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Cashing Out on Tomorrow: When Personal and Market Economies Diverge



The past year has been one for the record books. As of January 2024, total U.S. consumer debt reached a historic \$17.33 trillion while credit card rates surged to unprecedented levels, topping more than 24%. Hardship withdrawals from 401(k)s reached an all-time high of 3.6% for American workers, signaling growing consumer distress within a persistent, near-record inflationary environment.

Additionally, a 2023 study by Paycheck.org revealed that nearly eight in ten Americans are living paycheck to paycheck. So as major indexes like the Dow Jones and S&P 500 celebrated all-time highs, boosting participants' account balances, more Americans are – as The Wall Street Journal put – “treating their 401(k)s like cash machines.” In doing so, they undermine the potential gains they could have realized and further imperil their financial future.

For plan sponsors, current market and economic conditions present a pressing imperative to educate participants on alternative strategies to help effectively manage debt and budgeting challenges — without jeopardizing retirement readiness.

Debt management workshops can provide employees with practical strategies for managing debt. Structured learning experiences can offer actionable insights that workers can use to reduce debt faster, such as prioritizing repayment of high-interest debt and the impact of making minimum payments. These initiatives can be supported by targeted content campaigns to provide ongoing assistance and reminders about staying on track with debt and management goals.

For more granular information, employers can provide access to interactive debt-payoff calculators. Employees can input their specific financial details and receive personalized debt repayment information – or better understand the impact of various debt reduction strategies. Visualizing one's path to debt freedom in a concrete and individualized manner can be incredibly powerful and help employees make more informed financial decisions.

Furthermore, companies are beginning to offer employee-sponsored emergency savings accounts (ESAs) as an alternative method to pay for unanticipated expenses. This benefit can help employees avoid turning to high-interest credit cards during financial emergencies and reduce the risk of retirement plan leakage.

Employers can provide invaluable assistance to those struggling to manage debt obligations, with an eye toward retaining – and building – their retirement nest egg. The economic pressures facing many employees today can easily lead to short-term reactive



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decision-making that can compromise long-term financial health. By providing targeted resources and assistance, plan sponsors can play a crucial role in improving their employees' financial resilience and retirement readiness.

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