Retirement Plan

News and Information for Employers

PLAN DESIGN & ADMINISTRATION

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Retirement Plan Review: From Participation Rates to SECURE 2.0

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Securing Retirement Futures: Strategies to Address Delayed Retirement

Retirement Plan Review: From Participation Rates to SECURE 2.0

Gain actionable insights for optimizing efficiency and compliance through strategic plan analysis.

It's no secret that when you conduct a retirement plan review, you have a chance to understand the data and trends, which can help your plan be efficient and compliant. To set your plan up for success and see if changes are needed, it's important to make the most of this analysis. Here are some key components to focus on.

Your plan's current participation rate

One piece of the plan health puzzle is your current 401(k)'s participation rate as it is a key signal of the retirement plan's effectiveness. When paying attention to these metrics, you may gain insights into the level of employee engagement and identify opportunities, especially when you consider the possibilities of implementing automatic features, while making other plan design changes and thinking about how employees engage with their 401(k)s.

Aim for 90% or greater

Deferral rate statistics

Equally significant are your retirement plan data trends, especially deferral rates, which are crucial for optimizing the financial well-being of plan participants. Understanding deferral rate data helps you know if employees are making informed decisions about their contributions. It also reveals opportunities for more effective education and communication. Much like participation rates, deferral rates can highlight opportunities for plan design modifications.

Aim for 10% or greater

Effective asset allocation and potential for re-enrollment

Effective asset allocation is another key statistic that plays a pivotal role in the performance of retirement portfolios. By evaluating the asset allocations across participating employees, you can identify opportunities to align strategies with investment goals, risk tolerance profiles, and market conditions. Analyzing the asset allocation data can reveal opportunities like re-enrollment, which can be a valuable endeavor long-term.

Aim for 90% or greater

Re-enrollment allows employees to reselect their investment options or be enrolled in a Qualified Default Investment Alternative (QDIA). This process offers participating employees a fresh chance to look at how they are allocated and consider a more suitable investment strategy.

Auto-enrollment and auto-escalation

Auto-enrollment can be a great streamlining tool to help savers achieve retirement readiness and increase participation in your plan, especially if encouraging employees to take positive actions has traditionally been a challenge. Aside from other benefits to the employee population, auto-enrollment can be an effective tool to improve recruitment and retention, unlock tax credits, and help with compliance testing.

Auto-escalation is an effective feature that incrementally raises plan contributions over time (e.g., increasing by 1% annually up to a maximum of 15% annual deferral). This approach not only has the potential to lower payroll taxes, but also, akin to auto-enrollment, facilitates employee retention by overcoming the usual roadblocks of getting employees to take positive action.

SECURE 2.0 2025 amendments

SECURE 2.0 legislation and the amendments going into effect in 2025 are shining a brighter spotlight on the already-prevalent auto features. Your retirement plan review is a good time to discuss options and consider implementation. The regulatory implications of the 2025 SECURE 2.0 amendments are significant. Mandated automatic enrollment is bound to have an effect on plan health, as will the ability of part-time employees to qualify for participation after 500 hours in two years as opposed to the previous three. *For more SECURE 2.0 updates, contact us to discuss your plan.*

Important deadlines

If you are considering making plan design changes, it is crucial to discuss implementation dates and deadlines. Keep in mind that amending your plan and communicating changes to participants takes a proactive approach. For example, take the deadline of October 1 to establish a new Safe Harbor 401(k). Note that the plan must have deferrals for at least three months to be considered Safe Harbor for the current year. On the other hand, a 2025 Safe Harbor implementation requires that a 30-day notice to employees goes out by December 1st.

The retirement plan review is your time

Reviewing your retirement plan data empowers you to make informed decisions and adjustments for the coming year, thereby fostering confidence in your plan's health. By evaluating current metrics and seizing opportunities, you can enhance efficiency, boost employee participation and satisfaction, and help future-proof your offering.

5 Common Retirement Plan Errors and Tips to Fix

Mistakes happen–Here's how to correct common 401(k) plan errors.

> Navigating the intricate rules and regulations that govern employer-sponsored retirement plans may seem overwhelming at times. Even the most diligent plan sponsors encounter retirement plan errors. In fact, it's not unusual to discover a plan failure or error, especially after the 401(k) plan testing season is over.

The costly impact of retirement plan errors

Plan sponsor compliance errors can be costly. The Employee Benefits Security Administration (EBSA) restored over $1.4 billion to employee benefit plans, participants, and beneficiaries in FY 2023.[1] A majority of the investigations resulted from self-reported administrative errors and oversights made by unknowing plan sponsors. It can be stressful to discover retirement plan errors or failures. The good news is that plan sponsors can fix many mistakes themselves, often without fines or penalties.

This guide includes some of the most common retirement plan errors, their remedies, and valuable resources to help 401(k) plan sponsors manage their responsibilities effectively.

Avoid and address costly mistakes

Plan sponsor responsibilities include ensuring the retirement plan complies with regulatory requirements related to the plan's design and administration. Noncompliance can lead to personal liability, tax penalties, or even disqualification, which means that the plan could lose its tax-deferred status.

Most retirement plan errors are caused by operational or administrative oversight. Fortunately, the IRS and Department of Labor (DOL), the agencies that govern employer-sponsored retirement plans, offer several ways for plan sponsors to self-correct retirement plan errors. A good place to start is the IRS' 401(k) Plan Fix-It Guide that provides tips on finding, fixing, and avoiding the 12 common mistakes.

1 Employee Benefits Security Administration. "EBSA Restores Over $1.4 Billion to Employee Benefit Plans, Participants, and Beneficiaries." October 2022.

Five common 401(k) errors and remedies

Below are five common plan sponsor compliance errors and remedies covered in the guide:

1. **Error:** Not updating the plan every few years to reflect changes in the law.
   Remedy: Adopt plan amendments for missed law changes. Plan sponsors who miss plan amendment adoption deadlines can use the IRS correction program.
2. **Error:** Failing to operate the plan according to the plan document.
   Remedy: Apply a correction that puts affected participants in the same position they would have been had the operational oversight not occurred.
3. **Error:** Not using the plan's definition of compensation correctly for all deferrals and allocations.
   Remedy: Make corrective contributions, reallocations, or distributions.
4. **Error:** 401(k) plan testing failures (ADP and ACP nondiscrimination tests).
   Remedy: Make qualified nonelective contributions for non-highly compensated employees.
5. **Error:** Employer matching contributions weren't made to all appropriate employees.
   Remedy: Apply a correction that puts employees in the same position they would have been in if matching contributions had been made to all eligible employees according to the plan's terms.

This handy 401(k) plan checklist from the IRS can help remind plan sponsors of their fiduciary responsibilities and keep their plan in compliance. Keep in mind that this list should only serve as a guide—it isn't a substitute for a complete plan review.

How to correct retirement plan errors

Plan sponsors can fix retirement plan errors using the IRS Employer Plans Compliance Resolution System (EPCRS). There are three ways to fix mistakes under EPCRS:

- **Self-Correction Program (SCP)** |Plan sponsors can correct certain plan mistakes without notifying the IRS or paying fees.
- **Voluntary Correction Program (VCP)** | Any time before an audit, a plan sponsor may pay a fee and secure IRS approval to fix retirement plan errors.
- **Audit Closing Agreement Program (Audit CAP)** | Plan sponsors can pay a fine and correct mistakes during a plan audit.

New rules under SECURE 2.0

SECURE 2.0 introduced some new rules pertaining to retirement plan errors associated with overpayments to participants or beneficiaries. The law also contains enhancements to the retirement plan error self-correction program under the IRS's Employee Plans Compliance Resolution System (EPCRS). These provisions went into effect when the law was passed in December of 2022.

Prompt resolution and assistance

Addressing plan errors promptly is critical to fulfilling plan sponsor responsibilities and ensuring that participants' retirement savings stay on track. By following best practices and taking advantage of available retirement plan error resolution resources, plan sponsors can navigate their operational and administrative responsibilities, avoid costly plan compliance errors, and help improve retirement security for participants.

Review your 401(k) plan regularly to spot errors and avoid costly remedies. We can help you identify and fix retirement plan mistakes while implementing strategies that aim to avoid them in the future.

Securing Retirement Futures: Strategies to Address Delayed Retirement

Does your 401(k) plan design support "on time" retirement?

> Delayed retirement is becoming increasingly common among Americans, impacting employers' bottom lines, talent acquisition cycles, and overall productivity. A recent survey found that one in four employees anticipate working beyond their initially planned retirement age, and 9% fear they may never be able to retire.[1] This data supports a longer-term trend: since the early 1990s, rising labor force participation among older workers has lifted the average retirement age in the United States by three years.[2]

Impact of delayed retirement on employers

These findings have important implications for employers. While retaining seasoned, skilled employees with institutional knowledge and strong customer relationships has significant benefits, it also exacts a price that may affect management strategies, employee morale, and operational expenses. A recent study quantified the cost of delayed retirement on employers and found:[3]

- **A one-year delay in an employee's retirement** had an incremental cost of about $50,000, assuming one employee's retirement resulted in other employees advancing up the corporate ladder and an entry level employee being hired.
- **A one-year increase in average retirement age across a company's workforce** resulted in an average incremental cost of 1% to 1.5% of aggregate annual workforce expenses. For an employer with 100 employees and workforce costs of $10 million, a one-year delay in retirement age could cost from $100,000 to $150,000.

1 Nationwide. "In-Plan Guarantees Survey Report." Sep. 2023.

2 Munnell, Alicia. "How To Think About Recent Trends In The Average Retirement Age?" Jul. 2022.

3 Prudential. "Why Employers Should Care About The Cost Of Delayed Retirements." 2019.*
** More recent data may alter this assessment.*

It's important to note that this analysis might understate the true cost of delayed retirement because of qualitative effects, such as the impact of delayed promotion and limited advancement opportunities on employee morale, productivity, and turnover.

Strategic plan design supports "on time" retirement

Over the last decade or so, automatic enrollment, automatic escalation, and managed account advice have significantly improved retirement plan participation and savings rates.[4] Now, employers are emphasizing the importance of additional features that can help employees save enough to retire on time, at full retirement age. These include:

- **Health Savings Accounts (HSAs)** offer employees at companies with high deductible health plans (HDHPs) an additional tax-advantaged way to save. Any money not spent on healthcare can rollover and accumulate for future use. Building savings in HSAs can help near-retirees feel more confident about meeting healthcare expenses in retirement. In addition, after the age of 65, HSA funds can be used to pay non-healthcare expenses without a penalty. Distributions applied to qualified healthcare costs are tax-free, while those used for other expenses are taxed as ordinary income.
- **Retirement income funds** are designed to provide a steady stream of income during retirement. They often include target date strategies that gradually shift allocations to more conservative investments, such as annuities, as retirement approaches. Some retirement income funds focus on generating a stable income through investments in financial markets, aiming for annual returns sufficient to support retirement needs.
- **In-plan annuity options** give plan participants the opportunity to save and invest in guaranteed retirement income through their workplace retirement plans. Investing a portion of retirement savings in an annuity that will generate income for life can give near-retirees more confidence to retire. Income from an annuity can be augmented with income from other investments.

The SECURE Act made it easier to add a lifetime income investment to a workplace retirement plan by eliminating a key obstacle—portability. Annuities can now be directly rolled over into IRAs, converted to individually owned certificates or moved to new employers' retirement plans, if the plan accepts annuities.

Strategic plan design can support employees, so they feel more confident about retiring on their own timeline, while also assisting employers overcome the costs and challenges related to delayed retirement. We are here to help if you have questions about optimizing your retirement plan strategies to promote on-time retirement and maintain a healthy workforce.

4 Vanguard. "How America Saves." Jun. 2024.

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

This information was developed as a general guide to educate plan sponsors and is not intended as authoritative guidance or tax/legal advice. Each plan has unique requirements and you should consult your attorney or tax advisor for guidance on your specific situation.

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