Retirement Plan

NEWS AND INFORMATION FOR **EMPLOYERS**

Optimizing Savings Strategies

Q3
2022

Don't Miss Out: SECURE Act Tax Credits & 401(k) Plan Features

5 Ways Business Owners Can **Optimize Retirement Savings**

3 Fresh Ideas to Help **Boost Your Employees' Retirement Savings**

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DON'T MISS OUT:

SECURE Act Tax Credits & 401(k) Plan Features

Have you heard about the small business tax credits and incentives in the SECURE Act? Find out more about these workplace retirement plan benefits and how they may help your company today.

#SECUREAct #SmallBusiness #Taxes

THE MOST COMPREHENSIVE PENSION REFORM IN 20 YEARS, THE SECURE ACT, is a step forward to allow people greater access to retirement plans. The act hopes to expand retirement savings while alleviating administrative headaches. As such, the SECURE Act includes incentives such as:

Tax credits to encourage business owners to set up a workplace retirement plan

401(k) plan design features to help employees better prepare for their futures

Administrative improvements for managing a retirement plan

TAX CREDITS FOR SMALL BUSINESSES

Tax credits for eligible employers are designed to alleviate some of the 401(k) start-up costs and incentivize businesses with 100 or fewer employees to offer a retirement plan.

Two credits are available:

- **Startup costs.** A tax credit of 50% of eligible startup costs up to **$5,000** for each of the plan's first three years.
- **Auto-enrollment credit.** An additional tax credit of **$500** per year for a three-year period for offering auto-enrollment into the plan.

This equates to up to **$5,500** a year, or **$16,500** over three-years for an employer who takes advantage of both tax credits.

401(K) PLAN DESIGN FEATURES

There are countless ways to design a retirement plan, from the type of plan and available features, to who is eligible and how much they can contribute. Here we highlight a few of the SECURE Act provisions that may enhance your retirement plan design for today's generationally diverse workforce.

- **Increased default savings cap.** To help boost savings, the SECURE Act allows safe harbor plans with automatic-enrollment to increase the auto-escalation cap from 10% to 15% of an employee's paycheck. This means that plans can be set to automatically increase each year until employees reach a retirement deferral rate of 15%. Of course, employees can opt out at any time.
- **Plan eligibility for part-time employees.** Prior to the passage of the SECURE Act, part-time employees could be excluded from participating in the 401(k) plan. Now part-time employees who work at least 500 hours per year in the preceding three years are able to make elective deferrals. However, employers are not required to match these contributions.
- **Extended saving options for pre-retirees.** With a quarter of the workforce made up of Baby Boomers,[1] many are looking to save longer. The SECURE Act has raised the required minimum distribution (RMD) age from 70 ½ to 72 (and this looks to be extended further with the pending passage of the SECURE Act 2.0). Participants born on or after July 1, 1949, can save longer without being required to withdraw from their tax-deferred retirement account.
- **Lifetime income illustrations.** These projections are designed to give participants an idea of what their account balance would provide as a monthly income amount, beginning at age 67 if the balance was annuitized. The purpose of the illustrations is to help participants learn whether they're on track to retiring comfortably.

ADMINISTRATIVE IMPROVEMENTS

The SECURE Act also aimed to alleviate some of the administrative burdens that come with managing a company-sponsored retirement plan.

Plan sponsors can easily switch to a safe harbor with non-elective contributions:

- At 3% at any time before the 30th day before close of the plan year,
- On or after the 30th day before the end of the following plan year, but the contribution must be increased to 4%, and
- Eliminates safe harbor notice requirements for plans, providing non-elective contributions.

KEEPING YOUR PLAN SECURE

While this is a sampling of the exciting and beneficial elements of the most comprehensive retirement plan reform in two decades, there is so much more in the original and the upcoming SECURE Act 2.0.

This is where we come in. Contact us to learn more about the current features, requirements and options to enhance your retirement plan.

[1] Bureau of Labor Statistics. "Labor Force Statistics from the Current Population Survey." 2020.

5 WAYS BUSINESS OWNERS CAN

Optimize Retirement Savings

Attention business owners, learn how to maximize your retirement savings and help minimize your taxes.

#401k #Taxes #Retirement #Savings #BusinessOwners

KEY STRATEGIES TO HELP EMPLOYERS MAXIMIZE SAVINGS AND MINIMIZE TAXES

As a business owner, you have the ability to pull certain levers to increase retirement savings while controlling tax consequences. By understanding how different qualified plans can deploy savings and tax strategies, you can optimize cash flow for your retirement future.

$20,500 RETIREMENT SAVINGS AND TAX STRATEGIES

A **Safe Harbor 401(k)** is a type of retirement plan that allows employers to max out their annual salary deferral. As the owner, you can defer up to $20,500 in salary in either:

> **Pre-tax 401(k).** Take the income tax deduction today and push the taxes to the future.
>
> PRO TIP: If your marginal tax bracket is near a threshold that could affect other tax liabilities, take the salary deduction to stay below the cut off.

> **Roth contribution.** Pay the taxes now. Your account grows tax-free; and when you access your account in retirement, it is also tax-free. Of course, the 401(k) plan would need to allow for a Roth contribution.
>
> PRO TIP: Having access to tax-free money in retirement allows you to adjust your taxable income up and down based on your future needs.

For people over 50 years old, you can also add a "catch-up" contribution of $6,500 annually to your account.

To get these benefits, employers are required to make a contribution for employees. Generally speaking, a Safe Harbor contribution costs the employer between 3 – 4% of gross eligible salaries. From a tax planning perspective, employer contributions are deductible on the company's federal income tax return.

For employers that want to max out their own 401(k) annual deferral and avoid certain plan design tests and provide an incentive for employees, a Safe Harbor 401(k) Plan may be right for you.

$61,000 RETIREMENT SAVINGS AND TAX STRATEGIES

For owners looking to save around $61,000 per year, there is a 401(k) **Cross Tested / New Comparability Plan** option. This calculation method combines the 401(k) with a profit share. Profit sharing employer contributions are generally tax deductible.

What makes these plans unique is that business owners can select certain groups of employees to participate in the profit sharing portion of the plan, but the plan will need to be tested so the benefits do not discriminate in favor of highly-compensated employees.[1]

Employers can set when and how much to contribute to these plans, which can be changed annually. Contributions limits are the lesser of 100% of compensation or $61,000 for 2022 (and $67,500 if over 50 years old).[2] Advanced plan design is necessary, and these plans typically cost more to administer.

TAXED NOW, FLEXIBILITY LATER

If the ability to adjust your taxable income sounds interesting, then a **Roth Conversion** may be worth exploring.

With respect to 401(k) plans, it is the transfer of funds from a traditional pre-tax 401(k) into a Roth 401(k). Account owners pay tax on the money they convert and are eligible to make tax-free withdrawals from the account in the future. From a tax planning perspective, this approach requires taxes to be paid up-front versus when you retire. This can be helpful if you expect to be in a higher tax bracket at retirement.

PRO TIP: If your taxable income is between marginal tax brackets, consider converting the amount that reaches the upper limit. This strategy doesn't trigger a higher tax bracket and may help with future tax planning.

From an estate planning perspective, Roth IRAs are not subject to required minimum distributions.[3]

$200,000 RETIREMENT SAVINGS AND TAX PLANNING

Looking for large tax deductions and rapid retirement plan savings? A **Cash Balance** plan may be an option. The pre-tax account is an above-the-line tax deduction.

Cash Balance plans are best for owners who:

- Have a steady and consistent revenue
- Already contribute 5% or more towards employee retirement benefits
- Are comfortable with advanced plan design

Keep in mind, the investment risks are borne solely by the employer, so it's very important that you understand the details of a Cash Balance plan before implementing one.

TRIPLE TAX SAVINGS

For employers offering a high-deductible health plan, you can also setup a **Health Savings Account** (HSA). These accounts are funded with pre-tax dollars, the account grows tax-free and the money is income tax-free (when spent on qualifying medical expenses).

For 2022, the HSA limit for is $7,300 for families and $3,650 for individuals. HSA dollars can be invested in the stock market, which means they could grow over time. Therefore, if you start saving through your HSA as part of a retirement planning strategy, you could have access to another bucket of tax-free money for medical expenses. When the average American's health care costs are $300,000, wouldn't it be nice if the money was triple tax-free?[4]

WORTH A CONVERSATION

With so many different retirement savings options available for business owners, it's important to work with a qualified financial advisor. We can help you set up the right plan(s), discuss tax planning strategies and help you find the best option to optimize your retirement savings.

[1] Internal Revenue Service. "Choosing a Retirement Plan: Profit-Sharing." 2022.

[2] Internal Revenue Service. "Choosing a Retirement Plan: Profit-Sharing." 2022.

[3] Kagan, Julia. "Roth IRA Conversion." Investopedia. 5 Mar. 2022.

[4] "How to Plan for Rising Health Care Costs." Fidelity. 25 May 2022.

3 FRESH IDEAS TO HELP

Boost Your Employees' Retirement Savings

Looking for ways to sweeten your recruiting and retention efforts? Use these 3 ideas to strengthen your talent management strategy by helping your employees save more and improve financial well-being.

#Webinar #Workplace #EmployeeExperience

INNOVATIVE AND CREATIVE APPROACHES TO HELP YOUR COMPANY STAND OUT WHILE IMPROVING WORKERS' FINANCIAL WELL-BEING

How can your company stand out from the competition so you can recruit and retain quality talent? At the same time, how do you encourage your workforce to continue saving for retirement when immediate financial needs are pressing?

Innovative and creative approaches such as "fresh starts", webinars and auto-features may be the answer. This trio may help strengthen recruiting efforts, increase employee loyalty and boost 401(k) savings rates since these initiatives show that your company cares about its workers financial well-being.[1]

WHAT IS A "FRESH START"?

A "fresh start" is a moment that feels like a new beginning. Therefore, it acts as a catalyst for positive change that motivates individuals to pursue long-term goals and make future-focused choices.[2]

Easy examples of fresh starts include:

- New Years
- Birthdays
- First day of fall

[1] Benartzi, Shlomo, et al. "Using Fresh Starts to Nudge Increased Retirement Savings." Jun. 2021.

[2] Benartzi, Shlomo, et al. "Using Fresh Starts to Nudge Increased Retirement Savings." Jun. 2021.

FRESH START THINKING CAN HELP BOOST 401(K) SAVINGS

More than ever, it's critical for employers to find effective ways of encouraging employees to save more for retirement. This is especially true because employees are in charge of deciding how much to save; but unfortunately, they often don't set aside enough to reach their goals.

As such, fresh start framing can serve as a nudge to employees to increase their savings meaningfully. This is significant because prior research indicates that simple nudges, such as suggesting how much to save, can motivate workers to contribute to their retirement accounts at work.[3]

The fresh start research has found that in the eight months following notifications offering employees an opportunity to increase their deferrals, retirement plan contributions improved.[4] In light of these findings, using fresh start framing is a powerful strategy to use in your participant communications that may be an effective way to increase 401(k) deferrals.

FINANCIAL WELLNESS WEBINARS MAKE A POSITIVE IMPACT

As employers continue to navigate the new normal, they are turning to financial wellness initiatives to address employees' financial stress and retirement preparedness. Beyond improving retention and hiring, employers are committed to moving the needle on employee behaviors, including increasing worker satisfaction and productivity, reducing money-related stress and improving the use of retirement plan benefits.

Recent research has found that financial wellness webinars are effective in helping to accomplish these goals, particularly in increasing 401(k) savings rates. Depending upon the age and contribution level, deferrals rose an estimated $649 to $988 after participants attended a financial wellness webinar on any topic.

In addition, attending a budgeting webinar was positively correlated with increased 401(k) contributions.[5]

PLAN SPONSORS LOOK TO ENHANCE AUTO FEATURES

Automatic plan design features have long been praised for their effectiveness in increasing 401(k) plan participation and savings rates. The two most popular auto features include:

- Automatic enrollment where employees are automatically defaulted into the plan at a specific date and savings rate.
- Automatic escalation where participant contribution rates are increased gradually over time.

Over the next two years, 28% of plan sponsors are considering enhancing their automatic deferral features, while 23% are considering changes to a plan contribution feature.[6]

Nearly a quarter (22%) of plan sponsors are considering adopting changes to auto-escalation features, while 18% are contemplating enhancements to auto-enrollment.[7]

These findings demonstrate that employers continue to seek ways to support employees retirement savings and are committed to fostering an improved sense of financial well-being in their workforce.[8]

GREATER FINANCIAL WELL-BEING

If you are looking to improve financial well-being, plan participation and savings rates for your employees, it may be time to consider leveraging auto features and financial wellness resources. But you don't have to do it alone. Contact us to learn more about how to use these three fresh ideas to improve retirement readiness at your organization.

[3] Goldin, Jacob, et al. "How Much to Save? Decision Costs and Retirement Plan Participation." Jul. 2020.

[4] Benartzi, Shlomo, et al. "Using Fresh Starts to Nudge Increased Retirement Savings." Jun. 2021.

[5] EBRI. "Field of Dreams? Measuring the Impact of Financial Wellbeing Initiatives on 401(k) Plan Utilization." Mar. 2022.

[6] WTW. "2022: The Next Evolution of DC Plans Survey." Feb. 2022.

[7] WTW. "2022: The Next Evolution of DC Plans Survey." Feb. 2022.

[8] WTW. "2022: The Next Evolution of DC Plans Survey." Feb. 2022.

About Jacobs Financial Partners

Our goal is to bring sound financial strategies to Connecticut & beyond. As a tight-knit team of experienced, dedicated industry and CERTIFIED FINANCIAL PLANNER™ professionals, we work together to bring financial clarity and confidence to those who need it most.

At Jacob Financial Partners, we proudly work with individuals, families, corporate executives and business owners to offer tailored strategies and lifelong partnerships designed to empower and organize their financial lives.

For more information on how we support retirement plan sponsors and participants, visit our website or contact us directly.

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