Public Sector Retirement News & Views | Q4 2019

WASHINGTON UPDATE

The 116th Congress re-convened in early September and retirement security continues to be a significant focus of both the House and the Senate. Senators Rob Portman (R-OH) and Ben Cardin (D-MD) reintroduced their Retirement Enhancement & Savings Act (RESA), which was first introduced in 2018 to broad bipartisan support. Key provisions pertinent to government plans include:

- Allowing roll-ins of Roth IRAs, to match provisions of private sector defined contribution plans;
- Exempting Roth accounts from Required Minimum Distributions (RMDs), since the contributions are made with post-tax monies;
- Eliminating the first of the month rule for new or increased contributions, so that new employees and those wanting to increase contributions may do so at any time;
- Permitting non-spousal beneficiaries to roll funds into their inherited accounts;
- Allow working participants to make withdrawals at age 59-1/2 without requiring separation from service;
- Exempt smaller accounts ($100,000 or less) from RMD calculations;
- Allow contributions of severance pay;
- Allow IRA contributions after age 70-1/2;
- Establish a new catch up limit of $10,000 for participants age 60 or over;
- Update mortality tables for purposes of calculating RMDs.

In addition to RESA, the House passed a related bill, the Setting Every Community Up for Retirement Enhancement Act (SECURE). The bill was passed almost unanimously in the House and was immediately referred the Senate. Most of the provisions (of interest to governmental plans) in the two acts are the same or similar, with one notable exception – SECURE provides for changing the date for RMDs to age 72, which would almost certainly require a change to your Plan Document. Should this or any of the provisions be enacted, your NFP advisor will work with you to identify and make required changes. Please contact your advisor if you have questions about pending retirement legislation.

For the House Ways & Means Committee summary of the SECURE Act, click here.

NAGDCA members: Watch your email for a "call for ideas" this fall. NAGDCA and its legislative committee are looking for new ideas to present to our senators and representatives when they meet with them each year. Members of Congress are always interested in ideas and feedback from those of us working in these areas each and every day. If you'd like to discuss your ideas with your NFP advisor, please let us know how we can help.

FIDUCIARY RULES – AN UPDATE

Over the last few years, we have reported on the Department of Labor's (DOL) fiduciary rules and how they would affect your plans and participants. Most recently, we reported that the Fifth Circuit Court of the US had vacated the rules, effectively negating the benefits to participants for requiring advisors to act in the participant's best interest. Alternatively, the Securities and Exchange Commission (SEC) was tasked with creating rules with a new "best interest" standard of conduct – only applicable to broker-dealers and not applicable to defined contribution plan advisers. The SEC rules were approved in June, but in early September, eight state Attorneys General filed suit alleging that the SEC's rule did not adequately address investor's best interests, nor did it clarify blurred lines between investment advisers and broker-dealers. The end result, they say, is that broker-dealers and advisers are confused about when to put investors' interests first. By not clarifying the different roles of the two types of investment professionals, broker-dealers may misunderstand and act as advisers, thinking they are not subject to the best interest conduct rules. Please contact your NFP Advisor for the latest developments in fiduciary rules & responsibilities and how they pertain to your plan.

FINANCIAL WELLNESS – ONE KEY TO EMPLOYEE SATISFACTION AND SUCCESS

Employee satisfaction and success is essential in retention, and key to overall productivity. Strong financial wellness programs may help contribute to employee satisfaction, and can also play an important part in recruitment of a talented workforce. Employers who emphasize financial wellness in their employee benefit programs, by offering employees education, tools and resources to give them opportunities to improve their financial wellness will lead the pack in recruitment, retention, and talent management.

Employees – current and future – face many financial pressures today, whether it be due to student loan debt, mortgage pressure, mounting bills, health care expenses, insufficient retirement savings, or being part of the sandwich generation and having to take care of themselves, their children, AND their parents. Employees who are worried about their financial wellness are often less productive. Employers can offer a variety of programs to help employees determine how to address these pressures, develop strategies for relief and being forward thinking in their decisions.

Working with your provider to develop an education and service program that varies in content and format is one of the best ways to start. Communication content can be tailored to different segments of your population – segmented by age, occupation, tenure, or topic area of particular interest to your workforce. Communication content can also be tailored to address different learning styles – some employees learn best from in person seminars, others prefer shorter podcasts or videos. Still others prefer one-on-one consultations with representatives, online education, or online chat with a call center.

Offering a curriculum that is tailored to your workforce and measuring its effectiveness is key. Consistent collection of data is key, and using data to develop future initiatives is essential. Asking some of the following questions in employee or event surveys may help you assess the effectiveness of your program:

- What changes occurred as a result of our education campaign? For example, did we see an increase in new enrollments, contribution increases, overall attendance and interest?
- Were there changes over time in account balances, or in contribution rates by population segment? Or both?
- How do employees rate their overall satisfaction with the services and support offered by the Plan?
- How have employees own ratings of their financial wellness changed over time?

Helping employees improve their own sense of financial wellness is a many-pronged challenge. Providing tools and opportunities that will trigger employees to make positive changes in their financial lives will help improve participation in your plan and may help improve overall employee satisfaction and productivity. Additionally, having such tools in place can become part of your organization's recruitment strategy in your ongoing efforts to attract and retain a talented workforce. Please consult with your NFP Advisor if you are interested in addressing financial wellness initiatives in your plan.

WITHDRAWAL OPTIONS FOR TERMINATING EMPLOYEES – OFTEN MISUNDERSTOOD

When employees terminate their employment with your organization, they have a number of decisions to make regarding their benefits. Health care is often their primary concern; they will want to make sure they know their post-employment insurance options and costs. They also have a number of choices to understand and consider regarding assets they may have accumulated in their defined contribution plan. A recent study by Financial Engines revealed some interesting statistics:

- 51% of employees don't know they can move their money to a different investment vehicle;
- 42% don't know they can leave their money in the plan;
- 46% don't know what fees they are paying; and
- 37% think they pay no fees.

Terminating employees have a number of options to consider. They can withdraw their money, and pay ordinary income taxes. They can transfer their money to another plan, if the other plan accepts roll-ins. Another alternative is to roll their money to an Individual Retirement Account (IRA), where they may have investment options and services of a financial adviser that may not be available in your plan. Finally, and often the most misunderstood option – they can leave the money in your plan and continue to enjoy the many benefits and features offered, beyond their employment with your organization. Employees are always advised to consult with a tax adviser before making any of these decisions – particularly if they are planning to move their money out of the Plan. Additionally, there is no deadline for making these decisions, so employees should not feel time pressure to make a quick decision before they're ready.

Group plans have bargaining power that is not generally available to individual plans, which means to the participant that the plan may have better investment options and lower fees than they could find on their own. As a plan sponsor, you spend a lot of time, effort, and resources to develop a plan with an attractive array of services & education, a high quality investment lineup, and low – but reasonable – fees. You work hard to communicate information about your plan to your employees to encourage them to save for their retirement. Since your plan continues to be available to terminated employees if they stay in the plan, you will want to make sure to develop tools they can use to understand their options, and how your plan compares with other options they may have available when they leave.

You can help terminating employees by providing information about your plan than they can use when comparing options. Useful information can include facts about the fees in your plan; the exclusion from the 10% early withdrawal penalty before age 59-1/2; independent monitoring of a broad array of investments in your plan; the availability of financial counseling services; and other benefits that you have included in your plan's offerings. Your responsibility is to make sure that participants have the tools and information available to them, so they can make informed choices about their various options. This is true throughout their careers, and also when they are leaving your employ. Your NFP Advisor is here to help if you'd like to discuss strategies for developing an information package for exiting participants.

OPEN ENROLLMENT – IS DEFERRED COMP INFORMATION INCLUDED?

Now is the time of year when many governmental organizations are running their benefits open enrollment campaigns. Historically, information has been limited to insurance plan information and selections. This can also be a good time to get information in front of your employees about your deferred compensation plan. A page to click through, a flyer, or an enrollment form may be all an employee needs to get started or increase their contributions. A reminder about updating their beneficiaries may also trigger people to update out of date beneficiary designations.

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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