Public Sector Retirement News & Views | Q1 2020

WASHINGTON UPDATE

In late December, the U.S. Senate approved an appropriations bill funding most domestic programs for the remainder of the fiscal year, and the President signed. This is great news for retirement savings plans, as it included important provisions from the SECURE Act, which passed the House last May but was stalled in the Senate until now.

The key provisions in SECURE pertaining to governmental retirement savings plans include:

- Raising the age for Required Minimum Distributions to 72, effective for all distributions required after 2019;
- Governmental 457(b) and 401(a) plans may begin offering in-service distributions at age 59 1/2; and
- Participants will be allowed to take penalty-free withdrawals or loans.

Most of the provisions in SECURE are effective January 1, 2020; however, because the Act was passed so late in the year it is anticipated that enforcement will not begin until plan sponsors have a reasonable opportunity to implement the changes.

Passage of the SECURE Act offers meaningful reforms to pension provisions, and we are optimistic that this will help continue to pave the way for added reforms. Senators Rob Portman (R-Oh) and Ben Cardin (D-MD), who are widely credited for the passage of significant reforms in the past two decades, introduced the Retirement Security and Savings Act (RSSA) last May. RSSA includes numerous additional pension reform provisions of interest to governmental plans:

- Elimination of the §457 Deferred Compensation "first of the month rule", for implementing new enrollments and deferral increases;
- Exempting Roth accounts from the Required Minimum Distribution calculation;
- Allowing Roth IRAs to be rolled into existing accounts; and
- Establishing a new catch-up limit of $10,000 for participants over age 60.

We will continue to closely monitor any and all activity related to governmental pension reform and report to you, including recommendations for practical implementation of changes. Please consult your NFP Advisor if you have questions or would like additional information.

For the full text of the Retirement Security and Savings Act, click here.

CYBERSECURITY

Cybersecurity is constantly evolving, and continues to be of extreme importance in protecting participant retirement plan assets. Plan providers have and will continue to invest significant resources to establish tools that participants and plan sponsors can use to help prevent breaches or other incidents that could result in loss of assets.

For participants, some of the simplest steps can provide high levels of security. For example, participants should register their account online and establish unique security identifications, including unique, strong, and complex passwords. In addition, they are advised to keep their anti-virus and malware protections updated at all times. Participants should be careful about what information they post on social media - hackers can use their city of residence, employer, political opinions and other seemingly insignificant or irrevelant pieces of information to hack into their accounts.

Participants who do not register their accounts online are particularly vulnerable to cyberattacks. Hackers have been known to determine where there is an account that has not been registered online...then, they register the account themselves! This has resulted in a small number of accounts having funds directed to the hacker, simply because the participant did not take precautions to personally register their account online. *Registering every account is of paramount importance.*

Most providers have implemented two- or multi-factor authentication (2FA or MFA) to further improve security. These methods require multiple steps to sign in to an account, often requiring the use of multiple devices or security questions to complete the sign-in process. While this does provide a significant increase in security protection, some participants may find it to be inconvenient. Yes, it may be inconvenient, but it is a small price to pay for the added security and protection of hard earned and responsibility saved retirement assets.

Many providers are implementing other security measures, in addition to 2FA or MFA. Often, certain elements of phone calls will be monitored, including the caller's voice, device or number being used to place the call, and the geographic origin of the call. Enhanced security questions are being used to screen calls for authenticity, using information only the participant is likely to know (e.g., former addresses or employers, and names of the family members). Bank information is being validated to verify that the retirement account owner matches the bank account owner. Finally, fraud monitoring for unusual or irregular activity is used to identify other suspicious threats.

NFP recommends that plan sponsors engage in active dialogue with their providers to determine what security tools are being used and any others that are available. Further, plan sponsors and providers can work together to educate employees about the importance of account security, encouraging and helping them to take the steps necessary to protect their retirement savings. Please let your NFP advisor know if you need help facilitating these discussions or exploring options.

PLAN LEAKAGE

Federal Law encourages workers to save for their retirement by allowing employers to offer tax deferred savings plans. The law also allows workers to withdraw funds from their accounts while they are still employed, under certain circumstances. While early access to retirement savings has been shown to encourage participation, such in-service withdrawals, and pre-retirement withdrawals upon separation from service, can easily derail a participant's retirement readiness.

What is Plan Leakage? Withdrawals for other than retirement purposes are known as *"plan leakage'*, and strategies to minimize plan leakage should be on the radar of plan sponsors. Typical examples of plan leakage distributions are unforeseeable emergency withdrawals, plan loans (particularly where plans allow multiple loans, or when participants take loans repeatedly throughout their career), plan loan defaults, and post-employment withdrawals taken before retirement age.

In 2013 (the most recent year for which complete data is available) the Government Accountability Office (GAO) found that plans held retirement savings investments work nearly $17 trillion*. From these investments, approximately $70 billion* was withdrawn for purposes other than retirement, by individuals in their prime working years (age 25-55). Nearly $40 billion* were early withdrawals - monies taken before retirement age - and approximately $30 billion* was withdrawn for hardships, lump sum cash-outs at separation, and unpaid loan balances. *The early withdrawals ($40 billion) exceeded the amounts workers had saved in that year.*

Why should a plan sponsor care? An employer's and plan sponsor's primary responsibility is to design a plan with a focus on the best interests of their participants and their beneficiaries. In doing so, you take great care to offer a strong investment lineup, robust participant services, and a variety of options that help employees save towards a secure retirement. Withdrawals for purposes other than retirement income - plan leakage - can detrimentally affect a participant's long-term retirement security. These withdrawals will reduce assets, inhibit growth, and may increase the participant's taxable income. Moreover, plan leakage can drain assets in your plan, thereby reducing plan asset size and average account balances, and potentially **reducing your plan's overall buying power.**

What strategies can a plan sponsor implement to minimize plan leakage? In order to reduce potential negative impact to the plan, sponsors can take a few simple steps:

- Make sure terminating employees understand their options: they can leave their money in the plan, or they can transfer their money to other allowable plans at any time.
- Limit the number of emergency withdrawals in a given time period.
- Allow contributions to resume automatically after the end of any suspension period.
- Consider limiting the number and amount of loans. Many plans allow participants to have only one loan at a time, but some plans allow as many as five.
- Allow contributions to resume automatically once loans are repaid.
- Look at your loan origination fee. A recent study found that the average outstanding loan balance was $4,600 higher for loans charging a $50 fee, than for loans charging $100.
- Limit non-real estate loans to a short repayment period (less than 5 years). Second, review plan leakage activity to determine if there are any trends, e.g., multiple emergency withdrawal requests by a single participant.

In addition to the action steps described above, plan sponsors can also target educational messages to help employees understand the downsides of early withdrawals, including taxation, the loss of tax-advantaged growth, and reduced retirement income. Education about the need for and how to establish an emergency fund may also be in order. If your organization offers a financial wellness program, these elements could easily be added.

Your NFP advisor is available to help you strategize about how to minimize plan leakage. If you are interested in reading the full GAO report, click here.

**The figures in the GAO report includes retirement savings for 401(k) and IRA accounts only. The concepts and solutions in this article are, however, applicable to all supplemental retirement savings plans.*

IRS Authorizes New Contribution Limits for 2020

The Internal Revenue Service has authorized an increase to the amount a person can contribute to retirement savings plans. The new limits are

Plan	Normal Limit	"Age 50" Catch-up Limit	"Pre-retirement" Catch-up Limit
457	**$19,500**	**$6,500**	**$19,500**
401(a)	**$57,000**	**N/A**	**N/A**
401(k)	**$19,500**	**$6,500**	**N/A**
403(b)	**$19,500**	**$6,500**	**$15,500 lifetime cap**

NFP GOVERNMENTAL RETIREMENT PLAN EXPERTISE

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