BUCKET LIST: RETIREMENT

THE ECONOMY CONTINUES AT ITS STRONG PACE, KEEPING UNEMPLOYMENT AT ITS LOWEST RATE IN NEARLY 50 YEARS.

While this is usually good news, employee financial vulnerability is clouding this sunny forecast. The repercussions are impacting their ability to save for retirement.

Millennials are the most stressed by their financial situations, followed by Gen X and Baby Boomers according to PWC's 8th annual Employee Financial Wellness Survey released in June 2019 (Figure 1 bottom right). More than 80% of the employees surveyed believe they will have to work during retirement.

TOP TWO FINANCIAL CONCERNS

The top two financial concerns across age groups are:

1. Not having enough emergency savings for unexpected expenses. This is especially true for Millennials and Gen X.
2. Not being able to retire when they want to (37% of all employees); 52% of Baby Boomers ranked this as their biggest concern.

CAUSES OF FINANCIAL STRESS

Nearly 32% of employees surveyed said they are not saving for retirement because they have too many other expenses and too much debt.

- For 19%, retirement readiness is impeded because they are providing financial support to parents, in-laws, or adult children. More than 50% also have to support dependent children.
- Credit card debt is increasing across all generations because it is the only way employees, especially Gen X and Baby Boomers, can afford necessities.

HOW YOU CAN HELP EMPLOYEES SAVE MORE

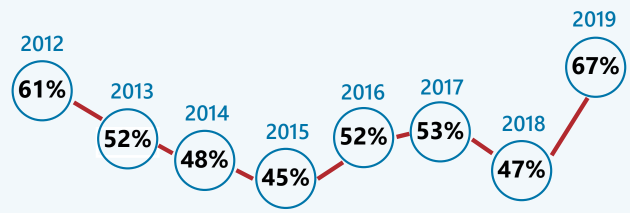
Employers are finding innovative ways to help employee save:

ADOPT PPA SAFE HARBOR MEASURES

Leverage Pension Protection Act (PPA) Safe Harbor provisions by:

- Automatically enrolling all employees (not just new hires) in retirement plans.
- Setting an initial contribution amount and automatically increasing that amount over time.
- Reviewing employee group demographics, then setting your Qualified Default Investment Alternative to a target date fund, target risk assess allocation, or separately managed account.

Figure 1 | Employees Experiencing Financial Stress, 2012-2019



	2013	2104	2015	2016	2017	2018	2019
Millennials	49%	60%	52%	64%	57%	53%	76%
Gen X	62%	53%	52%	56%	59%	50%	65%
Boomers	45%	36%	34%	40%	41%	35%	51%

Source: PwC's 8th annual Employee Financial Wellness Survey, PwC US, 2019

PLAY THE LONG GAME—IDENTIFY SAVINGS NEEDS

The figure that gets tossed around most often when talking about how much is needed for retirement is $1 million. For some who are unable to save for an emergency, they throw up their hands when they hear that figure, knowing it isn't achievable.

To help employees set realistic savings goals, employers need to help them project what they will need to have accumulated to live in retirement. There are three general guidelines for calculating retirement goals to make saving for retirement more manageable.

GUIDELINE 1: THE 25 TIMES RULE OF RETIREMENT

The 25 Times Rule is one way to help individual employees estimate the nest egg that they need for retirement. The employee simply needs to make a list of current expenses, then multiply that figure by 25. This provides an estimate of the amount of living expenses over 25 years. Though expenses may change in retirement, don't assume that they necessarily go down. This method assumes employees will withdraw about 4% of their retirement nest egg each year without being in danger of running out of money.

An individual who will have $20,000 a year in expenses, will need roughly $500,000 to retire comfortably for 25 years.

GUIDELINE 2: THE 70% RULE OF RETIREMENT

Another way to project retirement savings is to estimate that employees will need about 70% of their average income for each year they live in retirement.

If an individual has a median working income of $35,000, he/she would need a little more than $600,000 saved for expenses over a 25 year retirement period.

GUIDELINE 3: THE 15% RULE OF RETIREMENT

This rule only works if employees have been saving since their twenties or early thirties, or they are currently in that age bracket and are looking for a rule of thumb to build their retirement nest eggs. Simply, they save 15% of their income yearly. This method gives employees the peace of mind that they are saving enough to live comfortably without the burden of a specific target.

IMPORTANT CONSIDERATIONS: INCOME AND EXPENSES

Employees' expenses will be very different once they retire. They won't have travel to and from work and they won't have business attire or day care expenses, etc. They can eliminate a mortgage payment by paying off their house. On the other hand, other expenses will go up. Healthcare costs increase with age and Medicare doesn't cover 100% of healthcare expenses and covers 0% of nursing home expenses. Many people dream of traveling when they retire, which means those expenses will be higher. So, underestimating retirement expenses can cause retirees to go through their savings faster than anticipated.

Income will also be different because employees will not have to pay Social Security and Medicare taxes, which currently consume about 7.5% of their paychecks. Their Social Security income will be taxed at a lower rate than their wages since they will most likely be in a lower tax bracket. They will also not be diverting any of their incomes to retirement or health savings accounts.

HOW MANY YEARS SHOULD I PLAN FOR?

This is always a difficult subject, but it is necessary to plan for the best when thinking about how long employees will need to fund retirement. Healthy people tend to live longer regardless of age, so that is a consideration when projecting longevity. Another factor is family history—how old are or how long did their parents, grandparents, and siblings live? If they have relatives in their nineties, they should plan to live that long as well.

CALCULATORS AND OTHER PROJECTION TOOLS

- The Social Security Administration has free calculators that employees can use to understand their projected monthly benefits. Of course, these benefits can change depending on the age that an employee opts to start taking Social Security.
- The Center for Retirement Research at Boston College offers *Target Your Retirement*, a free, interactive program that helps near retirees develop a reasonable plan for maintaining their standard of living in retirement.

To best help employees create comfortable nest eggs, help them understand the long game of retirement using some of the guidelines provided above. You can also provide easy to use tools that help set realistic goals so employees can feel confident that they are making progress toward their retirement goals.

COMPLYING WITH SAFE HARBOR DEADLINES

All 401(k) plan contributions have deposit deadlines, and it's up to 401(k) fiduciaries to meet them. Yet, many are unclear about the deadlines applicable to their 401(k) plan. That confusion can easily lead to late contributions.

Most of the confusion surrounds the deadline to deposit amounts withheld from employee wages, i.e., 401(k) pre-tax, 401(k) Roth, and/or participant loan repayments. The Department of Labor (DOL) set forth the rules to comply with the safe harbor for depositing these amounts in 29 CFR 2510.3-102. The rule states that the deposit deadline is *"the earliest date on which such amounts could reasonably be segregated from the Employer's general assets but in no event later than the 15th business day of the month following the month in which the participant contributions were withheld or received by the Employer."* In actuality, the DOL focuses heavily on *the earliest date on which such amounts could reasonably be segregated from the Employer's general assets*, which in most cases is earlier than the 15-day timeframe mentioned in regulation.

MAKING TIMELY DEPOSITS IS A FIDUCIARY DUTY

Fiduciaries are responsible for making timely deposits. Failing to do so results in what's called a "prohibited transaction" because the DOL views those contributions to be improperly commingled with your general funds. In the event that a late contribution occurs, the plan sponsor must:

- Make up earnings that the employee contributions may have accumulated had they been deposited on time
- Pay an accompanying 15% excise tax

You should keep us abreast of any possible delinquent contributions so that corrections are handled properly.

CLARITY FOR SMALL PLANS

On January 13, 2010, the DOL finalized a safe harbor deposit deadline for "small" plans—those with less than 100 participants at the beginning of the given year. Contributions to the plan are considered timely if deposited by **no later than the 7th business day following the pay date**.

Although failing to follow the safe harbor deadlines does not necessarily violate any regulations, you may be required, upon audit, to demonstrate that all deposits were made as soon as administratively feasible for your company and/or industry.

Depositing contributions within the new safe harbor guidelines automatically satisfies the timeliness requirement and eliminates the interpretation of the previous guidelines.

Upcoming Compliance Deadlines for Calendar-Year Plans (12/31)

September 2019

15th

Required contribution to Money Purchase Pension, Target Benefit Pension, and Defined Benefit Plans (8-1/2 months after plan year-end) and 2018 employer profit sharing and match contributions for those sponsors who filed a corporate tax extension.

30th

Summary Annual Report due to participants for plans with 12/31 plan year-end. (Due to participants nine months after plan year end or two months after filing Form 5500.)

October 2019

1st

401(k) Plan Safe Harbor Notice (must be provided between October 1 and December 1 for plans with a 12/31 plan year-end).

15th

The deadline for filing Form 5500 and Form 8955-SSA for calendar year-end plans on extension.

IT'S ALL IN THE DESIGN...

For many new Plan Sponsors, and even those savvy at running company retirement plans, understanding plan design can be daunting. Industry terminology, IRS code sections, and complicated illustrations can make understanding difficult.

As a retirement plan service provider, we try to ensure that your plan design is the most optimal for your group of employees. Since employee demographics can change, it's a good idea to understand the basics and review your design from time to time.

PERMITTED DISPARITY

Other than the desire to provide a retirement plan to benefit all employees, a very common question is asked, "What can be done for the owners or highly compensated group (HCE)?" Since Social Security limits the amount of compensation that is used to calculate benefits (called the wage base), those that earn over the wage base can expect that their benefit in retirement will be a smaller percentage of earnings than that of those who earn less than the limit.

For this reason, the IRS regulations allow for some "permitted disparity" in contribution or benefit amounts between two groups; highly compensated employees (HCEs) and non-highly compensated employees (NHCEs). So, if a company desires to provide additional benefits to all or a portion of their HCE group, what are some of the possibilities?

MAXIMUM LIMITS

During initial plan design, plan service providers hear "our HCEs would like to receive the maximum contribution allowed in their accounts." Depending on the type of plan and plan design, this number can mean very different things. It can simply mean maximizing the annual 401(k) limit of $19,000 ($25,000 with catch-up contributions for those who attained age 50). However, by contributing additional funds in the form of a profit sharing, matching, or safe harbor contribution, an individual can receive up to an additional $37,000 in his/her account in a plan year. That brings the "maximum contribution" to $56,000 ($62,000 for those who have attained age 50). Of course, there are required allocations to non-HCEs to comply with the law, but many times these allocation formulas can help your HCE have adequate savings for retirement.

In addition to 401(k) plans, there is the world of Defined Benefit plans. Traditional Defined Benefit Plans focus on providing a monthly benefit in retirement instead of the accumulated account balance received from a 401(k) plan. Cash Balance Plans, while still a Defined Benefit Plan, use individual participant accounts to credit contributions and interest and can even be combined with a company's 401(k) plan in order to minimize the additional contribution cost. Since regulatory limits are imposed on the benefits calculated in these types of plans, contributions, especially for business owners over age 50, can well exceed the $56,000 currently imposed on individual accounts in a 401(k).

So, be sure that your current plan design is right for you. Contact us with questions about your plan design.