RETIREMENT PLAN PERSPECTIVES

Insights for Your Plan and Employees

Q3 2021

3 Ways Employers Can Springboard Employees Toward Retirement

If you are responsible for administering your company's workplace retirement savings plan, you have a full plate of 401(k) responsibilities. Your most critical task is ensuring your valued employees understand the importance of saving for retirement. Even in the face of a global pandemic where retirement account balances are at all-time highs, motivating employees to take the savings plunge—and to keep saving—is just good business.

How can you encourage employees to save (or save more)? Here are three simple approaches to try.

1. **Engage, Motivate, and Educate**
   Let's start with some great news: by simply offering your employees access to a workplace retirement plan, such as a 401(k), a 403(b), or a profit-sharing plan, you're already giving them a leg up on their savings challenge! According to survey data, more than 9 out of 10 households with defined contribution plans agree having a plan helped them think about the long term and made it easier for them to save. Further, 46 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, 75 percent of retirement plan participants—according to the J.P. Morgan *2021 Defined Contribution Plan Participant Survey*—believe their employers have a responsibility to help them save for retirement. Educating your workforce on the importance of preparing for 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 (in-person or virtual) with a retirement plan advisor. You can also leverage technology such as web tools, digital resources, mobile apps, and retirement planning software—all of which are usually supplied by your company's plan provider. Determining the right resources will depend on the habits, demographics, and accessibility of your workforce. Regardless of the delivery method, strive to provide education that's motivational, easily accessible, and easy to understand.

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 there are important questions for you and your 401(k) committee to consider:

   - When was the last time you (in conjunction with your third-party administrator [TPA], service provider, or plan advisor) examined your retirement plan design?
   - Does the plan you offer motivate and incentivize your employees to begin or continue saving?
   - Does the current matching arrangement suit the needs of your employee base? If not, a refresh may be necessary.

   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. Be sure to inform them about the "free" money your company is making available to them!

3 Ways Employers Can Springboard Employees Toward Retirement *(continued)*

Keep in mind that a well-intentioned matching contribution sometimes falls short of its intended objective. For example, a common formula is to match 50 percent of the first 4 percent the participant deposits from their salary. On the surface, that is a generous match. But while saving 4 percent is good for someone just starting out, it may not help that individual realize 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, deferral, and 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.

   With auto-enrollment, a newly eligible employee will be automatically enrolled in the 401(k) plan, with a fixed percentage (3 percent is the most common, according to research from Deloitte) of their salary deferred into the retirement account. The employee retains full discretion to decline enrollment by simply opting out of the plan—yet few do (only 10 percent, according to Deloitte). According to Vanguard's 2020 How America Saves report, 92 percent of participants hired under auto-enrollment still participated in their plan, compared with 29 percent of participants under voluntary enrollment.

   Auto-deferral and auto-increase operate on the same principle as auto-enrollment: once the participant is enrolled, their salary deferral percentage will be bumped up incrementally each year. For example, if a participant is deferring 6 percent in 2021, that figure will be increased to 7 percent in 2022 and by an additional 1 percent in subsequent years, until a capped limit is reached.

   Is your company's retirement plan merely checking the boxes, or is it an impactful benefit that your employees can use to springboard them toward their retirement goals? Chat with your retirement plan advisor or service providers to help you make a difference in the financial lives of your workforce.

ERISA Fidelity Bond Vs. Fiduciary Liability Insurance

Sponsorship of an Employee Retirement Income Security Act of 1974 (ERISA) workplace retirement plan, such as a 401(k), inherently exposes businesses and individuals who are involved with decision-making and plan administration to risk. One way to mitigate this risk is to purchase insurance that can protect plan fiduciaries. Yet, there is often confusion about these policies, what they cover, and who they cover. To gain a better understanding, let's look closer at the ERISA fidelity bond and fiduciary liability insurance to determine the function each can play for retirement plan fiduciaries.

ERISA Fidelity Bond

Under Section 412(a), ERISA requires a fidelity bond for employee benefit plans, including workplace retirement plans, that covers "every person who handles funds or other property of such a plan." An ERISA fidelity bond protects the plan from losses due to fraudulent or dishonest actions conducted by those within the company (e.g., payroll associates, plan trustees, corporate finance personnel) who handle the plan's funds. Under ERISA, "handling" is defined as:

- Actual physical contact with the funds or the power to have contact with or control funds
- Power to transfer funds or other property from the plan or negotiate the value of this property

- Disbursement authority
- Authority to sign checks or other negotiable instruments
- Supervisory or decision-making responsibility over these activities

ERISA prescribes the following minimum and maximum fidelity bond coverage limits:

- At least 10 percent of the plan assets that are handled, and
- A minimum of $1,000 and a maximum of $500,000 (or $1 million for retirement plans that hold company stock)

Because plan assets constantly fluctuate, it's important for retirement plan sponsors to review their fidelity bond coverage annually to ensure that it remains adequate. Coverage amounts should be based on the total plan assets at the end of the plan year.

ERISA fidelity bonds exist to replace lost funds stolen from a company's retirement plan. They do not insure individuals against liability or legal claims.

Fiduciary Liability Insurance

Fiduciary liability insurance, on the other hand, protects individuals (plan fiduciaries) against claims of mismanagement of a retirement savings plan or plan assets. The standard for plan fiduciaries is incredibly high, with ERISA Section 409 expressly imposing personal liability on those who breach their fiduciary duties.

What does this mean? It means that plan fiduciaries found to breach their responsibility might have to pay for any losses they cause out of their own private assets. A fiduciary is not solely the person or people named as such in plan documents—according to ERISA, it can be anyone based on their conduct (sometimes referred to as "functional fiduciaries").

Some examples of fiduciary breaches and mismanagement that fiduciary liability insurance will typically cover are:

- Imprudent investment of plan assets
- Irresponsible selection of or failure to monitor third-party service providers
- Failure to administer the plan according to plan documents
- Conflicts of interest and prohibited transactions
- Negligent acts relating to the administration of the plan (errors and omission)

Unlike a fidelity bond, fiduciary liability insurance is not required. Protecting against potential fiduciary breach, however, may prove to be a wise investment for plan fiduciaries and business owners. As with any type of insurance coverage, costs and terms can vary. Speak with your retirement plan advisor or insurance agency to determine if fiduciary liability insurance is the right choice for your firm.

Important Remaining Retirement Plan Dates and Deadlines for 2021

Workplace retirement plans are governed by various dates and deadlines that benefits plan administrators should be keenly aware of. In the final months of 2021, keep the important deadlines below in mind. Coordinate the timely completion of important retirement plan tasks with your vendor or third-party administrator.

Please note: The list below is not exhaustive and dates are based on a calendar year plan.

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 was filed)
November	
1	Deadline to provide annual SIMPLE IRA plan notices to eligible employees (if applicable)
December	
1	Deadline for providing annual safe harbor, qualified default investment alternative, and qualified automatic contribution arrangement notices to plan participants (if applicable)
31	Deadline for processing corrective distributions (excise penalty will apply)
31	Deadline for participants to take required minimum distributions (RMDs)

Optional

Begin to review employee census data for completeness and accuracy in preparation for upcoming non-discrimination testing, which must be completed by March 15, 2022 (for calendar year plans).

We Can Help

Contact us to learn more about motivating employees to start saving, ERISA fidelity bond and fiduciary liability insurance, and retirement plan deadlines for 2021. We're ready and willing to help.

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