Fiduciary Advisors LLC
A Corporate Retirement Plan Advisory Firm

Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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To Roth or not to Roth

Many Defined Contribution retirement plan participants are uncertain as to benefits of allocating their contributions to traditional vs Roth options. This is for good reason. There are two key major determiners as to the benefit of contribution to Roth:

1) Will they be in a higher or lower tax bracket in retirement?
2) Will tax rates increase, stay the same or decrease in the future?

If you know for sure that tax brackets will increase in the future, the Roth option allows post-tax contributions grow and be withdrawn with no (higher) taxes later.

Simple, however no one knows whether income tax will be greater during the balance of their contribution period, or in retirement, than it is today.

One supposition we hear frequently is that “taxes always go up.” Actually, this is not the case. History shows that income taxes move both up and down over time. Admittedly, there is some logic to the assumption that, with our national debt being considerably greater than ever and increasing, tax increases seem probable. One plausible compromise approach may be utilizing both traditional contributions up to maximum employer match, and Roth for non-matched employer contributions.

The percentage of companies offering a Roth 401(k) option alongside a traditional plan has grown steadily in recent years, requiring greater need for participant education. The Plan Sponsor Council of America’s 62nd Annual Survey of Profit-Sharing and 401(k) Plans, released in December 2019, showed that nearly a quarter of participants (23%) elected to contribute to a Roth in 2018 when given the opportunity, up from 19.5% in 2017 and 18.1% in 2016.[1]

For those that also have a Roth IRA, remember the SECURE Act 2019 eliminated the “Stretch IRA” that had allowed beneficiaries to gradually take distributions from inherited IRAs over the course of their lifetime. Now those who inherited an IRA since the beginning of 2020 and thereafter have 10 years to withdraw the assets or face taxation of the money all at once (spouses and disabled beneficiaries are among the exceptions to the rule). The Roth IRA option can mitigate this issue for high net worth clients looking to transfer their estate. Roth 401(k)s have the same 10-year distribution limit for beneficiaries, but they have the potential benefit of reducing tax liability as Roth 401(k) distributions are not taxed like traditional 401(k) or IRA distributions (although they do count as income).

Roth 401(k)s have the same 10-year distribution limit for beneficiaries, although still considered as income, there is the potential benefit of reducing tax liability as Roth 401(k) distributions are not taxed like traditional 401(k) or IRA distributions.

1. https://www.research.net/r/3RQD8R2

Defined Contribution Recordkeeper Consolidation Continues

Empower recently announced an agreement to acquire MassMutual's retirement plan recordkeeping business. The acquisition is expected to capitalize on both firms' experience and expertise to the benefit of retirement plan participants and plan sponsors. Plans currently utilizing MassMutual are being notified of this action and should expect no changes or disruption to current operations during the next 4 to 6 months, with any potential changes likely 18 months away.

While MassMutual's retirement plan products and services are considered among the best in the industry, and their market share has grown substantially over the past decade, providers must generate increasingly greater scale and make significant sustained investments in technology, product offerings and the customer experience to meet future competitive customer demands.

Empower is an acknowledged industry leader in the retirement business and is well positioned to continue to make the investments necessary to compete successfully over the long term. Empower has been active in acquiring other retirement plan businesses over the past decade and possesses a great deal of experience. This acquisition will increase Empower's participant base to more than 12.2 million individuals in approximately 67,000 workplace savings plans. Due to their combination of expertise, product strengths and business scale they are expected to remain a long-term industry leader.

Together the consolidated firm will serve a broad spectrum of employers including: include mega, large, midsize and small corporate 401(k) plans; government plans including state-level plans to municipal agencies; not-for-profits such as hospital and religious organization 403(b) plans, defined benefit and collectively bargained Taft-Hartley plans.

Retirement plan recordkeeper consolidation has been accelerating since the early 2000s beginning with acquisition of some smaller entities who were not able to keep pace with the growing customer needs and product sophistication. More recently we have seen consolidation among the larger recordkeepers, including top tier providers like the Wells Fargo's acquisition by Principal, Empower's acquisition of Great West, Putnam, JP Morgan, and MassMutual's acquisition of the Hartford over the past decade.

As with previous similar occurrences, we anticipate this consolidation will be a positive for the industry, plan sponsors and their participants as it will likely lead to enhancements in technology, plan level and participant services, and financial economies of scale.

Plan Documents… Save or Purge?

Many ERISA plan sponsors are unclear regarding a primary fiduciary responsibility concerning plan document retention (which and when documents may be purged). Most plan sponsors adopt an assumed “reasonable” amount of time to retain documents prior to purging them. Unfortunately, IRS rules may not always be complicit with what may be assumed to be “reasonable”.

The purpose of this communication is to underscore the important plan record retention so that you may not fall prey to the type of fiduciary breach described in the following paragraph.

Recently a random IRS 401(k) plan investigation shed an uncomfortable light on the issue of plan document retention. When pressed to produce certain specific documents that were not readily available, the plan administrator decided to contact the plan’s service provider. The plan administrator was informed that the Third Party Administrator (TPA) purges its files after each plan restatement and expects the plan sponsor to meet any document retention obligations under IRS or ERISA. This is actually standard procedure for many TPAs. (https://ferenczylaw.com/solutions-in-a-flash-to-purge-or-not-to-purge-that-is-the-question/)

Depending on the document category, there are different standards for how long documents need to be kept. For example: participant benefit records must be retained “as long as a possibility exists that they might be relevant to a determination of the benefit entitlements of a participant or beneficiary.”[1] While the regulations were never finalized, the Department of Labor (DOL) has taken the position those record retention obligations apply beginning when the DOL issued its first set of proposed regulations under Section 209 on February 9, 1970 because employers were put on notice of the obligations. As such, plan sponsors should consider whether benefit plan records need to be maintained indefinitely.

Record retention rules are accessible in both the DOL regulations as well as ERISA statutes. Statutes of limitations on plan sponsor liability for administrative functions concerning retirement plans also are codified.

Due to the length of regulations on this topic we urge you to review the AICPA link below for a thorough list of document retention regulations.

1. https://www.aicpa.org/content/dam/aicpa/interestareas/employeebenefitplanauditquality/resources/planadvisories/downloadabledocuments/ebpaqc-plan-advisory-retaining-and-protecting-plan-records.pdf

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