RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

Q3 2018

3 Strategies to Help Your Employees Save (or Save More)

Retirement plan sponsors have full plates when it comes to offering top-notch retirement plans. But perhaps your most critical task is ensuring that your valued employees understand the importance of saving for retirement. The benefits to employees who save early and often are clear, but the interests of business owners and stakeholders should not be overlooked. Workers who feel stressed about retirement planning often carry that burden into their workday, which can affect their productivity on the job. So, motivating your employees to take the savings plunge—and then to keep saving—is just good business.

How can you encourage your employees to save (or save more)? Here are three simple strategies to help move the retirement savings needle in the right direction.

1) Engage, motivate, and educate

Let's start with some great news: by simply offering your employees access to a workplace retirement plan (e.g., a 401(k), 403(b), or profit-sharing plan), you're already giving them a leg up on their savings challenge! According to a recent Investment Company Institute research report, 9 out of 10 households with defined contribution plans agree that having a plan helped them think about the long term and made it easier for them to save. Further, 48 percent of account owners indicated they probably wouldn't be saving for retirement if not for their workplace retirement plans.

But *access* and *action* are two completely different things. In fact, nearly 8 in 10 retirement plan participants, according to the J.P. Morgan 2018 Defined Contribution Plan Participant Survey, believe that their employers should encourage them to contribute to their retirement plans! Educating your workforce on the importance of acting for their own future financial needs is a serious topic that deserves serious attention. Regular retirement and financial planning education can take place in several forms and mediums, including group sessions and one-on-one consultations with a retirement plan advisor. You can also leverage technology, with web tools and resources, mobile apps, and retirement planning software. Remember, the right presentation format will depend on the habits, demographics, and accessibility of your workforce. But regardless of the delivery method, strive to make your educational efforts motivational, easily accessible, and easy to understand, while lowering any potential barriers that will result in no action at all.

2) Take a fresh look at the match

Designing any benefit plan requires a certain amount of care and expertise to deliver the best results for your employees. But here's an important question for you and your 401(k) committee to consider: when (in conjunction with your third-party administrator [TPA], service provider, or plan advisor) was the last time you examined your retirement plan's design? Does it motivate and incentivize your employees to begin or continue saving? Does the matching arrangement suit the needs of your employee base? If not, a refresh may be necessary.

3 Strategies to Help Your Employees Save (or Save More) *(continued)*

As you know, offering workers a matching contribution as a reward for taking control of their own financial destiny is a terrific way to nudge them toward retirement success. So, be sure to inform them about the "free" money your company is offering them! Also, keep in mind that a well-intentioned matching contribution sometimes falls short of its intended objective. For example, a common matching formula is to match 50 percent of the first 4 percent that the participant defers from his or her salary. On the surface, that is a generous match. But while saving 4 percent is good for someone just starting out, it likely won't help that individual realize his or her long-term retirement savings goals. This is where the stretch match concept comes into play. Try stretching out the match to 25 percent of 8 percent. Doing so will dangle the carrot of free match money while encouraging participants to increase the amount they defer from their paychecks.

3) Lower the savings barrier with auto-features

You're likely aware that automating the savings process with plan design features such as automatic enrollment, automatic deferral, and automatic deferral escalation has experienced rapid adoption over the past several years. Why? Because it's an easy, efficient way to combat the inertia that most retirement savers regularly grapple with. If you're not familiar with auto-features, let's take a closer look into how they work.

With auto-enrollment, a newly eligible employee will be automatically enrolled into the 401(k) plan, with a fixed percentage of his or her salary deferred into the retirement account. (For 2017, the average auto-enrolled deferral rate hovered just above 6 percent, according to Vanguard's How America Saves 2018 report). The employee retains full discretion to decline enrollment by simply opting out of the plan—yet few do. In fact, according to the J.P. Morgan 2018 Defined Contribution Plan Participant Survey, only 1 percent opt out, while 33 percent admit that they likely would not have participated in the plan if they hadn't been automatically enrolled!

Automatic deferral and automatic increase operate on the same principle as automatic enrollment: once the participant is enrolled, his or her salary deferral percentage will be bumped up incrementally each year. For example, if a participant is deferring 6 percent in 2018, that figure will increase to 7 percent in 2019 and by an additional 1 percent in subsequent years, until a capped limit is reached.

Put your retirement plan under the microscope. Is it merely checking the boxes for your employees, or is it a thoughtful, valuable benefit that your employees can use to springboard them toward their retirement goals? If you'd like to further explore these strategies, expert help is available. Chat with your retirement plan advisor or service provider to help you make a difference in the financial lives of your workforce!

401(k) Administration Basics: QDROs

When couples divorce, the resulting settlement often calls for the division of retirement plan assets. But how are these assets separated from a retirement plan participant's account? A qualified domestic relations order (QDRO) is a judgment, decree, or order for a retirement plan to pay child support, alimony, or marital property rights to a spouse, former spouse, child, or other dependent of a child (an alternate payee). Let's look at some key principles that every plan administrator should be aware of when handling a QDRO.

- Retirement plans are required to establish written procedures for administrating assets under QDROs. Be sure to locate and follow these procedures!
- Upon receipt of a QDRO, the plan administrator should notify the plan participant and the alternate payee(s) named in the order.

401(k) Administration Basics: QDROs *(continued)*

- The QDRO must specify the participant; the alternate payee; the last know mailing address of the participant and the alternate payee; the amount, percentage, or formula of the plan participant's benefits to be paid to the alternate payee (or payees); and the number of payments or time period to which the order applies.
- Former spouses who receive assets as the result of a QDRO distribution are responsible for paying the associated taxes. Taxes can be deferred by rolling the assets into an IRA or another qualified plan. **Please note:** QDRO distributions are not subject to the 10-percent early-withdrawal penalty.
- A QDRO distribution that is paid to a child or other dependent is taxed to the participant.

Above all, it is imperative to adhere to the proper procedures when administering a QDRO. Failure to do so may result in significant operational failures. Plan administrators should lean on the expertise of their retirement plan service provider, TPA, or retirement plan advisor to guide them through the QDRO process.

Key Retirement Plan Dates and Deadlines for Q4 2018

October

- **1:** IRS deadline to establish a new safe harbor 401(k) plan for the current calendar year
- **15:** IRS extended deadline to file Form 5500 (for calendar-year plans if extension had been filed)

November

- **1:** Deadline to provide annual SIMPLE IRA plan notices to eligible employees

December

- **1:** Deadline for providing annual safe harbor, qualified default investment alternative, and qualified automatic contribution arrangement notices to plan participants
- **31:** Deadline for processing corrective distributions
- **31:** Deadline for participants to take required minimum distributions

We Can Help

Contact us to learn more about improving your company's retirement plan and strategies to encourage your employees to save for retirement, as well as to discuss any other aspect of your plan. We're ready and willing to help.