



# Retirement Plan Perspectives

Insights for Your Plan and Employees

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## Closing the Generation Gap

### Generational Attitudes About Retirement Readiness Can Help Inform Your 2024 Education Strategy

On average, American workers expect to need \$1.27 million to retire comfortably, up from \$1.25 million in 2022, according to a recent [Northwestern Mutual planning and progress study](#). Those expectations may be less than what is realistic, the study reported, because the average amount saved for retirement is only \$89,300, up just 3 percent from \$86,869 in 2022.

The study also highlighted a number of generational differences regarding retirement readiness that can help inform your 2024 employee education strategy. Determining how much to save, managing longevity and health risks in retirement, and forming realistic expectations regarding the future of social security may be important topics for you to prioritize.

### Generational Confidence in Retirement Readiness Differs

Although the study acknowledges the positive trend of employees saving more for retirement (even during times of high inflation and ongoing market volatility), there continues to be a big gap between what they think they'll need to retire and what they've saved so far. Respondents in their 50s, for example, anticipate requiring \$1.56 million for retirement, even though they've saved just \$110,900 on average.

Generation Z was the likeliest to believe it'll be financially prepared once retirement comes. Sixty-five percent of this youngest group said they would be financially set to retire once ready. By contrast, 55 percent of Generation X said they wouldn't be prepared, and 46 percent of millennials and 48 percent of baby boomers (not retired) said the same. In fact, baby boomers expect to work the longest, until age 71, whereas those in Generation Z anticipate retiring more than a decade earlier, at age 60. Millennials expect to retire at 63, and those in Generation X don't expect to retire until 65. On average, Americans expect to work until 65, up from 64 in 2022 and 62.6 in 2021.

### Longevity and Health Risks Are Biggest Concerns

When asked about their biggest fears in retirement, declining health (44 percent) and outliving their savings (43 percent) were cited most often. The report found that on average, Americans believe there is a 45 percent chance they will outlive their savings. Still, 33 percent have not taken steps to address their longevity risk. Among their smallest fears are feeling uncertain on where to focus time (17 percent); isolation from friends, families, and coworkers (17 percent); and missing their career (16 percent). Seventy percent of respondents said they fear nothing at all when it comes to retirement.

## Social Security Expectations Also Vary

When questioned about the future of social security, 42 percent of respondents said they can imagine a time when it no longer exists. Still, the research also found that respondents are relying on social security to provide 28 percent of their overall retirement funding. That's more than personal savings (22 percent) and equal to retirement savings (28 percent). Generation Z and millennials were least likely to rely on funding from social security, at 15 percent and 19 percent, respectively. This was much lower than what their older counterparts expected—27 percent for Generation X and 38 percent for baby boomers.

Northwestern Mutual's Planning & Progress Study 2023 can be viewed at <https://tinyurl.com/3phxxc2y>.



## State of Emergency

### Plan Sponsors May Offer Emergency Savings Accounts to Employees Starting Next Year

Emergency savings accounts within retirement plans are a relatively new concept that has yet to be widely studied. Recent research underscores the current emergency savings challenge and shines a light on the potential benefits of these accounts.

### Digging into the Data

According to a report by Bankrate,<sup>1</sup> 30 percent of Americans made building an emergency savings account their top financial goal for 2023. The report also found that nearly half (49 percent) have less savings (39 percent) or no savings (10 percent) compared with one year ago because of continuing economic impacts of inflation and other circumstances. The report also found that only 43 percent of U.S. adults would be able to pay for an unexpected emergency expense from their savings, whereas 25 percent would accrue credit card debt and pay it off over time—a record high since polling started in 2014.

Recent research from the BlackRock Emergency Savings Institute and the Defined Contribution Institutional Investment Association's Retirement Research Center highlights a positive connection between having emergency savings and retirement planning. The study found that if an individual were to have a rainy-day fund available during emergencies, it's unlikely they would tap their retirement savings. In fact, they were 70 percent more likely to contribute to a defined contribution (DC) retirement plan.<sup>2</sup> Another study from Commonwealth and SaverLife found that close to one-third of individuals said they would either start contributing or contribute more to a workplace retirement account if it were paired with an emergency savings option.<sup>2</sup>

### New Optional Solutions Coming in 2024

Beginning in 2024, SECURE 2.0 provides employers with two ways<sup>3</sup> to allow participants to access funds in case of an emergency. First, employers may offer participants an emergency savings withdrawal of up to \$1,000 per year. This withdrawal is not subject to an early withdrawal penalty and may be repaid over three years (though it isn't required). Second, employers may offer participants with lower wages an emergency savings account as part of their retirement plan.

Employees may voluntarily contribute or automatically enroll at up to 3 percent of their annual pay (capped at \$2,500). Contributions are made after tax and must be invested in a low-risk product that preserves principal. Employees can withdraw up to the full account balance at least once per month, with the first four withdrawals in the plan year being free. The contributions also count for the purposes of any employer match in the plan, but the matching dollars must be directed to the retirement account within the plan, not the savings account.

<sup>1</sup> Bankrate's 2023 Annual Emergency Savings Report; <https://tinyurl.com/59z9z298>.

<sup>2</sup> "Emergency Savings and Retirement Planning Tightly Linked" (401(k) Specialist, 6/9/2023); <https://tinyurl.com/fx2pww38>.

<sup>3</sup> "SECURE 2.0 Series Part 5: A Little More SECURE-ity – Emergency Savings in Your 401(k)" (The National Law Review, 1/23/23); <https://tinyurl.com/mph6reje>.

Plan sponsors should work closely with their plan advisor, recordkeeper, and payroll provider to evaluate all potential emergency savings solutions. Studying the history of hardship withdrawals in the plan and usage of funds, for example, can provide insight on an appropriate solution. In addition, basic financial wellness education addressing budgeting and debt management should continue to be emphasized.



## Web Resources for Plan Sponsors

- Internal Revenue Service, Employee Retirement Plans  
[irs.gov/ep](https://irs.gov/ep)
- U.S. Department of Labor, Employee Benefits Security Administration  
[dol.gov/ebsa](https://dol.gov/ebsa)
- 401(k) Help Center  
[401khelpcenter.com](https://401khelpcenter.com)
- PLANSPONSOR Magazine  
[plansponsor.com](https://plansponsor.com)
- BenefitsLink  
[benefitslink.com](https://benefitslink.com)
- Plan Sponsor Council of America  
[psca.org](https://psca.org)
- Employee Benefit Research Institute  
[ebri.org](https://ebri.org)



## Pension Plan Limitations for 2023

- |  |           |
|--|-----------|
| • 401(k) Maximum Elective Deferral             | \$22,500* |
| • Defined Contribution Maximum Annual Addition | \$66,000  |
| • Highly Compensated Employee Threshold        | \$150,000 |
| • Annual Compensation Limit                    | \$330,000 |

(\*\$30,000 for those age 50 or older, if plan permits)



## Plan Sponsors Ask . . .

**Q We are looking forward to seeing the U.S. Department of Labor's (DOL's) efforts to help savers locate forgotten 401(k) accounts by creating a national search database. Are there statistics that shed light on the magnitude of this problem in the retirement plan industry?**

Many job switchers leave their 401(k) behind to deal with later. As a result, they can end up with a string of 401(k) accounts tied to former employers, each with different fees, asset allocations, and custodians. In an updated version of its 2021 white paper, "[The True Cost of Forgotten 401\(k\) Accounts](#)," Capitalize found that forgotten accounts have grown 20 percent in the past two years. As of May 2023, there were an estimated 29.2 million forgotten or left-behind 401(k) accounts in the U.S., representing \$1.65 trillion in assets. Capitalize research attributes the growth to last year's Great Resignation push and raised rates of job switching. The average account balance of a forgotten 401(k) increased to \$56,616 from \$55,400, and, in aggregate, the assets left behind by job changers now represent nearly 25 percent of the total savings in 401(k) plans.

As a side note, if you are considering embarking on a search for missing participants who still have accounts with your plan, [here are five tips for plan sponsors](#) to better document their missing participant search efforts.

"The True Cost of Forgotten 401(k) Accounts" can also be viewed at <https://tinyurl.com/3sjwrs4u>.

"5 Tips for Located Missing Participant Searches" (401k Specialist Magazine, June 15, 2023) can also be viewed at <https://tinyurl.com/jr5vy22m>.

**Q Our committee is working with our plan advisor to create and implement a preretiree education campaign early next year. Are there recent statistics regarding workers delaying retirement and their reasons for doing so?**

Investors struggling with ongoing inflation, high interest rates, and an unstable economic environment are considering delaying their retirement plans, according to [Nationwide's eighth annual Advisor Authority survey](#). The survey found that 25 percent of preretirees—defined as nonretired investors ages 55–65—are planning to retire later than expected, and another 15 percent are unsure if they will ever retire. Although a number of factors are contributing to their decision to delay retirement, the majority (60 percent) said inflation poses the greatest immediate challenge to their retirement portfolio over the next 12 months. An economic recession (46 percent), market volatility (36 percent), and taxes (23 percent) were also factors. You can also view the survey results at <https://tinyurl.com/3txu8rr5>.

**Q We are considering outsourcing some of our ERISA 3(16) administrative fiduciary responsibilities. What are some things to keep in mind?**

Many plan sponsors already outsource administrative duties to their recordkeeper (such as hardship approvals and preparation of 5500 forms) in a nonfiduciary capacity. Some are now looking to outsource not only the work, but also the fiduciary discretion or control, to minimize workloads or reduce ERISA liability (or both). Given the scope of responsibilities, a provider's technological capabilities, knowledge, skill, and experience with plan administration is particularly important. Connectivity to the recordkeeper (when the 3(16) fiduciary is unrelated) also matters to ensure quality service for plan participants. To further explore governance models that delegate some level of fiduciary responsibility to external providers, check out "[Defined Contribution Plan Governance Models: A Guide for Plan Sponsors](#)," published by the Defined Contribution Institutional Investment Association. You can also view the guide at <https://tinyurl.com/bdzankwj>.



## Plan Sponsor's Quarterly Calendar

### January

- Send payroll and employee census data to the plan's recordkeeper for plan-year-end testing (calendar-year plans).
- Audit fourth-quarter payroll and plan deposit dates to ensure compliance with the DOL's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between October 1 and December 31 received and returned an enrollment form. Follow up on forms that were not returned.

### February

- Update the plan's ERISA fidelity bond coverage to reflect the plan's assets as of December 31 (calendar-year plans). Remember that if the plan holds employer stock, bond coverage is higher than for nonstock plans.
- Issue a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Review and revise the roster of all plan fiduciaries and confirm each individual's responsibilities and duties to the plan in writing. Ensure that each fiduciary understands their obligations to the plan.
- Provide quarterly benefit/disclosure statement and statement of plan fees and expenses actually charged to individual plan accounts during prior quarter, within 45 days of the end of the previous quarter.

## March

- Begin planning for the timely completion and submission of the plan's form 5500 and, if required, a plan audit (calendar-year plans). Consider, if appropriate, the DOL's small plan audit waiver requirements.
- Review all outstanding participant plan loans to determine if there are delinquent payments. Also, confirm that each loan's repayment period and the amount borrowed comply with legal limits.
- Check bulletin boards and display racks to ensure that posters and other plan materials are conspicuously posted and readily available to employees, and that information is complete and current.

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

Third-party links are provided to you as a courtesy and are for informational purposes only. We make no representation as to the completeness or accuracy of information provided on these websites. Commonwealth Financial Network® does not provide legal or tax advice. You should consult a legal or tax professional regarding your individual situation. Authored by Strategic Retirement Team at Commonwealth Financial Network.