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Enhancing and Elevating Retirement Plans: Key Updates and Inclusive Strategies for 2025

November 21, 2024

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Session CPE Requirements

You will need to attend 50 minutes to receive the full 1 CPE credit.

CPE

Four polling questions will be launched during this session.

You must respond to a minimum of three to receive the full CPE credit.

Both requirements must be met to receive CPE credit

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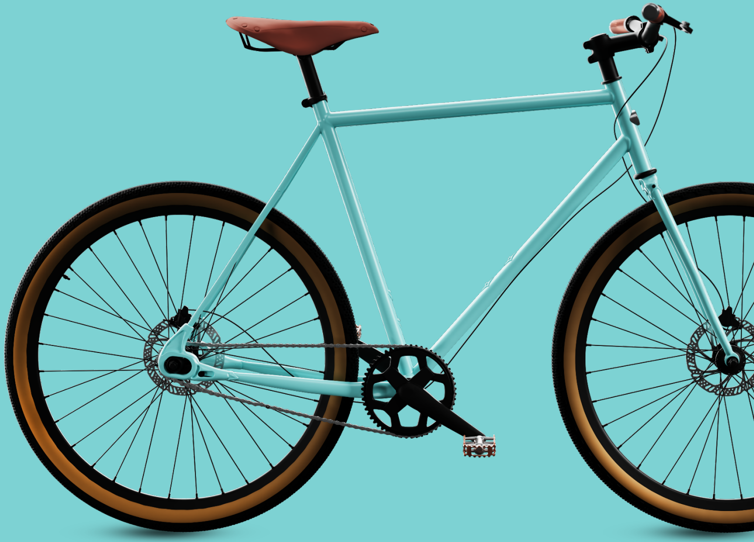
Learning Objectives

At the end of this session, you will be able to:

- Identify the components of the SECURE Act 2.0 that will take effect or need consideration in 2025.
- Identify when and how to appropriately use plan forfeitures to benefit your retirement plan.
- Recall strategies to enhance employee participation in your retirement plan without increasing employer costs.
- Describe the pros and cons of removing terminated employees’ balances from the retirement plan.
- Recall how to manage your retirement plan with a focus on diversity, equity, and inclusion considerations.

SECURE Act 2.0



SECURE Act 2.0

Enhanced Retirement Savings	Greater Flexibility for Employers and Employees	Update to SECURE Act of 2019
The SECURE Act 2.0 seeks to encourage retirement savings.	The SECURE Act 2.0 provides greater flexibility for employers and employees in terms of plan design and contributions.	The SECURE Act 2.0 is an update to the SECURE Act of 2019 and seeks to build on the success of the original bill by further promoting retirement savings and flexibility.

Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, 136 Stat. 4459 (2022).
Retrieved from https://www.congress.gov/bill/117th-congress/house-bill/2617/text

Mandatory Auto-Enrollment

Mandatory Auto-Enrollment

- Effective January 1, 2025, employers must automatically enroll eligible employees in new 401(k) or 403(b) plans. This change seeks to increase retirement plan participation rates and improve retirement savings.

Rates

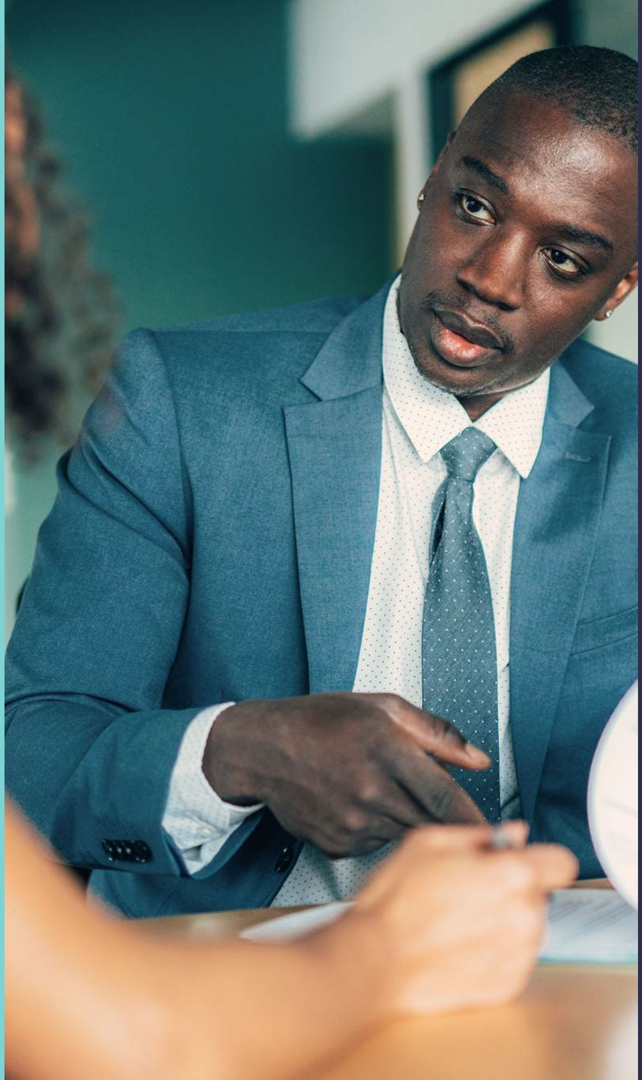
- Initial contribution rates must be at least 3% but no more than 10%. Annual increases of 1% until it reaches at least 10% but not more than 15%.

Increased Participation Rates

- Mandatory auto-enrollment seeks to increase retirement plan participation rates, ensuring that more employees save for retirement.

Catch-Up Contributions

- Individuals aged 60 to 63 will be able to make higher catch-up contributions to their retirement accounts starting in 2025.
- This change is designed to help those who may have fallen behind on their retirement savings or did not get an early enough start on saving for retirement.



Emergency Savings Accounts

Starting in December 2025, employers can offer emergency savings accounts linked to retirement plans to provide employees with a safety net for unexpected expenses, making it easier for them to save money

Provisions for Penalty-Free Withdrawals

Emergency expenses exception	Provides penalty-free withdrawals up to $1,000 annually for emergency expenses; must be repaid within 3 years.
Victims of domestic abuse exception	Allows penalty-free withdrawals up to the lesser of $10,000 indexed for inflation or 50% of vested balance within one year of incident.
Terminal illness exception	Allows penalty-free withdrawals for individuals with a physician's certification of death expected within 84 months of certification.
Qualified disaster recovery exception	Allows penalty-free distributions of up to $22,000 due to qualified disasters; must be repaid within 3 years.

Enhanced Long-Term Part-Time Eligibility

- Starting in 2025, part-time employees working at least 500 hours per year for two consecutive years will be able to participate in 401(k) and ERISA-governed 403(b) plans.
- Provides better retirement plan access for more workers.
- Reduced the previous requirement of three consecutive years to two consecutive years.

Student Loan Matching

- Employers can now match employee student loan payments with contributions to their retirement accounts.
- Provision is aimed at employees carrying student loan debt who may not have the financial ability to both make their loan repayment *AND* put money in their 401k plan.
- Allows them the ability to save for retirement through employer contributions to their 401k plan.

Additional Provisions

Qualified Tuition Programs Distributions to Roth IRAs	Increase in Age for Required Minimum Distributions	'Starter' 401(k) Plans
The SECURE Act 2.0 includes special rules for distributions from long-term qualified tuition programs to Roth IRAs, providing greater flexibility for individuals to save for retirement and education expenses.	The SECURE Act 2.0 increases the age for required minimum distributions, allowing individuals to defer taxes on their retirement savings and keep their money invested for longer.	The SECURE Act 2.0 includes 'starter' 401(k) plans for employers with no retirement plan, providing greater access to retirement savings options for employees.

Knowledge Check

The following were key changes or provisions of the SECURE Act 2.0:

a) Mandatory auto-enrollment for new plans
b) Enhanced long-term part-time eligibility
c) Both a. and b.
d) Neither a. or b.

Effective Use of Plan Forfeitures

Permitted Uses for Defined Contribution Plans

- Paying Plan Administrative Expenses
- Reducing Employer Contributions
- Additional Allocations to Participants

Plan Language Requirement

Plan Document Must Explicitly Authorize the Use of Forfeitures

Source: Federal Register: Use of Forfeitures in Qualified Retirement Plans

12-Month Rule for Timely Usage

Source: Federal Register: Use of Forfeitures in Qualified Retirement Plans

Considerations for Electing One or All

Fiduciary Responsibility

Protect Participants' Interests

Enhance Compliance

Work with Your Service Providers

Permitted Uses for Defined Benefit Plans

General Forfeitures Rules for Qualified Plans

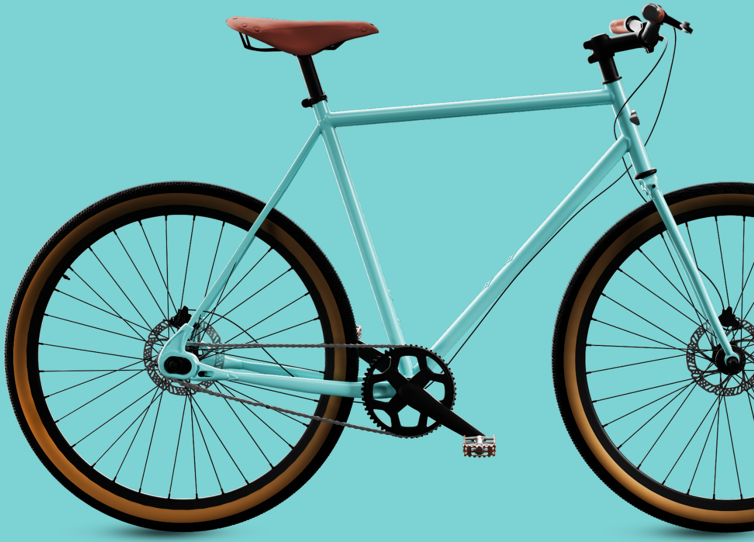
Proposed Rule from the IRS

Knowledge Check

What are the permitted uses of forfeitures for defined contribution plans?

- Paying plan administrative expenses
- Reducing employer contributions
- Additional allocations to participants
- All of the above

Boosting Employee Engagement



A Strong Foundation

Choose a plan that's a good fit for your team

Foster a culture that supports healthy financial habits

The Benefits of Automatic Enrollment

Helps employees save for retirement, as many employees may not join the plan on their own

Shows that the employer cares about its employees’ retirement goals

Simplifies decision making on the part of employees

May boost contribution averages for purposes of failing non-discrimination testing

Plan assets increase faster (may provide some more favorable fees)

Businesses with up to 100 employees receive a $500 tax credit for the first three years automatic enrollment is used

Source: 26 U.S. Code Section 45T

Additional Information on Automatic Enrollment

- Different requirements for plans established after December 29, 2022 or plans with QACA provisions
- Contributions are invested into a Qualified Default Investment Alternative until the participant selects other investments
- Employee participants may remove funds they did not wish to contribute (usually within 90 days) (if document permits)
- Flat contribution rate between 3% and 10% (for plans in which automatic enrollment is REQUIRED)
- Must escalate employee contributions by 1% each year (plans established after December 29, 2022 or if plan has QACA provisions)
- Maximum rate after escalation – at least 10% but not more than 15% of pay
- Automatic escalation (if required) may be avoided if automatic enrollment rate is set at 6% of pay

Source: 26 U.S. Code 414A – Requirements related to automatic enrollment

Statistics

80% of employees have a favorable view of automatic enrollment

Participants who had been automatically enrolled into their plan had the most positive view (93%)

58% liked the idea of a consistent monthly payment; 44% felt it made the choice easy

Almost 70% of respondents said they worry about running out of money in retirement

Invesco/Greenwald Research survey of 100 plan sponsors and more than 1,000 plan participants working for US employers with 5,000 or more employees, including focus groups and interviews. March through December 2021

Qualified Automatic Contribution Arrangement (QACA)

Couples a safe harbor matching contribution with automatic enrollment

Vesting may apply to the safe harbor match

The minimum match is 3.5% of pay

Joining the Plan Sooner? Amend Eligibility

Age

- Eliminate or reduce minimum age requirement if you have a very young workforce

Service

- Allow employees to participate earlier in your plan (eligibility, reduce length of service required, make entry dates more frequent)

Long-term part-time employees will have the ability to save

Vest the Employer Contributions Sooner?

Decrease the time it takes for your employees to become 100% vested in their employer contribution accounts

Is your vesting schedule too restrictive?

Does the vesting schedule discourage employees from participating?

Employee Education That Is Intermittent, Recurring

- Include lunch, breakfast, or snacks to encourage attendance
- Lunch and Learns with various topics?
- Posters, flyers, company intranet
- Leverage the plan's investment advisor(s) and record keeper to help with employee education and messaging
- Record keeper websites
- Promote the importance of saving for retirement
- Remove language barriers - Many record keepers have education specialists who are bi-lingual

KEEP IT SIMPLE

Additional Strategies to Encourage Participation

Employees Benefit From:

- Compounding of investment earnings
- Start early
- Use calculators to project future value of retirement account

Employee A
The Power of Time & Saving:

- Salary of $40,000 per year
- 30 years old
- Contributes 10% per year
- Saves until age 65
- Assume 7% annual rate of return
- In 35 years, will have saved $584,000

The rate of return shown is hypothetical; actual investment returns may vary.
CLA does not enhance any investment returns

Other Strategies to Encourage Participation

Increase the employer matching contribution

- Greater incentive for employees to contribute

Add a Roth 401(k) option

- Allows employees to pay tax on their contributions now vs. later
- Retain funds in the plan for at least five years – employee pays no tax on future earnings
- No required minimum distributions
- No income level restrictions

Source: 26 U.S. Code Section 402A

Age 50 and older may contribute $7,500 additional BUT, starting in 2025:

- Ages 60 through 63 may contribute $11,250 instead of $7,500

Source: 26 U.S. Code Section 414(v)(2)

Tax Savings, Fees, and Investment Options

Tax Savings

- Employees may claim a tax credit for part of their contribution to an IRA or 401(k) plan
- Generally limited to tax filers with AGI less than $39,500 in 2025 (single filing status)

Fees

- Review fees periodically to make sure participants are not paying too much
- High fees could discourage participation
- Fulfills the plan sponsor's fiduciary duty
- Encourage use of Target Date Funds

Investment Options

- PROVIDE A VARIETY OF INVESTMENT OPTIONS
  (but not too many)

Source: 26 U.S. Code Section 25B

Employee Financial Incentives

SECURE 2.0 DE MINIMIS FINANCIAL INCENTIVES (Max. of $250 per employee per year)		
May be in installments that are contingent on the employee continuing to contribute to the employer's 401(k) plan or SIMPLE plan	Subject to tax withholding and reporting requirements) Employer match does not count as an incentive for this purpose	**MUST BE PAID BY PLAN SPONSOR (NOT WITH PLAN ASSETS)** **FOR NEW ENROLLEES ONLY – NOT FOR EXISTING PARTICIPANTS**

Examples

- Low-dollar gift cards
- Company merchandise
- Charitable donations in employee's name
- Raffle entries

Sources: 26 U.S. Code Section 401(k)(4)(A); 26 U.S. Code Section 403(b)(12)(A); 26 U.S. Code Section 4975(d); Subsection (b) of Section 408 of the Employee Retirement Income Security Act of 1974 – New Section (21)

End Result

Engaged employees

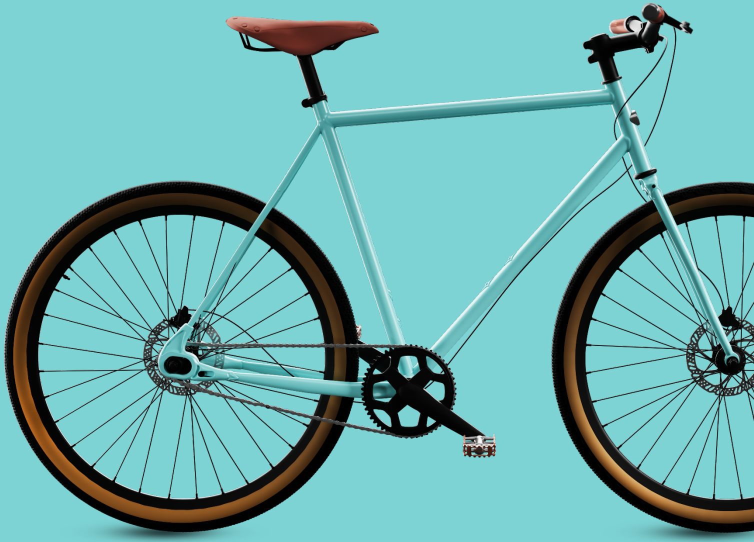
Saving for their retirement years

Knowledge Check

How comfortable are you in applying the topics we talked about today?

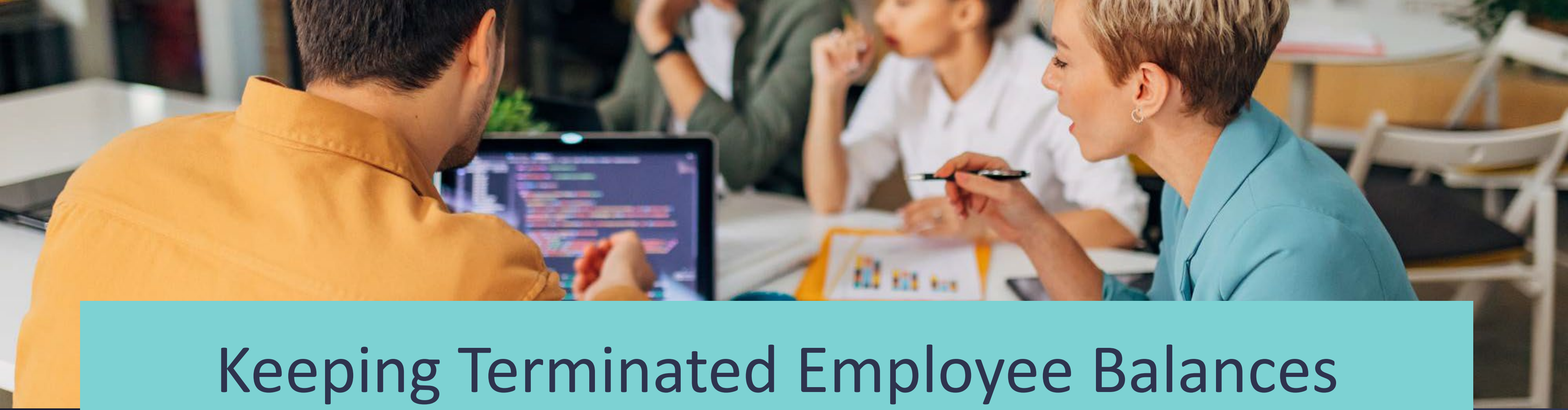
- Very comfortable
- Somewhat comfortable
- I’d like help navigating one or more of these topics

Balancing Perspectives on Terminated/Separated Participants



Forcing Small Balances Out

- Administrative Costs
- Audit Costs
- Simplified Plan Management
- Participant Engagement



Keeping Terminated Employee Balances

Participant Benefits

- Continued Growth
- Access to Plan Features
- Avoid Disengagement

Asset Growth

Fiduciary Responsibility

Diversity, Equity, Inclusion and Belonging (DEIB) Considerations for your Retirement Plan

Demographics and Data

Regularly analyze plan data to identify participation and savings disparities among different demographic groups.

Conduct surveys to gather insights directly from employees about their retirement planning needs and challenges.

Conduct regular reviews of your retirement plan's performance and participation rates among different demographic groups.

Inclusive Plan Design

Implement automatic enrollment and automatic escalation features to increase participation and savings rates.

Adjust eligibility requirements to include part-time and temporary employees.

Implement programs that address the financial well-being of all employees.

Offer flexible benefits that accommodate diverse family structures and life situations.

Equitable Contribution Strategies

1. Consider varying employer contributions to better support lower-wage employees.
2. Add non-elective employer contributions to enhance all employees receive some level of retirement savings.
3. Review and adjust investment options to meet the diverse needs of the workforce.

Customized Communication

Provide personalized communication and education programs that address the specific needs of different employee groups.

Enhance all communication about retirement plans is culturally sensitive and accessible.

Utilize a mix of communication methods to reach different demographics effectively.

Craft messages that resonate with diverse employee groups.

Establish channels for employees to provide feedback on the retirement plan and its communication efforts.

Education and Training

- Conduct regular training sessions to help employees and plan administrators recognize and understand unconscious biases.
- Encourage decision-makers to participate in bias training.
- Implement financial education programs that cater to varying levels of financial literacy.
- Enhance your education and training efforts are ongoing.

Retirement Plan Committee Diversity

Enhance the retirement plan committee mirrors the diversity of the workforce.

Provide valuable insights into different saving behaviors and needs of employees.

Utilize demographic data and employee feedback to evaluate and enhance DEIB efforts.

Diversity, Equity, Inclusion, and Belonging (DEIB) in Summary

Employers can create a more inclusive and equitable retirement plan that supports the diverse needs of their workforce

One size fits all approach isn't going to work for all employees, employers or plans

Plan sponsors should consider many different methods, plan offerings, and styles in order to increase the DEIB focus in their plan

Knowledge Check

Did you find the information in this CLA webinar helpful to you and your organization or business?

- Yes
- No

Thank you!

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