Transitioning to Retirement: How the Plan May Help

For decades now the typical career has consisted of approximately 40 years spent working, an "on time" retirement at age 65, and perhaps a decade spent enjoying the so-called golden years. But with better health leading to longer life spans, retirement now may last much longer — and require much more money. Today, employers and employees alike recognize that four decades of saving for a retirement that may last four more decades is, to say the least, challenging.

That's the reason many people plan to work more years than they would like to before they finally retire completely. When asked recently, 54% of workers report they plan to work either full time (14%) or part time (40%) in retirement, and their employers often (76%) acknowledge that expectation. In fact, 85% of employers agree with the statement, "My company is supportive of its employees working past age 65." Fewer workers, 77%, see it the same way.

For 43% of workers, the transition into retirement would involve working fewer hours or in a different, less demanding, capacity. In fact, only 22% of workers say they plan to immediately stop working and retire fully.

Opportunity lacking for flexible and part-time schedules

While employers theoretically support workers taking a transitional approach into retirement (69% of them say many of their employees expect to work past 65 or do not plan to retire), just 38% offer flexible work schedules that could facilitate the transition. Fewer still (30%) allow employees to take a part-time schedule, downshifting from full time, or to take on jobs that are less demanding and stressful (21%).

What's more, 75% of employers do not have a formal program that helps employees phase into retirement. Often, the reason given for the lack of a phased retirement program is that it's easier to handle retirement transition requests on a case-by-case basis (39%). Thirty-seven percent say their employees aren't interested in this kind of program, and 27% say operational and administrative complexities keep them from offering one.

More and better education could help improve retirement planning

Employers have opportunities through their retirement plans to assist workers with their transition into retirement, according to the cited study, the 19th Annual Transamerica Retirement Survey, "Employers: The Retirement Security Challenge," released in October 2019 by the Transamerica Center for Retirement Studies. Simply sponsoring a 401(k) plan encourages employees to save more for retirement, according to the study. When their employer does not offer a 401(k) or similar plan, only about 50% of employees save for retirement. By providing more educational resources, including information about distribution options and retirement planning materials, they could use their retirement plan platform to help workers make better decisions for their retirement lives.

You can read study highlights online at https://tinyurl.com/TransamericaSurvey2019. ■

Baltimore I Boston I Charleston I Harrisburg I Raleigh-Durham
410.528.8282 I www.assetstrategyconsultants.com

Retirement Savings and Plans Don't Always Align

Nearly half (48%) of retirement plan participants are either "confident" or "very confident" about achieving a secure retirement by the date they plan to leave the workforce. Yet, 55% of them have saved less than $100,000 toward retirement. The lack of saving doesn't seem to have dampened their enthusiasm about retiring early, though: 36% expect to retire before age 65. It's true, those could be among the small number of total workers who have saved at least $250,000 for retirement; perhaps the 22% who expect to work until age 70 (or more) are among those whose savings and confidence about retirement security are relatively low.

Many of the participants who were asked recently reported that they were saving at — surprise! — the default deferral rate their plan offers. With the typical default rate set low, this tendency toward inertia translates into a situation where a significant number of people (41%) say they are saving 5% or less of their pay toward retirement. That number has increased since 2018, when 34% were saving 5% or less. For 2019, just 21% of participants were saving more than 10% of their pay, and 33% fell between 5% and 10%.

Still, a solid 43% of participants report taking one very positive action in their retirement strategy during the last year: they increased their deferral rate. Seventeen percent said they changed their asset allocation strategy during the year, 16% rebalanced their retirement account, and 16% performed a retirement income calculation.

The most-preferred communication? One on one

When learning about retirement, participants seem to prefer one-on-one communication. Asked how they would prefer to receive information on financial wellness, 31% said they would like to meet with an advisor for 30 minutes. The next most popular option, reading a short brochure with 3-5 actionable steps, was selected by 18% of participants. Fifteen percent would rather browse an interactive, online library, and 14% said they would like to read a newsletter via email.

Seeking counsel from a financial advisor may result in greater retirement savings. Thirty-six percent of participants whose retirement savings is greater than $250,000 use a financial advisor, compared to 10% of those with less than $50,000 in retirement savings.

"Now vs. later" results encouraging

Participants seem to appreciate long-term reward compared to smaller, short-term gains. They were asked whether they would

choose a 6% matching contribution that vested after 5 years, or a 3% immediate match. Sixty-one percent of respondents said they would take the longer-term match. Similar results came when participants were asked if they would prefer a $2,500 employer contribution that required them to contribute some of their own money to the plan, or a $1,500 employer contribution that had no such employee contribution requirement. Just over half, 53%, said they would take the larger contribution.

To read more results from the 2019 Participant Survey from PlanSponsor, check out https://tinyurl.com/2019PlanSponsor. ■

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

U.S. Department of Labor,
Employee Benefits Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

PLANSPONSOR Magazine
www.plansponsor.com

BenefitsLink
www.benefitslink.com

Plan Sponsor Council of America
www.psca.org

Employee Benefit Research Institute
www.ebri.org

Plan Sponsors Ask...

Q: An employee has requested a hardship withdrawal from the 401(k) plan. We are relying on his statements to the plan administrator that he is in true financial need, but another person in the office says he actually does have money in the bank. Do we take the word of the person requesting the withdrawal, or demand documentation?

A: The pertinent point is whether or not the Plan Administrator has "actual knowledge" of the participant's financial status. In the Final Regulations covering hardship withdrawals, released on September 19, 2019, the Internal Revenue Service (IRS) addresses that point. One requirement for the granting of a hardship withdrawal is that the money is necessary for an immediate and heavy financial need. The employee must provide a representation that he or she has insufficient cash or other liquid assets available to satisfy the financial need, and the distribution may not be made if the administrator has actual knowledge to the contrary. In the final regulations, the IRS states, "The requirement does not impose upon plan administrators an obligation to inquire into the financial condition of employees who seek hardship distributions." Because administering hardship withdrawals is a fiduciary responsibility, we urge you to consult legal counsel before making a decision. Read the final hardship regulations in the September 23, 2019, Federal Register. For more information, see https://tinyurl.com/HardshipDistrFinal.

Q: Do you have any tips for forming a retirement plan committee? We recently implemented a 401(k) plan and want to get the committee off on the right foot.

A: Congratulations on the plan, and on seeking an optimal structure for plan oversight. There is no need to reinvent the wheel; a lot of good information has been published on the topic of retirement plan committees. In fact, Nuveen, a TIAA Company, included some interesting thoughts in its publication, *next*. Along with ideas such as selecting the right number of members for the committee, utilizing a committee charter, and thoroughly documenting actions and processes of the committee, the article discusses the benefits of considering diversity. After all, they suggest, diversity among juries and employees, on corporate boards and in academia results in better decisions — and they cite a variety of studies to support the claims. It would follow that retirement plan committees could also benefit from a more diverse committee. Among the factors to consider, according to Nuveen, are gender, race, religion, age, culture, socioeconomic background, education and functional expertise. Read the article in *next* issue no. 3, https://www.nuveen.com/dcio-next-fiduciary-perspective-issue-3.

Q: A soon-to-be-retiree asked our HR staff some questions about Social Security benefits. From her questions, it was apparent she did not understand the basics about the Social Security program. Is this a topic we should avoid, or should we include it in our retirement education?

A: By all means, include *accurate* information about Social Security, because for most Americans, it will make up a large portion of their retirement income. According to the Social Security Administration, it will replace roughly 40% of preretirement income for the typical retiree. Considering that many financial advisors recommend striving for replacement of 70% of preretirement income, Social Security may account for more than half of the total in retirement. Yet, misunderstandings about the program abound. When you provide education for preretirees, don't wing it. Ask your plan service providers if they can offer specific materials about Social Security. It can be especially helpful for this group to have one-on-one meetings with a financial advisor when they have an estimate of their Social Security income in-hand. Among other valuable topics, preretirees need to understand the long-term impact of starting their Social Security benefits too early. ■

Pension Plan Limitations for 2020

401(k) Maximum Elective Deferral (*$26,000 for those age 50 or older, if plan permits)	$19,500*
Defined Contribution Maximum Annual Addition	$57,000
Highly Compensated Employee Threshold	$130,000
Annual Compensation Limit	$285,000

Confidence Comes with Knowing Who Is a Fiduciary

There is still some confusion among plan sponsors about whether or not they are plan fiduciaries, especially among sponsors of plans with less than $1 million in plan assets. In fact, in spite of increasing discussion of offloading fiduciary risk by using a designated 3(38) investment manager, misconceptions about retained fiduciary responsibility persist.

Plan sponsors may be unaware that choosing a 3(38) investment manager is in itself a fiduciary act. While the 3(38) investment manager does assume responsibility for selecting and monitoring investments, the plan sponsor retains fiduciary responsibility for the selection and oversight of the manager. Yet, in a recent survey, 25% of respondents incorrectly believe they retain no fiduciary responsibility.

Informed employers confident in processes and decisions

With a clear understanding of their fiduciary obligations comes more confidence in plan decisions. For example, 67% of plan sponsors who know they are fiduciaries are confident that they have an appropriate process in place to document investment decisions, compared to 59% of plan sponsors who do not know they are fiduciaries. As to confidence in an appropriate process to monitor investment decisions, 72% of plan sponsors that know they are fiduciaries expressed such confidence, compared to 53% of sponsors that do not know.

Plan sponsors that know they are fiduciaries are more likely to offer a target-date fund than those that don't know (69% compared to 56%) and to use automatic enrollment (61% vs. 51%) and auto escalation (44% vs. 34%) in their plans.

Learn more about the findings in the 2019 DC Plan Sponsor Survey from JPMorgan Asset Management by visiting https://tinyurl.com/JPM2019PlanSpSurvey. ■

PLAN SPONSOR'S QUARTERLY CALENDAR

APRIL

- If a plan audit is required in connection with the Form 5500, make arrangements with an independent accountant/auditor for the audit to be completed before the Form 5500 due date (calendar-year plans).
- Audit first quarter payroll and plan deposit dates to ensure compliance with the United States Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between January 1 and March 31 received and returned an enrollment form. Follow up for forms that were not returned.

MAY

- Monitor the status of the completion of Form 5500, and, if required, a plan audit (calendar-year plans).
- Issue a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Perform a thorough annual review of the Plan's Summary Plan Description and other enrollment and plan materials to verify that all information is accurate and current, and identify cases in which revisions are necessary.

JUNE

- Begin planning an internal audit of participant loans granted during the first six months of the year. Check for delinquent payments and verify that repayment terms and amounts borrowed do not violate legal limits.
- Confirm that Form 5500, and plan audit if required, will be completed prior to the filing deadline or that an extension of time to file will be necessary (calendar-year plans).
- Review plan operations to determine if any qualification failures or operational violations occurred during the first half of the calendar year. If a failure or violation is found, consider using an IRS or Department of Labor elf-correction program to resolve it. ■

Consult your plan's financial, legal, or tax advisor regarding these and other items that may apply to your plan.

Kmotion, Inc., 412 Beavercreek Road, Suite 611, Oregon City, OR 97045; 877-306-5055; www.kmotion.com