RETIREMENT INSIGHTS

A RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS

Opportunity Knocks

Annual Survey Reflects Continuing Social Security Knowledge Gaps Among Americans

Survey responses from Nationwide Retirement Institute's Ninth Annual Social Security Consumer Survey, released last July, reflect a continuing knowledge gap among Americans regarding Social Security benefits. This remains a big opportunity for plan sponsors to continue to help employees overcome their lack of knowledge and stay on track with their retirement planning efforts.

Misconception About Inflation Protection Leads the Way

Despite almost universal concerns over inflation expressed by survey respondents, the survey found that more than two-thirds of Americans don't realize that Social Security is protected against inflation. While the annual Social Security benefit COLA (Cost of Living Adjustment) is not guaranteed each year, recent years have seen a COLA applied to benefits — particularly in 2022 (5.9%) and in 2023 (8.7%) — to help mitigate the impact of rising inflation for retired Americans currently receiving benefits. Other key knowledge gaps include:

- Almost half (49%) of adults don't know or aren't sure what percent of their income is or will be replaced in retirement by Social Security.
- 44% of those not currently receiving Social Security aren't sure how much their monthly Social Security payments will be.

1ST QUARTER 2023

IN THIS ISSUE

HUB

Opportunity Knocks *Continued from page 1*

- Only 13% correctly guess their full retirement age based on their year of birth.
- Almost half (49%) mistakenly believe if they file early, their benefit will automatically go up once they reach their full retirement age.
- 70% worry that Social Security will run out of funding in their lifetime.

Taking A Team Approach to Help Employees

Responses also indicate that more and more people across generations are willing to learn from a financial professional, such as a retirement plan advisor. Teaming up with them to design and deliver a Social Security educational campaign is very prudent, along with getting input and assistance from your plan's recordkeeper. Consider focused content that covers the following key subject matter areas:

- Accessing ssa.gov and setting up an account to view future benefit projections.
- Realistic Social Security pre-retirement income replacement expectations.
- Eligible ages to receive retirement benefits (the range of eligible ages is 62-70).
- Definition and clarification of "full retirement age" (for the majority of employees, this will be age 67).
- Factors to consider when deciding whether to take benefits earlier versus later.
- Annual COLA adjustments to Social Security benefits (as an example, in 2023 the COLA is 8.7%).
- A realistic outlook for Social Security funding[1].

Nationwide's 2022 Social Security Consumer Survey can be found at: https://tinyurl.com/4w3ud43a.

Online Resources

Internal Revenue Service (IRS), 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

[1] According to the 2022 Social Security Trustees Report, the current trust fund balance will only last until 2035. Once it's depleted, benefits can only be paid directly from Social Security taxes collected from the current workforce. The projections show that will only generate about 77% of what's needed to pay all benefits. The Social Security Board of Trustees believes the most likely adjustments will come in the form of a reduction in benefits or an increase in taxes (or some combination of both). But it is very unlikely that Social Security will go away.

Additional sources: Social Security Administration (ssa.gov); Kmotion Research 2022.

Reaching Retirement Readiness

Study Reveals Plan Participants Are on a Positive Trajectory, Aided by Auto Features

Being able to replace working income with income generated from retirement savings is the essential definition of retirement readiness. The percentage of working income that an individual may need in retirement will vary, depending on a number of factors, such as whether or not they will still have a mortgage, the amount of their Social Security benefit, their tax bracket, variable healthcare costs, lifestyle choices and having income from part-time work, among others.

When projecting retirement income needs, a 70%-85% target replacement ratio is commonly cited. Recent research by Vanguard reveals that that goal may be well within reach for many plan participants. The 2022 Vanguard Participant Saving Rate Index suggests that 7 in 10 DC plan participants are currently saving at rates that would enable them to attain a 65% replacement rate in retirement. Furthermore, their data show that just a modest increase in participant elective deferral rates would enable most plan participants to attain a 75% replacement rate.

Assumptions Used

Vanguard's researchers analyzed approximately 1.9 million eligible employees and 1.5 million actively contributing participants in approximate 880 plans for which the firm serves as recordkeeper. Research modeling assumes that target saving rates are 9% where income is less than $50,000, 12% where income is between $50,000 and $100,000, and 15% where income is more than $100,000 (saving rates include both the employee elective contributions and any employer contributions). It also assumes a 75% target replacement ratio, 4% real return, 1% real wage growth, 40 years of saving (from age 27 to 67), and a 4% withdrawal rate at retirement.

The Impact of Automatic Features

The researchers note that while some participants may not be saving at or above their target rate, many are close. Auto-enrollment coupled with auto-escalation will be instrumental in helping many of the participants get the rest of the way. Currently, 4 in 10 of the participants in the study are automatically enrolled and will see their saving rates rise by 1 – 3 percentage points over the next few years. At this rate, the study's modeling shows that 70% of participants would reach a 75% replacement rate in retirement.

Additional Observations

Across all eligible participants in plans with automatic enrollment, employees are much more likely to be saving effectively (45% compared with 26% in plans without automatic enrollment). As of year-end 2021, 58% of plans default at a rate of 4% or higher, compared with just 32% ten years ago. An automatic enrollment default of 6% or higher was a strong predictor of participants saving effectively, along with a generous employer match. Plan size did not affect the results of the study.

The 2022 Vanguard Participant Saving Rate Index can be viewed at: https://tinyurl.com/yahvzrwn.

Asked & Answered

Q: ***Our company is growing rapidly and so is our retirement plan. We are interested in hiring a plan advisor. When it comes to providing fiduciary support, what can we expect?***

A: From a plan sponsor perspective, the act of hiring a fiduciary adviser is a fiduciary act, and one the sponsor should conduct thoughtfully. While fiduciary services vary by adviser firm, here are the types of adviser fiduciaries that plans commonly use:

An adviser acting as a **3(21) fiduciary** provides investment guidance and recommendations to the plan sponsor and acts as a co-fiduciary. The sponsor makes the ultimate decision as to whether to change the investment lineup. Because the sponsor has the final say, it also assumes the fiduciary responsibility for that decision (though it can document that the process included guidance from a professional adviser). An adviser who acts as an **investment manager 3(38) fiduciary** also provides guidance and recommendations, but may make the final decision on investments. This typically costs more and reduces the plan sponsor's involvement. Hiring a 3(38) advisor is a deeper level of fiduciary outsourcing and a deeper level of fiduciary protection; they have the discretionary authority to make, vet and implement investment recommendations.

Sources: asppa.org; napa.org.

Q: ***As part of our upcoming annual review, we want to spend some time evaluating the effect that inflation is having on our employees' retirement planning efforts. Do you have any information to help guide our efforts?***

A: A recent GOBankingRates survey found that nearly three-quarters (73.5%) of respondents say inflation is affecting their retirement planning in some way. 30% say that they are actually trying to put more money away in retirement accounts to cope with inflation. This was particularly common among younger respondents, with 41% of those ages 18-24 and 33% of those ages 25-34 saying they are now trying to save more for retirement. To review more ways people are coping with inflation through their retirement planning, check out the survey at: https://tinyurl.com/5n6khuz8.

Q: ***As part of our efforts to attract and retain employees, our plan committee is working with our plan advisor to enhance our retirement plan. We are thinking of adding some lifetime income solutions. Our CFO is big on data — do you have any research to help us justify the effort?***

A: Workers are anxious about the effects of a potential recession on their retirement planning, which may be driving greater interest in retirement income options. The 2022 Protected Retirement Income and Planning Report says only 48% of workers believe their retirement savings and other sources of income will last throughout their lifetime, down from 55% in 2021. In addition, 70% said they will be able to fund basic needs in retirement, while only 23% hope to be able to fund the basics. When workers were asked if they would be able to fund "wants" in retirement, 35% said they will be able fund them, while 49% hope to and 11% said "no chance." To help further your case for adding lifetime income solutions, you can view the report at: https://tinyurl.com/ya89uyvc.

IRS Plan Limitations for 2023

401(k) Maximum Elective Deferral *(*$30,000 for those age 50 or older, if plan permits)*	**$22,500***
Defined Contribution Maximum Annual Addition	**$66,000**
Highly Compensated Employee Threshold	**$150,000**
Annual Compensation Limit	**$330,000**

Source: irs.gov

PLAN SPONSOR

Quarterly To-Do List

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. This is not intended to be an exhaustive Quarterly-to-do-List but meant as an illustrative guide. Please contact your Adviser for additional information.

Informational sources: Internal Revenue Service (irs.gov); plansponsor.com; asppa.org; Kmotion Research 2022.

RPW-205-1122 (Exp. 11/23)

HUB