3Q 2018

Defined Contribution Plan Legislative Update

Retirement savings has been a major theme on Capitol Hill this year. To better prepare our plan sponsor clients for upcoming regulatory changes, we provide legislative updates on a bi-annual basis. As always, your consultant will be able to address any specific questions you may have regarding these changes.

The Tax Cuts and Jobs Act of 2017

The sweeping tax reform enacted at the end of last year contains certain provisions that impact defined contribution plan sponsors:

- Increases repayment flexibility for participants with loan balances upon severance of employment or plan termination by extending the 60-day rollover period to the participant's tax filing deadline. This means participants may have up to 21 months to repay their loan balance, decreasing the likelihood of defaults. These loan balances can then be repaid to the participant's original plan or another qualified plan, or through an individual retirement account (IRA) contribution.
- Doubles the annual limit for length of service awards in 457 plans to $6,000. This impacts certain volunteer positions, such as firefighters.
- Removes the ability for employees to "undo" Roth IRA conversions and pre-tax rollovers from retirement plans to Roth IRAs (a process known as recharacterization).

NEXT STEPS: Plan sponsors should review their plan documents, including the plan's loan policy and required notice of rollover eligibility, to ensure that they are updated to reflect this change in the law.

The Bipartisan Budget Act of 2018

Just six weeks after the *Tax Cuts and Jobs Act* was signed, additional tax reform was passed with implications for plan sponsors:

- Makes it easier for participants to access hardship withdrawals by eliminating the requirement that a participant must first exhaust all loan options and removing the six-month prohibition on contributions after taking a hardship distribution. The source of funds available for hardship distributions has also been expanded to include earnings on elective deferrals, qualified non-elective contributions, and qualified matching contributions.

NEXT STEPS: Plan documents will need to be amended to reflect this change in the law; however, additional guidance from the IRS is expected, which we will continue to monitor.

ON THE RADAR

Lawmakers from both parties are working on ways for employees to increase and enhance their retirement savings. A few pieces of legislation on the docket include:

The Strengthening Financial Security Through Short-Term Savings Accounts Act of 2018
If enacted, Senate Bill 3218 would enable employers to offer employees an automatic-enrollment, payroll deduction-funded savings account of up to $10,000, making it easier for employees to access rainy day funds without dipping into their retirement savings.

The Retirement Security Flexibility Act of 2018
If enacted, Senate Bill 3221 should motivate plan sponsors to reconsider their plan design by raising the 10% safe harbor cap on default contributions for automatic enrollment and escalation in defined contribution plans to 15%.

Executive Order on Strengthening Retirement Security in America

Signed on August 31, 2018, President Trump directed the Labor and Treasury Departments to consider certain regulatory changes that would expand access to retirement plans for American workers:

- Make it easier for small businesses to participate in multiple employer plans (MEPs). MEPs allow employees from different private-sector employers to participate under the same retirement plan, which can reduce the administrative costs associated with offering a retirement plan.
- Raise the age for required minimum distributions, currently 70 ½, so retirees can keep their savings in their 401(k) plans and IRAs longer.
- Simplify retirement plan disclosures to make them more useful to participants and simultaneously ease administrative burdens for plan sponsors and fiduciaries.

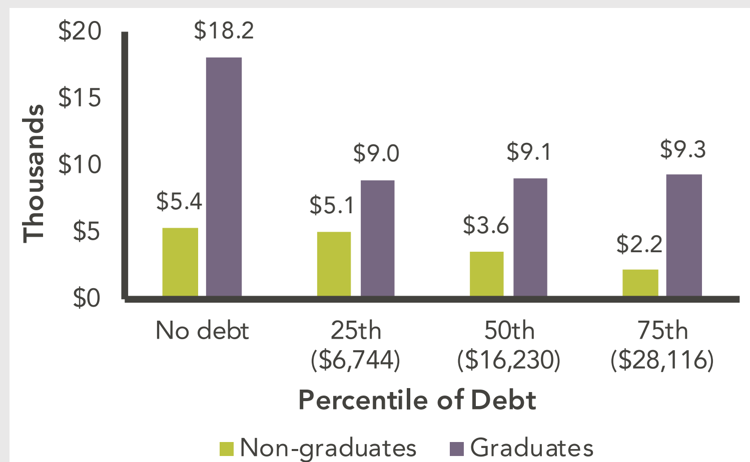
NEXT STEPS: Any changes will require congressional and regulatory action; we will continue to monitor progress.

IRS Private Letter: Student Loan Benefit Program

The IRS released a private letter ruling on August 17, 2018, that provides guidance for employers hoping to help their employees manage student loan debt by offering student loan repayment as part of their 401(k) plan benefits. The program approved in the ruling allows the employer to make nonelective contributions equal to the employee's eligible matching contribution if the employee makes a sufficient student loan repayment during that pay period. As a result, the student loan repayment benefit effectively replaces the matching contribution for employees electing to participate in the program. Employers may find value in this benefit option as a tool to attract new talent in a tight labor market.

NEXT STEPS: Because the ruling is tailored to a specific plan sponsor, additional guidance is needed to determine whether similar programs in plans other than 401(k)s would be permissible and how best to implement this type of program; we will continue to monitor.

Exhibit 1: Retirement Plan Assets at Age 30 by Percentile of Student Debt



Source: Center for Retirement Research at Boston College

Research shows that employees with student loan debt are just as likely to participate in a retirement plan as their colleagues without debt; however, assets are about 50 percent lower for those with student loans compared to those with no loans.

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