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PLAN SPONSORS

TRENDS TO WATCH IN 2019

Last year brought many challenges to the employee benefits world: wide-ranging tax reform; European controls on electronic data protection; a divided United States Congress; market fluctuations; and persistently low unemployment, among others.

As plan sponsors outline their strategies and approaches for the new year, they need to be mindful of how these and other developing trends will affect the employee benefits landscape in 2019. We also identify considerations for employers trying to navigate these challenges and remain competitive in a tight job market.

Increasing focus on employee well-being: Over the past several years, terms like "well-being" and "wellness" have become increasingly common in discussions about employee benefits. Despite plan sponsors' growing awareness of these buzzwords, many employers are still unclear about how to offer an effective program that goes beyond traditional benefits offerings to focus on employees' comprehensive financial, physical, social and emotional health.

To date, only about half of employers offer financial well-being tools. Furthermore, employees haven't been very impressed with these efforts, with only about a third taking advantage of the offerings, according to a study by Bank of America Merrill Lynch. As benefits providers continue to roll out new technology, and as methods and strategies to help make financial well-being become a more effective offering for employees, plan sponsors should keep a close eye on best practices and opportunities to enhance employee engagement.

Expansion of auto-features: Auto-features for defined contribution plans continue to gain in popularity, with more than half of employers automatically enrolling new employees into the company 401(k), according to the Plan Sponsor Council of America's (PSCA) 61st Annual Survey. Recently, the auto feature trend has moved into new areas. In November 2018, the Department of Labor (DOL) proposed a rule that would automatically transfer participant retirement balances left behind at an old job to their new employers' 401(k) plan. The DOL is expected to issue a final rule soon after the comment period, which ended December 24, 2018.

Combatting high employee turnover: With more than 2 percent of the workforce voluntarily quitting jobs each month, according to October 2018 data from the Bureau of Labor Statistics, employers realize they need to offer strong, customized and competitive benefits to reduce employee turnover. Plan sponsors may be more receptive to helping employees pay off student debt thanks to an Internal Revenue Service (IRS) private letter ruling that permitted a company to contribute to an employee's 401(k) account when the employee used at least 2 percent of pay to pay down student debt. In addition, employers are recognizing employees' desire to diversify tax exposure, and nearly two-thirds of companies are offering Roth 401(k) options to workforces, according to the PSCA survey. Expect to see this, as well as low-fee options like target-date funds, continue to expand in 2019.

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Using cash balance and ESOPs as an exit strategy: With nearly 10,000 baby boomers retiring every day, many business owners in this generation are reviving defined benefit cash balance plans as well as employee stock ownership plans (ESOPs). Both strategies work well when owners are looking to generate liquidity from their equity. Owners can increase cash balance plan contributions as they age, and ESOPs help transfer ownership of the company to employees and can give the employer a healthy addition to his or her retirement account.

Shifting power and priorities in Congress: In 2018, Congress and the Trump Administration inched forward on strategies to expand 401(k) coverage in the workplace. In August 2018, President Trump issued an executive order directing the DOL to look at ways to expand multiple employer plans (MEPs) for small businesses. Meanwhile, a similar initiative showed up in the Retirement Enhancement and Savings Act (RESA), which also included other provisions that would help plan sponsors include lifetime income options within 401(k) plans.

With a divided Congress after the November 2018 midterm elections, continued progress on these initiatives may appear doubtful. Nonetheless, several members of Congress seem eager to move legislation forward to increase plan coverage among workers. Rep. Richard Neal (D-MA), has publicly said that, as the new chairman of the House Ways and Means Committee, retirement legislation will be his top priority. His proposal to mandate retirement plans doesn't share popularity across the aisle because these vehicles have always enjoyed voluntary participation. Meanwhile, Neal hasn't shown favor to RESA, which was introduced in November by then-Chairman Rep. Kevin Brady (R-TX). Plan sponsors should carefully monitor the progress of these and other retirement-related bills on Capitol Hill throughout the year.

Regulatory progress and uncertainty: Despite the divided Congress, the IRS and DOL are still making progress in implementing changes to retirement plan policies. The IRS proposed amendments for new hardship distribution rules, reflecting the changes passed in the Bipartisan Budget Act of 2018. The public was invited to comment until January 14, 2019, and the agency is expected to finalize the rule soon after.

The DOL's fiduciary rule was vacated by the U.S. 5th Circuit Court of Appeals in June 2018, saying that the rule was an "arbitrary and capricious exercise of administrative power." The rule was intended to create a new standard of care for certain 401(k) service providers, financial advisors and others involved in the provision of services related to retirement savings. In October 2018, the DOL announced plans to issue a revised final version of the rule in late 2019. Meanwhile, the Securities and Exchange Commission (SEC) said it would finalize its best-interest rule, which will address many of the same issues covered by the DOL's fiduciary rule. Plan sponsors should closely follow the development of the DOL's and SEC's rules and think about how the final language could affect their defined contribution programs.

Confronting an evolving cybersecurity threat: The European Union moved ahead with its General Data Protection Regulation (GDPR) in 2018, heightening the importance of safeguarding online information. More than two years ago, the DOL's Advisory Council on Employee Welfare and Pension Plans released Cybersecurity Considerations for Benefit Plans, suggesting plan sponsors create cyber fraud policies. Today, many plan sponsors continue the process of assessing their risk exposure and creating plans to respond to the increasing threat of cyberattacks on 401(k) plans.

Plan sponsors need to create a separate 401(k) cybersecurity policy from the overall company policy. It's not possible to eliminate the threat, but mitigating the risk can be achieved. With trillions of dollars in 401(k) assets and a mine of personal information attached to accounts, plans are increasingly more vulnerable to cyberattacks. As fiduciaries, plan sponsors will need a separate action plan to deal with breaches and other fraud issues.

INSIGHT: PLAN AHEAD FOR A HAPPY NEW YEAR

There is no doubt that 2019 will be a busy year for plan sponsors. Monitoring developments, reducing financial stress for employees and keeping a keen eye on cybersecurity are just some of the things employers will have on their to-do lists. In addition, the pullback in equity markets in the fourth quarter of 2018 may increase concern among many employees about their retirement strategies and investment selections, and plan sponsors should be prepared to help employees think through these decisions. With all of these challenges, planning ahead and taking a holistic view of the benefits and employment landscape are essential.

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