retirement plan solutions inc

Plan Sponsor
OUTLOOK
3RD QUARTER 2020

A RESOURCE ON CURRENT ISSUES FOR PLAN SPONSORS AND ADMINISTRATORS

The COVID-19 pandemic had, and continues to have, an unprecedented impact on our work and our lives. Some changes may last a long time, others only a short while. One thing is certain: there is still a future to plan for, and retirement plans will continue to play an important role. With that in mind, we are pleased to provide our clients with the information here. As financial professionals, we are available to talk through ways to approach the challenges you're facing as a plan sponsor.

Communicating Through Volatility

In recent weeks, we've experienced some of the most impressive swings ever in the U.S. stock market. Naturally, this kind of rollercoaster ride causes participants concern. It's more important than ever during times of volatility to remind them of the reasons to participate in their 401(k) plan, as well as the factors that went into their plan investment decisions.

Here are two key reminders to share with participants that could help them alleviate their fears. Doing so may be a critical factor in their long-term financial well-being.

Reminder: Stay in

If at all possible, participants should probably continue investing in the plan. It's likely that some have already stopped participating or even taken hardship withdrawals. It's also likely that some wake up every morning wondering if they should take their money and run. Reminding those participants that in most cases the plan is the best means to save for the long-term could be helpful. As you provide information about any changes to the plan's rules about accessing their money, be sure to include messaging about the benefits of staying in the plan. One great benefit, even in the depths of a bear market, is the ability to invest at what may be deep discounts. By continuing regular periodic investments, participants potentially have the opportunity to purchase funds at what may turn out to be "bargain" prices.

Reminder: Stay invested

Any time your investment value drops, it is tempting to move everything into cash. It's true that no one really knows what the markets will do tomorrow. That's why focusing on strategy rather than current balances may save participants from big mistakes. Young participants should be congratulated for starting on the journey, and reminded that they have time to recover from market declines. Older participants — at least those who paid attention to lessons from the past — have hopefully moved away from riskier investments, thus insulating themselves somewhat against market swings. All should be reminded that continuing regular investments in the plan, if possible, is a wise course.

Make your message easily understood

The basics of good communication are particularly important when times are challenging. Communicate clearly, using words that are simple and easily understood. Use real-life, personal examples when you can. Include graphics that emphasize and clarify the point you're making. Highlight the main points with color, font size, symbols, or other creative means. Sum up with key action points or takeaways.

Communicating with plan participants becomes all the more important when things go off-track. Take a measured, thoughtful approach, remembering that participants need to hear the truth as well as empathy from their employer. ■

Retirement Plan Solutions, Inc.

PO Box 1658
Cary, NC 27512
Phone: 919-816-0221
Fax: 919-816-0341
http://www.rpsi.us.com/

Fiduciary Issues and Coronavirus: What You Should Know

They may have moved to the figurative back seat for a while, but retirement plan fiduciary issues did not stop during the Coronavirus pandemic. As you sift through what has happened in the last few months, you'll want to pay close attention to fiduciary responsibilities with your 401(k) plan.

Fallout from previous recessions demonstrated, for example, the folly of requiring (perhaps even overencouraging) participants to invest heavily in company stock. And participants who are surprised that their chosen fund was not immune to market drops may come looking for accountability. So how can you protect the plan and its fiduciaries, whatever the economic climate?

Follow the law and the plan documents

Plan fiduciaries must follow the rules set out in the Employee Retirement Income Security Act of 1974 (ERISA) and the plan. All the time. Even during a pandemic. That's why it's so important not to make rash decisions, but to review the plan document before taking action. If your plan has an investment policy statement, make sure any investment decisions you make align with it. The safest bet is to talk to your ERISA attorney before taking any action that could compromise the plan.

Some investment types present more fiduciary risk than others

As demonstrated in the wake of the 2008 recession, for example, target date funds can lose value. Hopefully you have taken the time to review your selection processes, and memorialized them in an investment policy statement. Remember, just because the U.S. Department of Labor says you can use a target date fund (TDF) as a default investment does not mean that it is considered a fiduciary safe harbor. Fiduciaries must still follow ERISA's prudent person rule, which essentially says they must use a prudent process in selecting and monitoring investment funds.

A careful review of available TDFs reveals differences in glide paths, underlying investments, fees, and management type (active versus passive). The percentage of assets held in stocks may be very different for a participant at a given age in one TDF than another. Your plan's investment professional can help you develop a process to use when comparing the options, making it easier to select appropriate investments.

While there is no sure way to avoid all risk in life, or in the management of a 401(k) plan, certain steps can provide a level of protection. Among them, make sure you have an objective, prudent process for all plan decisions. Keep clear records of all decisions and how you arrived at them. When times are difficult, as they have been recently, it's not a time to relax standards nor avoid communicating. Schedule an extra fiduciary meeting and reach out to participants. Ask for help from service providers and the plan's attorney. There are many resources available during trying times, so don't hesitate to seek them out. At the risk of sounding cliché, we're all in it together. ■

Web Resources for Plan Sponsors

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

U.S. 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 Benefit Research Institute
www.ebri.org

Coronavirus Resources

Society for Human Resources Management
https://www.shrm.org

IRS Coronavirus Relief Questions and Answers
https://tinyurl.com/IRS-FAQs-Coronavirus

International Foundation of Employee Benefit Plans
https://www.ifebp.org

Thomson Reuters
https://tax.thomsonreuters.com

Plan Sponsors Ask...

Q: Our small company has, of course, suffered due to the Coronavirus. A few employees who had to take pay cuts are considering applying early for their Social Security benefits, rather than continuing to work at reduced pay. Where can we point them for information about this decision?

A: SSA.gov has the most up-to-date, accurate and complete information available on the subject of Social Security. There, people can obtain a statement of how much to expect when they begin receiving payments. Whether or not to begin payments is an important decision with lifetime implications, and it is important for those employees to understand that. Taking benefits early will mean a lifelong reduction in monthly payments. Yet, when the economy takes a downturn, the first inclination of people who are eligible may be to start their benefits early; according to the Center for Retirement Research, about 42% of people who were 62 in 2009 — 1 year after the stock market drop in 2008 — signed up for their benefits. That was a nearly 5% increase over the prior year. An April 9, 2020, post on the Squared Away Blog from the Center for Retirement Research at Boston College (https://tinyurl.com/CRRBC-SocSec) reminds readers of the considerable financial cost of starting Social Security benefits early.

Q: Participants seem to need help figuring out the best approach to take with their 401(k) plan investments. How can we help them?

A: Many employers share your concerns, because financial decisions today will undoubtedly have considerable impact on future retirements. Your desire to help is commendable. But it's important that you know the difference between providing financial education and financial advice, and that your service provider does, too. Generally speaking, you or your service providers can provide investment education without fear of triggering a prohibited transaction — an event with serious plan qualification implications. Such education is general in nature. For example, you can explain asset allocation, diversification, and dollar-cost averaging. Investment advice is more specific to an individual. Avoid telling a participant what they "should" invest in, even if it's something you personally do. For more information about this important topic, read the article, "The Difference Between Investment Education and Advice," from Financial Finesse and published on 401khelpcenter.com: https://tinyurl.com/FF-EducVAdvice.

Diversification may not protect against market risk. Dollar cost averaging does not guarantee a profit or protect against market loss. This approach relies on an investor's willingness and financial ability to continue making regular investments in both up and down markets.

Q: We were considering doing a re-enrollment in our 401(k) plan before the pandemic hit. Should we go ahead this fall as planned, or wait until next year?

A: Sadly, our crystal ball isn't working so we don't know for sure what challenges may lie ahead. But the fundamental reason to do an investment re-enrollment has not really changed: some participants may be keeping their account balance in a fund that is ultraconservative or even in cash or an equivalent fund. They are therefore not able to benefit from a target date fund or your other carefully-selected qualified default investment account (QDIA). Re-enrollment may actually provide some fiduciary protection, because these cash or ultraconservative fund investors may suffer in the long run from low returns. By re-enrolling, you can move them into the QDIA, giving them the opportunity to affirmatively opt out if they so choose. Most probably won't. When you do decide to go forward with the re-enrollment, be sure to communicate with participants to let them know why you are re-enrolling, and that they do have the opportunity to choose not to change investments. ■

Pension Plan Limitations for 2020

401(k) Maximum Elective Deferral (*$26,000 for those age 50 or older, if plan permits)	$19,500*
Defined Contribution Maximum Annual Addition	$57,000
Highly Compensated Employee Threshold	$130,000
Annual Compensation Limit	$285,000

401(k) Plans Remain Important for Employees' Futures

There is a lot of conversation lately reminding employees and participants of the fundamental reasons to contribute to their own retirement through their 401(k) plan, as well as why they should stay invested even during tough economic times.

Times are tough for employers, too. With that in mind, here is our reminder for you about the importance of providing a 401(k) plan. Although the ride has been bumpy, these basics have not changed.

- Competition for talent. Employees expect to have a 401(k) plan. When the economy is in overdrive, that's especially true; but even when it isn't, the 401(k) plan has become a foundational employee benefit. If you don't offer one, you may miss out on the talent you need to push ahead.
- Keeping the company fresh. Because they help employees accumulate retirement savings, 401(k) plans may allow employees to retire on time. In turn, younger employees have opportunities to move up the ranks, bringing fresh eyes and ideas to your business.
- It's pretty easy. When you seek the assistance of the right retirement professional, implementing and operating the plan doesn't need to disrupt your business. Yes, there are lots of rules to follow. But more than three decades have elapsed since these plans were developed, and the industry has a good grasp on how to operate them simply and effectively. ■

PLAN SPONSOR'S QUARTERLY CALENDAR

OCTOBER

- Audit third quarter payroll and plan deposit dates to ensure compliance with the U.S. 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 30-90 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 eligible automatic contribution arrangement, qualified automatic contribution arrangement or 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 current year.
- 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.
- Provide quarterly benefit/disclosure statement and statement of plan fees and expenses actually charged to individual plan accounts during prior quarter, within 45 days of end of last quarter.
- Prepare and distribute annual plan notices, such as 401(k) safe harbor for safe harbor plans with a match, QDIA annual notice, and automatic enrollment and default investment notices, at least 30 days before plan year end.

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.

Kmotion, Inc., 412 Beavercreek Road, Suite 611, Oregon City, OR 97045; 877-306-5055; www.kmotion.com