ConradSiegel

Your Guide to Avoiding the

Most Common Plan **Mistakes**

Managing retirement plans has gotten harder. The retirement landscape is always changing, but 2020 yielded landmark legislation impacting retirement plans on a scale that we haven't seen since 2006. On January 1, 2020, the SECURE Act went into effect, followed several months later by the CARES Act, expedited to provide relief to struggling individuals and families.

While both the SECURE Act and CARES Act give more flexibility and accessibility to retirement plan participants, these provisions are very new and plan sponsors and participants alike are learning to navigate them. Here's a guide to some of the most common plan mistakes around and how to avoid them:

Common Plan Considerations

☐ Participation: When employees choose not to participate in the plan, everyone suffers. Much of what drives employee participation is the ability to access their savings.

- ***Loan option:*** Make sure employees know they can borrow from their retirement savings in an emergency, provided this option is included in your plan document.
- ***Hardship withdrawals:*** Most plans allow plan participants to withdraw funds if they prove they are experiencing a hardship. Confirm that your plan includes this provision and make sure participants are informed of it.

☐ Engagement: If participating employees don't save enough to actually fund their retirements, they will miss out on the real plan benefits.

- ***Auto features:*** Offering a plan with auto-enrollment and an escalating savings level makes saving easy for participants.
- ***Retirement literacy:*** Robust education can also help people get more comfortable with saving more. Online video training and support can go a long way toward supporting participants.

☐ SECURE Act Implementation: The SECURE Act, passed in 2019, made it easier to set up and administer plans that offer safe harbor contributions. Plans with safe harbor contributions eliminate certain nondiscrimination testing. In general there are fewer penalties and more opportunities to contribute in the wake of this legislation. If you, the sponsor, aren't aware of these expanded opportunities, your plan could fall out of compliance and your employees could miss out on some of the savings available to them.

- ***Delays:*** Participants who did not reach age 70.5 by December 31, 2019 can delay receiving a minimum required distribution from their retirement accounts until they're 72.
- ***Ongoing contributions:*** Participants can continue contributing to their traditional IRA accounts even after they begin taking required minimum distributions.
- ***Employee provisions:*** Starting in 2024, part-time employees are permitted to contribute to the plan, subject to certain constraints.
- ***Auto features:*** The automatic enrollment cap on qualified automatic contribution arrangement (QACA) plans went from 10% to 15% of earnings.

Plan Considerations (cont.)

- [ ] **Simplification**: Don't assume that employees understand the plan. Simplify the plan where you can to make it more accessible for all employees.

  - "Easy" option: Add a straightforward investment option, such as a target date fund, so that all employees can more easily participate in the plan.
  - Funds: Keep the plan to a reasonable number of funds. Too many funds and participants will be overwhelmed and more likely to make uneducated and potentially costly choices.

- [ ] **Plan Review:** Participants often "set it and forget it," but plan sponsors should regularly review the plan and processes to comply with federal tax code.

  - Plan documents: Familiarize yourself with the plan provisions and update the plan when necessary. Both legislative and discretionary revisions must be reflected.
  - Fees: Evaluate fees to understand who is paid, how they are paid and what, if any, hidden costs exist.
  - Employee updates: Encourage employees to review the plan and make sure that their contact information, plan options and beneficiaries are all up to date.

- [ ] **Your Provider:** As a plan sponsor, you should understand the difference between types of service providers and the true cost of their service. The provider who appears cheapest upfront, may prove costly later.

  - Right match: Make sure the provider aligns with your goals and is a fit for what you actually need. Know what level they operate at; for example, are they a fiduciary?
  - Responsibility: As the ultimate plan fiduciary, understand where the responsibility of your provider ends and yours begins.

Plan Mistakes During COVID

COVID-19 has made its own impact on the regulatory environment. Here are some key changes to consider:

- [ ] **Suspended safe harbor matching**
  Some plan sponsors may discontinue the so-called "safe harbor" contributions that exempt them from the IRS compliance/discrimination testing. As the plan sponsor, you can prepare for testing by learning the ins and outs of the IRS requirements and ensuring your plan is compliant.

- [ ] **Furloughed employees who don't re-enroll**
  You may have furloughed employees who contributed and are counted in the testing process. If these employees are not re-enrolled upon re-hire, your plan might not pass future tests. Encourage them to re-establish their contributions once they begin work again.

- [ ] **Reduced contributions from current workforce**
  You may have employees who stopped or reduced their plan contributions during the pandemic due to financial pressure. Again, if these folks do not re-establish their retirement savings, it will impact the plan's ability to remain in compliance and allow acceptable saving rates for highly compensated employees. It is in everyone's best interest for all employees to save as much as they can toward retirement.

If you're navigating complex legislative and compliance concerns in real time, we have just what you need. Give us a call.

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