A RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS

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Retirement Expectation Versus Reality: Communication Opportunities at the Crossroads

When expectation and reality differ, the results can be tough to take — especially when the subject is retirement. By communicating with employees in a way that recognizes both the perceptions and the realities, employers can smooth the transition from worker to retiree.

With this disconnect in mind, it's important for employers to pay attention to key areas where worker expectations and retirement reality part ways. They may then be able to direct their communication efforts where they could truly make a difference.

When, where, how much?

Important points where worker perception can be different than retirement reality include when to retire, and how much income will be needed and from what source. Those were among the areas explored recently by the Employee Benefits Research Institute. These topics, along with the basics of managing a household budget, can form the basis of an effective communication program to guide employees into retirement.

Half of the workers who answered a survey expressed confidence that they know how much income they will need in retirement; half also believe they know how to withdraw income from their savings and investments. A higher number (two-thirds) of retirees say such withdrawals are relatively easy.

Just one-third of workers expect Social Security to play a major role in their retirement income. In fact, 50% said it will be a minor source of their retirement income, and 13% don't consider it a source at all. Contrast that with the response among retirees, where two-thirds say Social Security is a major source of their income.

On time, early, or late

The timing of the initial Social Security claim is something employees think about, and they seem to believe that earlier is better. Many fail to take full advantage of the program by delaying their claim until they are able to receive their highest possible benefit. About half of employees say they think about the timing of their retirement and how it will impact them financially. But they still plan to claim their Social Security benefits at a median age of 65. Just 23% of workers said they chose the age at which they plan to claim benefits with their maximum available benefit in mind.

Read more about retirement confidence from workers and retirees in the Employee Benefit Research Institute's latest survey, at https://tinyurl.com/EBRI-RCS-2018. ■

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Squeeze Play: Gen Xers Especially Feel the Pinch

Saving for retirement can challenge the best of us. For one group of employees, the challenge seems particularly daunting. Your mid-career colleagues, those between 36 and 56 years of age, may sometimes feel the odds are stacked against them. They are squeezed by their own debt, financial obligations to children who are not yet grown, and often, financial demands of aging parents. How, they may wonder, will they ever be able to retire?

Here are a few statistics about this generation, according to information from an ADP Retirement report[1]:

- More than 60% of Gen X workers have dependent children
- 30% provide financial support to their parents or in-laws
- 31% have outstanding student debt.

About one-third of Gen Xers answering the survey reported concern about their ability to meet current monthly expenses. In fact, in 2017 38% said they used a credit card to afford necessities, up a startling 11% compared to one year earlier.

Meanwhile, Gen Xers appear to be more confident in their ability to retire on time than in previous years. 29% reported in 2017 anxiety about not being able to do so, compared to 37% who felt that way in 2016. And three-quarters of Gen Xers are, indeed, saving for retirement, although about one-third have used their retirement assets for something unrelated to retirement, and nearly half believe they will need to at some point.

Retiree healthcare costs cause concern

A significant point of concern for Gen Xers is the cost of health care in retirement, with 30% citing it as a top concern. (Running out of money in retirement (46%) and health issues (32%) were the worries topping the list). They are right to be concerned. One national provider of healthcare cost-projection software expects a healthy 65-year-old couple retiring in 2018 to need nearly $364,000 in their retirement years to pay healthcare premiums and expenses.[2] Even so, only half of Gen X workers who have access to a Health Savings Account use it as a way to build a nest egg toward these expenses in retirement.

Push back with financial wellness education

To push back against the squeeze, many employers provide some form of financial wellness program. A solid financial wellness program should include education about managing debt, setting up and using a budget effectively, and finding ways to save for the future. Such a program can help solidify the relationship between employer and employees — for all ages and pay grades. It can help reduce financial stress on employees, which in turn may improve productivity — since, according to the survey, 34% of Gen Xers report being distracted at work over money. Among them, almost half say they spend at least 3 hours a week preoccupied with personal finance issues during the workday. ■

Web Resources for Plan Sponsors

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

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 Benefits Institute of America, Inc.
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

Pension Plan Limitations for 2019

401(k) Maximum Elective Deferral (*$25,000 for those age 50 or older, if plan permits)	$19,000*
Defined Contribution Maximum Annual Addition	$56,000
Highly Compensated Employee Threshold	$125,000
Annual Compensation Limit	$280,000

[1] *Generation X: The Most Financially Stretched and Financially Stressed Generation*, ADP Retirement Services 2018
[2] Healthview Services 2018 Retirement Healthcare Costs Data Report®, https://tinyurl.com/HVS-2018-retiree

Plan Sponsors Ask…

Q: We like to keep an eye on trends that could impact retirement for our employees. Is anything new on the horizon these days?

A: Yes, there are some trends to watch, although some have been on our (and probably your) radar for the last few years. The American Retirement Association (ARA) identified seven of them in a September 2018 presentation for ASPPA. Take particular note of litigation over plan fees. Several factors have emerged among plans undergoing fee litigation, according to the presenter, ARA Chief Content Officer Nevin Adams. Plans that hold multi-billions in assets are often targeted, he said, especially those that include retail-class mutual funds. Also under scrutiny are plans with proprietary funds in their investment line-ups; plans that fail to regularly benchmark their plans and investments; those using assets as a basis for recordkeeping charges instead of per-participant fees; and plans that aren't working with a qualified retirement plan advisor. None of these factors are illegal, of course. But if they apply to your plan, a thorough review of your processes and procedures could be helpful in maintaining the plan's effectiveness — and keeping fiduciaries out of court. Learn about more trends identified in the presentation at https://tinyurl.com/ARA-7-trends.

Q: Many of our employees are young and carrying debt related to their education. As we implement our financial wellness and retirement communications, we'd like to address the question we sometimes hear about whether it's better to channel income toward paying off loans or into the 401(k) plan. What are your thoughts?

A: Like so many other choices in life, this one is complicated. The best answer is, of course, to do both. But you don't want to overwhelm employees so they give up and fail to take any action. We all know that, when it comes to saving for retirement, the earlier the better. But carrying student debt into retirement isn't smart, and paying if off can free up funds to save for the future. You're on the right track by educating employees about their overall financial health. As you develop the program, these suggestions may help employees struggling with competing priorities. Tell them to: find out if your bank offers an interest rate reduction for automatic payments on your loan; check for tax breaks you could receive on your student loan repayments; pay down the balances of your highest-rate debts first; and watch out for pre-payment penalties if you do manage to pay your student loans ahead of schedule.

The Retirement Advantage (TRA) News

Accomplishing retirement goals takes detailed plans and expert strategies. TRA is continually building up our talent and expertise to assist our clients in designing and administering qualified retirement plans of all types so our Plan Sponsors can meet their unique goals.

Our recent integration of Markley Actuarial Services, Inc., a Lancaster PA based firm providing third party administration and actuarial services for over 30 years, allows us to deliver high quality actuarial services to our clients sponsoring Cash Balance plans, traditional Defined Benefit plans, or requiring other actuarial projects. TRA's in-house actuarial services are able to guide clients of all sizes in strategically designing retirement programs that deliver the results desired.

Cash Balance Plans

TRA has dramatically increased our internal Cash Balance capabilities through the integration of Markley Actuarial Services, Inc. From plan design and implementation, including plan documents, to annual administration, compliance and government reporting, TRA can deliver all services required.

Traditional Defined Benefit Plans

Not all actuarial firms can deliver services beyond Cash Balance plans that include traditional Defined Benefit plans services. Sponsors of traditional Defined Benefit plans have unique goals, including whether or not to continue the Plan, freeze it or terminate it completely. TRA can provide ongoing guidance which will allow sponsors to achieve their goals.

Other Actuarial Services

TRA is able to deliver post-retirement medical and other benefit valuations for employers in compliance with GASB and FASB (Governmental and Financial Accounting Standards Boards).

Our actuaries routinely work with Plan Sponsors on achieving results, such as developing a funding plan to move their frozen traditional Defined Benefit plan to termination, reaching increased levels of annual tax deductible contributions, or presenting ways of de-risking Plans through lump sum windows or annuity purchases.

TRA is now able to deliver complete, in depth annual reporting and compliance services to Plan Sponsors of both Cash Balance/Defined Benefit and 401(k) Plans. We welcome the opportunity to work with you in this new capacity. Contact us for more information by emailing sales@tra401k.com, calling us 888.872.2364, or visit tra401k.com.

Year-End Data Collection

It's that time of year for our calendar year plans to submit their year-end data for required compliance testing and contribution calculations. You should have received an email from your dedicated Client Relationship Manager (CRM), in December *(if your plan year-end is 12/31)*, asking you to submit your census data and questionnaire via PlanSponsorLink (visit us at www.tra401k. com and click on Login and choose PlanSponsorLink). If you didn't receive your Year-End Data Collection email request, please contact us at 888.872.2364.

Helpful tips before you start:

- Make sure you have year-to-date payroll information for all employees receiving W-2 income at any time during the Plan Year (ex. 1/1/2018-12/31/2018):
    - Social Security Numbers
    - Date of Birth
    - Date of Hire
    - Date of Termination, if applicable
    - Compensation
    - Hours
    - Employee Deferrals (Pre-tax or Roth)
    - Employee Match, if applicable
    - Employer Contributions, if applicable
- Have employees with K-1s or Schedule Cs but don't have their Earned Income yet? We've revised our questionnaire to allow you to notate and still submit the rest of your data so we can start preparing your Year-End compliance work.
- If you utilize our 3(16) services, you will receive a notification from us once your final payroll is submitted letting you know we've compiled your year-to-date census data for review and approval.

Are you a large plan filer or potential large plan filer (over 100 eligible participants at the beginning of 2018)? Timely submission of data allows us to get you and your auditor everything you need to complete the plan audit prior to the Form 5500 filing deadline.

Does your plan require ADP and/or ACP testing? Make sure your plan's census data and questionnaire are submitted prior to the deadline provided by TRA, to ensure testing and potential refunds are completed before the refund deadline to avoid IRS penalties.

Your CRM is here to assist you with any questions you may have as you complete the Year-End Data Collection Questionnaire or Employee Census. ■

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 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 e-mail 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 (SPD) 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 Internal Revenue Service or Department of Labor self-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.

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