Q2 2023

Retirement Plan Perspectives

Insights for Your Plan and Employees

One for the Ages

How Will You Embrace the Automatic Age?

Since the dawn of humanity, there have been several ages that reflect society propelling itself forward in physical, intellectual, and technological ways. First, there was the Stone Age. Then came the Bronze Age and the Iron Age (not to mention the Golden Age and the Age of Enlightenment).

Welcome to the Automatic Age

According to celebrity astrologer Aliza Kelly, the Age of Aquarius "is, generally speaking, an age that's associated with hope and innovation. It is thought to be characterized by intelligence and coming together in an effort to create something for the greater good."[1] Although it's hard to prove, perhaps that cosmic vibe influenced SECURE 2.0 and helped usher in the Automatic Age.

Section 101 of SECURE 2.0 requires new 401(k) and 403(b) plans to automatically enroll participants, with the initial automatic enrollment amount being at least 3 percent but not more than 10 percent. Each year, that amount must be automatically increased by 1 percent until it reaches at least 10 percent, but not more than 15 percent.[2] However, plans that existed on or prior to the December 29, 2022, signing of SECURE 2.0 do not have to follow this new provision—they were grandfathered in.

Breaking Down the Grandfather Clause

Just how many plans haven't embraced the Automatic Age? According to the Society for Human Resource Management's 2022 Employee Benefits Survey[3] (based on responses from 3,129 human resource professionals across the U.S.), only about one-half of plans automatically enroll new or existing employees, and only 26 percent automatically increase employee contributions annually. Vanguard's How America Saves 2022 report[4] reveals that 56 percent of Vanguard plans have adopted automatic enrollment and two-thirds of those plans have implemented automatic annual deferral rate increases. The Plan Sponsor Council of America's most recent annual survey puts those figures at 59 percent (auto-enroll) and 78 percent (auto-increase).

[1] "What is the Age of Aquarius and what does it mean for you?" by Suzanne Scott (Vogue, January 30, 2021)

[2] Employees may opt out; in addition, there is an exception for small businesses with 10 or fewer employees, new businesses that have been operating for less than three years, and church plans.

[3] The Executive Summary of the Society of Human Resource Management's 2022 Employee Benefits Survey can be viewed at https://tinyurl.com/3xpr3sd3.

[4] Vanguard's How America Saves 2022 can be viewed at https://tinyurl.com/5c29waxw.

Embracing the Numbers

For several years, it's been shown that automatic enrollment and escalation plan features work. According to a groundbreaking 2012 Ariel/Aon-Hewitt study, automatic enrollment helps workers who wouldn't normally participate in a company's retirement plan. "The most dramatic increases in enrollment rates are among younger, lower-paid employees, and the racial gap in participation rates is nearly eliminated among employees subject to auto-enrollment," the study found.[5] More recently, John Hancock's "State of the participant 2022"[6] report found that auto-enroll/auto-increase features used in tandem greatly enhance a participant's chances of achieving retirement readiness.

Plan Design	% Retirement-Ready 2020	% Retirement-Ready 2022
No automatic features	46%	52%
Auto-enroll at 5%+	48%	56%
Auto-enroll at 5% with annual increase starting at 1%, up to 10%	55%	65%

Most surveys and research reports addressing automatic features show that adoption, usage, and effectiveness are on the rise, which is cause for great optimism. Those reports also suggest, however, that more work remains for many plan sponsors and advisors to join the Automatic Age.

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 won't be alone. A recent report by the American Society of Pension Professionals & Actuaries studied more than 3,200 small business plans[7] 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 another 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,[8] made available by the IRS, provides a blueprint to follow to help resolve errors to the agency's satisfaction and avoid making the same mistake(s) in the future.

[5] Senate Finance Committee, SECURE 2.0 Act of 2022; Ariel/Aon-Hewitt study referenced in Section 101.

[6] John Hancock's "State of the participant 2022" can be viewed at https://tinyurl.com/4ftvxe48.

[7] "What Percentage of Plans Fail 401(k) Nondiscrimination Testing?" (January 30, 2022): https://tinyurl.com/fb6wfw7u.

[8] The IRS 401(k) Plan Fix-It Guide can be accessed at www.irs.gov/retirement-plans/401k-plan-fix-it-guide.

Common Mistakes Covered by the Guide

The top mistakes covered by the guide include the following:

- Lack of updates to plan document to reflect recent changes in law
- Failure to base plan operations on plan document
- Improperly defining compensation for deferrals and allocations
- Employer-matching contributions not made to all appropriate employees
- Failure of 401(k) ADP and ACP nondiscrimination tests
- Failure to provide eligible employees opportunity to make an elective deferral
- Elective deferrals not limited to the amounts under Internal Revenue Code (IRC) Section 402(g) and excess deferrals not distributed
- Failure to timely deposit employee-elected deferrals
- Participant loans fail to conform to requirements of plan document and IRC Section 72(p)
- Hardship distributions not made properly
- Required contributions 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 this IRS 401(k) plan checklist[9] to help 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 2.0 and Correcting Plan Errors

SECURE 2.0 delivered a few new rules regarding correcting plan errors related to overpayments to participants and beneficiaries. It also contains enhancements to the plan error self-correction program under the IRS's Employee Plans Compliance Resolution System (EPCRS). These new rules and enhancements became effective as soon as SECURE 2.0 was signed into law late last year. For more details, consult this SECURE 2.0 Delivers New Rules for Correcting Retirement Plan Errors article: http://tinyurl.com/2wjwn8sm.

Pension Plan Limitations for 2023	**Limit**
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

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

[9] IRS 401(k) plan checklist can be viewed at www.irs.gov/pub/irs-pdf/p4531.pdf.

Plan Sponsors Ask...

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

Communicating retirement planning concepts to plan participants through clear, jargon-free language may be more dependable and effective than using imagery, according to new research from Capital Group. Language chosen 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, for example, may be considered by many employees to be extremely subjective (not to mention cliché)—and turn them off.

The Capital Group's report,[10] "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 advisor, 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?

You are not alone in having many choices. The Plan Sponsor Council of America's annual survey of profit-sharing and 401(k) plans found that more than one-quarter of plan sponsors offer 26 or more options, whereas another 18 percent offered 21–25, and 27 percent 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 menu that aren't being used widely (or at all)? You may find that they are contributing 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?

Data from Northwestern Mutual's Planning & Progress Study 2022[11] reveals that Americans ages 18–25—known as Generation Z—are taking significant steps to improve their financial well-being, with the goal of retiring at 59, years ahead of generations that preceded them. They also were most likely to build savings during the pandemic and begin working with an advisor. Although they prioritize an early retirement, however, money isn't what drives most of them. Nearly two-thirds (64 percent) said personal fulfillment in a career is more important than money (36 percent).

[10] The Capital Group's report can be accessed at https://tinyurl.com/bddwvurn.

[11] Northwestern Mutual's Planning & Progress Study 2022 can be viewed at https://tinyurl.com/3r8zpw3c.

Plan Sponsor's Quarterly Calendar

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 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 applies (calendar-year plans).
- Provide 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 applicable safe harbor notices to employees, planning 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.

Web Resources for Plan Sponsors

- IRS, 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

Third Party Administrator (TPA) services offered by BDS Consulting Group are separate and unrelated to Commonwealth.