BPAS RETIREMENT PLAN NEWS

4Q | 2022 A RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS BPAS.COM

Eyes on the Prize

Despite Challenges, Americans Remain Focused on Saving for Retirement

In the face of economic uncertainty, market volatility, geopolitical unrest and the ongoing COVID-19 pandemic, plan participants have continued to save for retirement. Vanguard's annual report, "How America Saves 2022," cites a number of encouraging factors that are contributing to this trend.

Plan Sponsor Support

The report acknowledges that the pandemic has brought more attention to the unstable position of most Americans' finances (70% of Americans surveyed say anxiety over finances is their top stressor). Survey results also indicate that more employers are realizing that anxiety over finances jeopardizes an employee's path to a successful retirement. Therefore, they are working with their advisors to implement smart plan design strategies to get their employees enrolled and saving at higher rates. In addition, more employers are broadening their focus beyond retirement to help employees manage other basic financial needs, such as budgeting, debt management, emergency savings and student loan repayment.

Contribution Rates Stay Steady

Vanguard's survey found that participants' median total contribution rate — including participant and employer contributions — was 10.4% in 2021, compared to 10.5% in 2020. Vanguard credits plan sponsors adopting automatic deferral and automatic escalation for the rate staying constant through the pandemic, market volatility and rising inflation. However, roughly half of retirement plan participants continue to save below the recommended savings rate of 12% to 15% of their salary. Vanguard found that slight deferral increases could help close this savings gap, as about 20% of participants saving below these levels are just 1%-3% away from the target savings rate.

Growth in Managed Account Advice Services

Plan sponsors are also increasingly offering tools and resources to support employees with their saving and investment planning. For example:

- Forty-one percent of all Vanguard DC plans offered managed account advice in 2021, versus 30% in 2017.
- The percentage of participants who were offered managed account advice was 74% in 2021, versus 55% in 2017.
- The percentage of participants who were offered managed account advice and used the service was 10% in 2021, versus 7% in 2017.

Other Notable Progress in 2021

- Only 2% of participants stopped contributing and only 7% decreased their salary deferrals.
- Seventeen percent of participants made a participant-directed increase, 25% made an increase due to auto-escalation and 49% made no change.
- Fifty-eight percent of plan sponsors using auto-enrollment increased the default contribution rate to 4% or higher.

Vanguard's "How America Saves 2022" can be viewed at: https://tinyurl.com/k3j6fkhp.

Talk to Us
1-866-401-5272

Everybody Wins

Select Plan Design Features Can Help Improve Outcomes for Lower-Income Workers

Depending on the nature of your business and the varied experience, education and expertise required of your workforce, you may have a significant population of lower-income workers. In a highly competitive hiring environment, the following plan design ideas can help attract and retain workers. By adding just a little flexibility to better accommodate your lower-income workers, everybody wins.

Automatic Features

Research from the Program on Retirement Policy at the Urban Institute in Washington, D.C., shows that the best way to get lower-income workers to participate in a plan is to automatically put them in the plan. At the same time, plan sponsors must also consider the effect on lower-income workers if it is paired with automatic escalation. Setting the automatic deferral and auto-escalation rates too high can be particularly harmful to lower-income workers, who make their deferrals from lower earnings.

The Defined Contribution Institutional Investment Association defines low income as $20,000 – $47,500 in annual household income.

One tactic employers can use to help lower-income workers save is to defer part of their pay raise automatically into the retirement plan, rather than straight into their paycheck. These workers may not necessarily feel like they're losing out on something, because they still get a slight bump up in their salary while getting a bump up in their retirement savings.

Adjusting the Match To Encourage Higher Deferral Rates

Employers and their advisor often adjust the plan's match rate to encourage higher deferral rates. The Program on Retirement Policy's research shows that participants often defer up to the maximum rate required to receive the full match. The higher the level at which the match ends, the more people feel encouraged to contribute. However, plan sponsors wanting to increase lower-income workers' retirement savings by tweaking the match must remain sensitive to setting the threshold so high that they price these workers out.

Combining a Financial Wellness Program With an Emergency Savings Program

The DCIIA's Retirement Research Center in Boxford, Massachusetts, recommends offering a financial wellness program combined with an emergency savings program. Offering both programs emphasizes the importance of having sufficient savings to cover emergencies and is the most powerful tool available for lower-income participants. Findings from the Life Insurance Marketing and Research Association show that almost 30% of lower-income workers have no emergency savings fund, which can lead them to not save, or to withdraw money from their retirement accounts. Funding an emergency savings account can give lower-income employees a sense of feeling in control and more security about their day-to-day experience. That's a great foundation to build before beginning a long-term retirement savings program.

Retirement Plan Limits for 2022

401(k) Maximum Elective Deferral (*$27,000 for those age 50 or older, if plan permits)	$20,500*
Defined Contribution Maximum Annual Addition	$61,000
Highly Compensated Employee Threshold	$135,000
Annual Compensation Limit	$305,000

Plan Sponsors Ask...

Q: We are considering a plan design change regarding loans. Are there any data that supports offering just one loan per participant versus offering multiple loan options?

A: According to T. Rowe Price's 2022 "Reference Point", plans that allow multiple loans tend to have lower savings rates — dropping from an average deferral of 7.9% to 6.8%. Allowing a greater number of loans is also correlated with higher average loan balances: $10,162 for one loan, $12,424 for two loans, and $13,698 for three or more loans. The study suggests that given the negative potential impact that allowing multiple loans has on savings, plan sponsors could consider limiting them to one per participant. This solution could satisfy the participant need while also limiting the possibility of loans being used for less essential reasons, preserving important retirement savings. You can access the report at: https://tinyurl.com/5bf74dym.

Q: We have a group of plan participants who have asked us for some additional education that covers topics more relevant to employees within 10 years of retirement. Our advisor has set up presentations that cover Social Security, Medicare and income planning. What else might we consider?

A: A new research brief from the Center for Retirement Research at Boston College provides data and perspectives that could serve well as content for an educational seminar. "How Well Do Retirees Assess the Risks They Face in Retirement?" finds that retirees do not have an accurate understanding of their true retirement risks, and there's a large disconnect between how actual and perceived risks are ranked. The analysis finds actual risks should be ranked in this order: 1) longevity, 2) health and 3) market. However, perceived risks are ranked: 1) market, 2) longevity and 3) health. Specifically, Americans ages 50 and older are about three times as worried about market risk as the research modeling suggests that they should be, 50% less worried about their own longevity risk than they should be and 30% less worried about healthcare costs in retirement than they should be. The research also explores family risk, which has received increasing attention. Family risk includes divorce, death of a spouse and adult children becoming ill or unemployed. You can access the brief at: https://tinyurl.com/ycyr4jty.

Q: One of my plan committee colleagues mentioned a new compliance program that was being launched by the Internal Revenue Service. Can you provide any details?

A: The pilot compliance program has recently launched, and it starts with a letter from the Internal Revenue Service (IRS). The letter gives you 90 days to perform both a document and an operational compliance review. If you fail to respond to the letter within 90 days, the IRS will contact you to schedule an exam. Assuming you choose to conduct the appropriate review and you discover errors, the errors may, if eligible, be corrected using the correction principles in Employee Plans Compliance Resolution System. If the errors are not eligible for such correction, you may request a closing agreement and pay a sanction determined pursuant to the fee structure set forth in the Voluntary Correction Program. The IRS states that its goal with this program is to reduce taxpayer burden as well as the amount of time spent on retirement plan examinations. At the end of this pilot, they will evaluate its effectiveness and determine if it should continue to be part of their overall compliance strategy. For more information on how the pilot program works, go to: https://tinyurl.com/ymkvmkd9.

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

Plan Sponsor's Quarterly Calendar

JANUARY

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

FEBRUARY

- Update the plan's Employee Retirement Income Security Act 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 nonstock 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 that each fiduciary understands his or her obligations to the plan.
- 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 the end of the last quarter.

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 U.S. 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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