

# TAILWINDS

RETIREMENT PLAN SPONSOR OUTLOOK

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## ENTHUSIASM AND TRUST HIGH FOR 401(k) PLANS

When it comes to saving for retirement, Americans love their 401(k) and other defined contribution (DC) plans. They demonstrate with money and participation: As of late 2016, about 54 million Americans were active participants in DC plans, which collectively held more than \$5 trillion in assets..

They're also willing to talk about it and they do so in a very positive light. Among households expressing an opinion, the Investment Company Institute report, American Views on Defined Contribution Plan Saving, 2016, revealed 89 percent had favorable impressions of DC plans, with 38 percent indicating a very favorable impression. One reason cited is the ease with which individuals can save for retirement in a DC plan; nine out of 10 households with defined contribution accounts said the plans helped them think about the long term, and made it easier to save. In fact, 44 percent of the households owning a defined contribution account said they would probably not be saving for retirement if they did not have a DC plan.

### CLEAR MESSAGE: KEEP THE TAX INCENTIVES

When asked about potential changes to DC accounts, respondents were less enthusiastic. A significant majority of U.S. households disagree with proposals to remove or reduce tax incentives for retirement savings. That correlates with the finding that 80 percent of households that own a DC account said the tax treatment of their retirement plan was a big incentive to contribute. In fact, 89 percent of households felt the government should not take away the tax advantages of DC accounts, and 90 percent said these advantages should not be reduced. Even households that don't have a DC account or an IRA dislike the idea of removing tax incentives for retirement savings, with 82 percent rejecting the idea.



### POSITIVE REFLECTIONS ON OPTIONS

Investment options are another positive aspect of DC plans, according to survey respondents. These plans offer a wide array of investments, 28, on average. The employer typically chooses which investments will be offered, usually stocks, bonds, and cash equivalents, along with investments that hold a diversified mix. Almost all of the households owning a DC account (96 percent) said they appreciate the choice and control offered. A strong majority (81 percent) said the investment lineup in their plan was good, and about 68 percent said they worry less about the stock market knowing they are saving from every paycheck.

When asked their views on a proposal where the government would invest retirement accounts in an investment selected by a government-appointed board of experts, 84 percent said no. The strongest opposition came from households with incomes over \$100,000 and those aged 35 or over. Among households with retirement accounts, the negative response was 87 percent, compared to 79 percent of households without retirement accounts.

The Investment Company Institute report, American Views on Defined Contribution Plan Saving, 2016, is [here](#).

## FINANCIAL WELLNESS REACHING MAJORITY STATUS

Your company is likely among the majority that not only want to help employees with their non-retirement financial matters but also are offering tools to make it happen.

According to the Aon Hewitt *2017 Hot Topics in Retirement and Financial Wellbeing* report, 59 percent of employers recently asked about their intent to focus on overall financial wellness among employees said they are very likely, with another 33 percent moderately likely. That's a very strong showing of more than 90 percent. Helping employees take charge of their financial lives isn't a new idea, but it seems to be gaining popularity each year. 60 percent of organizations say they believe the importance of financial wellness has increased within their organizations in the last two years.

Even more startling, the percentage of employers offering workers tools to assist with financial wellness planning is expected to reach 84 percent by the end of 2017, up from 58 percent at the beginning of the year.

### POPULAR SERVICES, TOOLS, AND EDUCATION

Most popular among current offerings are services, tools, or educational campaigns that address the basics of financial markets/simple investing, offered by 43 percent of employers responding to the Aon Hewitt survey.<sup>1</sup> Other popular items were health care education and planning (37 percent), financial planning (35 percent), and budgeting (34 percent).

Among companies that don't currently offer these services, tools, or educational campaigns, many say they are very likely to do so in the future. Among the topics of interest:

- Basics of financial markets/simple investing, 42 percent
- Health care education and planning, 38 percent
- Financial planning, 37 percent
- Budgeting, 36 percent

<sup>1</sup> 2017 Hot Topics in Retirement and Financial Wellbeing, Aon Hewitt.

### WHY THEY INVEST IN FINANCIAL WELLNESS

Primarily, employers responding to the survey (84 percent.) believe creating or expanding their financial wellbeing program is the right thing to do. Other reasons include increasing employee engagement (78 percent), and improving retirement statistics (60 percent), like improved adequacy, decreased leakage, and higher participation.

As the worker population ages, organizations will see more and more employees approaching retirement. Of responding organizations, 75 percent expect an uptick in this group over the next three years, and are ramping up their communications accordingly. Among the actions respondents have already taken to help employees successfully retire are:

- Providing retirement planning education to retirees, 19 percent
- Increasing the level of automation, service and/or web access, 15 percent
- Providing help with Medicare planning, 15 percent
- Providing help with Social Security planning, 15 percent

Many more employers said they are very likely to take these actions. Among those that have not already done so, 49 percent of organizations said they are very likely to provide retirement planning education to retirees, 37 percent said the same about increasing the level of automation, service and/or web access, and 50 percent said they are very likely to increase communication about the retirement process. Learn more by reading the full survey, [here](#).

### WEB RESOURCES FOR PLAN SPONSORS

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

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.psc.org](http://www.psc.org)

Employee Benefits Institute of America, Inc.  
[www.ebia.com](http://www.ebia.com)

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

Alerus Retirement and Benefits  
[www.alerusrb.com](http://www.alerusrb.com)

## PLAN SPONSORS ASK...

**Q:** We are looking for better ways to reach our employees with messaging about our 401(k) plan. Of course, we want to help them understand why they should join and save more. Is social media effective for this?

**A:** Social media is effective for a variety of uses related to 401(k) plans. Corporate Insight (workplaceexchange.corporateinsight.com), which provides competitive intelligence and user experience research for financial services, has a few suggestions. For example, try varying the media depending on the message. For general information and starting dialogue, they suggest Facebook; for succinct video, a YouTube channel can be effective; and for concise announcements, they recommend Twitter. Communications that include links to articles and resources can give readers more information if they want it, without boring those who don't. One of Corporate Insight's key ideas: Dive right in. But whatever you do, don't create social media pages that will remain dormant — stagnant pages give a negative perception.

**Q:** Some of our employees have told us they look forward to the day Medicare takes over all their health care expenses in retirement. Others are concerned because they understand they will still have health care costs once they retire. We want to help employees prepare. What should we do?

**A:** You're right that there is a lot of misunderstanding about what Medicare will and won't pay for retiree health care. Your 401(k) plan is a great tool for employees to save for these expenses, and 401(k) educational meetings are a good time to discuss this topic.

First, employees need to know how much they may need to save for health care expenses. According to Fidelity, the average 65 year old couple retiring in 2016 is expected to need around \$260,000 to pay for their health care in retirement.<sup>2</sup> That may be more than your average 401(k) plan participant has saved in total. By helping employees understand their needs, you may be able to motivate them to save more in the plan. AARP has a tool that can help predict their health care costs in retirement: What's Your Magic Number? AARP's website (aarp.org) also includes information to help retirees understand the costs they may face, ways to save for them, and how they may reduce them by staying healthy.

<sup>2</sup><http://tinyurl.com/FidelityRetHC>.

<sup>3</sup>Working Past 70: Americans Can't Seem to Retire, Ben Steverman, July 10, 2017.

<sup>4</sup>Principal value of these funds is not guaranteed at any time, including at the target age.



**Q:** We're noticing that some of our employees nearing retirement are not retiring when we thought they would. We have younger workers waiting in the wings to move up, but we don't always have a spot for them. Is it just our company?

**A:** No. In fact, Bloomberg recently addressed this trend<sup>3</sup>, stating that nearly one in five Americans over the age of 64 continued to work at least part-time during the second quarter of 2017. This is the highest percentage noted on the U.S. jobs report in at least 55 years. Some continue to work because they want to and are physically and mentally able. Others simply can't afford to retire. As an employer, the actions you take today may help younger employees avoid staying in the workforce only because they need the money. Stay on top of trends in 401(k) plan design and communication, and make sure your plan advisor does too. For example, auto enrollment and auto escalation can encourage more saving. Using a stretch matching contribution strategy can also encourage a higher contribution rate. And a quality default investment, like a target date fund<sup>4</sup>, can help too.

### Retirement Plan Limitations for 2017

401(k) Maximum Elective Deferral (\$24,000 for those age 50 or older, if plan permits)	\$18,000
Defined Contribution Maximum Annual Addition	\$54,000
Highly Compensated Employee Threshold	\$120,000
Annual Compensation Limit	\$270,000

## GETTING THE MESSAGE: YOUNGER WORKERS “CRUSHING IT”



When it comes to saving, workers under the age of 52 seem to get it. Millennials and Gen Xers seem to be acting on the message that saving for retirement should be a priority.



Among this group, those who are saving 90 percent or more of the maximum allowed by the Internal Revenue Code in their 401(k) account say retirement is one of their main savings goals. In fact, more than twice as many pointed to retirement as their savings goals than said the same about raising a family, which came in at 40 percent.

Of course, saving at a rate of \$16,200 to \$18,000 per year (90 percent to 100 percent of the maximum allowed) means sacrifice. According to a recent survey, these workers appear ready to make the necessary sacrifices.<sup>5</sup> Prioritization, they said, is the key. About 47 percent of the “super savers” said they are driving an older vehicle in order to direct dollars into their retirement savings. Many (45 percent) choose to live in a modest home, and 42 percent travel less than they would like. More than one-fourth of them work extra hours in an effort to accumulate more for retirement.

<sup>5</sup> <http://tinyurl.com/PrincipalSuperSavers>.

## PLAN SPONSOR CALENDAR

### JANUARY

- Send payroll and employee census data to the plan recordkeeper for plan-year-end compliance testing (calendar year plans).
- Audit fourth quarter payroll and plan deposit dates to ensure compliance with Department of Labor 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 have received enrollment materials. Follow up with unenrolled participants.

### FEBRUARY

- Update the plan’s ERISA fidelity bond coverage to reflect the plan assets as of December 31 (calendar year plans). Remember that if the plan holds employer stock, bond coverage is higher than for non-stock 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 under 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.

### MARCH

- Begin planning for the timely completion and submission of the IRS Form 5500 and, if required, a plan audit (calendar year plans). Consider, if appropriate, the Department of Labor’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.

Contact your Alerus representative for additional guidance on these topics. Consult your plan’s financial, legal, or tax advisor regarding other items that may apply to your plan.

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