A RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS

Plan Sponsor OUTLOOK

1Q | 2021

Four Risks Participants May Not Know They're Facing

Life involves risk. One of them is retirement, and whether the money we save to fund it will last. Do your employees understand their risk, and actions they can take now to manage it?

A recent survey found that retirement security may be threatened by these four risk factors: longevity, behavior, market conditions and inflation. The survey found a disconnect between each of these risks and participants' actions. While that's a concern, it's also an opportunity to structure communications to clarify the connection.

Risk #1: Longevity

In 2020, life expectancy for the average American is roughly 79 years. However, many can expect to live into their 80s, 90s or more. Social Security may provide a minimal income, leaving a gap that must be filled through personal savings. Are your employees confident that their 401(k) balance and other savings will last 20, 30 or even 40 years?

Risk #2: Behavior

Considering the risk of outliving one's savings, it is generally wise to begin making significant retirement contributions as soon as one enters the workforce. Then, leave the money in the plan and invest it appropriately. While intentions are good, many people don't follow this course of wisdom. Instead, they delay starting, contribute little, and take a distribution when changing jobs. The result of these behaviors can be a significant hit to their ultimate account balances, and a serious, long-term impact on retirement security.

Risk #3: Market conditions

The market goes up and the market goes down. No one can stop the fluctuations, but people can manage their reactions to them. Understanding that concept may encourage participants to stick to an appropriate long-term investing strategy, providing some protection against the storm. Instead of reacting emotionally to market fluctuations (see Risk #2!), they may feel prepared to ride out the bumps.

Risk #4: Inflation

Some investors are so nervous about the stock market that they believe their money is safer in a cash equivalent fund, like a money market. They don't realize that their earnings may not be keeping up with inflation, thus rendering their money less valuable as each

day passes. Education can help them see that an extremely conservative investment may not be as safe as they believe it to be. ■

The ***2020 Retirement Risk Readiness Study*** from Allianz Life Insurance Company of New York found that 65% of preretirees said they plan to work at least part time during their retirement years. However, among those who are actually retired, just 7% are working. Fifty percent of retirees said they retired earlier than planned, mainly due to factors outside of their control; 34% of that group suffered an unexpected job loss and 25% retired early for health reasons.

By helping employees understand the factors that impact retirement, you may contribute to their ability to reach retirement security. Learn more by reviewing the study's key findings at https://tinyurl.com/allianz-survey.

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The Pandemic's Impact on Savings Behaviors: Comparing Past and Present

One year ago, there was already troubling news about how little Americans had saved for retirement. Then the pandemic descended, multiplying those concerns.

Local and national governments attempted to help with the immediate needs of citizens who, on a grand scale, suffered sudden job losses. The CARES Act paved the way for people to take money from a source intended only for retirement; with a stroke of the pen, they could borrow and receive distributions from their retirement accounts without the carefully crafted penalties that had previously discouraged early withdrawals. Industry professionals and plan sponsors held their collective breath, worried about a flood of cash leaving plans — which, along with the anticipated suspension of contributions, could leave future retirees financially decimated.

As time passed, everyone began to breathe again, realizing that the vast majority of plan participants did not withdraw retirement funds. Nor was there a wholesale move to suspend contributions, either on the part of companies or participants. Still, the virus leaves some big questions, like what will be the long-term impact on participant saving behaviors?

The answer is unclear, according to a new paper from T. Rowe Price, *How the Coronavirus Pandemic is Affecting Retirement Saving*. However, there may be insights to gain from looking backward. Armed with data stemming from the 2007–2009 global recession, plan sponsors and financial professionals may be better prepared to help participants navigate their way ahead toward financial wellness — and therefore a better retirement.

T. Rowe Price asserts that, although the percentage of participants who took advantage of CARES Act provisions was small, the impact of their actions will be far-reaching. Of those who took a coronavirus-related distribution, 21% took the maximum allowed, the lesser of $100,000 or 100% of their vested account balance.

As they analyzed data from the earlier financial crisis, T. Rowe Price found that people who were then working tended to retire at a different time than they had planned, due to factors outside their control such as health, job loss or unexpected financial need. Concerns about affording retirement continue to plague all generations; one-third of today's workers surveyed report concern they will have to reduce their standard of living in retirement.

The pandemic highlights the need to continue educating employees about financial wellness. People who have emergency savings are better able to ride out even the kind of significant disruption wrought by COVID-19. Employers are in a unique position to help, by working with their financial professionals to provide the needed education. Between 40% and 60% of those surveyed by T. Rowe Price said they are interested in learning from their employer or plan professionals how to set

and meet financial goals. And 62% of 401(k) plan participants said they look to the company that manages their plan to help them achieve financial goals, including debt reduction, college education and day-to-day expense management along with saving for retirement.

The T. Rowe Price Insights on Retirement contains more information that may help you set a strategy to improve plan results. Read it here: https://tinyurl.com/TRP-Insights. ■

Web Resources for Plan Sponsors

Internal Revenue Service, Employee 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

COVID-19 Resources

Society for Human Resources Management
https://www.shrm.org

International Foundation of Employee Benefit Plans
https://www.ifebp.org

Thomson Reuters
https://tax.thomsonreuters.com

Plan Sponsors Ask...

Q: The ups and downs in the stock market have made some of our 401(k) plan participants very nervous, to the point that some have moved their entire accounts into money market funds. Is that a good strategy for retirement savings?

A: First, be aware that you cannot offer investment advice to participants; doing so could violate your fiduciary duties. You can, however, offer general investment education. Your nervous participants are correct that 2020 has stimulated a lot of market volatility, and it may continue. But over the years, dollars that stay invested in the stock market have historically done better than dollars that come and go based upon the emotional response of the investor. One recent blog post commented on research from DALBAR, showing that investors' desire to "do something" in turbulent times may have resulted in underperforming the S&P 500 by 4% per year between 2009 and 2019. Similar results came in the bond market, in which the average nonindex investor lagged behind the Bloomberg-Barclays Aggregate Bond Index by 3% during the same time period. Sadly, those investors did not manage to beat the inflation rate during that decade. Learn more at https://tinyurl.com/nationwide-markets-economy.[1]

Q: We'd like to make some changes in our plan investment menu. There are participants with money invested in the funds we have identified to eliminate. Is it a good idea to grandfather these participants, allowing them to remain in those funds while closing them to new investors?

A: This should be a discussion with your plan's investment professional. In fact, you may want to cover the topic with the plan's attorney, just as a housekeeping matter. But as you make the decision, consider that even when the decision is made with the best of intentions, grandfathering may not achieve the desired outcome. When you make a change to plan provisions, investment options or even your other benefits, nongrandfathered employees will likely find out about it. Whether new employees or those who are established come out "better off," you can be sure the word will spread, and that could be disruptive. And don't forget the compliance aspect of making changes for one group over another, says Cammack Retirement. They cite the potential for failing future nondiscrimination tests that may result from grandfathering employees in certain situations. While that may not be the case when changing a plan investment, it underscores the need to think through potential outcomes when considering grandfathering in the plan. Read here for more information: https://cammackretirement.com/knowledge-center/topofmind/why-grandfathering-can-backfire.

1 Past performance is no guarantee of future results. Individual results may vary; investors may not invest directly in an index.

Q: With two options for paying 401(k) plan expenses — either from company assets or plan assets — we wonder if there is a fiduciary argument for one over the other.

A: One fiduciary argument springs immediately to mind: there is no risk of excessive fees being charged to participant accounts if the company is footing the bill. Still, it's a good question to ask when structuring a new plan, or re-examining an existing one. Besides the fiduciary liability benefit, there are several other reasons paying plan fees with company assets could benefit both the company and plan participants, according to Capital Group. First, because plan fees are tax-deductible, paying from company assets may result in tax savings. Second, it can improve transparency to participants, which may contribute to employee relations efforts. Paying from company assets may also mean more investable assets. Not only could that result in better pricing, it may lead to higher account balances for participants down the road. Take a look at the article here: https://www.capitalgroup.com/advisor/pdf/shareholder/RPGEFL-408-617981.pdf. ■

Pension Plan Limitations for 2021

401(k) Maximum Elective Deferral (*$26,000 for those age 50 or older, if plan permits)	$19,500*
Defined Contribution Maximum Annual Addition	$58,000
Highly Compensated Employee Threshold	$130,000
Annual Compensation Limit	$290,000

When Times are Tough, Plan Sponsors Look to Consultants for Guidance

Before the pandemic struck, sponsors of U.S. defined contribution plans were realizing the benefits of calling outside assistance for guidance. Even more seem to be doing so today. Relying on consultants and financial professionals for the very specialized help they provide can help sponsors weigh options. What's more, it may provide a level of protection for those with authority over the plan, and may improve the plan's performance.

The *2020 Inside the Minds of Plan Sponsors* survey found that 58% of plan sponsors rely on a consultant or financial professional — up 16% from the prior survey. One benefit of expert guidance seems to be increased awareness of fiduciary responsibility: the survey found that 70% of plan sponsors now identify themselves as fiduciaries, up from 58% in the prior report. There was a similar increase in the number of plan sponsors who said it is "very important" to have a consultant to the plan acting as a fiduciary; 54% made that statement in 2020, compared to 37% in the earlier survey.

For plan sponsors, a lack of knowledge about how much employees need to save for retirement tops the list of worries, with 52% citing it as number one. Their second-highest concern, at 49% of plan sponsors, is that participants don't understand their investment options. These are, of course, areas where outside financial professionals can help.

To read the latest *Inside the Minds* survey from Alliance Bernstein, visit: https://blog.alliancebernstein.com/library/for-dc-plans-pandemic-reinforces-value-of-consultants-and-advisors. ■

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 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 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.
- 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 last quarter.
- By May 15 (or 45 days after the end of the quarter) participant-directed defined contribution plans must supply participants with a quarterly benefit/disclosure statement and a statement of plan fees and expenses actually charged to individual plan accounts during the first quarter.

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 a 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 U.S. Department of Labor self-correction program to resolve it.
- Check for any ADP/ACP refunds due to highly compensated employees for EACA plans, in order to avoid an employer excise tax. ■

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

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