RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

Q3 2022

To Improve Retirement Outcomes, Teach Employees Social Security Basics

Research reveals Americans have a significant knowledge gap regarding social security benefits.

According to a recent survey[1], more than half of Americans say they know exactly how to optimize their social security benefits. Only 7 percent, however, understand all the factors that determine the maximum benefit someone can receive. The report also highlighted other knowledge gaps, including:

- Roughly 42 percent don't know when they are eligible to receive full benefits.
- Less than half (47 percent) lack a clear understanding of how much they will receive in future income.
- Nearly one-third (32 percent) incorrectly assume that social security benefits aren't protected against inflation.
- More than half (51 percent) mistakenly believe that, if they claim their benefits early, their benefits will automatically increase when they reach full retirement age.

Respondents Worry About Social Security's Future

The report suggests that one big reason Americans aren't staying informed about social security benefits is because they doubt whether it will be around when they need it. Roughly 7 of 10 adults ages 25 and older worry that social security will run out in their lifetime.

What might the future of social security look like? A 2021 Trustees Report estimated that the combined reserves of various social security programs (retirement, survivor, and disability) would be depleted by 2034 unless changes are made. The Social Security Board of Trustees believes the most likely adjustments will come in the form of reduced benefits, increased taxes, or a combination of both. It's extremely unlikely social security will go away.

Opportunity for Plan Sponsors and Advisors

This could be a timely opportunity to help close the knowledge gap that many employees have regarding social security benefits. Plan sponsors should work with their advisor and plan recordkeeper to provide educational materials (or perhaps provide employees with a quick educational campaign) that cover the following:

- Realistic social security preretirement income replacement expectations
- Eligible ages to receive retirement benefits (ages 62–70)
- Definition and clarification of "full retirement age" (for most employees, this will be 67)
- Factors to consider when deciding whether to take benefits earlier or later
- Annual cost-of-living adjustments to social security benefits (In 2022, the cost-of-living adjustment is 5.9 percent.)

[1] *Nationwide's 9th Annual Social Security Consumer Survey*

Cybersecurity Threats Rising

Nearly one-third of retirement plan recordkeepers expect to increase their cybersecurity staff, according to a recent survey.

The threat of retirement account fraud has increased in recent years, particularly during the remote work environment, according to findings from the 2021 Cerulli Edge U.S. Retirement Edition. As a result, 31 percent of plan recordkeepers intend to increase staffing to address cybersecurity initiatives.

According to the Cerulli report, the Internet Crime Control Complaint Center of the Federal Bureau of Investigation reported 791,790 cybercrime complaints in 2020—a 69 percent jump in total complaints from 2019. Cybersecurity crimes in 2020 resulted in financial losses exceeding $4 billion. Although many recordkeepers haven't experienced a data breach yet, many believe it's just a matter of time as techniques employed by cybercriminals get more sophisticated. One fraud surveillance expert at a large defined contribution (DC) recordkeeper suggested to Cerulli that older participants tend to be the most frequent targets of cyberattacks, in part because they typically have higher account balances than younger employees, but also because criminals perceive them to be less technologically savvy.

Implementing new technologies, including biometric login credentials such as thumbprints or facial recognition, is one part of building an effective cybersecurity practice. Cerulli suggests that providers should play an active role in encouraging participants to adopt these technologies and enhance the security of their accounts and personal information on their own. Moreover, recordkeepers should look to evaluate the cybersecurity practices of the service providers with which they exchange or share participant data.

In April 2021, the U.S. Department of Labor (DOL) released cybersecurity guidance for recordkeepers, plan fiduciaries, and participants. The guidance includes tips for plan sponsors to evaluate the cybersecurity practices of recordkeepers and other retirement plan service providers, along with tips plan sponsors and service providers should relay to plan participants. (In June 2021, the DOL began conducting retirement plan cybersecurity audits.) In addition, the SPARK Institute published cybersecurity best practices last year that provide specific recommendations for mitigating retirement account fraud. The report offers suggested practices to be implemented by plan fiduciaries, participants, and service providers with regard to authenticating accounts, establishing and reestablishing account access, protecting contact data and communications, conducting fraud surveillance, and developing custom reimbursement policies

Action item: Talk with your current recordkeeper provider(s) and ask them about their cybersecurity policies and procedures.

Web Resources for Plan Sponsors

- Internal Revenue Service, 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

Plan Sponsors Ask . . .

Q: We are considering adding a financial wellness program as part of our retirement plan benefit program. Unfortunately, there isn't a lot in the budget to work with. How might we approach it?

A: As you probably know, workers are becoming increasingly interested in financial wellness education that can help reduce financial stress and prepare them for economic uncertainty. In fact, a 2021 survey by Brightplan revealed that when employees ranked employer-sponsored benefits, *financial wellness was consistently ranked higher than workplace standards such as health care and vacation time*—and was surpassed only by salary.

Here are two activities to consider before launching a financial wellness education program in the workplace:

1. C**onduct an employee survey.** Employees should be formally surveyed to get a sense of how they can be supported as they continue to return to their pre-pandemic lives. Employees should specifically be asked which areas of their personal finances (e.g., building an emergency savings account or reducing debt) would benefit most from employer support.
2. **Quantify your numbers to justify funding the program.** Employers should consider quantifying how financial stress affects their bottom line through factors such as lower productivity, absenteeism, and medical costs. They may also want to consider identifying and targeting groups of employees who need the most help, focusing initial financial wellness education efforts on them.

Q: Our plan committee is thinking about purchasing fiduciary liability insurance. Is a fidelity bond the same thing as fiduciary liability insurance?

A: The fidelity bond required under the Employee Retirement Income Security Act (ERISA) of 1974 specifically insures a plan against losses due to fraud or dishonesty (e.g., theft) by persons who handle plan funds or property. Fiduciary liability insurance, on the other hand, is an insurance plan fiduciaries purchase to protect themselves in the event they breach their fiduciary responsibilities with respect to the plan. Please note that courts can hold plan fiduciaries personally liable for losses incurred by a plan as a result of their fiduciary failures. Even though it isn't required, fiduciary liability insurance could be an important financial safety net for plan fiduciaries. Although obtaining ERISA fiduciary insurance is considered prudent, it does not satisfy the fidelity bonding required by ERISA.

Q: During our recent annual plan review, we were happy to see that most of our employees have continued to make contributions to their retirement accounts during the pandemic (and very few took hardship withdrawals). Was this unique to us, or was it more of a universal trend?

A: Americans continued to save for retirement through DC plans despite ongoing economic stresses brought about by the Covid-19 pandemic, according to the Investment Company Institute's Defined Contribution Plan Participants' Activities, First Quarter 2022. The study tracks contributions, withdrawals, and other activity in 401(k) and other DC retirement plans, based on DC plan recordkeeper data covering more than 30 million participant accounts in employer-based DC plans through March 2022. The latest recordkeeper data indicates that plan participants remained committed to saving and investing: a preliminary estimate indicates that only 0.9 percent of DC plan participants stopped contributing to plans in the first quarter of 2022. That compares with 0.8 percent in the first quarter of 2021, and 1.4 percent in the first quarter of 2020.

In addition, during the first quarter of 2022, 1.8 percent of DC plan participants took withdrawals, compared with 2.2 percent for the first quarter of 2021. Levels of hardship withdrawal activity were also low, with only 0.9 percent of DC plan participants taking hardship withdrawals during the first quarter of 2022, compared with 0.6 percent of participants in the first quarter of 2021.

Plan Sponsors Ask . . . *(continued)*

2022 Pension Plan Limitations

401(k) maximum elective deferral	$20,500*
Defined contribution maximum annual addition	$61,000
Highly compensated employee threshold	$135,000
Annual compensation limit	$305,000

**$27,000 for those age 50 or older, if plan permits*

Quarterly Plan Sponsor Calendar

October

- Audit third-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 July 1 and September 30 received and returned an enrollment form. Follow up on forms that were not returned.
- For calendar-year safe harbor plans, issue the required notice to employees during October or November (within 30–90 days of the beginning of the plan year to which the safe harbor will apply). Also, within the same period, distribute the appropriate notice if the plan features an Eligible Automatic Contribution Agreement, Qualified Automatic Contribution Agreement, and/or Qualified Default Investment Alternative.

November

- Prepare to issue an announcement to employees to publicize the plan's advantages and benefits, along with any plan changes taking effect in January.
- Check current editions of enrollment materials, fund prospectuses, and other plan information available to employees to ensure that they are up to date.
- Within 45 days of the end of the previous quarter, provide quarterly benefit/disclosure statement and statement of plan fees and expenses actually charged to individual plan accounts during the prior quarter.
- Prepare to issue an announcement to employees to publicize the plan's advantages and benefits, along with any plan changes taking effect in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure that they receive Form 1099-R, which will be mailed in January for reportable plan transactions in the current .

December

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing (for calendar-year plans).
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during the year and if using an Internal Revenue Service or DOL self-correction program would be appropriate.

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

We Can Help

Are you considering a match increase, profit sharing, or nonelective contribution rates? Changing to a safe harbor plan? Remember that any amendments must be made in advance of the effective date and often within the same plan year.

Tip: Contact your recordkeeper or third-party administrator to discuss these proposed ideas so they can help coordinate the operational and administrative requirements to implement them.