Retirement Plan Solutions

SunTrust

Spring 2018

Retirement-related changes in the New Tax Law

Initially, many observers anticipated that the Tax Cuts and Jobs Act of 2017 would make significant changes to retirement plans. Speculation even centered on possible changes to the tax deferral features of contributions to qualified defined contribution plans. However, the final version of the bill signed into law by President Trump largely leaves much in the retirement area intact. There were some changes, nonetheless, that plan sponsors should be aware of.

Period for rollover of plan loan offset amounts extended

What happens when a participant who has an outstanding plan loan terminates his or her employment? Typically, the plan will offset the participant loan against the retirement plan account. When this occurs, the participant is taxed on the value of the loan offset. An additional 10% penalty tax will also apply if the participant is under 59½, unless he or she meets one of a number of limited exceptions.

The participant may avoid this treatment in two ways. First, a participant could pay off the loan before any distribution takes place, and then when the plan administrator distributes the full value of the account, the participant may roll that over to another qualified plan or individual retirement account (IRA). Alternatively, the participant could receive the net amount from the plan, add a sum equal to the loan offset, and then roll over the full taxable distribution to another qualified plan or IRA.

Under prior law, participants had up to 60 days to complete a rollover of a plan offset. The new law extends the 60-day rollover period to the due date (including extensions) for filing the federal income tax return for the tax year in which the offset occurs.

Recharacterization of Roth conversions

Generally, an individual who makes a contribution to an IRA (traditional or Roth) for a tax year is permitted to recharacterize the contribution as having been made to the other type of IRA, provided certain timing and other requirements are met. The new law limits this general rule by providing that beginning in 2018, taxpayers who have previously converted traditional IRA contributions to Roth contributions (a “Roth conversion”) will no longer be able to recharacterize them as traditional IRA contributions. The new law also prohibits the recharacterization of amounts rolled over to a Roth IRA from other retirement plans, such as a 401(k) plan.

Subsequent to passage of the new law, the IRS announced a transitional rule, providing that if a Roth conversion was completed in 2017, the taxpayer will have until October 15, 2018, to recharacterize it.

Exception to early withdrawal tax

The new law provides that up to $100,000 of “qualified 2016 disaster distributions” will be exempt from the 10% early withdrawal tax if certain requirements are met. Distributions must be made from an “eligible retirement plan,” such as a 401(k) or other qualified plan, on or after January 1, 2016, and before January 1, 2018, to a person whose principal place of residence at any time during 2016 was located in a 2016 disaster area and who sustained an economic loss due to the disaster.

Moreover, the new law provides that individuals may minimize the tax impact of a qualified 2016 disaster distribution by including it in income over a three-year period or by recontributing the distribution to an eligible retirement plan within three years.

Do you have questions about the new tax law and its impact on your retirement plan? Call your SunTrust Relationship Manager today to discuss. ■

Engaging Younger Workers

What plan sponsors should know

The U.S. Census Bureau has estimated that there are 83.1 million millennials in the country — compared to 75.4 million baby boomers.* Millennials, those born between 1982 and 2000, now represent more than one quarter of the nation's population. Study after study has identified various characteristics that make millennials different from the generations that preceded them. They are described as:

- The first digital natives
- A generation that is social and connected
- A generation that has markedly different priorities and values than prior generations

High student debt levels, low starter wages, and high job mobility (which makes 100% vesting in employer contributions difficult) are some of the financial issues confronting millennials. These issues are reflected in their participation rates in retirement plans.

According to data from The Pew Charitable Trusts,** 68% of millennials do not participate in an employer-sponsored retirement plan. Part of the problem is access. The same Pew research notes that 41% of millennials who are at least age 22 have no access to either a defined benefit or defined contribution plan through their employers. Even when a defined contribution retirement plan is offered, only 52% of millennials enroll, compared to 75% of Gen Xers.

Strategies for boosting millennial participation rates

Plan sponsors that use some of the following strategies have found them helpful when it comes to boosting millennial participation rates in their retirement plans.

Put it on auto

Be proactive and automatically enroll employees as soon as they become eligible to participate in the plan. Procrastination and inertia are big issues for many nonparticipating employees and auto enrollment takes those issues off the table. Consider automatically escalating contribution rates as well.

Consider a match

Employer matching contributions are a proven way to drive participation rates and are particularly effective when it comes to millennials. The Pew Charitable Trusts' research found that when an employer makes matching contributions, millennial participation rates rise to 72% — compared to 56% when no match is offered.

Review eligibility period

Faster access to your company's retirement plan can also help drive participation rates. Many companies have reduced the waiting period for plan eligibility to three months or less. This approach requires employers to amend their written plan.

Get with the technology

When it comes to retirement plans, millennials want an online experience that mirrors how they take action in other areas of their lives. They want customized content and tools at their fingertips.

Plan sponsors need to consider using multichannel interactions to communicate with them. Online resources, such as interactive retirement planning tools, including web-based calculators and tools that model various contribution and investment scenarios, resonate with millennials. Online access to individual information is equally important. ■

* U.S Census Bureau, Release Number: CB15-113, June 25, 2015

** The Pew Charitable Trusts, *Issue Brief: Retirement Plan Access and Participation Across Generations*, February 15, 2017

Make 2018 Count

Strategies to ensure that your plan operates at peak levels throughout 2018

Plan sponsors that want to drive participation and contribution levels in their plans and ensure that their plans meet all regulatory requirements should consider implementing a variety of these strategies for a successful 2018.

Develop clear, verifiable steps for plan management

Plan administration is complex. Plan sponsors have to ensure that the multiple moving parts of their plan are in compliance with current laws and that all of their fiduciary responsibilities are met. Failures in plan management can be costly in terms of litigation and penalties.

Plan sponsors should have a system in place that assists them in meeting their fiduciary duties. Plan sponsors should pay particular attention to ensuring that their plan offers participants a broad selection of investment choices and delivers required plan documents in a timely manner. Fee transparency is also important. Regular performance meetings and vendor reviews are essential steps that plan fiduciaries can take to meet their responsibilities.

A written investment policy statement can help a plan sponsor meet its fiduciary responsibilities to the plan's participants. An investment policy statement provides the sponsor and other fiduciaries responsible for plan investments with guidelines and general instructions regarding various types of investment management decisions. In addition, an employer that adheres to the guidelines in its investment policy statement will be better able to support its own position should a participant later challenge the plan's investment choices.

Review plan design

Review your plan's design regularly. If your plan does not offer automatic enrollment and contribution escalation,

continued on page 4

continued from page 3

consider adding these features. If it does, look for ways to enhance and improve on them. For example, look into allowing the auto escalation contribution cap to scale upwards to as much as 10% of earnings. Also, consider retooling the plan so that it periodically conducts an auto enrollment sweep of all employees eligible to participate.

It may also be prudent to revisit your loan policy. Some plans limit the number of loans each participant may take. Others encourage employees to set up emergency savings accounts so that they don't have to resort to plan loans or hardship distributions when financial emergencies arise.

Implement an education strategy

Investing and investments can be intimidating subjects for many employees. Plan sponsors that recognize their obligation to educate employees about the plan and their investment options within the plan empower employees to make informed decisions that will benefit them in the long run.

Regular communications that use different platforms — emails, web content, calculators, and seminars — to deliver educational content to employees who need it and are timed to coincide with critical decision-making points in their lives are generally more impactful.

Establish benchmarks

You can't improve on what you can't measure. Find out what the average participation and contribution rates are like for other companies in your industry or business and see how your plan compares. Likewise, compare the number of investment options your plan offers with industry benchmarks. If you offer a matching contribution, check to see if it is competitive with that of your industry and business peers.

Embrace financial wellness solutions

There is a growing awareness among many employers that giving employees money management training and tools through a financial wellness program can pay off in the long run. By incorporating financial wellness education with plan participant education, employers/plan sponsors can help employees develop the financial knowledge that can move them closer to retirement security.

To learn more or to take action, talk to your SunTrust Relationship Manager or Education Consultant. ■

SunTrust