

# Pension Benefits

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## INSIDE

RETIREMENT SAVINGS  
3

MARKUP  
5

RETIREMENT ATTITUDES  
6

PUBLIC PENSION PLANS  
7

Q&A ON PENSIONS  
9

PLAN COMMUNICATIONS  
10

REFERENCE DESK  
11

PB STAT  
12

How would more saving affect the National Retirement Risk Index?  
**Page 3**

Only 12% of women are very confident in their ability to fully retire with a comfortable lifestyle.  
**Page 6**

85% of participants in a recent survey ranked retirement benefits as key to job satisfaction.  
**Page 7**

Plan participants become more actively engaged with their retirement savings program after electronic delivery.  
**Page 10**

## WORKPLACE BENEFITS

### 19th Annual Transamerica Retirement Survey

#### A Compendium of Findings About U.S. Workers

Catherine Collinson et al., Transamerica Center for Retirement Studies, December 2019

“About half of workers (54%) agree that they are building a large enough retirement nest egg. Part-time workers (49%) are less likely to agree they are building a large enough retirement nest egg compared with full-time workers (56%).

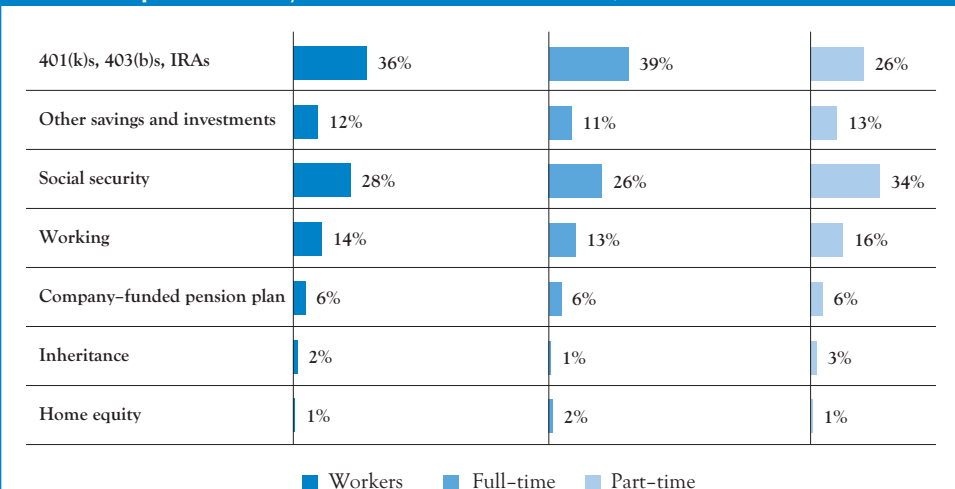
Workers’ most frequently cited retirement fears are ‘outliving my savings/investments’ (48%) and ‘Social Security will be reduced or cease to exist in the future’ (44). About two in five (40%) cite not being able to meet the basic financial needs of their family as their greatest fear.

Only 22% of workers plan to immediately stop working at a specific point in time. Many plan to transition into

retirement by either shifting from full-time to part-time (27%) or moving into a less demanding or more personally satisfying role (17%). Another 22% plan to continue working as long as possible in their current or similar position until they cannot work any longer, and 12% are ‘not sure’ about their transition. Part-time workers (32%) are more likely to plan to transition into retirement by reducing work hours compared with full-time workers (26%).

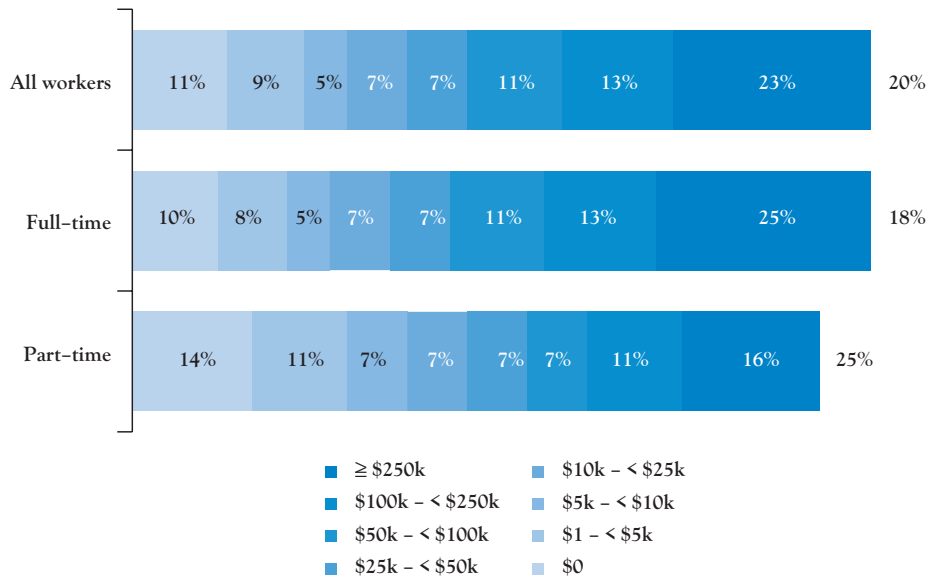
Almost half of workers (48%) expect their primary source of income in retirement to come from personal savings including 401(k)s, 403(b)s, and IRAs (36%) and other savings and investments (36%) and other savings and investments

Exhibit 1. Expected Primary Source of Retirement Income, 2019



Source: Collinson et al., Transamerica Center for Retirement Studies, December 2019

Exhibit 2. Total Household Retirement Savings, 2019



Source: Collinson et al., Transamerica Center for Retirement Studies, December 2019

(12%). Full-time workers are more likely than part-time workers to expect to rely on personal savings (50% and 39%, respectively). Part-time workers (34%) are more likely than full-time workers (26%) to expect to rely on Social Security (**Exhibit 1**).

Seventy-five percent of workers are saving for retirement through an employer-sponsored retirement plan and/or outside of work. Fewer part-time workers (60%) are saving for retirement through an employer-sponsored retirement plan and/or outside of work than full-time workers (79%). The median age workers begin saving for retirement is age 27.

Sixty-five percent of workers are offered a 401(k) or similar plan by their employers. Full-time workers are far more likely to be offered a plan than part-time workers (71% and 45%, respectively). Almost half of part-time workers (46%) indicate they are not offered any retirement benefits.

Among workers who are offered a 401(k) or similar plan, full-time workers are significantly more likely to participate in their company's plan (81%) than part-time workers (58%). Participants' contribution rates are consistent across employment status at 10% (median).

Workers estimate they will need to have saved \$500,000 (median) by the time they retire in order to feel financially secure, with 34% of workers estimating they will need \$1 million or more. Part-time workers estimate needing to save \$300,000 (median), compared to \$500,000 (median) for full-time workers.

The majority of workers (62%) do not have a backup plan for retirement income if they are unable to work before their planned retirement, and only 26% cite that they have a backup plan.

Workers' total household retirement savings is \$50,000 (estimated median). Full-time workers (\$57,000) have more than twice as much saved as part-time workers (\$23,000) (estimated medians). One in four (25%) part-time workers have less than \$5,000 (**Exhibit 2**).

Millennial (65%) and Baby Boomer (63%) workers are slightly more confident that they will be able to retire comfortably than Generation X (59%). More Millennials (57%) and Baby Boomers (54%) than Generation X (50%) agree they are building a large enough nest egg.

Saving for retirement is the most common greatest financial priority of Baby Boomers (38%), which is four times higher than Millennials (9%) and higher than Generation X (24%). Approximately half of Millennials (53%) and Generation X (49%) expect personal savings from 401(k)s, 403(b)s, IRAs, and other savings and investments to be their primary source of income in retirement, while more than four in 10 Baby Boomers (42%) expect to rely on Social Security.

Baby Boomers have the highest total household retirement savings with \$152,000, more than twice as much as saved by Generation X (\$66,000) and more than seven times as much as saved by Millennials

(\$23,000) (estimated medians). Additionally, 39% of Baby Boomers have saved \$250,000 or more in all of their retirement accounts, compared with 24% of Generation X and 12% of Millennials. In contrast, 25% of Millennials have saved less than \$5,000 in retirement savings.

Women are less likely to be confident they will be able to fully retire with a lifestyle they consider comfortable (71%), compared with men (62%). Fewer women agree they are building a large enough retirement nest egg (47%), compared with men (62%).

Men are more likely than women to expect to rely on personal savings from 401(k)s, 403(b)s, IRAs, and other savings and investments as their primary source

of income in retirement (52% and 44%, respectively). On the other hand, women are more likely than men to expect to rely on Social Security (32% and 24%, respectively).

Men are more likely than women to be offered a 401(k) or similar plan by their employer (69% and 61%, respectively). Thirty percent of women are not offered any retirement benefits compared with just 21% of men.

[We surveyed] a nationally representative sample of 5,923 workers.” ■

The 222-page report is available online. Web site: [www.transamerica-center.org/docs/default-source/retirement-survey-of-workers/tcrs2019\\_sr\\_19th-annual\\_worker\\_compendium.pdf](http://www.transamerica-center.org/docs/default-source/retirement-survey-of-workers/tcrs2019_sr_19th-annual_worker_compendium.pdf)

## RETIREMENT SAVINGS

# How Would More Saving Affect the National Retirement Risk Index?

Alicia H. Munnell, Center for Retirement Research at Boston College, October 2019

“The National Retirement Risk Index (NRRRI) shows that half of today’s working families are at risk of not being able to maintain their standard of living once they retire. This result is not surprising since at any given point about half of private sector workers do not have an employer-sponsored retirement plan, and many who do have a plan end up saving relatively little.

Constructing the NRRRI involves three steps: (1) projecting a replacement rate – retirement income as a share of pre-retirement income—for a nationally representative sample of U.S. households; (2) constructing a target replacement rate that would allow each household to maintain its pre-retirement standard of living in retirement; and (3) comparing the projected and target replacement rates to find the percentage of households at risk.

The easiest way to think of increasing saving is raising the contribution rates for the roughly half of all households with access to 401(k) plans. In considering the current status of these households, it is necessary to combine their 401(k) balances with their holdings in individual retirement accounts (IRAs), since the bulk of money in IRAs is rollovers from 401(k)s.

Households eligible for a 401(k) are much less at risk of falling short in retirement than those without any employer plan—48% versus 62% (Exhibit 3).

The first exercise is to increase the saving rate for those with access to a 401(k) plan by various percentage points and see what happens to the NRRRI. The results show that increasing each household’s contribution rate by one percentage point would reduce the NRRRI

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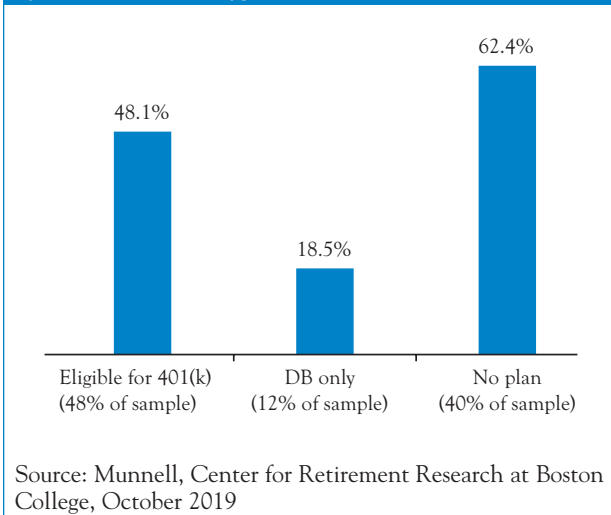
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**Exhibit 3. The National Retirement Risk Index, by Retirement Plan Type, 2019**



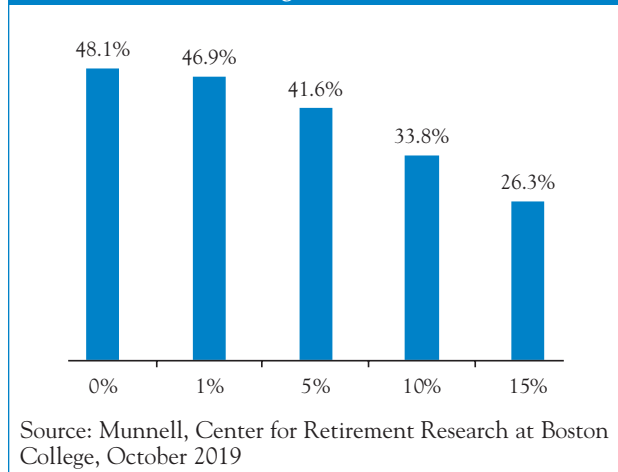
for these 401(k) households from 48% to 47%; by five percentage points to 42%; and by 10 percentage points to 34% (**Exhibit 4**).

While no mechanism currently exists to increase contributions in a meaningful way for workers without a workplace retirement plan, someday these workers could be covered. Assuming the availability of a retirement savings plan, a five-percentage-point increase in contributions would reduce the NRR for all households from 50% to 44%, compared to only 47% for all households if the increase was limited to those with 401(k)s.

Increased saving has a much bigger impact on younger households, because they have many more years to accumulate additional assets before retirement than older households. A five-percentage-point higher saving rate—for both covered and uncovered households—reduces the NRR by 11 percentage points for households ages 30 to 39, compared to only three percentage points for those 50 to 59.

Additional saving has a much larger impact on the ‘savings gap’ than on the NRR. The gap is the dollar difference between what households with a shortfall have actually saved up to a given year and what they should have saved up to that year in order to maintain their living standards in retirement. The size of this gap varies substantially by household. Before the assumed increase in saving, the total dollar shortfall for all ‘at-risk’ households was \$7.1 trillion;

**Exhibit 4. Impact on the National Retirement Risk Index of Increasing Contribution Rate by Various Percentage Points for Households Eligible for 401(k) Plans**



increasing saving by five percentage points reduces this gap to \$5.4 trillion.

This one-quarter reduction in the aggregate dollar gap far exceeds the one-eighth drop in the NRR from 50% to 44%. For the NRR, a five-percentage-point increase in saving moves only those households who are on the edge of being ‘at risk’ but not deeply in trouble into the ‘not at risk’ group. In contrast, the additional saving reduces the gap between projected and target income for all ‘at-risk’ households, meaning that everyone gets closer to their target even if they do not reach it.

Working longer sharply improves the retirement readiness of households. Specifically, the percentage of households at risk would be cut by more than a third if the retirement age in the NRR went from 65 (the current assumption) to 67 (Social Security’s eventual full retirement age, or FRA). The key to this impact is the structure of Social Security benefits. Monthly benefits increase by 7% to 8% per year between ages 62 and 70, due to the actuarial reduction before the FRA and the delayed retirement credit between the FRA and age 70. Combining the increase in the retirement age with a five-percentage-point increase in the contribution rate results in a dramatic decline in the NRR for all ages.” ■

The report is available online. Web site: [https://crr.bc.edu/wp-content/uploads/2019/10/IB\\_19-16.pdf](https://crr.bc.edu/wp-content/uploads/2019/10/IB_19-16.pdf)

# MARKUP *The Pension Scorecard for Key Legal Cases, Legislation and Regulations*

REGULATORY ITEM	HIGHLIGHTS	STATUS	
<p>The 2019 SECURE Act offers opportunities for plan sponsors and participants.</p>	<p>On December 19, 2019, Congress passed the Further Consolidated Appropriations Act of 2020 (the Act), which the President signed into law shortly thereafter. This year-end spending bill included the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act). The act aims to help employees achieve retirement security by ensuring that more workers have access to a retirement plan, are able to save enough money to maintain their standard of living in retirement, and do not outlive their retirement savings. The SECURE Act includes provisions that encourage employers to adopt retirement plans for their employees and to expand access to existing plans. In particular, the SECURE Act:</p> <ul style="list-style-type: none"> <li>• Broadens eligibility rules for long-term, part-time employees. (See the Q&amp;A on page 9).</li> <li>• Allows small, unrelated employers to adopt “open” multiple employer plans. This change is effective for plan years beginning after December 31, 2020.</li> <li>• Increases the income tax credit for costs paid or incurred by small employers in connection with establishing a retirement plan. This change is effective for tax years beginning after December 31, 2019.</li> <li>• Creates a new income tax credit of \$500 per year for small employers that add automatic enrollment. This change is effective for tax years beginning after December 31, 2019.</li> <li>• Increases the percent cap on automatic enrollment contributions to safe harbor plans from the prior 10% cap to 15% after the employee’s first plan year of participation. This change is effective for plan years beginning after December 31, 2019.</li> <li>• Requires lifetime income disclosure statements. The timing for this provision has not yet been set.</li> <li>• Permits retirees to delay required minimum distribution payments (RMD) until age 72. This change is effective for required distributions made after December 31, 2019, with respect to individuals who attain age 70-1/2 after that date. Participants who attained age 70-1/2 during 2019 will still need to receive RMD payments by April 1, 2020.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhances rules regarding lifetime annuity options under defined contribution plans. The rollover option is effective for plan years beginning after December 31, 2019.</li> <li>• Simplifies certain nonelective 401(k) plan safe harbor rules and notice requirements. This change is effective for plan years beginning after December 31, 2019.</li> <li>• Provides nondiscrimination testing relief for certain closed or “frozen” defined benefit pension plans. This change is generally effective upon enactment.</li> <li>• Modifies certain rules regarding RMD payments made following a participant’s death. This change is generally effective for distributions with respect to employees who die after December 31, 2019 (or December 31, 2021, for certain collectively bargained plans and governmental plans).</li> <li>• Prohibits plan loans through credit cards or similar arrangements. This is effective for loans made after the date of enactment.</li> <li>• Increases penalties for failure to timely file certain plan returns. These changes are generally effective for returns, statements, and notices required to be filed or provided beginning after December 31, 2019.</li> <li>• Permits penalty-free withdrawals for birth or adoption. This change is effective for distributions after December 31, 2019.</li> <li>• Modifies rules related to the treatment of 403(b) custodial accounts upon termination. Guidance will be retroactively effective for tax years beginning after December 31, 2008.</li> <li>• Clarifies that employees of certain church-related organizations may be covered under a 403(b) plan that consists of a retirement income account. This change is effective for all years beginning before, on, or after the enactment of the SECURE Act.</li> </ul> <p>Source: Jeffrey M. Holdvogt et al., McDermott Will &amp; Emery, 1/8/2020. Full text and a link to the SECURE Act are available online. Web site: <a href="http://www.mwe.com/insights/finally-secure-opportunities-in-the-2019-secure-act-for-plan-sponsors/">www.mwe.com/insights/finally-secure-opportunities-in-the-2019-secure-act-for-plan-sponsors/</a></p>	<p>Plan sponsors should immediately start considering how these changes could impact their retirement and health and welfare plans in 2020 and beyond.</p>

RETIREMENT ATTITUDES

# 19 Facts About Women’s Retirement Outlook

## Select Findings from the 19th Annual Transamerica Retirement Survey of American Workers

Transamerica Center for Retirement Studies, November 2019

“Only 12% of women are ‘very confident’ in their ability to fully retire with a comfortable lifestyle, compared with 23% of men. Nearly half of women (45%) are ‘not too confident’ or ‘not at all confident,’ compared with only 29% of men.

Despite having retirement dreams, expectations, and fears, only 15% of women have a written retirement strategy, compared with 22% of men. Another 42% of women have a plan but it is not written down (49% men). Forty-three percent of women do not have any strategy at all, compared to 29% of men. Every woman needs her own retirement strategy about retirement income needs, costs and expenses, and risk factors.

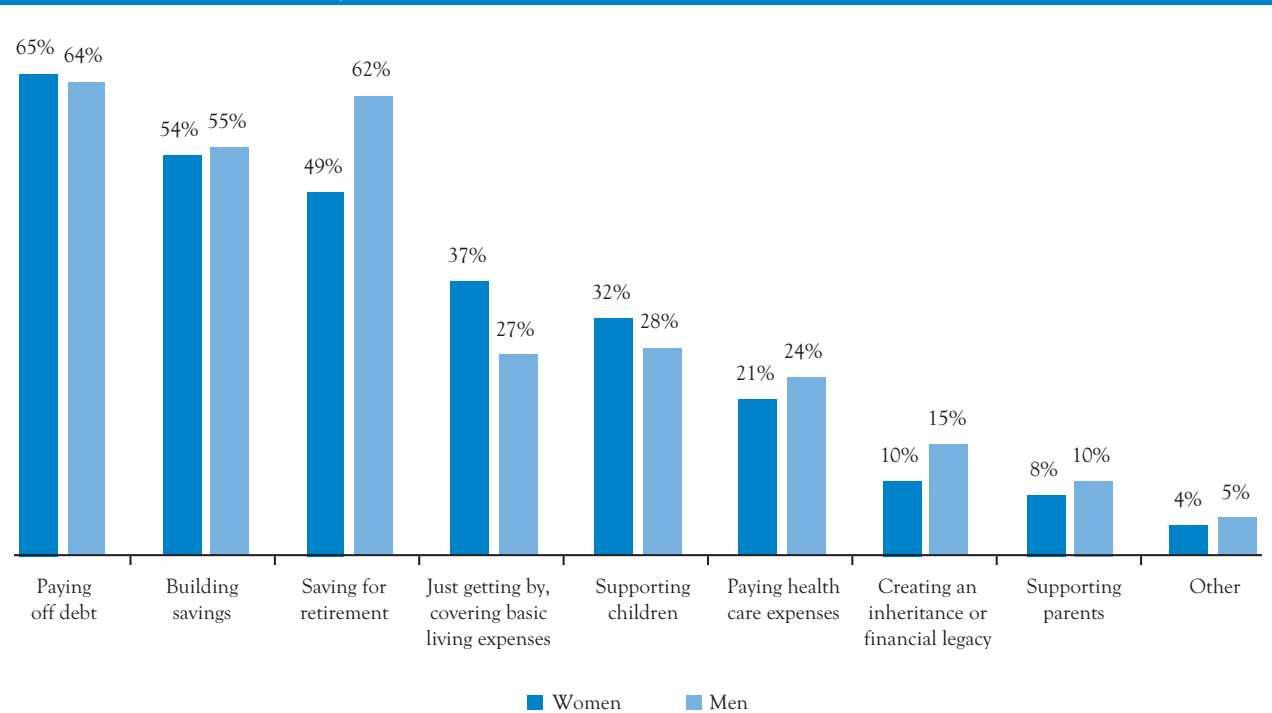
More than half of women (55%) expect to retire after age 65 or do not plan to retire, including 14% who

expect to retire between age 66 and 69, 26% at age 70 or older, and 15% who do not plan to retire. Twenty-six percent of women expect to retire at age 65. While they have similar expectations, men are somewhat more likely than women to expect to retire before age 65 (24%, 19%, respectively).

Fifty-four percent of women plan to work after they retire—including 12% who plan to work full time and 42% who plan to work part time—while a slightly higher majority of men (56%) plan to do so. Only 26% of women do not plan to work in retirement, compared to 31% of men.

Among women who plan to work past age 65 and/ or in retirement, their reasons for doing so are more often financial (84%) than healthy-aging related (69%).

Exhibit 5. Financial Priorities, by Gender, 2019



Source: Transamerica Center for Retirement Studies, November 2019



Women's top three financial reasons include 'wanting the income' (57%), 'can't afford to retire because I haven't saved enough' (41%), and 'concerned that Social Security will be less than expected' (38%). The top three healthy-aging reasons for women planning to work in retirement are 'being active' (45%), 'keeping my brain alert' (42%), and 'having a sense of purpose' (34%).

More than six in 10 women and men cite paying off some form of debt as a financial priority (65% women, 64% men). Women are more likely than men to indicate they are 'just getting by—covering basic living expenses' than men (37% women, 27% men). Fewer than half of women (49%) cite saving for retirement as priority, compared with 62% of men, although both women and men cite building savings as a priority (54% and 55%, respectively) (**Exhibit 5**).

Thirty-two percent of women expect Social Security to be their primary source of retirement income, compared with 24% of men. Fewer than half of women (44%) expect their primary source of income in retirement to be self-funded through 401(k)/403(b) accounts/IRAs (34%) or other savings and investments (10%), a finding that is lower than that of men (52%). Fifteen percent of women expect income from working to be their primary source of income in retirement, a finding that is similar to men (13%).

Sixty-eight percent of women are saving for retirement through employer-sponsored plans (for example, 401(k) or similar plans) and/or outside the workplace (for example, in IRAs, mutual funds, or bank account), compared with 81% of men. Among those who are saving for retirement, women started saving at age 27 (median) and men started saving at age 26 (median).

Women workers (61%) are less likely than men (69%) to be offered a 401(k) or similar plan. Thirty percent of women are not offered any retirement benefits by their employers, compared with only 21% of men. These findings are partly explained by the issue that women are more likely to work part-time and many employers do not extend benefits to their part-time employees. Women are twice as likely as men to work part-time (30% and 14%, respectively). Only 46% of women who work part-time are offered a 401(k) or similar plan compared with 68% of women who work full-time.

Women report dramatically lower total household retirement savings than men: \$23,000 among women compared with \$76,000 among men (estimated median). Men (30%) are nearly twice as likely as women (16%) to say that they have saved \$250,000 or more in total household retirement accounts. A worrisome 31% of women and 20% of men have saved less than \$10,000 in retirement accounts or nothing at all.

Thirty-seven percent of women who are investing for retirement use a professional financial advisor to help them manage their retirement savings and investments, compared with 39% of men. Of women who do, most use a financial advisor to make retirement investment recommendations (67%), to calculate retirement savings goals (48%) and/or for general financial planning (47%).

[We surveyed] 5,168 adult full-time or part-time workers in a for-profit company employing one or more employees." ■

The 35-page report is available online. Web site: [www.transamerica-center.org/docs/default-source/women-and-retirement/tcrs2019\\_sr\\_women\\_and\\_retirement\\_research\\_report.pdf](http://www.transamerica-center.org/docs/default-source/women-and-retirement/tcrs2019_sr_women_and_retirement_research_report.pdf)

## PUBLIC PENSION PLANS

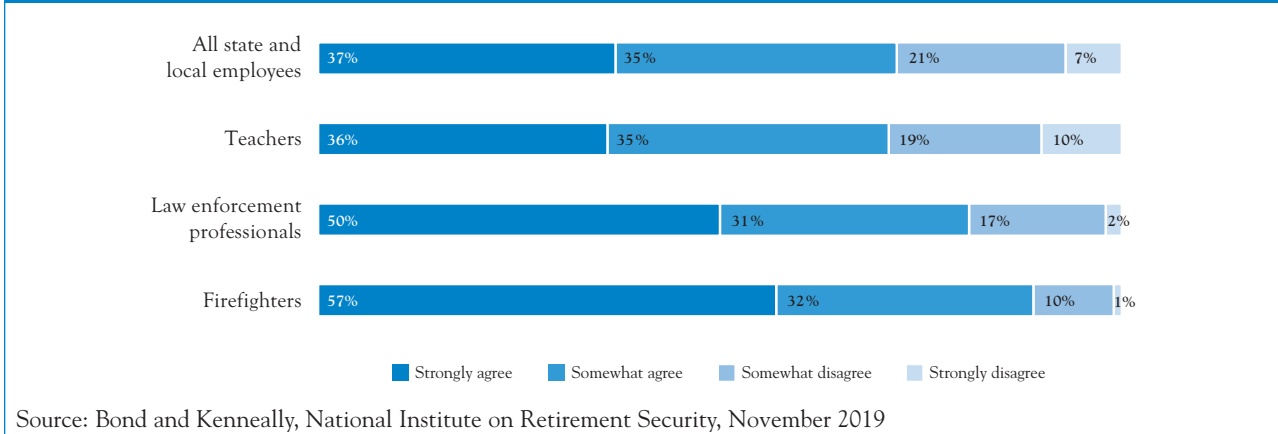
# State and Local Employee Views on Their Jobs, Pay, and Benefits

Tyler Bond and Kelly Kenneally, National Institute on Retirement Security, November 2019

“When taking a look at the specific job features that provide job satisfaction, job security ranks highest at 86%, followed closely by retirement benefits (85%), paid vacation (83%), and health insurance (82%). And when comparing job feature satisfaction across key professions, there is a high level of satisfaction with health and retirement benefits.

Retirement benefits are available to 91% of state and local government workers, including pensions and individual savings accounts, and some 89% have access to medical care benefits in 2019. These benefits can be considered attractive to those working in state or local government, particularly when salaries often are less competitive than in the private sector.

**Exhibit 6. Extent to Which State and Local Employees Agree or Disagree that a Pension Benefit Is a Major Reason for Choosing a Public Sector Job**



When asked about the job features that are very important when making job decisions, job security (78%), health insurance (78%), and retirement benefits (73%) ranked highest. Salary fell below these top three (71%), followed by personal satisfaction (69%), work-life balance (68%), and paid vacation (60%).

Among all state and local workers, 34% say that their retirement benefits are very competitive and more than half (54%) say the benefits are somewhat competitive. By comparison, slightly more than half of firefighters (51%) are very satisfied with their retirement benefits.

Interestingly, the vast majority of state and local workers agree that their pension benefit was a major factor in their job choice. Nearly three-fourths (72%) agree that their pension played a key role in selecting their job. At the profession level, 71% of teachers agree, 81% of law enforcement agrees, and 89% of firefighters agree (**Exhibit 6**).

In terms of why they stay in their jobs, again there is strong agreement that pensions play a key role. Among all state and local workers, 86% agree their pension benefit is a major reason they stay in their job. Across professions, 86% of teachers agree, 86% of law enforcement agrees, and 92% of firefighters agree.

When it comes to attracting new employees, pensions widely are considered a strong tool. More than half (56%) of all state and local workers agree that pensions attract new workers, while 60% of teachers agree, 71% of law enforcement agrees, and 77% of firefighters agree.

Regarding retention of state and local employees, 94% agree that pensions are an effective tool for retaining these workers. What's more, 89% of state and local workers say they plan to stay in their current job through retirement or until they are no longer able to work. This sentiment holds steady across professions,

with 90% of teachers and law enforcement in agreement and 99% of firefighters in agreement.

In terms of the features of pensions, 98% of state and local workers say that providing lasting income is a key feature. And, 99% say that a monthly check is a key feature of pensions. For law enforcement and firefighters who work in risky jobs, death and disability benefits are a critical feature of pensions.

Nearly three-fourths of state and local employees believe they will be financially secure in retirement. Also, about two-thirds of state and local employees say they are confident they can maintain their standard of living in retirement.

State and local employees express concern about cuts to their retirement benefits. Some 86% are concerned. And, 81% are concerned about cuts to their cost of living adjustments.

Given this and other research that finds public employees value their pension, it is not surprising that more than half of public sector employees say that switching from a pension to another type of plan—like a 401(k)-style plan or hybrid plan—would increase the likelihood they would leave their job. Similarly, nearly three-fourths of state and local workers say they would be more likely to leave their jobs if their pension were cut.

A total of 1,118 public sector employees aged 18 and older completed the survey, including 362 teachers, 284 police officers, 204 firefighters, and 268 other public sector employees. All employees surveyed were required to be currently participating in a pension plan at their job.” ■

The 46-page report is available online. Web site: [www.nirsonline.org/wp-content/uploads/2019/11/NIRS\\_OR\\_PublicEmployee2019\\_FINAL.pdf](http://www.nirsonline.org/wp-content/uploads/2019/11/NIRS_OR_PublicEmployee2019_FINAL.pdf)



# Q&A O N P E N S I O N S

## Part Time and Seasonal Employees

### Q. Can part-time employees be excluded from pension plan participation?

**A.** The answer is sometimes. This has been a hotly debated topic over the years, but hiring trends have changed, and the Setting Every Community Up for Retirement Enhancement (SECURE) Act made some changes that actually make it easier to include part-time employees in a retirement plan. Those rules will be discussed below. Neither the IRS nor the Department of Labor (DOL) define part-time employee; rather, both speak in terms of a year of service being 12 months in which 1,000 hours of service are credited. This roughly works out to 20 hours per week.

The most recent guidance from the IRS on this topic states that part-time employees can be excluded as a class, provided no employee who is credited with at least 1,000 hours of service in an eligibility computation period is excluded. This rule does not preclude a plan from excluding certain classes of employees, such as interns, provided the plan passed all required coverage testing, but if the exclusion is described in terms of hours worked using words such as “part-time”, the 1,000 hour litmus test will be applied. With respect to classes of employees, if the class exclusion directly or indirectly implies a customary work schedule, the exclusion is seen as a de facto service requirement and cannot result in employees working more than 1,000 hours in a single eligibility computation period.

When you have a class that is, itself, defined by a customary work schedule, then that becomes your issue. This is class exclusion directly and indirectly, meaning that if all your janitors are part-time, then you cannot exclude the janitors. That would effectively exclude part-timers by attempting to disguise them as a legitimate business class.

### Q. Can you give me an example?

**A.** A calendar-year plan requires one year of service and excludes part-time employees if their employment is not for more than 20 hours per week. A

part-time employee is hired on January 1, and consistently works 20 hours per week. At the end of December, he is credited with 1,040 hours for the year. This exclusion is not permitted because it has the effect of requiring more than one year (1,000 hours) of service.

### Q. Are there special rules for seasonal employees?

**A.** No there are not. The same rule discussed above that applies to part-time employees also applies to seasonal employees. Again, there is no set definition of seasonal employees, nor does the IRS have any specific rules regarding termination of employment; therefore, it is up to the employer to determine whether a seasonal employee terminates employment at the end of each season or is on a leave of absence. From a plan perspective, it does not matter, because depending on the length of the break and the terms of the plan, it is likely that the break-in-service rules will require a seasonal employee's modules of employment to be considered in the aggregate. For this reason, it is very important that meticulous records be kept.

### Q. Where are the relevant IRS guidelines?

**A.** The IRS' position on this has been evolving over time. Based on a 1994 IRS field directive, the IRS stated that any plan that excluded part-time and/or seasonal employees as a class risked disqualification. Later, they relaxed their position in a 2006 Quality Assurance Bulletin (Employee Plans Determinations Quality Assurance Bulletin: Part-Time Employees Revisited, FY-2006 No. 3, 2/14/06), pointing to the year of service criteria of 1,000 hours of service. Most recently, in the SECURE Act, part-time employees were addressed—but as of the publication of this column, regulations had not yet been issued.

### Q. What changes with the SECURE Act?

**A.** The SECURE Act creates an alternative to the 1,000 hours of service

requirement, which will create an opportunity for increased participation in retirement plans by seasonal and part-time workers. This change reflects shifting trends in employment. According to the U.S. Bureau of Labor Statistics, about 21% of American workers hold a part-time job, with twice as many women working part-time as men. This is largely because women are more likely to adjust their work schedule to accommodate childrearing and caregiving. These changing demographics have resulted in a large segment of Americans being woefully unprepared for retirement. Other affected employees are seasonal employees and those with medical conditions that prevent full-time employment. For this reason, the SECURE Act creates an alternative service requirement for non-collectively bargained employees. In lieu of the one year/1,000 hours of service rule, an alternative test will be applied that creates a maximum service requirement of three consecutive years of service in which an employee completes at least 500 hours of service.

### Q. Does the SECURE Act provide any incentives to employers regarding this change to the maximum service requirements?

**A.** Yes; because this is a dramatic change to the eligibility requirements that apply to qualified plans, the act provides some relief with respect to coverage and nondiscrimination testing as well as the top-heavy rule. Under these guidelines, employees who become eligible solely by reason of the new three year/500 hour rule can be excluded from coverage testing, nondiscrimination testing, and application of the top-heavy rules. The net result of this exemption is that part-time and seasonal employees who enter the plan under this alternative service requirement will likely only be able to defer and will not participate in employer contributions.

Additionally, the tax credit available to small businesses to offset the cost of setting up a 401(k) plan is increased to \$15,000 over a three-year period.

Additionally, it's important to remember that 401(k) employer contributions are tax deductible. There is also a \$500 per year tax credit offered to employers to defray startup costs for new plans that include automatic enrollment. It is hoped that these incentives will encourage small employers, especially those who rely upon part-time and seasonal employment,

to establish 401(k) plans and encourage retirement savings.

Note however, when calculating the years of service, years prior to 2021 are not counted. This means for practical purposes that the first year part-time employees could be eligible under the 500 hour of service rule would be 2024.

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PLAN COMMUNICATIONS

## Default Electronic Delivery Works

### Evidence of Improved Participant Outcomes from Electronic Delivery of Retirement Plan Documents

Spark Institute, November 2019

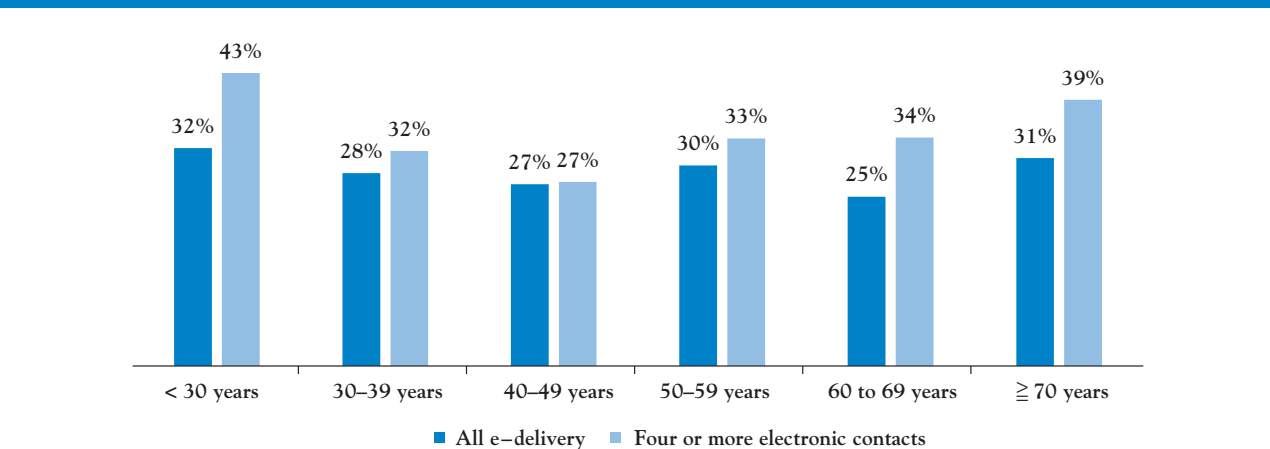
“Allowing plan administrators to send electronically, by default, all Employee Retirement Income Security Act (ERISA) and Tax Code notices, disclosures, and statements is consistent with widespread internet access for the vast majority of active, separated, and retired plan participants. Ninety-nine percent of plan participants reported having access at home or work, and 88% of respondents reported accessing the internet on a daily basis.

The significant move toward conducting day-to-day financial transactions online serves as a strong indicator

that participants would prefer and benefit from electronic delivery of retirement plan information, though the inertia of being defaulted into paper delivery is holding many retirement savers back.

Like payroll or personal banking, receiving federal benefits is an essential financial transaction. Given its importance—and against the perception that older Americans prefer paper documents—it is striking that nearly all Social Security recipients (98.7% in 2018) received their benefits through electronic payment.

Exhibit 7. Average Increase in Deferral Rates for Participants with Electronic Delivery, by Age and Frequency of Electronic Contact



Source: Spark Institute, November 2019

It is important to quantify the various benefits that accrue to plan participants. These benefits are observed through two important advancements in technology: (1) automatic enrollment and (2) technology that improves savings behavior once enrolled. Evidence shows that technology and automation is able to overcome the human tendency toward inertia.

Empirical evidence indicates that plan participants become more actively engaged with their retirement savings program after electronic delivery. The average deferral rates for plan participants with electronic delivery was at least 25% higher than for those not using electronic delivery. The greatest difference was among younger participants, with those under age 30 receiving electronic documents deferring 32% more than their counterparts receiving paper documents. Participants with four or more electronic communications had even higher deferral rates compared to those that were not digitally engaged (**Exhibit 7**).

The potential for benefits to the participant include having access to online tools. As the tools become more innovative and sophisticated, the participant can improve their overall financial wellness. This includes becoming a more informed investor, and receiving greater return on their overall investment, holding all else constant.

Allowing retirement plan sponsors to make electronic delivery a default would reduce the costs associated with operating their retirement plans. These cost savings would reduce their overall administrative costs and will ultimately benefit participants, translating to lower expenses—and higher net investment returns—to the participant. This translates to an estimated \$250 to \$450 million in savings that would accrue directly to individual retirement plan participants annually.

These measurable benefits from default electronic delivery are demonstrated for all participants from current workers to the newly enrolled, and across all age cohorts from younger to older participants alike. Under conservative assumptions, a 35-year old worker who is defaulted into electronic delivery could have 149% (or a cumulative \$265,000) more in retirement savings after their working career, through the cumulative effects of electronic communication, direct cost savings, increased deferral rates, engagement with online tools and access to educational resources, in addition to other enhancements like automatic escalation.” ■

The 50-page report is available online. Web site: [www.sparkinstitute.org/wp-content/uploads/2019/12/SPARK-Institute-Default-Electronic-Delivery-Works-public-version.pdf](http://www.sparkinstitute.org/wp-content/uploads/2019/12/SPARK-Institute-Default-Electronic-Delivery-Works-public-version.pdf)

## REFERENCE DESK

### 2020 Reporting and Disclosure Guide

Segal’s annual guides to compliance requirements for sponsors of health and retirement plans will help keep everyone on the same page when it comes to benefits. The guide is a comprehensive compendium of nearly every compliance deadline and requirement for 2020, covering which reporting and disclosure requirements apply to both defined benefit (DB) and defined contribution retirement plans, as well as health plans.

The two guides, the *Reporting & Disclosure Guide for Multiemployer Plans* and the *Reporting and Disclosure Guide for Benefit Plans*, cover similar requirements. Both include information on:

- What you need to process a pension benefit application,
- What you must give to your people upon their enrollment in health coverage

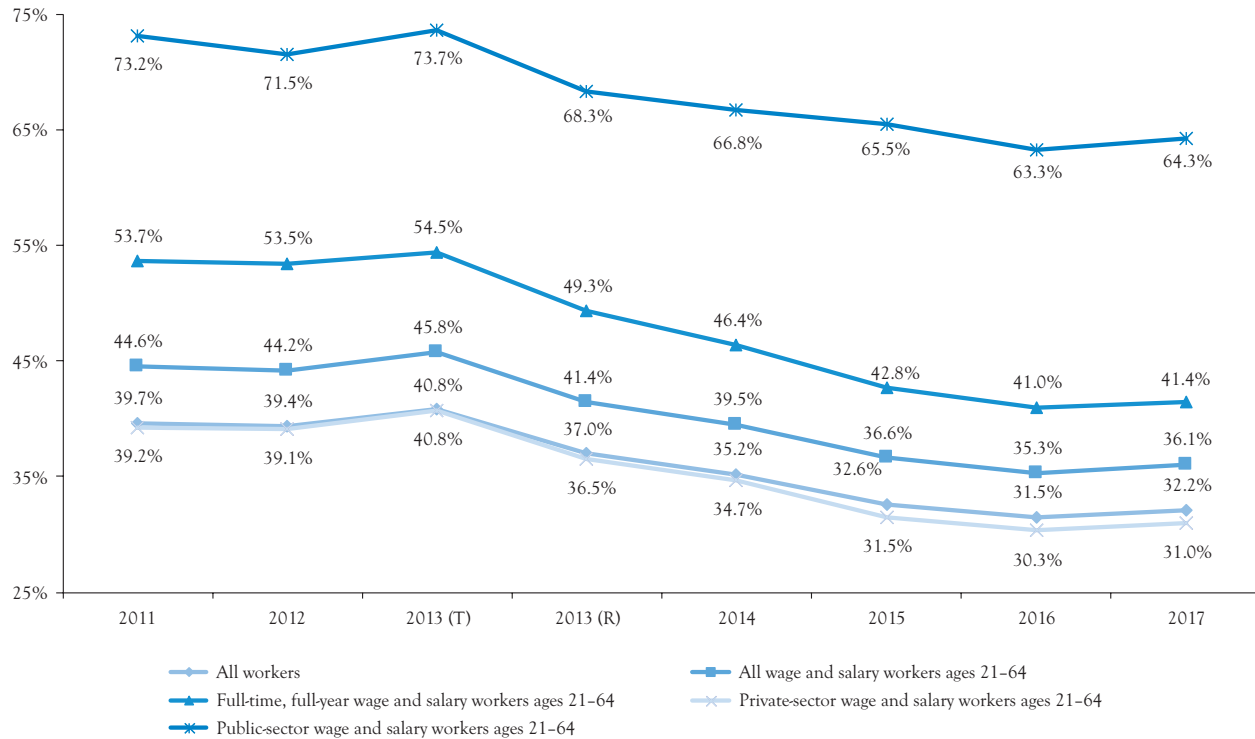
- What you need to process a termination of employment,
- What documents relate to plan amendments, and
- How to enroll your employees in a DB retirement plan or a 401(k).

The guide breaks down major compliance requirements in an easy-to-navigate format that allows you to access the information you need quickly. And this year, Segal has added FAQs about reporting and disclosure with links to relevant compliance requirements. ■

The guides for both multiemployer plans and single-employer plans in the private sector are available online. Web site: [www.segalco.com/consulting-insights/2020-compliance-calendar-guide?utm\\_source=publication&utm\\_medium=email&utm\\_campaign=Reporting-and-Disclosure-Guide-1](http://www.segalco.com/consulting-insights/2020-compliance-calendar-guide?utm_source=publication&utm_medium=email&utm_campaign=Reporting-and-Disclosure-Guide-1)

PB STAT

Percentage of Various Work Forces Participating in an Employment-Based Retirement Plan Using the Current Population Survey Traditional vs. Redesigned Questionnaires, 2011–2017



Notes: (T)-traditional questionnaire and (R)-redesigned questionnaire results. Both the traditional and redesigned questionnaires were fielded in 2014 (2013 results). The 2011–2012 results were from the traditional, while the 2014–2017 results were from the redesigned questionnaire.

Source: Craig Copeland, Ph.D., Employee Benefit Research Institute, EBRI Issue Brief, “Current Population Survey: Checking in on the Retirement Plan Participation and Retiree Income Estimates,” 5/30/19. Web site: [www.ebri.org/docs/default-source/ebri-issue-brief/ebri\\_ib\\_483\\_retplans-30may19.pdf?sfvrsn=6fb03f2f\\_16](http://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_483_retplans-30may19.pdf?sfvrsn=6fb03f2f_16)