RETIREMENT INSIGHTS

A RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS

Peer Review

Plan Sponsor Study Reveals Three Key Themes To Help Inform Plan Improvements in 2023

If you're like most plan sponsors, you know you can always learn something from the findings of a survey of your own peers. When it comes to the role your workplace retirement plan plays in talent recruitment and retention, Morgan Stanley at Work: Plan Sponsor Research Results 2022 discovered three key themes. These themes can help inform the efforts of you, your plan's financial professional and recordkeeper as you work together throughout 2023 to help make your plan even more competitive in attracting quality employees.

The Match Matters

The Morgan Stanley study found that the amount of a company's match seems to have a significant effect on employee participation (and the amount of the match is becoming a much more popular question among job candidates). Companies that offer a match of more than 5% are significantly more likely to see higher rates of participation among eligible employees than companies that matched at a lower rate. However, only 17% of companies offer a match more than 5%, with 36% matching 5% and 41% offering between 3% and 5%.

The report suggests that more frequent and consistent employee education and promotion of the match can help encourage participation

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and increase employee contributions. Consider using a very concise, visually powerful infographic to show how even a smaller matching contribution of 3% can make a difference over 20–30 years due to tax-deferred compounding. And now that SECURE Act 2.0 allows employers to offer matching contributions on a pretax or Roth basis, even a Roth after-tax contribution of 3% can show (via an infographic) the potential of tax-deferred growth over the long term.

Employee Access to a Financial Professional Has Significant Value

The report also emphasized the positives around having a financial professional available to employees (such as the plan's current one , or a referral to one of their colleagues). Of the employers who reported full employee participation in 401(k) plans, 80% had a financial professional available for assistance and 20% did not. A financial professional can play a central role in not just managing the plan, but helping employees enroll and stay engaged with the plan, navigate inflation, manage market volatility and continue to invest more money toward their future.

More Engaging Participant Educational Content Is Needed

Overall, plan sponsors believe the content their participants receive from providers is engaging (87%). However, there were some ways to make it more engaging, including more personalized topics on individual financial stages (44%), content with digital tools (39%), and topics specific to life events (36%). The following suggestions can also help make educational content more effective:

- Including actionable advice: **34%**
- Using different messaging mediums (such as video or text/email): **33%**
- Incorporating shorter communication formats: **32%**
- Simple language commentary on market performance: **29%**.

The Morgan Stanley Plan Sponsor study can be found at: https://tinyurl.com/y29dbf8t.

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

Mistakes Happen

When Plan Errors Occur, Reach for the 401(k) Plan Fix-It Guide

As a plan sponsor, at some point you are likely to discover that a plan failure or error has occurred — especially after the plan testing season concludes. Mistakes do happen and you would not be alone. A recent report published by the American Society of Pension Professionals and Actuaries studied over 3,200 small business plans[1] and found that nearly half of them failed the top-heavy test.

A Blueprint for Fixing Mistakes

Whether it's through a plan audit or other review process, it can be stressful to learn that a failure has occurred and to figure out how to correct it. The good news is that these errors and failures are easily fixable, and without fees or penalties under the right circumstances. The "401(k) Plan Fix-It Guide," made available by the Internal Revenue Service (IRS), gives you a blueprint to help resolve errors to the agency's satisfaction and avoid making the same mistake(s) in the future.

Common Mistakes Covered by the Guide

The top mistakes covered by the guide include:

- Lack of updates to the plan document to reflect recent changes in the law
- Failure to base plan operations on the plan document
- Improperly defining compensation for deferrals and allocations
- Employer-matching contributions were not made to all appropriate employees
- Failure of 401(k) ADP and ACP nondiscrimination tests
- Failure to provide eligible employees the opportunity to make an elective deferral
- Elective deferrals were not limited to the amounts under Internal Revenue Code (IRC) Section 402(g) and excess deferrals were not distributed
- Failure to timely deposit employee-elected deferrals
- Participant loans fail to conform to the requirements of the plan document and IRC Section 72(p)
- Hardship distributions were not made properly
- Required contributions were not made to the plan
- Not filing a Form 5500-series tax return this year.

Click, Print and Keep Handy

Every year it's important to review the requirements for operating your 401(k) retirement plan. Consider going old school and printing out the **IRS 401(k) plan checklist** at https://www.irs.gov/pub/irs-pdf/p4531.pdf to help you keep your plan in compliance with many of the important rules. The checklist includes examples of how to find, fix and avoid each mistake.

SECURE Act 2.0 and Correcting Plan Errors

SECURE 2.0 delivered a few new rules regarding correcting plan errors related to overpayments to participants or beneficiaries; it also contains enhancements to the plan error Self-Correction Program under the IRS's Employee Plans Compliance Resolution System. These new rules and features became effective as soon as SECURE 2.0 was signed into law late last year. For more details, consult this article: https://tinyurl.com/2wjwn8sm.

[1] "What Percentage of Plans Fail 401(k) Nondiscrimination Testing?" (January 20, 2022); https://tinyurl.com/fb6wfw7u.

Asked & Answered

Q: ***Data from our recent annual plan review suggests that our retirement plan communication and education efforts with our employees need to greatly improve. Any tips on where to start?***

A: Communicating retirement planning concepts to plan participants through clear, jargon-free language may be more dependable and effective than using imagery, suggests new research from Capital Group. The language that is selected for retirement communications is critical to prompting participants to engage and take the steps they need to prepare for retirement. Because each person is unique, there really is no "picture" that truly represents retirement for everyone. In fact, asking employees to "imagine retirement" and selecting an image of a senior couple enjoying their grandchildren on a beach (or on a travel adventure) may be considered by many employees to be extremely subjective (not to mention very cliché) — and actually turn them off.

The Capital Group's "The art of retirement communications: How well do people today connect with the language and images of retirement?," suggests best practices for plan sponsors and also highlights imagery and messages to avoid.

Q: ***Our plan committee, with the help of our plan's financial professional, is considering reducing the number of investment options available to our employees. We currently have 27 investment options — how does that compare with industry averages?***

A: You are not alone in having a lot of choices available. The 65th annual Plan Sponsor Council of America's Survey of Profit-Sharing and 401(k) Plans found that more than a quarter of plan sponsors offer more than 26 options, whereas another 18% offered 21-25, and 27% offered 16-20. A long-held principle of behavioral finance is that more choice doesn't always lead to better decisions. As such, it's probably a good idea that you are reviewing your investment menu and considering reducing the options. Are there funds on the current menu that either aren't being used or aren't being used widely? You may find that they are contributing very little other than information overload for your employees. Not to mention adding more pages to cover in your investment reviews.

Q: ***Our company has been growing rapidly over the past two years, creating many current and near-future ground floor opportunities for younger, less-experienced workers. In discussing the benefits of our retirement plan, what do we need to know about the attitudes and views these younger workers have about saving for retirement?***

A: Data from Northwestern Mutual's "Planning & Progress Study 2022" reveals that Americans between the ages of 18 and 25—known as Generation Z—are taking significant steps to improve their financial well-being with the goal of retiring at age 59; years ahead of the generations that preceded them. They also were the most likely to build savings during the pandemic and begin working with a financial professional. However, while they prioritize an early retirement, money is not what drives most of them at work. Nearly two-thirds (64%) said personal fulfillment is more important in a career than money (36%).

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

JULY

- Conduct a review of second 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 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).
- Provide a quarterly benefit/disclosure statement and statement of fees and expenses that were charged to individual accounts to participants (due 45 days after end of quarter).
- Submit employee census and payroll data to the plan's recordkeeper for midyear 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. 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.

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