

Nagel on Finances: Did ERISA Create Financial Freedom?

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The Merriam-Webster dictionary defines joy as the emotion evoked by well-being, success or good fortune or by the prospect of possessing what one desires. We can all use a little more joy, don't you think?

Ironically, I had the chance to share and experience a little joy recently. I helped a client establish a 401K plan for their workforce.

If that seems a little odd to you, it shouldn't. I first wrote about the Employee Retirement Income Security Act of 1974 in this column in March 2020. The historical context set the foundation for a few words on the recently enacted Secure Act, effective Jan. 1, 2020. We now have Secure 2.0 and a few more improvements to the law.



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The conventional 401K plan has become the benchmark for retirement savings and offers an opportunity for employers and employees alike to work together for the purpose of achieving financial freedom.

If you are an employer, you know firsthand how significant a strong, reliable and talented workforce can help serve customers in a volatile and competitive market that has become increasingly more difficult to predict and control.

If you are a wage earner, even a high-income wage earner, you know firsthand how difficult is it to save hard-earned money for a long-term horizon once that paycheck hits your bank and is available for your family to enjoy.

The 401K plan provides employers and employees alike the best tool for overcoming these real-life challenges. But let's be realistic, it is not a panacea for all that prevents financial freedom.

Disciplined spending and debt reduction, even avoidance, are critical. Read or listen to Dave Ramsey.

Nonetheless, a retirement savings plan is a wonderful tool to help us all in our journey. Once established, the process becomes nearly automatic. As wealth accumulates over time, it becomes self-fulfilling, motivating and rewarding.

Many small employers struggle to find a path for offering such a great benefit. These plans add more compliance and administrative time commitments that can be distracting to the company's primary mission. But only once or twice a year.

401K plans are not cheap to maintain and administer. But the new Secure 2.0 offers new plans relief in the form of tax credits to help mitigate the commitment.

It often takes three to five years for small employers to achieve this goal. With good accounting and planning, this objective can be obtained by almost any employer.

On the other hand, most employees find it difficult to carve out money from their paycheck for participating, at first. While the tax code helps by reducing their tax burden and offering inducements in the form of employer matching funds, it takes just as much purpose and intent for employees as it does employers. However, with discipline, it is possible to reach annual savings of 15-20% of annual earnings with this tool.

So, no, ERISA did not create financial freedom. It is continually being improved, but, ERISA did lay the foundation for us all to work toward that idea.

Give credit to its authors and leaders of the day.

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