Volume 30, Issue 2, August 2024

Commco Comments

Timely Information and Updates for Employers and Retirement Plan Sponsors

Five Practices of Successful Retirement Plan Sponsors

As a plan sponsor, your 401(k) participants depend on you to help create the retirements they envision.

The good news is that many participants see the importance of saving for retirement. In fact, 401(k) millionaires – those with at least $1 million in their retirement accounts – have become more common.

While the rising prevalence of 401(k) millionaires is largely due to the good practices of plan participants and favorable market conditions, it's important to note that 401(k) plan sponsors also play an essential role in helping participants achieve success. Below, we explore ways sponsors have helped plan participants save more successfully for their dream retirements.

1. Automatically Enroll Participants

Plan sponsors who automatically enroll their participants – allowing them to opt out of the plan instead of having to opt in – often see a much higher savings rate among their participants than those who do not.

A recent study by PlanAdviser found that since 2008, the average savings rate among employees automatically enrolled in their employer-sponsored retirement savings plan has risen from 4% to 6.7%, and 63% of automatically enrolled participants have increased their savings rate in the past 10 years. A separate study by Vanguard found that plans with auto enrollment had a 93% participation rate, compared with a 70% participation rate for plans with voluntary enrollment.

2. Automatically Increase Participant Contribution Rates

Successful 401(k) participants tend to increase their contribution rates as their incomes increase. While diligent savers will make these changes on their own, the most effective plan sponsors automatically increase their participants' savings rates over time.

Research into retirement savings has helped establish the importance of increasing savings rates over time. One study found that participants who are currently contributing less than 3% to a retirement plan are on track to replace only 59% of their income in retirement, whereas those who contribute 10% or more are on track to replace 128% of their income. The same study showed that participants in plans with automatic escalation are on track to replace 107% of their income.

3. Offer Target Date Funds

Automatic enrollment programs tend to work better when the qualified default investment alternative (QDIA) is a carefully selected investment option. In many cases, a well managed target date fund is the most effective choice for participants. Target date funds offer distinct advantages over a do-it-yourself approach, including professional asset allocation and automatic rebalancing to keep risk levels appropriate as participants near retirement.

Win a $25 Gift Card

to your choice of Starbucks or Powell's Books!

To be entered into the drawing, email quiz@thecommco.com with the correct answer to this question:

Participants must consent to any distribution from their account if their vested balance is at least how much?

---

the commerce company

Retirement & Investment Services

Volume 30, Issue 2, August 2024

Congratulations to our most recent gift card winner:

LeeAnn G. of Tedesco Law Group, LLC

For answers to previous issues' questions, visit https://thecommco.com/commco-comments/

This information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. You should discuss any tax or legal matters with the appropriate professional.

the commerce company
Retirement & Investment Services

5440 SW Westgate Drive, Suite 110
Portland, OR 97221
thecommco.com

tel 503-203-8585
fax 503-203-8590
toll 800-203-8510

4. Opt In To the Plan Services Network For Automatic Rollovers

Terminated participants with a vested balance over $7,000 must consent to any distribution from their account, but for those with a lower balance, employers can (after providing notice) force a rollover of the employee's account to an IRA in their name.

SECURE 2.0 legislation led to the creation of a Portability Services Network (PSN) that plan sponsors can opt into. When an employer who has joined the PSN enrolls a new participant who previously had their balance forced out to a rollover IRA, the accounts can be matched up by Social Security Number. This allows the IRA to be automatically rolled into the employee's account within the new employer's plan.

Currently, over half of employees who change jobs while their retirement plan balance is under $5,000 cash out their accounts within one year. Broad adoption of the PSN and automatic rollovers could greatly improve the retirement prospects of those employees by encouraging them to bring their savings forward through career changes, rather than starting over at each new job.

5. Discourage Early Withdrawals

While plan sponsors can't prohibit terminated participants from cashing out their accounts, they can educate employees on the drawbacks of doing so. Sponsors can also make plan design choices that limit opportunities for participants to withdraw from their retirement accounts during the course of employment.

Participants are more likely to meet their retirement goals when they stay the course and avoid making early withdrawals. Successful plan sponsors can help participants preserve their retirement planning progress by providing education, both at the time of enrollment and ongoing, about the downsides of early withdrawals and the importance of a separate emergency fund.