Defined Contribution Insights

The Solution Source for Plan Sponsors

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PSCA

Plan Sponsor Council of America

Part of the American Retirement Association

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Editor's Note

A Year That Reshaped Retirement

2023 was a big year for retirement plans — changes from all directions squeezing plans into a new shape for the future. SECURE 2.0 continues to impact plans even as more retirement legislation is on the horizon and employers (and employees) face economic challenges and uncertainty.

In this issue's *Washington Watch*, ARA's James Locke gives an overview of where we are with SECURE 2.0, and where we're headed next.

PSCA's recently released *66th Annual Survey of Profit Sharing and 401(k) Plans* shows both the impact of some of the SECURE Act provisions, as well as the impact of a tight economy and how both things impacted the shape of plans going into 2023.

Judy Ward discusses the unique environmental factors affecting the retirement readiness of the Boomer generation. Later access to plans and the great recession during what was peak working years for many results in a generation facing retirement, but not financially ready to retire.

ESG investing continues to be a hot topic, and one that still lacks a clear definition. PSCA's investment committee members Sam Adams and Emery Pike give an overview of the evolution of ESG investing and where its headed on the regulatory front.

PSCA's *2023 HSA survey* was released in November and shows the gains these programs are making — most notably in automatically enrolling employees in an HSA when they enroll in the qualifying health plan. I cover that and other trends revealed in this year's survey. PSCA's HSA committee delves into this topic of enrolling employees into HSAs and provides some examples from committee members on how they address the challenge of getting eligible employees to open the HSA.

PSCA's NQDC Committee Chair provides an overview of best practices in addressing 409A failures when they happen — finding and fixing failures as quickly as possible will help reduce the tax implications of any failures.

ARA's (former) chief content officer discusses his retirement move and how its similar to… changing recordkeepers? May need to pack some boxes for this one.

As the year-end hustle comes to an end and we look to the future, PSCA's executive director Will Hansen reflects on the organization's successes this year, and plans for an even stronger 2024.

Seasonings greetings and happy holidays,
~ Hattie

PSCA Mission Statement

The Plan Sponsor Council of America (PSCA) is a broadly based association of diverse businesses which believe that profit sharing, 401(k), and related savings and incentive programs strengthen the free-enterprise system, empower and motivate the workforce, improve domestic and international competitiveness, and provide a vital source of retirement income.

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Leadership Letter

2023: A Year of Growth

Membership, the CPSP program, and conferences continued to grow this year.

By Will Hansen

2023 We made it! At PSCA, we continue to grow the membership and expand educational programs and other resources available to you, our valued members. In particular, I want to highlight the continued growth of the Certified Plan Sponsor Professional (CPSP) credential program.

Over the course of 2023, PSCA continued to provide a Virtual Classroom program for plan sponsors that wanted to enhance their knowledge on implementing and operating a retirement plan. As of late December 2023, more than 1800 individuals have received the CPSP credential! The size of the plan that these individuals work with is as small as five participants to plans that have tens of thousands of participants. The CPSP program was designed to assist those with just a few years of experience to seasoned professionals; from those employed at a small company to those working for a Fortune 100 company.

In 2024, we will continue to provide the Virtual Classroom program with start dates scattered throughout the year. If you know someone that might be interested in advancing their career, send them to www.psca.org/cpsp to learn more information about the program (or, if you are reading this and don't have your CPSP yet). We continue to provide the education program as complimentary to plan sponsors.

A *huge* goal for PSCA in 2024 is to exceed 500 individuals attending the 2024 PSCA National Conference. As of mid-December, we are at 20 percent of the goal with just more than 100 individuals registered. If you are a plan sponsor member of PSCA, whether through a corporate membership or receiving the CPSP credential, attendance at the National Conference is complimentary. You can register for the conference at www.pscanational.org.

At the 2024 PSCA National Conference, we will continue to provide plenty of opportunities to collaborate with your peers, learn best practices, and discuss the latest trends in employee benefits. More than 15 workshops will be held, four general sessions, and a few other surprises are in store for you when you come to Salt Lake City, May 15–17, 2024.

Wow… Salt Lake City — it really is a beautiful city and I look forward to welcoming hundreds of you there in just a few short months. If you are a PSCA member, you will receive an email from me shortly that asks for volunteers to be on a workshop. It is a great opportunity to build up your public speaking skills and I hope you raise your hand and volunteer. I will continue to strive for at least two plans sponsors on every panel at the national conference.

2023 also brought us a focus on the provisions in SECURE 2.0. As we head into 2024, we will continue to analyze and discuss the many optional retirement policies that are available to you because of SECURE 2.0. In addition, expect a lot more content and resources on the SECURE 2.0 provisions in 2024.

I look forward to seeing you at the 2024 PSCA National Conference or on a webinar soon. I hope you have a rested and peaceful holiday season.

Will Hansen is PSCA's Executive Director and the Chief Government Affairs Officer for the American Retirement Association.

PSCA's 66th Annual Survey: Two Steps Forward

DC plans made strides forward in design while contributions slipped among a tight economy.

By Hattie Greenan

Two steps forward…and two steps back, or so the saying goes. That is certainly true of a system that is impacted by the ups and downs of the economy and the whiplash of a changing regulatory environment. This year's recently released 66th Annual Survey shows both the steps forward and back that retirement plans took in 2022. Plan contributions dipped across the board after reaching record levels the year before. Yet, plan sponsors moved forward with implementing best-practice plan designs and offering choice to participants.

Contributions

Nearly 90 percent of eligible employees had 401(k) accounts and 85.6 percent made contributions to them in 2022 (down from 89.2 percent the year before). The combined employer and employee contribution rate was 12.1 percent (down from 15.3 percent in 2021).

Exhibit 1: Participation Measurements Over Time

	Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Percentage With an Account Balance	88.8%	87.2%	87.6%	88.7%	88.9%	89.3%	90.6%	89.7%	90.1%	87.6%
Percentage Making Contributions to the Plan	80.3%	80.5%	81.9%	84.9%	84.9%	84.2%	87.3%	88.5%	89.2%	85.6%
Average Deferral Rate	6.7%	6.5%	6.8%	6.8%	7.1%	7.7%	7.6%	8.0%	8.3%	7.4%

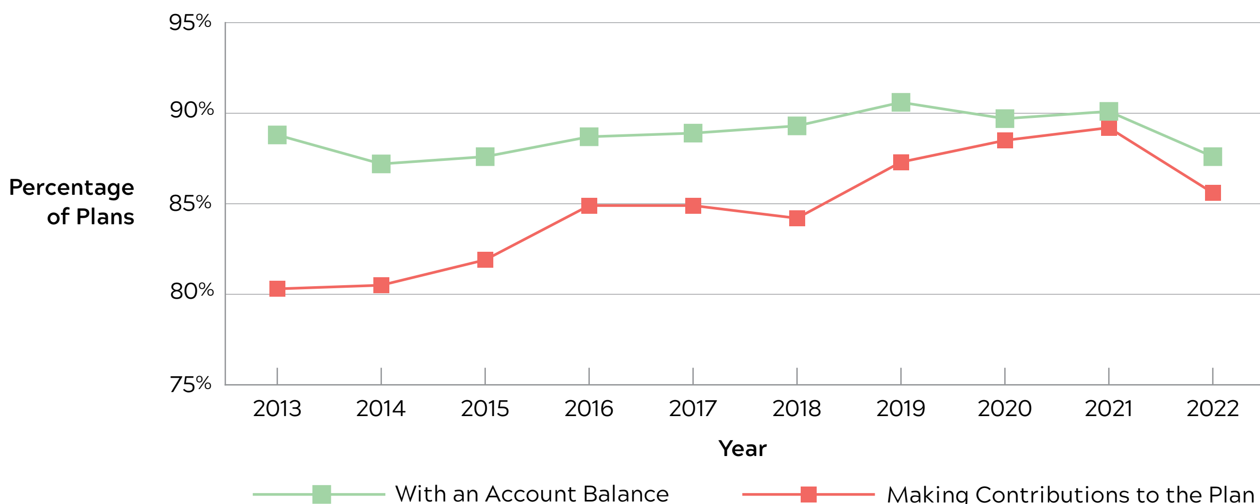
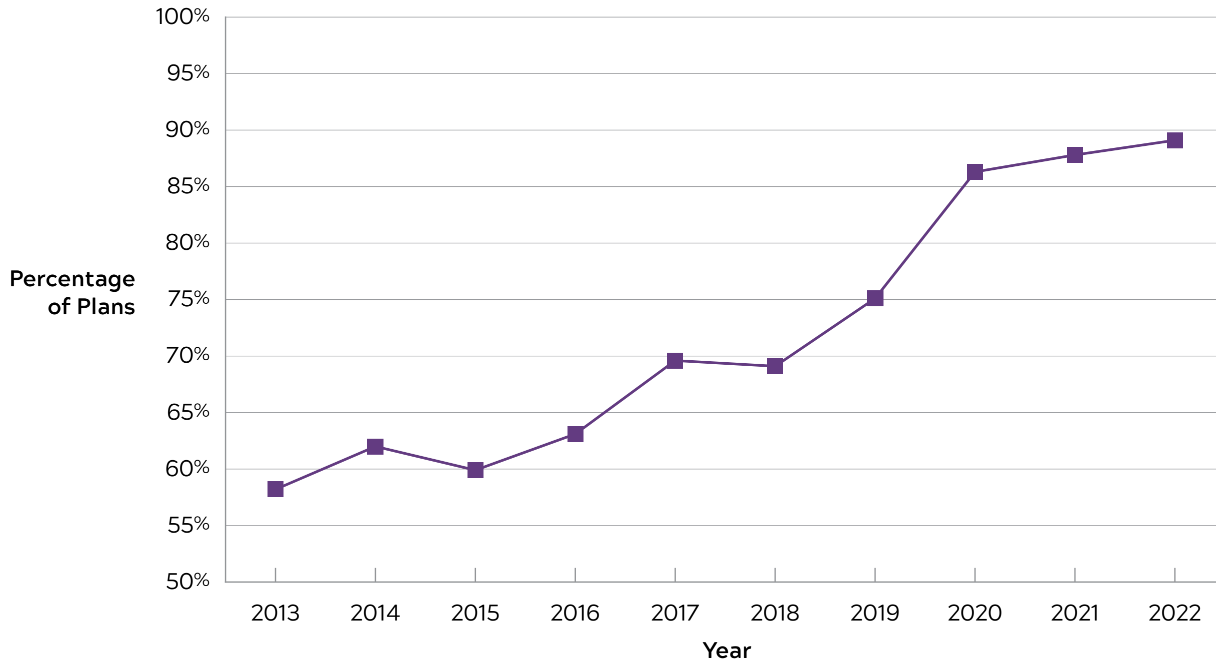


Exhibit 2: Availability of Roth Over Time



(See Exhibit 1.) Though the average employer contribution slipped to below five percent of pay, most companies continued to make contributions (96.2 percent made planned matching contributions). *(See Exhibit 1.)*

Plan Designs

Roth after-tax contributions are now available in 90 percent of plans. Though only 12.4 percent of plans will be allowing Roth treatment of employer contributions as allowed under SECURE 2.0, 40 percent are still considering it, and nearly 60 percent currently allow in-plan Roth conversions. *(See Exhibit 2).*

Automatic enrollment availability increased in 2022 and is now used in 64 percent of plans. The use of automatically reenrolling nonparticipants annually has increased over the last 10 years and is a trend to watch as we continue to see use of that feature expand. *(See Exhibit 3.)*

There was an increase in plans using a safe harbor plan design in this year's survey — half of plans did so versus 45 percent the year before. And, more plans used an enhanced matching formula (one that exceeds the traditional safe harbor formula) — 31 percent of safe harbor plans.

Investments

More plan sponsors are using an independent investment advisor to help with fiduciary responsibility — 83 percent of plans, up from 76.8 percent in 2021. More are also using an OCIO (outsourced chief investment officer) — 14.7 percent versus 11.7 percent the year before.

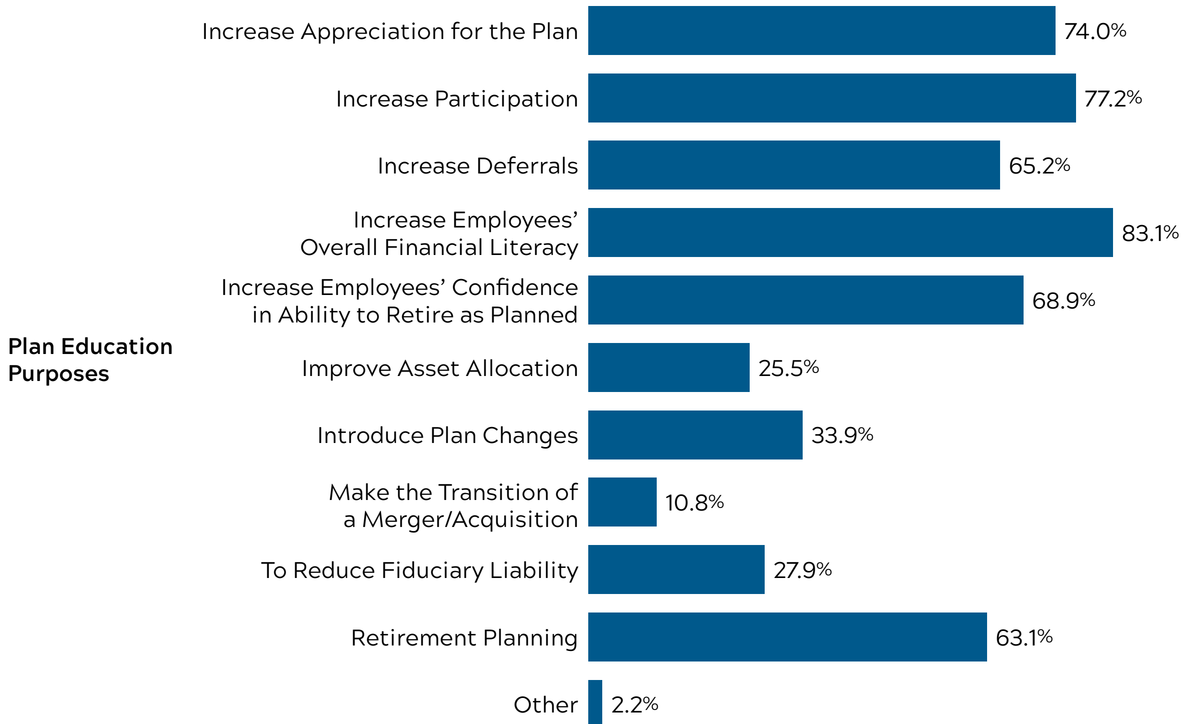
Unsurprisingly, there was an increase in availability of target-date funds — 85.1 percent of plans offer them. There was also a slight uptick in the availability of investment types we have been talking about for a few years now:

- **Retirement Income —** Ten percent of plans offer an in-plan annuity, up from 8.1 in 2021, including 10.8 percent of large plans, up from 6.7 percent in 2021.
- **ESG —** though only a small percentage of plans offer a standalone ESG fund, more did in 2022 than in 2021 — 6.4 percent, up from 4.2 percent.

Exhibit 3: Plans With an Automatic Enrollment Feature

	Year									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Percentage of Plans	50.2%	52.4%	57.5%	59.7%	61.2%	60.2%	60.2%	62.0%	58.8%	63.9%

Exhibit 4. Reasons for Providing Plan Education



- **Managed Accounts** — large plans (5,000+ employees) seem to be adding professionally managed accounts as an option for participants — 64.1 percent versus 56.7 in 2021.

Though the percentage of plan offering investment advice to participants stayed about the same, there was a slight increase in plans offering robo-advice — 15 percent up from 13 percent the year before.

Education

Though we did not see an increase in plans offering a comprehensive financial wellness program to employees, we saw an increase in employers focusing on financial literacy. Financial literacy was cited as the primary focus of plan education for the second year in a row, indicated by 83 percent of organizations and up from 77 percent in 2021. *(See Exhibit 4.)* Additionally, more plan sponsors are providing a suggested savings rate (32.4 percent, up from 29.9 percent).

Distributions

Though we are currently hearing about an increase in hardship withdrawals, in 2022 the use of hardships dropped (from 1.9 percent in 2021 to 1.5 percent). The percentage of participants taking plan loans remained about the same in 2022 as the year before. Most plans continue to offer loans, but there was a shift in the formula used to calculate loan interest rates — the most common formula remains Prime+1% but that dropped from 61 percent of plans to 54.6 percent with more plans charging the Prime rate.

About a third of plans allow participants to repay loans after separation, but that is size correlated with 63.2 percent of large plans doing so versus 12 percent of small plans.

The data in this year's survey showed a series of small changes — some forward and some back — as companies continue to create designs to support their employees and plans, while juggling economic constraints and regulatory changes. Last year we stated that the strength of the system going into 2022, with record levels of contributions and adoption of participant support designs would help buffer retirement savings against any economic downturn — for now that seems to be the case.

Hattie Greenan is PSCA's Director of Research and Communications.

409A Failures: Well Now What Do I Do?

Best practices in correcting 409A failures.

By Suzette Clark and Matt Maier for PSCA's NQDC Committee.

When it comes to 409A failures, it is important for companies to take prompt and appropriate administrative actions to rectify the situation. Failing to address these failures can result in significant tax consequences for both the company and the affected employees. Here are some administrative steps that companies can take to address 409A failures:

1. **Identify the failures:** The first step is to identify the specific 409A failures that have occurred. This may involve reviewing the plan documents, employment agreements, and other compensation arrangements to determine if any provisions violate the 409A rules.
2. **Consult with legal and tax advisors:** It is crucial to consult with legal and tax advisors who are well-versed in 409A regulations. They can help assess the nature and extent of the failures and provide guidance on the appropriate corrective actions to take.
3. **Corrective actions:** Once the failures have been identified, the company needs to take corrective actions to bring the arrangements into compliance with 409A. The specific actions will depend on the nature of the failures, but they may include amending the affected agreements, adjusting the timing or amount of payments, or implementing other remedial measures.
4. **Document the corrections:** It is important to document all the corrective actions taken to address the 409A failures. This documentation should clearly outline the nature of the failures, the steps taken to correct them, and the effective dates of the corrections. This documentation will be crucial in demonstrating compliance with 409A rules in case of any future audits or inquiries.
5. **Communicate with affected employees:** Companies should communicate with the affected employees to inform them about the 409A failures, and the corrective actions being taken. This communication should be clear and transparent, providing employees with a clear understanding of the situation and the steps being taken to rectify it.
6. **Review and update policies and procedures:** Companies should review their internal policies and procedures related to deferred compensation arrangements to ensure that they are in line with 409A regulations. This may involve updating plan documents, employee communications, and administrative processes to prevent future 409A failures.
7. **Implement compliance controls:** Companies should implement robust compliance controls to prevent future 409A failures. This may involve establishing internal review processes, conducting regular audits of compensation arrangements, and providing training to employees involved in the administration of these arrangements.
8. **Monitor regulatory developments:** 409A regulations are subject to change, and companies need to stay updated on any new developments or guidance issued by the IRS. This will help ensure ongoing compliance with 409A rules and enable companies to make any necessary adjustments to their compensation arrangements.
9. **Regularly review and reassess:** It is important for companies to regularly review and reassess their compensation and benefit arrangements to ensure ongoing compliance with 409A regulations. This may involve conducting periodic audits, seeking external reviews, and staying informed about any changes in the regulatory landscape.

Addressing 409A failures requires careful administrative actions to rectify the situation and ensure ongoing compliance. By following these steps and seeking appropriate professional guidance, companies can mitigate the potential tax consequences and maintain the integrity of their deferred compensation arrangements.

Suzette Clark is Senior Vice President — Practice Leader for Lockton Companies, LLC.

Matt Maier is Vice President for Lockton Companies, LLC and Chair of PSCA's NQDC Committee.

Retirement Read(y)

Making a Move

Changing recordkeepers is a lot like...buying a house?

By Nevin Adams

My wife and I are in the process of moving to a new home — and it occurs to me that the process of changing homes is a lot like changing recordkeepers. Here's how.

Know What You're Looking For

We've made about a half dozen moves during our 37-year marriage — all driven by work, anchored by commuting concerns, and — in all but the first and last — school considerations. However, this particular move (my wife swears it's the last one) literally started with a blank sheet of paper and a "so where would you like to live" conversation. Several conversations, actually. For this move, our high-level priorities involved climate (we're not fans of snow, hurricanes, wildfires, or earthquakes), ready access to good healthcare (we're not getting any younger), and proximity to cultural activities/things to do (we're not *that* old). Indeed, with no particular ties to our current residence, and no external anchoring factors like grandchildren to consider (those with four legs don't really "count"), we had a quick "oceans or mountains" discussion — and agreed on the latter.

Having established that high-level target, we then proceeded to look for specific houses — and that's where things got tricky, in no small part because of the current "fluidity" in the real estate market. That said, the house we bought in 2011 to accommodate us, three kids and four dogs (that's not a typo) was way more than the two of us (and just two dogs) now require. The multiple flights of stairs in our home that were once "interesting" were now a potential concern (particularly as they required scaling every time our dogs wanted to answer nature's call). Oh, and there was the matter of price.

That said, we had a geographic target, some guardrails for housing considerations, and while the latter in particular limited our field of consideration(s), it made it easy(er) to conduct preliminary searches online — and ultimately to provide guidance to our realtor.

Effectively — and prudently — searching for a new recordkeeper requires a similar discipline. Simply pushing out a sample RFI or RFP with no clear idea of what you're looking for (or looking to fix) will likely only confuse, complicate, and extend the process — and, in all likelihood, leave you with nothing but a general frustration. That means knowing what you like (and don't) about your current situation and doing just a bit of blue-skying as to things you'd really like to be able to consider. Who knows that could be possible, even with your current provider … but you might need to ask.

Don't Rely on the Marketing Brochures (or the Flowery RFP Responses)

As our targeted area was several hundred miles away, we did a *lot* online (following the aforementioned driving around part), and relied pretty heavily on Zillow, where we found lots of good information about the properties, and generally speaking dozens of photographs. That said, it was pretty obvious that the written descriptions were almost pure marketing — flowery hyperbole that, from time to time, was good for a laugh if nothing else.

The pictures did play a role in our reviews — until we discovered that while a picture may be worth a thousand words, the chosen angle and lens can make a room (or yard) look bigger than it is — and a neighbor's home …vanish. Indeed, our own listing — though pictures were taken on a cloudy day, were "brightened" via photoshop. A picture may be worth a thousand words — but it pays to see things with your own two eyes.

As for recordkeeping "homes," one can hardly blame marketing/sales for putting their offerings' best promotional foot forward in any commercial endeavor. In fact, those materials may well make statements or performance claims that are 100% accurate, and even understated. But — as was the case with our visualizations — I wouldn't take

any at face value without some level of validation.

Consider a Site Visit

As I noted, our previous moves had all been driven by considerations such as my commute, and we often had to make decisions based on distance and economics, rather than an appreciation for the characteristics of the community. Oh, we'd driven around with a realtor, and done some research online — but we never had (or at least felt we had) enough time to really get to experience what it would be like to live there.

While we were somewhat familiar with our targeted area (eastern Tennessee) that was mostly as tourists, and we hadn't really had a chance to experience the surrounding communities where we would actually live. So, earlier this year we made it a point to go spend some time driving around and getting a sense of the various communities. In the process we were able to rule out some as being too remote, others as being too built up, and still others that looked considerably different in person than they did on paper. We weren't ready to make a decision yet, but having gotten a feel for the realities "on the ground," it allowed us to better focus our online considerations later.

Admittedly, site visits to providers aren't always instructive.[1] Let's face it, however linear and production-flow oriented it may be, this business doesn't generally lend itself to an assembly line visualization — and walking past row after row of (nearly) identical cubicles might not tell you a lot, however eloquent your guide(s). There is, however, something to be said for actually seeing the place where the "sausage" is made, to see how folks get along, to see the environment in which they operate.

Hire a Professional "Inspector"

Some (perhaps all?) states require an inspection of the property by a licensed inspector. That said, the inspectors we've hired over the years have been distressingly inconsistent in the quality and thoroughness of their review (ditto the realtors we've engaged, but that's a story for a different time) — and, generally speaking, (much) less discerning (it seems) than those engaged by the individuals buying *our* house(s).

That said, this last round our inspector did a world-class review of a property that we'd likely have purchased absent his findings. He went places we didn't (and in some cases, couldn't), brought to our attention things I hadn't considered — and in that process not only documented potential issues, he also noted which were minor and those that would require significant expenditures. Now, admittedly that's what he was *supposed* to do — but we've paid more only to have others do less (and then later paid more to remedy the issues they should have identified). It saved us time and money, and I am thrilled that he also did the inspection on the house we chose next.

There's a lot that goes into making a change in providers, and it requires information and expertise that most plan sponsors don't have, and don't really have an opportunity to become expert in. Change can be difficult, but a change that makes a bad situation worse, or that belies the promises in the marketing brochures and sales pitch — well, that can be a nightmare — albeit one that frequently doesn't manifest itself right away. All the more so in view of the fiduciary responsibility — and personal liability — for decisions that aren't in the best interests of plan participants and beneficiaries.

In sum, you're not required to be an expert in such matters — but ERISA requires that, if you're not, you engage the services of those who are. And that's an essential element in "making a move" to a new home — or deciding not to.

Nevin E. Adams, JD, is the Former Chief Content Officer for the American Retirement Association.

[1] Failing that, there's something to be said for the perspective of experts who *have* made that visit–and/or the references of current (and preferably *ex*) clients.

Helping Employees Open HSAs

Ideas for helping employees enroll in the HSA program when they choose the HDHP.

By Karin Rettger for PSCA's HSA Committee with Ann Brisk, Hannah Cockrum, Blanca Gonzalez Karim, Tara Kahler, and Cynthia Obenland

At a recent PSCA Plan Sponsor Roundtable focusing on HSAs, the biggest issue that emerged had to do with difficulty around getting employees to open their HSA accounts once eligible. In a recent "Question of the Week" PSCA asked, "Does your company have a problem with employees failing to open their HSA when they enroll in the HDHP?" — about 50 percent of the respondents indicated "yes" and the other half said "no." In this article we will provide some guidance and suggestions for those plan sponsors looking for answers.

The real issue that plan sponsors are articulating is the inability to automatically open Health Savings Accounts (HSAs) on behalf of participants. For example, many plan sponsors provide an employer contribution that they automatically give to each employee participating in a High Deductible Health Plan (HDHP), and they are unable to deposit it because employees fail to complete the account opening process.

Auto Enrollment as a Best Practice

To learn more about this common issue, we reached out to Ann Brisk, Senior Managing Director at HSA Bank, a leading provider of HSAs. We specifically asked her about their viewpoint on auto enrollment into HSAs. Ann explained that the IRS code pertaining to HSAs allows plan sponsors to auto open HSAs for their employees. She said this is currently a "best practice." So how does an employer auto-enroll employees? Per Brisk, you just need to work with an HSA administrator that can accept enrollment data from employers and automatically open the account *and* penny fund it — an HSA is not considered opened until it is funded. This is beneficial for two reasons: 1) accounts must be opened and funded in order to be used for any claims from that date forward and 2) employers can start contributing to them immediately. This solves most of the frustration plan sponsors experience.

How does this work in practice? At HSA Bank, they typically do the following upon receiving an enrollment file from the plan sponsor:

1. HSA Bank sets up the account.
2. HSA Bank deposits 1 cent (a penny) into it which allows the account to open.
3. HSA Bank verifies information in compliance with the Know Your Customer (KYC) rule mandated by the Patriot Act. If the KYC information is not validated, then HSA Bank works directly with the participant on any remedies to obtain correct information. This is a big burden lifted off the plan sponsor. Common failures of KYC information might include:
   a. Participant uses a PO Box instead of a street address.
   b. Participant did not update their current address with the plan sponsor.
   c. Social Security number does not match.
   d. Name does not match.
4. In 95 percent of cases, this works without any issues. If there is a failed response from the participant, then they may have to return a contribution to an employer. Brisk says this rarely occurs because they can usually resolve customer identification program (CIP) failures.

Sample Solutions from Plan Sponsors

What if you don't use a provider who will do the work outlined in steps 1–4 above? Then the burden of the account opening can be time consuming for plan sponsors. We asked the plan sponsors on our PSCA HSA Committee to provide their own internal solutions to opening accounts for HSAs, and here are some of the responses we received.

Hannah Cockrum, SHRM-CP, CSP, Corporate HR Manager, of Pacific

Woodtech, a manufacturer and distributor of engineered wood products told us, "We have a lot of front-line workers. HSA enrollments are lower than preferred due to the blue-collar nature of our work and the varying levels of computer literacy among the workforce. We incentivize HSA participation among new hires by providing employer contributions when they become eligible for benefits. *The employee does not even need to add money themselves. The employer contribution is only given once they open their HSA account.* However, despite this enticement, enrollments have not reached the desired level.

To streamline and simplify the process, we have taken the strategic step of offering the HSA plan through the same carrier as the 401(k) plan.

"To streamline and simplify the process, we have taken the strategic step of offering the HSA plan through the same carrier as the 401(k) plan. This integration aims to make it more accessible and convenient for employees. How to sign up for the HSA is outlined in the new hire orientation process. To address existing enrollment gaps, we actively identify unenrolled employees based on error reports from our vendor. This allows us to target specific individuals who may require additional support. We are continuing steps to increase participation by creating a step-by-step guide on how to enroll and by allowing the employees time and access to a computer at work. Ultimately, our goal is to achieve 100 percent participation in the HSA plan, ensuring that every eligible employee can benefit from this valuable financial tool."

Blanca Gonzalez Karim, Director of Employee Benefits, for PBS, shared with us: "Here at PBS, we use Workday as our HRIS system. When new employees enroll in benefits for the first time and elect the HDHP (high deductible health plan), they must elect the HSA at the same time. We have an eligibility rule tied to this plan that will prevent the employees from not electing the HSA along with it. In fact, it will stop the employee from completing the full enrollment. This was a quick solve to ensure HSAs were opened at the time of enrollment. As far as getting employees to provide ID verification to HSA bank once the account has been opened, I make it clear during benefits orientation they will not receive the employer contribution unless this is finalized ($1200/$2400). Since the contribution is fully funded up front, this is an incentive for them to do so."

Tara Kahler, Human Resources Manager at Whiteford Law, follows a similar process to increase participation in the HSA and promote the plan: "We offer an employer contribution or match to increase employee comfort level with the HSA, and we meet one-on-one to assist employees who require more explanation. We also use 'Action Required' emails — I send this in the subject line to get their attention. Be sure your provider's portal and processes are easy and user-friendly. We also promote, communicate, and educate as much as possible."

Cynthia Obenland, Director, Benefits Solutions, Precision Medicine Group, shared the following process: "In our HR system, there are two separate benefits that have to be elected: the HDHP and the HSA benefit. When an employee submits their elections, the elections come to me to review/approve. I will immediately approve the HDHP request. I keep the HSA request in a pending status. I then send the employee an email letting them know that they need to set up their HSA (sample email shown below). Once I see their account showing under our Group ID, I will then approve the pending HSA benefit.

"If the pending request has been sitting for at least a month, I will forward back to the employee the original email I sent letting them know that the account is still not showing and asking if they have changed their mind about participating in the HSA benefit.

"Most employees are opening their HSA from receiving either email but there are some that I do have to chase and after a send a third email reminder, I will tell them that should they decide to start wanting to participate later, to please reach out and let me know as I need to reject the pending HSA request."

Sample email:

Subject: *ACTION REQUIRED: Please use the enclosed link to set up your Precision HSA*

Hello Joe — Welcome to Precision! I have approved your benefit election requests except for the HSA benefit. Please set up your Precision HSA. The link below is tied to our plan number. Once you do that and we see the account showing under our platform, I will then approve the HSA benefit. Your other elections will be sent to the vendors on the next available file feed.

Please let me know if you have any questions.

— Cynthia

Summary

This is a complex issue, and as you can see in this article, each plan sponsor handles this issue a bit differently. If you are looking for more plan sponsor solutions, we would refer you to the large number of responses we received in the Question of the Week.

Karin Rettger is the President, Principal Resource Group, Inc., and Chair of PSCA's HSA Committee

Investments

In Search of Standards and Definitions for ESG

A primer on the history and evolution of "ESG" factors in investing.

By Samuel C. Adams and Robert E. Pike for PCSA's Investment Committee

The acronym ESG, which stands for "Environmental, Social, and Governance," was first coined by the United Nations in a landmark 2004 report, "Who Cares Wins." The report stated, "better consideration of environmental, social and governance factors will ultimately contribute to stronger and more resilient investment markets, as well as contribute to the sustainable development of societies."

The report was focused on elevating the use of ESG factors in investment analysis to better assess risk. The authors went so far as to say, "we have refrained from using terms such as sustainability, corporate citizenship, etc., in order to avoid misunderstandings deriving from different interpretations of these terms."

ESG, as originally defined by the report, was clearly different than responsible investment strategies that were based on investor values and preferences. Those strategies, often called 'ethical investing' in the UK and Europe or 'socially responsible investing' (SRI) in the US, were ways for investors to align their values with their investments. Common SRI strategies excluded stocks like alcohol, tobacco, gambling, pornography, and weapons.

ESG attempts to price the risks companies face from their environmental footprint, their social impact, and their governance practices. They measure factors like those listed in Exhibit 1.

Market Obfuscation

Over time, the clear distinction between ESG based strategies and SRI based strategies have become erased. As ESG investing became popular and began attracting assets, fund managers launched more strategies with ESG in the fund name or in the marketing materials. Journalists started referring to any responsible or sustainable strategy as 'ESG'. Now the terms ESG, SRI, Impact, Sustainable etc. are used interchangeably or without clear differentiation. Often ESG is used as a catchall term to include SRI, Impact, and other forms of values-based investing.

This has made it difficult for investors to clearly understand what a particular investment's strategy actually is. And it leaves the door open for "greenwashing" — where managers will add 'ESG' or 'sustainable' to fund names for documentation when they aren't really practicing it.

Europe Leads the Way

In 2019, the European Union proposed the first major attempt to formally organize and mandate standardized sustain-

Exhibit 1: Environmental, Social, and Governance Factors

Environmental Conservation of the natural world	**Social** Consideration of people and relationships	**Governance** Standards for running a company
• Climate change and carbon emissions	• Customer satisfaction	• Board composition
• Air and water pollution	• Data protection and privacy	• Audit committee structure
• Biodiversity	• Gender and diversity	• Bribery and corruption
• Deforestation	• Employee engagement	• Executive compensation
• Energy efficiency	• Community relations	• Lobbying
• Waste management	• Human rights	• Political contributions
• Water scarcity	• Labor standards	• Whistleblower schemes

Source: CFA Institute — ESG Investing and Analysis. https://www.cfainstitute.org/en/research/esg-investing

ability disclosures by investors. Adopted in 2021 with an effective date of January 1, 2023, the SFDR (Sustainable Finance Disclosure Regulation) is designed to allow investors to properly assess how sustainability risks are integrated in the investment decision process.

Specifically, the SFDR "requires financial market participants and financial advisers to inform investors about how they consider the sustainability risks that can affect the value of and return on their investments ('outside-in' effect) and the adverse impacts that such investments have on the environment and society ('inside-out'). Market participants have to make this information available with regard to specific products, but also relating to their respective firm as a whole. They have to do so via their websites, in product pre-contractual documents and in annual reports."

The SFDR continues to be refined and updated, and it has proven to be a catalyst for other countries (including the United States Securities and Exchange Commission) to launch their own versions of uniform and required disclosures around sustainable investing.

In addition, the EU was a "first mover" in the standardization of ESG terms when it launched the EU Taxonomy in 2020. The EU Taxonomy is a classification system designed to clearly define what constitutes an "environmentally sustainable economic activity."

The six major classifications defined in the Taxonomy Regulation are: 1) climate change mitigation, 2) climate change adaptation, 3) sustainable use and protection of water and marine resources, 4) transition to a circular economy, 5) pollution control and prevention, and 6) protection and restoration of biodiversity and ecosystems.

Accompanying the Regulation is an extensive list of industries and sub-industries and how their attendant activities impact each of these six categories. It is the most in-depth attempt to date by any regulator to identify and standardize evaluation criteria for companies as the world transitions to a more sustainable future. More information can be found here: https://ec.europa.eu/sustainable-finance-taxonomy/taxonomy-compass/the-compass

The SEC Response

As a result of the global movement towards greater disclosure on sustainability matters, and growing demand by investors for "clarification" on a plethora of divergent claims by fund managers around ESG strategies, the SEC acted in 2022 to address for the first time the issue of "standardized ESG disclosures."

The SEC has had Rule 35d-1 of the Investment Company Act, usually referred to as the "Names Rule," on the books since 2001. This rule was meant to preclude managers from using names that were deceptive or inconsistent with their actual investment strategy.

On September 20th, 2023, the SEC adopted final amendments to the "Investment Company Names" rule. The new requirements expand the coverage of the 80 percent investment policy requirement ("80 percent rule"). The 80 percent rule requires any fund with certain names to adopt a policy to invest at least 80 percent of the value of the fund's assets in investments that match the fund's name. Previously the name rule applied to terms like "bonds" or "equities" or certain sectors or countries. Going forward, fund managers using names such as "growth," "value," "ESG," "sustainable," "green," etc. will have to abide by this rule. Fund managers have 24–30 months, depending on their size, to comply with the new rule.

The goal of the amendment is to provide investor protection through increased clarity. It is an attempt as well to combat "greenwashing," the practice of claiming a fund is more sustainable than it really is. By improving fund names, the rule contributes to market integrity, and provides more consistency and standardization.

The SEC has recognized that the significant demand for ESG-positioned products raises the risks of customers being misled as more managers launch more funds in this space. The regulator even stated that it would consider further rulemaking more narrowly focused on ESG.

Then, on November 1, a landmark event occurred as global investment industry leaders (CFA Institute, Global Sustainable Investment Alliance, or GSIA, and the United Nations Principles for Responsible Investing — UNPRI) announced harmonized definitions for responsible investing approaches. Detailed definitions were provided for five terms (categories) that seek to bring greater understanding and consistency to terminology used for responsible investing:

- Screening
- ESG integration
- Thematic investing
- Stewardship
- Impact investing

These five categories provide a clear resolution of the conflicting terms and definitions used in the past and will become the de facto global standard by which all parties (regulators, asset owners, and investors) will set forth information about responsible investing approaches going forward.

Accounting Rules to Mandate Standardized Disclosures

Aside from global regulatory activities, perhaps the most significant global effort to standardize and define sustainable finance is occurring in the realm of accounting.

Financial accounting standards have long been the method by which investors compare and appraise companies globally. The standards are developed and overseen globally by the IFRS Foundation, a not-for-profit, public interest organization composed of market and government experts with two constituent standard-setting boards: the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB).

In the United States, the Financial Accounting Standards Board (FASB) works with IASB to develop and enforce financial reporting standards for publicly held companies in the U.S., specifically through the issuance and maintenance of Generally Accepted Accounting Principles (GAAP). Importantly, FASB is a private, non-governmental division that is owned and funded by the US Securities and Exchange Commission.

Sustainability and Climate Change Disclosures Are Initial Emphasis

After years of study and deliberation, the IFRS released their inaugural general sustainability (IFRS 1) and (IFRS 2) reporting standards in June of 2023. These are the foundational global reporting requirements for all companies who are required to file financial statements. They become effective on January 1, 2024.

What do these new standards say? IFRS 1 (General Requirements for Disclosure of Sustainability-Related Financial Information) "requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium, or long term" (collectively referred to as "sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects").

Specifically, an entity will have to disclose information about:

- Governance processes, controls, and procedures used to monitor, manage, and oversee sustainability-related risks and opportunities.
- Strategies used for managing sustainability-related risks and opportunities.
- Processes used to identify, assess, prioritize and monitor sustainability-related risks and opportunities.
- Performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.

Similarly, IFRS S2 (Climate-Related Disclosures) sets out the requirements for disclosing information about an entity's climate-related risks and opportunities. We note especially the requirement that each company must disclose its absolute gross greenhouse gas emissions (GHG) generated, expressed as metric tons of CO_2 equivalent apportioned among Scope 1, Scope 2, and Scope 3 greenhouse gas emissions.

These "Scope" emissions are defined by the Greenhouse Gas Protocol and are critical metrics that will be among the first "wave" of standard ESG comparisons used by investors.

Very significantly, IOSCO (International Organization of Securities Commissions), the leading international policy forum and standards setter for securities regulators, called for the adoption of IFRS 1 and IFRS 2 into worldwide regulatory frameworks shortly after their release this summer.

Straight away, the UK's Transition Plan Taskforce (TPT) announced the release of the final version of the TPT Disclosure Framework on October 10, 2023, with a self-professed goal of providing a "gold standard" for companies to develop and report on their climate transition plans.

As a result of all this, while most developed economies will be incorporating climate metrics into required financial reporting, it remains to be seen how emerging markets and less developed economies will proceed.

Much of the tension stems from differing views on how to pay for the transition to a less carbon intensive global economy. In July of 2021, the EU proposed a Carbon Border Adjustment Mechanism (CBAM) with the CBAM Regulation becoming effective on May 16, 2023. The goal is to prevent "carbon leakage," which occurs when industries transfer polluting production to other countries with less stringent climate policies.

The initial objective is to measure the carbon intensity of goods imported into the EU, with "high carbon emitters" eventually making "financial payments and adjustments" versus low carbon emitters. The transitional period began on October 1, 2023, and requires importers of carbon intensive goods like cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen to report their Scope 1 GHG emissions (nicely dove-tailing with the new IFRS 2 Standard described above).

Beginning in 2026, these EU importers will need to buy "CBAM Certificates," which will be priced based on the weekly average auction price of EU ETS ("Emissions Trading System") allowances (euros per ton of carbon emitted). These certificates would then be "redeemed" each year by the importer in an amount corresponding to the total amount of GHG embedded in the imported products. Importers who fall short could go into the marketplace and purchase CBAM certificates, while those with a "surplus" could sell them to those in need.

The EU envisions this as the best and fairest way to incentivize the adoption by industry of less intensive GHG processes and products. Some have characterized this as a "carbon tax," but it is at the core a market-based solution that seeks to standardize the pricing of the "green transition." (We would

SCOPE 1 Direct emissions	SCOPE 2 Indirect emissions	SCOPE 3 Indirect emissions
Direct emissions that are owned or controlled by a company.	**Indirect emissions that are a consequence of a company's activities but occur from sources not owned or controlled by it.**	
Emissions from sources that an organisation owns or controls directly. **Example** From burning fuel in the company's fleet of vehicles (if they're not electrically powered).	Emissions a company causes indirectly that come from where the energy it purchases and uses is produced. **Example** The emissions caused by the generation of electricity that's used in the company's buildings.	All emissions not covered in Scopes 1 or 2, created by a company's value chain. **Example** When a company buys, uses, and disposes of products from suppliers.

Source: National Grid Co.

note how these standardized CBAM Certificate metrics can assist companies globally in complying with the various facets of IFRS 1 listed above.)

Not surprisingly, China and India have strenuously objected to the EU "carbon tax," claiming it acts as a trade barrier and does not account for varying phases of economic development in different countries. As the largest global "carbon emitters," Chinese and Indian exporters would suffer the most, and governments there are proposing domestic solutions to help finance the transition instead.

The financing of the green transition is still in a nascent phase but bears watching closely. In addition, there will be divergent approaches to adopting these new global accounting standards between developed and developing economies. Given all the above, analysts and investors will have to pay careful and particular attention to the geographic stratification of any ESG fund or strategy going forward. The good news is that ESG information available to investors will become increasingly standardized and thus comparable around the world, making for a better informed and more complete analysis of risk and return possibilities.

SEC Also Aiming to Adopt Climate Change Rules for US Companies

While the SEC's "Names Rule" seeks to standardize "product disclosure" around ESG strategies, the Commission is also proposing changes that would standardize climate-related disclosures for investors via their financial (accounting) statements ("The Enhancement and Standardization of Climate-Related Disclosures for Investors").

First proposed in March of 2022, and broadly reflecting IFRS 1 and IFRS 2, the proposed rules would require companies ("Registrants") to include climate-related disclosures in their registration statements and periodic reports (filings like Form 10-Q).

The reports would need to list information about climate-related risks that are "reasonably likely to have a material impact on their businesses, results of operations, or financial conditions." Required information about climate-related risks would also need to include disclosure of a company's Greenhouse Gas Emissions, specifically quantifying Scope 1, 2, and 3 GHG metrics to investors. The SEC believes that adoption of these rules will lead to more consistent and comparable information across industries and geographies.

This SEC proposal has generated some opposition, especially around the definitions and mandates around GHG disclosures. Some are questioning the SEC's authority to prescribe rules that they view as intended to manage the economy and businesses.

However, the vast majority of institutional investors and asset owners support standardizing climate risk disclosures according to an exhaustive study by Ceres of all the comment letters submitted on this proposal.

The SEC is set to issue their rule shortly, with most predicting that the GHG disclosure rules will be mandated (consistent with IFRS 1 and 2, and with IOSCO's recommendation). In the end it is clear that regulatory and accounting standards will define the standards by which investors and analysts can better compare companies and industries as the world transitions to a more sustainable future.

Samuel C. Adams and Robert E. "Emery" Pike, CFA, AIF are members of PSCA's Investment Committee.

Sam Adams is CEO & Co-Founder of Vert Asset Management.

Emery Pike is a Senior Advisor at Sheets Smith Wealth Management Inc.

PSCA's 2023 HSA Survey

More employers are automating HSA enrollment according to the recently released report.

By Hattie Greenan

PSCA's recently released 2023 HSA Survey, shows that HSA programs are becoming more sophisticated and robust, though employers still find challenges in getting employees to enroll in the program and educating them about the benefits of HSAs. The fifth annual benchmarking survey of Health Savings Account (HSA) programs, sponsored by HSA Bank, reports on the 2022 year-end data from more than 500 employers and was released in November.

Automatic Enrollment

A recent PSCA QOTW asked employers about their challenges with getting employees to open an HSA after they enroll in the HDHP. Many respondents indicated that it was a challenge, particularly in depositing employer contributions when employees don't open an HSA right away. Other employers stated that they open the HSA for employees when they enroll in the HDHP to help ease this administrative burden.

This is a trend we are seeing in the annual HSA survey data — in 2022 nearly half of organizations (46.7 percent) reported that they automatically enroll eligible employees in an HSA — up by more than 30 percent in just two years. There may also be an emerging trend in employers using a default or suggested savings rate to encourage greater account funding (11.0 percent of respondents, up from nine percent last year and eight percent the year before). *(See Exhibit 1.)*

Education

In addition to employing strategies borrowed from retirement plan administration such as automatic enrollment and defaults, more employers are framing HSAs as part of a holistic retirement savings approach and not just a spending account for current health care expenses. More than 40 percent of employers do so, up by nearly half from two years ago (27 percent). Aligning HSA education with retirement

Exhibit 1: Automatically Enroll Eligible Into the HSA

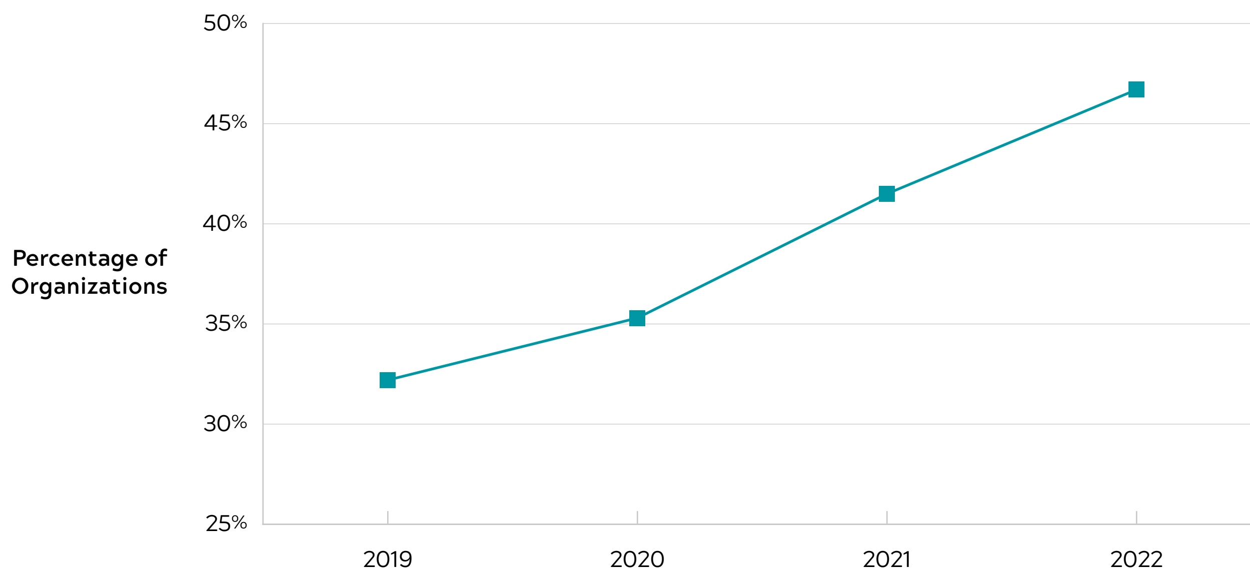
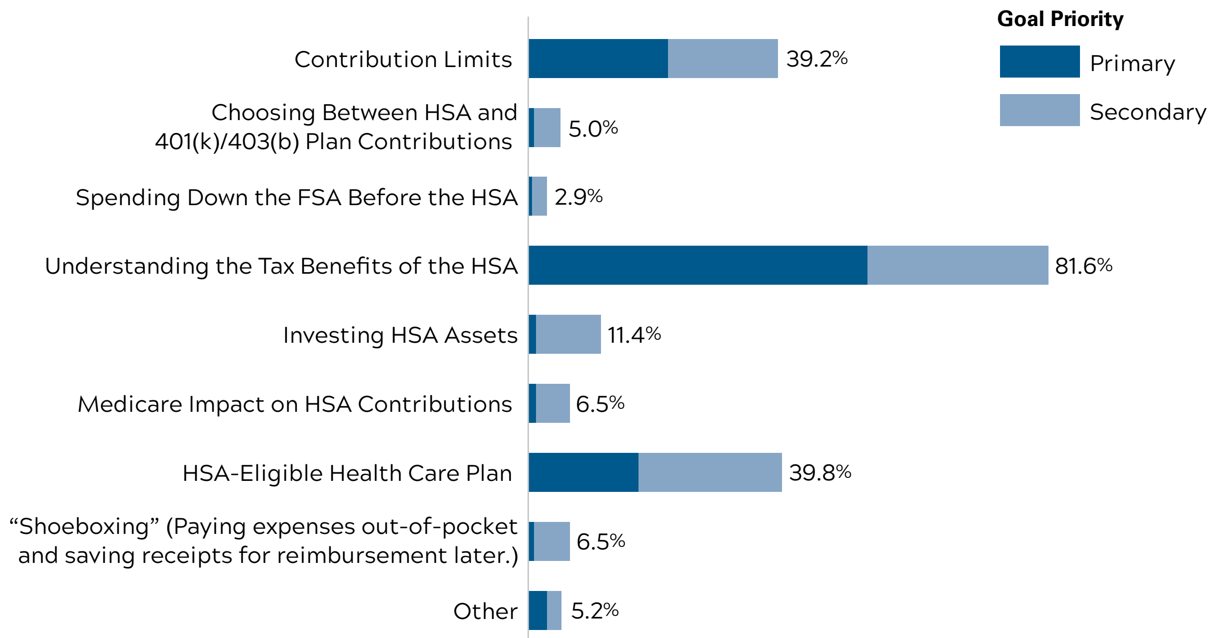


Exhibit 2: Primary and Secondary HSA Education Goals



plan education can help employees understand the advantages of both and develop a combined savings approach for health care expenses in retirement.

Explaining the (triple) tax savings benefits of contributing to (and saving in) an HSA continues to be the primary educational focus of employers, cited by more than 80 percent of respondents. *(See Exhibit 2.)*

Funding the HSA

Though educating employees about the benefits of HSAs is still the primary concern of employers, fewer indicated it as the top concern this year while concern about employees being able to fund their HSAs is growing (indicated by a third of respondents, up from 20 percent the year before). Indeed, the average participant contribution dropped by $150 in 2022, though more participants contributed (80 percent, up from 72.8 percent in 2021).

Additional findings from PSCA's 2023 HSA Survey include:

1. **Take-Up Rates:** Seventy percent of respondents offer multiple health plan options to employees — of those that do, only a third see the HSA-qualifying option getting more use than other options, though two-thirds have seen an increase in is use over time.
2. **Participation:** Nearly 90 percent of eligible employees had an HSA in 2022 with 80 percent making contributions to it, up from 72.8 percent in 2021.
3. **Contributions:** The average participant contribution in 2022 was $2,323, down from the last few years.
4. **Account Balances:** The average account balance at the end of 2022 was $6,130, up from $4,237 in 2020.
5. **Employer Contributions:** Three-quarters of employers make contributions to the HSA. Most provide a set amount per coverage level.
6. **Automatic Enrollment:** Nearly half of organizations (46.7 percent) automatically enroll employees in the HSA if they enroll in the HSA-qualifying health option, up from 41.2 percent in 2021 and 35.3 percent in 2020.
7. **Retirement Savings:** More than a third of respondents indicated that they position the HSA as part of a retirement savings strategy to employees up from 27.2 percent the year before.
8. **HSA Concerns:** Though employee education is still the most common HSA concern cited by employers, it dropped from 70 percent of respondents stating it was their number one concern in 2021 to 58.3 percent.
9. **Investments:** Sixty percent of responding organizations offer investment options for HSA contributions, though most participants choose not to use this option — 70 percent of all HSA assets remain in cash.
10. **Fees:** Nearly 60 percent of organizations pay HSA maintenance fees themselves. The fees are generally assessed monthly (89.3 percent of plans), and cost less than $5 a month/participant, on average.

The full survey can be accessed at https://www.psca.org/research/HSA.

Hattie Greenan is PSCA's Director of Research and Communications.

OK Boomer? Maybe Not

Why do many late Boomers lag behind in their retirement savings?

By Judy Ward

A version of this article was published in the Fall issue of NAPA Net the Magazine.

A paper published in May by the Center for Retirement Research at Boston College (CRR), "Why Do Late Boomers Have So Little Wealth and How Will Early Gen Xers Fare?" looked at why many Late Boomers (born between 1960 and 1965) lag behind older Boomers in their retirement savings. "Late Boomers have low levels of wealth regardless of how it is defined — total wealth, retirement wealth, and 401(k)/IRA wealth," the paper said.

"A decline in some wealth components had been expected as a result of the rise in Social Security's FRA (full retirement age), the shift from DB to DC plans, and a drop in housing values during the Great Recession. But increasing DC balances were predicted to offset the gap, since Late Boomers were the first generation where workers could have spent their whole career covered by a 401(k) plan," it continued. "That did not happen; average DC (defined contribution) plan wealth for those in the middle quintile dropped from $52,300 for Mid Boomers to $32,700 for Late Boomers. In fact, declines occurred across all but the top quintile."

Stuck in the Middle

The CRR researchers utilized 2016 data from the University of Michigan's Health and Retirement Study (HRS), adjusting the data for inflation to reflect 2020 dollars. Why do many Late Boomers lag behind in their retirement savings? For one thing, Baby Boomers overall began saving for retirement at a median age of 35, according to *Post-Pandemic Realities: The Retirement Outlook of the Multigenerational Workforce,* a survey report released by the Transamerica Center for Retirement Studies (TCRS) in July.

"Baby Boomers were well into their careers when defined contribution plans became available at many employers," Catherine Collinson, Los Angeles-based CEO and President of TCRS, said. "One of the impacts is Baby Boomers just haven't had the same time horizon to grow their savings. Starting to save as young as possible enables people to leverage the time value of money to a greater extent."

Late Boomers started working too late to have a defined benefit plan for the most part but too early to benefit throughout their career from 401(k) automated plan design features.

"These Boomers joined the workforce in the midst of the pension-to-401(k) evolution," Michael Shamrell, Boston-based Vice President of Workplace Investing, Thought Leadership at Fidelity Investments, said. "And many spent a lot of time in the workforce before the Pension Protection Act passed (in 2006), so they haven't benefitted as much from automatic enrollment and auto-escalation. This group has been on their own, to a large extent."

Many people in this age group started saving before automatic enrollment into QDIAs (qualified default investment alternatives), and some have more in equities than Fidelity would recommend for their age range, Shamrell added.

"So many are 'do-it-yourselfers,' so they don't have a professionally managed portfolio," he added. "Among participants aged 55–59 in plans that Fidelity recordkeeps, 54.3 percent have an asset allocation in line with what Fidelity would recommend for that age range, while 51 percent of those 60–64 do," he said.

"Retirement savings is one of those topics where some people focus on looking at the glass as being half full, and some focus on it being half empty. I feel like this group — because they were more a part of the pension-to-401(k) shift — has been discussed in terms of, 'Are they behind the 8-ball?'" Shamrell added. "But we feel that the numbers show that the younger Boomers are not doing that badly. Is there some room for improvement? Yes." Fidelity recordkeeping data pegs the average account balance of participants aged 55–59 at $204,600 and $211,700 for those 60–64. (As he points out, many participants also may have assets outside of their workplace retirement account at Fidelity.)

Great Recession

Before the Great Recession, Late Boomers were working at the same rate as older Boomers, said Anqi Chen, a CRR

Senior Research Economist and Assistant Director of Savings Research, who co-wrote the CRR Late Boomer paper. But then they dealt with the repercussions of the Great Recession, which ran from December 2007 to June 2009.

"This was the biggest factor," she said. "It wasn't really a one-time event: The effects lasted until at least 2010. There was an initial shock to the job market at a time when Late Boomers were in their peak earning years, and that really hurt them in terms of earnings."

CRR's analysis indicates that until their mid-40s, Late Boomers held more 401(k)/IRA assets than earlier cohorts had at the same age. "With their 401(k) savings, late Boomers were actually doing pretty well early on in their career cycle, but when the Great Recession hit, their savings rate dipped for many, and they weren't able to make that up later," she explained. "They were in a unique moment: They were at the peak of their career and earnings, and then they got hit by the Great Recession."

When T. Rowe Price's Sudipto Banerjee thinks about why many Late Boomers haven't saved as much as they need for retirement, the impact of the Great Recession looms as the most significant factor. "The timing of this recession could have been crucial to Late Boomers because that's when they were in their late 40s, and that's usually when earnings peak and people save more for their retirement," Banerjee, Director of Retirement Thought Leadership in T. Rowe Price's Investment Product and Retirement Content Group in Baltimore, said. "A lot of Late Boomers could have lost their job, so for a time, they were not saving at all for retirement. And even if they kept their job, a lot of 401(k) plan sponsors stopped their contributions to employees for a time."

The stock market's dive during the Great Recession impacted many Boomers' retirement-savings outlook, said Richard Johnson, Senior Fellow in the Income and Benefits Policy Center at the Urban Institute in Washington, D.C. "The Great Recession had quite a substantial impact on Boomers and particularly the stock market decline," he explained. "For Boomers, certainly a loss of earnings hurt some of them, but the larger issue was the drop in the value of their accumulated retirement wealth.

The Urban Institute's research has estimated that 28 percent of Boomers overall are at risk of having inadequate resources in retirement (an inability to replace 75 percent of their pre-retirement income)," he added.

The Great Recession proved to be a setback for Baby Boomers, especially, Collinson agreed. "For those further along in their careers, it is more difficult to recover from any financial setbacks on their savings journey, simply because they have less time to do so before retirement," she said. "For years following the Great Recession, we (TCRS) asked workers about the status of their recovery from the Great Recession."

As recently as in a TCRS paper published in April 2019 — *What is "Retirement"? Three Generations Prepare for Older Age* — she said, "We found that 61 percent of Baby Boomers said that they were still recovering from the Great Recession." More specifically, 42 percent said they had somewhat recovered, 11 percent said they had not yet begun to recover, and 8 percent said they might never recover.

Diverse Factors

Beyond the Great Recession, the CRR paper attributes most of the remaining wealth differential among Late Boomers to a shift to households with lower average 401(k)/IRA balances, including a rising share of Black and Hispanic households in that age group and a declining share of married households and those with college degrees. Average DC wealth at ages 51–56 for middle quintile Late Boomer households totaled $67,265 for white households in 2020 dollars, the paper said, versus $13,606 for Black households, and $9,284 for Hispanic households.

"Largely, what is driving the racial disparities in retirement readiness is that people of color tend to earn less than white people," Johnson said. "People of color also are less likely to have a job that offers a retirement plan, and when they do have a job that offers a retirement plan, they tend to save less than white workers, just because of the financial pressures they have."

A couple of things stand out when T. Rowe Price has looked at why people of color often save much less for retirement, Banerjee added. "One, which is not talked about a lot, is when people start to save for retirement. More white households start saving in their 20s and early 30s, but in minority households, many do not start saving until their late 30s or early 40s," he said. "And it's just too hard for people to catch up if they start saving late, even if they are saving at a higher rate."

Another factor T. Rowe Price's research points to is differing financial priorities across different races, Banerjee said. "Saving for retirement is the number-one savings priority across all races, our research shows. But Black households say that saving for emergencies is almost as important as saving for retirement."

Black and Hispanic workers also are more likely to carry credit card debt and medical debt, according to a T. Rowe Price paper written by Banerjee and published in March 2022, "Race, Retirement, and the Savings Gap." And 41 percent of Black participants have student loan debt, the research found, versus 18 percent of white participants. "Debt, unfortunately, can be more detrimental to financial well-being than other financial troubles," the paper added.

Waiting to See

Among different age groups, people aged 55 and older typically express the highest confidence that they'll have enough money to live comfortably throughout their retirement, said Craig Copeland, Director of Wealth Benefits Research at the Employee Benefit Research Institute (EBRI) in Washington, D.C. That held true for EBRI's *2023 Retirement Confidence Survey* (RCS) as 66 percent of people aged 55 and older said they feel confident that they'll have enough money to live comfortably throughout their retirement but just 16 percent feel very confident about that, down from 22 percent.

"The big thing for Late Boomers now is that they could be nearing retirement at a point where the stock market has been down, and inflation has been high," Copeland said. "They've had two big things happen that you don't want to happen as you near retirement. So, the concern is, how do they get back that money that they lost from the stock market? That puts them in a spot that they need to think about planning out their lifestyle, and how they can live with the financial situation that they face.

"The issue is, can they maintain their lifestyle in retirement, or at least live above the poverty level?" Copeland continued. "Ultimately, it's really hard to say what's going to happen for this group in the next 30 years down the road. We can get an idea by projecting out their accumulated retirement account balance, but we don't know some of the other underlying factors that will impact them, such as whether they plan to downsize from their house and move, or whether they are physically healthy and plan to work longer."

The past few years have created a lot of uncertainty for Boomers approaching retirement age, and the full implications for their long-term outlook remain unknown, Johnson said. "What we're still waiting to see is whether one of the big impacts that we've seen over the past 20 years — people working longer, which has been a real contributor to increasing retirement security for people who are behind on their savings — will continue. Has the pandemic changed that?" he said. "Employment rates are now pretty much up to pre-pandemic levels for everyone except people over 65: We still haven't seen a full return to work for people over age 65, so I don't know what the impact will be on Late Boomers. But if you look at why people have been working longer — concerns about their retirement security, people over 65 still being in good health, and the ability to have less-physical jobs — all of those factors are still in play."

Working longer likely would be a good option for many who don't have enough saved, Chen said. "From an individual perspective, for those who can work longer, that's going to be the most powerful lever to increase their income in retirement," she says. "They can then start claiming Social Security later, not draw down on their savings while they're still working, and maybe even save more."

The TCRS study released in July found 49 percent of Baby Boomers said they expect to work past age 70 (or are already doing it) or do not plan to retire at all. And only 34 percent of Baby Boomers say they have a backup plan for income if they're forced into retirement sooner than expected.

"Our research finds that Boomers who are still in the workforce are seeking to work longer and have the mindset that work and retirement are not mutually exclusive," Collinson said. "That's a great vision to have, but it's not necessarily a reality. Unfortunately, the statistics are that when older workers find themselves unemployed, it is much harder for them to find a new job."

Collinson was asked if any policy changes could help Late Boomers falling short in their retirement savings, and her response focused on Social Security. In the TCRS survey released in July, 41 percent of Baby Boomers said they expect Social Security to be their primary source of retirement income.

"First and foremost is rebuilding confidence in the Social Security system. Our research shows that a high percentage of Baby Boomers (40 percent) say they fear that Social Security will be reduced or cease to exist in the future," Collinson said. "We need a concerted effort to address the depletion of the Social Security Trust Funds, which is expected to happen in the next 10 years.

"After that, we need to look at other ways to strengthen the Social Security system," Collinson concluded. "With people living and working longer now, we should consider extending the maximum age to claim benefits beyond age 70 with a higher monthly benefit than is currently available. And many Boomers expect to work part-time in retirement, so maybe we should change the income-test limit so that more people do not get taxed on their Social Security benefits while working part-time."

Judy Ward is a freelance writer specializing in writing about retirement plans.

Washington Watch

SECURE 2.0: A Year Later

Where are we with SECURE 2.0, a year after enactment.

By James Locke

In the ever-evolving landscape of retirement policy, the SECURE 2.0 Act stands as a beacon of hope for many Americans navigating the complexities of retirement planning. Almost a year has passed since Congress ushered in this significant legislation, marking the second substantial retirement savings policy within a mere half-decade. As the name suggests, the bill aims to fortify retirement security for individuals across the nation, but how will it achieve this lofty goal?

Reflecting on Progress

The SECURE 2.0 Act sought to build upon its predecessor's foundation, fine-tuning and expanding provisions to better serve the populace as retirement needs continue to evolve. Among its key features were provisions to bolster retirement savings, simplify the process for small businesses to offer retirement plans, and enable older Americans to save more. Notable inclusions encompassed increased catch-up contributions for those aged 62 to 64, automatic enrollment in workplace retirement plans, and extending the required minimum distribution (RMD) age from 72 to 75.

Room for Improvement

However, as with any legislative endeavor, SECURE 2.0 has not been without its complexities and chal-

lenges. Implementing these changes across diverse financial landscapes, understanding the nuanced implications for different demographics, and ensuring comprehensive accessibility remain ongoing endeavors.

Lawmaking is an iterative process. Therefore, it should come as no surprise that Congress is already busy developing a new package of legislative initiatives designed to build upon SECURE 2.0 positive reforms.

In July 2023, the Auto Reenroll Act of 2023 was introduced in both the House and the Senate (H.R. 4924/S. 2517). This bill would amend both ERISA and the Internal Revenue Code (IRC) to permit qualified automatic contribution arrangements (QACAs) and eligible automatic contribution arrangements (EACAs) to automatically reenroll workers back into the retirement plan at least one time every three years.

In October 2023, the Retirement Investment in Small Employers (RISE) Act was introduced in the House (H.R. 6007). The legislation would create a new Micro Employer Pension Plan Startup Credit in IRC Section 45E for qualified micro employers. A qualified micro employer is defined as an employer with 10 or fewer employees. The credit amount is 100 percent of any retirement plan administrative costs up to $2,500 for the first three years after adoption of the retirement plan.

In November, legislation was introduced to lower the minimum participation age ERISA-covered defined contribution (DC) plans from age 21 to age 18. The Helping Young Americans Save for Retirement Act (S. 3305) would also exempt 18 to 20-year-old employees from testing related to retirement funds that would otherwise increase the cost of administering retirement plans for these employees, effectively mirroring the administrative treatment of long-term, part-time employees (LTPTEs).

A Bright Future

The SECURE 2.0 Act has undeniably reshaped the retirement savings landscape, reinforcing the notion that retirement savings are a top priority for lawmakers in Washington, D.C. As the next comprehensive retirement legislative package begins to take shape, there will be plenty of opportunities to move legislative initiatives forward that will strengthen America's robust, employer-based retirement system.

James Locke is the Director of Federal Government Affairs for The American Retirement Association.

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PSCA
Plan Sponsor Council of America

Upcoming Dates & Events

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May 15–17, 2024
Salt Lake City, UT
www.pscanational.org

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National and regional conferences designed for defined contribution plan administrators and sponsors.

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- *66th Annual Survey of Profit Sharing and 401(k) Plans*
- *2023 403(b) Plan Survey*
- *2023 HSA Survey*
- *2022 NQDC Plan Survey*

Executive Report

A monthly electronic legislative newsletter.

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