Retirement Times

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The Benefits of Matching Retirement Contributions

As the unemployment rate has dropped, hiring has grown increasingly competitive - especially for businesses with highly-specialized positions. It's important to understand how retirement matches factor into the hiring process and how they can financially benefit your company. Here are a few reasons why offering a retirement match helps your business.

Competitive Hiring

If you don't offer a retirement match, chances are your competitors do, meaning it's more difficult to attract top talent. A full benefits package that includes a retirement match may prevent you from paying top dollar to win candidates who might consider a job offer from your competitors.

Reduced Turnover

In order to reap the largest rewards attached to a retirement plan match, employees often must work for a particular period of time, known as vesting[1]. This timeframe encourages employees to stay and maximize their contributions to receive the best benefits. Since replacing a departing worker is expensive[2], reduced turnover brings cost savings.

Tax Savings

Your finance department will love the savings received at tax time from your retirement plan match. Businesses can deduct every dollar they contribute toward employee retirement plans in addition to the tax savings employees reap for participating. Small and mid-sized business may also be able to deduct their retirement plan startup costs under the Credit for Small Employment Pension Plans Startup Costs[3].

Future Compliance

In most states, businesses aren't required to offer retirement plans for their employees, but that is changing. Seven states[4] now have a government-mandated retirement option in place for residents, and in Oregon and Illinois[5], employers are required to enroll their workers in a plan. By having an employer-matched retirement plan in place, your business will be prepared if a mandate impacts your workplace.

By understanding the benefits of a retirement plan match, your business can make informed decisions and save money. For further questions about matching or other questions relating to retirement plans, contact your plan advisor.

1. https://money.cnn.com/retirement/guide/401k_basics.moneymag/index10.htm
2. https://www.peoplekeep.com/blog/bid/312123/Employee-Retention-The-Real-Cost-of-Losing-an-Employee
3. https://www.irs.gov/retirement-plans/retirement-plans-startup-costs-tax-credit
4. https://primepay.com/blog/state-retirement-plans-now-mandatory-7-states
5. https://www.forbes.com/sites/ashleaebeling/2016/09/13/when-will-new-state-retirement-plans-start-enrollment/#7905e2f57e0f

The More You Know: Automatic Enrollment Notices

Many retirement plans today provide automatic enrollment for employees, meaning the plan sponsor initiates enrollment into the retirement plan on behalf of the employee. One common question plan sponsors come across is whether their enrollment kit satisfies the annual automatic enrollment notice requirement.

At first glance, it may seem that enrollment kits contain all the necessary information to satisfy your obligation to provide an annual notice of your plan's automatic enrollment feature, however the notice must include the following information:

1. The default contribution rate that will apply if the participant does not make an affirmative deferral election.
2. The employee's right to elect not to have the default rate apply, or to elect a different contribution rate.
3. How default contributions will be invested absent an investment election by the participant.
4. The notice must be provided before each plan year.

Do you expect to send out enrollment kits to all covered employees before the beginning of each plan year? Since most plans merely provide an enrollment kit at the time an employee first becomes eligible to participate, the enrollment kit will not likely satisfy the annual notice requirement.

For more information on automatic enrollment notification requirements, contact your plan advisor.

Top Ten Fiduciary Responsibilities

A plan fiduciary plays an important role in the organization's financial health. Not only do they oversee the fiduciary process, but they identify and serve the best interests of a retirement plan's participants and beneficiaries. Here are 10 important responsibilities to keep in mind.

- **Limit liability:** As a fiduciary, it is imperative that you understand ERISA so you can keep yourself and your business safe from liability.
- **Find the right plan provider:** Finding a retirement plan provider is much more complicated than many realize.
- **Keep costs low:** No matter how big your business's budget, always monitor fees to ensure you are getting the best deal.
- **Oversee plan performance:** Once a retirement plan is in place, continuously monitor its performance.
- **Educate plan participants:** Regardless of position and hierarchy, employees may come to you asking about plan options. What should you say?
- **Stay informed:** Your role is to know more about your business's retirement savings plan than everyone else, so education is vital.
- **Avoid personal gain:** As a fiduciary, it's important to distance yourself from any situation that could be perceived as personal gain from the retirement plan.
- **Diversify investments:** The investment options offered in your plan should be diversified. This limits financial risk and helps balance risks and rewards.
- **Monitor participant satisfaction:** Evaluate employee satisfaction with the plan. Follow up on complaints, and regularly gauge the plan needs to determine the right time for change.

Four Tips for Increasing Your Retirement Dollars

1. **Don't Cash Out Retirement Plans When Changing Employment**
   When you leave a job, the vested benefits in your retirement plan are an enticing source of money. It may be difficult to resist the urge to take that money as cash, particularly if retirement is many years away. If you do decide to cash out, understand that you will very likely be required to pay federal income taxes, state income taxes, and a 10 percent penalty if under age 59½. This can cut into your investments significantly and negatively impact your retirement savings goals! In California, for example, with an estimated 8 percent state income tax, someone in the 28 percent federal tax bracket would lose 46 percent of the amount withdrawn. When changing jobs, you generally have three options to keep your retirement money invested – you can leave the money in your previous employer's plan, roll it over into an IRA, or transfer the money to your new employer's plan.

2. **Take Your Time: Give Your Money More Time to Accumulate**
   When you give your money more time to accumulate, the earnings on your investments, and the annual compounding of those earnings can make a big difference in your final return. Consider a hypothetical investor named Chris who saved $2,000 per year for a little over eight years. Continuing to grow at 8 percent for the next 31 years, the value of the account grew to $279,781. Contrast that example with Pat, who put off saving for retirement for eight years, began to save a little in the ninth and religiously saved $2,000 per year for the next 31 years. He also earned 8 percent on his savings throughout. What is Pat's account value at the end of 40 years? Pat ended up with the same $279,781 that Chris had accumulated, but Pat invested $63,138 to get there and Chris invested only $16,862!

3. **Don't Rely on Other Income Sources, and Don't Count on Social Security**
   While politicians may talk about Social Security being protected, for anyone 50 or under it's likely that the program will be different from its current form by the time you retire. According to the Social Security Administration, Social Security benefits represent about 34 percent of income for Americans over the age of 65. The remaining income comes predominately from pensions and investments. They also state that by 2035, the number of Americans 65 and older will increase from approximately 48 million today to over 79 million. While the dollars-and-cents result of this growth is hard to determine, it is clear that investing for retirement is a prudent course of action.

4. **Consider Hiring a Financial Advisor!**
   Historically, investors with a financial advisor have tended to "stay the course", employing a long-term investment strategy and avoiding overreaction to short-term market fluctuations. A financial advisor also can help you determine your risk tolerance and assist you in selecting the investments that suit your financial needs at every stage of your life.

For more information on retirement tips, contact your plan advisor.