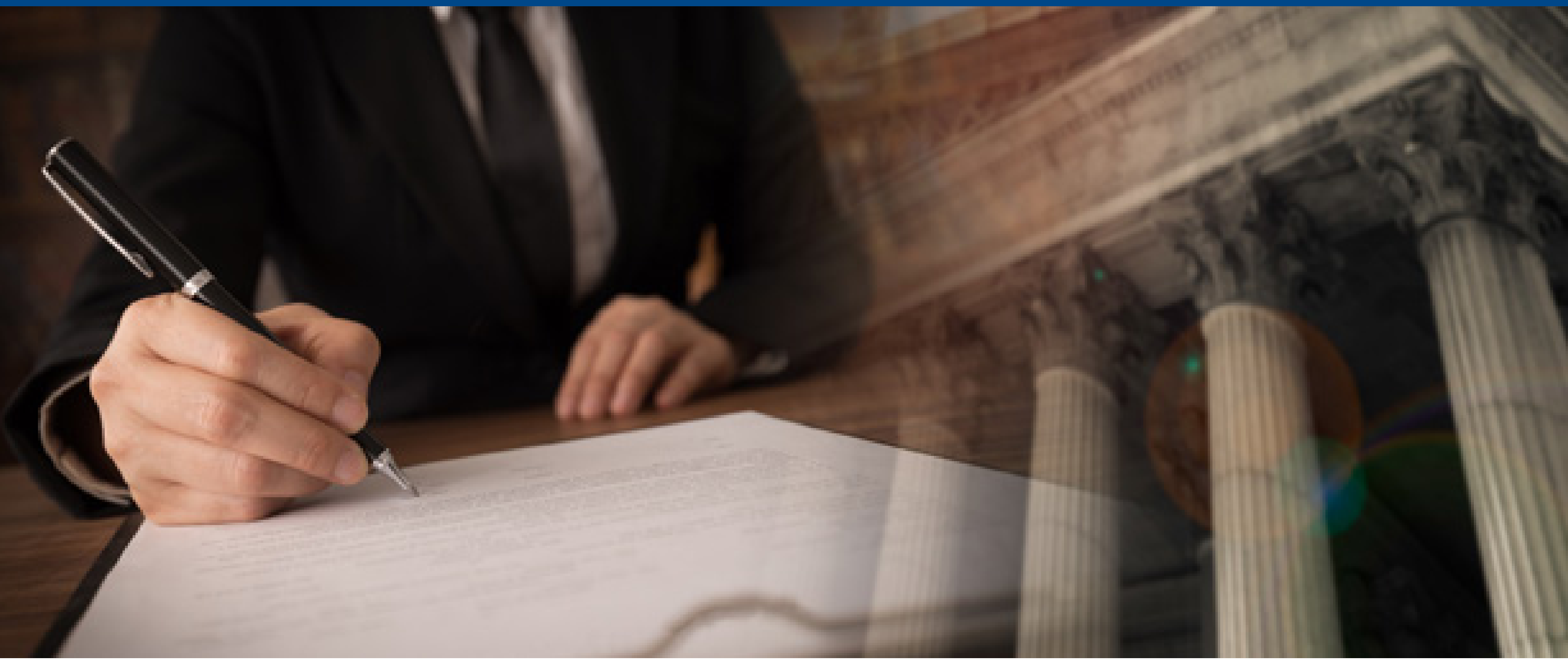
Public Sector Retirement News & Views | Q3 2019



WASHINGTON UPDATE

The 2019 Congress has been very active in exploring new pension legislation. Several recent, positive developments have occurred and your NFP team is excited to report these to you and discuss how they will affect public sector plans.

Securities and Exchange Commission – Investment Advice Rules Issued

You may recall that the Department of Labor (DOL) issued broad new fiduciary rules in 2015, with full implementation scheduled for early 2018. However, in 2017 the new administration issued an executive order to delay implementation, and in 2018, the Fifth Circuit Court of Appeals officially vacated the rules. Since then, the Securities and Exchange Commission (SEC) has been working on Investment Advice Rules, that would be of a similar nature to the DOL Fiduciary Rules. These new rules were passed in early June; however, they are not considered to provide the same level of protection to individual investors that the DOL's rules would have provided.

What do the new SEC rules mean for governmental plans? The rules, in fact, have very little applicability to governmental plans and participants. They pertain primarily to retail investors, but they have a couple key requirements that governmental plan sponsors should be aware of. First, broker dealers are required under the new rules to disclose all fees and costs to their retail clients. This becomes particularly important to plan participants who are considering rolling any of their assets out of the employer's plan. Second, the broker dealer must understand potential risks and consider those in light of the customer's overall investment profile and best interests – not the broker dealer's best interests.

The new rules go into effect 60 days after they are published in the Federal Register, with a compliance deadline of June 30, 2020.

Retirement Security and Savings Act

Senators Rob Portman (R-OH) and Ben Cardin (D-MD) introduced the Retirement Security and Savings Act of 2019, which includes numerous proposals aimed at improving retirement plans. This is a very exciting development, as Portman and Cardin were the sponsors of the Economic Growth and Tax Relief Reconciliation Act of 2001, which made sweeping improvements to retirement plans in the public and private sectors. Key points among the proposals in the act are:

- Elimination of the "first of the month" rule, helping simplify plan administration.
- Allow non-spousal beneficiaries to roll inherited assets into their plan account, helping participants to coordinate assets and take advantage of generally lower fees.
- Allow participants to roll Roth IRA assets into their plan account, again helping to coordinate assets and take advantage of generally lower fees.
- Exempt Roth contributions in 457(b) plans from the Required Minimum Distribution calculation.
- Add a new age-related catch up contribution option. Currently, an additional $6,000 is allowed for participants age 50 or over. The proposal would increase the limit to $10,000 for participants age 60 or over.
- Allow employees to claim matching contributions on student loan payments.
- Increase the age for Required Minimum Distributions (RMD) from 70½ to 72 in 2023, and to 75 in 2030.
- Direct Treasury to update mortality tables used for RMD calculations within one year after the Act passes and every 10 years after that.
- Reduce excise tax for missed RMDs from 50% to 25%.
- Exempt small balances (less than $100,000 in aggregate) from RMD calculations.
- Allow plan participants to make qualifying charitable distributions from their plan account, as is currently allowed from traditional and Roth IRA accounts.

SECURE and RESA Acts

The House of Representatives passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act in late May, 2019. The Senate reintroduced the Retirement Enhancement and Savings Act (RESA) in April, 2019. The acts contain many similar or identical provisions to help employees save more for retirement. Since the House passed the SECURE Act, the next step is for the two branches of Congress to work together to reconcile the differences and bring legislation to the president for signature, expected in late 2019.

Please contact your NFP advisor to discuss legislative developments and how they will impact your plan.

Auto Enrollment

Auto enrollment can be one of the best ways to increase participation in a voluntary retirement savings plan. When plans adopt auto enrollment, they automatically enroll employees in the plan, and begin taking deductions from the employee's pay – without waiting for the employee to take action. Auto enrollment can help employees start saving, particularly those employees who neglect to participate due to inertia, decision fatigue, or other factors. When implementing auto enrollment, plan sponsors are required to identify a default fund where the employee's money will be invested, in the event that the employee neglects to make such direction. Plans utilizing auto enrollment typically see significant increases in the number of people participating in the plan, but often see decreases in average deferral rates and average account balances.

The Center for State and Local Government Excellence (SLGE) recently published their research on the attitudes and behaviors of public sector employees towards auto enrollment. They interviewed 400 public employees about their perceptions of auto enrollment, investigating the impact of varying deferral rates on an employee's likelihood of staying in the plan, as well as changing their contribution rates. The varying deferral rates in the study were 1 percent, 4 percent, 7 percent, and an unspecified rate. The study also aimed to understand employee attitudes towards retirement savings, financial security and issues driving plan participation.

Some of the study's key findings include:

- More than three in four respondents would choose to stay in the plan after being auto enrolled.
- Employees with lower default deferral rates were more likely to increase their contribution rates, but would settle on a lower contribution rate overall.
- One in four respondents viewed the default deferral rate as the contribution rate recommended by their employer.
- One in four had been offered retirement planning education and information, and three in four saw a personal financial advisor as the most useful resource.

The deferral rate in an auto enrollment environment is an important consideration for plan sponsors. On one hand, some would advocate for a low deferral rate just to get employees in the door. The idea here is that employees need to get started; once they are introduced to the plan's benefits and how easy it is to save, they will likely increase their contributions. On the other hand, if left unchanged, a low deferral rate may not generate enough savings to keep pace with inflation and employees still may not have enough saved for a financially secure retirement. Plan sponsors can address this concern by considering auto escalation, whereby contributions would be automatically increased by specified amounts at specified intervals, until a certain contribution level is achieved.

The SLGE report further discusses employee confidence in their ability to save enough for retirement; the effect of debt on retirement savings; the importance of financial literacy programs; the short- and long-term effects of the auto enrollment default rate; and more. For the full report, click here.

Auto Enrollment: Does my state allow it?

The National Association for Government Defined Contribution Administrators (NAGDCA) recognizes that auto enrollment is one of the most effective methods for increasing participation in supplemental retirement plans. Auto-enrollment has been authorized in the private sector since the Pension Protection Act of 2006, but because public sector plans were left out of the federal legislation, state laws govern whether public sector entities are allowed to implement this valuable option. NAGDCA recently published an interactive state-by-state map to determine whether and under what conditions auto enrollment is allowed in your state. You can access the map and find out more details about your state by clicking here. NAGDCA also published a brochure on auto-enrollment in 2016, covering a variety of related considerations as well as some case studies from plans that have implemented auto enrollment. The brochure is available to NAGDCA members and can be found on their website under Plan Sponsor Tools > Resource Downloads > Auto Enrollment.

Registration is Open for the Annual NAGDCA Conference

NAGDCA, the premier association for public sector retirement plans, is holding its annual conference from September 8-11, in New Orleans. Registration is now open. NFP encourages all our clients and partners to attend this important educational event, where you can find the latest information on developments from Capitol Hill in this very active legislative year, as well as current plan design trends and other creative innovations. In addition, a premier expert in the field of Behavioral Finance, Shlomo Benartzi, will be the opening keynote speaker! More information about this year's conference can be found here. Please let your NFP advisor know if you will be attending so we can be sure to invite you to our client appreciation event.

NFP GOVERNMENTAL RETIREMENT PLAN EXPERTISE

Bill Tugaw is the governmental plan practice leader for NFP. He has assisted public sector employers in meeting the fiduciary obligations associated with operating their plans for more than 30 years. Bill is a faculty instructor for the International Foundation of Employee Benefit Plans (IFEBP) on public sector 457(b), 401(a) and 403(b) plans. Bill is frequently invited to lecture on employee benefits, post-employment health plan options, requests for disclosure and requests for proposals. Bill is co-author of two books: *Deferred Compensation / Defined Contribution: New Rules / New Game for Public and Private Plans,* and *Defined Contribution Decisions: The Education Challenge.*

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