as possible" if the provision is removed.

Sources:
https://www.plansponsor.com/pbgc-premiums-now-due-sooner-than-in-past-years/

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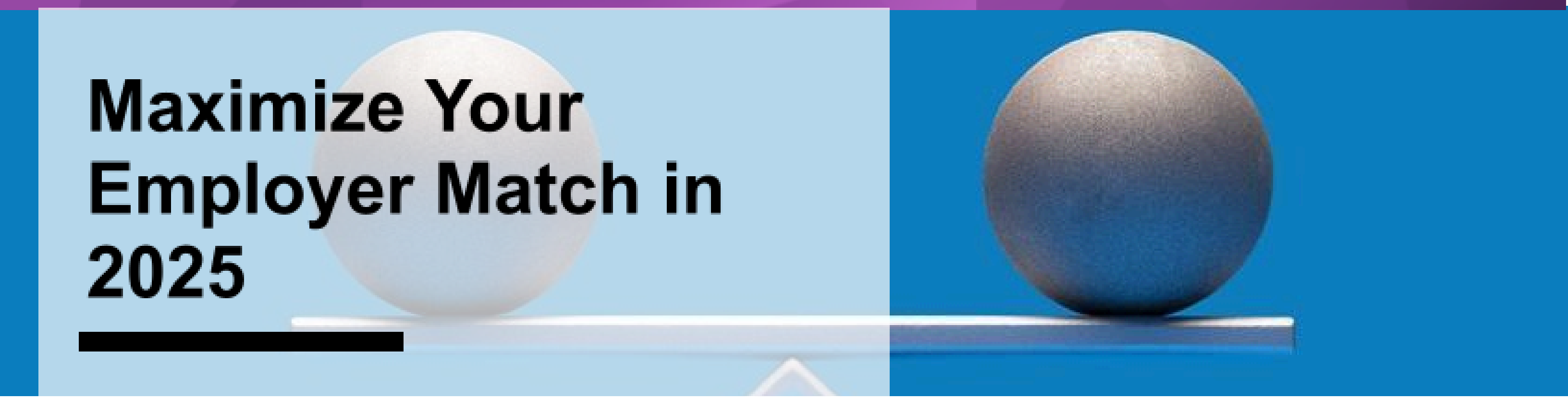

Maximize Your Employer Match in 2025

Leveraging your employer's retirement plan match is one of the easiest ways to boost your financial wellness. With over 50% of employers offering some level of matching, it's an opportunity you don't want to miss. Here's how to make the most of it.

Understand the Details of Your Plan
If you're unclear about your employer's retirement plan offerings, now is the perfect time to get the full picture. Reach out to your HR department for a detailed explanation of the benefits. Companies typically match contributions in various ways, some may offer a dollar-for-dollar match, while others match a percentage of your contributions. Knowing the maximum match contribution your employer provides will help you decide whether to save only up to that point or beyond.

Go Beyond the Match
While it's essential to take full advantage of your employer's match, don't stop there. Contributing more than the match can significantly impact your retirement savings, thanks to compound growth. Contributions to retirement accounts, such as 401(k) plans, grow tax-free until withdrawal, allowing your savings to accumulate faster over time.

Confirm Your Enrollment
Don't assume you're automatically enrolled in your employer's retirement plan. While some companies auto-enroll new employees, others may require you to opt in. Double-check your status to ensure you're actively participating in the plan and receiving the employer match.

Also, pay attention to any vesting schedules associated with the employer match. A vesting schedule determines how long you need to remain with the company to fully own the matching contributions. For example, if your employer uses a five-year vesting schedule, you'll need to stay employed for that period to keep all matching funds.

Secure Your Financial Future

Taking full advantage of your employer’s retirement plan matching program is a simple yet powerful step toward financial wellness. These contributions can provide a substantial start on building a comfortable nest egg, especially when combined with your own efforts to save. Start the year off right by prioritizing your financial health. Make the most of your company’s retirement plan in 2025 and set yourself up for a brighter future.

For more information, please contact The 401K Shop at (979) 865-0660.

18 N Harris St. Bellville, Texas 77418 | (979) 865-0660 | www.the401kshop.com