A RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS
Plan Sponsor OUTLOOK
4Q | 2018

# 2017: A Good Year for Participants

## Auto Features Contributing to Participation, Average Balance Increases

It was a good year for individual account plans, including 401(k) s and 457s. In fact, 2017 may go in the record books as the first year the number of plans with an average auto-enrollment deferral rate of 6% exceeded the number of plans with a default deferral rate of 3%, as it has commonly been.

This change, along with market appreciation, may well have factored into the significant increase in average 401(k)/457 account balances during the year. Account increases in 2017 averaged $9,583, compared to average increases of $2,502 in 2016. Participants aged 60-64 experienced the most dramatic account balance increases, from $150,736 in 2016 to $168,725 in 2017 — a difference of $17,989.

The same report from which these findings were culled found additional positive impacts on employee retirement plans stemming from auto-enrollment. Average participation in plans using auto-enrollment was 42 percentage points higher than their non-auto-enrolling counterparts; 87% of employees participated in plans with auto-enrollment, compared to 45% of those without this feature.

Automatic deferral increases also showed remarkable success. In plans requiring participants to opt out of automatic increases, about a third of participants opted out while two-thirds allowed their deferral rates to increase automatically. When required to opt in, just 13% did so.

This strategy may be partly responsible for the uptick in deferral rates overall in 2017. Employee pre-tax deferrals reached 8.3% for 2017, the highest ever reported for this survey.

### Roth Popularity Continues

Roth accounts have increased in popularity among the surveyed plans. Employees between the ages of 20 and 40 took particular advantage of the availability of Roth accounts in their plans. Roth contributions were allowed in 67.4% of plans in 2017, compared to 60.3% the previous year. All but the very youngest participants — those under 20 years of age — contributed more via Roth contributions in 2017 than in 2016. Taking the most advantage of these post-tax contributions were employees aged 30-39; their Roth contributions increased by 1.4% over 2016.

### Participants Pick a Few Investments from a Large Array of Choices

The number of investment options available in the plan for 2017 increased, for the fifth year in a row. On average, plans offered 16.2 investment options, up very slightly from 16.1 on average the year before. Participants, however, seem to be concentrating on just a few investment selections for their individual accounts. The average number of investments in a participant's account in 2017 was 2.5, compared to the high mark of 3.0 in 2008.

Target date plans had been adopted by 94% of plans by 2017, the highest number yet in this survey. In fact, since 2011, the number of plans offering target date funds rose by more than 9%.

See more results from Reference Point, T. Rowe Price Defined Contribution Plan Data as of December 31, 2017, at https://tinyurl.com/TRP-DC-Data. ■

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# How Student Loan Debt Impacts Retirement Savings

## The Financial Wellness/Student Debt Connection

If your workforce includes recent college graduates, it's likely that some of them have debt associated with their college years. Student debt may play a large part in the finances of these young (and even not-so-young) employees; that's why a complete picture of employee financial wellness should consider it. In addition, carrying student debt may play a role in how much workers are saving for their eventual retirement. Both of these are good reasons for employers to take an interest in the impact of student debt on their workforce.

The amount of student debt nearly tripled between 2005 and 2017, according to a recent study. While employees and employers alike may benefit from a workforce with more education and a higher percentage of college degrees, each may also experience negative results from the debt that often accompanies a degree.

Among individuals studied for the report there were two important, and perhaps obvious, findings. First, college graduates are better off financially than are peers who attend college but do not graduate. And second, those who graduate without debt experience better financial outcomes than those who have debt.

### Little Impact on Participation, but What About Account Balances?

What is the effect on 401(k) savings for each group? On the surface, it appears the answer is "not much," at least in terms of 401(k) plan participation. Young workers with student loans tend to participate in available plans about as frequently as do those without such loans. Even the size of the student loan does not seem to impact participation much.

However, for those at the age of 30, there was a difference in the amount of retirement savings between the groups. Individuals with loans but no degree had saved less in a retirement plan at age 30 than did the group who graduated. (In fact, this was the case for people with no college debt, too, whether or not they had graduated; retirement plan assets at age 30 for graduates without debt reached $18,200 on average, compared to $5,400 for those without a degree and no student debt.)

For workers with the smallest amount of student debt — those below the 25th percentile — retirement savings averaged $9,000 for graduates and $5,100 for non-graduates. Across the board, the numbers were similar for workers who had graduated: those in the mid-range of student debt had saved $9,100 for retirement, and those with the largest amount of student debt had put aside $9,300. Non-graduates had not saved as much. Those in the middle had set aside $3,600 and those with the greatest amount of student debt but no degree had saved just $2,200 for retirement.

Based on those savings figures at age 30, it appears the amount of student debt has less of an impact on retirement accumulations than does the mere presence of the debt. This suggests that workers are often mindful of their debt, and that it factors heavily into their decision to save — or not. Employers can use this information to educate employees about financial wellness, paying close attention to communicating about how to pay off debt.

Learn more about student debt and its impact on 401(k) savings in the paper from the Boston College Center for Retirement Research, https://tinyurl.com/CRR-Student-Debt. ■

## 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: What are the risks of losing track of a plan participant? There are a few people who remain "on the books," in spite of trying many times to reach them.**

**A:** That's an important question because there are serious potential consequences. Losing track of a participant can be considered a breach of fiduciary duty, according to a 2014 Field Assistance Bulletin from the Department of Labor. Plan sponsors must be diligent in their attempts to contact participants with a vested account using a variety of tools, including certified mail, checking all plan and employer records, sending an inquiry to the designated beneficiary, and using free electronic search tools. In cases where the participant remains missing, the plan must consider additional methods of locating them, such as a commercial locator service, crediting reporting agencies, and investigation databases. If the plan fails to locate a participant and hasn't taken proper steps to do so, there is a potential for the plan to be disqualified. We suggest you read more on this topic in the DOL's Field Assistance Bulletin mentioned above (https://tinyurl.com/DOL-FAB-201401) in this IRS Employee Plans Memorandum (https://tinyurl.com/IRS-EP-memo), and in this letter to the DOL from the American Benefits Council (https://tinyurl.com/ABC-DOL-letter).

**Q: We had two participants leave our company this year with outstanding 401(k) plan loans. We've heard the tax law passed in December 2017 may impact those loans. What can you tell us?**

**A:** You heard right; there is a provision in the Tax Cuts and Jobs Act passed December 22, 2017, that affects plan participants who terminate employment with an outstanding loan. Before passage of the law, the loan would have been due immediately. Former employees who could not repay the loan within 60 days would have the outstanding balance deducted from their account balance and treated as a taxable distribution. The Tax Cuts and Jobs Act included a provision extending the

## Pension Plan Limitations for 2018

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| 401(k) Maximum Elective Deferral<br>(*$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 |

repayment due date. Now, to avoid inclusion of the outstanding balance in taxable income, the loan must be repaid by the date the participant's federal income tax is due. There are a few important housekeeping items associated with this change. If your plan allows loans, be sure to update the plan document, the plan's loan policy and the required notice of rollover eligibility so they reflect the update.

**Q: Sometimes employees ask us for advice about how much of their income they should be saving for retirement, how much they should already have saved, and how much they will need. Of course, we don't give blanket answers. But we would like to pass along some resources, either directly or through our plan communications, so they can educate themselves. Can you suggest some?**

**A:** We're glad that you aren't trying to give one-size-fits-all answers to these important questions, and that you're interested in helping participants learn more. There are some great resources available online, and you may want to share them with your participants as you communicate about the plan. Be cautious in your communication, though, because the ideas presented by one provider or expert can vary widely when compared to another source. You do not want it to appear that you are endorsing any particular source — unless you have the backing of the plan's counsel and a full understanding that that's what you're doing. In a quick online search, we turned up resources from www.investopedia.com, www.nerdwallet.com, money.cnn.com, www.aarp.org, and The Motley Fool, among many others. Your plan provider likely has calculators available for participants, along with a variety of other tools. Take advantage of them. Even the IRS has resources that can help, at https://tinyurl.com/IRS-resources. ■

# Finding the Right Balance with Company Stock

Including company stock among the investments in your 401(k) plan can be powerful. It gives employees a voice in the firm's direction, pride of ownership, and a direct correlation between their job and company performance. At the same time, employees should understand how to use company stock wisely as a 401(k) plan investment.

A few widely publicized corporate bankruptcies in the early 2000s taught lessons about over-investing in company stock. Federal law limits the amount of employer stock in defined benefit plans to 10%, but has no corresponding limit for 401(k) plans. In spite of past lessons, some plans hold a significant percentage of assets in their own company's stock. According to the Brookings Institute, Sherwin Williams has 62% of their 401(k) plan assets in employer stock, with Colgate Palmolive close behind at 56%. Companies with substantial employer stock holdings in their retirement plans may be risking participants' retirements if the business takes a downturn, as has occurred for General Electric. They were recently removed from the Dow Jones Industrial Average as business results slipped.

If you haven't done so lately, it could be advisable to examine the percentage of assets invested in company stock in your own plan. And make it the subject of employee investment education. By doing so, you can help employees make informed decisions about company stock investments, and at the same time, maintain the benefits of employee ownership.

Read this op-ed from the Brookings Institute for more information: https://tinyurl.com/employer-stock-caution. ■

## PLAN SPONSOR'S QUARTERLY CALENDAR

### JANUARY

- Send payroll and employee census data to the plan's recordkeeper for plan-year-end compliance testing (calendar-year plans).
- Audit fourth 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 October 1 and December 31 received and returned an enrollment form. Follow up for forms that were not returned.

### FEBRUARY

- Update the plan's ERISA fidelity bond coverage to reflect the plan's assets as of December 31 (calendar-year plans). Remember that if the plan holds employer stock, bond coverage is higher than for non-stock 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.
- Review and revise the roster of all plan fiduciaries and confirm each individual's responsibilities and duties to the plan in writing. Ensure than each fiduciary understands his or her obligations to the plan.

### MARCH

- Begin planning for the timely completion and submission of the plan's Form 5500 and, if required, a plan audit (calendar-year plans). Consider, if appropriate, the Department of Labor's small plan audit waiver requirements.
- Review all outstanding participant plan loans to determine if there are any delinquent payments. Also, confirm that each loan's repayment period and the amount borrowed comply with legal limits.
- Check bulletin boards and display racks to make sure that posters and other plan materials are conspicuously posted and readily available to employees, and that information is complete and current. ■

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

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