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3RD QUARTER 2018

A Look Inside the Average 401(k) Plan: How Your Plan Compares

As an employer, you face a challenge: attracting and retaining the right talent is necessary to drive your business forward. At the same time, you likely feel a responsibility to help your employees achieve retirement financially prepared. Your 401(k) plan can help manage both of these goals.

Keeping an eye on the latest trends and tactics in the 401(k) arena is one way you can keep your plan competitive. Let's take a peek into defined contribution plan design and activities across a wide variety of industries and company sizes, with data drawn from a recent survey.

Contributions

In 2016, 84.9% of participants made contributions to their plans, up from 81.9% in the prior year. Lower-paid participants (as determined by the plan's ADP test) contributed to their plan an average of 6.1% of their pre-tax pay. Higher-paid participants contributed more, at 7.0% of their pre-tax pay on average.

Company contributions have shown a relatively steady increase over time, since dropping to 3.5% of payroll in 2010. In 2015, company contributions amounted to 4.7% of payroll, rising to 4.8% in 2016.[1] Just 5.6% of companies participating in the survey did not make contributions to the plan, 82% made matching contributions and 45.4% made non-matching contributions. For companies whose match is a fixed percentage, 41.3% match $.50 for each dollar contributed by the participant, up to the first 6% of pay. A further 31.8% of these employers match participant deferrals dollar-for-dollar up to 6% of pay.

Investments

Just where is the money going? Plans continue to offer between 17 and 19 investment options for company contributions, and between 18 and 20 for participant contributions, figures which have remained relatively steady for the last 10 years. Most frequently, assets in 2016 were invested in actively managed domestic equity funds, with 22.9% of assets directed there. Target-date funds (TDFs) were the investment of choice for 22.2% of assets, followed by indexed domestic equity funds at 13.5% and stable value funds with 8.1% of assets.

Almost 40% of the surveyed plans offered a professionally managed portfolio to participants. Seventy percent of plans use a Qualified Default Investment Alternative, or QDIA, which for 77.5% of them is a TDF.

Target-date funds continue to increase in both availability and usage. Compared to 2007, availability of TDFs rose from 44.4%, reaching 73.1% in 2016. Average allocation was just 6.4% in 2007, compared to 22.2% by 2016.

You can read more about 2016 trends in defined contribution plan in the *PSCA's Annual Survey of Profit Sharing and 401(k) Plans, 60th Annual Survey*. Available for purchase online at psca.org.

[1] Figures include 401(k) plans and profit sharing plans of surveyed employers.

Employees Prefer a Retirement Paycheck

The shift away from traditional pension plans means today's employees are largely responsible for their own retirement security. Yet many seem to long for the "good old days," at least in the sense of knowing they will receive a monthly income throughout retirement.

What role should companies play in the retirement security of their employees, especially as it relates to steady retirement income? And how can employees best meet the need for a retirement income they can count on? Those were among the questions explored recently with about 1,000 U.S. employees.

While 54% of the survey's respondents said they retain primary responsibility for their own retirement security, 27% said companies are primarily responsible, and 19% believe it's the government that has primary responsibility. Asked if they would prefer a set retirement paycheck for life from their employer over a lump sum of money to invest themselves, 58% preferred the steady paycheck. Interestingly, that sentiment came not only from Baby Boomers, but also from Millennials.

Employees want to partner with employers

Employees continue to want to partner with their employers in the planning and execution of their retirement savings, the survey found. In fact, they said they want companies to be more involved in providing for their retirement security in the next five to 10 years; 61% of respondents agreed with that sentiment, compared to just 9% who said the employer should be less involved.

When asked whether they would prefer to set aside part of their salary into a company-sponsored retirement plan or into the Social Security program, about three-quarters said they prefer to channel their money to the company plan. In fact, 56% said they would prefer to save on their own rather than paying into Social Security, if those were the only two choices. Forty-four percent preferred Social Security to saving on their own.

This information, which was gleaned from MetLife's *Role of the Company Survey*[2], released in April 2018, aligns with research that found a crisis in financial confidence among single female retirees; close to half of those surveyed are not confident their savings will last through age 90.[3]

Annuities and advisors increase confidence

The concept of a paycheck for life could be realized, even without traditional pension plans, through the purchase of annuities. Among single retirees, 71% of women with an annuity felt confident that they could live the retirement lifestyle they want, compared to 56% of those without an annuity. The figure was 68% for single male retirees, whether or not they owned an annuity.

The same research shows that working with a financial advisor can have a significant impact on retiree confidence. Three out of four single men and women retirees who work with an advisor were confident in living the lifestyle they want, while 66% of single men and 54% of single women who do not work with an advisor feel that way.

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

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 Benefits Institute of America, Inc.
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

[2] https://www.metlife.com/about-us/newsroom/2018/april/for-retirement-employees-prefer-steady-paycheck-over-managing-th/

[3] http://www.limra.com/Posts/PR/News_Releases/LIMRA_Secure_Retirement_Institute__Single_Retirees_Feel_More_Vulnerable_to_Longevity_Risk.aspx

Plan Sponsors Ask…

Q: We have several new employees who will be involved with our 401(k) plan. How can we help them stay on the right side of their duties as fiduciaries?

A: You're wise to ask. Fiduciary training can help protect individual fiduciaries, the plan as a whole — and, of course, the participants. You may already know that the penalties for fiduciary breaches can be both criminal and civil, a fact that emphasizes the importance of knowing how to carry out these duties. While seeking out targeted fiduciary training from your plan's advisor, consultant or legal counsel is a good course of action; there are a few things important to understand right away. First is that a fiduciary may or may not be named in the plan document. It's the actions that determine fiduciary status, not just the title. Everyone who works on the plan in any capacity should know whether or not they are a fiduciary. They must be careful to always act in accordance with ERISA's "sole interest" rule. It requires plan fiduciaries to act in the sole interests (a higher standard than "best interests") of the plan's participants and beneficiaries.

Q: Our soon-to-be-retirees are sometimes unclear about how their finances will actually look in retirement. We are offering them financial wellness information, but it made us wonder about what we can learn from the Baby Boom generation's actual retirement experience.

A: That's the topic of an Insured Retirement Institute (IRI) annual survey and report, now in its eighth year. While the survey indicates a generally positive financial picture for current Boomer retirees, many are not confident with their preparedness. Fifty-eight percent of Baby Boomers have retirement savings in 2018, up from 54% in 2017. Of the Boomers who have retirement savings, 43% have $250,000 or more, up from 32% last year. Still, just 25% of Boomers think their money will last throughout retirement, and 28% said they are doing (or did) a good job with their financial preparation for retirement. As far as who is doing the best job of preparing for retirement, the survey shows it's those who work with a financial professional; these have at least $100,000 saved compared to 48% of those without a financial professional. Read more from the IRI report, *Boomer Expectations for Retirement 2018*, https://tinyurl.com/IRIonlineBoomers.

Q: As our company leadership retires and younger employees take over, we are sometimes unsure about how best to help them in their efforts to save for the future. How do younger people view the role of their employer and the government?

A: As the workforce transitions toward more Millennials in company leadership roles, change is happening in how things are done and in attitudes. Recently, a national cross-section of workers was asked about a variety of topics that included what they expect from their company. According to the survey, American workers say they play the largest role in their own success. But the next-highest number, 76% of the workers, say their employer should have "a meaningful role in providing access to opportunities to help them be successful." In fact, 36% of the surveyed workers said their employers should have a large role in providing access to opportunities to be successful. That figure is higher than the 34% who said their families should have a large role in their success. The list of actions employers could take to give employees the help they need, according to the survey, included: access to financial products, including retirement savings plans, to help them grow and build wealth (87%); health and wellness programs (85%); and free financial education courses (82%). Read more of the *American Workers Survey* commissioned by Prudential and conducted by Morning Consult, at https://tinyurl.com/Worker-attitudes-Pru. ■

Pension Plan Limitations for 2018

401(k) Maximum Elective Deferral (*$24,500 for those age 50 or older, if plan permits)	$18,500*
Defined Contribution Maximum Annual Addition	$55,000
Highly Compensated Employee Threshold	$120,000
Annual Compensation Limit	$275,000

Investment Assistance Via Managed Accounts, TDFs

If your 401(k) plan offers participants the opportunity to invest in a managed account or a target-date fund (TDF), yours is among the majority. These options give employees access to professional investment assistance, which in turn, may help them achieve higher returns, according to a recent paper.

Ninety-three percent of companies offer TDFs and 58% offer managed accounts in a defined contribution account, thereby providing professional investment assistance. Among these plans, 12% of employees are enrolled in a managed account, and 42% are full TDF users, according to the results.

What impact does participating in a TDF or managed account have on employee account balances? The survey found that, over the most recent 10-year period, one quarter of participants who did not use professional investment assistance (i.e., by investing in a managed account or investing at least 95% in a TDF) saw investment returns that were 2% or less on an annualized basis. However, among workers invested in a managed account or at least 95% invested in a TDF, just 4% saw investment returns of 2% or less.

Learn more about how professional investment assistance affects participant account balances in *The impact of managed accounts and target date funds in defined contribution plans, 2007-2016* from Alight Solutions (free registration required).

See https://tinyurl.com/Advice-managed-TDF. ■

PLAN SPONSOR'S QUARTERLY CALENDAR

OCTOBER

- Audit third quarter payroll and plan deposit dates to ensure compliance with the Department of Labor'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 for forms that were not returned.
- For calendar year safe harbor plans, issue the required notice to employees during October or November (within 30 to 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 EACA (Eligible Automatic Contribution Arrangement), QACA (Qualified Automatic Contribution Arrangement) and/or QDIA (Qualified Default Investment Alternative).

NOVEMBER

- Prepare to issue a payroll stuffer or other 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 2018.
- Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure that they are up to date.

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 IRS 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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