Q3 2023

Retirement Plan Perspectives

Insights for Your Plan and Employees

Taking a Cue

Employee Trends to Consider in Your Plan Design Strategy

T. Rowe Price's 2022 "Participant Reactions and Trends" report revealed that employees have largely stayed the course during the market volatility, economic uncertainty, and many other challenges we've faced in the past few years. The study also identified interesting trends that have emerged, however, and those trends (shown below) can help inform your plan design strategy and identify additional educational areas to focus on for the remainder of your plan year.

Digital content is king. Participants consumed nearly three times more digital retirement educational content in 2022 than they did in 2021. The most significant increase was seen with participants older than 50, who focused on content related to retirement saving goals.

A hard no. Participants have taken slightly more hardship withdrawals (4 percent more in 2022 versus the 10-year average) but the amount of those withdrawals decreased by more than 20 percent year-over-year.

Staying on target. Ninety-nine percent of participants stayed the course and didn't make a change in their investment strategy in the fourth quarter of 2022. In addition, participants with 100 percent invested in a target date product were 15 times less likely to make a change than those with 0 percent invested in such a product.

You are what you owe. Participants who take multiple loans per year have a lower deferral rate—by an average of 2.3 percentage points—than those who do not take multiple loans.

Maxing out the tax-deferred compounding opportunity. Participants who are near retirement and have not taken a hardship withdrawal have an average of three times more in savings than their counterparts who have done so.

Plan Sponsor Considerations

Here are a few strategies to consider that could help support the positives in these trends:

- Consider reinforcing educational efforts to increase awareness and knowledge of target date funds.
- Continue educating employees about the ramifications of taking a loan or hardship withdrawal, along with the opportunity cost related to tax-deferred compounding.
- Expand your offering of sustainable retirement planning tools and look to enhance digital content and communication mediums offered, giving employees a diversity of ways to learn, acquire knowledge, and boost financial literacy.
- It may sound simple, but there may be no better way to support employee retirement savings than by continuing to promote the concept of tax-deferred compounding and the growth opportunity it offers.
- Consider implementing emergency savings vehicles for employees (if you aren't already doing so), such as those now available through SECURE 2.0.

The 2022 report findings can be viewed at https://tinyurl.com/8y3w7sxh. The report is based on plans with approximate assets greater than $25 million with T. Rowe Price as the recordkeeper.

Prelaunch Planning

Thinking About Adding a Financial Wellness Program? Here Are Three Things to Consider

Callan's 16th annual "Defined Contribution (DC) Trends Survey" offers the latest developments on various retirement plan topics, including SECURE 2.0 (prior to passage); diversity, equity, and inclusion; plan design; governance; legislation; investment management; and participant advice. If you're thinking about implementing a financial wellness program for your employees, the survey also offers key insights into the process, including the following components.

1 Designing and Monitoring a Program

The survey found that the responsibility for designing and monitoring the financial wellness program most often lands with human resources, rather than a governance committee. In addition, unlike most DC plans, financial wellness generally does not fall under the Employee Retirement Income Security Act (ERISA) of 1974. This means employers that add benefits outside the existing legislative or regulatory framework do so at some level of risk. The survey's authors also suggest that plan sponsors consider how to best monitor and manage these benefits. Although the two programs (retirement and financial wellness) may interact, they are typically monitored by separate people or teams, which can lead to efficiency gaps. DC plan fiduciaries may require regular reporting on the financial wellness program in conjunction with their ongoing plan monitoring to ensure that both programs are operating optimally.

2 Prioritizing Needs and Objectives

The survey revealed that the top financial wellness needs were in the areas of saving behaviors and roadblocks to saving, including budgeting and debt management. Nine out of 10 respondents indicated retirement savings was a top financial need (3.9 weighted average rank out of 5). Sixty-three percent highlighted emergency savings needs (2.3) and 56 percent called out budgeting (2.0) or debt management (1.8). One-quarter reported offering incentives to participate in a financial wellness program.

Callan's "Defined Contribution (DC) Trends Survey" can be viewed at https://tinyurl.com/2p8ty75h. A free registration is required to access the survey.

Means of Soliciting Employee Financial Wellness Needs

Internal survey	41%
Individual feedback	19%
Focus group	6%
No means	25%

Top Financial Needs Identified

Retirement savings	3.9
Emergency savings	2.3
Budgeting	2.0
Debt management	1.8
Health care spending	1.6
Student loans	1.5

5 = most important; total ranking is a weighted average score

3 Measuring Effectiveness and Determining Success

Respondents prioritized usage, participant feedback, surveys, and returns on investment to measure financial wellness program success.

Top Criteria to Gauge Success of Financial Wellness Program

Usage	4.6
Participant feedback or surveys	2.5
Return on investment	1.8
Impact on DC plan saving behaviors	1.8
Increased engagement	1.6
Cost	1.2
Ease of administration	1.1

5 = most important; total ranking is a weighted average score

Pension Plan Limitations for 2023	
401(k) maximum elective deferral	$22,500*
DC maximum annual addition	$66,000
Highly compensated employee threshold	$150,000
Annual compensation limit	$330,000

* $30,000 for ages 50 and older, if plan permits

Plan Sponsors Ask...

Q We are working with our advisor to address the specific needs and unique circumstances of our women employees. Are there recent trends to be aware of to help us frame our approach?

According to a December 2022 report from the U.S. Government Accountability Office, women still earn an estimated 82 cents for every dollar men make. Not only does that mean women earn less in their lifetimes, but they also have less income to put toward retirement. In addition, a new study by 401(k) platform Guideline found women report feeling more overwhelmed toward their retirement savings than men (48 percent versus 27 percent). They were also more likely to experience feelings of frustration (31 percent versus 21 percent), intimidation (30 percent versus 18 percent), and confusion (22 percent versus 9 percent). As a result, fewer women are saving for retirement than men (69 percent versus 80 percent). In addition, 55 percent of men save more than 10 percent of their income, whereas only 36 percent of women save the same. The survey also found that women are nearly twice as likely as men to self-identify as novice investors.

The survey points to fundamental plan features for employers to have in place to begin closing the gender gap, such as automatic features with a robust employer match, along with tools and resources to help improve financial wellness. Targeted educational campaigns that focus on boosting retirement savings literacy and confidence with the overall retirement planning process should also be considered. In addition, a recent LIMRA survey indicated that women who work with a financial professional are much more likely to complete several retirement planning tasks that are recommended to bolster retirement readiness.

Q How did SECURE 2.0 improve the employee self-certification process for hardship distributions?

Previously, the Internal Revenue Service permitted self-certification for hardship distributions, but it was the responsibility of the plan to obtain any records or evidence needed to prove compliance if the validity of the distribution was challenged. Therefore, some plan administrators and recordkeepers were hesitant to permit self-certification. Thanks to SECURE 2.0, for plan years beginning on or after December 29, 2022, plan administrators may rely on certification by a participant verifying that they have met the requirements for a 401(k) or 403(b) plan hardship distribution without this extra documentation. The employee's written self-certification must state that circumstances for the hardship exist, the amount requested is not more than the amount required to satisfy the financial need, and the employee has no alternative means to satisfy such need. These changes are optional and are effective for calendar year plans now.

Q We've spent significant time this year enhancing features of our 401(k) plan to make it as attractive as possible to potential new hires. Are there statistics regarding employers permitting immediate eligibility for plan participation?

Employers have reevaluated their retirement plan designs with an eye toward making it easier for employees to join and start saving, according to new Vanguard Group data. For Vanguard recordkeeper plans, 72 percent of employers permitted employees to participate in the plan immediately, compared with 58 percent in 2012; 86 percent allowed for entry within three months of employment. For insight on additional potential plan design enhancements, check out Vanguard's "The Changing Workforce Environment: How Employer Plans Can Help Attract and Retain Employees" (March 2023) at https://tinyurl.com/yvx8pb2m.

Plan Sponsor's Quarterly Calendar

October

- 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, along with any changes taking effect 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 available to employees to ensure that they are up to date.
- Provide quarterly benefit/disclosure statements and statements 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.
- Prepare and distribute annual plan notices, such as 401(k) safe harbor for safe harbor plans with a match, qualified default investment alternative annual notices, and automatic enrollment and default investment notices at least 30 days before 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 whether ERISA 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.

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