Q1 2025 | Winter Edition

Retirement Plan Perspectives

Insights for Your Plan and Employees

Reenrollment Readiness

The Why and How of Conducting an Annual Reenrollment

The popularity of reenrollment has increased dramatically in recent years. According to research from J.P. Morgan Asset Management, 55 percent of plan sponsors have considered reenrollment, and more than a quarter (26 percent) have already conducted or are planning to conduct a reenrollment in the next 18 months, up from just 7 percent in 2019. Here are four reasons to consider conducting an annual reenrollment:

1. **Boost participation rates.** It helps employees who may have previously opted out or never enrolled to reconsider their participation, thus increasing overall plan engagement and improving retirement readiness.
2. **Reduce decision inertia.** Some employees may procrastinate or delay enrolling, even if they intend to participate. An automatic reenrollment sweep addresses this by requiring less effort on their part.
3. **Remind employees about the employer match.** Employees may miss out on valuable employer matching contributions if they don't participate. The sweep encourages employees to not leave "free money" on the table.
4. **Meet plan sponsor fiduciary responsibility.** By actively encouraging participation and increasing plan effectiveness, plan sponsors help meet their fiduciary responsibilities to act in the best interest of employees.

Best Practices for Plan Sponsors

Here are some best practices that can help support a successful reenrollment:

Communicate clearly and regularly. Send clear and frequent notifications to employees before, during, and after the reenrollment to inform them of their options and the benefits of enrolling; highlight important details such as the contribution rate, employer match, and investment options.

Offer default investment options. Provide well-balanced, low-cost default investment options, like target date funds, for employees who are automatically enrolled but do not select their own investment preferences.

Set a reasonable default contribution rate. A default contribution rate (e.g., 3 percent to 6 percent of salary) should be set, with the option for employees to adjust their rate higher or lower based on their financial needs.

Include auto-escalation. To help employees save more over time, offer an automatic escalation feature that gradually increases their contribution rate annually unless they opt out.

Consider a timing strategy. Conducting the sweep right after the performance review season could provide a well-timed opportunity to save if an employee is receiving a raise at that time.

Monitor participation and engagement. Regularly analyze participation rates and demographic data to identify segments of employees who may need additional support or communication regarding the plan.

Provide financial education and support. Offer access to retirement planning resources, financial literacy programs, and/or one-on-one consultations to help employees understand the importance of retirement savings.

Comply with regulations. Ensure the sweep complies with regulatory requirements, including the Employee Retirement Income Security Act (ERISA) and U.S. Department of Labor (DOL) guidelines. Automated processes must meet safe harbor provisions to protect the sponsor from liability.

Informational resources: Finance Strategists, Automatic Re-Enrollment (May 22, 2023); Continued Progress Through Partnership, J.P. Morgan Asset Management's 2023 Defined Contribution Plan Sponsor Survey Findings (July 2024).

Working It Out

Tips for Supporting Retirement-Age Employees

According to the U.S. Bureau of Labor Statistics, the aging population has reshaped the workforce, with about one in four employees having reached age 65 or older. Older adults are one of the few age groups that are expected to increase their workforce participation rate over the decade. The bureau projects that 21 percent of older adults will be in the labor force in 2032, up from 19 percent in 2022. Whether retirement-age employees may continue to work by choice or due to financial necessity, here are some things to consider to help support their unique needs.

Financial Education and Counseling

- **Retirement planning workshops.** Offer educational sessions to help employees understand their retirement benefits, including social security, Medicare, and their pension or 401(k) plans.
- **Access to financial advisors.** Provide access to professional financial advisors who can help employees navigate retirement options and create tailored plans.
- **Digital tools.** Offer digital calculators or software that help employees estimate their retirement income, health care costs, and long-term financial needs and goals.

Phased Retirement Programs

- **Flexible work schedules.** Allow employees to reduce their hours or transition to part-time work while earning benefits. This flexibility helps them adjust to life without a full-time income.
- **Consultancy roles.** Retain valuable skills and institutional knowledge by allowing employees to work as consultants after retirement.

Simplified Retirement Processes

- **Clear communication.** Ensure that retirement benefits, procedures, and deadlines are clearly communicated in order to make the process easier for employees to navigate.
- **Streamlined application.** Offer online portals or one-on-one assistance to simplify the retirement application process.

Ongoing Engagement

- **Alumni connection opportunities.** Create opportunities for retirees to stay connected with the organization. This connection can foster a sense of community and encourage them to serve as mentors or part-time consultants.
- **Continuous learning opportunities.** Provide access to lifelong learning or training programs, which can help retirees stay mentally sharp and develop new skills.

Consider implementing these strategies to help ensure that retirement-age employees feel supported both financially and emotionally during this significant life transition.

Informational sources: Employee Benefit News, How Employers Can Support Retirement-Age Employees (June 27, 2024); HPPY, How to Support Staff Who Are Approaching Their Retirement (July 8, 2024).

Web Resources for Plan Sponsors

- Internal Revenue Service, Employee Retirement Plans: irs.gov/ep
- U.S. Department of Labor, Employee Benefits Security Administration: dol.gov/ebsa
- 401(k) Help Center: 401khelpcenter.com
- *PLANSPONSOR* Magazine: plansponsor.com
- BenefitsLink: benefitslink.com
- Plan Sponsor Council of America: psca.org
- Employee Benefit Research Institute: ebri.org

Pension Plan Limitations for 2025

• 401(k) maximum elective deferral ($31,000 for those age 50 to 59 or 64 or older; $34,750 for those age 60–63, if plan permits)*	$23,500
• Defined contribution maximum annual addition	$70,000
• Highly compensated employee threshold	$160,000
• Annual compensation limit	$350,000

*Under a change made in SECURE Act 2.0, a higher catch-up contribution limit applies for employees age 60–63 based on age at the end of the calendar year. For 2025, this higher catch-up contribution limit is $11,250 instead of $7,500, for a potential total contribution of $34,750.

Plan Sponsors Ask . . .

Q We've noticed that the average fund expense ratios for several options in our plan's investment lineup continue to decrease on a fairly consistent basis. Is this part of an industry trend?

As a matter of fact, 401(k) plan participants have incurred substantially lower fees for holding mutual funds over the past two decades, according to recent research from the Investment Company Institute. The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2023 shows that from 2000 to 2023, the average equity mutual fund expense ratio paid by 401(k) investors dropped by more than half (60 percent), offering them potentially higher returns and balances in retirement. The average bond mutual fund expense ratio has dropped by 63 percent. In addition, from 2008 to 2023, average target date fund expense ratios have also dropped by more than half.

Q Several of our older employees would like to get more education and guidance on social security benefits. Our recordkeeper has provided a few basic flyers, but we don't have much else. Do you know of any industry resources we could pass along to them?

AARP has sponsored a 10-part video series on YouTube that answers the most common questions about social security. Each part is 2–3 minutes in length, covering such topics as "What's the Best Age to Start Collecting Social Security?"; "How Do I Apply?"; and "How Do Social Security and Medicare Work Together?" The video series can be accessed at: https://www.youtube.com/playlist?list=PLCs-cyDdbqlIH6aPfUvR6pyeF5YriXnP-.

Q Our advisor has been encouraging us to add a retirement income solution to our plan in 2025. We feel it's important, but is there any recent data to help us with prioritizing this effort?

According to BlackRock's 2024 Read on Retirement report, 60 percent of employees (across all generations) worry that they will outlive their retirement savings. Of those, 80 percent say it is negatively impacting their mental health. Also, 93 percent say knowing they would have guaranteed retirement income would improve their mental health right now. The BlackRock survey also revealed that "adding investment options that provide the option for secure income" is the top single change plan sponsors said could improve future employee retirement outcomes. In addition, a retirement income planning tool is the top workplace benefit sponsors believe will attract and retain talent in the current environment.

Plan Sponsor's Quarterly Calendar

April

- If a plan audit is required in connection with 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 DOL'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 on forms that were not returned.

May

- Monitor the status of the completion of Form 5500, and, if required, conduct a plan audit (calendar-year 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 in which they are covered.
- Perform a thorough annual review of the plan's summary plan description 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 the last quarter.
- By May 15 (or 45 days after the end of the first 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 IRS or DOL self-correction program to resolve it.
- Check for any Actual Deferral Percentage and Actual Contribution Percentage refunds due to highly compensated employees for eligible automatic contribution arrangement plans 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.