The Importance of Financial Wellness

It's interesting to compare changes year by year, but over time is when real results emerge. That's often true in retirement plans; while there may be small, incremental changes in enrollment, investments and plan design one year to the next, comparing decades can be much more illuminating.

One example is the popularity of target-date funds. These are funds which gradually shift emphasis from more aggressive to more conservative, based on their target date, which is generally the year one intends to retire and leave the workforce. Examining their data, Vanguard found a gradual uptick, usually 3% to 4% each year, in the number of participants holding a single target-date fund for most years between 2008 and 2016.[1]

Yet, by the end of 2017 these small increases added up significantly when compared to the previous decade: the percentage of participants invested in a target-date fund had reached 75%, and 9 of every 10 plan sponsors included them among the available funds.[2]

It isn't often that plan sponsors and industry professionals who watch the trends are startled by year-over-year changes in benchmarks such as matching contribution levels. To the contrary, participation levels, Roth provisions, and auto features in 401(k) plans continue to gain modestly, while plan fees creep downward.

However, there was a surprise in 2018. In a longtime, industry-standard benchmarking survey, companies seemed far more willing to claim responsibility for employee financial wellness than they were a year earlier. Typically, when asked whether their organization had responsibility for employee financial wellness, the response from employers was about 25% saying yes, 25% saying no, and 50% remaining neutral. But for 2018, 58.4% said yes, 1.8% said no, and 39.7% remained somewhat neutral.[3]

[1] Vanguard Research Note, *TDF Adoption in 2017*, https://tinyurl.com/vanguardTDF. Please note the principal value invested in these funds is not guaranteed at any time, including at the specified target date.

[2] *How America Saves 2018*: Vanguard 2017 defined contribution plan data, https://tinyurl.com/VanguardTDF-2

[3] *PLANSPONSOR 2018 DC Survey: Plan Benchmarking*, https://tinyurl.com/PlanSponsor-2018-DC-benchmark

Nearly half of employers auto enroll at 3%+ initial deferral rate

Employers continue taking practical steps to reach the goal of financial wellness for employees, whether through plan features or through tools and education (or both). The same study found that by 2018, 47.5% of plans automatically enroll employees in their 401(k) plans at an initial deferral rate higher than 3% of pay. Six years earlier, 35% of employers enrolled automatically at a rate higher than 3% of pay.

The most popular means of bringing financial advice to employees is offering one-on-one meetings with financial advisers, the survey found, with 46.5% of employers doing so. Most commonly, the types of financial education or guidance offered were savings strategies (43.5%), investing basics (35.8%), and credit/debt management (17.9%). Fully 27.8% offered access to help for new hires rolling into the plan and 26.3% offered help for newly separated employees rolling out of the plan.

Learn more about the *2018 PLANSPONSOR Defined Contribution Survey: Plan Benchmarking* at https://tinyurl.com/PlanSponsor-2018-DC-benchmark. ■

For 25 years, Asset Strategy Consultants has been providing investment management consulting to fiduciaries of retirement plans, endowments, and foundations. ASC assists clients with managing the risk and responsibility of sponsoring retirement and investment programs while helping their employees achieve a successful retirement outcome. Headquartered in Baltimore, ASC has over $9 billion under advisement throughout their five offices on the East Coast.

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Traditional Accounts Continue Sharing the Stage with Roth Accounts

Tax diversity among the benefits

As employers continue looking for ways to help employees retire securely, the Roth account has become a regular plan feature. In the five years starting in 2014, in fact, inclusion of a Roth account feature had increased 18.1%, so that by 2018, 72.7% of 401(k) and 403(b) plans included one. In the largest plans, those with more than $200 million in assets, nearly 8 in 10 plans now include a Roth feature.[4]

A key reason for the Roth's popularity is diversity — but not the kind typically discussed in retirement plan circles. Instead of investment diversity, the primary reason to include a Roth is tax diversity.

Lower taxes today…or tomorrow? Find a balance

Taxes are one of the key reasons to encourage employees to contribute to their 401(k) plan. After all, current-year income may be reduced by the amount an employee contributes to the plan. However, as the discussion around income strategies at retirement heats up, awareness is increasing about the role of income taxes during the decumulation, or withdrawal, phase. Retirees whose savings are entirely tax sheltered may be hit with tax bills that are larger than they expect — at a time when every penny counts.

Investing part of one's retirement savings in a Roth account is one way to provide balance. True, Roth contributions are made with after-tax money. Any investment earnings in the Roth account accumulate tax-free just as they do in a traditional 401(k) or 403(b) account. Unlike the traditional accounts, though, withdrawals from the Roth account are tax-free at retirement.

[4] *PLANSPONSOR 2018 DC Survey: Plan Benchmarking*, https://tinyurl.com/PlanSponsor-2018-DC-benchmark

Tracking the details

There are several questions employers that want to add a Roth feature to their existing 401(k) plan should ask themselves or their providers:

- Does our plan document allow for a Roth option, or will it need to be updated to include this feature?
- Is our payroll provider capable of processing both pre- and post-tax contributions?
- Can our record keeper track both types of contributions?

If your plan includes auto-enrollment, new participants are typically enrolled in the traditional account. If you want to enroll them in the Roth account, you should require them to affirmatively sign up to do so. Employees who contribute to both the pre-tax and post-tax accounts in the plan need to know that the maximum deferral amount considers both.

As is the case with any qualified plan, there are a lot of details to address when making a change of this kind. It's always wise to speak with your plan's counsel. In the meantime, you can read more about Roth accounts in 401(k) plans at the IRS website, https://tinyurl.com/IRS-Roth. ■

This article is for informational purposes only and is not intended as tax advice. Employees should be encouraged to consult a qualified tax professional before making investment decisions.

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 Benefit Research Institute
www.ebri.org

Plan Sponsors Ask…

Q: One of our 2019 goals is to provide financial education to our employees. There are many companies and individuals providing this kind of education; how can we pick the right one for our company?

A: Congratulations on making the decision to move ahead with financial education! When employees have a better grasp on budgeting and other financial basics, they may be better equipped to save for retirement and the other big financial demands we all face. To find the best provider for your needs, we suggest creating a list of questions to ask each candidate. You will want to ask how the provider will be paid, i.e., is it through commissions? Is the content they will present objective? And will the vendor be collecting contact information from employees? You will also want to make sure you understand the background and experience of the candidates, asking questions such as: Have educators had training in the areas they will discuss with employees? What is their track record in providing this kind of education? And, if there will be one-on-one counseling with employees, are the trainers certified to do so? The International Foundation of Employee Benefit Plans has created a comprehensive list of 23 questions to ask when you're selecting a vendor for financial education. https://tinyurl.com/IFEBP-education.

Q: When moving our office, we came across some old retirement plan records. That sparked a conversation about what we need to keep with regard to our 401(k) plan. Can you provide any guidance?

A: Just as you do with your personal income tax documents, you need to maintain records related to the plan. This is for a couple of reasons, one of which is being ready to defend actions and decisions if the plan is ever audited. We suggest you review the IRS and the DOL websites for complete information about what you need to keep and for how long. In the meantime, here are some items that come to mind. Keep the original and signed plan document, along with any amendments, the adoption agreement (if any), the Determination Letter from the IRS, and all trust records and investment statements. Make sure you maintain records of all notices to participants, like the Summary Plan Description, the Summary Annual Reports, notices about blackout periods, and fee disclosures. You should also keep proof that the notices were sent and any proof they were received or opened. Of course, keep the plan's 5500 reports and audits of the financial statements. You can find a discussion on this topic in the *Journal of Pension Planning & Compliance*, Volume 43, Number 4, available online at https://tinyurl.com/JPPC-records.

Q: We offer a wide variety of funds in our 401(k) plan. Employees sometimes get so stressed trying to understand the funds that they give up and "just pick one." We are working on simplifying the offerings and helping them understand those we have available. Any suggestions?

A: You are wise to put thought into the plan's investment offerings. The first suggestion is to work with your plan's advisor to develop an IPS, or Investment Policy Statement. It will help guide decisions and to document the reasons each was chosen, which could serve to protect the plan's fiduciaries should any litigation arise. It's also a good idea to make sure participants understand how fees are charged. The Pew Charitable Trusts has come up with a calculator that clarifies the impact of paying too much for investments. In an article on their site, they illustrate the difference for someone saving $200 per month at 6% with fund expenses of 1.5% (sum of fund expense ratio and advisory fee) compared to someone in the same situation paying just 0.5%. At the end of 40 years, the person paying the higher amount would have saved $268,700, while the investor paying the lower fees would have $349,600 — a difference of $80,900, even though the difference in expense is just 1%. You can read the article, which was originally published in Forbes on November 16, 2018, here: https://tinyurl.com/Pew-fee-impact. ■

Pension Plan Limitations for 2019

401(k) Maximum Elective Deferral (*$25,000 for those age 50 or older, if plan permits)	$19,000*
Defined Contribution Maximum Annual Addition	$56,000
Highly Compensated Employee Threshold	$125,000
Annual Compensation Limit	$280,000

Getting the Holdouts into the Plan on 2019 Agendas

Wondering where plan sponsors will be focusing their interest and efforts in 2019? We turned over a few stones on the Web and found some ideas. Here are two of them:

Getting those holdouts into the plan

The low-hanging fruit, aka employees with a lot of interest in their future and the ability to save, joined the 401(k) plan right away. The next wave took some persuasion, in the form of applying the principles of behavioral economics including auto-enrollment. But now, what to do with employees whose financial situation has rendered them unable to visualize themselves ever retiring — let alone saving to pay for it? A recent article says financial wellness strategies, like budget and debt management, may help them. This is where many plan sponsors will be focusing this year.

Bringing back the lost sheep

2018 saw lots of plan sponsors focused on missing participants, and 2019 promises to see more of the same. If your plan has missing participants, now is a great time to get cracking on finding them, because attention from the Department of Labor seems to be increasing.

Read more about Cammack Retirement Group's predictions for plan sponsor attention in 2019 in their article, here: https://tinyurl.com/Cammack-2019. ■

PLAN SPONSOR'S QUARTERLY CALENDAR

JULY

- Conduct a review of second 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 April 1 and June 30 received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan's Form 5500 is submitted by July 31, unless an extension of time to file applies (calendar-year plans).

AUGUST

- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30, unless a Form 5500 extension of time to file applies (calendar-year plans).
- Submit employee census and payroll data to the plan's recordkeeper for mid-year compliance testing (calendar-year plans).
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

SEPTEMBER

- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2 (calendar-year plans).
- Distribute the plan's Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies (calendar-year plans).
- Send a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans. ■

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

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