Financial Well-Being Makes Retirement More Accessible

Financial well-being continues to make the list of employer concerns, largely because it is on the minds of employees. Several factors are worrisome for employees, according to their employers, including the rising cost of health care and insufficient retirement savings.

The list of employee financial concerns includes stressful personal situations that distract employees' attention from the work at hand. Thirty-nine percent of employers say that's the item of most concern to employees, followed by increasing health care costs at 34% and the expenses and pressures of caring for family members (24%). Lackluster retirement savings come in sixth on the list, with 18% of employers choosing it as either the number one or number two issue for their employees.

Reasons employers offer financial wellness programs

To address these employee concerns, many employers — 70%, in fact — say they offer financial wellness programs. Among them, 36% intend to offer even more support for the coming year. Companies explain their business rationale for offering financial wellness programs as related primarily to employee retention and productivity. Thirty-one percent of employers said these programs help them retain valued employees, and 30% point to workforce productivity as the primary business reason for the program. In the last two years, 77% of employers have promoted their financial wellness programs to their employees. Interestingly, most employers do not tailor these types of programs based on employee segmentation. Just 7% have designed a program specifically for their hourly employees, 4% for Millennials, and 2% for employees with young children.

Among employers responding to the Financial Well-Being Study from WorldatWork, 90% said they offer a retirement program such as a 401(k) or 403(b) plan with an employer matching contribution, and 89% offer one without a match. Health savings accounts (HSAs) are popular, with 42% offering one funded by the employee and 31% with partial employer funding. In both cases, they are being promoted as a vehicle to provide money in retirement.

Participation hovering around two-thirds of employees

Even with 9 out of 10 employers offering a 401(k)-type retirement plan, employers report an average of 64% active participation. On average, employees contribute 8% of salary to the plan. To receive the maximum matching contribution, employers commonly say employees must contribute 5% of base salary.

The WorldatWork study, published in November 2019, reveals some encouraging news as well as challenges, when it comes to employee understanding of financial benefits. For example, 43% of employers report their employees understand the necessity of diversifying their assets — a question asked in conjunction with others related to stock purchase programs.

Read more highlights of the Financial Well-Being Study at https://tinyurl.com/WAW-FinancialWellness. ■

For 25 years, Asset Strategy Consultants has been providing investment management consulting to fiduciaries of retirement plans, endowments, and foundations. ASC assists clients with managing the risk and responsibility of sponsoring retirement and investment programs while helping their employees achieve a successful retirement outcome. Headquartered in Baltimore, ASC has over $9 billion under advisement throughout their five offices on the East Coast.

ASSET STRATEGY CONSULTANTS

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

The SECURE Act: Key Items for Plan Sponsors

The Setting Every Community Up for Retirement Enhancement Act of 2019, also known as the SECURE Act, contains what some call the most sweeping changes to the U.S. retirement system since the 2006 Pension Protection Act.

With its broad impact across qualified retirement plans, it is important for plan sponsors to become familiar with the Act's changes, and to take appropriate action. The Act's administrative changes will likely require plan amendments, and participant notification practices will also need to change.

With that in mind, we gleaned a few key components of the SECURE Act for your review. This is not an exhaustive list, and we encourage you to seek the opinions of your plan's counsel.

Required Minimum Distributions

If retired participants are allowed to maintain their accounts in the plan, the date on which Required Minimum Distributions (RMDs) must begin has changed. Before the SECURE Act, the RMD date occurred when the individual reached age 70½. Starting in 2020, the date has increased to age 72 for participants who were at least age 70½ by December 31, 2019. Improper application of RMD rules is a common trap for qualified plans; this change gives employers an excellent opportunity to review the plan's processes.

Withdrawal for Birth or Adoption

Beginning in 2020, participants may take a qualified birth or adoption distribution of $5,000 or less without the 10% penalty tax that generally applies to early distributions. The withdrawal must occur within a year of the birth or adoption, and the participant may elect to re-contribute the amount withdrawn at a later time.

Increased Filing Penalties

Don't take a casual attitude toward filing the plan's Form 5500 on time; it's never been a good idea, and with changes to the late filing penalties, now isn't a good time to start. Penalties for late filing of this and some other compliance requirements increased significantly under the SECURE Act. Before, late 5500 forms were subject to fines of $25 per day to a maximum of $15,000. Now, for forms due after December 31, 2019, the fine has increased to $250 per day and a maximum of $150,000.

Lifetime Income Provisions

The retirement industry has long recognized the challenge of facing a lump sum payment at retirement, and the benefit a lifetime income option would provide. But plan sponsors have worried about the possibility of a fiduciary breach if they chose an annuity provider that did not follow through on promises. The SECURE Act attempts to fill that gap by creating a safe harbor for employers. As long as the annuity provider they select has currently — and for the preceding seven years — been licensed by the state insurance commissioner to offer guaranteed retirement income contracts, filed audited financial statements in accordance with state laws, and maintained reserves that satisfy all the statutory requirements of all states where the provider does business, the safe harbor applies.

Read more about ways the SECURE Act impacts your plan's compliance at https://tinyurl.com/SHRM-SecureAct. ■

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: We've been reviewing our plan investment results, and they look pretty good in recent years. We are wondering how they compare to the results in other plans. Can you provide information about that?

A: We can give you information gathered by the Employee Benefit Research Institute (EBRI). Since 2016, EBRI has tracked balances of participants in participant-directed plans and delivers the data monthly. (In fact, they tracked data before 2016, but changed some methodology in that year making direct comparison difficult). For participants with account balances at December 31, 2016, figures show a dramatic increase of 172% for the period January 1, 2017, through January 1, 2020, for participants aged 25–34 and 1–4 years of tenure with the current employer. The account balances reflect investment returns as well as contributions. Account balances for employees aged 35–44 with 5–9 years of tenure during the same period increased 88%, and those 45–54 years old with 10–19 years of tenure increased 60%. You can see the data for yourself at https://tinyurl.com/EBRI-AccountBal.

Q: We are revamping our communications for the new year. Retirement plans and investing are complex. What's the latest thinking on how to communicate these concepts to our varied employees in a way they will understand?

A: Two principles come to mind: keep it simple, and keep it positive. Invesco studied the topic of clear participant communication recently and found that the language we use to communicate with employees about their plans really does make a difference. For example, participants respond much more favorably to "free money" than "matching contribution." While "free money" certainly clarifies the definition of matching contribution, it also resonates as a positive. Overall, 39% of employees responded favorably to the term; in contrast, 23% responded favorably when the concept was expressed as the more negative aspect of "leaving money on the table." Understanding and proper use of target date funds also improves when clear language is used to describe them. Participants of all ages understand target date funds best when the term "managed for you" is used. The frequently used term "glide path" seems distasteful to them, with just 4% preferring it when the topic is discussed. Compare that to the phrase "risk-reduction path," which was preferred by 40%. For more on this topic, visit Invesco at https://tinyurl.com/Invesco-DC-language.

Q: We will be adding auto features to our 401(k) plan, and wonder where to set the auto-enrollment deferral rate. Is it best to start on the low end, such as 3% of pay? We don't want to encourage people to opt out by setting the deferral rate too high.

A: While it may seem counterintuitive, setting a low rate may actually work against employees' ability to save enough. In part, that's because inertia can set in. T. Rowe Price says that, among employers utilizing auto-enrollment, participants are saving at a rate of 6.5% of pay. Contrast that to plans where employees opt-in, where participants are saving 9.3% of pay. The lower savings rates for auto-enrollment plan suggests that employees view the auto rate as an endorsement from the employer; they feel safe contributing that — and only that — percentage of pay. Recently, the Wharton Pension Research Council at University of Pennsylvania studied OregonSaves, a state-sponsored auto-enrollment retirement plan. Their findings suggest that the optimal default deferral rate is 8%. You can access the paper in which they present their findings at https://tinyurl.com/OptimalDefRate.

Read more on the impact of auto-enrollment on employee retirement savings at https://tinyurl.com/TRPriceAutoEnrol. ■

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

Addressing GenY Barriers to Retirement Savings

Employers tend to direct retirement education toward those who will soon exit the workforce — Baby Boomers and Gen Xers. That makes sense considering the nearness of retirement for those groups. But it's the Millennials who now make up the largest constituency in the American workforce, at one out of every three workers. And it seems they need a little help when it comes to saving for their eventual retirement.

The Young and the Restless

Almost half of Millennials are worried about retiring on time, and two-thirds are concerned they will outlive their retirement savings.[1]

Addressing the unique challenges Millennials face in saving for retirement is important for American businesses struggling to attract new workers. Among the challenges is student loan debt — but there are others. Housing costs are identified by 37% of Millennials as the primary reason they can't save enough for retirement, with 21% citing student debt.[2] Whatever the reasons, there are things employers can do to help. Here are a few to consider:

- **Provide targeted financial wellness education.** Break down your employee population into segments, such as by age, career stage, family status, etc. That way you can address specifics in your financial education, which may offer employees the information they need at just the right time.
- **Keep social responsibility in mind.** This is a subject often near to the hearts of younger workers. Consider including ESG (environmental, social and governance) funds among your retirement plan's investment options.
- **Access to personalized investment advice.** In spite of their reputation for doing everything electronically, Millennials appreciate personalized financial advice. Check with your plan advisor to find out how to incorporate it without breaking the rule against providing it yourself. ■

[1] *Thriving in the New Work-Life World*, MetLife's 17th Annual U.S. Employee Benefits Trends Study, 2019, https://www.metlife.com/content/dam/metlifecom/us/ebts/pdf/MetLife-Employee-Benefit-Trends-Study-2019.pdf

[2] *2019 Retirement Pulse Survey* "Catching Up On Retirement Savings" September, 2019

PLAN SPONSOR'S QUARTERLY CALENDAR

JULY

- Conduct a review of second quarter payroll and plan deposit dates to ensure compliance with the U.S. Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between April 1 and June 30 received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan's Form 5500 is submitted by July 31, unless an extension of time to file applies (calendar-year plans).

AUGUST

- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30, unless a Form 5500 extension of time to file applies (calendar-year plans).
- Provide quarterly benefit/disclosure statement and statement of fees and expenses that were charged to individual accounts to participants (due 45 days after end of quarter).
- Submit employee census and payroll data to the plan's recordkeeper for midyear compliance testing (calendar-year plans).
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

SEPTEMBER

- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2 (calendar-year plans).
- Distribute the plan's Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies (calendar-year plans).
- Send a reminder memo or e-mail to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans. ■

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