RETIREMENT PLAN SOLUTIONS

Insight from Alliance Benefit Group, One of the Largest National Independent Retirement Plan Providers

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SUMMER 2020

Inside This Issue

ENCOURAGING PLAN PARTICIPATION DURING THE PANDEMIC

During these unprecedented times, when the coronavirus pandemic has significantly impacted many from a health and/or financial perspective, retirement plan participants may be evaluating their continued participation in retirement plans. Recent stock market volatility, resulting from economic pressures prompted by business shutdowns across the country, has also contributed to investor uneasiness.

Participants may be asking:

- **Am I invested in the right investments?**
- **If my retirement plan account balance has decreased due to market volatility, why should I continue to invest?**
- **Should I withdraw money to cover current expenses? After all, the CARES Act makes it easier.**

With these types of questions in mind, now is a good time to make sure participants have all the information they need to gain perspective and stay the course with their retirement plans. ABG is available to help during this unprecedented pandemic situation. We understand that more communication rather than less during this time is key.

Remind Participants - It's Time In The Market, Not Timing

Retirement wealth is not built overnight; it's built gradually and over time. Markets will rise and fall, but the key is to stay invested regardless the current scenario. If participants try to time the market, they may miss out on the best opportunities.

For example, the chart below illustrates the negative impact of market timing on a $10,000 investment in the S&P 500 Index, a broad based index of 500 of the largest companies in the U.S by market value.

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RETIREMENT & CORONAVIRUS - PLAN SPONSOR TRENDS

With the implementation of the CARES Act, plan sponsors have much to consider with respect to the various provisions the Act allows. According to a recent survey by Plan Sponsor Council of America, many plan sponsors are attempting to balance their business needs while providing their employees with a comprehensive plan that helps them achieve a successful retirement.

The Council's recent study revealed:

- Nearly 70% of large organizations are allowing the distribution of up to 100% of the vested retirement plan account or $100,000 compared with only 20% of smaller organizations.
- Nearly 50% of large organizations and only 17% of small organizations are increasing the plan loan limits in COVID-19 qualified circumstances to $100,000 or 100% of vested account balances.
- More than 60% of large organizations are suspending loan payments due on or before December 31, 2020 and deferring repayment for up to a year versus only 20% of small organizations.
- 16% of plans are suspending matching employer contributions while 8% of plans are reducing matching employer contributions.
- Just over 1% of responding organizations said they were ending their retirement plans with nearly 4% of organizations that have plans with fewer than 200 participants ending their plans.

While making funds available from defined contribution plans is a way to provide financial assistance to employees, it comes during a time when some organizations may need to reduce their own spending on retirement benefits due to unforeseen financial pressures resulting from the coronavirus.

According to the American Society of Pension Professionals and Actuaries (ASPPA) there are 662,000 defined contribution plans in the US including 571,000 401(k) plans. Approximately 90% of those 401(k) plans have less than $10 million in assets.

The CARES Act also provided much needed cash flow to many businesses, especially smaller companies, and not-for-profit organizations through the Paycheck Protection Program (PPP). Over a million businesses and not-for-profit organizations applied for PPP. However, when PPP funds are exhausted within those entities, financial pressures may increase and potentially impact their defined contribution plan funding.

During this unprecedented coronavirus time frame, many plan sponsors are reviewing their plan options in light of the CARES Act while increasing their emphasis on financial wellbeing resources to help plan participants navigate the pandemic's financial impact. Your local ABG representative is available to help you with any questions you may have about the CARES Act or how to help plan participants.

RETIREMENT & CORONAVIRUS - PARTICIPANT TRENDS

Introduced earlier this year to help alleviate the financial impact of the coronavirus, the CARES Act reduces the cost of accessing funds held in retirement accounts for short term financial needs. Understanding the provisions of the Act and participants' initial response to easier access to their retirement plan accounts, provides useful perspective as we monitor this situation.

What Does The CARES Act Allow?

With the implementation of the CARES Act retirement plan participants are now able to:

- Withdraw up to $100,000 from their retirement plan account to cover any financial hardship as a result of COVID-19 without being subject to the 10% early withdrawal penalty. These distributions are also exempt from the 20% mandatory withholding.
- Pay back funds withdrawn from a qualified retirement plan over a three-year period, and without having the amount recognized as income for tax purposes for coronavirus-related distributions made between January 1 and December 31, 2020.

What About Retirement Plan Loans?

The CARES Act also amends retirement plan loan provisions as follows:

- Doubles the loan limit from $50,000 or 50% of the participant's vested account balance, whichever is lower, to the lesser of $100,000 or 100%.
- The participant will not owe income tax on the amount borrowed from the 401(k) if they pay it back within five years.
- Participants with outstanding loans from their plan taken before the CARES Act was enacted with a repayment due between March 27 and December 31, 2020, may delay their loan repayments for up to one year.

Participant Behavior During The Pandemic

A timely study conducted by the Investment Company Institute (ICI), a mutual fund trade organization, gives useful insight into recent retirement plan participant behaviors. According to this *Defined Contribution Plan Participants' Activities, First Quarter 2020* study, Americans continued to save for retirement through defined contribution plans despite uncertain market conditions during the COVID-19 pandemic.

In fact, the recordkeeper data that was the basis of this study, based on more than 30 million defined contribution

plan accounts, revealed that, in general, participant response to the market volatility and initial financial challenges of the pandemic in the first quarter was muted.

For example:

- Only 1.4% of defined contribution plan participants stopped contributing to their plans in the first quarter of 2020 compared with 0.9% in the first quarter of 2019 and 2.7% in the first quarter of 2009 (during the Financial Crisis).
- Only 6.2% of plan participants changed the asset allocation of their account balances in the first quarter of 2020 compared with 4.2% in the first quarter of 2019 and 5.5% in the first quarter of 2009.
- Only 4.1% changed the asset allocation of their contributions in the first quarter of 2020 compared with 2.9% in the first quarter of 2019 and 7.3% in the first quarter of 2009.
- Only 1.8% of plan participants took withdrawals, compared with 1.4% in the first quarter of 2019 and 2.7% in the first quarter of 2009.

Yannis Koumantaros
Managing Director and CFO of ABG member firm Spectrum Pension Consultants

Keep in mind the CARES Act was introduced at the end of March, and whether participants continue to stay the course with their retirement plans remains to be seen. However, Yannis Koumantaros, Managing Director and CFO of ABG member firm Spectrum Pension Consultants notes an interesting developing trend with participants. While he was surprised that the number of COVID-19 related withdrawals his firm was seeing was much less than expected, he observed another unexpected trend. *"Most of the COVID-19*

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ENCOURAGING PLAN PARTICIPATION DURING THE PANDEMIC

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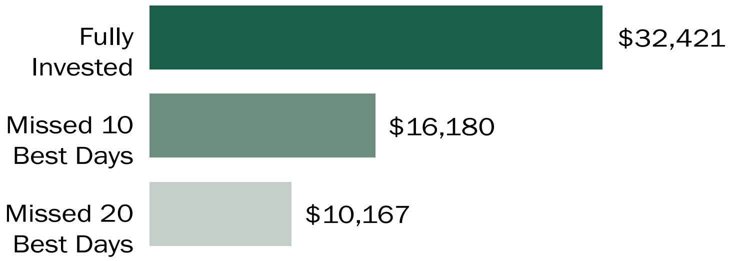
- **Over the past 20 years, $10,000 invested in the S&P 500 Index grew to over $32,000.**
- **However, if a participant missed the 10 best days of market performance over that time frame, their investment would be approximately half that amount.**
- **If they missed the 20 best days, their investment was even more impacted.**

$10,000 Investment in the S&P 500 Index Over 20 Years
(1/1/2000 - 12/31/2019)



Source: Morningstar. Past performance is not a guarantee of future results.

The bottom line is that continuous investing over time, in an investment allocation suitable for a participant's goal and risk tolerance, reaps the greatest benefit.

Encourage Participants To Avoid Paying The Present By Borrowing From The Future

Under the recently-passed CARES Act, employees under $59\frac{1}{2}$ years old can withdraw up to $100,000 from their retirement plan accounts without paying the 10% early withdrawal penalty. However, doing so could lead to longer-term financial challenges:

- **By selling investments, participants effectively "lock-in" investment losses they may have experienced in 2020, as well as forgoing any potential gains as the market recovers.**
- **If participants stop contributions, they may miss out on the matching contributions they may receive from the employer.**

Participants need to view retirement plan withdrawals as their option of last resort. A retirement plan is not a savings account, but rather a financial foundation for the future.

Consider ABG Your Resource

Your plan participants may have questions about the issues covered in this article as well as other retirement plan concerns. At ABG, we are here to help. We have found that video meetings, webinars, online resources, and conference calls work effectively for a variety of scenarios when in-person meetings with plan sponsors and participants are not possible. Contact your local ABG representative with any questions you may have.

RETIREMENT & CORONAVIRUS - PARTICIPANT TRENDS

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participant withdrawals we are seeing are by highly compensated employees who are opportunistically tapping their retirement plans to either put a down payment on a house, help reduce and refinance their mortgage debt in this extremely low interest rate environment, or invest in their businesses."

SEC Draws Attention To A Troubling Trend

Another interesting development noted via a recent SEC website bulletin encourages investors to be vigilant when it comes to making withdrawals from their retirement accounts for reasons that seem to be too good to be true. The SEC notes *"Unfortunately, unscrupulous promoters have used these CARES Act benefits to encourage investors to take money from their 401(k)s or traditional IRAs, not for current emergency financial needs, but to buy investments (often riskier ones) in an account at a firm the promoter recommends or in the investor's existing account."*

During this challenging pandemic time, it's important to understand the evolving dynamics around participant retirement plan withdrawals. Participants need to have updated information to ensure they make informed decisions when it comes to their retirement planning. As always, your local ABG representative is available to help with any questions you may have about this issue.

TAX TALK

In this issue of Tax Talk, we update you on important upcoming compliance deadlines for defined contribution plans and some noteworthy new provisions from the IRS.

Upcoming Compliance Deadlines

June 2020		
August 14	»	Deadline for participant-directed DC plans to provide participants with the quarterly benefit/ disclosure statement and statement of plan fees and expenses that were charged to individual plan accounts during the second quarter of 2020.
July 2020		
September 15	»	Deadline for money purchase pension, target benefit and defined benefit plans to make required contributions to their plan trust and for sponsors that filed a corporate tax extension to make 2019 employer profit-sharing and matching contributions.
	»	Minimum funding deadline for pension plans.
	»	Form 5500 due to the Employee Benefits Security Administration (EBSA) from plans eligible for an automatic extension linked to a corporate tax extension.
September 30	»	Summary annual reports are due to participants from plans with a December 31 year-end.
August 2020		
October 1	»	Start of the period to disseminate annual notices to participants, including the 401(k) safe harbor, automatic contribution arrangement (ACA), qualified automatic contribution arrangement (QACA) safe harbor, and qualified default investment alternative (QDIA)—i.e., from 90 to 30 days prior to the end of the current plan year.

New And Noteworthy

RMD Rollovers - In June, the IRS announced that anyone who has taken a required minimum distribution (RMD) in 2020 has the opportunity to roll those funds back into a retirement account in keeping with the CARES Act RMD waiver for 2020:

- The 60-day rollover period for any RMDs already taken this year has been extended to August 31, 2020.
- The details of this new provision are provided in IRS Notice 2020-51.

Remote Signatures - The IRS also provided temporary administrative relief to help plan participants or beneficiaries, who need to make participant elections, sign remotely without requiring the physical presence of a plan representative or notary as witness:

- The guidance accommodates local shutdowns and social distancing practices and is intended to facilitate the payment of coronavirus-related distributions and plan loans to qualified individuals, as permitted by the CARES Act.
- The IRS provides additional guidance in IRS Notice 2020-42.

LEGISLATIVE HIGHLIGHTS

This quarterly legislative column provides timely defined contribution industry insights and updates for plan sponsors.

New Guidance For Electronic Delivery Of Retirement Plan Disclosures

On May 27, the Department of Labor (DOL) provided its final guidance on default electronic delivery of retirement plan disclosures:

» The regulations provide additional safe harbor guidelines allowing plan administrators and their service providers to deliver DOL-required disclosures to participants and beneficiaries of ERISA plans electronically.

» The regulations were scheduled for implementation in late July, however, the DOL announced that, due to the impact of the coronavirus, plan sponsors could implement the new guidelines immediately.

The SAVERS Act

Introduced in late April by North Carolina Congressman Patrick McHenry, the Securing Additional Value For Every Retirement Saver Act (SAVERS Act) would permit investors to increase their annual contribution to tax-qualified retirement plans in 2020:

» If passed, the legislation would increase the annual employee contribution limits for 401(k), 403(b), and IRAs by 300%.

» The bill has been referred to and is currently being reviewed by the House Committee on Ways and Means.

DID YOU KNOW?

- All 50 US states maintain a “rainy day” fund that may be accessed as a result of an economic emergency. As of 7/01/2019, California had $19.2 billion set aside, Texas had $7.8 billion, New York had $2.5 billion while Illinois had just $4 million (source: National Association of State Budget Officers).
- The CARES Act has provided sponsors of defined benefit pension plans a 1-year holiday from their required annual pension contribution, i.e., they do not have to contribute to their pension plans during calendar year 2020 (source: CARES Act).
- Millennials (born 1979 to 2000) have entered the workforce with higher levels of student debt than previous generations. Those who have invested in their retirement have enjoyed one of the longest-running bull markets in history. The pandemic marks the first major market downturn they have experienced (source: Transamerica).