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PENSION CONSULTANTS

RETIREMENT PLAN SOLUTIONS

Insight from Alliance Benefit Group,
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Inside This Issue

HOW TO ADDRESS PARTICIPANT INERTIA WITH RETIREMENT PLAN DESIGN

Getting employees to participate in retirement plans is no light undertaking. Much time and effort is spent at many companies in employee enrollment meetings and education sessions.

Yet, according to the Bureau of Labor Statistics, typically, in any given year, only half of eligible employees participate in an employer-sponsored retirement plan. Often inertia, indecisiveness and confusion about the benefits of steady and long-term planning for retirement can create roadblocks on the path to a comfortable retirement.

Chad Ridgway,
Managing Consultant at
Spectrum Pension Consultants

According to Chad Ridgway, Managing Consultant at Spectrum Pension Consultants, there are two ways to tackle employee participation inertia:

1. The "hands-on, roll-up your sleeves" approach or
2. Carefully implemented plan design

The "Roll-Up Your Sleeves" Approach

According to Chad, *"Onsite employee enrollment and education sessions take time that many small businesses don't have."* He continues, *"For larger firms with more employees, numerous locations and potentially more employee turnover, the sheer logistics of coordinating meetings can be challenging."*

Using Plan Design To Drive Engagement

Chad has found that the more efficient, effective and scalable way to drive engagement is through plan design. *"With plan design features such as auto enrollment, qualified default investment alternatives and auto escalation, you will have much better success getting employees to participate and at a better savings rate than if you try to do it through purely a hands-on, roll up your sleeves approach,"* he reports.

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IT'S ALL ABOUT PARTICIPANT OUTCOMES

Now more than ever, plan sponsors are increasing their focus on participant outcomes when it comes to fine-tuning and managing their retirement plans. A recent study by Fidelity Investments* that delved deeper into plan sponsor attitudes revealed several interesting plan sponsor perspectives:

The Top Three Plan Sponsor Concerns

When surveyed by Fidelity, the top three plan sponsor concerns were as follows:

1. Is the plan effectively preparing employees for retirement financially?
2. Is the plan helping to retain top employees?
3. Are plan-related business costs being reduced?

In addition, not having enough savings, the challenge of retiring unexpectedly and inadequate retirement planning are all issues on plan sponsors' radar as they consider steps to take to help increase participants' retirement readiness.

Designed For Success

Plan design has also been an area of focus, as plan sponsors realize it can be used to meet many of those challenges and counter any inertia on behalf of participants. In fact, 82% of the plan sponsors surveyed reported making changes to their plan's design.

Most plan changes were done to increase employee participation (54%), while increasing the retirement plan savings rates was reported as the second most frequent reason (51%).

Overall, the following plan design enhancements were made by the plan sponsors surveyed:

- 39% added or changed a matching contribution.
- 37% of plans increased the number of investment options available.
- 31% enrolled or re-enrolled into a target-date option.
- 30% added a Roth contribution option.
- 29% added an automatic savings rate increase feature.
- 26% added automatic enrollment.
- 25% added a default investment option.
- 23% increased the auto-enroll deferral rate.

Enlisting Advisor Help

Of the plan sponsors surveyed, those who worked with advisors worked with them for the following key reasons:

- To better understand how well the plan is working for employees and how to improve it, if necessary.
- Their company has grown and the retirement plan has become more complicated.
- They have less time to devote to reviewing the 401(k) plan.

Auto Enrollment To Increase Participation

For sponsors looking to improve participation and retirement readiness among participants, auto-enrollment was shown to have a positive effect. Of the 51% of the plan sponsors surveyed that use auto-enrollment as a strategy to increase participation, the survey revealed that:

- 87% of employees who were auto-enrolled stayed in their plans.
- 68% of those employees reported being "very satisfied" with the auto-enrollment feature.
- Actual participation rates among 20-29 year-olds in an auto-enrollment plan was 84% versus 31% in non-auto-enrollment plans.

When considering the results of this latest plan sponsor attitudes survey, it can be interesting to compare it to the issues and considerations you may be engaged in with your retirement plan. Your local ABG representative is always ready to help you with any questions you may have. ■

** Fidelity Investments 2018 Plan Sponsor Attitudes Survey*

UNCASHED DISTRIBUTION CHECKS: BEST PRACTICES & NEXT STEPS

According to the Department of Labor (DOL), over $15 million per year in retirement plan distribution checks go unclaimed because plan participants or beneficiaries never cashed the checks sent to them by plan sponsors. This can occur for a variety of reasons, including an incorrect mailing address, a lost or misplaced physical check or inaction on the part of the participant or beneficiary.

However, as fiduciaries, plan sponsors must account for all assets in a retirement plan and need to have procedures in place to handle uncashed distribution checks or risk penalties.

Importantly, plan documents need to spell out the following when it comes to the treatment of uncashed checks:

- How the plan provider will search for a missing or unresponsive participant.
- A timetable for plan providers to report progress.
- The outline for charging fees and moving assets to an outside IRA, as well as how these steps will be followed and how progress will be documented.
- Next steps for unsuccessful uncashed check searches.

Best Practices

The DOL's Field Assistance Bulletin FAB 2014-01 outlines the following four steps plan sponsors should typically follow when seeking to contact the recipient of an uncashed distribution check:

1. Send certified mail to the last known address.
2. Cross-check other related plan and employer records for more up-to-date contact information.
3. Check with the designated plan beneficiary to find updated contact information for the participant.
4. Use free electronic search tools, including Internet search engines, public record databases and social media.

In addition, at ABG, based on our work with a variety of plan sponsors, we have found that the following best practices can help when it comes to managing uncashed distribution checks:

- Maintaining and regularly updating a list of outstanding checks.
- Including reminders on all plan communications to participants to update their contact information.
- Requiring beneficiary contact information on beneficiary designation forms.
- Conducting new address searches immediately whenever mail is returned due to an outdated address.
- Confirming a personal email address and/or cell phone number during the employee exit process and asking that any future change of address be provided as appropriate.

In addition, ABG partners with various retirement benefits processing firms as needed, to provide member firms with valuable access to retirement distribution services including uncashed checks and participant locator services.

As always, your local ABG representative is happy to help you with any questions you may have. ■

DID YOU KNOW?

- A 65-year old American male in 2018 is expected to live another 19.2 years (to 84.2 years old), an increase of 5 years in the last 40 years. A 65-year old American female in 2018 is expected to live another 21.6 years (to 86.6 years old), an increase of 3 years in the last 40 years (source: Social Security Administration).
- As many as 60% of American households will be unable to generate retirement income equal to at least 75% of their pre-retirement income, i.e., retirement income from Social Security, employer-sponsored retirement plans and non-qualified accounts established with after-tax money (source: Adam Bee and Joshua Mitchell 2017 study).
- 35% of workers surveyed in the fall of 2017 who are participating and contributing to a 401(k) or similar defined contribution plan are deferring more than 10% of their pre-tax wages (source: Transamerica Retirement Survey of Workers December 2017).

HOW TO ADDRESS PARTICIPANT INERTIA WITH RETIREMENT PLAN DESIGN

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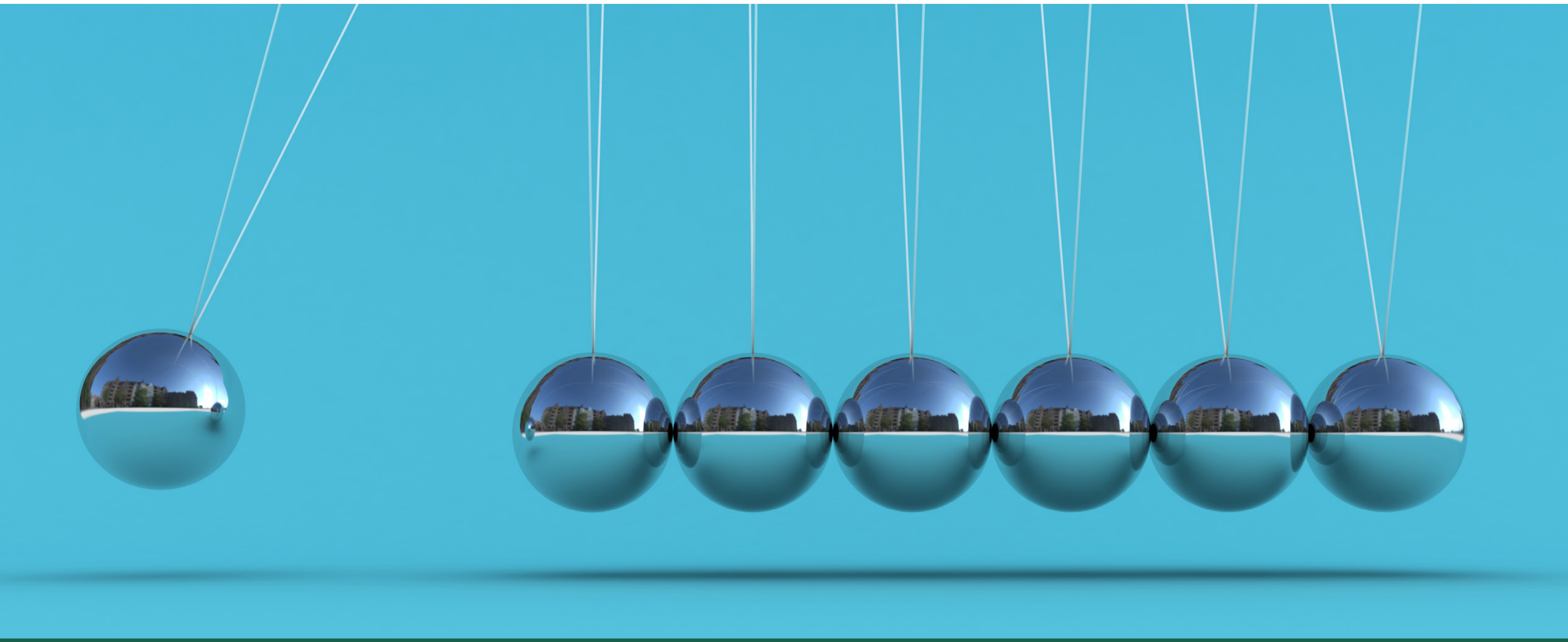
Automating Decision-Making

In fact, thoughtful plan design can solve many of the behavioral aspects of employee decision-making around retirement plan participation, including indecisiveness around how much to contribute and how to allocate those contributions. Interestingly, Chad points out, the relatively free-range model of defined contribution plans that allowed employees complete freedom to do whatever they did, or in many cases, didn't want to do to save for retirement hasn't really worked.

Today's trends in plan design are somewhat similar to the defined benefit approach in terms of taking some of the key decision-making out of employees' hands. These next-generation defined contribution plans are putting automated processes in place to help employees accomplish a number of goals including:

- **Getting Started -** automatically enrolling participants in retirement plans and taking the decision to participate out of their hands, sets them on the path to retirement readiness as soon as possible.
- **Saving at a Rate that Matters** - setting participants' default savings rate at an adequate rate to begin with can pay-off significantly for those participants in the long run. However, what is considered to be an adequate default savings rate has been the subject of much discussion.

  For example, while 15% is considered by many experts to be the target retirement savings rate to work towards, the average 401(k) default savings rate is between 3-4%. Anticipating an employee backlash, many plan sponsors may be hesitant to go above this average rate. However, studies have shown that few employees push back on higher default savings rates. In fact, an employee's expectation is that the employer knows best and will set an adequate rate to meet future retirement needs.
- **Increasing Savings Rates Over Time -** Combining an adequate savings default rate with an auto escalation feature that automatically increases the employee's percentage contribution every year is an effective way to build up to a 15% retirement plan savings rate over time.
- **Allocating Appropriately -** Qualified default investment alternatives can help with the appropriate allocation of retirement savings, as many employees need guidance when it comes to how to invest in a way that will build greater retirement assets over time. Using target date funds among other asset allocation options can help prevent a situation where a participant may invest too conservatively to achieve any meaningful long-term growth.



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- **Leaving the Assets to Grow -** Once enrolled at an adequate savings default rate and invested in an allocation of investments that makes sense for their time horizon and risk tolerance, it is extremely important that a participant does not view their retirement plan as a savings account to access at will. This where the consideration of loan provisions and how they may or may not fit into a retirement plan design comes into play.

  In fact, loans as a feature of a retirement plan can be detrimental to a participant's chances for retirement readiness, slowing down the growth of their retirement account and leading to more financial hardship if the participant leaves the employer and is faced with the repayment of the loan balance to avoid a tax penalty if it is not repaid within the time allowed by law.

  Whether or not a retirement plan includes a loan feature should be carefully considered. If the participant finds it necessary to withdraw retirement assets for an emergency, a hardship withdrawal plan provision can accommodate that need and a loan feature may not be needed.

Highly Focused On Retirement With Intentional Plan Design

Increasing the likelihood that participants will reach their retirement savings goals, is the objective of many plan sponsors when they set up a retirement plan for their employees. Implementing an approach and plan design that will provide an effective strategy to reach that goal is key.

ABG is available to help refine an existing plan or set up a new plan with that goal in mind. Please contact your local ABG representative with any questions you may have. ■

ABG NEWS

ABG Awards 2018's Plan Sponsors of the Year

ABG is pleased to announce the winners of its 2018 Plan Sponsor of the Year awards. Created in 2017, ABG designed this program to recognize those plan sponsors that are highly focused on retirement readiness and how they make a real difference in participant outcomes.

- **Overall Winner: Seattle Indian Health Board**
  Nominated by Spectrum Pension Consultants

  The Seattle Indian Health Board (SIHB) is a community health care and services organization targeting the urban American Indian and Alaska Native population in the greater Seattle/King County area. SIHB engaged Spectrum to identify and recommend plan design options to enhance its workplace retirement offering, with a key focus on retirement outcomes.

  Notable retirement plan enhancements included adoption of automatic design features, adoption of a safe harbor match, implementing on-site plan education services, and offering participant one-on-one meetings with advisors. In addition, the plan's fiduciary advisor established ongoing meetings with the retirement plan governance committee. The outcomes have proven significant. Participation rates rose from 40.5% to 93.8%; average participant elective deferrals rose by nearly 90%; average employer contributions increased by almost a factor of 4x.

- **Winner Best Plan Design: Leader Dogs for the Blind**
  Nominated by ABG of Michigan

  Consistency over several years was the key to modifying behavior. Significant efforts were made to help employees reach their financial goals through increased deferral rates and plan participation. Buy-in from the board level on down was a critical component to success.

- **Winner Best Participant Education: Reid Hospital**
  Nominated by Nyhart

  The financial wellness solution, Votaire, was a key component to helping employees. Also providing annual, on-site education explaining plan provisions and retirement readiness helped to increase overall participation and savings rates.

Plan Sponsor of the Year Winners will receive a crystal award for display in their offices, plus a digital award stamp for use on their website and other materials. ■

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans and take a quick look at the issues surrounding beneficiary designations on retirement plan accounts.

Upcoming Compliance Deadlines

January 2019	
Date	Deadine
January 31	» Deadline for sending Form 1099-R to participants who received distributions during the previous year.
February 2019	
February 28	» Deadline for filing Form 1099-R with the IRS to report distributions made in the previous year, if not filed electronically.
March 2019	
March 15	» Deadline for processing corrective distributions for failed actual deferral percentage (ADP)/ actual contribution percentage (ACP) test without 10% excise tax for plans without an Eligible Automatic Contribution Arrangement (EACA).
March 31	» Deadline for electronic filing of Form 1099-R to report distributions made in the previous year.
April 2019	
April 1	» Deadline for taking the first required minimum distribution for participants attaining age 70½ or retiring after age 70 ½ in prior year.
April 15	» Deadline for processing corrective distributions for IRC Section 402(g) excesses.

Encourage Participants To Review Beneficiary Designations On Retirement Accounts

Every year, Americans leave untold amounts of 401(k) assets to unintended heirs. Why? Because many mistakenly believe that so long as they have a will, their current intentions will be honored. Not so. In the case of 401(k) and other retirement account assets, law dictates that beneficiary designations on retirement account documents supersede a will. Therefore, even if a participant's will leaves their estate to their children, their 401(k) could still end up with a deceased loved one (thus probate) or even a spouse they were married to decades earlier.

In addition, although accounts without named beneficiaries may end up going to the participant's estate, the estate can be forced to withdraw all funds and then get taxed on the withdrawals over a relatively short time period, significantly reducing their value. With that in mind, the beginning of the year is a great time to remind participants to review and update their beneficiary designations as needed. When it comes to beneficiary designations, many participants may "set it and forget it" assuming plan custodians and administrators are responsible for beneficiary information and updates. Others mistakenly believe that they are taken care of by having a will or estate plan. Costly mistakes and potential heartache for loved ones can be avoided with this simple but important housekeeping task. As always, your local ABG representative is available to answer questions on this and other important retirement plan issues.