VALOROUS ADVISORS

Trends in Profit-Sharing and 401(k) Plans

The Plan Sponsor Council of America (PSCA) has just published its 67th annual survey of profit-sharing and 401(k) plans. It is the longest-running and most widely cited survey of employer plan trends and practices. The PSCA survey provides a comprehensive look at the defined contribution (DC) industry, covering a wide range of topics that can be used by plan sponsors to benchmark their plans. The 2023 survey discussed in this update covered over 700 plans of various sizes and industries, revealing key findings to consider.

Here's What You Really Need to Know:

- The SECURE 2.0 Act of 2022 (SECURE 2.0) was passed just over two years ago. This survey includes data and insights regarding the implementation and impact of SECURE 2.0 provisions, which can help plan sponsors make informed decisions that enhance the competitiveness of their retirement plans and support the best interests of participants.
- Retirement income, financial wellness, and financial literacy were also key trends in the survey, which shows that plan sponsors are increasingly trying to create a healthier workforce and support a financially secure future for employees.
- Automatic plan features were a top trend for survey respondents which highlights the crucial roles that they play in helping participants save more for retirement. If you are already hearing about a SECURE 3.0, this is a trend you may see more in future legislation of that nature.

Let's Dive In

Many of the 90+ provisions in SECURE 2.0 that apply to DC plans are permissive – meaning that plans are not required to adopt the provision. As a result, the adoption of provisions may occur over time and will vary depending on how plans choose to prioritize them. Several of the provisions are waiting for clarification and/or guidance about administration and operation, so plans may be waiting to adopt those provisions until full guidance and insight have been provided. The PSCA survey included several questions about the adoption of SECURE 2.0 optional provisions.

Student Loan Matching – Section 110: Despite extensive media coverage and surveys indicating significant interest, only 2% of the plan sponsor respondents have adopted the student loan matching provision. It is worth noting that guidance on this provision was only published in August 2024, which included clarity on certain administrative aspects that might have delayed adoption. This particular provision is complex to adopt, and plans will need to rely on their recordkeepers and service providers to help support its administration. This could be the reason for low adoption rates which may change in the coming years as service providers establish ways to help support this provision.

Emergency Savings – Section 127 and Section 115: Fewer than 1% of plans have added the Pension-Linked Emergency Savings Account (PLESA) provision, which allows for participants to save funds in a "sidecar" account of up to $2,500 that can be replenished each year. The guidance on this is relatively new, issued in January 2024. Employers were able to offer this provision for plan years beginning after December 31, 2023, so eligible employees could have begun contributing to a PLESA as early as January 1, 2024. There are numerous administrative complications related to this "Christmas Club" type account, which, along with timing issues, might explain the low adoption rate. In contrast, more than a quarter (29.3%) of plans have already adopted the optional, and much simpler, $1,000 emergency savings withdrawal provision in Section 115 of SECURE 2.0.

Roth-ifying Employer Contributions – Section 604: SECURE 2.0 introduced an option for employers to allow participants to designate employer contributions as Roth contributions. While this flexibility comes with certain administrative complexities, 13% of survey respondents have decided to add this option. Additionally, more than a third (35%) are still considering it, whereas 8.4% have firmly decided against it.

Other Trends

Beyond SECURE 2.0, other notable categories from the survey include:

Request for Proposal/Request for Information: Litigation often highlights the absence of competitive benchmarking, which is usually indicated (or not) by the issuance of a formal request for proposal (RFP). Despite numerous industry experts citing the importance of this practice, there's no legal requirement to do so.

Nearly a quarter of the survey respondents have confirmed that they have issued an RFP or RFI in the past two years. More importantly, more than 40% made changes as a result, with nearly 70% of those who conducted an RFP changing their recordkeeper. Notably, 15.6% of respondents were able to reduce fees as part of the process.

Cybersecurity: The need for, and importance of, participant data has grown significantly in recent years, along with growing concerns about the security of that data by regulatory agencies like the Department of Labor (DOL). In 2021 the DOL issued a Compliance Assistance Release that outlined best practices for maintaining cybersecurity for plan sponsors, plan fiduciaries, participants, and recordkeepers. In 2024, they updated this guidance to incorporate all employee benefit plans, including health and welfare plans.

As a result, nearly a third (31%) of plan sponsor respondents now have a written cybersecurity policy in place, up from 22% three years ago. 60% of respondents launched a cybersecurity awareness program in 2023. This is significant because other industry surveys suggest that despite the increased emphasis by employers, participants have been slow to adopt procedures like multi-factor authentication or regularly logging on to their accounts and securing passwords.

Finally, over 40% of larger employers (those with more than 5,000 participants) have adopted a cybersecurity guarantee provided by their recordkeeper. In contrast, only 9.5% of smaller plans have done so.

Automatic re-enrollments: Automatic enrollment of eligible participants has become standard practice, especially among larger employers. Nearly two-thirds of the survey respondents now offer automatic enrollment as part of their plan.[1] Typically, once a participant opts out, that's the end of it. However, there has been growing interest in a process called automatic re-enrollment, which gives employees who previously opted out another chance to participate by requiring them to opt out each year if they don't want to participate in the plan.

This year's PSCA survey found that 13% of respondents now automatically re-enroll non-participants annually compared to just 4% a decade ago. Additionally, other industry surveys indicate that about 90% of those re-enrolled remain enrolled.

Automatic Escalation: Additionally, nearly a quarter (24.2%) of plans now automatically escalate contributions in 1% increments for all participants, while 30.1% allow participants to choose to increase contributions on their own.

Retirement Income: Although surveys show continued interest from both plan sponsors and participants in in-plan retirement income solutions, only 7% of the plan sponsor respondents offered an in-plan annuity option in 2023. However, 16.7% of plans provide an automatic default into a lifetime income option that may be part of a target-date fund.

Financial Education: This year, the primary goal for participant education (83.6%) was to improve financial literacy. Traditionally, the top goal has been to increase participation, which was cited by 73.2% of respondents. However, fewer than half of the respondents evaluate the success of these programs. Among those who do, the majority focus on participation rates (92.5%) or deferral rates (70%) for doing so.

Financial Wellness: Only 30% of respondents reported offering what they considered a "comprehensive" financial wellness program, although more than half of larger employers do. Most of those programs focus on budgeting and debt management. Additionally, about a third of respondents now provide financial incentives for participating in these programs, likely due to the liberalized provisions in SECURE 2.0.

Additional notable findings from the survey include:

- Higher rates of employer contributions – 4.9% of pay up from 4.8%
- Employee contributions rose to 7.8%, up from 7.4% the previous year
- Average participant loan balances decreased from $15,023 to $10,628
- Hardship withdrawals increased to 2.1%, up from 1.5%

Action Items for Plan Sponsors

Plan sponsors should consider the following to help improve their retirement plans and better serve plan participants:

- Review the optional provisions of SECURE 2.0 to determine how to best position the overall benefits program. Some of the provisions could serve as a competitive advantage in attracting talent and retaining key employees.
- Consider the impact of financial wellness and financial literacy. Implement financial education programs to help employees make informed decisions about their retirement savings. Discuss potential ways to evaluate the impact of those programs.
- Revisit and compare the DOL's cybersecurity best practices with the plan's own procedures. Ask recordkeepers about the availability of cybersecurity guarantees.

- Periodically consider the need for an RFP or RFI for service providers and document this as part of the committee's due diligence process.

[1] Interestingly enough, 30% of survey respondents (29.7%) now use 6% as the default deferral rate, while 32% use 3%. Nearly two-thirds (62.5%) use rate higher than 3%. Half set the rate high enough to ensure full match.

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