

# PLAN SPONSOR OUTLOOK

A Resource on Current  
Retirement Topics  
Third Quarter 2021

## GREAT CHALLENGES TEACH IMPORTANT LESSONS

### Here Are Some Emerging from 2020

On the surface, retirement readiness did not suffer significantly in 2020, according to a close examination of the 1.1 million participants in 1,076 plans reviewed for a recent white paper.

Of course, the market experienced significant dips in the first quarter of 2020, but results were broadly positive the rest of the year. Overall, year-over-year retirement readiness was down fewer than two percentage points — concerning, but not devastating.

The paper, John Hancock's *State of the Participant 2021*, examined data for the year ending September 30, 2020, digging deeper to see how participants reacted to 2020's challenges. The information may help plan sponsors shape ongoing communication efforts

#### **Lesson: Don't panic**

Among the key results was that very few participants moved money out of equity investments. Those who did, moving their money out of stocks and into a cash equivalent, unwittingly locked in their losses. Participants who took a wait-and-see approach, on the other hand, found their account balances returning to levels at (or even above) where they were immediately prior to the lockdowns.

There is a lesson here for ongoing plan communications: even when the unexpected occurs, panic-driven decisions are seldom best.

Among the participants studied for the paper, very few took money from their 401(k) plan accounts using the provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Just 3.4% of participants took a distribution, and even fewer (0.15%) took a COVID-related plan loan. On average, distributions were \$20,768 and loans were \$16,699.

#### **Lesson: Look at individuals, not just statistics**

Although the numbers of participants taking money from the plan were low, the impact on the individuals could be significant. The report calculated the net effect on potential retirement savings at -13% for a participant in his or her 30s; had they not taken a distribution, the projected balance at retirement was \$895,403, compared to \$779,242 with the distribution.

Another key takeaway from the research is a reminder to look at participant behaviors, not just account balances. By figuring out which participants are most impacted by the pandemic, plan sponsors can offer targeted help to get them back on track.

#### **Lesson: Aim high**

In a year of dramatic changes, it's encouraging to see that some things remain stable. One thing that has not changed is receptiveness to plan auto features. In fact, don't be afraid to set a



default contribution higher than the typical 2% or 3%. According to this research, plans that set their autoenrollment default contribution rates lower tend to have higher opt-out rates. The 2021 report shows that 14.2% of employees opted out when the default contribution rate was set at 2%, but when it was set at 7% of pay, just 1.6% opted out. The opt-out rate hovered around 9% for most other default contribution levels (1%–8%). Higher default contribution rates can help aim employees toward greater retirement security, so it's a strategy worth considering.

John Hancock's *State of the Participant 2021* can be viewed here: <https://tinyurl.com/JH-2021-Stat>

# RETIREMENT ASSETS GROW, BUT ARE SOME BEING LEFT BEHIND?

More than a year after the start of the pandemic, you may be pleased with the overall growth of the assets in your company's retirement plan. After all, more assets generally mean better prospects for retirement security for your valued employees. But according to a recent triennial survey of wealth held by Americans, some may not be enjoying growth to the same degree as the overall population — nationally and at your company.

The Employee Benefit Research Institute (EBRI) examined data from the Federal Reserve's *Survey of Consumer Finances* (SCF) for the year ending 2019. True, that's pre-COVID-19 and thus doesn't account for the impact of the virus. But EBRI's analysis, published in their March 2021 Issue Brief, reveals real disparities facing minority families as they strive to save for retirement.

Summarizing the retirement landscape in general, the information shows that 18.2% of families had an active participant in both a defined contribution plan and a defined benefit plan. While just 15.8% of families with an active participant in an employer-sponsored retirement plan had only a defined benefit plan in 2019, 66% of those families had an active participant in only an employer defined contribution plan, up from 37.5% in 1992.

The importance of individual account plans as a source of wealth for American workers has grown over the years. In 1992, the average account balance for families with money in individual account plans was \$79,262. By 2019, the figure had risen to \$258,453. The money within these accounts has become the main

source of assets for Americans investing in them, accounting for 68.3% at the median.

Individual account plan balances play a large role in overall wealth, too. Those families who have balances in individual account plans have a much higher net worth than families without one. Median net worth in 2019 was \$284,050 for families with individual account plan assets, compared to \$35,460 for families without.

EBRI's Issue Brief points out that families headed by someone whose race or ethnicity is in the minority are generally less prepared for retirement when preparation is based on their retirement assets. The gap between families having white, non-Hispanic heads as compared to minority family heads has persisted since at least 1992, according to the SCF. Not only were the minority-headed families much less likely to have an individual account plan, the amount of assets held within them was much less. Still, when families with minority heads did have individual account plans, they tended to contain a larger proportion of their total financial assets than those of white, non-Hispanic-headed families.

EBRI's Issue Brief is available here: <https://tinyurl.com/EBRI-SCF-2019> and from there you can view the full analysis



## Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans  
[www.irs.gov/ep](http://www.irs.gov/ep)

U.S. Department of Labor, Employee Benefits Security Administration  
[www.dol.gov/ebsa](http://www.dol.gov/ebsa)

401(k) Help Center  
[www.401khelpcenter.com](http://www.401khelpcenter.com)

PlanSponsor Magazine  
[www.plansponsor.com](http://www.plansponsor.com)

BenefitsLink  
[www.benefitslink.com](http://www.benefitslink.com)

Plan Sponsor Council of America  
[www.pasca.org](http://www.pasca.org)

Employee Benefit Research Institute  
[www.ebri.org](http://www.ebri.org)

# PLAN SPONSORS ASK...

**Q:** We always meant to automate our plan audit files, but somehow we didn't get around to it. When the pandemic hit, we had to send the information via email, and it looks like we will have to do so again. What do we need to know to protect the information we send?

**A:** First, you are not alone. Before COVID-19, lots of companies were maintaining all of their plan audit records on paper, and thus faced a challenge when they had to send them off for review. And you're right, data security is threatened when that transmission is not done properly. It's a serious matter, because one of the duties of an Employee Retirement Income Security Act (ERISA) fiduciary is managing the plan appropriately and that includes keeping security in mind. As you prepare to send any plan records to a third party, there are two primary things to keep in mind: which information, and how to send it. Understand that "personal protected information" may comprise more data than you think, so do your best to learn exactly what's included. In general, email is not a secure means of sending sensitive information, even if your company has strict controls. So the first thing to do is set and communicate guidance about what can and cannot be emailed. Then, contact anyone who may need sensitive information and find out if they have a secure portal you can use to transmit it. That way, the recipient will need to log in to view the information, reducing opportunities for data theft. If your provider does not have a secure portal for this purpose, you may want to find one that does. Read more about protecting your plan audit (and other) data in this article: <https://tinyurl.com/Cassell-protected>.

**Q:** One item that has moved to the top of our wish list is providing some kind of emergency savings program for our employees. Is there a way to add one into our 401(k) plan, or will it have to be a separate program?

**A:** The pandemic certainly pointed out a need for people to accumulate emergency savings, and many employers and service providers are asking the same question. In fact, in a recent report on the subject of emergency savings, it was found that 37% of Americans can't come up with \$400 from savings in an emergency. Among those whose household incomes are less than \$60,000, the figure was 58%, and it's even higher for women and Black households making less than \$60,000. The report is based on interviews with nine of the largest U.S. recordkeepers and seven employers, inquiring about ways to facilitate emergency savings products. Eight of the recordkeepers said they either offer or plan to offer such a program, either in plan or out. There was no clear preference by plan sponsors for either in-plan or out-of-plan solutions, and recordkeepers said they would base their offerings on participant and plan sponsor demand. Plan sponsors may not wait around for the complexities to be worked out; four of the seven interviewed for this report said they plan to offer emergency savings soon, either through a recordkeeper or a credit union. There are, of course, pros and cons to consider when comparing in-plan and out-of-plan emergency savings, and the report discusses some of them. Read more here: <https://tinyurl.com/Commonwealth-savings>.

**Q:** Last fall, we heard that we should consider only financial factors in selecting investments for the 401(k)

plan's investment menu, which could make it difficult to include environmental, social and governance (ESG) choices. As the new administration took over in the White House, has anything changed?

**A:** It has. On November 13, 2020, the U.S. Department of Labor (DOL) released its final regulations (following the June 30, 2020, proposed regulations) that many felt discouraged ESG investments in qualified plans, because such investments consider nonfinancial factors. Soon after taking office, the Biden administration directed federal agencies to pump the brakes on regulations adopted during the Trump administration, including that new DOL guidance. So, on March 10, 2021, the DOL announced that they will not pursue enforcement action against any plan based on failure to comply with the November 2020 final regulations' impact on ESG selections. Of course, this is not a general policy of nonenforcement; all other applicable rules for selecting and monitoring investments that are based on ERISA and subsequent regulations continue to apply. But it may mean that choosing ESG options for the investment menu of a qualified plan could get easier.

## Pension Plan Limitations for 2021

401(k) Maximum Elective Deferral	\$19,500*
(*\$26,000 for those age 50 or older, if plan permits)	
Defined Contribution Maximum Annual Addition	\$58,000
Highly Compensated Employee Threshold	\$130,000
Annual Compensation Limit	\$290,000

# PLAN SPONSORS' QUARTERLY 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 is to 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, and any plan changes becoming effective in January.

Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R to be mailed in January for reportable plan transactions in the current year.

Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure they are up to date.

Provide quarterly benefit/disclosure statement and statement of plan fees and expenses actually charged to individual plan accounts during the prior quarter, within 45 days of end of the last quarter.

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, at least 30 days before the plan year end.

## December

Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing (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.

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Kmotion, Inc., 412 Beaver Creek Road, Suite 611, Oregon City, OR 97045; www.kmotion.com

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