Employee Benefits Report

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Benefits Administration

Closing the Savings Gap: Empowering Women for Retirement

A new generation of women is stepping up to take control of their financial futures, but some still face barriers to saving enough for a secure retirement.

Employers have a vital role to play in providing the tools and resources women need to close the retirement savings gap.

The Challenges Women Face

Women have made huge strides towards financial equality in recent decades, now participating equally or even taking the lead in household financial decisions. Nearly 70% of women report being the primary or joint financial decision-maker, and 30% say they feel very confident managing their finances, according to a new study.

However, beneath these signs of progress lies a persistent retirement savings gap between men and women. The average man aged 55-75 has retirement savings of $157,000, while the average woman in that age group has just $50,000 saved, according to a Prudential survey. Even women nearing retirement are surprised to find themselves lagging so far behind their male counterparts.

continued on next page - 2

This Just In ...

Pay and Benefits Costs See Small Bump Up in Q4

Compensation costs for U.S. workers saw a slight uptick in growth in the fourth quarter of 2024, according to new data from the Bureau of Labor Statistics (BLS) released on January 31st. The Employment Cost Index (ECI), which measures changes in wages and benefits, rose 0.9% in Q4 after increasing 0.8% in Q3.

Higher Compensation Aligns with Inflation Trends

The small rise aligns with recent trends of creeping inflation, which has ticked up after showing some moderation earlier in 2024. Meanwhile, average hourly earnings growth also accelerated slightly, rising from 3.7% year-over-year in Q3 to 3.9% in Q4. Experts said this signals that compensation pressures, while not as high as in late 2023, will remain an issue for employers this year.

Wages and Salaries Outpace Benefits

In Q4, wages and salaries rose 0.9% while benefit costs were up 0.8%. Over the last 12 months, total compensation costs increased 3.6%, on par with Q3's rise. Wages and salaries were up 3.7% year-over-year, while benefit costs grew 3.3% over the same period.

State and Local Government Workers See Larger Gains

For state and local government employees, total compensation costs grew 4.7% year-over-year, This gap is driven by systemic barriers women face throughout their working years:

- Lower salaries: The gender pay gap means women have less income to put towards retirement savings in the first place.
- Career interruptions for parenting: Taking time off work or going part-time to raise children can significantly reduce lifetime earnings. A Columbia University study found women who take just two years off face a 40-90% deficit in retirement savings.
- Increased caregiving costs: Women are more likely to pay the high costs of childcare and elder care, reducing their ability to save at key points in their careers.

How can the next generation of women be assured of being able to take control and close this gap?

Starting Early is Key

The first step is starting early and consistently investing throughout one's career. Consistent investing early allows savings to grow exponentially thanks to compound interest.

Unfortunately, over 40% of women report only feeling somewhat confident managing their finances. Having the right support and advice early on can help women maximize their potential for long-term growth.

Now is an excellent time to start building these habits, as younger women are already highly engaged. More than two-thirds of women report playing an active role in their household's financial decisions.

The commonly held myth is that employees should save only up to their employer match in workplace retirement plans. However, experts emphasize that the employer match is not enough. Employees should aim to save up to federal contribution limits in tax-advantaged accounts.

Making Room for Career Interruptions

Women need guidance on how to accommodate common barriers like career interruptions without derailing retirement savings.

A key insight is that one's income flow should not be a constraint on saving for retirement. Women who leave traditional employment or scale back hours can still contribute to IRAs or other personal savings accounts. Retirement savings should be an ongoing habit, not something turned off and on based on career status.

In addition, female employees should be aware that their ability to overcome to the effects of savings interruptions increases the earlier they start saving. Getting an early start to retirement savings creates a buffer that allows contributions to pause when needed without major long-term consequences.

Planning Ahead for Caregiving Costs

Women should also plan ahead for periods where caregiving costs may spike—especially childcare and elder care—reducing disposable income. Caregiving expenses are top financial concerns for women that can significantly impact retirement readiness.

By discussing caregiving costs ahead of time with financial planners, working women can model different scenarios of how much changes in these costs may affect their ability to save for retirement. Building emergency savings cushions, tapping home equity lines of credit if needed, and ramping up savings rates in earlier career stages can help compensate.

The key is being able to plan ahead by accurately modeling future expenses over the long-term.

Accessing Professional Guidance

Getting professional financial guidance is key for women to navigate these complexities and successfully save for the long run. The unique hurdles women face may not be common financial planning knowledge.

In one survey, 56% of women said financial planners were best suited to help them reach their financial goals. Yet many assume such personalized advice is only accessible to higher-income individuals.

matching the prior quarter's increase, thereby continuing the trend of stronger wage growth for public sector workers compared to private industry employees.

Fed Decision Reinforced by Data

Experts said the slight acceleration of compensation costs backs up the Federal Reserve's recent decision to keep interest rates unchanged to assess further economic data. Fed Chair Jerome Powell has cited lingering inflation pressures as one reason for holding rates at 4.25-4.5%, along with solid economic expansion, low unemployment, and a desire to see more disinflation progress.

Employers should consider offering financial wellness programs to connect female employees with certified financial planners, on a group basis or through partnerships. Targeted education from certified experts can better prepare women for the specific long-term challenges they face.

Closing the Gap Through Workplace Benefits

Finally, employers themselves can provide benefits structured to close retirement savings gaps for women and level the playing field:

- Retirement savings education: HR teams should offer retirement savings education that highlights how women can accommodate interruptions and caregiving costs.
- Match vesting: Short vesting periods on 401(k) matches disadvantage women who take maternity leaves. Lengthening vesting to 3-5 years better accommodates career gaps.
- Caregiving benefits: Paid family leave policies, stipends for childcare and elder care, workplace flexibility programs, and remote work all help women handle caregiving without pensions taking a hit.

Higher Confidence Drives Increased 401(k) and HSA Contributions

Americans are feeling more confident about their finances and retirement readiness, according to new data on 401(k) and health savings account (HSA) balances.

Supported by greater savings rates and positive market performance, average account balances grew significantly from 2023 to 2024.

Big Jump in Average 401(k) Balances

The average 401(k) account balance at the end of 2024 was approximately $100,300, 16% higher than the average $86,000 balance at the end of 2023, an analysis from Bank of America found.

Driving the growth was an increase in the average 401(k) contribution rate, which reached 6.6% in 2024. Significantly, 21% of participants bumped up their contribution rate in the last quarter of 2024, compared to just 9.7% doing so in the third quarter. The trend was led by Millennials.

Fewer participants also borrowed against their 401(k) savings in the fourth quarter of 2024. Only 2.2% did so, down from 2.5% in the third quarter. This suggests participants increasingly saw their retirement funds as untouchable savings versus a source of short-term borrowing.

HSAs Also See Big Balance Boost

Like 401(k)s, health savings accounts (HSAs) saw robust growth. The average HSA balance at the end of 2024 was $5,000, up 14% from the average $4,400 balance at year-end 2023.

In the fourth quarter of 2024, Generation X employees contributed the most on average to their HSAs, nearly $2,000. Millennials were most likely to have invested their HSA funds for growth potential rather than leaving contributions in cash.

All told, just 14% of HSA account holders are investing their funds. That means many employees aren't capitalizing on the full benefits and growth opportunities HSAs offer.

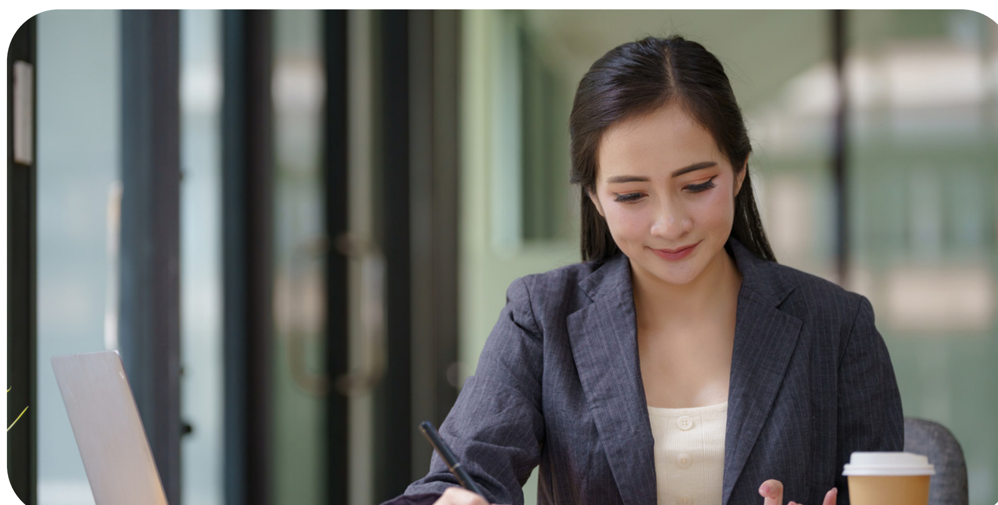
Signs of Greater Retirement Confidence

While positive market returns over 2024 certainly helped drive account growth, the marked increase in participant contribution rates also reflects greater retirement readiness confidence. With life expectancies increasing, health care costs rising, and Social Security facing solvency issues, experts have warned that employees need to ramp up their own retirement savings efforts.

The new data from Bank of America suggests the warnings are hitting home. More employees appear to be feeling confident in their ability to consistently save for retirement.

However, financial stress remains a significant burden for the broader workforce. In 2024 surveys, workers still rated their financial well-being concerns at 6.3 out of 10. Separate polls found 43% say inflation has had an extreme or significant impact on their finances.

So while the growth in average 401(k) and HSA balances is an encouraging milestone, many employees still face money worries that could derail their retirement saving and security.



continued on next page - 4

What Employers Can Do in 2025

With signs retirement confidence and savings rates are turning a corner, experts say employers should double down on financial wellness and retirement education initiatives. Suggested moves include:

- Spotlight HSAs: Boost employee understanding of HSAs through increased communications and education around their benefits and growth potential. Encourage more account holders to invest their balances.
- Consider auto-features: Auto-enrollment and auto-escalation in 401(k)s can simplify saving and help participants steadily increase contributions.
- Add matching funds: A 401(k) match will encourage participation and accelerate retirement savings.

Offer financial wellness help: Online tools, calculators, financial scores, and counseling can all promote better financial behaviors.

The Need for Ongoing Diligence

While the 2024 data reflect rising balances and savings rates, experts caution that consistent retirement saving takes ongoing diligence from both employers and employees alike.

As life expectancies stretch longer, health care costs continue outpacing inflation, and fixed monthly income from Social Security remains limited, retirement security is an increasing personal responsibility.

With just 40% of workers in 2023 feeling confident they'll have enough savings for a comfortable retirement, there remains substantial room for improvement.

Employees of all ages should reassess their retirement savings strategy and trajectory annually. They should set clear goals for 401(k) contribution rates and total balances to achieve key milestones.

Meanwhile, employers should promote retirement readiness year-round through communications campaigns, educational seminars, tailored web tools, and more.

What's Trending in Employee Benefits? Personalization, Financial Help

Employers are constantly evaluating their benefits offerings to find ways to attract and retain top talent while also controlling costs.

As the workforce and their needs evolve, many companies are enhancing their benefits with more personalized options and targeted financial help. From fertility benefits to student debt assistance to midlife support programs, employers have an opportunity to show employees they care by providing benefits that meet them where they are in life.

Personalized Benefits Growing in Popularity

The days of the one-size-fits-all benefits package seem to be fading. Employees today represent multiple generations with diverse needs. Offering customizable benefits allows companies to support the whole person.

According to recent research, more than three-quarters of employers now offer at least one type of personalized benefit. The most common are flexible work schedules, extended paid time off, and remote work options. But the menu continues to expand.

Some cutting-edge companies now provide fertility benefits, egg freezing, surrogacy assistance, and adoption aid. Others offer paid sabbaticals, paid volunteering days, concierge services, and even "pawternity" leave. These hyper-personalized benefits aim to boost recruitment, retention and employee satisfaction.

Midlife Health Support on the Rise

With 10,000 baby boomers turning 65 every day, employers are focusing more on midlife health. Menopause symptoms affect up to 85 percent of working women and can reduce productivity. As a result, menopause health support is trending.

More organizations now provide menopause assessments, health resources, flexible work options and fans or temperature-controlled spaces for symptomatic women. Some offer paid time off or extended breaks during menopause. Support groups, webinars and coaching are also gaining traction.

Experts indicate this benefit expansion fills an unmet need for midlife women in the workforce while conveying care and inclusivity. Early adopters have seen increased engagement, output and tenure among affected employees. More companies are expected to follow suit.

Assistance Tackling Student Debt

With today's graduates averaging nearly $30,000 in student loans, employers have taken notice. Student debt burdens now exceed $1.7 trillion nationally, exceeding credit cards and auto loans. This crisis impacts recruitment, retention, health and finances.

In response, student debt repayment benefits are proliferating. About 15 percent of companies currently offer some form of assistance. The most common are student loan contribution programs, where employers provide $50 to $200 monthly toward an employee's student loan balance.

continued on next page - 5

Other popular options are student debt consolidation services, refinancing guidance and financial literacy education. Some innovative firms even offer “boomerang” programs, luring back former employees by paying down their remaining student loans.

Experts note these benefits provide relief to debt-laden graduates while positioning companies as supportive and progressive. Adoption is expected to continue rising.

Holistic Financial Wellness Services

Money worries plague a large swath of the workforce, reducing output by up to 80 percent. Financial stress also boosts absenteeism and healthcare spending for employers.

In light of this reality, financial wellness services are expanding. About 65 percent of companies now offer some type of program, up from just over half in recent years. Services run the gamut from 401k guidance to budgeting assistance to emergency savings accounts and beyond.

Popular options include student debt help, healthcare navigation services, and retirement planning support. Others provide access to financial advisors or customized recommendations based on an individual’s specific needs and goals. Some firms offer financial literacy courses and workshops.

Forward-looking employers understand financial health impacts all other aspects of well-being. Evidence shows holistic offerings that promote stability and growth provide a significant return on investment via performance, retention and engagement. More adoption is imminent.

Is Your Paid Time Off Keeping Candidates Away?

Job seekers nowadays have endless options if they're looking to switch jobs. With such a tight labor market, they can afford to be selective. As employers compete for top talent, one aspect increasingly coming under scrutiny is paid time off.

Minimal Leave a Major Red Flag

According to a recent survey of over 1,000 workers by StandOut CV, the number one red flag for job seekers when looking at a job posting is minimal annual leave. More so than issues like a lack of salary range or an absence of diversity, skimpy PTO allotments are an immediate turn-off. This aligns with data from HR leaders indicating paid leave is considered one of the most vital offerings today, behind only health care benefits.

The research sends a clear signal—lackluster vacation and sick day allowances can drive candidates away in droves. With skilled workers in high demand, making sure your paid leave policies are compelling could be key to staffing up talent.

How Much Time Off Is Average?

Paid vacation, holidays and sick days remain near-universal. According to the 2024 SHRM Employee Benefits Survey, over 95% of employers provide all these types of leave. But how much time off is considered the norm?

For a full-time worker with one year of tenure, employers usually offer around 12 vacation days, 10 sickness days, and 20 PTO days encompassing both. While these indicate reasonable baselines, experts emphasize paid leave strategies should foremost reflect employees' needs.

Barriers Preventing Use of PTO

Unfortunately, simply offering paid time off does not guarantee workers will take it. A 2024 survey unveiled some concerning insights:

- 60% of employees struggled to fully detach from work responsibilities while on vacation
- 86% checked job emails and 56% took work calls during time off
- Nearly half felt guilty for taking leave.

With mounting evidence that failing to recharge heightens burnout and attrition risk, cultural roadblocks preventing employees from utilizing earned PTO present a critical obstacle for organizations to address internally.

Promoting a Healthy PTO Culture

Experts urge a multipronged effort from HR professionals and leadership to nurture a culture where employees feel comfortable taking advantage of paid leave:

- Highlight benefits of taking time off for health and well-being
- Institute policies that discourage working outside designated vacation days
- Lead by example - have managers visibly take time away from work
- Offer sufficient leave and flexibility to meet personnel needs.