Retirement Plan Newsletter

Quarterly Newsletter | Quarter Ending June 30, 2024

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Markets in Review

The U.S. stock market continued its upward ascent in the second quarter (Q2) of 2024, once again led by the S&P 500 Index.[1] The quarter did not begin smoothly, however, with the S&P 500 Index declining by (4.2%) in April before rising by 8.4% over the last two months of the quarter. Mega cap technology stocks were at the tip of the spear once again, with the Nasdaq-100 Index[2] appreciating by 7.8% in the quarter, led by generative AI darling NVIDIA Corporation (NVDA), which was up 36.7% in Q2 2024. Despite forecasts calling for a broader market rally, the market narrowed considerably in the quarter, with the S&P 500 Equal Weight Index[3] declining by (3.1%) in the quarter compared to a 3.9% increase in the market-cap weighted version of the index.[4]

International stocks lagged their U.S. counterparts with the MSCI World ex USA Index[5] declining (0.6%) in Q2 2024. In advanced economies, European stocks were adversely impacted by slower economic growth and tighter monetary policy in the Eurozone. Emerging market returns flipped the script in Q2 2024, exceeding developed international market returns in the quarter as strong tech sectors in Taiwan and South Korea benefited from AI-related enthusiasm. In addition, India continued to be a bright spot among developing economies, buoyed by strong GDP growth and continued inflows from overseas investors.

The most recent Federal Open Market Committee's projections for rate cuts imply one 25 basis point rate cut by the end of 2024, down from market expectations of three 25 basis point cuts at the end of Q1 2024. Consequently, after outperforming the S&P 500 Index in Q4 2023, the small cap Russell 2000 Index[6] continued to underperform the broader market, declining by (3.6%) in Q2 2024 as the "higher for longer" interest rate environment took a firmer hold.[7]

10-Year Treasury yields climbed for most of the first month of the quarter, reaching a Q2 high of 4.74% on April 24th. A pullback in yields resulted in the 10-Year Treasury Yield bottoming out at 4.19% on June 13th before rising once again to close out the quarter at 4.36%. From a performance perspective, the Bloomberg Aggregate Bond Index[8] increased by only 0.07% in the quarter as declining bond prices were offset by higher starting yields. Long-term bonds experienced losses as they tend to be more sensitive to changes in interest rates and interest rate expectations.

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Effective Communication with Participants

A recent survey found that 59% of workers thought that they were contributing to their 401(k) plan and saving for retirement when they weren't.

The Retirement Security Survey, conducted by Principal, asked participants why they weren't enrolled in the plan and a surprising number thought they were. Even though plan provisions such as automatic enrollment and employer matching have a positive effect on plan participation, communication can also be a powerful tool.

The Department of Labor (DOL) and Internal Revenue Service (IRS) require a variety of information be shared with plan participants, but some eligible employees can be intimidated by the language in the material and decide that participation is too complicated. Others believe they are automatically enrolled in the plan because they were auto enrolled at a past employer.

If possible, one-on-one meetings are a great way to make sure that an employee understands what is being offered. When an employee is hired, they may receive an email with multiple files attached, including instructions to log onto a website and enroll in the 401(k). Starting a new job is often overwhelming and enrollment can be overlooked.

Enrollment meetings are a great way to boost communication and participation. Taking the mystery out of available investment options, as well as showing the financial benefits of saving for retirement, helps the participants feel confident in their choices. Enrollment meetings can be done in person or by video meeting, depending on the location of the employees.

If it's available to you, a retirement readiness report will show each participant their retirement age, current balance, current deferral percentage, current income and what retirement will look like for them. It can be quite an eye-opener for many participants.

Communication is the key to successful plan participation. It also helps your participants have a more positive attitude toward your reirement plan and their retirement future. Feeling like their employer cares about their future leads to a higher level of job satisfaction and feeling appreciated.

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Participant Notices: A Quick Overview

Retirement plans exist to provide retirement savings for participants. As a result, the participants need to be informed about plan provisions and their rights at various times. Sometimes it's when they become eligible for the plan, before the start of a new plan year, or after the end of the plan year. Certain variables affect which of these may apply, such as plan provisions, plan type, and investment provider. Here are some items that may be prepared by your service providers for distribution to your plan participants:

- **Participant Fee Disclosure:**
    - Pertains to participant-directed accounts.
    - Provides certain plan information as well as fees that may apply.
- **Investment Comparative Chart:**
    - Pertains to participant-directed accounts.
    - Provides plan investment information such as past performance, expense ratio, and fees.
- **Automatic Enrollment Notice:**
    - Pertains to 401(k) plans that include automatic enrollment provisions.
    - Provides the default deferral rate that will apply unless they make a different deferral election and the instruction for how to do so.
- **Safe Harbor Notice:**
    - Pertains to plans with Safe Harbor contribution provisions.
    - Provides information about contribution and vesting provisions.
- **Qualified Default Investment Alternative (QDIA) Notice:**
    - Pertains to plans that allow for participant direction and utilize a qualified default investment for those participants who don't make an election.
    - Provides information about the investment option that will be used for their contributions if they do not make an investment election.
- **Universal Availability Notice:**
    - Pertains only to 403(b) Plans.
    - Provides information regarding the opportunity to contribute to the 403(b) Plan.

While these notices are provided to participants when they become eligible for the plan, they also need to be provided on an annual basis. Other notices are due following certain events:

- **Summary Plan Description (SPD):**
    - This is a simplified version of the plan document provisions which needs to be provided within 90 days of when the employee becomes eligible for the plan.
    - Updated copies must be provided every 5 years if there are changes to the plan. Every 10 years if no changes are made.
- **Summary Annual Report (SAR):**

- Summarizes the plan information on Form 5500 for the participants, such as total plan contributions, distributions, fees, plan asset balance, and participant count.

- Distributed within 2 months after the Form 5500 filing deadline, including extensions.

- **Annual Funding Notice (AFN):**

  - Pertains to defined benefit plans, including cash balance plans, that are covered by the Pension Benefits Guaranty Corporation (PBGC).

  - Due 120 days after the close of the plan year for large plans and the earliest of the day that the Form 5500 or the date that it's due, including extensions, for small plans.

- **Summary of Material Modifications (SMM):**

  - Provides information regarding changes made to plan provisions by a plan amendment.

  - Due no later than 210 days after the close of the plan year for which the modification was adopted.

This list does not cover all possible notices that are required for your plan participants, but being familiar with the terminology of these common notices will help you understand the information that is being shared with participants. As plan design changes take place, your notice requirements will too, so it's important to understand what information is required to keep your participants informed.

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Mastering the Art of Distributing Participant Notices

Over the years, regulatory bodies like the DOL and IRS have provided clarity on plan sponsor obligations regarding participant notice delivery. These responsibilities are critical for maintaining transparency and regulatory adherence. Some recordkeepers may offer electronic delivery options, but plan sponsors still need to understand the requirements to ensure the information is reaching all necessary participants. We will now delve into the key points that plan sponsors must cover to effectively manage notice responsibilities.

Define your roles and responsibilities

Defining roles and responsibilities within your plan administration is akin to establishing an Investment Policy Statement for financial decisions. A well-documented communication policy specifies who manages notice distribution, verifies receipt, handles undeliverable notices, and outlines procedures for both active and terminated employees.

Clarify who will receive communication

Before distributing notices, it is crucial to identify the recipients. This includes:

- *Active employees who are eligible and participating* – these are employees who are currently employed and who are contributing to the plan. These employees are required to receive all relevant regulatory notices.

- *Terminated employees with a balance in the plan* – these are still participants in the plan, even though they are not actively employed. As long as they have assets in the plan, they are required to receive all relevant plan communication. NOTE – these are some of the hardest individuals with which to maintain communication, and therefore require extra effort.

- *Active employees who have a balance in the plan but are not actively contributing* – these are employees who are currently employed who have either elected not to contribute to the plan or who may be on leave. These employees, with assets in the plan, must still receive all relevant plan notices.

- *Active employees who are eligible for the plan, but do not have a balance and who are not contributing to the plan* – these employees require a decision from the Plan Sponsor. While providing them with all plan information is never wrong, the Secure Act 2.0 allows for these employees to receive a one time of year Eligibility Notice. The notice serves as a reminder of their opportunity to participate in the plan and their rights to request any or all plan information, but states that until they are participating in the benefit, they will not receive any information from outside of the Eligibility Notice.

- *Active employees who are not eligible for the plan* — these are employees who are actively employed but have not met the terms of the plan document to become eligible for benefits. These employees are not required to receive any plan communication until they fall within the plan window for eligibility or enrollment.

Define how notices should be distributed

How participant notices are required to be distributed has evolved over time based on requirements by the DOL and IRS. Both first class mail and electronic mail are available, but they have procedures that must be followed.

- *First Class Mail* – The address provided by the participant within the retirement plan benefit system is used for this mailing unless you are aware that the delivery address on file is not current and/or if the participant has notified you (in writing is best) to utilize a different address.

- *Electronic Delivery* – There are two segments of the "eDelivery" rules for participant notice distribution:

  - Wired at work – for participants who provide a work email address, who are actively employed, and who have access to needed equipment to utilize this email address, the Plan Sponsor is allowed to distribute all notices to this email address. However, a system should be developed on how to provide notices to them after they are no longer active with the company to ensure that their work email is not their plan level contact.

- Personal email – to distribute notices to a personal email address, a paper notice must first be distributed to the participant declaring that future notices will be distributed electronically. This paper notice must provide the participant with (1) confirmation of the personal email address that will be used, (2) how the participant can request use of a different email address, (3) the participant's right to opt out of electronic notice delivery, and (4) the proper plan contact for any questions regarding the plan. After this paper notice has been distributed, future notices can be sent to the identified email address.

How to address undeliverable notices

After notices have been distributed, it is important to address any notices that were undeliverable. For notices sent by first class mail, this includes mail that was "returned to sender". For electronic mail, these are emails that "bounced back".

For any notice that is returned undeliverable, there should be a process in which a better address is identified and the notice is resent. It is also best to confirm if the new address provided is the best ongoing address for future communication or just a temporary contact.

It is very important to confirm that each notice is being received by all participants in your retirement plan. Special attention should be paid to terminated employees with a balance in the plan. These employees have the highest risk of being considered "missing". Missing participants have been a focal point of the Department of Labor and their plan level audits; therefore, confirming that the plan has good contact information for these participants could prevent the plan the distraction and costs of a plan investigation.

Missing participants

Addressing missing participants is critical to compliance and plan integrity. The DOL's Employee Benefits Security Administration (EBSA) has outlined Best Practices that the plan should follow regarding communication and location processes for these missing participants:

- Maintain accurate census information for the plan's participant population
- Implement effective communication strategies
- Attempt missing participant searches
- Document procedures and actions

These suggested practices are explained in more detail on the EBSA website.

Conclusion

Understanding and adhering to notice responsibilities is fundamental for plan sponsors to mitigate risks and ensure regulatory compliance. By defining roles, clarifying recipients, establishing clear distribution methods, and addressing undeliverable notices promptly, sponsors can effectively manage their retirement plans. Remember, diligent tracking and technological tools are essential in confirming receipt and maintaining communication with all participants.

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Plan Ahead for 2025 Long-Term, Part-Time (LTPT) Employees

As a reminder, eligibility requirements went into effect for Long-Term, Part-Time (LTPT) employees as of January 1, 2024. However, additional changes that affect who is considered a LTPT employee will be coming for 2025. Please see the chart below to plan ahead and ask us if you have any doubts!

	2024	**2025**
Plan Type	401(k) only	401(k) and ERISA 403(b)
Years of service required*	3	2
Disregard years prior to	2021	2021 for 401(k) 2023 for ERISA 403(b)

**minimum 500 hours/year over consecutive years*

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Upcoming Compliance Deadlines

September 2024

15th: Required contribution to defined benefit plans, money purchase pension plans and target benefit pension plans.

15th: Contribution deadline for deducting 2023 employer contributions for those sponsors who filed an extension for Partnership or S-Corporation tax returns to extend the March 15, 2024 deadline.

30th: Deadline for certification of the Annual Funding Target Attainment Percentage (AFTAP) for Defined Benefit plans for the 2024 plan year.

October 2024

15th: Extended due date for the filing of **Form 5500** and **Form 8955-SSA** for plan years ending December 31, 2023.

15th: Due date for 2024 PBGC Comprehensive Premium Filing for defined benefit plans.

15th: Contribution deadline for deducting 2023 employer contributions for those sponsors who filed a tax extension for C-Corporation or Sole-Proprietor tax returns for the April 15, 2024 deadline.

15th: Due date for non-participant-directed individual account plans to include Lifetime Income Illustrations on the annual participant statement for the plan year ending December 31, 2023.

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Sources:

1. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
2. The Nasdaq-100 Index is the U.S. stock market index comprised of the largest 100 non-financial companies listed on the Nasdaq stock exchange. The index is dominated by technology companies and is commonly used as proxy for U.S. large cap technology performance.
3. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight of 0.2% of the index total at each quarterly rebalance.
4. By comparison, the market cap weighted S&P 500 Index was up by 10.2% in Q1 2024 compared to 7.4% increase in the equal weight index, resulting in a performance gap of 277 basis compared to the Q2 divergence of 701 basis points. A narrower performance gap between these two indices indicates greater market breadth in the large cap space.
5. The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the U.S.) and 24 Emerging Markets countries.
6. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The index is commonly used as proxy for U.S. small cap stock market performance.
7. Small cap companies tend to carry higher relative levels of variable rate debt and usually underperform large cap stocks in high interest rate environments due to their higher carrying costs of debt.
8. The Bloomberg U.S. Aggregate Bond Index is a broad-based index that is commonly used as a proxy for the U.S. bond market.