Navigating Employer Benefits as a Young Professional

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Introduction

As young professionals embark on their careers, they often encounter a multitude of employer benefits, yet many receive little to no guidance on how to fully leverage these advantages. Benefits packages are an important part of employee compensation, and understanding the tools available is essential to unlock their full value. Employee benefits are a complicated landscape consisting of tax-advantaged investment accounts, core insurance policies, retirement benefits, and many other unique opportunities. It is easy to find dozens of opinions on the correct uses of each benefit, whether that be from family, friends, social media, and coworkers. Ultimately, the most effective benefits strategy is one that is tailored to the unique needs of each individual, which starts by understanding the scope of employer opportunities and their role in a comprehensive financial plan.

Background

The current generation entering the workforce, Gen Z, has significantly impacted the types of benefits employers offer. With Gen Z making up a projected 27% of the workforce in 2025, employers have been inspired by their advocacy to adjust benefits to include features like mental health days, remote work, diversified insurance options, college debt assistance, and many other new opportunities.[1] The introduction of these new benefits has naturally led to some resistant adjustments and discussions in the workforce, but the landscape is shifting as Gen Z has crafted a more transparent and flexible benefits model that is becoming the new standard.

Although Gen Z campaigned and successfully established a new benefits norm, they have been found to have the least understanding of their employer benefits packages. The 2024 State of Employee Wellness Report shows that only 24% of Gen Zers have a complete understanding of their benefits.[2] This lack of understanding can translate to missed financial opportunities and potentially higher employee turnover. The rise of hybrid and remote work may also contribute to this knowledge gap, limiting informal “water cooler conversation” about benefits that occur in traditional office settings.[3] This knowledge gap is essential to mitigate, as too many young professionals are unknowingly missing out on great opportunities and important coverages.

Retirement Accounts

Early in their careers, many young professionals may not prioritize retirement planning. However, utilizing employer and individual tax-advantaged retirement accounts at a young age can create long lasting financial freedom.

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[1] Fromm, Jeff. “Gen Z Demands Flexible Workplace Benefits.” *Forbes*, Forbes Magazine, 27 Sept. 2024, www.forbes.com/sites/jefffromm/2024/09/25/gen-z-demands-flexible-workplace-benefits/.
[2] *Ibid.*
[3] *Ibid.*

401(k)

The 401(k) is an employer sponsored retirement account that can be customized to fit an employee's financial needs. This benefit can be confusing with its multitude of features, but once understood, it can provide a lifetime of value.

There are Traditional and Roth 401(k) accounts. A "Traditional" account deposits money from a paycheck before income tax is paid. This money is not included in the present year's tax calculations, it grows without tax, or tax deferred, in the investment account, but is taxed as income when it is withdrawn in retirement. For a "Roth" account, the investment is made after paying income taxes on the contribution, the money grows tax deferred, and is then withdrawn with no taxes in retirement. A Roth account is most advantageous when an employee will have a higher income tax bracket in retirement, and therefore will pay less tax now than in the future. Tax-free distributions in retirement are not counted towards income, therefore the Roth account will not count towards the retirement tax bracket.

A large advantage to either 401(k) is that it typically includes an employer match, non-elective employer contribution, and/or a profit-sharing plan.

An employer match occurs when the employing company matches contributions up to a certain percentage of salary. For example, a common employer match is 100% up to 4%, meaning if the employee elects to deposit 4% of their salary into their 401(k), the employer will match them and deposit the same amount as well to a maximum of 4% of the salary. It is important to note that these matching percentages are not the same everywhere, and all employer matches go into a Traditional 401(k) no matter what type of account selected by the employee.

A non-elective employer contribution is an automatic contribution from the employer, like 3% of salary for example, regardless of employee contributions.

Lastly, profit-sharing plans are used for employers to return some of their company revenue into the 401(k) accounts of their employees.

Investments in a 401(k) are standardized through different plan sponsors, and options are typically limited to different diversified funds. It is also important to note that there are maximum 401(k) contribution limits which update yearly, and once money is invested, it cannot be withdrawn without income tax and an extra 10% penalty until age 59.5. Not every company offers all these features, which is why it is important to understand each unique employer 401(k) package.

IRA

An individual retirement account, or IRA, is another retirement investment account with many similarities to the 401(k). However, the IRA is not part of an employer benefits package. Anyone who earns income can contribute to an IRA up to the yearly maximum, which is currently $7,000 as of 2025, into either a Traditional or Roth IRA. The tax rules for the different account options and withdrawals before age 59.5 are the same as for the 401(k) accounts, but there is no employer contribution since this is an individual account. There are also income limitations on the tax deductibility of contributions, including a restriction on Roth contributions and pre-tax Traditional contributions once income reaches a certain point.

An advantage to the IRA is that it is another means to save for retirement in a tax advantaged way, but with more diverse investment options. An IRA does not limit investment options like a 401(k) typically does, which makes it a more flexible account, often preferred by individuals who want more freedom to choose specific stocks, bonds and funds. While the IRA is not an employer benefit, it is important to consider since it is available to all professionals.

Insurance

The biggest advantage to employer-provided insurance is that the policies can be issued as part of group plans. This means that the pricing is based on all employees, not the individual, which is advantageous for employees with risk or medical conditions who would otherwise pay large premiums for individual insurance.

Disability Insurance

A disability can result in a full loss of income and drastically increase daily expenses, which is why disability insurance is essential to mitigate unexpected financial burden.

It's important to remember that 1/4 people will likely experience disability at some point in their lives, often due to illness.[4] Employer disability plans typically cover up to 60% of an employee's base salary while disabled, and any benefits payable are taxable if the employer paid the premiums. It is important to note that most employers have both short term and long-term disability policies, with policy specific features regarding eligibility. Since most employers will only cover only 60% of income or less during disability, insurance companies offer private disability insurance to cover a meaningfully higher percentage of lost income. The cost of personal disability insurance relies on gender, age, risks, and health, so implementing the policy while young will usually result in a lower-cost, more efficient product.

Life Insurance

Like other insurance, employer-offered life insurance may be provided through a group plan. Since this insurance covers the full range of employees, the payment to beneficiaries, called the death benefit, is often very low. For many employees, this death benefit will typically be around $50,000, which may be enough to cover end of life expenses but likely not income replacement.

Employer-provided life insurance should generally not be considered a primary policy because of the small benefit. To have sufficient life insurance to cover financial losses, it is essential to focus on the financial needs of dependents in the event of an untimely death. While employer-provided life insurance provides a small benefit, private life insurance policies may ultimately provide a better tool to alleviate the financial risk of early death, and this insurance is most affordable while the insured is young and healthy. It is important to know that unlike

[4] *Social Security Basic Facts*, www.ssa.gov/news/press/factsheets/basicfact-alt.pdf. Accessed 31 Jan. 2025.

private insurance, employer-provided life insurance has a maximum amount, and benefits cannot be transferred. A financial advisor can assist in determining the correct amount and type of life insurance for current and future needs.

Medical Insurance

Health insurance is one of the most utilized employer benefits because group health plans offer better prices than private health care. There are many employers-provided health insurance structures with varying deductibles, co-pays, costs, and types. It is very important for every young professional to read and understand their health insurance so that they know exactly what and who is covered and can avoid large, unexpected expenses.

Where To Start

Navigating and optimizing complex employee benefits can be challenging at first. However, taking advantage of retirement accounts and insurance products provided by an employer can change the financial course of a young professional's life.

Each unique situation deserves a personal and analytical approach that is designed to optimize every young professional's financial strategy. It is important to meet with a trusted financial advisor to evaluate the full scope of benefits, so they are utilized in an efficient, complementary strategy. Creating a secure wealth foundation as a young professional is vital for a lifetime of financial freedom.

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