Plan Sponsor

Digest

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Your Challenge, Our Solutions™

2017: A good year for individual account plans and participants

Auto features contributing to participation, average balance increases

As we await the results for 2018, let's take a look back to the previous year. It was a good year for individual account plans, including 401(k)s and 457s. In fact, 2017 may go in the record books as the first year the number of plans with an average auto-enrollment deferral rate of 6% exceeded the number of plans with a default deferral rate of 3%, as it has commonly been.

This change, along with market appreciation, may well have factored into the significant increase in average 401(k)/457 account balances during the year. Account increases in 2017 averaged $9,583, compared to average increases of $2,502 in 2016. Participants aged 60-64 experienced the most dramatic account balance increases, from $150,736 in 2016 to $168,725 in 2017—a difference of $17,989.

The same report from which these findings were culled found additional positive impacts on employee retirement plans stemming from auto-enrollment. Average participation in plans using auto-enrollment was 42 percentage points higher than their non-auto-enrolling counterparts; 87% of employees participated in plans with auto-enrollment, compared to 45% of those without this feature.

Automatic deferral increases also showed remarkable success. In plans requiring participants to opt out of automatic increases, about 1/3 of participants opted out while 2/3 allowed their deferral rates to increase automatically. When required to opt in, just 13% did so.

This strategy may be partly responsible for the uptick in deferral rates overall in 2017. Employee pre-tax deferrals reached 8.3% for 2017, the highest ever reported for this survey.

Roth popularity continues

Roth accounts have increased in popularity among the surveyed plans. Employees between the ages of 20 and 40 took particular advantage of the availability of Roth accounts in their plans. 67.4% of plans allowed Roth contributions in 2017, compared to 60.3% the previous year. All but the very youngest participants—those under 20 years of age—contributed more via Roth contributions in 2017 than in 2016. Taking the most advantage of these post-tax contributions were employees aged 30-39; their Roth contributions increased by 1.4% over 2016.

Participants pick a few good investments from a large array of choices

Plans made 2017 the fifth year in a row during which they increased the number of investment options available in the plan. On average, plans offered 16.2 investment options, up very slightly from 16.1 on average the year before. Participants, however, seem to be concentrating on just a few investment selections for their individual accounts. The average number of investments in a participant's account in 2017 was 2.5, compared to the high mark of 3.0 in 2008.

Target date plans had been adopted by 94% of plans by 2017, the highest number yet in this survey. In fact, since 2011, the number of plans offering target date funds rose by more than 9%.

See more results from R*eference Point, T. Rowe Price Defined Contribution Plan Data* as of December 31, 2017 at https://tinyurl.com/TRP-DC-Data.

How student loan debt impacts retirement savings

The financial wellness/student debt connection

If your workforce includes recent college graduates, it's likely that some of them have debt associated with their college years. Student debt may play a large part in the finances of these young (and even not-so-young) employees; that's why a complete picture of employee financial wellness should consider it. In addition, carrying student debt may plan a role in how much workers are saving for their eventual retirement. Both of these are good reasons for employers to take an interest in the impact of student debt on their workforce.

The amount of student debt nearly tripled between 2005 and 2017, according to a recent study. While employees and employers alike may benefit from a workforce with more education and a higher percentage of college degrees, each may also experience negative results from the debt that often accompanies a degree.

Among individuals studied for the report there were two important, and perhaps obvious, findings. First, college graduates are better off financially than are peers who attend college but do not graduate. And second, those who graduate without debt experience better financial outcomes than those who have debt.

Little impact on participation, but what about account balances?

But what is the effect on 401(k) savings for each group? On the surface, it appears the answer is "not much," at least in terms of 401(k) plan participation. Young workers with student loans tend to participate in available plans about as frequently as do those without such loans. Even the size of the student loan does not seem to impact participation much.

However, at the age of 30, there was a difference in the amount of retirement savings between the groups. Individuals with loans but no degree had saved less in a retirement plan at age 30 than did the group who graduated. (In fact, this was the case for people with no college debt, too, whether or not they had graduated; retirement plan assets at age 30 for graduates without debt reached $18,200 on average, compared to $5,400 for those without a degree and no student debt.)

For workers with the smallest amount of student debt—those below the 25th percentile—retirement savings averaged $9,000 for graduates and $5,100 for non-graduates. Across the board, the numbers were similar for workers who had graduated: those in the mid-range of student debt had saved $9,100 for retirement, and those with the largest amount of student debt had put aside $9,300. Non-graduates had not saved as much. Those in the middle had set aside $3,600 and those with the greatest amount of student debt but no degree had saved just $2,200 for retirement.

Based on those savings figures at age 30, it appears the amount of student debt has less of an impact on retirement accumulations than does the mere presence of the debt. This suggests that workers are often mindful of their debt, and that it factors heavily into their decision to save—or not. Employers can use this information to educate employees about financial wellness, paying close attention to communicating about how to pay off debt.

Learn more about student debt and its impact on 401(k) savings in the paper from the Boston College Center for Retirement Research, https://tinyurl.com/CRR-Student-Debt.

Plan sponsor quarterly calendar: First quarter 2019

Consult your plan's legal counsel or tax advisor regarding these and other items that may apply to your plan.

January

- Send payroll and employee census data to the plan's recordkeeper for plan-year-end compliance testing (Calendar year plans).
- Audit fourth quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between October 1 and December 31 received and returned an enrollment form. Follow up for forms that were not returned.

February

- Update the plan's ERISA fidelity bond coverage to reflect the plan's assets as of December 31 (calendar year plans). Remember that if the plan holds employer stock, bond coverage is higher than for non-stock plans.
- Issue a reminder memo or e-mail to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Review and revise the roster of all plan fiduciaries and confirm each individual's responsibilities and duties to the plan in writing. Ensure than each fiduciary understands his or her obligations to the plan.

March

- Begin planning for the timely completion and submission of the plan's Form 5500 and, if required, a plan audit (Calendar year plans). Consider, if appropriate, the Department of Labor's small plan audit waiver requirements.
- Review all outstanding participant plan loans to determine if there are any delinquent payments. Also, confirm that each loan's repayment period and the amount borrowed comply with legal limits.
- Check bulletin boards and display racks to make sure that posters and other plan materials are conspicuously posted and readily available to employees, and that information is complete and current.

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