4TH QUARTER
2023

CrossPlans

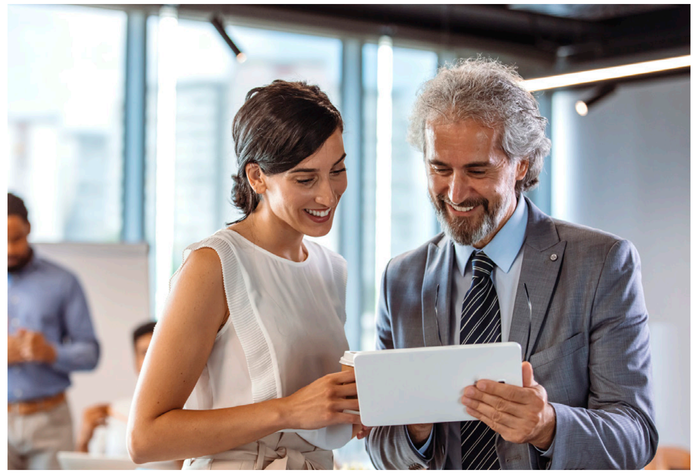
Retirement Plan Strategies

A Current Issues Resource for Plan Sponsors and Administrators

Closing the Generation Gap

Generational Differences Toward Retirement Readiness Can Help Inform Your 2024 Education Strategy

On average, American workers today expect to need $1.27 million to retire comfortably, up from $1.25 million in 2022, according to Northwestern Mutual's 2023 Planning & Progress study. Those expectations may be less than what is realistic, the study reported. That's because the average amount saved for retirement has only modestly increased by 3% to $89,300, up 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

While 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. For example, those in their 50s anticipate requiring $1.56 million for retirement, even as they've saved just $110,900 on average.

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

Longevity and Health Risk Are Biggest Concerns

When asked about their biggest fears in retirement, 44% of Americans responded declining health and 43% replied outliving their savings. The report had found that on average, Americans believe there is a 45% chance they will outlive their savings. Still, 33% have not taken steps to address their longevity risk. Among their smallest fears are feeling uncertain on where to focus time (17%), isolation from friends, families, and coworkers (17%) and missing their career (16%). 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% of respondents say they can imagine a time when Social Security no longer exists. Still, the research also found that respondents are relying on Social Security to provide 28% of their overall retirement funding. That's more than personal savings (22%) and equal to retirement savings (28%). Generation Z and Millennials were the least likely to rely on funding from Social Security, at 15% and 19%, respectively. This was much lower than what their older counterparts expected — at 27% for Generation X and 38% for Baby Boomers.

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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 not been widely studied yet. 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,[1] 30% of Americans made building an emergency savings account their top financial goal of 2023. The report also found that nearly half (49%) have less savings (39%) or no savings (10%)

compared to a year ago, due to continuing economic impacts of inflation and other circumstances. The report also found that only 43% of U.S. adults would pay for an unexpected emergency expense from their savings, while 25% would accrue credit card debt and pay it off over time — a record percentage since polling started in 2014.

Recent research from the BlackRock Emergency Savings Institute and the Defined Contribution Institutional Investment Association 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% likelier to contribute to a defined contribution retirement plan.[2] Another study from Commonwealth and SaverLife found that close to a third of individuals said they would either start contributing or contribute more to a workplace retirement account if it was paired with an emergency savings option.[2]

New Optional Solutions Coming in 2024

Beginning in 2024, SECURE 2.0 provides employers with two ways[3] to allow participants access to 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 (although not 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% of their annual pay (capped at $2,500). The contributions are made after tax and must be invested in a low-risk product that preserves principal. The 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.

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

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

2 "Emergency Savings and Retirement Planning Tightly Linked" (401(k) Specialist, 6/9/2023); https://tinyurl.com/fx2pwv38.

3 "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.

Pension Plan Limitations for 2023

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

Plan Sponsors Ask...

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

A: Many job switchers leave their 401(k) behind to deal with later. The result is that 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 forgotten accounts have grown by 20% in the last two years. As of May 2023, there are an estimated 29.2 million forgotten or left-behind 401(k) accounts in the United States, 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 close to 25% 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.

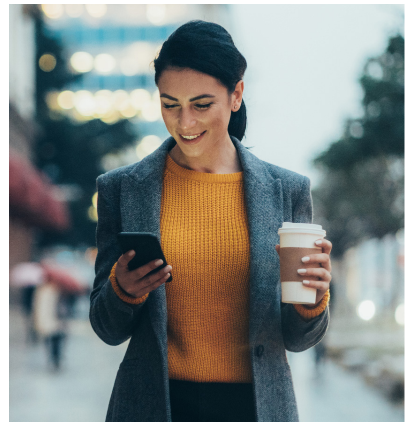
"The True Cost of Forgotten 401(k) Accounts" can also be viewed at: https://tinyurl.com/3sjwrs4u.

"5 Tips for Located Missing Participant Searches" (401kSpecialist 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 pre-retiree education campaign early next year. Are there any recent statistics regarding workers delaying their retirement and their reasons for doing so?

A: 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 by the Nationwide Retirement Institute finds that 25% of pre-retirees — defined as nonretired investors aged 55–65 — are planning to retire later than expected and another 15% are unsure if they will ever retire. Although a number of factors are contributing to their decision to delay retirement, the majority (60%) said inflation poses the greatest immediate challenge to their retirement portfolio over the next 12 months. An economic recession (46%), market volatility (36%) and taxes (23%) are also factors in their decision. 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?



A: 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 and/or reduce ERISA liability. Given the scope of responsibilities, a provider's technological capabilities and knowledge, skill and experience with plan administration is very important. Connectivity to the recordkeeper (when the 3(16) fiduciary is unrelated) also matters to ensure a quality service experience 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.

Web Resources for Plan Sponsors

Internal Revenue Service, Retirement 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 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 his or her 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 last 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 any 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 make sure 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.

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