RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

Q2 2022

In the Driver's Seat

A survey of fiduciary liability insurance carriers offers insights on prioritizing and managing fiduciary duties.

Fiduciaries for employee benefit plans subject to the Employee Retirement Income Security Act (ERISA) are often concerned about liability because they are personally liable for fiduciary failures, meaning their personal assets could be at risk. To address this risk, many companies carry fiduciary liability policies to plan fiduciaries in case of legal action. Understanding what drives pricing for fiduciary liability is not just about managing those insurance costs, but also understanding and managing fiduciary risks—that is, avoiding a lawsuit altogether.

In spring 2021, Aon Investments surveyed 12 top carriers to better understand how plan management affects pricing for fiduciary liability insurance. The goal was to identify the biggest sources of fiduciary risk within the control of fiduciaries for ERISA-defined benefit and defined contribution plans. Survey findings were published in Aon's July 2021 white paper, What Drives Fiduciary Liability. Read on for highlights from the survey.

Fees are important. Fees ranked as top drivers of fiduciary liability insurance premiums. Specifically, 88 percent of respondents said they were a significant driver of insurance premiums if the investment committee does periodic plan administration fee benchmarking reviews. For defined contribution plans, 75 percent of respondents said it was a significant driver of insurance premiums if plans use mutual funds generating revenue sharing or sub-transfer agency revenues (i.e., revenue sharing), and 63 percent said mutual funds using retail share classes would be a significant driver of premiums. As such, monitoring and managing fees, along with documentation, should be a very high priority for plan sponsors.

Investment committee minutes are important. All respondents said formally taking minutes would affect premiums. About one-third of respondents said the impact would be significant, and the remainder said it would be small. When asked about the impact of engaging an outside advisor or legal counsel to take minutes, however, half of respondents said that would have no impact, and most of the remainder described the impact as small.

Investment advisors are viewed as moderate influencers of premiums. When asked about the impact of having an investment advisor, respondents were almost evenly split among it being significant, small, or nonexistent. The advisor's firm had little or no bearing. Whether the plan sponsor uses an ERISA 3(38) outsourced investment advisor was viewed as having a small impact by 50 percent of respondents, no impact by 38 percent, and a significant impact by 12 percent. Free comments in this area of the survey included "experienced advisor is expected," "the level of investment expertise deployed in investment decisions is a factor in our underwriting, and greater expertise would be a positive factor among the multiple factors we consider," and "we are interested in evaluating the overall favorable impact that a 3(38) may have in this space."

In the Driver's Seat *(continued)*

Employer stock in defined contribution (DC) plans remains a top concern for insurers. Eighty-eight percent of respondents viewed it as a significant driver of premiums when company stock is held in a plan with no cap on investment limits. That figure drops to 50 percent when there is a limit on the size of such investments.

Environmental, social, and governance (ESG) options in DC plans play a minor role. Sixty-two percent of respondents said ESG options have no effect on pricing, and the remainder described the impact as small.

There isn't a rigid formula for pricing, but factors that influence pricing generally fall under the themes of good governance: having the right people, professionals, and resources in place to act in the best interest of participants, while documenting the processes and decisions. That can go a long way toward mitigating risks and minimizing costs.

Seeking to Gain on Attract and Retain

More employers are enhancing their retirement plans to compete for new employees—and keep the ones they have.

Increasingly, plan sponsors are refreshing their workplace retirement plans to give employees the opportunity to save more for retirement and the flexibility to use their personal and employer contributions in innovative ways to manage their financial needs. This trend comes as employers increasingly look to boost employees' retirement security and financial well-being, according to findings in the 2022: The Next Evolution of DC Plans Survey from Willis Towers Watson.

More than 1 in 4 respondents (28 percent) expected to make changes to their plans' automatic deferral features, while roughly 4 in 10 plan sponsors (38 percent) expected to adopt an innovative contribution strategy, according to the survey. These include allowing participants to use their contributions to reduce student loan debt or directing contributions to an emergency savings fund or health savings account.

Using the Retirement Plan as an Attraction and Retention Tool

More than half of survey respondents (55 percent) expect to have attraction and retention issues over the next two years, with 36 percent of those considering their retirement plan an important tool to attract and retain employees. Significant gaps in priorities are expected over the next two years between sponsors who connect their plans with attraction and retention and those who don't. Those that do are using their DC plan to enhance employee engagement for retention; raise the importance of attracting new talent; and align diversity, equity, and inclusion goals.

According to the survey, 75 percent of employers plan to enhance their defined contribution retirement plan offerings to better support the financial needs of current employees and remain competitive to potential recruits. Eighty-two percent of employers plan to focus on changing and enhancing the employee experience when engaging with their retirement plans. Almost all employers plan to offer personalized one-on-one support, and 91 percent plan to boost their digital tools to help employees with budgeting and spending.

The 2022 Next Evolution of DC Plans Survey, conducted in January and February of 2022, received responses from 363 U.S. employers that sponsor a DC plan. Respondents employ 8.4 million employees and represent a broad range of industries.

Seeking to Gain on Attract and Retain *(continued)*

The Great Job Switch?

According to the Bureau of Labor Statistics, 4.4 million workers decided to leave their jobs in February 2022, but 6.7 million people were hired that month. Many industry analysts believe it's more appropriate to call this trend the Great Job Switch instead of the Great Resignation.

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
- *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: Our employees are increasingly asking whether cryptocurrency options can be added to our retirement plan investment lineup. What is the current regulatory perspective on this?

A: On March 10, the Department of Labor (DOL) published compliance assistance for 401(k) plan fiduciaries who are considering plan investments in cryptocurrency. Published by the department's Employee Benefits Security Administration, Compliance Assistance Release No. 2022-01 cautions plan fiduciaries to exercise extreme care before they consider adding a cryptocurrency option to a 401(k) plan's investment menu for plan participants. The DOL called it an effort to "protect the retirement savings of U.S. workers" one day after President Biden signed an Executive Order on Ensuring Responsible Development of Digital Assets. Part of the order instructs the Federal Reserve to explore the development of a U.S. Central Bank Digital Currency (CBDC).

This information is intended strictly for educational purposes only and is not a recommendation for or against cryptocurrency.

Q: We have worked diligently with our plan advisor to create a comprehensive plan investment lineup that offers diverse, institutionally priced funds to employees. Have there been noticeable trends in mutual fund expense ratios over the years?

A: Updated research released in March from the Investment Company Institute (ICI) details just how far fees and expense ratios have fallen in the past 25 years. It found, for example, that equity mutual fund expense ratios averaged 0.47 percent in 2021, compared with 1.04 percent in 1996; bond mutual fund expense ratios averaged 0.84 percent in 1996 and fell to 0.39 percent in 2021. The report also showed that, in 2021, the average expense ratio of actively managed equity mutual funds was 0.68 percent, down from 1.08 percent in 1996. Average index equity mutual fund expense ratios were 0.06 percent, compared with 0.27 percent in 1996.

Q: We are thinking of launching a series of financial wellness webinars to increase employee engagement with our workplace retirement plan. Has there been research on the effectiveness of this approach?

A: The Employee Benefit Research Institute's issue brief, Field of Dreams? Measuring the Impact of Financial Wellbeing Initiatives on 401(k) Plan Utilization, summarizes the extent to which attending financial wellness webinars affected 401(k) plan participant behaviors. According to the report, participants' estimated increase in 401(k) contributions after attending any financial well-being webinar was $649–$988, depending on age and initial contribution level.

Plan Sponsors Ask . . . *(continued)*

Budgeting webinars were positively related to increased employee 401(k) contributions for all participants. And, for younger and lower contributing workers who attended a budgeting webinar, average contributions rose $3,284.

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 weren't 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.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure that they receive a Form 1099-R, which is mailed in January for reportable plan transactions in the current year.
- 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 last quarter, provide a quarterly benefit/disclosure statement and a statement of plan fees and expenses charged to individual plan accounts during the prior quarter.
- At least 30 days before the plan year-end, prepare and distribute annual plan notices, such as 401(k) safe harbor for safe harbor plans with a match, Qualified Default Investment Alternative annual notice, and automatic enrollment and default investment notices.

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

Contact us to learn more about strategies for helping your employees save for retirement and the fiduciary service options available to you. We're ready and willing to help.

RCS-3666-31149_07/22