Retirement Plan

NEWS AND INFORMATION FOR **EMPLOYERS**

TALENT MANAGEMENT & TOTAL REWARDS

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How Can Our 401(k) Plan Help Us **Attract and Retain Star Employees**?

Should You Add an **Automatic Safe Harbor IRA** to Your Plan?

SECURE Act 2.0: What 401(k) Managers Need to Know for 2024

How Can Our 401(k) Plan Help Us **Attract and Retain Star Employees**?

With thoughtful design features, you can structure a 401(k) plan that stands out in a time of talent scarcity and meets your employees' needs.

> Looking to attract and retain high-quality talent in today's competitive labor market? Enhancing your 401(k) plan design could be the answer.
>
> It could increase your employees' retirement security and financial well-being while motivating talent to join and stay with the company long-term.

With many businesses struggling with staffing issues, savvy executives are realizing that boosting their retirement plan benefits can be a valuable part of the solution. In fact, 35% of employers have already taken proactive steps to stand out from their competitors and ensure their employees remain happy and satisfied.[1]

When it comes to successfully recruiting and retaining top talent, the competitiveness of your benefits package is key. As such, you should consider what employees value most when evaluating and implementing 401(k) plan design enhancements. A 401(k) plan that incorporates features that fit the company's budget and the needs of your workforce is the best of both worlds.

AUTOMATIC FEATURES MAKE A DIFFERENCE

Plan design features such as immediate eligibility, automatic enrollment, auto-escalation and frequent plan entry points may help boost 401(k) plan competitiveness and make it easier for employees to save for retirement.

1 WTW. "2022: The Next Evolution of DC Plans Survey." Feb. 2022.

Immediate eligibility means employees can participate in the 401(k) on their date of hire, rather than based on their age or time of service. Then these eligible employees could be **automatically enrolled** into the plan at a meaningful rate (8–10%). Plus employers who adopt automatic enrollment can claim a tax credit of $500 for the first three years.[2] Automatic entry helps increase retirement readiness, a benefit employers can highlight in the recruiting process.

Going a step farther, employers could **auto-escalate** employee retirement saving by 1-2% per year until the employee is saving between 10-15% toward their retirement, the recommended savings rate per year by industry experts.[3]

Finally, implementing flexible eligibility requirements and **frequent entry points** can boost participation rates and enhance overall employee satisfaction levels.

THE MATCH MATTERS

Prospective and current employees value employer matching contributions. If an employee is considering multiple job offers, all else being equal, companies that offer a 401(k) with a match may have an advantage. It's no wonder that more than half of employers (55%) are making matching contributions to employees' retirement accounts.[4]

Employers can help employees understand the value of retirement plan matching contributions by presenting them as part of their total compensation. It demonstrates an investment in your employees' future, which can go a long way when it comes to attracting new talent and cultivating loyalty among your existing workforce.

ENHANCE RECRUITING WITH ACCELERATED VESTING

Many employers have a waiting period for employees to become vested in employer contributions. One-year vesting periods are common; however, some employers delay letting employees vest in the company match and other employer contributions by as much as six years. Immediate vesting may offer more recruiting power than non-immediate vesting schedules. Again, employees considering more than one job opportunity may be more likely to accept one with a company that offers immediate vesting.

BEYOND THE 401(K): GET CREATIVE

Offering a competitive 401(k) plan shows you're committed to your employees' financial well-being while helping them save for the future. Outside of a retirement plan benefit, specific financial rewards for longer-term employees can provide additional motivation for them to stay. These benefits may include restricted stock, cash balance plans and non-qualified deferred compensation plans. Offering creative benefits like these can help boost retention by making more tenured employees feel valued and rewarded while enhancing their total compensation.

> A well-constructed 401(k) plan can be a game-changer for companies looking to attract and retain top-quality talent. By investing thoughtfully in plan design and staying competitive with benefits packages, businesses can stand out from their competitors and gain the advantage needed to succeed in today's challenging labor market.

2 IRS. "Retirement Plans Startup Costs Tax Credit." 16 Jun. 2022.

3 Vanguard. "How America Saves 2022: Insights to Action." 2022.

4 Vanguard. "How America Saves 2022: Insights to Action." 2022.

Should You Add an **Automatic Safe Harbor IRA** to Your Plan?

High employee turnover could lead to a rise in small 401(k) accounts. Explore how adding a Safe Harbor IRA provision to your plan may help reduce plan costs and potential fiduciary risks.

> In 2022, more than 50 million Americans left their jobs and in the last two years, there has been record-breaking employee turnover.[5] While the number of employee departures has begun to decrease, it still remains higher than pre-pandemic levels.

Employee turnover can cause problems for employers, such as many small 401(k) accounts being left behind in the company's plan. Such accounts can amplify plan costs and fiduciary risks, making it essential for plan sponsors to address these orphaned accounts. So much so that the Department of Labor (DOL) has made missing participant search and uncashed check processes a focus of audits in recent years.

CONSIDER A SAFE HARBOR IRA PROVISION

One potential solution to this challenge is to add a Safe Harbor IRA (a.k.a. automatic rollover IRA) provision to your plan. This enables plan sponsors to remove smaller accounts from their plans automatically by rolling them into a Safe Harbor IRA.

This provision allows plan sponsors to automatically roll former participant's accounts with balances between $1,000-5,000 into an IRA — and in 2024, the upper limit increases to $7,000, thanks to SECURE 2.0.

Automatic rollover IRAs can be advantageous for plan sponsors and participants. Plan sponsors benefit because removing small account balances can help:

- Keep plan data clean
- Reduce missing participant issues
- Manage plan costs
- Simplify participant disclosures and reporting
- Limit fiduciary risk

In addition, these provisions help plan sponsors address challenges associated with uncashed checks. And, if the plan document allows it, unvested employer profit sharing contributions can be applied to help plan sponsors pay for plan expenses and/or offset contributions.

5 "Job Openings and Labor Turnover Archived News Releases." U.S. Bureau of Labor Statistics. 6 Apr. 2023.

SAFE HARBOR IRAS HELP PARTICIPANTS

With a Safe Harbor IRA provision, the small accounts belonging to former employees periodically and automatically rollover into IRAs. It's a feature that benefits participants in a variety of ways, and can:

- Keep the former employee's retirement savings intact
- Preserve tax advantages
- Provide more straightforward access to savings

AUTO-PORTABILITY NETWORKS: A LOOK INTO THE FUTURE OF 401(K) TRANSFERS

Automatic portability is a new option that was legitimately established under SECURE 2.0. This innovative feature allows a former employee's 401(k) account to be seamlessly transferred into the worker's new company's 401(k) without requiring the participants' express consent.

Today, there are new Auto-Portability Networks being established, and the range of participating recordkeepers is expected to increase, which should facilitate the implementation of automatic portability for more workers.

SAFE HARBOR IRAS COMPLEMENT AUTOMATIC ENROLLMENT FEATURES

Many 401(k) plans have automatic enrollment and escalation features – and soon all new plans will be required to have these features.

While the push to add automatic savings features is likely to help Americans save more for retirement, it also has the potential to sharply increase the number of retirement plan accounts left behind. When an employee leaves, plan distribution options typically allow participants to:

Rollover into an IRA or a new employer's plan. Rollovers help improve lifetime retirement outcomes because they preserve retirement savings and tax advantages, among other benefits.

Leave assets in the plan. Typically, participants with more than $1,000 in a plan account can opt to leave the savings in a previous employer's plan. Some large defined contribution plans like to keep these assets in their plans because they provide scale, which can lower fees. The drawback is that plan sponsors have a fiduciary responsibility to keep track of former employees and must have a process in place to find missing participants. In contrast, sponsors of smaller plans often prefer not to keep the assets of former employees because having more accounts may increase plan costs and administrative responsibilities.

Take distributions in cash. About 41% of plan participants choose to cash out when they leave an employer, and the majority drain their savings.[6] **It's one of the most significant threats to retirement security**.

Safe Harbor IRA provisions offer a possible solution. When former employees fail to make distribution decisions, a Safe Harbor IRA enables the plan sponsor to remove those accounts from the plan, keeping plan data clean and costs low.

IS THIS RIGHT FOR YOUR PLAN?

In the world of 401(k) options, adding a Safe Harbor IRA provision to a company's plan can be an excellent arrow in its quiver. Especially for employers with high turnover rates. This option may help to reduce the number of small orphaned accounts left behind, potentially resulting in reduced plan costs and fiduciary risks.

> Safe Harbor IRAs are a friendly solution that may help to keep plan data clean, manage costs, reduce risks and improve retirement outcomes of former employees.

6 Wang, Yanwen, et al. "Cashing Out Retirement Savings at Job Separation." 7 Nov. 2022.

SECURE Act 2.0: What 401(k) Managers Need to Know for 2024

Leverage new provisions to help reduce administrative hassle, provide employees financial support and encourage positive savings behaviors.

REQUIRED FOR 2024

Luckily, the required changes for 2024 are minimal.

Requirement Summary

> **Long-term, part-time employees become eligible to participate in the 401(k) plan.**

> **Catch-up contributions are required to be Roth if the participant earns more than $145,000 in W-2 compensation.**

Long-term, Part-time Employees

As part of SECURE 1.0, there is an important provision about long-term, part-time employees and retirement plan eligibility. Effective January 1, 2024, 401(k) plans must allow employees who have worked 500 hours or more in the past three consecutive 12-month periods to contribute elective deferrals to the plan.

Changes for High Earning Pre-Retirees

Employees looking to maximize their retirement savings with catch-up contributions should be aware that if they earn more than $145,000 in W-2 wages, their contributions are now required to be Roth. If the employee earns less than $145,000, they can choose either pre-tax or Roth contribution type. Note that plans need to allow for Roth contributions for this option to be available.

> **These required provisions may need additional explanation. Contact us to discuss your specific plan.**

OPTIONAL FOR 2024

While this is not a complete list of the optional provisions to consider in 2024, this short list includes several of the most anticipated. We want to focus on the provisions that may reduce your administrative hassle, provide employees relief during compromising situations and could encourage positive savings behaviors.

REDUCE ADMINISTRATIVE HASSLE

Account Transfers for Former Employees

Retaining 401(k) accounts of former employees can be onerous for plan sponsors, particularly if the accounts are small and inactive. However, there is a new solution available that helps facilitate the transfer of accounts to the ex-employees' new employers.

Automatic portability is a transaction process that allows 401(k) accounts with balances between $1,000 and $7,000 to be transferred to the new employer's retirement plan automatically, without involving the former employee. This can save plan sponsors time and resources, while also ensuring that former employees' retirement savings remain safe and intact.

Fortunately, many recordkeepers and service providers can help facilitate smooth 401(k) account transfers. From locating missing plan participants to handling necessary paperwork, the right partner may help reduce costs, improve efficiency and enhance employee satisfaction.

Safe Harbor IRA Upgraded

Previously, plan sponsors could only transfer former employees' 401(k) accounts to a Safe Harbor IRA if the balance was not more than $5,000. The revised provision increased that amount to $7,000. This may help improve plan administration by helping sponsors avoid large plan audits, additional fees and issues caused by missing participants.

PROVIDE EMPLOYEES SUPPORT

Help Workers Access $1,000 for Emergencies

SECURE Act 2.0 offers a simple solution for employees who need to access retirement savings for personal or family emergencies. This provision allows workers to withdraw up to $1,000 from their retirement savings without incurring the typical 10% excise tax penalty.

Even better, the withdrawal is not a loan and requires little additional paperwork or administrative burden. Employees can take advantage of this one-time distribution and optionally repay it within three years. This feature could prove particularly useful for busy HR professionals and 401(k) administrators, looking to streamline processes and save time.

Payroll Deducted Emergency Savings

This "side-car" emergency account can provide employees with further security and peace of mind in the face of financial uncertainty.

Under this provision, employers can automatically enroll their employees in a savings account that allows up to 3% of their wages to be saved for emergencies. Account contributions are made on a Roth-like basis and are capped at $2,500. Once the cap is reached, additional contributions can be directed into a Roth-defined contribution plan or stopped altogether. The accounts are also subject to annual matching contributions. Additionally, the first four withdrawals from the account each year are not subject to any fees or charges. These emergency savings accounts are for non-highly compensated employees.

This new feature helps employers support their workers' financial well-being and to become more confident and secure in their financial lives.

Penalty-Free Withdrawals Available for Victims of Domestic Abuse

Domestic abuse survivors can withdraw up to $10,000 (or 50% of their retirement fund, whichever is lesser) without penalty. This initiative provides much needed financial security for survivors.

Natural Disasters and Financial Response

In the unfortunate event of a natural disaster, this new measure provides relief for those dealing with it. Individuals can withdraw up to $22,000 from their retirement plan or IRAs without facing the 10% early withdrawal tax penalty. This amount can be paid back over three years or the recipient can pay taxes on the distribution, if not repaid, spread out over three tax years.

ENCOURAGE POSITIVE SAVINGS BEHAVIORS

Auto-Features and Honest Mistakes Are Now Protected

Auto-features have been proven over and over to help all workers save for retirement. In that spirit, this provision provides a grace period for correcting certain retirement plan errors. Plan sponsors now have 9 ½ months after the close of each plan year to rectify mistakes related to default enrollment or matching contributions without facing any penalty.

This is beneficial for HR executives, who often have to deal with a large number of employees and may occasionally make innocent mistakes. The extension offers them peace of mind from potential fines and allows them to focus on more important tasks rather than worrying about errors made when administrating their retirement plans.

> **As a 401(k) manager or employer, you have the opportunity to take advantage of the SECURE Act 2.0 provisions to reduce administrative hassle, encourage positive savings behaviors and enhance financial confidence for your employees. Reach out to us today to learn more about how the new legislation can benefit your plan. Don't miss out on this chance to make a real impact on your employees' future!**

For more information on how we support retirement plan sponsors and participants, **visit our website or contact us directly.**

YOUR RETIREMENT PLAN PARTNER.

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