A RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS

Plan Sponsor OUTLOOK

2Q | 2018

2018 Retirement Trends to Watch

In-plan spending strategies becoming more important

Among retirement industry trends to watch in 2018, along with how to save money in a 401(k) plan and other retirement accounts, is how to spend those savings.

A retirement industry think-tank expects a growing number of plan sponsors and industry stakeholders to evaluate retirement income solutions and de-accumulation strategies for DC plans. The expectation is that, with the growing impact on the workforce of an aging population, increased emphasis will be placed on the distribution of plan assets.

In-plan retirement income solutions will likely continue to evolve. The goal is to provide retirement plan participants with greater flexibility in how their plan assets are distributed to them. The Institutional Retirement Income Council (IRIC) believes such in-plan retirement income solutions will become a greater component of employer-sponsored financial well-being programs and that spending components should increase retirement readiness among employees.

Federal government provides guidance to offset fiduciary concerns in innovation

With the discussion of retirement income solutions as a backdrop, there is concern that innovation in these products, as well as alternative investments, could be stifled in 2018 by concerns about fiduciary risk. Some consultants may hesitate to propose innovative products to their plan sponsor clients, out of concerns about litigation. However, the U.S. Department of Labor and the Treasury Department have provided helpful fiduciary guidance that may help plan sponsors add retirement income strategies to their plans. And, legislation has been proposed that should continue to have a similar effect in supporting lifetime income options.

Another trend to watch, of course, is the impact of the new tax law. IRIC's position is that the changes will likely provide additional savings opportunities for plan participants, and that it creates an ideal opportunity to re-think Roth features. Participants can likely benefit from additional education about Roth and how these accounts may affect their retirement readiness.

Read more about IRIC's predictions for 2018 in this press release: https://benefitslink.com/articles/IRIC_2018Trends.pdf. ■

Pension Plan Limitations for 2018

401(k) Maximum Elective Deferral (*$24,500 for those age 50 or older, if plan permits)	$18,500*
Defined Contribution Maximum Annual Addition	$55,000
Highly Compensated Employee Threshold	$120,000
Annual Compensation Limit	$275,000

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Taking Advantage of the New Tax Law

The dust hasn't yet settled, but a few things about the new tax law seem clear. Employees will likely begin to notice a difference in their paychecks as early as February, and some projections put the average worker's additional spendable income at about $2,000 per year.

What they will do with that income remains to be seen. While many will be tempted to improve their standard of living through purchases, you may be able to encourage them to take a longer view. As the increase in take-home pay is beginning to kick in, now could be the perfect time to point out reasons to increase retirement savings. Better yet, it might be the right time to amend the plan to allow for automatic increases in deferral amounts.

Adding financial education sessions

An ongoing program of education about the retirement plan is key to helping employees make good choices to benefit their futures. But as the first significant change in the income tax law in nearly four decades takes effect, adding an extra employee educational session with your plan's financial advisor could be a smart move.

Along with the discussion of increasing contributions and effective investment strategies, this could be a good time to discuss the relative advantages of pre-tax versus Roth contributions — if your plan offers a choice. With employees enjoying lower tax rates in 2018, they might benefit more from contributing to a Roth account in the 401(k) plan. In fact, because the new tax rates for individuals are set to expire in eight years, now may be a good time for them to build their Roth account without worrying so much about the tax consequences. If the tax rates revert later, employees can resume saving in their traditional pre-tax accounts.

Illustrating the potential impact of increased retirement savings requires several assumptions which, of course, should be thoroughly explained to employees. Even with the fine print, illustrations like the one here could encourage employees to save more for the future — without feeling a pinch in their wallets.

Increased take-home pay: **$100 per month**, saved in the 401(k) plan
Average investment earnings: **8%**
Current age: **40**
Retirement age: **65**
Additional savings in the 401(k) plan: **$91,484**

For illustrative purposes only. Assumes 8% average annual rate of return, compounded annually and is not based on any specific investment or savings strategy.

Of course, the tax savings projected by experts and laypersons alike are only projections, and how the new laws play out could be different. Only time will tell. But the bottom line for plan sponsors is this: Take every reasonable opportunity to remind employees about the reasons to save. Educate them about the opportunity they already have to save for the future. When you have a chance — like this one — to add even more reasons to save, by all means, do so. That little bit of encouragement could make a big difference for your employees.

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

Plan Sponsors Ask...

Q: There are a few accounts in our 401(k) plan that belong to people we can no longer find. They moved and didn't provide a forwarding address. We plan to terminate our plan, which makes it even more important that we find these "lost" participants. What can we do?

A: The Pension Benefit Guaranty Corporation (PBGC) may be able to help. Although the PBGC is primarily about safeguarding DB plan benefits, they said in December 2017 that they will now grant access to their missing-participant database to defined contribution plans terminating in 2018 or later, and to affected participants. That's good news for you and others with terminating plans, but unfortunately it does not address unlocated participants from ongoing plans. Beginning January 1, 2018, sponsors of terminating DC plans may transfer the accounts of "lost" participants to the PBGC, rather than to a financial institution IRA. The accounts will not be diminished by fees, and instead interest will be paid on the account balance when the participant is located. By having a central location for participant accounts, it is expected that it will be easier for participants to find their money. Read more here: https://www.pbgc.gov/prac/missing-participants-program.

Q: We are considering adding auto-enrollment to our 401(k) plan, and have seen many reports about the benefits of doing so. There seems to be no downside. Is that true?

A: Let's start by saying that the upside of using auto-enrollment (and auto-escalation) features in a 401(k) plan are considerable. Participants in plans that use auto-enrollment seldom opt out, even when they are enrolled at 6% to 10% of pay. This has resulted in many new participants saving for their futures. Recently, though, a study was done that suggests people who are automatically enrolled in their plan may take on more debt than they would have otherwise. According to an article on financialadvisoriq.com, the study's co-author, James Choi, a professor of finance at the Yale School of Management, said that employees who were auto-enrolled had $1,563 more in consumer and automobile debt than those hired before auto-enrollment, and they owed $4,131 more on their mortgages. Those figures amount to more than the additional $3,237 on average saved by the workers who were auto-enrolled. Please don't let this information discourage you from adding auto-enrollment. Rather, use it to inform your plan communication efforts. If you address budgeting, debt and other financial wellness topics, you may be able to offset any negative impact participants could experience.

Q: We are thinking about improving our financial education for employees, in hopes that it will have a positive effect on savings rates. The problem is finding topics that interest our employees. What are other companies doing?

A: You are right that general financial education, in addition to education specific to the 401(k) plan, can encourage employees to save more for retirement. Topics like budgeting, debt management and reduction, and finding ways to save on household purchases may allow employees to feel more confidence in contributing more of their income to the plan. In turn, that can lead to improved retirement readiness. It's wise to consider employee interests when selecting topics, because there is some disconnect between what employers think is important for employees to know, and what employees really want to know. For example, 81% of employees want more education about how to obtain life insurance, but only 68% of employers thought they would. Forty-seven percent of employees want to know about saving for children's education, compared to 24% of plan sponsors. And refinancing or paying off student debt is on the minds of 46% of employees, but just 18% of employers said it was important. You might consider an employee survey to identify the financial topics that are truly on the minds of your employees. That way, you may get greater participation in the sessions — as well as in the 401(k) plan. Read more in the Alight 2018 Hot Topics in Retirement and Financial Wellbeing report, here: https://tinyurl.com/Alight2018HotTopics. ■

Acquisition Update!

It has been an exciting first quarter for TRA as we integrate into our family the Plan Sponsors, Plan Advisors and employees from Actuarial Consulting Services (ACS) and Applied Plan Administrators (APA).

On December 31, 2017, TRA acquired ACS located in Cherry Hill, NJ. Kelly Taft joined TRA with the acquisition and will work as a Compliance Analyst in our Plan Administration Department. Our local team is excited to welcome the Plan Sponsors and Advisors to TRA and ensure they have the best service and retirement plan products at their fingertips!

On January 5, 2018, TRA acquired APA in Bingham Farms, MI. We are excited to welcome ten employees who will join various departments across TRA in the coming months to strengthen the service and products we can offer to both the Plan Sponsors and Plan Advisors joining us through this acquisition.

Thank you to everyone who has helped make these transitions smooth and successful and welcome to our new Plan Sponsors, Plan Advisors and Employees!

Attract Millennials with Values-Based Investment Options

It isn't surprising that average contributions are generally lower for younger 401(k) plan participants. Not only is retirement much farther down the road for them than it is for their Generation X and baby boomer colleagues, many of them struggle with more debt and less income. On average, they contribute about 5.3% of pay to their retirement plans, compared to 6.6% for Gen Xers and 8.6% for baby boomers.

Helping your millennial population save for retirement can start with financial wellness education. Topics like budgeting and debt management are important. But more companies are recognizing that including Socially Responsible Investing (SRI) options in the plan could provide the encouragement this group needs to take to increase their retirement savings.

Of millennial plan participants in a recent survey, 84% would like their investments to reflect their personal values. Seventy percent said they are concerned about the environmental, social and ethical records of the companies in which they invest. In fact, 84% also said they would likely increase their contributions to the retirement plan if they felt confident that their investments were doing good in the world.

Your plan's advisor may have suggestions about SRI options you could add to your plan menu. If you decide to do so, be sure to include these options in your communications. Learn more about SRI from Natixis Global Asset Management, here: https://tinyurl.com/NatixisDCSurvey.

PLAN SPONSOR'S QUARTERLY CALENDAR

JULY

- Conduct a review of second 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 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).
- Submit employee census and payroll data to the plan's recordkeeper for mid-year 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 email 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.

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