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# FROM BUZZWORD TO BREAKTHROUGH

We've written quite a bit about retirement income recently, both at ASPPA and among its sister organizations at the American Retirement Association. **By Joey Santos-Jones**

## We know what you're thinking, "Who hasn't?"

The term ranks right up there with retirement readiness and financial wellness in overused (albeit important) industry jargon.

But there seems to be a shift.

First, it was Nuveen's Brendan McCarthy telling my colleague John Sullivan that the lifetime income "nightmare" is over, and product flows are rapidly increasing.

Then it was Income America President Matthew Wolniewicz claiming it's "starting to take off in a big way."

Yes, they're both lifetime income providers with a vested interest in making retirement income happen, but they're always upfront about the challenge and what it will take to (finally) see substantial adoption.

So, what's changed?

Several trends have aligned, including a desire by employers to further help employees take charge of their largest liquid asset outside of their home.

"Part of the difference now is that some of the larger institutional consultants like CAPTRUST are beginning to see that not only is there demand from the participants, but the sponsors want to take care of their employees," Wolniewicz explained. "They want to be able to protect people 10 years before retirement so if there's an adverse market correction, people can still retire on time. I think that's one of the things that's definitely changed."

Changes to product distribution are also a factor, and he mentioned the $1.6 billion plan Income America just received that will be live on a major recordkeeper.

"So, for us to be available on platforms like Empower, Principal, Nationwide, and Lincoln Financial Group, not only does that reach over 50% of the addressable defined contribution market, but it also makes portability a reality," Wolniewicz said.

He also cited current market volatility.

"That definitely reminds people that markets don't go straight up, so this choppiness in the market is certainly good for the idea of guaranteed income in retirement."

Fiduciary litigation exposure has always been a significant hurdle to implementation, with plan sponsors wary of becoming the latest Jerry Schlichter target, something Wolniewicz admitted still exists.

Yet, it wasn't only plan sponsors who feared the potential fiduciary fallout, but institutional consultants as well, particularly around the idea of paying a fee for something that a participant might not use.

"They could pass away the day they turned 65," Wolniewicz said. "That was the biggest challenge from the institutional consultant side—that everything has been all about fees and knowing that any of these guaranteed products cost more than a target date fund. There's a lot of fear around that. It's like anything in the DC space, as the large institutional consultants and recordkeepers start to come around, it opens the floodgates all the way down through the ecosystem."

Whether we're at the "floodgate" is yet to be seen, but after all the talk about the importance of guaranteed retirement income the individual cannot outlive, and its obvious utility within the employer-based plan, like Wolniewicz and McCarthy, we're optimistic.

While it's premature to declare that retirement income solutions have fully crossed from buzzword territory into widespread breakthrough, the winds of change are undeniably blowing. Employers and institutional consultants are increasingly recognizing both participant demand and the practical necessity of offering guaranteed income products. With enhanced distribution channels, growing market acceptance, and the reality of economic volatility driving urgency, lifetime income options stand poised at the threshold of broad adoption. The conversation around retirement income has clearly evolved from skepticism to genuine enthusiasm, making the prospect of a secure retirement income an attainable reality rather than an industry aspiration.

Joey Santos-Jones
**Editor**


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# ARE WE UNDER ATTACK? MAYBE.

By JJ McKinney

**Whether the viewpoints come from academics, legislative representatives, mass consumed media, or periodicals closer to our industry, we find messages that pin us to a failing system or one propping up the greed of an elite minority.** We find seemingly more detractors than supporters outside our proverbial walls and even adjacent or close enough to appear as allies. So, what is the angle here, and how do we defend our positions?

Due to the nature and length of this article, we can only review a few of the arguments we face, knowing that we have additional headwinds and likely more to come.

First, the 401(k), is under constant attack. You name it, high costs, low take-up and participation rates, limited accessibility, too favorable for the wealthy, and the beat goes on (la de da de de; la de da de da).

401(k) is the only internal revenue code section that the layperson can identify at hearing it spoken; job interviewees even ask for it by name. Though we live in an increasingly transient job market, people through the portability of their 401(k) plans continue to grow their tax-advantaged accounts. ARA advocacy has proven time and time again through the help of independent research that the 401(k) works amazingly well for the middle-class American worker. Furthermore, our industry has worked diligently on reducing the cost of having a retirement plan and effectively increasing accessibility.

Next, 401(k)'s tax-exempt cousin 403(b) is begging for admission to Collective Investment Trusts (CITs) where 401(k) has played for decades. It is not so much of an attack on our industry but a fight nonetheless with energy and resources going to support legislation that makes sense for our brothers and sisters working for hospitals, schools, and not-for-profits.

Early in my career, I had the fortunate experience of working with a platform that made CITs available to micro and small employer retirement plans. The result provided institutional class investing in a lower cost structure. In 2005, I met my first school district prospect and learned that we could not offer the CITs on our platform for their 403(b), only mutual funds. 403(b) is getting another at bat with CIT, so let's hope it's a dinger and their participants end up on a level playing field.

Third, cash balance plans are often promoted as the wealth building tool for the already wealthy. Cash balance plans gained a new lease on life in 2006 when PPA passed. Not only were the plans freed from their age discrimination accusations and questionable funding requirements, but they also became a very practical and relevant tool for small business owners who spent years reinvesting in their businesses and people to catch-up for a later start in retirement accumulation.

Yes, the cash balance plan allows business owners to set aside larger sums of money than a 401(k) and due to regulatorily compliant mathematics, they can do so while providing a lower-level benefit to their employees. Typically, the message stops here and becomes distorted based on the understanding or intention of the presenter, author, or reporter. In reality, the cash balance plan provides a win-win scenario for the business owner and their participants. It is the rising tide that raises both ships. Providing a 401(k) alone typically limits employees to a 3% to 5% allocation from their employer while the addition of a cash balance plan can double and even triple that amount. When rank and file participants receive more, they increase their success rate for income replacement in retirement.

Finally, the entire private retirement plan system comes under attack from time to time as not doing enough and recent, substantive proposals suggest a federal government run alternative. Many states have adopted automatic IRA programs which our industry supports as logical means to increase savings for American workers. Due to state mandates tens of thousands of employers have chosen to adopt qualified plans instead of rolling into the state systems. These are newer developments in addition to recent legislation that seeks to increase coverage.

The fact remains that the private retirement plan system works extremely well for what it is designed to do. Certainly, sensationalizing our weak spots over the decades has moved us to action and launched ASPPA into what it is today. We are professionals in an oddly polarized yet nonpartisan niche with the knowledge and experience to make a difference. ASPPA members have the voice and ability to frame current and future narratives that combat misunderstanding, partial truths, and outright lies. Support the ARA PAC and use the skills and framework we have adapted to educate around us. PC


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# RETIREMENT PLAN LAWSUITS SHOULD BENEFIT RETIREMENT SAVERS, NOT THE PLAINTIFFS' BAR

Classifying settlement proceeds as ERISA plan assets will reduce the financial incentive for plaintiffs' attorneys to bring frivolous class action lawsuits. **By Brian H. Graff**

**Our members are undoubtedly aware that the plaintiffs' bar, in recent years, has flooded federal courts with class action lawsuits against large retirement plan managers hoping to get significant payouts. The numbers are striking:**

- About **one-third** of large retirement plans have been sued since 2016;
- **Over 50%** of plans with more than $1 billion in assets have faced legal claims; and
- In 2023 alone, 42 settlements were reached, totaling **$353 million.**

These "cookie-cutter" lawsuits claim that retirement plan fees are too high, investment performance is too low, and the standards for judging these plans are often arbitrary or shifting. While some claims may be legitimate, very few are ever fully litigated. Plaintiffs' attorneys know that many of their targets will choose to settle rather than face expensive court battles.

## THE PROBLEM

Said more plainly, the current system incentivizes frivolous litigation, something the Trump Administration has signaled it intends to reform and that the American Retirement Association believes will happen.

When a case is settled, a judge must determine how to distribute the proceeds among the plaintiffs' lawyers and the retirement plan participants the lawyers purport to represent.

While some courts use a method based on actual hours worked to determine the lawyers' legal fees (i.e., the lodestar method calculates attorney fees by multiplying the hours worked by a "reasonable" hourly rate), most calculate fees as a percentage of the settlement. The latter incentivizes the plaintiffs' lawyers to push for quick settlements rather than do what is in the best interest of their clients.

As a result, retirement savers get minimal payout compared to their lawyers. On average, actual retirement plan participants receive $198 per settlement, while the plaintiffs' attorneys rack in most of the proceeds—$2.25 million per case.

Thankfully, the federal law governing retirement savings can be deployed to even the keel.

## THE SOLUTION

Settlement proceeds should be classified as plan assets. The Employee Retirement Income Security Act (ERISA) is designed with "an eye single" to protect workers' retirement savings. Congress should use the foundational principles of ERISA to reduce the financial incentives for unnecessary lawsuits while ensuring legitimate concerns are still addressed.

Congress should itself (or direct the Secretary of Labor to) do the following:

1. Classify settlement proceeds as ERISA "plan assets" under ERISA §502;
2. Require these funds to be handled according to strict fiduciary rules; and
3. Limit lawyers' fees to reasonable compensation based on actual work performed (i.e., lodestar method).

*Brian H. Graff, Esq., APM, is the Executive Director of ASPPA and the CEO of the American Retirement Association.*

Between 2006 and 2017, approximately 428 lawsuits were filed that pertain to 401(k)s, but the number increased exponentially in recent years. Since then, lawsuit filings have increased exponentially, with 200 class action lawsuits filed against 401(k) plans between 2019 and mid-2022 alone. Class action suits have also been brought involving pension plans, and 403(b) plans and lawsuits are regularly threatened and settled before a formal filing.

It means the problem is getting worse, reform is needed, and something we at the ARA support for the benefit of plan participants. As always, we'll keep you posted as events transpire. PC

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# WHEN TO DISCUSS TRADITIONAL DEFINED BENEFIT PLANS VS. CASH BALANCE PLANS

"Rename. Repackage. Start a marketing campaign." **By Jon Murello**

**This was the advice Stringer Bell received from his economics professor in HBO's The Wire when he asked how to improve sales of a declining product.** In the qualified plan space, a similar rebranding occurred in the early 2000s. Traditional defined benefit plans, once the standard, began to decline, and cash balance plans emerged. Whether intentional or not, cash balance plans became a rebranded version of traditional defined benefit plans. With proper guidance and consultation, both types of plans can help sponsors achieve their retirement goals. The choice between a traditional defined benefit plan and a cash balance plan depends on a sponsor's unique situation.

## A BRIEF HISTORY

For discussion purposes, there are two types of defined benefit plans: traditional defined benefit plans and cash balance plans. Some may be surprised to learn that a cash balance plan is a type of defined benefit plan. While they share similarities, they also have significant differences.

## TRADITIONAL DEFINED BENEFIT PLANS VS. CASH BALANCE PLANS

A traditional defined benefit plan provides participants with a monthly benefit in the form of a life annuity. Participants may also choose from other options at retirement, such as a joint and survivor annuity or a lump sum distribution equivalent to their monthly benefit. The benefit amount is typically determined using this formula:

Accrual percentage × Average monthly compensation over a set time period × Years of service.

Participants become vested after several years of service and can begin receiving benefits once they reach the plan's normal retirement age.

Traditional defined benefit plans in the U.S. date back to 1875, when American Express established the first private-sector version. By the 1960s and 1970s, most employers offering a retirement plan provided a traditional defined benefit plan. However, government regulations such as ERISA and PPA made these plans administratively complex and costly. Additionally, plan sponsors grew frustrated with liability volatility due to fluctuating interest rates. As a result, traditional defined benefit plans have declined since the 1980s.

At the same time, a new type of defined benefit plan emerged: the cash balance plan. Unlike traditional plans, which display benefits as a monthly annuity, cash balance plans present benefits as an "account balance." This balance grows annually through a pay credit (either a percentage of pay or a flat dollar amount) and an interest crediting rate.

The key difference between the two plans is perception: participants easily understand the value of an account balance, but a lifetime monthly benefit is harder to grasp. However, both plans require that, at retirement, account balances be converted into monthly annuity options for participants to elect.

Initially, court rulings made it difficult for actuaries to administer cash balance plans. However, the Pension Protection Act of 2006—and subsequent legislation in 2010 and 2014—confirmed their legality. Just as traditional defined benefit plans hit their lowest point, cash balance plans gained popularity.

## WHY CHOOSE ONE OVER THE OTHER?

Cash balance and traditional defined benefit plans are both subsets of defined benefit plans. Both require:

- Minimum required contributions
- Annual Form 5500/PBGC filing
- ASC 715 accounting
- IRC Section 415 termination liability limits
- Participant notices, such as benefit statements and annual funding notices or summary annual reports
- Nondiscrimination testing

Given these similarities, why would a sponsor choose one plan over the other?

## WHEN TO CHOOSE A TRADITIONAL DEFINED BENEFIT PLAN

A plan sponsor may implement a traditional defined benefit plan if they:

- Want a plan contribution for tax deductions
- Do not require extensive participant communication (e.g., small or owner-only plans)
- Prefer benefit protection based on a higher average monthly compensation

A traditional defined benefit plan may not be ideal if the sponsor:

- Wants to avoid liability volatility caused by fluctuating interest rates
- Has a large plan where participant communication is critical
- Does not want to manage investments to keep pace with volatile interest rates

*Best fit:* Smaller or owner-only plans

## WHEN TO CHOOSE A CASH BALANCE PLAN

A plan sponsor may implement a cash balance plan if they:

- Want more predictable plan liabilities
- Have a large plan where participants can easily understand the account balance value
- Prefer straightforward investment goals (if using a flat interest crediting rate, investments only need to match that rate)

A cash balance plan may not be ideal if:

- Annual participant pay fluctuates significantly (if the plan uses pay credit as a percentage of compensation, pay variability affects contributions)
- Employees recognize the value of a monthly benefit from a traditional defined benefit plan
- Participant communication is less of a concern

*Best fit:* Larger plans and most plan sponsors

## SUMMARY

When an employer wants to sponsor a pension plan, both cash balance and traditional defined benefit plans can achieve their goals. While both fall under the defined benefit umbrella, they differ significantly. A sponsor's size and financial position determine which option makes the most sense. When contacting an actuary to establish a defined benefit plan, a sponsor should clearly communicate their needs to ensure the most effective plan design. PC

# FEE-FOR-ALL: THE GREAT RECORDKEEPING PRICING DEBATE

How should defined contribution plan recordkeeping fees be priced? **By Eric Dyson**

**Monitoring and managing defined contribution (DC) plan fees, including recordkeeping fees, is one of the most important responsibilities for plan sponsors.** As plans grow and evolve, fiduciaries must ensure fee structures remain reasonable, transparent, and compliant with ERISA requirements. The two most common pricing models—asset-based (pro rata) and per-head (per capita)—each have unique benefits and challenges affecting participant outcomes. Longstanding guidance from the Department of Labor (DOL) and recent litigation trends highlight why fiduciaries must carefully evaluate and document fee decisions.

## BREAKING DOWN FEE STRUCTURES

Asset-based pricing, or pro rata pricing, calculates fees as a percentage of plan assets. This model often benefits participants with smaller balances, as they pay less compared to their peers. However, as plan assets grow, participants with larger balances might pay disproportionately higher fees, even though recordkeeping services do not scale with account size.

In contrast, per-head pricing applies a flat fee to each participant. This approach provides greater transparency and predictability since costs closely align with actual administrative work. However, it can lead to relatively higher costs for participants with smaller balances, raising fairness concerns.

Choosing the right pricing structure depends on a plan's demographics and objectives. Fiduciaries must carefully consider the benefits and drawbacks of each model to determine the best fit. The options presented by the selected recordkeeper also influence the decision.

## FIDUCIARY CHALLENGES TO WATCH

One key concern with asset-based fees is their growth as plan assets increase. A fee structure that was reasonable when the plan was smaller might lead to excessive fees over time. Fiduciaries should regularly review fees to ensure they remain appropriate for the service level provided.

Another challenge involves fee benchmarking. Many benchmarking services only evaluate one pricing model, either asset-based or per-head fees, without fully accounting for differences between the two. While they usually yield similar outcomes, this can produce misleading results. For example, if your plan uses asset-based pricing but the benchmark is per-head, the comparison may be inaccurate. Ensuring benchmarks align with your plan's fee structure is crucial for informed decisions.

When benchmarking, fiduciaries should compare their plan to similar benchmarks for both per-head and asset-based pricing whenever possible.

## ERISA GUIDANCE AND FEE ASSESSMENT DECISIONS

The DOL, in Field Assistance Bulletin 2003-03, emphasizes the importance of a prudent process in selecting and monitoring fees. Fiduciaries are not required to adopt a specific pricing model but must ensure fees are reasonable, necessary, and justified. Regular reviews and thorough documentation demonstrate compliance with these standards.

For many recordkeepers, the plan's pricing and the method for charging participant fees do not have to match. For example, a plan could be priced at 20 basis points (bps) of assets but charge a flat participant fee quarterly. In this arrangement, there might be slight differences between costs and collected fees, typically covered by the employer.

Ask the recordkeeper about available pricing options. In the small-plan market, some national recordkeepers exclusively offer per-head pricing, while others use only asset-based pricing. If one approach suits a particular plan best, fiduciaries should use that model, ensuring compliance with best practices highlighted here.

## CLASS ACTION LITIGATION HIGHLIGHTS IMPORTANCE OF FEE STRUCTURE EVALUATION

Lessons from ERISA class-action litigation underscore fiduciaries' need to diligently assess and manage recordkeeping fees. A notable case is the 2019 fiduciary breach lawsuit involving the Massachusetts Institute of Technology (MIT). MIT agreed to an $18.1 million settlement and committed to enhanced plan oversight,

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including conducting an RFP for recordkeeping services explicitly requesting per-head fee bids. This move promoted transparency and aligned fees more closely with services provided, addressing concerns that asset-based fees could become excessive as plan assets grow.

This case highlights the judiciary's growing focus on fee reasonableness and fiduciary processes in selecting providers. It serves as a critical reminder for sponsors to regularly evaluate fee structures, consider competitive bidding, and document their decision-making to demonstrate fiduciary compliance.

## TAKING ACTION

To effectively manage recordkeeping fees, plan sponsors should first benchmark their fees against the market. Ensure benchmarks align with your plan's pricing model for accurate comparisons. Conducting an RFP process provides insights into competitive pricing options.

Evaluate whether your current pricing structure—pro rata, per capita, or hybrid—aligns with your plan's goals and demographics. Thoroughly document decision-making processes to demonstrate fiduciary best practices.

Explore pricing options. If a plan uses asset-based pricing, ask the recordkeeper if per-head pricing is available or if participant fees can be assessed per-head. Understanding all options enables fiduciaries to select the best approach for their plan.

## CONCLUSION

Selecting the right recordkeeping fee structure is not a one-size-fits-all decision. Fiduciaries must balance their plan's unique needs with participant interests while ensuring compliance with ERISA standards. Through a thoughtful process and regular review, plan sponsors can establish transparent, equitable fee structures benefiting all participants. PC

# NAVIGATING NEW WATERS

## Managing LTPTE and Early Eligibility Decisions

BY SHANNON EDWARDS

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# The SECURE Act

## (Setting Every Community Up for Retirement Enhancement Act) and its subsequent enhancement, SECURE 2.0, introduced significant changes to retirement plan eligibility, and introduced a new classification of participant to 401(k) plans.

It also introduced a new level of complexity to an already confusing set of rules which was followed by guidance from the IRS that further complicated the new rules. By now you are already familiar with the term Long Term Part Time Employee (LTPTE). You have also likely determined how you will address the new rules and attempt to streamline your compliance practice.

Compliance administrators and employers must navigate these new rules carefully to ensure compliance while also optimizing plan design to meet the needs and goals of the plan sponsors. Under the original SECURE Act, employers sponsoring 401(k) plans were required to allow LTPT employees to participate if they had completed at least three consecutive years of service with at least 500 hours of service per year. SECURE 2.0 has since reduced the three-year requirement to two years, further expanding access to retirement benefits for part-time workers. The Act also ensures that once eligible, these employees must be allowed to make elective deferrals into the plan, though employer contributions remain at the discretion of the employer.

### LTPTE VS. EARLY ELIGIBILITY FOR ALL

The LTPTE rules as updated by SECURE 2.0 created a situation where part-time employees who work very few hours can become eligible to make 401(k) contributions to the plan. However, the IRS' interpretation of the new rules said that those who become eligible under these rules are subject to less stringent vesting rules as long as they participate in that plan. The IRS also said that safe harbor plans couldn't simply allow everyone to make 401(k) contributions sooner rather than later and keep the Top-Heavy Exemption.

Therefore, to avoid having a plan be subject to the LTPTE rules and the complexity they add, one crucial decision became whether to reduce the hours of service required for a year of service in a 401(k) plan or to shorten the service period required for eligibility. This would allow all employees to make 401(k) contributions sooner. However, they would also be eligible for the employer matching contribution if there is one, unlike entering the plan early under the LTPTE rules. Therefore, these decisions have significant implications for plan participation, vesting, administrative complexity, and audit requirements.

### SERVICE CALCULATIONS

The first level of complexity in administering the LTPTE rules exists in how the consecutive years of service are calculated. In most cases the first eligibility calculation period is based on the employee's first year of employment. It begins with their first day of employment and ends on their first anniversary date. Then the second eligibility calculation period begins on the first day of the plan year after the employee's original date of hire and ends on the last day of that same plan year. Therefore, the first eligibility computation period and the second overlap. In theory a participant could be hired on Dec. 1, 2023, and be eligible to participate in the plan as a LTPTE as of Jan. 1, 2025, assuming that they worked more than 500 hours from Dec. 1, 2023, to Nov. 30, 2024, and worked more than 500 hours from Jan. 1, 2024 to Dec. 31, 2024. This basically negates the rule that an employer can require an employee to be employed for one year and work at least 1000 hours in that year at least for determining eligibility to make deferrals.

The determination of eligible status as a LTPTE is further complicated by the fact that the two consecutive periods can be any two consecutive periods since 2021. For instance, we had a participant who was hired in 2021. She worked more than 500 hours in her initial computation period and in the calendar year 2022. However, she worked less than 500 hours in 2023. Therefore, she was not eligible as a LTPTE on January 1, 2024, under the original SECURE rules, because she did not have three consecutive periods with more than 500 hours of service. However, on January 1, 2025, under the updated rules of SECURE 2.0 she was eligible as a LTPTE because she had previously met the two-year requirement. Luckily, with help from the record keeper, the fact that the record keeper's tracking system was working properly, and the fact that the client has been diligently submitting hours of service for every employee for every year of service for several

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years, the employee was properly flagged as eligible, and we did not have a missed deferral opportunity to correct. However, the situation does bring to light how difficult it is going to be for clients and practitioners to track this as we get further away from 2021 especially if the clients have a lot of rehires or plans move record keepers and/or compliance administrators. Takeovers just became exponentially more complex because of these rules.

## ALTERNATIVES TO LTPTE RULES

Faced with the challenges of administering these new rules with and for our clients, we soon realized that if it were at all possible, we should work with our clients to amend their plans to avoid the application of the LTPTE rules. This involved individual conversations with each one of them to discuss the pros and cons of each option available to them and why they should consider avoiding having these rules apply to their plan. Once we explained to them how easy it would be for a part time employee to meet the LTPTE rules, especially after SECURE 2.0 became effective and the added complexities that these rules would add to their plan such as forever having to track a LTPTE as such and crediting them with years of service for vesting at a rate faster than their full time employees, they were very motivated to hear how they could avoid them. In our estimation there were a couple of choices to be made. Each client had to choose between two primary approaches: (1) reducing the hours of service required to achieve a year of service or (2) shortening the overall eligibility period required for plan entry.

## REDUCING HOURS OF SERVICE REQUIREMENT

Some of our clients wanted to keep a longer waiting period for their eligibility requirements due to turnover in their industry. For those clients we suggested that they lower their required hours of service down from the 1,000 hours that we have normally used to 500 to meet the definition of a year of service for eligibility purposes. Therefore, an employee still had to work for them for twelve months to be eligible, though they only had to work 500 hours in that twelve-month period instead of 1,000 hours. This would allow them to avoid the LTPTE rules and would not allow the part-time employee into the plan significantly sooner than the LTPTE rules would.

As with anything though, there are advantages and disadvantages to this approach. The biggest advantage is to reduce the complexity of administering the plan and avoid the LTPTE rules. This will create uniformity in the eligibility calculations as well as vesting across all types of employees and participants. The second advantage is that it encourages greater participation from the part-time employees and provides them with a valuable benefit that they may not have been eligible for prior to this.

One disadvantage of expanding eligibility is that it may increase the number of participants which can increase the costs of administering the plan. This is especially true if the plan is on the borderline of having to have an annual audit. Expanding eligibility by lowering the hours required to meet the one year of service requirement would also make the newly eligible participants eligible for the employer match if there is one. As a LTPTE they would not have been eligible for the match. This will likely increase the cost to the employer as well. It may also result in additional fiduciary and compliance responsibilities such as maintaining records for a larger pool of participants and increasing the number of participants that must receive required notices etc.

> **"The decision to adjust eligibility criteria in a 401(k) plan under SECURE and SECURE 2.0 carries significant implications. Employers must carefully evaluate whether to reduce the hours-of-service requirement for a year of service, shorten the eligibility waiting period, or do nothing and have the LTPTE rules apply to their plan."**

## REDUCING SERVICE REQUIREMENTS

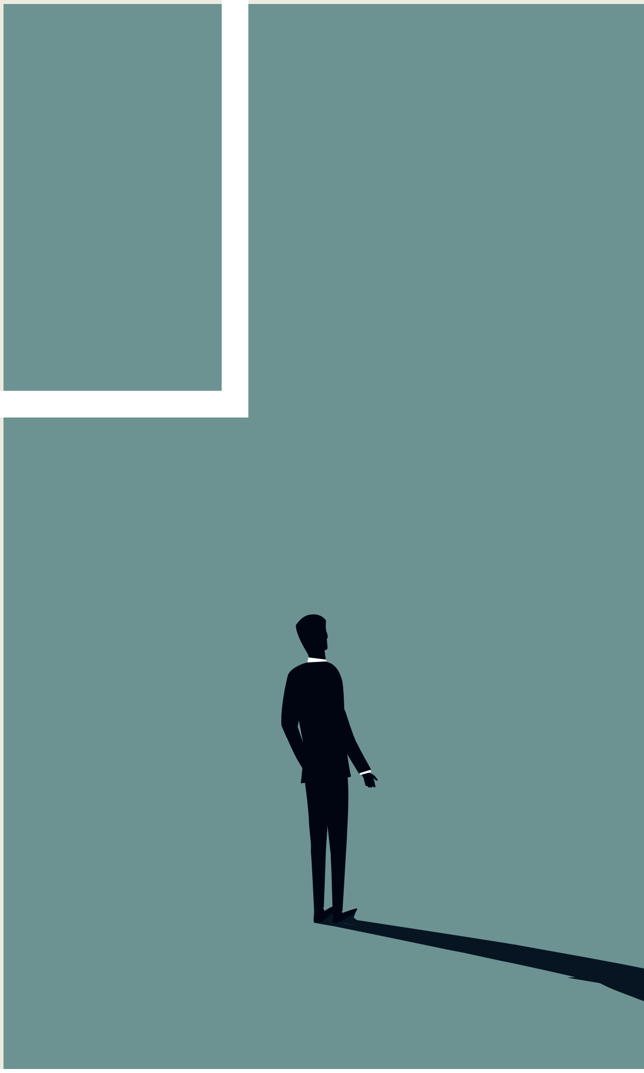
Alternatively, employers might choose to lower the eligibility service period to something less than one year. This would allow all employees to enter the plan sooner. For instance, rather than requiring employees to complete one full year of service before participation, an employer might permit entry after six months or immediately upon hire. This has several advantages. First, it may increase employee satisfaction and retention by offering earlier access to retirement benefits. Many employees who are new hires will be coming from companies who may have offered them the ability to participate in a 401(k) plan. Often when moving from one employer to another, if an employee must wait for a year before they are allowed to participate in their new employer's plan, it can be seen as a disadvantage to moving jobs or a reduction in benefits. Another advantage is simplified tracking and administration by reducing the need for monitoring multi-year eligibility periods. It also creates consistency across employee classifications ensuring that part-time and full-time employees have equitable access to benefits. Many of our clients chose to tie eligibility for the 401(k) plan to their eligibility requirements for health insurance. Therefore, they only have one set of eligibility requirements to track for all their benefits. There are also disadvantages to consider with this change. Allowing quicker access to the plan can also lead to small balances that have to be dealt with in the case of employees who turn over quickly. Like the other change to hours of service, this change can also increase costs to the employer for compliance, record keeping, fiduciary oversight, and for matching contributions. If the match is a safe harbor match, the employee would be entitled to take the match with them if they left because it would be fully vested immediately.

## AUDIT CONSIDERATIONS

One of the key considerations in modifying eligibility rules is the impact on plan audit requirements. Under ERISA (Employee Retirement Income Security Act), large plans with 100 or more participants are generally required to undergo an independent audit. Increasing eligibility—either by reducing the service hour requirement or shortening the eligibility period—may result in more employees qualifying as participants, thereby pushing a plan over the 100-participant threshold. However, LTPTEs who make 401(k) deferrals, although they do not receive an employer matching contribution are counted as a participant for determining if the plan is required to be audited. The argument can be made that many LTPTEs may not defer if they are not eligible for the employer matching contribution. By reducing the eligibility requirements to avoid the LTPTE rules, more of those participants who become eligible under the new rules and are eligible for the employer match may participate where they would not have as a LTPTE. That is something the plan sponsor should consider if they are close to the audit threshold. To mitigate this risk, employers should: evaluate current plan participant counts to determine the impact of expanded eligibility, work with plan administrators to implement strategies that manage audit-related expenses and consider the cost-benefit tradeoff of increasing participation against the potential audit burden.

The decision to adjust eligibility criteria in a 401(k) plan under SECURE and SECURE 2.0 carries significant implications. Employers must carefully evaluate whether to reduce the hours-of-service requirement for a year of service, shorten the eligibility waiting period, or do nothing and have the LTPTE rules apply to their plan. Each option presents trade-offs in terms of participation, administrative complexity, costs, plan audits, and vesting obligations. Ultimately, the optimal approach depends on the employer's workforce composition, financial considerations, and administrative capabilities. By carefully structuring plan eligibility requirements, employers can both comply with regulatory mandates and create a more inclusive, effective retirement savings program for all employees. PC

# AN UNEXPECTED PAIRING



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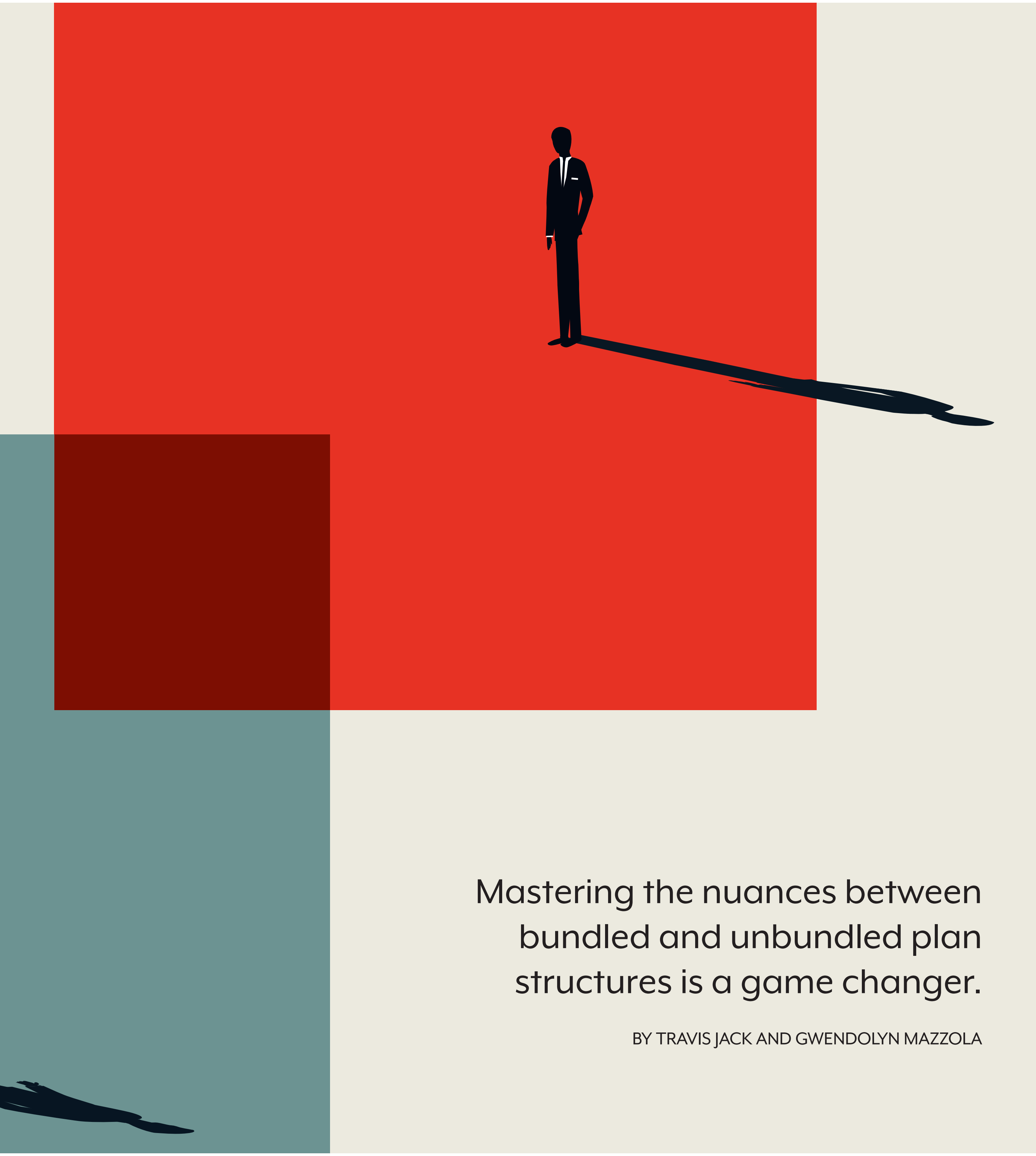


# Mastering the nuances between bundled and unbundled plan structures is a game changer.

BY TRAVIS JACK AND GWENDOLYN MAZZOLA

**From an audit perspective, it is crucial to understand the structural and operational differences between bundled and unbundled plan environments. These administrative models vary in how services are delivered, impacting compliance reporting, regulatory oversight, audit efficiency, and risk assessment.**

While bundled arrangements consolidate administrative services under a single provider, unbundled models distribute responsibilities among multiple specialists. These models require greater coordination but often offer enhanced oversight and flexibility.

The effectiveness of either model often depends on the capabilities and qualifications of the service providers involved. This article will explore key structural differences, highlight plan types where these distinctions matter most, and examine how service model variations can impact fiduciary responsibilities and operational success of the plan audit and plan sponsor outcomes in general.

## SERVICE PROVIDER STRUCTURE: UNDERSTANDING THE KEY COMPONENTS

A 401(k) plan typically requires three primary administrative functions:

1. Asset Custody – Holding plan assets in trust and executing trades.
2. Participant Recordkeeping – Allocating assets to participants, generating participant statements, and typically providing participant and plan sponsor access via an online portal.
3. Third-Party Administration (TPA) – Ensuring ERISA compliance, conducting nondiscrimination testing, filing Form 5500, and maintaining plan documents.

A bundled provider offers all three services under a single contract, whereas an unbundled arrangement distributes these functions among multiple providers, necessitating coordination between them. This article focuses on the key differences between working with an external Third-Party Administrator (TPA) and a fully bundled service model.

## THE TYPICAL ADVANTAGES OF AN UNBUNDLED MODEL

One primary benefit of an unbundled approach is heightened regulatory compliance and oversight. Independent TPAs prioritize plan design optimization and help plan sponsors proactively navigate the complex regulatory framework surrounding qualified plans.

## KEY COMPLIANCE BENEFITS OF AN UNBUNDLED MODEL:

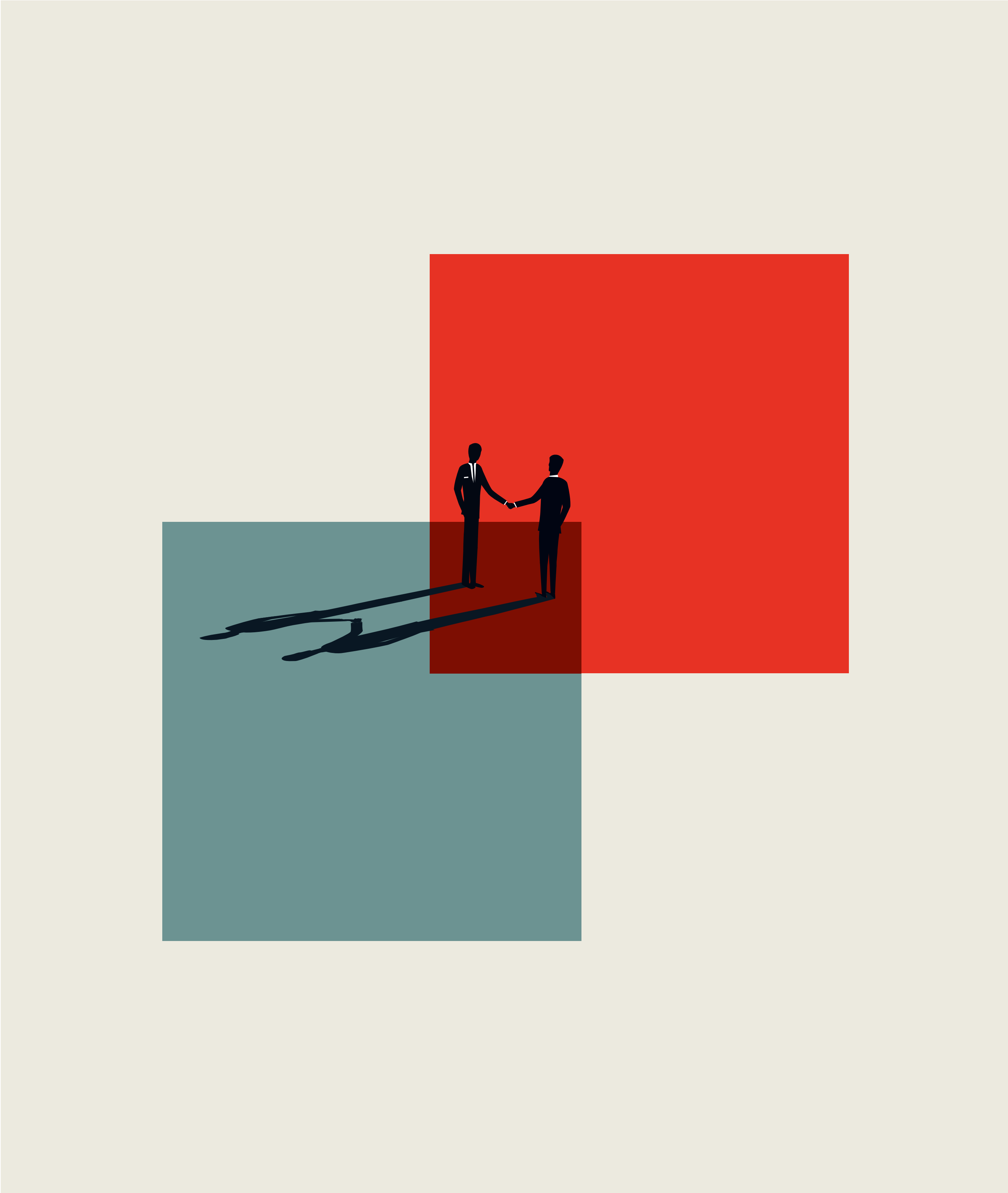
- Enhanced Plan Design Support—TPAs assess compliance risks related to controlled groups and due diligence requirements during the plan installation phase.
- Proactive Operational Compliance—TPAs conduct ongoing compliance reviews rather than relying on clients to independently submit data, which can be a differentiating factor in comparison to bundled models. The depth of the data validation can vary substantially by TPA and by the level of service that the client has contracted the TPA to perform.
- Fiduciary Control and Governance—Unbundled models separate administrative services from investment management, reducing the potential for conflicts of interest and improving fiduciary oversight.
- Greater Service Customization and Expertise – TPAs often employ credentialed consultants with deep industry knowledge, ensuring specialized attention tailored to the plan's needs.
- Multiple Employer Plans (MEPs)—TPAs excel at managing the complexities associated with MEPs, ensuring accurate payroll data collection, reconciliation reporting, and compliance tracking across multiple participating employers.

## DATA INTEGRITY AND AUDIT READINESS

A significant advantage of an unbundled arrangement is often an enhanced data validation process. A TPA's independent review may range in scope and scale but often entails comparing census data against payroll records, prior-year filings, and plan documents, reducing errors related to compensation, misclassified employees, and deferral elections.

## KEY ASPECTS OF DATA INTEGRITY IN AN UNBUNDLED MODEL:

- Independent Data Validation – TPAs often implement various



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accuracy checks, reducing reliance on employer-submitted data.

- Customized Census Data Collection – Unlike bundled providers, TPAs tailor data collection to each employer's payroll structure, mitigating risks associated with standardized templates.
- Proactive Error Detection – Frequent real-time audits help identify discrepancies early, preventing reporting errors and regulatory violations.
- Comprehensive Payroll Reconciliation – TPAs ensure payroll records align with deferral elections and IRS contribution limits, reducing excess contributions and associated penalties. The choice may vary depending on the TPA and the level of services selected by the plan sponsor.

## DISTRIBUTIONS - DATA VALIDATION AND ENHANCED FRAUD PREVENTION IN UNBUNDLED MODELS

Distributions represent a higher-risk transaction class with a degree of susceptibility to internal and external fraud. TPAs often employ rigorous verification protocols before processing disbursements, ensuring alignment with plan provisions and IRS regulations.

## KEY SAFEGUARDS IN AN UNBUNDLED MODEL:

- Participant Eligibility Verification – Confirming termination status, retirement age, or hardship withdrawal qualifications.
- Account Balance and Vesting Reconciliation – Ensuring distributions reflect accurate participant balances and employer contribution vesting.
- Tax Withholding Validation – Verifying compliance with IRS and state tax withholding requirements.
- Secure Documentation and Authorization – Assisting with the implementation of more rigorous participant identification and spousal consent protocols.
- Regulatory Compliance Assurance – Ensuring distributions are accurately reported on IRS Form 1099-R and comply with Required Minimum Distribution (RMD) regulations.

## AREAS WHERE UNBUNDLED ENVIRONMENTS EXCEL

Expertise in Complex Plan Design

- Unbundled TPAs excel in managing highly customized plan structures, such as controlled groups, cross-tested allocations, and safe harbor provisions.
- They provide tailored solutions that accommodate unique employer needs, ensuring compliance while maximizing plan benefits.

## PLAN CORRECTIONS AND REGULATORY ASSISTANCE

- TPAs possess deep expertise in compliance correction programs, guiding plan sponsors through regulatory remediation, including:
  - Self-Correction Program (SCP)
  - Voluntary Correction Program (VCP)
  - Voluntary Fiduciary Correction Program (VFCP)
  - Delinquent Filer Voluntary Compliance Program (DFVCP)
- TPAs assist in gathering required documentation, advising on the best corrective method, and ensuring compliance with IRS and DOL regulations.
- In the event of an IRS or DOL audit, TPAs often provide direct support, helping plan sponsors navigate regulatory oversight efficiently.

## SPECIALIZED SUPPORT FOR MULTIPLE EMPLOYER PLANS (MEPS) AND POOLED EMPLOYER PLANS (PEPS)

- The complexity of MEPs and PEPs requires specialized administration to manage diverse employer structures.
- TPAs play a crucial role in:
  - Reconciling trust statements with consolidated Form 5500 reporting
  - Managing census and data collection across multiple payroll providers
  - Ensuring compliance with nondiscrimination testing, top-heavy testing, and contribution & eligibility tracking
- Their expertise supports accurate reporting and reduces the compliance burden for participating employers.

## 3(16) FIDUCIARY SERVICES: REDUCING SPONSOR LIABILITY

- Some TPAs offer 3(16) fiduciary services, assuming responsibility for key administrative and compliance functions.
- This co-fiduciary arrangement reduces the plan sponsor's liability and improves audit readiness by ensuring accurate, real-time payroll data integration and compliance tracking.
- Close coordination between the TPA and auditors results in a more efficient, streamlined audit experience.

## MERGERS AND ACQUISITIONS: NAVIGATING PLAN TRANSITIONS

- TPAs have extensive experience managing the complexities of plan mergers, terminations, and transitions during corporate restructuring.
- Their expertise ensures smooth plan consolidation, regulatory compliance, and minimal disruption to participants.

## POTENTIAL CHALLENGES OF AN UNBUNDLED MODEL

While unbundled structures offer substantial advantages, they also present some unique challenges:

- Multiple Points of Contact—

Managing multiple service providers can complicate communication, causing potential delays and inefficiencies during the audit process. Unlike a bundled approach, which streamlines coordination under a single provider, an unbundled structure requires more front-end communication and planning to maintain workflow efficiency.

- Data Security Risks—Some TPAs may lack robust cybersecurity, which could lead to additional data vulnerabilities and a degree of compliance risk.
- Authenticity of Records—While TPAs may provide a reporting package, obtaining the participant statements and trust reports directly from the recordkeeper and trustee/custodian is vital to their authenticity. Further, auditors should obtain the certification of the trust statements directly from the qualified certifying entity.
- Reconciliation Complexities – Discrepancies between participant records, custodian/trust reports, TPA reporting, and Form 5500 filings can create reconciliation challenges. Auditors may need additional time to resolve inconsistencies, leading to a more complex and time-consuming audit process.
- Variability in Service Quality—TPAs' expertise and service levels can vary significantly, just as they do among certified public accountants (CPA) firms conducting Employee Benefit Plan audits. Inconsistent service levels and responsiveness can impact audit readiness, reporting accuracy, and overall plan administration, sometimes negating the efficiencies an unbundled model aims to provide.
- Scalability Limitations—A highly customized, unbundled structure may not scale efficiently during periods of rapid plant growth. Expanding service needs could strain provider coordination, potentially leading to operational bottlenecks and increased administrative burden.
- Turnover of Key Personnel—TPAs may experience higher turnover rates, leading to the loss of institutional knowledge critical to plan administration. Frequent staffing changes can disrupt workflows, introduce compliance risks, and complicate the audit process.
- Expectation Gaps—When multiple service providers are involved, it is important to understand who is responsive for which functions or services. The tasks performed by the TPA can substantially vary depending on the contracted level of service.

## THE ADVANTAGES OF A BUNDLED MODEL

Bundled plan environments offer a streamlined, single-provider approach that can be beneficial in many ways. Large financial institutions often provide bundled services, integrating recordkeeping, investment management, and compliance oversight into one offering.

Key Benefits of a Bundled Model:

- Administrative Simplicity – A single provider manages all plan functions, reducing communication and coordination challenges.
- Cost Efficiency – Economies of scale may lower costs, though not always guaranteed.
- Integrated Compliance – Standardized oversight simplifies reporting and audits.
- Technology and Automation – Digital platforms enhance automation, self-service, and data reporting.

## POTENTIAL DRAWBACKS OF A BUNDLED MODEL

Despite its advantages, the bundled approach may present limitations concerning oversight and flexibility.

Challenges of a Bundled Model:

- Limited Customization – Bundled providers use standardized processes that may not align with the unique needs of certain plan sponsors, particularly those with complex plan designs.
- Potential for Conflicts of Interest – Since investment management may be integrated with administrative functions, there is a risk that investment recommendations may prioritize proprietary funds over optimal plan performance.
- Reduced External Independent Oversight—Plan sponsors may not have the knowledge and experience to monitor the compliance processes compared to leveraging the expertise of an independent TPA in an unbundled model.
- Less Personalized Service – Service teams in bundled environments may be broader and more generalized, potentially reducing specialized support for plan sponsors.

Streamlining the Audit Process: Bridging the Gap Between Auditors and Plan Service Providers

What Plan auditors have historically requested of plan service providers has varied substantially by firm, differing both in data requested and overall format preferences.

Additionally, responsiveness, knowledge of qualified plans and technology utilized can vary substantially between CPA firms. Audit workflows often prioritize broader CPA firm goals, leaving lower-margin plan audits with fewer resources.

A shortage of CPA candidates further strains the ability to meet this demand. These factors often create inefficiencies and friction for service providers, especially TPAs. However, proactive planning and strategic partnerships between TPAs and CPA firms can transform these challenges into greater efficiency and collaboration opportunities.

## INTERVIEWING PROSPECTIVE AUDITORS: USING DATA FOR STRATEGIC BUSINESS ALIGNMENT

Selecting the right auditor is critical for ensuring compliance, efficiency, and a smooth audit process. Rather than relying solely on reputation or cost alone, plan sponsors and TPAs should help plan sponsors take a data-driven approach when evaluating prospective auditors.

By leveraging key quality and operational metrics, TPAs can assist plan sponsors in making informed decisions that align with their business needs and long-term goals.

Data-Driven Considerations – Quality

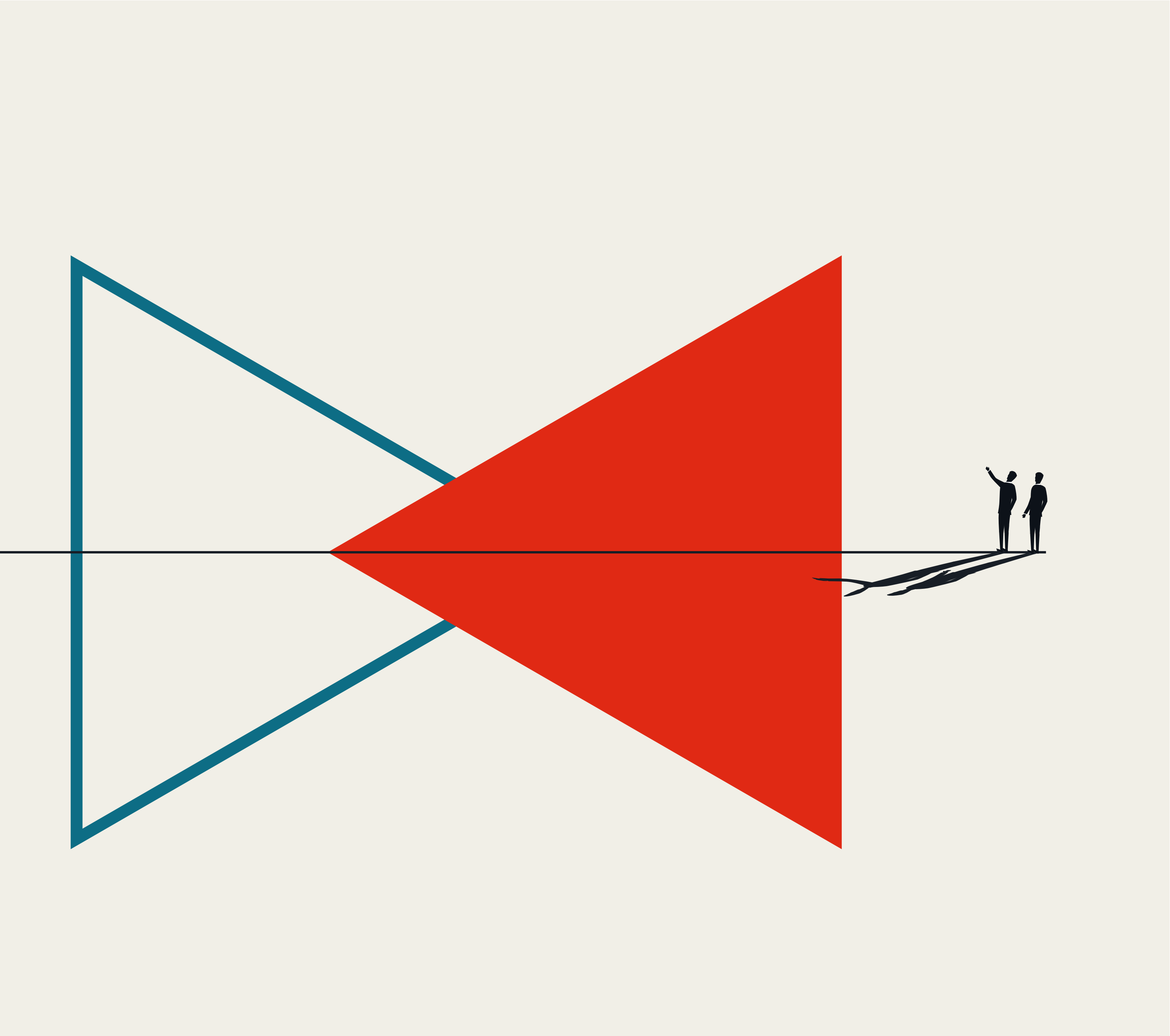
- Experience with Plan Audits
  - Assess the number of employee benefit plan (EBP) audits the firm completes annually.
  - A higher volume of audits often indicates greater expertise and efficiency in navigating complex compliance requirements.
- Industry-Specific Training and Education
  - Evaluate the average Continuing Professional Education (CPE) hours dedicated to EBP topics at the Partner, Manager, and Staff levels.
  - A strong commitment to ongoing education ensures auditors stay abreast of regulatory changes and best practices.
- Licensure and Compliance
  - Verify the auditor's licensure status to confirm they meet regulatory and professional standards.
  - Ensure the CPA firm is a member of the AICPA's Employee Benefit Plan Audit Quality Center (EBPAQC).

## DATA-DRIVEN CONSIDERATIONS – OPERATIONS

- Timeliness and Efficiency
  - Determine the percentage of audits completed without needing an extension.
  - Average days out from the extended filing deadline?
  - What is the average length or duration of the audit process from start to finish?
  - Firms with efficient workflows and strong client communication tend to finalize audits on schedule, reducing last-minute complications.
- Specialization in EBP Auditing
  - Ask whether the CPA firm has dedicated team members focusing exclusively on EBP audits.
  - A specialized team can enhance the audit process's consistency, accuracy, and efficiency.
- Audit Scheduling and Workflow
  - Understand if EBP audits are conducted year-round or if the CPA firm follows a seasonal approach.
  - Year-round auditing can lead to more proactive issue resolution and less bottlenecking during peak seasons.
- Staffing Continuity and Turnover
  - Consider the possible impact of auditor turnover and staffing continuity.
  - High turnover can lead to inefficiencies and inconsistencies, while a stable team ensures a smoother audit experience.

By focusing on measurable data points, plan sponsors and TPAs can select an audit firm that aligns with their business objectives, minimizes compliance risks, and fosters long-term success in retirement plan administration.

Many of the data points listed above have statistical significance on audit quality. The previous article in the Spring 2024 edition of Plan Consultant: Learning from Failures: How the Statistics Used in the Latest DOL Audit Quality Study Can Drive a More Effective EBP Auditor Selection Process has a robust discussion of the RFP process relating to audit quality.



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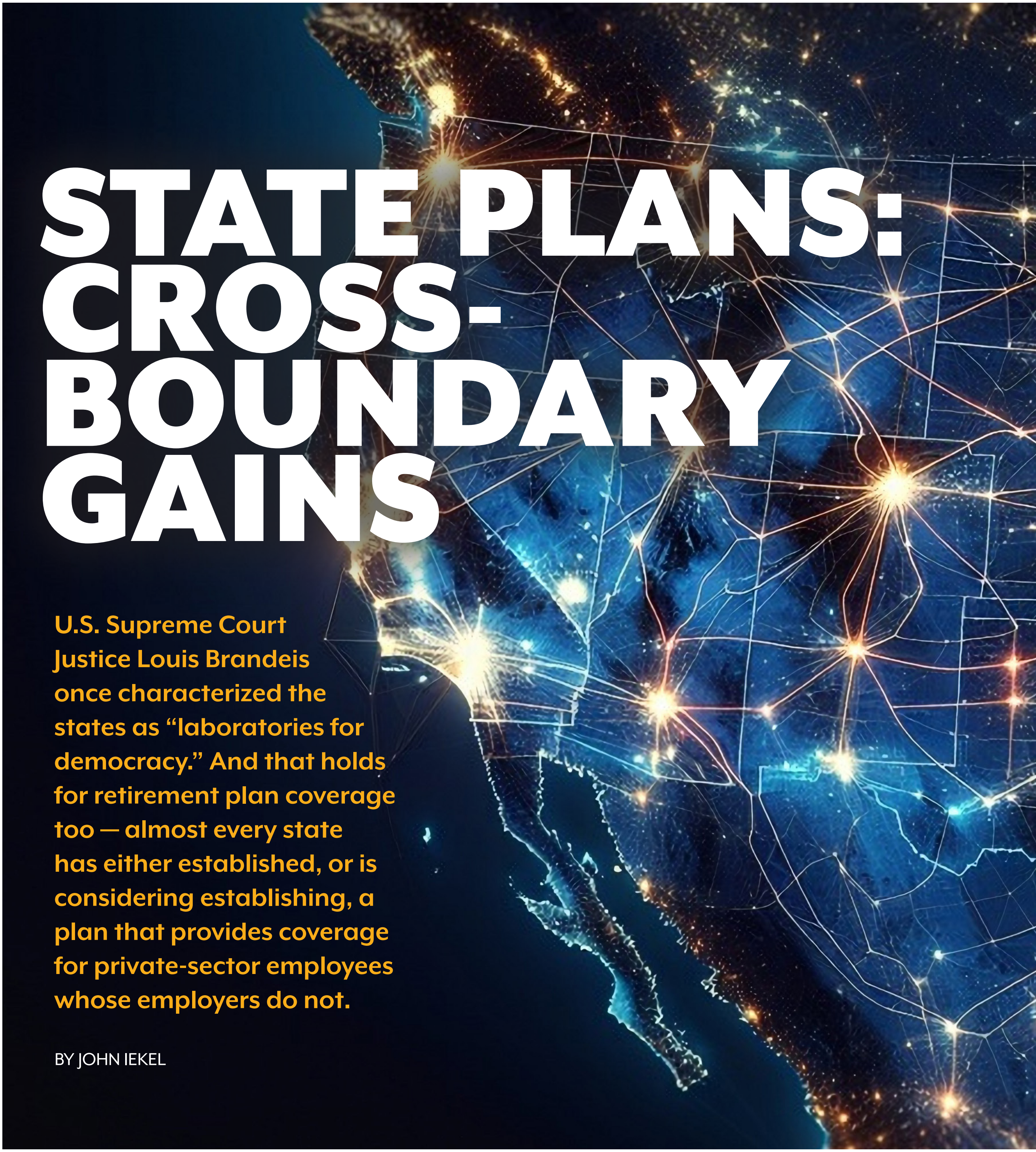
## FINAL THOUGHTS

In an ever-evolving retirement plan landscape, selecting a service provider type and individual service provider carries significant implications for compliance, fiduciary oversight, and operational efficiency. As plan sponsors navigate these decisions, they must carefully evaluate how each model aligns with their objectives while fostering effective collaboration between TPAs and CPAs. Strong oversight and well-defined responsibilities remain essential in mitigating risks and streamlining the audit process.

Looking ahead, the growing pressure on pricing and regulatory compliance will further emphasize the need for seamless coordination between retirement plan service providers and auditors. Success hinges on proactive communication, robust compliance measures, and a commitment to continuous process improvement, whether within a bundled or unbundled framework.

Plan sponsors can benefit from enhanced audit efficiencies and deep collaboration by prioritizing these collaborative factors. PC



# STATE PLANS: CROSS-BOUNDARY GAINS

**U.S. Supreme Court Justice Louis Brandeis once characterized the states as "laboratories for democracy." And that holds for retirement plan coverage too — almost every state has either established, or is considering establishing, a plan that provides coverage for private-sector employees whose employers do not.**

BY JOHN IEKEL

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## States continue to join their sisters in putting such plans in motion, and some are refining plans they've already established. They're getting results, too — the largest, CalSavers, amassed assets surpassing the $1 billion mark by last summer.

And, yes, they augment employees' retirement savings, which ultimately is their reason for being — but their effect actually goes beyond that.

But not everyone is an unqualified fan. Even when those plans were no more than an idea, some of their critics warned that state-run retirement plans would be established and run at the expense of private-sector, employer-provided retirement plans. On the surface, that argument may seem reasonable — but research has shown that the *opposite* has happened. That's right — there is evidence that state-run plans are boosting not only their participants' retirement account balances, but also private-sector plans. Seems counterintuitive, but there it is.

### IN THE LABS

The first state to adopt a measure creating a state-run plan was Illinois, where the Illinois Secure Choice Savings Program Act was enacted on Jan. 4, 2015. But while the Land of Lincoln may have led all the rest in enacting a measure creating such a program, they were not the first to start one. The law called for Illinois Secure Choice to be implemented in 2017, but the state government delayed that till 2020.

**Next up:** California, where the enactment of Senate Bill 1234 on Sept. 29, 2016, set in motion a pilot program that was to lead to CalSavers. But like Illinois, California took its time, and the program ended up not being launched until three years had passed. But its neighbor to the south was in a bit more of a hurry. Oregon may have been the third state to enact a measure establishing a state-run program, but it was the first to launch one — OregonSaves hit the pavement in 2017.

### LIKE RABBITS

Flash forward to 2025 — 10 years after Illinois adopted a measure creating Illinois Secure Choice, 48 out of 50 states are, at the very least, considering one if not outright offering one. There are 20 functioning plans, and every U.S. region is represented. In New England, Connecticut, Maine, Massachusetts, Rhode Island, and Vermont; in the Northeast, New Jersey and New York; in the upper South, Virginia, Maryland, and Delaware; in the Midwest, Illinois, Minnesota, and Missouri; in the West, California, Colorado, Nevada, New Mexico, Oregon, and Washington, in addition to Alaska and Hawaii. And all but two of the other 30 states are considering the establishment of such programs. Most states choose go it alone, but some do not and have established formal agreements by which they cooperate in running such plans — for instance, Colorado and New Mexico, as well as Maine, Vermont, and Delaware.

### STATE VERSUS PRIVATE-SECTOR PLANS?

State-run plans like CalSavers, Illinois Secure Choice and others of their ilk are intended to serve as a safety net of sorts, and fill the gap created by the uneven opportunity for coverage employees and their dependents may encounter vis-à-vis offering a retirement plan being voluntary for private-sector employers. But not everyone is a fan.

Some object to such plans, or fear them, because they contend that state-run plans will supplant employer-provided plans by resulting in (1) employers either not offering one because the state plan exists, or dropping their plan for that reason and (2) employees not participating in a plan their employer offers because they would rather participate in the state plan.

Adding fuel to that fire is the fact that in 17 of the 20 states where programs exist, it's mandatory for employers to participate if they do not offer a retirement plan of their own. Massachusetts, Missouri, and New Mexico are the outliers in that — the state-run programs they offer are voluntary.

Seems a reasonable assumption. But you know what they say about assuming…

### CHALLENGING CONVENTIONAL WISDOM

There can be value sometimes in challenging the prevailing wisdom, and state-run plans are an example. For statistics suggest that the assumption that in the coverage universe, state-run and employer-offered retirement plans are mutually exclusive at best, and at worst an either-or proposition is…*mistaken*.

Rather than detracting from private-sector, employer-provided retirement plans, research has found that state-run programs actually have been a catalyst for private-sector plans and saving in and through them.

There were echoes that such could be the case as early as the advent of state-run programs themselves. In 2017, while the first states to establish such programs were working on that and before any such plan was anything more than imminent, the Pew Charitable Institute issued a report saying that just 13% of employers they surveyed told them they would drop their plans if their state put a retirement program in place. Seven years later, the National Bureau of Economic Research (NBER) in Working Paper 32817, "Why Do Employers Establish Retirement Savings Plans? Evidence from State 'Auto-IRA' Policies" backed that finding with its own research. The working paper said that the NBER found that state plans provide "no meaningful" disincentive to private-sector employers to offer their own plans.

But the effect of state-run programs on private-sector employers goes beyond simply not serving as a disincentive to private-sector employers adopting a plan of their own. Research and figures show that there's more to it than just their not hurting private-sector plans — they actually show that state-run programs have a positive effect and are helping *boost* private plans.

"The state is nudging an employer to adopt a program" by instituting a state-run plan, said John Scott, Project Director of Retirement Policy at the Pew Charitable Trusts, In a recent ASPPA DC Pension Geeks broadcast in which he was interviewed by American Retirement Association (ARA) CEO Brian Graff, Scott noted that in a 2016 survey of small and mid-sized employers, 53% of the employers Pew surveyed said they would institute their own retirement plan rather than enroll in a state program.

Why the interest? The NBER suggests that private-sector employers choose to offer a retirement plan when the benefits they derive from doing so exceed the cost of offering them. Because, of course, offering a

"IN 2024, THE NBER SAID THAT ITS RESEARCH SUGGESTED THAT STATE-RUN PLANS ACTUALLY RESULT IN A "SUBSTANTIAL" NUMBER OF INSTANCES IN WHICH PRIVATE-SECTOR EMPLOYERS ESTABLISH NEW EMPLOYER-PROVIDED PLANS INSTEAD OF SIMPLY REGISTERING WITH THE STATE-RUN PROGRAM."

retirement plan benefits an employer for a variety of reasons. Not only are they are doing a good thing for their employees and even society in the long run—the employer is also benefitting itself, since their employees place value on having a retirement plan, and it can be helpful in attracting and retaining employees.

In a column in *ASPPA Connect,* Nevin Adams, JD, noted that much of employers' hesitation in offering a retirement plan stems from small businesses, which presumably have a variety of "distractions" that can impede them from offering any benefits at all, never mind retirement benefits. However, he also suggests that state plans can be a catalyst that helps overcome those real or imagined barriers. Says Adams, "One need only look to the transformation taking place in states with a state-IRA plan mandate—and more significantly the impetus it has provided to the interest in setting up a "real" retirement plan by those same small business employers to appreciate the potential."

## STATISTICS DON'T LIE

As early as 2017, Pew said that their findings indicated that implementation of state-run programs in the end could strengthen the private-sector retirement plan marketplace. Also in 2017, Pew reported that a majority — 52% — of businesses that did not offer a plan told them they would start their own if they were asked to choose between doing so and enrolling workers in a state-sponsored auto-IRA.

Seven years later, the National Bureau of Economic Research (NBER) made similar findings. In 2024, the NBER said that its research suggested that state-run plans actually result in a "substantial" number of instances in which private-sector employers establish new employer-provided plans instead of simply registering with the state-run program.

The NBER also says that using U.S. tax microdata, they estimate that state-run retirement programs have caused 30,000 or more employers to offer a retirement plan of their own. And Scott in the Pension Geeks interview noted that Pew looked at data reported in Forms 5500 filed by employers in the states whose governments put state-run plans in place, and found "an uptick" in the number of employers offering a retirement plan. Not only that, he added, the increase outstripped the increase that occurred in states that had not put a plan in place.

## LAB RESULTS

The experience of the first two states to put a program into operation, Oregon and California, back Scott's—and Pew's—observations. They show that the number of employers offering a plan has continued to grow despite their state plans being in place.

**To wit:** In Oregon, the number of exempted employers—that is, employers that are exempt from the requirement that they participate in OregonSaves because they offer a retirement plan themselves—has continued to grow in tandem with registrations in the program.

- July 2021: 19,740
- July 2023: 37,024
- July 2024: 42,497

California, Oregon's neighbor to the south shows the same thing. For the period April-July 2024, CalSavers also reports steady growth in the number of exempted employers:

- April: 128,557
- May: 129,092
- June: 129,816
- July: 130,480

## THE BIG PICTURE

The effect of state-run plans is most easily recognized and gauged within a state in which a particular plan is created. But their reach actually goes beyond the borders of the state in which they operate.

State-run retirement plans obviously benefit the individuals who participate in them and have accounts, and therefore at the very least have some retirement savings through them. But their benefits extend beyond the individuals who save through them. On a macro level, the saving state-run retirement plans facilitates benefits the economy in general — that of a particular state, as well as that of the country as a whole.

## POPULAR

Employees generally like state auto-IRA programs, and research backs that conclusion. In a 2017 study the Pew Charitable Trust conducted of more than 900 workers who worked at small and mid-sized employers—which they define as having 5-250 employees—that did not offer retirement plans, Pew found that generally, those employees liked the auto-IRA concept, as well as their automatic enrollment and automatic escalation features. Pew further found that attitudes concerning auto-IRA plans are fairly uniform across demographic groups.

## ADDITIONAL EFFECTS

And there is research indicating that these plans, in which employers are required register with these kinds of plans if they do not already offer retirement coverage to their employees, have a variety of positive effects.

The Pew Charitable Trust suggests that broad support for these plans bodes well for addressing gaps between demographic groups

"STATE-RUN RETIREMENT PLANS OBVIOUSLY BENEFIT THE INDIVIDUALS WHO PARTICIPATE IN THEM AND HAVE ACCOUNTS, AND THEREFORE AT THE VERY LEAST HAVE SOME RETIREMENT SAVINGS THROUGH THEM. BUT THEIR BENEFITS EXTEND BEYOND THE INDIVIDUALS WHO SAVE THROUGH THEM."

in availability and enrollment in retirement savings programs. TRI-AD in a 2024 blog entry also argues that state Auto-IRA programs help close the retirement plan coverage gap.

In the 2024 working paper "How Do State Retirement Savings Policies Affect Labor Supply?" Adam Bloomfield, Ngoc Dao, and Manita Rao wrote for the Center for Retirement Initiatives McCourt School of Public Policy at Georgetown University that state auto-IRA plans have "significantly increased" private-sector employment, and also have resulted in a modest increase in wages. And TRI-AD posits that state programs to provide retirement plan coverage encourage financial literacy, provide education and resources concerning retirement, and heighten retirement readiness.

## THE BOTTOM LINE

And what about the results? The proliferation of state-run plans and its likely continuation is all well and good — but what does it mean? What about the bottom line?

Within three years, the assets of Oregon's program exceeded $100 million. And California's, which is much larger, in four years' time accumulated 10 times as much — and more than half a million Californians were contributing to a CalSavers account. PC

# 3 KEY DATA POINTS TO CONSIDER FOR CONVERSIONS UNDER SECURE 2.0

When a plan moves from a recordkeeper or TPA, the LTPT rules significantly impact eligibility determinations. **By Theresa Conti, Amy Garman, Katie Boyer-Maloy and Jim Racine**

**As we discussed content generation for this article, we recognized the numerous data points retirement plan professionals must consider when a qualified retirement plan moves recordkeeper or TPA services.** We also understand that data is "king," especially under the new SECURE 2.0 rules. To keep this article focused and concise, we will specifically address the SECURE 2.0 rules taking effect in 2025, including the required long-term part-time (LTPT) employee rules, mandatory automatic enrollment, and the optional higher catch-up limits for ages 60 to 63.

## LTPT RULES AND PLAN CONVERSIONS

When a plan moves from a recordkeeper or TPA, the LTPT rules significantly impact eligibility determinations. Typically, during plan conversions, we receive census information and use it to assess an employee's eligibility. If the plan sponsor provides a date of birth and date of hire, we can usually calculate a participant's entry date based on the plan's eligibility requirements without needing additional details. However, under the new LTPT rules, we must also request the employee's entry date into the plan.

These rules create uncertainty about whether an employee qualifies and when they became eligible. We also need to determine if the employee meets the plan's regular eligibility requirements or qualifies solely under LTPT rules.

The new LTPT requirement affects several other factors, including eligibility for employer contributions, required notices, and automatic enrollment. Fortunately, the updated EPCRS rules allow for necessary corrections when LTPT employees are not properly enrolled. Another key data point to track is the transition from part-time to full-time status and how to communicate that change to the TPA and recordkeeper.

## MANDATORY AUTOMATIC ENROLLMENT

SECURE 2.0's mandatory automatic enrollment rules make obtaining the recordkeeping effective date, plan type, and employer details even more critical. Most plans established after Dec. 29, 2022, must implement an automatic enrollment arrangement starting at 3% to 10%, with a 1% automatic increase each plan year until the participant reaches 10% to 15%. The plan must also allow permissible withdrawals. As part of the data collection process, plans must provide details on the plan's qualified default investment alternative (QDIA).

Certain employers and plan types qualify for exemptions, including:

- Small businesses with 10 or fewer employees
- New businesses operating for less than three years
- SIMPLE 401(k) plans
- Church and governmental plans

Recordkeepers and TPAs generally use the plan effective date, plan type (excluding SIMPLE 401(k) plans), and employer type (excluding church and governmental plans) to determine whether the plan must provide data to establish an automatic enrollment feature.

While recordkeepers and TPAs provide information on all valid exemptions, most do not collect data to determine whether an employer qualifies as a small or new business. Employers seeking an exemption must separately certify their eligibility to the recordkeeper or TPA.

## SUPER CATCH-UP CONTRIBUTIONS

Compared to LTPT rules and mandatory automatic enrollment, the "super catch-up" provision—allowing higher catch-up contributions for participants ages 60 to 63—seems straightforward. However, coordination among sponsors, TPAs, payroll companies, and recordkeepers introduces complexities.

Effective Jan. 1, 2025, plans that offer age 50 catch-up contributions can provide a higher catch-up limit for participants ages 60 to 63. For 401(k), 403(b), governmental 457(b),

and SIMPLE plans, the increased limit applies in the year a participant turns 60 and reverts to the standard limit the year they turn 64. The enhanced limit equals either $10,000 (indexed for inflation) or 150% of the regular catch-up amount, whichever is greater. Currently, with a regular catch-up amount of $7,500, the super catch-up would be $11,250 ($7,500 × 150%).

In 2025, plan sponsors must assess whether payroll companies and recordkeepers have the infrastructure to support the increased limit. Payroll providers must ensure their systems recognize the higher limit and allow for additional deferrals. Some payroll companies may not have this functionality until later in the year, so sponsors should proactively determine whether any delays will impact participant deferrals.

Recordkeepers must clarify whether they treat the provision as an optional feature or apply it as a default for plans that offer age 50 catch-ups. Many recordkeepers automatically add the enhanced catch-up amounts and allow plans to opt out, making it crucial for clients to understand their vendors' approach. If clients switch recordkeepers in 2025, they must ensure the conversion process accounts for super catch-up limits, including payroll processing warnings, accurate enrollment materials, and participant website updates.

The super catch-up aims to help workers save more for retirement, but its effectiveness depends on participants knowing how to take advantage of it. Plan sponsors should confirm how recordkeepers communicate this benefit—whether through emails, website announcements, or other channels.

## NOTICES AND COMMUNICATION

Plan sponsors must provide clear notices to employees about automatic enrollment, including contribution rates, opt-out options, and investment choices. As plans transition to new recordkeepers, sponsors must determine in advance who creates and distributes these notices and in what format.

Like previous SECURE 2.0 provisions, some new rules may take effect operationally before formal plan amendments are required (most not due until Dec. 31, 2026). However, timely communication is critical to ensuring all involved parties align on implementation and messaging. Consistent and clear external communication prevents confusion and keeps sponsors, participants, and providers on the same page. PC

# WINNING THE BILLING BATTLE

How TPA firms simplify billing processes and enhance operational synergy. **By Travis Jack**

**In interviews with Third-Party Administration (TPA) firms of varying sizes, several common factors emerged regarding billing processes across practice groups.** Much of the underlying technology currently utilized by these firms is largely uniform in function, leading to similar challenges in billing. Most firms manage these complexities by manually bridging gaps between disparate accounting, time and billing, project or practice management systems, and other software to the best of their abilities. This often results in increased process complexity and heightened operational friction surrounding client billing.

Some firms have started implementing more advanced technology and enhancing integration across software systems. Many collaborate with existing software vendors to develop additional functionalities that better align billing processes with overall firm operations. Other groups have chosen internal software development projects to address this gap. Regardless of the chosen path, firms strive to balance operational continuity with the seamless integration of all essential business functions, including billing.

## INITIAL COMPLEXITIES IN THE BILLING PROCESS

A significant source of complexity in the billing process arises from managing multiple legacy systems that typically lack integration within the firm's technology stack. This leads to a more manual, labor-intensive process for updating and reconciling billing information and other related data across multiple software platforms.

Another substantial challenge involves the manner in which TPA firms receive revenue-sharing funds and related data from Recordkeepers. This typically manual and non-standardized approach creates significant tracking, timing, and reconciliation difficulties. Moreover, substantial timing discrepancies often exist between client billing and the receipt of corresponding offset revenue-sharing payments from Recordkeepers.

Additionally, pricing compression within the market further complicates billing processes, driven by market perceptions of plan administration as a commodity. Contributing factors include general pricing pressures, compounded by clients' lack of understanding regarding plan administration complexities and the intricate regulatory and legal environments surrounding plan design and administration. Client acquisition often involves external parties such as Financial Advisors and Wholesalers, who might view fee increases at the TPA firm as conflicting with their own financial interests due to the reduction in total available dollars for plan fees.

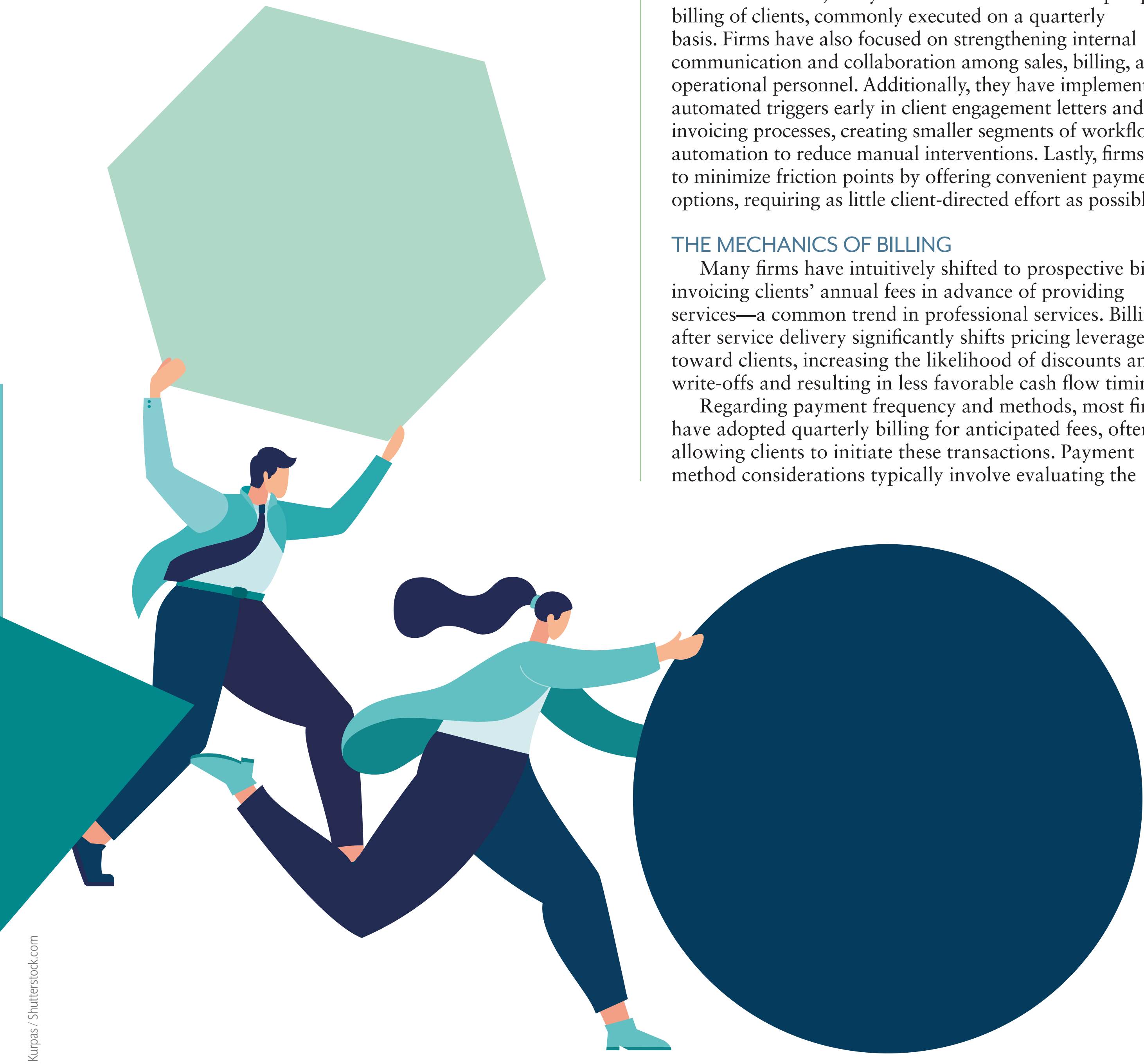
## MANY FIRMS HAVE ADOPTED STRATEGIES TO ADDRESS THESE ISSUES

Where feasible, many firms have transitioned to prospective billing of clients, commonly executed on a quarterly basis. Firms have also focused on strengthening internal communication and collaboration among sales, billing, and operational personnel. Additionally, they have implemented automated triggers early in client engagement letters and invoicing processes, creating smaller segments of workflow automation to reduce manual interventions. Lastly, firms strive to minimize friction points by offering convenient payment options, requiring as little client-directed effort as possible.

## THE MECHANICS OF BILLING

Many firms have intuitively shifted to prospective billing, invoicing clients' annual fees in advance of providing services—a common trend in professional services. Billing after service delivery significantly shifts pricing leverage toward clients, increasing the likelihood of discounts and write-offs and resulting in less favorable cash flow timing.

Regarding payment frequency and methods, most firms have adopted quarterly billing for anticipated fees, often allowing clients to initiate these transactions. Payment method considerations typically involve evaluating the



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advantages and disadvantages of credit cards, checks, and ACH transfers. Additionally, firms are exploring strategic adjustments to pricing structures, such as offering discounts for annual advance payments or monthly ACH payments, to maintain profitability.

At the firm level, several factors merit consideration. Firms should evaluate the actual annual cost of merchant service fees associated with accepting credit cards and assess whether accelerated collections justify these expenses. It is also important to measure the operational impact and internal time associated with accepting checks. Moreover, providing invoices to clients before year-end may offer an accelerated tax write-off incentive for privately held clients, potentially encouraging early payments with minimal or no discounts.

## OPERATIONAL EFFICIENCY AND CROSS-DEPARTMENT COLLABORATION

Operational efficiency can be significantly improved through clear communication with prospective clients and related service providers throughout the billing process. Firms that excel in this area emphasize upfront disclosure in engagement agreements and ensuring comprehensive information transfer from sales personnel to internal billing and accounting teams. Greater customization in the sales cycle, however, can compound operational challenges, particularly when managing a diverse client base with varying payment methods, including many firms that remit both client payments and recordkeeper revenue-share payments via mailed checks. Successful firms often

"TO SUCCESSFULLY ADOPT VALUE-BASED BILLING, FIRMS MUST DEEPLY UNDERSTAND CUSTOMER NEEDS AND PAIN POINTS. ANALYZING THE CUSTOMER BASE TO IDENTIFY SPECIFIC ISSUES THAT FIRM SERVICES CAN EFFECTIVELY ADDRESS IS CRITICAL. REGULAR ENGAGEMENT WITH CLIENTS THROUGH ONE-ON-ONE INTERACTIONS, FOCUS GROUPS, AND SURVEYS BETWEEN TOUCHPOINTS ALLOWS FOR MORE TARGETED SERVICE OFFERINGS AND CAN SHIFT PRICING AWAY FROM HOURLY EFFORTS TOWARD VALUE-DRIVEN SOLUTIONS."

have billing teams closely integrated with sales and service functions, and they find particular effectiveness when billing personnel gain exposure to other operational areas.

Firms may also enhance efficiency by rotating accounting staff and billing personnel through other operational departments to foster collaboration and streamline processes. Regular reviews of billing and other critical processes, alongside consistent meetings across key business functions and maintained written documentation, help ensure ongoing operational efficiency.

## CONCEPTS OF VALUE-BASED BILLING AND IMPLEMENTATION

Implementing value-based billing involves creating a seamless client experience and cultivating direct relationships that leverage a firm's intellectual capital. This approach helps break the cycle of price compression. TPA firms should clearly identify who controls client relationships and consider expanding client acquisition strategies through partnerships with CPAs, insurance producers, or direct-to-plan sponsor initiatives. Positioning the firm as a primary point of contact can fundamentally alter the pricing paradigm.

To successfully adopt value-based billing, firms must deeply understand customer needs and pain points. Analyzing the customer base to identify specific issues that firm services can effectively address is critical. Regular engagement with clients through one-on-one interactions, focus groups, and surveys between touchpoints allows for more targeted service offerings and can shift pricing away from hourly efforts toward value-driven solutions.

## PRICING, PROFITABILITY REVIEWS, AND KEY PERFORMANCE INDICATORS (KPIS)

Firms regularly track and review critical KPIs, including project turnaround times, annual client profitability, and frequency of client contacts (weekly, monthly, and annually). Additional important metrics include average lifetime client revenue, client retention rates, and average client tenure with the firm.

Externally, firms may track the number of client referrals and conduct client satisfaction surveys, such as Net Promoter Scores (NPS), to assess client loyalty and enthusiasm. Conducting focus groups with clients, advisors, and wholesalers provides qualitative insights, enabling firms to continuously enhance their service offerings and further support the quantitative metrics derived from internal and external KPIs.

## LAST THOUGHTS

As the technology involved in the billing process is currently undergoing a rapid degree of development, sometime in the future highly integrated systems bolstered by Artificial Intelligence will replace current disparate systems and manual inefficient functions forever changing the landscape of how work. Billing system enhancements are on the development list of major vendors in the near future. Getting a head start on these changes by documenting and optimizing current workflows including billing, businesses can reduce friction points now while setting themselves up for smoother software system adoption and process automation in the future. Planning for these future changes ensures a more efficient and seamless transition, positioning businesses for success in the rapidly evolving market. PC

# MANAGED ACCOUNTS: INSIDER INSIGHTS

Saving is essential for retirement readiness, but true financial security comes from strategic investing, and managed accounts offer a professional approach to growing those savings. **By John Iekel**

**Saving is at the heart of retirement readiness — but as any retirement plan professional will attest, it's just part of the equation.** Those funds are far more likely to contribute in a real way to readiness when they are invested and grow as an individual continues to amass savings before retirement. But how does that come about?

There are, of course, many ways to make that money grow. One of them is through managed accounts — investment accounts owned by an individual or institutional investor, but managed by a professional money manager the investor hires to oversee the account and its trading activity.

So, suppose you are an employer and you are considering making such account managers available to your employees and plan participants. What are some of the matters you should consider?

To answer those questions, Plan Consultant approached two industry professionals for their insights concerning managed accounts and those who do the managing. Their responses offer a glimpse of managed accounts and issues concerning them from the inside and shed light on what

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> "CLIENTS EXPECT TRANSPARENCY, EXPERTISE, AND PROACTIVE COMMUNICATION FROM THEIR MANAGED ACCOUNT PROVIDERS. THEY WANT A SERVICE THAT IS NOT ONLY EFFECTIVE IN MANAGING THEIR INVESTMENTS BUT ALSO CLEAR ABOUT FEES, INVESTMENT DECISIONS, AND PERFORMANCE."

managed accounts entail, their impact, and their operation.

## WHY MAKE A MANAGED ACCOUNT AVAILABLE?

What do managed accounts offer? Why make them available?

Clients who seek managed accounts are looking for a variety of things, says Philip Battin, President and CEO of Ambassador Wealth Management. Those include proactive communication to participants, income planning, and investment guidance. He adds that "sometimes participants want someone to call who will give them more than 'education' through the typical '800 toll-free' customer service number on their statement."

Rachel Gustafson, CFP®, CCPS®, an investment advisor representative at Financial Investment Team in Portland, Ore., concurs that managed accounts offer clients more than just a cursory or general education. "Many also appreciate the ability to receive ongoing adjustments to their portfolio as their financial needs evolve, along with access to expert guidance that helps them make informed decisions," she says.

## PERSONALIZATION

Gustafson stresses that managed accounts offer more personal service. "Clients who choose managed accounts are often looking for personalization and professional oversight," she says. Gustafson continues that clients who seek managed accounts "want an investment strategy tailored to their specific goals, financial situations, and risk tolerance rather than a one-size-fits-all approach."

## EMPLOYERS, TOO

Managed accounts have something to offer employers too, Battin and Gustafson observe. For instance, says Battin, they offer employers a way to offer additional choice for plan participants, as well as "a deeper level of service and communication."

Gustafson suggests that they offer employers and plan sponsors "a way to provide personalized investment solutions for their employees, enhancing overall financial wellness. They can improve retirement readiness by tailoring investment strategies to individual goals, risk tolerance, and timelines." She argues that since they are "a more sophisticated retirement planning option," managed accounts "can serve as a differentiator" for employers in attracting and retaining valued employees. "Many potential employees are not just looking at the salary, but also the benefits being offered," she remarks.

Not only that, she says, the structured oversight and professional management they entail can benefit an employer from a fiduciary standpoint, as well as reduce plan sponsors' burdens.

## THE MANAGERS

Clients that seek managed accounts have expectations of those who do the managing. Battin says they are looking for "peace of mind knowing someone is looking out for their interests," and will also provide personalized communication and "hand holding."

"Clients expect transparency, expertise, and proactive communication from their managed account providers," says Gustafson. She continues, "They want a service that is not only effective in managing their investments but also clear about fees, investment decisions, and performance."

"Trust is crucial, so clients look for providers with strong reputations, a robust track record, and a commitment to aligning investment strategies with their personal financial goals," Gustafson notes. And access to tools, technology, and human advisory support "is also a major factor," she adds.

## CHOOSING A PROVIDER

What are the key considerations in choosing a service provider to manage accounts? Battin suggests looking at a potential provider's track record of performance, and to look for one that can provide excellent service and help with retirement income planning, and adds that their company works to help plan participants with that choice.

"A managed account provider must balance customization, scalability, and compliance," says Gustafson. She adds that "they need to ensure that investment strategies align with clients' objectives while maintaining efficiency in execution."

To get there, she says, "Technology plays a critical role in delivering personalized solutions at scale. Providers must also navigate evolving regulatory requirements to ensure compliance and uphold fiduciary responsibilities. Additionally, the ability to offer seamless integration with retirement plans, clear reporting, and ongoing education for clients is essential."

## KEY CONSIDERATIONS

Gustafson suggested that employers and plan sponsors should focus on alignment, transparency, and integration when selecting a managed account provider. She further suggests these as key considerations:

- Customization – Ensure the provider offers tailored solutions rather than a generic approach.
- Fee Structure – Look for clear and fair pricing with no hidden costs.
- Technology and Integration – Verify that the provider can integrate seamlessly with existing retirement plans and other financial wellness tools.
- Communication and Education – A strong managed account program should include ongoing participant education and engagement. Do they plan to come talk to your employees once a year? Do they offer your employees one on one consultations? How big is their team, can they offer timely advice to you and your employees?
- Track Record and Fiduciary Standards – Work with a provider that has a solid reputation and a clear fiduciary commitment to acting in participants' best interests.

## COSTS

A finding by PGIM DC Solutions in its 2025 Defined Contribution Landscape Survey suggests that plan sponsors concur with Gustafson's suggestion that fees are a consideration regarding the choice

"THE KEY TAKEAWAY IS THAT "A MANAGED ACCOUNT PROGRAM IS ONLY AS SUCCESSFUL AS THE EDUCATION AND ENGAGEMENT THAT SUPPORTS IT. ENSURING EMPLOYEES UNDERSTAND THEIR OPTIONS AND THE VALUE OF PARTICIPATION IS CRITICAL TO DRIVING POSITIVE OUTCOMES."

of account manager. They call the cost of service "a clear barrier" to the adoption of managed accounts — and they elaborate that the interest wanes when the fee exceeds 25 basis points. But lower fees could change that, PGIM suggests—they report that they found that 70% of plans would be interested in managed accounts if the fee were 10 basis points or less.

## CAREFUL!

Battin reports that his company works to help plan participants to be careful about managed accounts and providers. He says they are "very active with plan participants through one-on-one and group meetings with a goal to educate and empower them to make good decisions as well as protect them from both emotional decisions and false information."

Gustafson says that in the case of managed accounts, issues "often stem from poor communication, unclear expectations, or a lack of transparency in fees." She elaborates on one particular instance:

One example I've seen involved a managed account program that was rolled out without adequate education for employees. Participants were overwhelmed by too many investment options but lacked the necessary guidance to make informed decisions. Without a clear understanding of how their investments were structured, why contributing to the plan was beneficial, or how the company match worked, many employees hesitated to participate, leading to low adoption rates and overall frustration.

The key takeaway, Gustafson says, is that "a managed account program is only as successful as the education and engagement that supports it. Ensuring employees understand their options and the value of participation is critical to driving positive outcomes."

## GAUGING SUCCESS

How does one measure success with managed accounts? Gustafson says that success "happens when the service is fully aligned with a client's financial goals and supported by strong communication and education." And she offers an example.

One standout example is an employer-sponsored plan we manage, where we introduced managed accounts alongside comprehensive financial education. Employees didn't just receive a one-size-fits-all investment strategy — they had access to personalized guidance, clear insights into their retirement readiness, and one-on-one support from advisors.

The impact of that? Higher engagement, increased confidence in financial decisions, and a stronger understanding of how their contributions directly affect their retirement goals. Instead of feeling like just another number in a formula, employees saw real, personalized strategies tailored to their needs.

"The key to this success was seamless integration, proactive adjustments, and ensuring each participant felt truly supported in their financial journey," said Gustafson. She continues that "Ultimately, a managed account program is most successful when it's proactively designed, well-communicated, and aligned with both employer and employee needs," says Gustafson.

## THE CRYSTAL BALL

Are there any trends concerning managed accounts? What about the accounts themselves and the way account managers operate?

Battin says that usage is increasing, especially among those who are nearing retirement and those whose account balances are getting larger, and suggests this may be because "people tend to have doubts" about their own ability to manage their accounts, "particularly as markets are experiencing volatility, time frames are shorter, and balances are larger."

Gustafson offers some insights on what's happening with the mechanics of managed accounts and running them.

"One of the biggest trends is the rise of personalization through technology," she says. "Advances in AI and data analytics have made it easier to create highly tailored investment strategies at scale," she adds.

And there are other areas Gustafson says are changing. "There is also a growing focus on financial wellness, with more employers recognizing the value of holistic financial planning rather than just investment management. Additionally, fee transparency and cost efficiency are becoming more important, as clients demand clear value from their managed accounts. Finally, integration with other financial planning tools — such as HSAs, emergency savings, and debt management — is becoming a key factor in making managed accounts more comprehensive," she says. PC

# THE ROLE OF AI IN THE RETIREMENT INDUSTRY: WHAT TPAS SHOULD KNOW

Artificial intelligence (AI) is no longer a futuristic concept—it's here, and it's helping reshape the way businesses operate. **By Katie Boyer-Maloy**

**A recent survey from McKinsey & Company found that 78% of organizations** say they use AI in at least one business function. Many are also making organizational changes to generate future value from AI, and redesigning workflows.

From content generation to using past data to predict future trends, AI-powered tools and resources offer new opportunities for efficiency and innovation. But, as TPAs, your responsibility to clients, partners, and regulatory bodies means incorporation of these tools should be approached with caution. It's important to safeguard how it's being used to enhance your work without compromising accuracy, security, or compliance.

When thinking about AI our minds may go back to a favorite sci-fi movie or book from the 70's. Yet a working subset of AI is a lot closer to the present—machine learning.

Machine learning enables systems to learn from data, identify patterns, and make decisions with little human intervention. It uses algorithms to help improve over time as it collects more information.

Examples of machine learning include fraud detection in banking, predictive maintenance in manufacturing, spam filtering in emails, customer recommendation systems (Hello, Netflix!), and the list goes on.

Another type of AI is generative AI (Gen AI). It's a more advanced application of machine learning that focuses on creating new content rather than just analyzing existing data. Gen AI models, such as ChatGPT, generate text, images, and even computer code, learning from vast amounts of unstructured data. These models use deep learning techniques to understand complex patterns and produce human-like responses or outputs. It's designed for content creation and augmentation, making it a powerful resource for applications such as writing, design, and personalized user experiences.

Examples of Gen AI include chatbots for customer support, AI-generated content writing, art, and design, and creation of computer code.

## UNDERSTANDING AI'S ROLE IN THE INDUSTRY

The latest applications in GenAI introduce new possibilities within the retirement industry. ChatGPT, for example, can generate client communications, summarize regulations, or assist in drafting plan-related materials.

However, these advancements also raise critical questions and concerns: How do you help ensure AI-generated content is accurate? Where do you set boundaries for AI use? What protections should your organization have in place?

## ESTABLISHING GUARDRAILS FOR RESPONSIBLE AI USE

To help answer these questions, many firms, including retirement plan providers, are developing clear policies on the use of AI. Here are three areas TPAs can focus on:

- **Accuracy and compliance**
  In a heavily regulated industry like ours, precision is non-negotiable. Incorporation of AI doesn't replace the need for thorough research, fact-checking, and compliance reviews. Double-check numerical data and be mindful of intellectual property. AI-generated content should always be vetted by an experienced professional before being shared with clients or industry partners. The McKinsey survey also found that over 40% of organizations are working to mitigate inaccuracy related to the use of AI. [1]

- **Data security and confidentiality**
  Never input confidential data. AI platforms retain data inputs, meaning sensitive client or plan-related information should


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"INSTEAD OF VIEWING AI AS A SHORTCUT, LOOK AT IT AS AN ENHANCEMENT—ONE THAT, WHEN USED RESPONSIBLY, CAN IMPROVE EFFICIENCY AND FREE UP TIME FOR HIGHER-VALUE WORK."

not be entered into these tools. Protecting personal identifiable information (PII) and adhering to fiduciary responsibilities must remain a top priority.

- **Defined usage policies**
  Employees should undergo training before gaining access to AI tools with clear guidelines on when and how to use. A framework for a defined usage policy should include the parameters for responsible, ethical, and effective AI use. Consider implementing an approval process for AI-assisted content and requiring AI users to verify source data before publication.

## AI IN RETIREMENT PLAN ADMINISTRATION

AI is a powerful tool, but it doesn't replace human expertise. TPAs provide clients with strategic guidance, regulatory insight, and personalized service that AI simply can't replicate. Instead of viewing AI as a shortcut, look at it as an enhancement—one that, when used responsibly, can improve efficiency and free up time for higher-value work.

By embracing AI thoughtfully, TPAs can use this technology while maintaining the trust and confidence of their clients. The central point being to leverage these tools while keeping your expertise, diligence, and ethical standards at the forefront. PC

# SECURELY COMPLICATED

Late regulatory guidance adds complexity to SECURE Act's mandatory automatic enrollment.

**By Shannon Edwards & Theresa Conti**

**Isn't it frustrating to receive instructions for a project after its due date has already passed?** In our industry, we eagerly anticipate clarifications from regulatory agencies about new rules. However, excitement fades when agencies issue guidance only after rules take effect.

This frustration recently occurred with guidance on the new mandatory automatic enrollment requirements under SECURE. The requirements became effective Jan. 1, 2025, but regulators released instructions for implementation and administration afterward. Although guidance finally arrived, it fell short of industry expectations. In fact, certain elements of the guidance made the rules even more complicated and confusing.

The automatic enrollment mandate applies to all plans created after SECURE took effect on Dec. 29, 2022. Clarification of these provisions confirms that any plan adopted (signed) on or before Dec. 29, 2022, is grandfathered and exempt from adding automatic enrollment. However, plans adopted on or after Dec. 30, 2022, must include mandatory automatic enrollment provisions. This requirement is based solely on the plan's adoption date, not the plan's actual effective date.

Therefore, if your client was unlucky enough to start a new plan that was effective on January 1, 2023, and instead of signing it on December 29th they signed it on December 30th, then your client is subject to the new mandatory automatic enrollment rules. On December 30, 2022, we did not even fully grasp what all was in SECURE, much less what it all meant. Therefore, few of us would have had the foresight to go ahead and add an auto-enrollment to all new plans if that is what we chose to do later in 2023 after we fully understood the ramifications of the new rules. In fact, we did not know that any plan signed on December 30th or after was going to be affected and that we should note those plans or track those plans to be updated later.

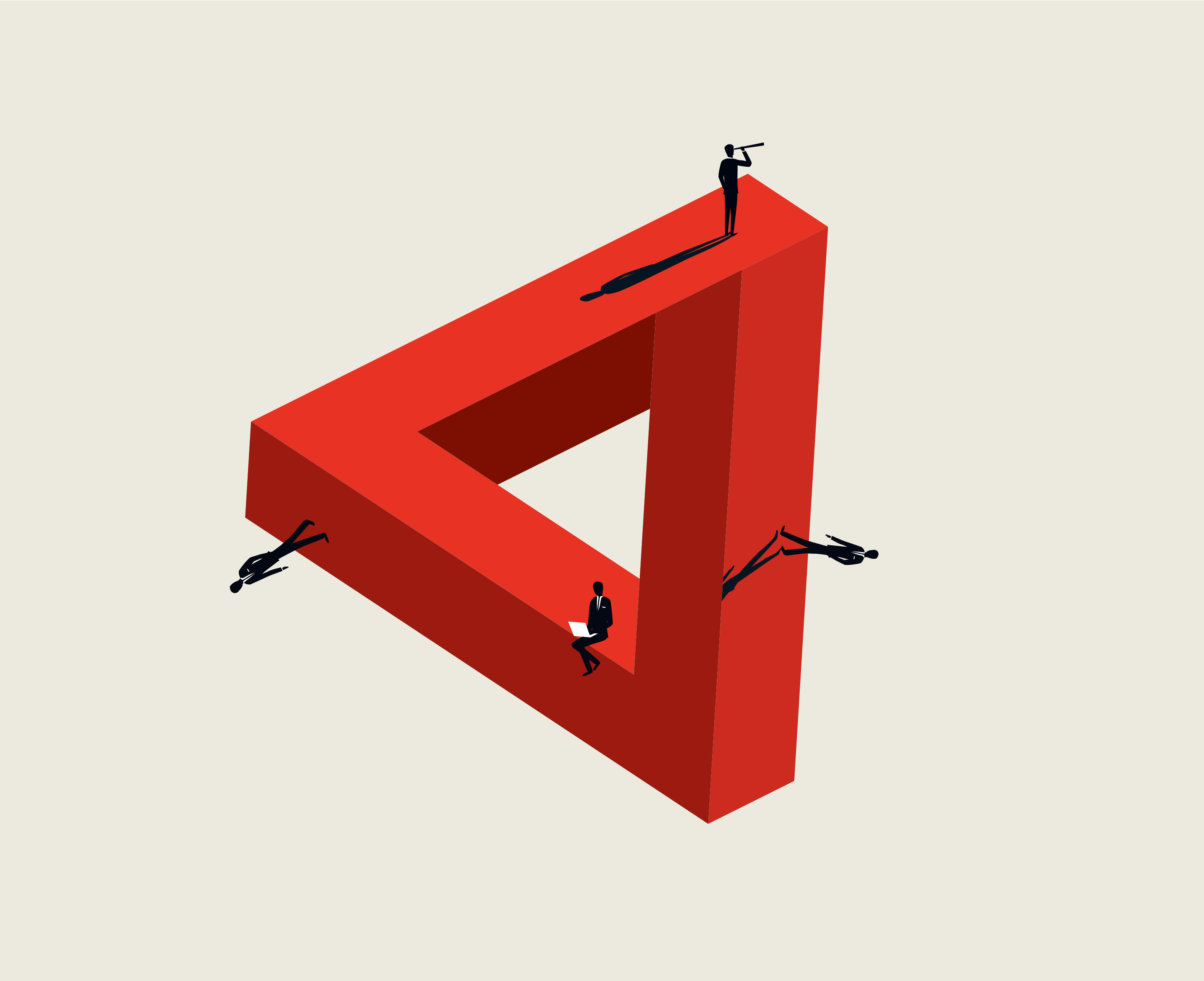
Once we better understood the new rules in SECURE, many practitioners, including me, began including automatic enrollment in all new plans at that time rather than having to add it later in 2025. This was meant to simplify plan administration for the client and for the compliance administrators. If a client who had never had a 401(k) plan had never had a plan without automatic enrollment, then from day one they would learn to manage and administer those rules. They would have to include processes and procedures to manage the rules upon establishing the plan. This avoided having to introduce new rules and procedures and retraining the plan sponsor later in 2025 when the new rules went into effect. The clients were very open to this idea even if they had less than ten employees at the time. They did not want to have to change the rules later if they went over ten employees.

Again, they preferred not to have to introduce new rules and procedures later after they had already established their procedures for administering their plans. We only had one plan sponsor speak up and say that they would never have more than ten employees and therefore, did not want to include the rules.

The fact that any plan "signed" on or after Dec. 30, 2022, had to include these new mandatory enrollment rules did add some complications for every firm. Many compliance administration firms add a lot of new plans in the fourth quarter and especially in December. Even those of us who started adding automatic enrollment to all new plans in 2023 had some plans that didn't have those rules included in their plan design because they were designed and adopted before we knew that this would be a requirement and when it would be effective and for whom.

Therefore, every firm had to go through their book of business prior to Jan. 1, 2025, to determine what plans they had on their books that were signed after Dec. 29, 2022, that needed to be amended prior to Jan. 1, 2025, get them amended, and assist the client with adding new procedures to manage the new rules.

The grandfathering of plans adopted on or before Dec. 29, 2022, applies to plans even if they are joining a MEP or PEP. They retain their grandfathered status even if the MEP or PEPs were established after Dec. 29, 2022. Grandfathering also applies in reverse, meaning that a plan adopted on or before Dec. 29, 2022, as a member of an MEP or PEP who later leaves the MEP or PEP retains their grandfathered status as well. Some members of the retirement plan community think this clarification of the grandfathering rules as they apply



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to grandfathered plans who want to join an MEP or PEP will increase the usage of MEPs and PEPs and that some employers probably did not make the move prior to this clarification since they did not want to be subject to the automatic enrollment provisions.

The new guidance also clarified which participants are subject to the new auto enrollment rules if they are being added to the plan in 2025 as a requirement under SECURE. For example, if the plan was adopted on Dec. 30, 2022, and effective on Jan. 1, 2023, but did not have the automatic enrollment rules added to the plan as a requirement of SECURE until Jan. 1, 2025, the new guidance explains which participants the new rules apply to. The guidance states that all participants are subject to the automatic enrollment rules including those hired before the mandate went into effect.

The only exception is for participants who have made an affirmative election that is on record prior to the rules becoming effective. This is troublesome because prior to the automatic enrollment provisions being added to a plan if the employee never made an affirmative election regarding their participation in the plan they were just simply not enrolled.

Effective as of Jan. 1, 2025, if there was no election on record, they had to be automatically enrolled. This meant that many employers needed to gather affirmative elections from many of their eligible employees.

The new guidance explained how we are supposed to count the number of employees to determine if the plan was subject to the new automatic enrollment rules. You may remember that plans sponsored by an employer with less than 10 employees would be exempt from the automatic enrollment requirements. You might think that

"MISTAKES WILL HAPPEN AND CORRECTIONS WILL BE NEEDED TO BE SURE TO HAVE PROCEDURES IN PLACE TO CATCH THEM AND CORRECT THEM. LUCKILY, THE NEW RULES UNDER EPCRS FOR AUTO-ENROLLMENT PLANS ARE MUCH MORE FORGIVING THAN THEY USED TO BE."

it would be and should be as easy as looking to see how many employees are employed by the plan sponsor and receive a W2.

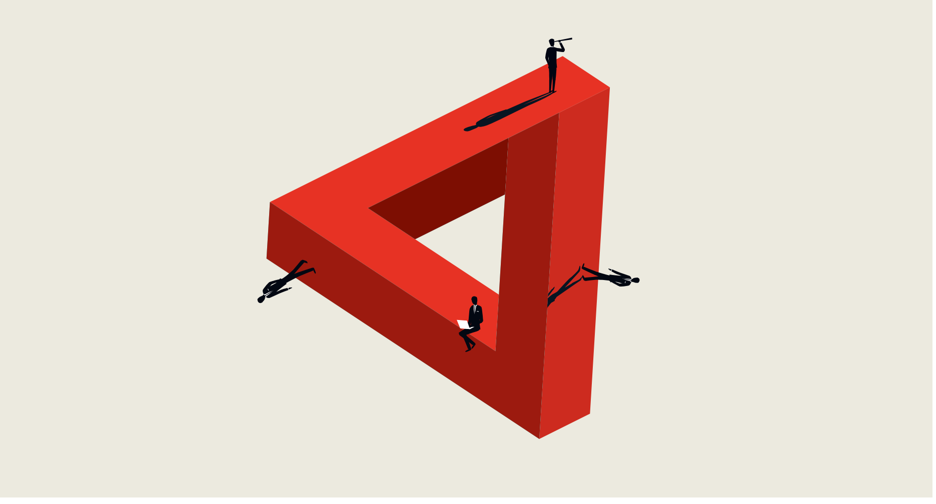
However, the guidance that was given did not make it as easy as it could have been. The guidance given stated that employees are counted under the rules used to determine what employers are subject to the COBRA requirements.

For those not familiar with the COBRA requirements, all employees are considered. However, not each employee counts as on employee. Instead, a full-time employee is counted as one employee and a part-time is counted as a fraction of an employee based on a ratio of the number of hours worked versus the number of hours that typically must be worked to be considered a full-time employee. The hours for a full-time employee may never be more than 8 hours a day or 40 hours a week.

The second piece of guidance states that if the employer normally employs ten or fewer employees during a year is determined by whether they had ten or fewer employees on at least 50% of the business days during the year. The calculation of this piece can be on a daily or pay period basis, but the best practice is to determine that using the same method as they do for determining if they are subject to COBRA requirements.

Finally, the mandate for automatic enrollment to be included in a plan only applies to companies that have been in business for more than three years. The question we needed guidance on was what happens on the third anniversary of the business establishment and how soon after that the rules need to be amended into the plan. The just released regulations clarified that the automatic enrollment requirements would apply at the start of the first plan year (and the first day of the plan year), which the employer has existed for 3 years.

This means that if a business was started in mid-2022, then the 3-year period would end in mid-2025, and the plan would need to add automatic enrollment on Jan. 1, 2026.



In working with plan sponsors to maneuver the new rules for mandatory auto-enrollment, each compliance administration firm should determine what works best for their firm and their clients to administer the new rules. Some firms are adding auto-enrollment to all new plans regardless of whether they have been in business for less than three years or have less than ten employees. This can reduce the probability of mistakes happening and corrections being needed in the future.

Mistakes will happen and corrections will be needed to be sure to have procedures in place to catch them and correct them. Luckily, the new rules under EPCRS for auto-enrollment plans are much more forgiving than they used to be.

The guidance may not have been exactly what we wanted and may have complicated the administration of the plans subject to the new rules. However, at least we got guidance. While automatic contribution arrangements add a layer of complexity to plan administration both for the plan sponsor and the compliance administrators, we must not lose sight of the fact that having automatic enrollment in a plan helps participants become prepared for retirement.

The statistics are still true that more than 90% of participants do not opt out of automatic enrollment plans. We cannot ignore statistics like that, and we look forward to studies down the road that show the success of retirement preparedness for participants in plans that were subject to these new rules. PC

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# LONG-RANGE SAVING FORECAST: MOSTLY SUNNY

Fidelity in its analysis of more than 30 million IRA, 401(k) and 403(b) retirement accounts in the third quarter of 2021 reported that the number of Gen Z investors in its retirement platform nearly doubled over the 2020 level — and hit 1.4 million. **By John Iekel**

**It's common, and probably always has been, for more…** oh, let's say *established* generations to express doom and gloom about those who will one day supplant them. But recent evidence suggests that rather than foreboding, the appropriate sentiment regarding rising generations is optimism — at least as far as saving and preparing for retirement is concerned.

Younger members of society and the workforce — particularly Gen Z, generally defined as those whose ages are 12-26 and the youngest generation with members on the job — face a variety of financial challenges. Like all generations, they face inflation and the vagaries of market fluctuations. But they do so as they adjust to covering the expenses attendant to adulthood while embarking on life after they finish their education, while earning less than people who have been in the workforce longer. And add in a dash of student loan debt for good measure. That's a recipe for tight budgeting — and little resources, nor perhaps even interest in, somehow at the same time saving for retirement.

But Gen Z is indeed interested in exactly that, despite those long odds. More than interested — they are actively saving for their long-term future. And that's not according to one outlier report — it's the conclusion of multiple analysts.

Among them are the participants

in a Dec. 2, 2024 webinar held by Broadridge. The panelists — who included Albert Maxiner, National Accounts Sales Director for Retirement Plans, and Jackie Walker, Senior Director, Enterprise Research, both at The Standard — indicated that Gen Z may not have had much time to amass much for retirement yet, but its members who are working appear to recognize the importance of saving. They pointed to a study by The Standard that found that saving was Gen Z workers' number 1 financial goal.

## HOLDING POWER

More good news: It's a trend with holding power. Fidelity in its analysis of more than 30 million IRA, 401(k) and 403(b) retirement accounts in the third quarter of 2021 reported that the number of Gen Z investors in its retirement platform nearly doubled over the 2020 level — and hit 1.4 million. Further, it said that not only did the majority of retirement savers take a long-term approach to retirement saving by maintaining contribution levels and not significantly changing their asset allocations, that was especially true among the members of Gen Z who have retirement investments on its platform.

Kelly Lannan, Vice President, Young Investors at Fidelity Investments, said in a press release concerning the 2021 findings that while Gen Z might get "an undeserved rap" that they are focused on the present, they have found from users of one of their apps that "retirement is the number one long-term goal" that members of Gen Z are trying to reach."

## COPPING AN ATTITUDE

A good one, that is! Members of Gen Z evince a number of positive attitudes that auger well for their saving for retirement.

**Belief in employer-provided plans.** Panelists in the Dec. 2 webinar indicated that Gen Z workers appreciate the value of retirement plans as a means of saving. They reported that two-thirds of Gen Z workers — 67% — say that participating in employer-provided retirement plans is very important to them.

**Acceptance of auto features.** Robert M. Kaplan, Director of Technical Education at the American Retirement Association, says that members of that Gen Z have indicated to him a general acceptance of automated plan features such as auto enrollment and auto escalation, and "very little pushback" about them.

**Employer match.** Kaplan says he also has found that members of Gen Z have been listening to their parents regarding "maximizing the match," suggesting that more members of that generation may grasp the importance of the employer match than the one-third of Empower respondents who said they are not maximizing their contributions to meet the employer match.

**Saving levels.** Broadridge panelists reported in the Dec. 2 webinar that less than one-third of the Gen Z workers they surveyed consider themselves to be in good — or excellent — financial shape. "Their biggest worry is that they are not saving enough for their financial

"YOUNGER GENERATIONS MAY BE MORE ATTUNED TO SAVING BY MEANS OTHER THAN SOCIAL SECURITY DUE TO THE DOUBTS THEY APPEAR TO HAVE ABOUT THAT SYSTEM."

future," said Walker, adding that almost half hold that view.

**Do it yourself.** Younger generations may be more attuned to saving by means other than Social Security due to the doubts they appear to have about that system, argues Phil Battin, President and CEO of Ambassador Wealth Management—and those means can include participation in private-sector retirement accounts.

"Younger folks are unsure if they will receive [Social Security] benefits at all or how old they will be when they are allowed to start receiving benefits," Battin says. He notes that many of them subscribe to the notion that Social Security "won't be there at all" by the time they are old enough to receive benefits from the system.

Battin calls their attitude "understandable," since "the age at which benefits can begin keeps climbing higher and there are proposals for a 'means test' which could eliminate benefits for those that have been good savers outside of Social Security, as well as other proposals to reduce benefits." He continues, "It's probably better that younger workers plan on it not being there for them at retirement, because the risk is that they will over-save, which is a good thing."

## ACTION STEPS

Broadridge panelists suggested that employers have work to do to encourage and support Gen Z in preparing financially for retirement, and some expert analyses express a similar sentiment and offer suggestions regarding how they can go about that.

Missy Plohr-Memming, senior vice president of MetLife's Group Benefits National Accounts Sales, in a recent article in *Employee Benefits News* stressed the importance of using clear, accessible guidance with members of Gen Z that will speak to them. And that includes providing content that is engaging and that explains acronyms and relevant terms.

Social media also can be a potent way to reach Gen Z; Plohr-Memming considers it to be is the most important way of communicating with them. Betterment at Work provides some specifics that back her contention. In their 2024 Retirement Readiness Report says that almost half of the respondents in their study who belong to Gen Z have participated in social media challenges related to saving for retirement. Further, a strong majority of participants in such challenges — 74% — said those challenges help them with their retirement savings goals.

## TIIIIME IS ON MY SIDE

Yes, it is. Investment firm MFS in its Retirement Outlook 2025 notes that owing to their youth and newness in the workforce, while members of Gen Z probably are saving less than their older counterparts, by the same token because they are young they have a longer amount of time to save than members of older generations. And not only can they save for a longer amount of time, there also will be plenty of compounding to add to those savings.

Bankrate has made a similar observation, noting that the youngest members of Gen Z have almost half a century to save for retirement. That, they say, makes optimism about their prospects reasonable.

Most important, Gen Z itself is optimistic about that.

In 2023, Bankrate found that members of Gen Z were the least likely of any generation in the workforce to say they're behind in saving for retirement. In their August 2023 survey of 2,527 U.S. adults, just 42% of Gen Z workers had that concern — meaning that a majority believe they are on track in saving for retirement. They stood in marked contrast to their oldest counterparts, a majority of whom reported that they were behind.

And one year later, Betterment at Work found similar sentiments. In their 2024 research, almost 60% of the members of Gen Z in their study expressed confidence in their ability to save enough for a secure retirement. PC

# THE POWER OF SHOWING UP: TRANSFORMING YOUR CAREER THROUGH PROFESSIONAL CONFERENCES

Stepping into the world of professional conferences for the first time can feel a bit daunting. Should I go? Will I like it? Will I learn anything? **By Martella Turner-Joseph and Erin Russell**

**My own journey began with a passing email advertising the ASPPA Annual Conference.** I had seen these conferences for years but never gave them a second thought. For some reason in 2023 my curiosity won out and I bought a plane ticket and convinced a colleague to go with me.

I knew exactly one person outside of my inner circle at the first event. Thankfully, that one person became my bridge into a world I hadn't yet explored. I can honestly say that one conference transformed my professional perspective—and hopefully I can inspire you to dive into the experience yourself.

## THE FIRST CONFERENCE: A LEAP OF FAITH

I arrived at my very first conference knowing one familiar face, who kindly introduced me to a few others. Those introductions led to conversations that sparked my interest in getting more involved in the field. It felt like a small, welcoming ripple—meeting others in the industry who were involved and were excited to help me get involved as well. Little did I know this ripple would become a wave.

## BUILDING CONNECTIONS: ONE CONFERENCE AT A TIME

The next conference brought more familiar faces and a new challenge- a speaking engagement. This time it was the ASEA Actuarial Symposium, and I had the opportunity to meet people that I had admired my entire career.  Each new event seemed to build upon the last, weaving a network of contacts that were quickly becoming friends.

## "SO, THE NEXT TIME SOMEONE SAYS, "YOU CAN'T MISS THIS ONE," TRUST THEM. PACK YOUR BAGS, BRING YOUR TEAM, AND DIVE IN."

By the time I attended my second ASPPA Annual Conference, just one year after my very first conference, my connections had multiplied exponentially.

### THE CONFERENCE I COULDN'T MISS

Amid all these events, there was one conference that kept coming up in conversations. The Women in Retirement Conference (WiRC). A certain GOAT- Lynn Young told me this was not a conference to be missed. This sentiment was echoed by so many others at ASPPA annual, I trusted their advice and decided to attend. This time, I brought along a few members of my team. If it was going to be that good, why not share the experience?

### A CONFERENCE UNLIKE ANY OTHER

The buzz was right—this conference didn't disappoint. It was a smaller, more intimate gathering of TPAs, actuaries, and advisors. What stood out wasn't just the quality of the sessions but the unique focus on making relationships and meeting other women in our industry. It was there that I discovered the magic of the conference circuit: relationships that grow deeper over time, a shared sense of purpose, and a community of like-minded professionals who genuinely enjoy what they do. It amazed me that in just over a year how many of the women I knew and had connected with.

### MY TEAM'S TAKEAWAY: WE'LL BE BACK

The team I brought along had the time of their lives. The sessions were insightful, the people were inspiring, and the overall vibe was unlike anything we'd experienced before. They walked away with new ideas, fresh perspectives, and a deeper appreciation for our profession. And me? I'm already planning to return next year.

### WHY CONFERENCES MATTER

In hindsight, attending that first conference was one of the best professional decisions I've made. And each event since has reinforced the value of showing up, saying yes, and staying curious. I have learned in just a short time what is possible when you engage with others who share your passions and enthusiasm. So, the next time someone says, "You can't miss this one," trust them. Pack your bags, bring your team, and dive in.

### A VIEW OF CONFERENCES FROM ASEA'S EXECUTIVE VICE PRESIDENT AND CHAIR OF THE COUNSEL FOR WOMEN, MARTELLA JOSEPH

I had the privilege of attending three incredible conferences, each offering unique opportunities for growth, collaboration, and connection. Here's a snapshot of my experience:

ASEA Symposium: Collaboration at Its Best (August 8-9, Kansas City)

The Symposium is a small, highly interactive gathering of actuaries that focuses on single-topic sessions designed for in-depth discussions. It's one of the most collaborative conferences I've attended, where every voice matters, and the insights gained are practical and immediately applicable. This event left me with new ideas, sharpened skills, and a stronger sense of community with my peers.

### ASPPA ANNUAL CONFERENCE: DIVERSE TRACKS, EXPERT INSIGHTS (OCTOBER 26-29, SAN DIEGO)

Blending actuaries and TPAs, the Annual Conference offers a mix of general sessions and focused tracks on sales, operations, compliance, government updates, and DB topics. The expert speakers and variety of sessions provide practical takeaways for professionals across the retirement plan industry. Despite its size, the structured tracks ensure a personalized and impactful experience.

### WOMEN IN RETIREMENT: COMMUNITY, CONNECTION, AND COUNTRY MUSIC (JANUARY 2026 – TBD)

The 2025 Women in Retirement Conference (WiRC) quickly became my favorite. Its relaxed, welcoming atmosphere made it easy to connect with remarkable women in the field. Highlights included "Ladies Night Out" at Stubb's BBQ in Austin, Texas, featuring great food, live music by Brennen Leigh, and a night of dancing.

WiRC wasn't just about the sessions (which were excellent)—it was about building meaningful relationships. I left feeling inspired, supported, and ready to invite more colleagues into this incredible community.

### DON'T MISS OUT

There is a push to meet our CE requirements without the in-person requirement. There is such a difference between in-person conferences and virtual. The collaboration and relationships made cannot be duplicated in a virtual conference. That is why ARA and ASEA continue to support the in-person conferences. Look at your calendar and make a commitment in 2025 to attend either ASEA Symposium or ASPPA Annual. You will not regret it. And for the Women, ask me about why you should attend WiRC. PC

# NEW YEAR, NEW CONGRESS, NEW OPPORTUNITIES

This year, the American Retirement Association will be working in Washington to advance multiple measures that did not make it into law in 2024 and will educate and advocate for the continued tax-advantage status of retirement plans with the new Congress. **By James Locke**

**As Congress reconvenes in 2025, there will be many opportunities for lawmakers to improve and expand the employer-sponsored retirement system.** The American Retirement Association (ARA), PSCA's parent organization, is poised to champion several proposals that would improve access to employer-sponsored plans, in addition to strengthening them.

## EXPANDING ACCESS TO COLLECTIVE INVESTMENT TRUSTS (CITS) FOR 403(B) PLANS

Expanding the ability of 403(b) plan sponsors to include Collective Investment Trusts (CITs) in their investment options remains one of the ARA's top priorities. Specifically, the ARA continues to back a proposal that would allow for 403(b) plan sponsors to incorporate CITs into their investment offerings. Last Congress, the Retirement Fairness for Charities and Educational Institutions passed the House. Unfortunately, the Senate version, which garnered significant bipartisan support, ultimately died on the vine. The ARA is working with lawmakers to reintroduce these bills and ensure their passage into law.

## ROTH IRA ROLLOVERS

The ARA is advocating for legislation that would allow Roth IRA savings to be rolled over into workplace-based defined contribution plans. Currently, employees can transfer pre-tax savings when changing jobs, but Roth savings are locked in IRAs.

To address this, the ARA collaborated with Rep. LaHood (R-IL) and Rep. Sanchez (D-CA) to introduce H.R. 6757, which would enable the smooth transfer of Roth savings into designated Roth buckets within 401(k) plans. The ARA is working with Reps. LaHood and Sanchez to reintroduce this bill, in addition to identifying champions in the Senate to introduce a companion bill.

## NEW TAX CREDIT FOR NONPROFITS

Another key initiative being advanced by the ARA is improving retirement plan access for charities and nonprofits. The ARA is pushing for legislation that would establish a new payroll tax credit to encourage nonprofit organizations to offer retirement plans to their employees.

While SECURE 2.0 introduced a substantial retirement plan start-up credit tied to income tax liability, making it more affordable for small businesses to adopt retirement plans, this provision doesn't benefit nonprofits, as they typically don't have income tax liability. In response, the ARA has been working with Congress to introduce a version of the SECURE 2.0 tax credit that would apply to nonprofit payroll tax liabilities instead.

Last August, Senators James Lankford (R-OK) and Catherine Cortez Masto (D-NV) introduced a bill that would create this payroll tax credit for nonprofits seeking to implement retirement plans for their employees. The ARA is working with the bill sponsors to reintroduce the bill, in addition to working with House members to introduce a companion bill.

*James Locke is the American Retirement Association's Director of Federal Government Affairs.*

## TAX REFORM AND RETIREMENT SAVINGS

With the Tax Cuts and Jobs Act set to expire at the end of 2025, Congress is beginning to explore potential changes to the tax code that could significantly impact America's retirement system.

The tax treatment of retirement savings will be a key focus in the new Congress. Proposals to modify tax incentives for retirement savings were included in SECURE 2.0, and further reforms are expected in SECURE 3.0 and beyond. Future discussions may include expanding tax credits to encourage retirement plan participation, particularly for low- and middle-income workers, and addressing the tax treatment of Roth savings and workplace retirement plans.

Conversely, some lawmakers may consider reducing tax incentives for retirement plans to fund other tax-related priorities. In response, the ARA will focus on educating members of the tax-writing committees over the next year about the importance of maintaining the tax-advantaged status of retirement plans. PC


# BUILD UP YOUR CE CREDITS VIA *PLAN CONSULTANT* QUIZZES

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