ALGER

IMPROVING PLAN HEALTH THROUGH PLAN DESIGN

THINK FURTHER FOR RETIREMENT

Many plan sponsors would define a healthy retirement plan as one in which most employees choose to participate when they become eligible, save a meaningful amount each pay period, and avoid spending their retirement savings until they stop working.

HELPING **PLAN SPONSORS** THINK FURTHER FOR THEIR RETIREMENT PLAN

Plan sponsors do a lot to improve the overall health of their plan if they **Think Further** about how their plan is designed. Selecting a combination of plan features designed to drive strong participation and contribution rates while discouraging plan leakage can help drive participants toward healthier retirement savings outcomes.

Whether a feature is appropriate for a given plan will, of course, depend upon the plan sponsor's objectives as well as the unique employee demographics and should be discussed with a plan sponsor's advisors. Most of the plan design changes will require a written plan amendment.

1 AUTOMATIC ENROLLMENT

Traditional 401(k) plan design requires employees to take steps to enroll in the plan once they become eligible. Employees who do not take action are excluded from the plan. Instead of requiring each eligible employee to sign up to participate in the plan, the plan sponsor can automatically enroll employees.

Potential Impact

- Automatic enrollment has proven successful in increasing participation rates
- To produce meaningful savings, the automatic deferral rate must not be set too low

Key Features

Notice	Plan sponsor must provide notice to employees of the automatic enrollment feature that satisfies applicable legal requirements
Deferral Rate	• Employees must be enrolled at default rate selected in the plan document • Employees may increase rate, decrease rate, or stop deferrals
Investments	Default investment designated by plan sponsor for employees who do not make investment choices. Employees must be given an opportunity to change the investment choice
Opt Out	Employees must be allowed to opt out of plan participation

2 AUTOMATIC DEFERRAL INCREASES

Employees who are automatically enrolled commonly leave their savings rate at the default deferral percentage set by the plan. This initial rate may be relatively low (e.g., 2% or 3% of eligible compensation per year). The plan can be designed to gradually increase the savings rate each year at a set amount (e.g., 1% of eligible compensation per year) until it reaches a maximum level (e.g., 10% of eligible compensation) that will produce a more meaningful retirement savings rate.

Potential Impact

- Often paired with automatic enrollment, particularly if initial deferral rate is fairly low
- May also be offered as a choice to participants who chose a deferral rate and want to gradually increase their savings over time

Key Features

Increase Rate	Plan document must specify timing and amount of increases
Automatic vs. Optional	Option to apply only to automatically enrolled employees or to also make available as opt-in provision
Opt Out	Employees may increase, decrease, or stop deferrals

3 SAFE HARBOR 401(k)

Each 401(k) plan is required to pass certain nondiscrimination tests (e.g., ADP/ACP tests) to prevent the plan from disproportionately favoring the highly paid employees. Plans that fail the test and have to limit highly compensated employee contributions because of low participation or savings rates among non-highly compensated employees may bypass certain nondiscrimination tests in exchange for adding certain features such as mandatory employer contributions.

Potential Impact

- May enable highly compensated employees to increase deferrals
- May encourage non-highly compensated employees to increase savings to qualify for the employer match
- Subject to certain requirements, a more generous matching formula may be used

Key Features

Mandatory Employer Safe Harbor Contributions	**Basic matching contribution** (a more generous, enhanced formula may be used) • 100% match on deferrals up to 3% of an employee's eligible compensation, plus • 50% match on deferrals between 3%–5% of an employee's eligible compensation **Nonelective contribution** • At least 3% of an employee's eligible compensation • All eligible employees who are not considered "highly compensated employees" must be eligible to receive this contribution (in accordance with IRS rules)
Vesting Safe Harbor Contributions	• Employer contributions are 100% vested
Notices	The plan sponsor must periodically provide certain legally required notices to employees regarding safe harbor plan features

4 STRETCH MATCH

If a low savings rate is needed to maximize the employer match, some employees may not be saving at a level that will produce sufficient retirement income. Requiring a higher deferral percentage to receive the maximum employer matching contribution (e.g., 25% match on deferrals up to 12%, rather than 100% on deferrals up to 4%) is an option that a plan sponsor may wish to consider depending on employee demographics and plan design.

Potential Impact

- Some employees may increase their deferral rate to qualify for the full employer matching contribution
- Plan sponsor should create matching projections to make certain the stretch match does not prevent some highly compensated employees from receiving the full match

Key Features

Matching Rate	Rate cannot increase as deferrals increase
Nondiscrimination Testing	Matching contributions are subject to nondiscrimination testing, including ACP testing

5 ROLLOVERS FROM OTHER PLANS

If participants have changed jobs during their working years, they may have retirement assets in multiple plans. This can create challenges in managing their investment portfolios and plan fees. They may be able to consolidate their savings by rolling assets from other "eligible plans" to their current employer's plan.

Potential Impact

- Education and a simple process for rolling assets into a new employer's plan may reduce leakage
- Consolidating assets may help participants better manage their total retirement savings investments

Key Features

Eligible Plan	Employees may be eligible to roll their accounts from a qualified retirement plan (e.g., 401(k), 403(b)) or IRAs to a 401(k) plan if the plan document permits rollovers
Taxation	Direct rollovers among plans are typically tax-free

6 LOANS

Many plans permit participants to borrow a portion of their retirement plan balance and repay it, with interest. Loans that are not repaid are a source of retirement savings leakage.

Potential Impact

- Limiting access to loans may reduce the amount of plan assets at risk for leakage prior to retirement years
- Limiting loan availability (e.g., by only permitting one outstanding loan at a time)
- Setting a minimum loan amount (e.g., $1,000)

Key Features

General Maximum Loan Amount*	Lesser of: • 50% of a participant's vested account balance • Up to $50,000
Payments	• Repaid within 5 years (unless primary residence) • Repaid in substantially equal installments at least quarterly
Default	Generally taxable in year of default

* In certain cases other maximums may apply

7 INVESTMENT ALTERNATIVES

A wide range of investments is permitted within a retirement plan (e.g., mutual funds, collective investment trusts, separate accounts). Providing an appropriate mix of alternatives and investment education and other resources can improve retirement savings outcomes.

Potential Impact

- Appropriate mix of investments will vary depending upon plan objectives and employee demographics
- A variety of investment strategies may be appropriate to meet different investment participants (e.g., active and passive strategies)
- A single mutual fund may offer multiple share classes (e.g., institutional, retail, retirement (R))

Key Features

Plan Sponsor Role

- Selecting and monitoring investment alternatives is an ERISA fiduciary function
  - Must follow a prudent process in selecting investments
  - Must monitor investments on an ongoing basis
  - Investment fees must be reasonable and necessary for the services provided (e.g., not restricted to only lowest cost alternatives)

Financial Advisor Role

- May assist with the selection and monitoring of plan investments
- Some financial advisors agree to be responsible for the selection and monitoring of plan investments

Participant Role

- Many plans allow participants to choose how their plan account balance will be allocated among the plan's investment alternatives
- In many cases default investment alternative should be designated for participants who do not select investments

To obtain information about the plan performance metrics that drive plan health or to access a plan wellness benchmarking tool that can be used with plan fiduciaries, reach out to your Alger contact, email us at retirement@alger.com or visit us at www.alger.com.

ALIPBRO-0219