Hooray for the 401(k)!

Defined Contribution Plans Highly Valued by Americans

As a plan sponsor, you spend a lot of time with your advisor making sure your workplace retirement plan is as competitive and effective as it can be. You put in great effort selecting a diverse menu of investment options, determining the most effective plan design features, educating employees about the importance of saving, taking on fiduciary responsibility for the plan — and everything else in-between. You should feel very proud of these efforts. Results from a recent survey confirm you are providing your employees with a benefit they highly value, and it is making a difference in their financial lives.

The Investment Company Institute's "American Views on Defined Contribution Plan Saving, 2023" polled respondents about their views on defined contribution (DC) retirement plan saving and their confidence in 401(k) and other DC plan accounts. The following is a recap of the key findings.

Thumbs up on DC plans in general

Eighty-five percent of respondents had favorable impressions of 401(k) plans, with 37% expressing the strongest positive response — a "very favorable" impression. As a side note, a strong majority of Americans are against any proposals to remove or reduce tax incentives for saving in DC plans.

Thumbs up on saving and investing features in particular

- Nearly 9 out of 10 defined contribution plan account owners agreed that these plans helped them think about the long term and made it easier to save. Five out of 10 respondents indicated that they probably would not be saving for retirement if not for their DC plans. In addition, saving with each paycheck made 8 out of 10 individuals surveyed less worried about the short-term performance of their investments.
- More than 8 out of 10 (82%) individuals agreed that the tax treatment of their retirement plans was a big incentive to contribute.

Investment Company Institute's "American Views on Defined Contribution Plan Saving, 2023" can also be viewed at: https://tinyurl.com/yrphjt45.

- Nearly all (93%) respondents agreed that it was important to have choice in and control of the investments in their DC plans. More than 8 out of 10 (84%) indicated that their DC plan offered a good lineup of investment options.

DC plans build retirement confidence

Among individual DC account owners, 81% indicated they were confident that DC plan accounts can help people meet their retirement goals. In fact, even among respondents who did not currently own DC accounts, 60% expressed confidence that these plans can help people meet their retirement goals.

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Team Building

Four Best Practices for Forming an Investment Committee

An investment committee can serve an important role with 401(k) plans. As fiduciaries, they are charged with making investment decisions in the best interest of plan participants. Their role typically includes reviewing the services provided to plan participants, establishing the investment policy for the retirement plan, hiring investment advisors and managers, monitoring plan and investment performance and ensuring that the plan's fees are reasonable in light of the services being provided. If you are thinking of forming an investment committee for your plan, here are four best practices to consider:

1. Start with the big picture

One way to start building a solid committee is to review the plan's current needs and identify gaps in knowledge or areas that require specific skills. Doing so helps make sure that the committee members have the necessary qualities the committee needs to achieve its goals. In addition, the investment committee should comprise permanent and rotating members to encourage fresh perspectives. Nonpermanent members should be appointed (and rotated off) in alternating years to avoid losing important investment decision history and committee member burnout.

2. Seek out diverse expertise and backgrounds

When forming a committee, having a diverse group of members with different financial backgrounds is very important. These members might include outside financial professionals (such as your plan advisor and a member of your recordkeeper's relationship management team), human resource representatives and key decision-makers. Each member can bring unique insights to discussions. For example, the chief financial officer may prioritize cost-effectiveness while the human resource manager may focus on things that will make the plan competitive and help recruit and retain talented workers. Having these diverse backgrounds can lead to well-rounded discussions about what's best for the plan participants.

3. Document-specific roles, duties and responsibilities

Clearly outline the roles and responsibilities of each committee member to promote accountability and ensure that tasks are efficiently distributed among the team. Be sure to record, in detail, the committee's duties, including selecting and overseeing investment options, evaluating investment managers and conducting periodic performance reviews. Schedule regular committee meetings to ensure duties are fulfilled. Keep records of the meetings and hold committee members accountable for their role in the plan.

4. Cultivate transparency with committee decisions

Clearly detail the decision-making process within the committee, to help promote transparent and accountable procedures. For example, setting up a minimum number of votes and having committee members vote on changes is a great way to encourage transparency.

Web Resources for Plan Sponsors

Internal Revenue Service, Retirement 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

Informational Sources: ConradSiegel: "Building a Successful Investment Committee"; Plan Pilot: "How to Establish a Strong Investment-Focused Plan Committee."

Plan Sponsors Ask...

Q: Over the past year, we've seen a growing percentage of our plan assets invested in our target date fund offerings. How does this trend compare with the industry overall?

A: According to a recent survey by investment consultant NEPC, target date funds are increasing as a percentage of total plan assets. NEPC's 2023 DC Plan Trends and Fee Survey revealed that 97% of plans currently offer target date funds (TDFs) and that, on average, 47% of plan assets are invested in TDFs. By comparison, 28% of plan assets were invested in TDFs in 2010. This increase is leading to a reduction in the number of core investment options, which are decreasing as a percentage of plan assets. The survey notes that 30% of plans currently have fewer than 10 core investment options. NEPC's survey can be accessed at: https://tinyurl.com/2bdzhs9k (free registration required for download).

Q: With the positive trajectory of state-run IRA programs over the past few years and new tax incentives provided by SECURE 2.0 for starting a 401(k) plan, what is the potential for the retirement plan industry?

A: Recent research from Cerulli Associates forecasts nearly 40% growth in the number of 401(k) plans by 2030, primarily based on the federal and state efforts that you mention. That translates to one million new plans. By comparison, Cerulli has estimated there were 668,419 total 401(k) plans as of the end of 2022. This is great news for the retirement plan industry, as the Boston College Center for Retirement Research statistics estimates that about 33% to 50% of private sector workers are not currently covered by a workplace retirement plan.

Q: We've had a lot of turnover with our plan committee over the past year. As a result, we are planning to prioritize fiduciary training in future meetings. Is there a good foundational overview on fiduciary responsibilities that you would recommend?

A: Your decision to prioritize fiduciary training is smart. Sponsors of retirement plans, especially those covered by the Employee Retirement Income Security Act, must ensure their retirement plan committee members are trained to understand and execute their fiduciary duties. Besides your plan advisor, other resources for educational content include your recordkeeper, TPA or other service providers, ERISA attorney (if using one), and nonprofit professional human resources management associations. In addition, the U.S. Department of Labor's comprehensive publication "Meeting Your Fiduciary Responsibilities" covers everything you need to know about being a retirement plan fiduciary. It can be downloaded at: https://tinyurl.com/mr32sdwf.

Pension Plan Limitations for 2024

401(k) Maximum Elective Deferral (*$30,500 for those age 50 or older, if plan permits)	$23,000*
Defined Contribution Maximum Annual Addition	$69,000
Highly Compensated Employee Threshold	$155,000
Annual Compensation Limit	$345,000

Department of Labor Releases Final Investment Advice Fiduciary Rule

Starting September 23, investment professionals who hold themselves out as trusted advisers will be required to act as fiduciaries — that is, they can't place their interests ahead of the investor — when clients pay them for advice on 401(k)s, IRAs and similar types of qualified retirement plans. The changes close loopholes that made it easier for many investment professionals to avoid fiduciary status — including, for example, when workers roll over their savings from a 401(k) plan to an IRA. The new rule aims to level the playing field for all financial professionals, including investment brokers and insurance salespeople, who describe themselves as trusted advisers when providing investment advice about retirement savings.

For more information, check out the Department of Labor's Fact Sheet: Retirement Security Rule and Amendments to Class Prohibited Transaction Exemptions for Investment Advice Fiduciaries. The fact sheet can also be accessed at: https://tinyurl.com/muddaby5.

Plan Sponsor's Quarterly Calendar

OCTOBER

- Extended 5500 deadline for calendar year plans falling on 10/15/2024.
- Audit third-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 July 1 and September 30 received and returned an enrollment form. Follow up on forms that were not returned.
- For calendar-year safe harbor plans, issue the required notice to employees during October or November (within 30–90 days of the beginning of the plan year to which the safe harbor is to apply). Also, within the same period, distribute the appropriate notice if the plan features an Eligible Automatic Contribution Agreement, Qualified Automatic Contribution Agreement and/or Qualified Default Investment Alternative.

NOVEMBER

- Prepare to issue an announcement to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R, to be mailed in January for reportable plan transactions in the current year.
- Check current editions of enrollment materials, fund prospectuses and other plan information that are available to employees to ensure they are up to date.
- Provide quarterly benefit/disclosure statement and statement of plan fees and expenses actually charged to individual plan accounts during the prior quarter, within 45 days of end of the last quarter.
- Prepare and distribute annual plan notices, such as 401(k) safe harbor for safe harbor plans with a match, Qualified Default Investment Alternative annual notice, and automatic enrollment and default investment notices, at least 30 days before the plan year-end.

DECEMBER

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing (calendar-year plans).
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any Employee Retirement Income Security Act or tax-qualification violations occurred during the year and if using an Internal Revenue Service or U.S. Department of Labor self-correction program would be appropriate.

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

3(16) Fiduciary Services & Plan Administration

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To learn how we make plan administration and managing fiduciary responsibilities easier please contact your **Regional Plan Consultant (RPC)** today or **click here**.

Complimentary CE Credit Webinars

These webinars are designed to assist retirement plan advisors on their road to success with virtual industry related content. Let knowledgeable and friendly TRA Regional Plan Consultants and Subject Matter Expert's provide advice, guidance and perspective designed to fit your business and the needs of your advisory team. If you'd like to increase access to new client relationships, identify new sales opportunities and win new business, TRA's webinars can facilitate.

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