# The Retirement Times

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## Early Retirement: Dream or Dilemma?

For many workers, early retirement is the ultimate goal — carefree days filled with road trips, golf, or time spent with friends and family. Yet, reality often tells a different story. Many Americans are retiring years sooner than they expected to, often due to health problems, layoffs, or other unanticipated events. According to the 2024 EBRI Retirement Confidence Survey, the median retirement age in the U.S. is 62 — yet the median expected retirement age is 65.

As a result of premature departures, employers may find themselves facing a host of issues, including knowledge gaps and talent shortages. A robust retirement plan offering, combined with holistic financial wellness initiatives, can help address these challenges by supporting recruitment and retention. And while a generous employer match and auto-features can increase participation and encourage higher savings rates, additional strategies can be considered that aim to reduce unplanned early exits and better prepare workers should they face this all-too-common reality.

**Health care planning.** When employees leave the workforce earlier than expected, nearly a third (31%) do so due to health issues. As such, integrating health care and retirement planning is an important consideration. Offering health savings accounts (HSAs) to employees enrolled in eligible high-deductible health plans (HDHPs) and providing education on Medicare and long-term care planning can help employees better prepare for the unexpected. Additionally, education on health insurance options for early retirees — including COBRA, ACA marketplace plans, and private insurance options — can help many workers bridge the gap until Medicare eligibility.

**Flexible retirement options.** Allowing employees to gradually reduce their workload while retaining benefits can provide greater financial stability and help them transition into retirement on a timeline of their choosing. Additionally, career development programs for pre-retirement employees, including skills training and even mentorship roles, can help keep them engaged, adaptable, and more financially prepared for their eventual exit. According to Mercer, 38% of companies support later-life working by making project-based or gig roles available to older employees, and 36% are offering part-time, flexible, or phased retirement choices.

**Financial wellness programming.** Plan sponsors should encourage employees to take an early, proactive approach to retirement planning and help them fully understand how timing affects their Social Security benefit. Even simple changes — like optimizing RMD strategies — can have a significant impact on financial security during retirement.

**Guaranteed income solutions.** As the retirement landscape continues to evolve, so do expectations around income sustainability. Guaranteed income solutions can help address these issues, but concerns about administrative complexity, fee transparency, and portability remain. Ultimately, determining whether these options are suitable requires careful evaluation of plan objectives, regulatory considerations, and participant needs.

### Addressing the Timing Gap

The challenge for employers is clear: Supporting employees in their retirement journey requires a multipronged approach, from plan design to employment policies to financial wellness. By staying ahead of these trends, plan sponsors can not only help employees achieve a more secure retirement but also help strengthen their organization in the process.

Sources
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## Rising Hardship Withdrawals Putting Retirement at Risk

A growing number of workers are raiding their employer-sponsored retirement plans to cover emergency expenses, highlighting an alarming trend in employee retirement security. According to Vanguard Group, 4.8% of 401(k) participants took hardship withdrawals in 2024, up from 3.6% in 2023 and more than double the pre-pandemic average of 2%.

Hardship withdrawals can carry significant long-term financial consequences, especially since funds cannot be paid back to the plan. Participants can face taxes, reduced retirement savings, and the opportunity cost of lost compounding growth — particularly if the withdrawal occurs during a market downturn. By implementing proactive strategies, organizations can help workers build financial resilience while preserving retirement funds.

**Provide one-on-one financial counseling.** There's simply no one-size-fits-all solution when it comes to promoting employee financial wellness. Each worker's situation is unique, and the most appropriate and effective strategies will vary. For some, financial stability might be achieved through highly targeted budgeting interventions or lifestyle changes like moving or downgrading a car. Others may benefit more from debt restructuring or negotiating lower rates on high-interest credit card balances. Personalized financial counseling helps ensure employees receive guidance that's tailored to their specific needs. Individual sessions can be particularly helpful for those who might understandingly be hesitant to disclose a financial hardship among their coworkers within a group education setting.

**Encourage health savings.** Since medical expenses are a significant cause of hardship withdrawals, employers can encourage the use of Health Savings Accounts (HSAs) for workers enrolled in qualified, high-deductible health plans (HDHPs). HSAs enable employees to build a fund to help cover future medical costs, while benefitting from triple tax advantages: tax-deductible contributions, tax-free growth, and tax-free withdrawals for qualified expenses. By providing employer contributions to HSAs and educating employees on their benefits, companies can help reduce the likelihood that workers will need to tap their retirement account for a health-related financial emergency.

**Promote emergency funds.** Consider encouraging employees to build emergency savings through pension-linked emergency savings accounts (PLESAs). Under SECURE 2.0, employers can auto-enroll non-highly compensated employees at up to 3% of their salary "unless the participant affirmatively elects a higher or lower percentage," according to the DOL. The maximum account balance is $2,500, and participants are permitted to make withdrawals at least once per month. Whether through PLESAs, out-of-plan ESAs, or other personal savings strategies, employees should be encouraged to put aside at least three to six months' worth of expenses in a low-risk, readily accessible account.

### A Lifeline for Struggling Employees

The rise in 401(k) hardship withdrawals sends a loud and clear signal that employees are in need of additional financial support to help manage unexpected expenses. By offering personalized advice, promoting emergency savings, and discussing health savings options, plan sponsors can help employees stay on track with their retirement savings while navigating financial challenges. Taking action now not only helps benefit employees but can also foster a more financially stable, engaged, and productive workforce.

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## Market Turmoil Spurs Trading, but Staying Put Pays Off

The U.S. stock market suffered its worst day in five years on Friday, April 4, following President Donald Trump's announcement of sweeping tariffs. The S&P 500, Nasdaq, and Dow Jones Industrial Average all posted significant losses.

Despite the turbulence, financial experts continue to advise retirement plan investors to "stay the course" rather than react impulsively.

According to Alight Solutions, stock market volatility has already driven a surge in retirement plan trading in early 2025. In the first quarter alone, 0.77% of plan balances were traded—the highest rate since Q3 of 2020. Trading was particularly elevated in March, exceeding the activity seen in the entire fourth quarter of 2024.

Initially, as the S&P 500 hit record highs through mid-February, 401(k) investors favored equities. However, as market conditions worsened, many shifted their investments into fixed income funds. Alight noted that 29 out of 60 trading days in Q1 saw above-average trading levels. Target-date funds, large-cap U.S. equity funds, and small-cap U.S. equity funds were the most actively traded asset classes.

Rob Austin, head of thought leadership at Alight Solutions, explains that while market drops may feel alarming, they are not unusual. He points out that investors often react by selling stocks during downturns and moving into fixed income. “They’re definitely not buying stocks when they’re on sale … and they don’t tend to get back into the market until equities have gone up,” he says. “So in other words, … they’re selling low, buying high. Not the perfect recipe for investing.”

Despite increased activity, Austin notes that less than 1% of participant assets were actually traded, indicating that most investors are sticking with their long-term strategies. He recommends that participants not already in target-date funds or managed accounts consider periodic rebalancing—ideally through automatic plan features. Although around 70% of defined contribution plans offer auto-rebalancing, only about 10% of participants take advantage of it.

For those nearing retirement, Austin reassures that unless their portfolios are heavily weighted in equities, recent market losses have likely had only a muted effect, thanks to the gradual derisking built into many glidepaths.

Communication Strategies for Plan Sponsors

For plan sponsors, effectively communicating with participants approaching retirement can be challenging. They cannot offer direct investment advice but can encourage prudent, long-term thinking.

“I think plan sponsors are generally trying to get people [who are in] the pre-retirement phase … to think about derisking,” Austin says. “It’s tough to make that message now, because you don’t want people to lock in those losses especially when they don’t have the time to make that up in the next few years.”

Austin suggests that sponsors should focus on reminding participants about derisking strategies without encouraging them to lock in paper losses unnecessarily.

Generational Differences in Reaction

Joe Coughlin, director of MIT’s AgeLab, notes that participants between ages 55 and 62 are likely to react most strongly to market volatility. Many may feel pressured to delay retirement to recover from losses, potentially extending their time in the workforce. In response, Coughlin predicts that older employees will increasingly demand flexible work arrangements—similar to trends previously associated with younger generations.

“In fact, what’s kind of ironic is they may start to echo younger workers in a greater way than we’ve ever expected,” Coughlin says. “Everyone was busting on Gen Z and Millennials about [wanting] to work from home, but I think this [older] group is going to react by saying ‘I need to stick around longer to make sure that my wealth span is not shorter than my lifespan, … which means I need a little bit more flexibility.”

According to Coughlin, as the market continues to shift, Gen Z and Millennial employees may begin to lose faith in their companies and organizations and grow increasingly skeptical of benefits and retirement plans.

“While one generation may be reactive, the other one is taking it to heart and learning,” Coughlin says.

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