Retirement Plan Solutions

SunTrust

Fall 2018

The State of Retirement

What EBRI's 2018 Retirement Confidence Survey reveals

Plan sponsors can find much useful information in the Employee Benefit Research Institute's (EBRI's) 2018 Retirement Confidence Survey that can help them refine their own retirement programs to better address their employees' goals for a financially secure retirement. The research offers cause for both optimism and pessimism. While only 17% of surveyed workers said they feel "very confident" in their ability to live comfortably in retirement, another 47% of workers say they are "somewhat confident." What's notable is that those with a defined contribution (DC) plan like a 401(k) are far more likely to say they are confident: 76% of workers with a DC plan are at least somewhat confident versus 46% of those without a DC plan.

Here are some of the survey's findings as they relate to how current workers feel about their workplace retirement plans and where they expect to derive the bulk of their income in retirement.

	Very Satisfied	Somewhat Satisfied
Overall satisfaction with workplace retirement plan	29%	56%
Satisfaction with plan investment options	29%	58%

	Major Source	Minor Source	Not a Source
To what extent do you expect your workplace plan to be a source of retirement income?	53%	28%	19%
To what extent do you expect Social Security to be a source of retirement income?	36%	50%	13%

The impact of debt

Many surveyed workers recognize that carrying debt limits their ability to set aside sufficient funds for retirement. The survey found that women are more likely than men to strongly agree that debt is negatively impacting their ability to save for retirement (21% versus 15%).

	Strongly Agree	Somewhat Agree	Disagree
Debt is negatively impacting your ability to save for retirement	18%	25%	57%

The issue of health care in retirement

Future health care expenses are a major concern for workers. While 72% of workers are very or somewhat confident they will have enough money for basic expenses during retirement, fewer express similar levels of confidence about their ability to pay future medical and long-term care expenses.

	Very Confident	Somewhat Confident
Are you confident that you will have enough money to take care of basic expenses in retirement?	27%	45%
Are you confident that you will have enough money to take care of medical expenses in retirement?	14%	41%
Are you confident that you will have enough money to cover the cost of long-term care should you need it in retirement?	11%	31%

continued on page 2

continued from page 1

Education on planning for health care expenses in retirement

The survey reveals a desire among workers for employer-provided educational or financial well-being programs that could better help them prepare or save for retirement. Some plan sponsors are starting to acknowledge the broader financial needs of employees and are beginning to offer guidance and tools that can assist employees in managing other areas of their financial lives, such as health care expenses in retirement and debt.

	Very helpful	Somewhat helpful
How helpful would it be to have a program that helps workers plan for health care expenses in retirement?	25%	47%

Key takeaways

The survey reveals the important role that an employer-provided retirement plan plays in boosting employee confidence about the future. Most employees who have a workplace DC plan report being very or somewhat satisfied with the plan overall.

The research also finds that planning for health care expenses in retirement may pay off. Retirees who calculated how much they would need for health care are more likely to say that medical expenses in retirement have been as expected.

Help your employees build their financial confidence!

Encourage employees to visit SunTrust's *onUp.com* webpage, where they can join the national movement to turn financial stress into confidence.

Talk to your SunTrust Participant Education Consultant or Relationship Manager about how we can help you incorporate financial well-being programs into your employee benefit package. ■

Default Investments

The challenges plan sponsors face

The Pension Protection Act of 2006 gave plan sponsors the option of designating a default fund to serve as a qualified default investment alternative (QDIA). This regulatory "safe harbor" limits plan sponsor liability for investing contributions on behalf of employees into default investments when employees do not make their own investment elections.

The U.S. Department of Labor (DOL) subsequently identified three primary default investments that, if selected by sponsors as a plan's long-term default investment, can qualify the plan for safe harbor protection. There is also a fourth default investment that sponsors may use for a very short time period. The default investments are:

- A product with a mix of investments that takes into account the individual's age or anticipated retirement date, such as a target-date fund;
- A product with a mix of investments that takes into account the characteristics of the group of employees as a whole rather than each individual, such as a balanced fund;
- An investment management service that allocates contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date, such as a managed account; and
- A capital preservation product for only the first 120 days of participation — a stable value fund, for example.

However, there is nothing in the QDIA safe harbor that relieves a plan fiduciary from the duty to prudently select and monitor any default investments under the plan. The DOL has stated that the monitoring process should examine whether there have been any significant changes in the information fiduciaries considered when the QDIA was first selected or last reviewed.

The specifics of safe harbor relief

Plan sponsors can receive safe harbor relief from fiduciary liability for default investment outcomes when default investments are one of the four approved QDIAs and meet the following criteria:

- Participants and beneficiaries must have been given an opportunity to provide investment direction but did not do so.
- The plan must provide a notice to participants and beneficiaries 30 days in advance of the first investment in the QDIA and 30 days prior to every plan year from that point on.
- Material such as prospectuses and other notices provided to the plan for the QDIA must be provided to participants and beneficiaries.
- The plan must give participants and beneficiaries the opportunity to direct investments out of the QDIA as frequently as they can with other plan investments, but at least once every three months.
- For the first 90 days after investments are made in the QDIA on the participant's behalf, the plan can't impose financial penalties or otherwise restrict the ability of the participant or beneficiary to transfer the investment from the QDIA to any other investment alternative offered by the plan.
- The plan must offer participants a "broad range of investment alternatives" as defined in ERISA Section 404(c).

Plan sponsors want clearer regulations

It has been over a decade since the DOL regulations first came into effect, and plan sponsors who have been surveyed report some dissatisfaction with the safe harbor regulations as they are currently structured. A Government Accountability Office (GAO) report from 2015 reviewed certain aspects of the default investment types, and its findings shed some light on what changes plan sponsors would like the DOL to consider.

The study — GAO-15-578, Report to the Honorable Elizabeth Warren, U.S. Senate — found that, from 2009 to 2013, the majority of employers that sponsor 401(k) plans reported using a target-date fund as their default. Sponsors said that they generally looked for asset diversification, ease of participant understanding, limited fiduciary liability, and a fit with participant characteristics when selecting a default investment. However, they face certain challenges when adopting one of the three primary default investments.

Plan sponsors generally said that the regulations were unclear as to:

- How sponsors could fulfill the regulatory requirement to factor the ages of participants into their default investment selection;
- Whether each default investment provided the same level of protection; and
- Whether they were allowed to incorporate other retirement features, such as products offering guaranteed retirement income, into a plan's default investment.

GAO recommendations

The GAO report concluded that such uncertainty could lead plan sponsors to make suboptimal choices when selecting a plan's default investment that could negatively impact a participant's retirement savings. It recommended that the DOL assess the challenges that plan sponsors and stakeholders reported and implement corrective actions as appropriate. ■

Changes to the Hardship Withdrawal Rules

What plan sponsors should know

The Tax Cuts and Jobs Act of 2017 and the Budget Reconciliation Act of 2018 made changes to some of the rules that govern hardship withdrawals from retirement plans. These changes will impact plan sponsors and participants seeking hardship withdrawals from their retirement accounts.

What's changing

Effective for the 2018–2025 tax years, the Tax Cuts and Jobs Act:

Amends the tax law's casualty loss deduction provisions to allow a personal casualty deduction only for losses attributable to a federally declared disaster. This change may eliminate the ability of plan participants to take a safe harbor hardship withdrawal to repair damage to a principal residence from a storm, fire, or similar event *unless* the residence is located in a federally declared disaster area.

Effective as of the first day of the plan year that begins in 2019, the Budget Reconciliation Act:

- Expands the types of contributions that are eligible to be distributed on account of a hardship. Under prior law earnings on elective contributions, as well as qualified matching contributions (QMACs) and qualified non-elective contributions (QNECs) and their associated earnings were not permitted to be taken as a hardship distribution. The new legislation allows, *at the plan's election,* distributions of QNECs, QMACs, and earnings on elective deferral contributions, QNECs, and QMACs as a hardship withdrawal;
- Directs the Treasury to update the 401(k) safe harbor hardship regulations to remove the required six-month suspension of elective contributions once a hardship withdrawal has been made by a plan participant;
- Permits safe harbor hardship withdrawals without regard to whether participants first accessed available plan loans. However, the requirement to take all currently available distributions other than hardship distributions remains.

Analysis

Plan documents and summary plan descriptions may need to be amended to reflect the changes to the hardship withdrawal rules.

The IRS has not yet issued official guidance on the changes. Plan sponsors should confer with their SunTrust Relationship Managers to discuss appropriate actions for their plan. ■