ERISA ROUNDUP

A quarterly recap of recent publications from BDO's ERISA Center of Excellence.

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BDO

A NOTE FROM BDO'S NATIONAL ERISA PRACTICE LEADER

Our team recently launched BDO's new ERISA Center of Excellence. Through this platform, dedicated ERISA professionals share their thoughts around the latest insights on regulations and industry trends. The long-running quarterly publication, EBP Commentator, will no longer be published, rather insights will be published on the ERISA Center of Excellence in real-time and later captured in our new publication, ERISA Roundup.

Top of mind as we move in to Q2 and the beginning of employee benefit plan audit season, is audit quality. At the heart of BDO's approach to audit quality sit our core values – People First, Empowerment Through Knowledge, Exceptional Every Day Every Way, Embrace Change, and Choose Accountability. BDO's Chief People Officer, Catherine Moy, said it best: "Audit quality is improved when we bring together the best people who can effectively collaborate." The collaboration of our dedicated specialists across the entire ERISA spectrum, from audit and tax professionals, to plan consultants and actuaries, brings meaningful insights and technical knowledge to our clients.

We look forward to helping you and your employee benefit plans achieve more in 2018 and beyond. Please don't hesitate to reach out if you have any questions or if we can be of service.

Sincerely,

BETH GARNER
National Practice Leader, ERISA

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Expanded Missing Participants Program:

WHAT PLAN SPONSORS NEED TO KNOW ABOUT TERMINATING PLANS

The Pension Benefit Guaranty Corporation (PBGC) is helping defined contribution (DC) and other plan sponsors looking to terminate their plans by expanding its Missing Participants Program.

For more than 20 years, the program has been available to PBGC-insured single employer defined benefit (DB) plans only. Now, the final rule, published in the **Federal Register** on Dec. 22, 2017, helps more plan sponsors with the tedious issue of locating missing participants when closing out plans and increases the likelihood that more participants will be reunited with their lost retirement money.

Plans terminating after Dec. 31, 2017, can participate in the voluntary program, including:

- 401(k)s and other DC plans
- Multiemployer DB plans covered by Title IV of the Employee Retirement Income Security Act (ERISA) of 1974
- Professional service employer plans with 25 or fewer participants
- Single-employer DB plans

To help clients take full advantage of the expanded Missing Participants Program, we've outlined the most important changes to the program and highlighted what they mean for plan sponsors terminating their plans.

WHAT'S CHANGED IN THE MISSING PARTICIPANTS PROGRAM

In general, before transferring assets to the PBGC, DC plan sponsors need to follow guidelines issued in the Labor Department's **Field Assistance Bulletin (FAB) 2014-01** outlining the fiduciary duties for those terminating plans.

The new rule stipulates that plan sponsors need to have "reasonable certainty" that the participant's whereabouts is unknown when the plan is being closed out. Examples in the rule include notices to the participant's last known address getting returned as undeliverable or uncashed distribution checks. Participants can also be considered missing if they do not elect a form of distribution after being given notice of a plan's termination.

Then, DC plan sponsors need to follow the five points outlined in the FAB to satisfy the required "diligent search" step. Rules for DB plans have eased, giving them options on the procedure in order to pass the check.

Plan sponsors can transfer missing participant benefits to the PBGC instead of opening an Individual Retirement Account or annuity; the PBGC charges a one-time fee of $35 per account for these transfers. The PBGC will not charge a fee for accounts of $250 or less, nor will it charge for simply reporting information on where the benefits are held. The PBGC also simplified the method DB plan sponsors need to use in determining the appropriate amount to transfer to the agency.

Participants from all types of plans who qualify for the program will be listed in the agency's searchable database of missing participants and beneficiaries. The agency will also periodically search for missing participants. When one is found, the PBGC will pay out the benefit with interest. There will be no distribution charge.

The PBGC added an anti-cherry-picking clause that says any plan that uses the program must transfer all missing participants to the agency, instead of selectively moving certain accounts.

BDO INSIGHTS: WHAT THE CHANGES MEAN FOR PLAN SPONSORS

Often, plan sponsors don't realize how time consuming or difficult it can be to find missing participants. It has been a chronic problem for plan sponsors and is frequently left as a last-minute task that can overwhelm already limited resources.

This final rule eliminates unnecessary hoops and gives DB and DC plan sponsors a new, more useful option when dealing with missing participants. It eases the definition of missing participant and gives flexibility for DB plans in diligent search rules. Meanwhile, the database of missing participants will be user-friendly, with information from DB and DC plans. Centralizing information from various plans will increase the likelihood that benefits will be distributed appropriately, or will direct participants to where benefits are being held.

To help plan sponsors understand and take advantage of the expanded program, the PBGC created a webpage outlining the specific requirement variations and forms necessary for each type of plan. Please contact your BDO representative for more information about the PBGC's new missing participants program.

UPCOMING EVENTS AND HAPPENINGS

June 18 – 20 / SHRM Annual Conference and Exposition, Chicago

BDO will have a team of ERISA professionals in attendance and available to meet throughout the event.

Please email **lmacnicol@bdo.com** or **kflett@bdo.com** to arrange a meeting at SHRM.

May 15 – 17 / AICPA Employee Benefit Plans Conference, Las Vegas

Our team recently returned from the AICPA Employee Benefit Plans Conference.

Kimberly Flett, Compensation and Benefits Services Managing Director, led a half-day workshop on Form 5500s and presented on plan distributions.

Jeff Ward, Third-Party Attestation Practice Leader, and Lara Stanton, Assurance Director, presented on Cybersecurity for Employee Benefit Plans. Lara also led a deep dive session on the use of SOC-1 reports for Emplyee Benefit Plans.

ERISA Center of Excellence

BDO's ERISA Center of Excellence is your source for insights on emerging regulations, industry trends, current topics, and more. Visit us at **www.bdo.com/erisa** or follow along on Twitter: @BDO_USA and #BDOERISA.

Roth 401(K), Worth a Fresh Look?

This year marks the 20th anniversary of the Roth Individual Retirement Account (IRA). While the Roth IRA has been widely hailed as a powerful retirement saving vehicle because of its tax-free-growth and has seen widespread adoption by individuals who meet the income requirements, the Roth 401(k) isn't nearly as popular.

That status, however, may change. The recent tax reform law poses an opportunity for employers to take another look at the Roth 401(k). While the new law doesn't include significant changes for 401(k)s, lower marginal income tax rates may make the Roth 401(k) option slightly more attractive to participants and may spur more plan sponsors to add Roth plans to their benefit offerings.

Before jumping in, however, it is important to determine whether adding the Roth feature is beneficial to your workforce. Analyzing areas like participation rates and age of workforce are important considerations, but it's also important to see whether there might be additional administrative costs or other issues impacting the overall benefits package as a result of the addition. If Roth is a good option, it's critical to effectively communicate the differences and the reasons a Roth 401(k)—and the tax-free growth that it offers—might be something for participants to consider.

ROTH 401(K) BASICS

As the name implies, the Roth 401(k) blends features of the Roth IRA with the traditional 401(k) plan. Accounts are set up similar to traditional 401(k)s, but like the Roth IRA, the Roth 401(k) allows participants to contribute after-tax dollars. In terms of tax benefits, the Roth 401(k) flips the structure of the traditional 401(k): money is taxed (based on an individual's income tax bracket) going into the plan, and any qualified withdrawals, including the growth of the investment, are tax-free. Employers are allowed to make contributions on behalf of employees, but by law, those dollars must be deposited into a traditional 401(k) account.

The Roth 401(k) was established in 2001, but most plan sponsors waited to offer it until 2006 when the Pension Protection Act made the new savings vehicle permanent. In 2006, only 18.4 percent of companies offered a Roth 401(k), according to The Plan Sponsor Council of America (PSCA).

While Roth 401(k) adoption has grown dramatically since then, it still significantly trails the traditional 401(k) in terms

of popularity. Only 63 percent of plans offered a Roth 401(k) option in 2016, according to **PSCA's 60th Annual Survey of Profit Sharing and 401(k) Plans**. Compare that to the 94 percent of companies surveyed using a traditional 401(k). What's more, most participants aren't taking advantage of the Roth's tax-free growth benefits; only 18 percent of participants eligible for the Roth strategy made contributions in 2016, the PSCA survey found.

There are several reasons behind Roth's slow growth. First, it's a relatively more difficult strategy for plan sponsors to explain to their participants. Second, participants who have been automatically deferred to a traditional 401(k) account tend to stay put. Finally, one of the major factors in determining whether it's more beneficial to contribute to a traditional or Roth 401(k) is whether the participant's tax rate during retirement will be higher or lower than the participant's current tax rate—a difficult prediction to make with any certainty.

Many participants may have overlooked the Roth 401(k) as a retirement savings option because they aren't eligible to contribute to a Roth IRA due to fairly restrictive income limits. But it's important for plan sponsors to point out that income limits don't apply to Roth 401(k)s, so all participants, regardless of income, can participate.

The IRS has created a table that provides **a full comparison** of the rules related to contribution limits, income limits, taxation of withdrawals and withdrawal requirements for the Roth 401(k), Roth IRA and traditional pre-tax 401(k).

BDO INSIGHT: ROTH COULD NOW BE MORE BENEFICIAL, BUT UNDERSTANDING COSTS AND COMMUNICATING BENEFITS ARE CRITICAL

For plan sponsors that are considering adding the Roth option to their retirement plans, it's important to remember the following:

- Roth plans typically entail additional administrative and payroll requirements, so you will want to work with your service providers to understand these potential issues
- Analyzing the demographic and financial makeup of your workforce is an important part of determining whether adding a Roth option makes sense
- Employees often struggle to understand the differences between Roth and traditional 401(k) plans, so effective communication is essential

In terms of the last point, the tax-free growth benefits of Roth 401(k)s have become a bit more attractive compared to the upfront tax benefits of traditional 401(k)s because many Americans are now positioned in lower tax brackets. It's also important to keep in mind that that future legislative action could raise rates.

The Roth benefits are particularly compelling for younger workers, who 1) typically have lower incomes as they start their careers and 2) have more time until retirement to benefit from the Roth's tax-free growth and withdrawal structure.

When it comes to communicating these benefits to employees, it can be helpful to illustrate the difference between the two 401(k) strategies by using a hypothetical scenario, such as:

- Jack is a 25-year-old employee who contributes $15,000 a year to a Roth 401(k) until retiring at age 65; he is currently in the 22 percent tax bracket and expects to be in the 32 percent tax bracket in retirement; he expects to earn a rate of return of 7 percent on his investments
- Jill is also 25-years-old, is in the same tax brackets, and expects to earn the same rate of return until retiring at age 65; but rather than contributing $15,000 a year to a Roth 401(k), she contributes the same amount to a traditional 401(k) and invests the rest in a taxable account

Under these assumptions, the after-tax value of Jack's Roth 401(k) would be $3.1 million at retirement, whereas the
after-tax value of Jill's traditional 401(k) would be $2.6 million. Even if Jack and Jill assume that they will be in the same tax bracket during retirement as they are now (22%), the Roth option is still worth more than $200,000 more than the traditional option.

It's especially important to show these types of examples to employees who are automatically enrolled in the traditional 401(k) plan. Often, these participants set their contribution schedule and don't think about it again. But these participants may reconsider if shown the difference in after-tax benefits using actual dollar amounts, rather than abstract financial concepts.

In light of the new tax laws, now could be a good time for plan sponsors to consider adding a Roth component to 401(k) offerings. An effective communication strategy is key in demonstrating to participants the impact a Roth 401(k) can make on saving for retirement. Roth's benefits, however, need to be considered in light of the potential costs and administrative requirements for plan sponsors and their service providers. To determine whether your organization should consider adding a Roth 401(k) strategy, contact a member of **BDO's ERISA practice**.

Mitigating Healthcare Costs with HDHPs and HSAs:

WHAT PLAN SPONSORS NEED TO KNOW

It's no secret that healthcare is expensive—and costs are likely to continue going up. While preferred provider organizations (PPOs) are still the most popular plan type, many companies are turning to consumer-directed, high-deductible health plans (HDHP) to help manage costs and are adding reimbursement accounts like health savings accounts (HSA) to help employees pay for expenses.

Still, employees have many misconceptions about HDHPs and HSAs. In fact, just a little more than half of Americans say they understand HSAs, according to a March **report** by the LIMRA Secure Retirement Institute and Insured Retirement Institute. Employers have difficulty understanding these savings vehicles as well.

With more companies using and integrating consumer-driven benefits like 401(k)s and HDHP/HSAs, there's an opportunity for plan sponsors to learn more about ways to help employees optimize their funding for health and retirement wealth.

BDO addresses some of the most frequently asked questions when it comes to healthcare choices for both **employers** and **employees**.

FOR EMPLOYERS

First, why are companies moving to HDHPs?

According to the Kaiser Family Foundation's **2017 Employer Health Benefits Survey**, PPO growth has slowed by 8 percent since 2012, while HDHPs have increased by 9 percent over the same period.

The reasons for this are varied, but most stem from cost. The average employer premium contribution to all plans for single coverage in 2017 was $5,477, compared to the HDHP employer contribution of $5,004 for the same group. The average employer portion to all plans for family coverage was $13,049 last year, compared to $12,982 contribution for HDHP plans only.

What kind of out-of-pocket reimbursement accounts are out there?

Health Reimbursement Accounts (HRAs) are set up and funded by employers to help employees pay for eligible medical expenses. The employer owns the account, and it can be used in conjunction with a flexible spending account (FSA). HRAs can also be paired with an HSA, but there are certain limitations. There is no contribution limit, but the employer can limit the amount carried over to the next year.

Health Savings Accounts (HSAs) are employee-owned accounts, similar to 401(k)s. These accounts must be linked to an HDHP and may be funded by employers and employees (pre-tax). The contribution limits for 2018 are $3,450 for single accounts and $6,850 for families. Also, those aged 55 years and older are allowed to make $1,000 catch-up contributions annually. The money stays in the account until it is used, tax-free for medical expenses. There are penalties if the money is withdrawn for non-medical expenses. The account is portable, meaning owners can take it with them when they leave a job. It can also be used to pay for healthcare in retirement. The money is deposited tax-free, it can grow tax-free, and it can be withdrawn tax-free for medical expenses. It can also be used with a limited-purpose Flexible Spending Account (FSA) or a limited-purpose HSA.

Flexible Spending Accounts (FSAs) set up by employers and may be funded by employees (pre-tax) and employers. The contribution limit for 2018 is $2,650. It's known as the "use it or lose it account," but employers can allow up to $500 (set by IRS limits) to be carried over to the following year. It can be paired with HRA as well as an HSA, but there are certain limitations.

Are companies required to contribute to an HSA?

The short answer is no—but some do. The **2017 Year-End HSA Research Report** by consulting firm Devenir Group showed that 21 percent of employers made HSA contributions for the year; the average employer amount was $621.

What kind of administrative work is required with an HSA?

For employers, there isn't a lot of work involved because an HSA is run by a custodian or trustee and is a separate bank account. Employers must set up payroll deferrals and do comparability testing – similar to 401(k) discrimination testing— to make sure company contributions are fair to all workers, and there is a federal penalty for non-compliance. Employers also need to report employee deferrals to HSA accounts as well as employer contributions.

Can employers deduct the HSA contribution as a business expense? And are there any fiduciary responsibilities in offering an HSA?

Yes, contributions can be deducted as a business expense. And in general, the custodian or trustee of the HSA—who is in charge of administering the plan—assumes the fiduciary obligations.

Will an HSA help employees become better healthcare consumers?

That depends on a few factors. There have been studies showing that HSAs can positively change employee behavior. When coupled with a 401(k), workers wind up saving more than those who use one or the other, a **2018 HSA and 401(k) Contribution Analysis** by Alight Solutions found.

Another **study** by the Employee Benefit Research Institute showed that employees with HSAs tend to avoid going to the doctor or refilling prescriptions more than those in other health plans. In this scenario, short-term savings may have an impact on long-term health issues and costs.

FOR EMPLOYEES

What is the benefit of having an HSA?

HSAs are known for having the triple-tax advantage: money goes in tax-free, it grows tax-free, and is taken out for qualified medical expenses tax-free. For example, if you have a $100 medical cost and you're in the 32 percent tax bracket, that bill really only costs you $68, because the payment for that medical expense is excluded from your taxable income.

If I don't spend the money in my HSA, do I forfeit it?

The LIMRA study showed 2-in-5 Americans thought they would lose the money at the end of the year, but the truth is that—unlike with FSAs—the money stays in the account because it belongs to the employee. It works like a 401(k), where the employee makes a contribution and the employer may also make a contribution.

What can I use the money for?

Funds must be used for approved medical expenses found in **IRS Code 213**. People can't contribute to an HSA once enrolled in a Medicare plan, but HSA dollars can be used to pay for Part B premiums, Part C, and Part D prescription plans, as well as long-term care insurance.

Can I use the money for non-health expenses?

Yes, but it would be subject to income tax rules. Moreover, if you're under age 65, you would need to pay a 20% penalty tax on the amount withdrawn.

Can HSA dollars be invested in the stock market?

It depends upon the arrangement. Right now, most people use HSAs as a checkbook for current medical expenses and don't see it as an opportunity for assets to grow tax-free. Some HSA arrangements have a cash threshold employees must meet before they can move money into investments. According to Devenir, $27.5 billion was contributed to accounts in 2017, $22.5 billion was withdrawn, and only about $5 billion, or 18 percent of assets, were held in accounts and not used for medical expenses.

And I can use this money in retirement?

Yes. A couple retiring in 2017 will need $275,000 on average to pay for medical expenses, Fidelity Investments reported last year. It's a lot of money, and HSAs provide an option to consider when saving for and paying out medical expenses in retirement. A person would need to save less in an HSA account for retiree health expenses than they would in a traditional 401(k), because there would be no tax payment on the money withdrawn from the HSA. In a traditional 401(k), money is deposited tax-free and grows tax-free but it is subject to income tax rules when withdrawn.

BDO INSIGHT: ADDRESSING THE NEED FOR HSA AND HDPH EDUCATION

Funding rising healthcare expenses should be a central part of employees' retirement planning, and HSAs paired with HDHPs can be an effective part of this planning. But given the misconceptions and confusion surrounding these vehicles, plan sponsors need to first fully understand the nuances of these vehicles to determine whether they will be a good fit for their workforce. Companies that do decide to offer HSAs and HDPHs need to then develop an effective communication strategy to educate their employees on how to take full advantage of these benefits.

Please contact a BDO professional to discuss HSAs and HDHPs and whether they might be an option for your company.

Financial Wellbeing Programs:

TODAY'S TOOLS FOR A HEALTHY, PRODUCTIVE WORKFORCE

The American workforce is stressed out—and finances play a major role. Many workers say they're living paycheck-to-paycheck, and the routine is stressing them out so much that it's taking a toll on their health. Often, people bring their personal financial problems to work, resulting in absences, distractions, or other unproductive behaviors.

Financial stress costs companies about $5,000 per employee annually, the Federal Reserve reported in 2010. Although this statistic comes from the period immediately following the financial crisis and recession—and many Americans' personal balance sheets have strengthened since then—there's no doubt that workers' financial stress remains a significant drag on employers' bottom lines.

To address this problem, employers are increasingly taking a proactive approach through financial wellbeing programs. This year, 91 percent of employers say they will create or expand financial wellbeing strategies, according to a survey by consulting firm Alight Solutions. Meanwhile, just 7 percent say they've fully executed on a program, leaving plenty of room for growth.

Companies with solid financial wellbeing programs report high participation in 401(k) and Health Savings Account (HSA) programs. Nearly 90 percent of participants who have access to financial wellbeing programs contribute to their 401(k) plan; 40 percent have an HSA. Only 66 percent of employees who don't have a financial wellbeing program contribute to their 401(k); only 28 percent have an HSA, Alight Solutions statistics show.

WHERE HEALTH MEETS WEALTH: DEFINING FINANCIAL WELLBEING

Financial wellbeing is a relatively new concept with varying definitions. Essentially, financial wellbeing means having enough money to pay for today's expenses, while still being able to save enough for tomorrow. It has morphed from financial wellness to financial wellbeing, because the definition doesn't simply focus on money; instead, it integrates a holistic aspect of a person's life, including finance, health, social, and emotional wellness.

Financial wellbeing is a broad term that employers are trying to define for the particular needs of their employees. And with four generations in today's workforce, it isn't an easy task.

Each generation has unique issues related to financial health beyond just saving for retirement and paying for health care. Studies have shown that employees want a trusted source, like their employers, to help them address this diverse set of issues.

While baby boomers may require help understanding the nuances of catch-up contributions to their retirement plans or implementing estate planning strategies, millennials might be trying to pay down student loan and credit card debt. Sandwiched in the middle of these groups is Generation X, many of whom are wrestling with mortgages, saving for their children's college tuition, and taking care of their parents' health care needs. Generation Z is just getting started at work and may need a primer on the basics of personal finance.

Meanwhile, more companies are adopting consumer-driven, high-deductible health care plans. Those plans often incorporate HSAs where employees can deposit pre-tax dollars to use for health care needs. Currently, HSAs are mostly used as health care checking accounts; employers and employees aren't as familiar with their ability to help workers save, invest, and spend tax-free dollars for health care needs in retirement.

No matter where employees fall on the spectrum, there's a tremendous amount of information for them to process, and it's clear that the majority feel overwhelmed when it comes to sorting through all of it. Adding to the stress that employees face is the fact that they know they have issues to resolve, but they have trouble figuring out where to start. In addition, workers have reported that financial wellness or wellbeing programs currently available don't quite fit their needs.

BDO INSIGHT: DEVELOPING A PLAN TAILORED TO YOUR EMPLOYEES' NEEDS

One of the biggest challenges employers face is figuring out how to develop a financial wellbeing plan that is tailored to the needs of their employees. Given the range of financial needs—both across generations and within them—a one-size-fits-all financial wellbeing plan likely won't be sufficient.

Developing an effective financial wellbeing program starts with getting to know your workforce. Fortunately, recent advancements in data analytics have resulted in powerful tools that employers can use to gain valuable insights into the characteristics and behaviors of their workforces.

Specific data that can be helpful in determining the aspects of a financial wellbeing plan that would be most beneficial for your workforce include:

- 401(k) and HSA investment allocation
- Number of 401(k) loans and average loan amounts
- Number of 401(k) hardship loans
- HSA usage (if applicable)
- Contribution rates to 401(k) and HSA
- Age and gender
- Absentee rates
- Social media intranet usage/hits

Technology is also playing a significant role in the adoption of wellbeing best practices by employees. Mobile applications, sophisticated algorithms, and online programs that empower the user to make smart financial decisions are turning these people from sideline watchers into active players.

Determining where a wellbeing program fits into the company priority scale is another important consideration. Just like their employees, employers have budgets to follow, and making the most out of what is available from all resources is critical. Create preliminary, attainable objectives to focus on the needs of your population and help measure the success of a financial wellbeing program. Then, leverage the power of data analytics to tailor your program to your employees' needs.

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