Your AdvantEDGE

Fourth Quarter 2022

Inside This Issue

Secure 2.0 – It's Here!

The SECURE 2.0 Act of 2022 ("SECURE 2.0") was passed by Congress and signed into law by President Biden on December 29th, 2022. The law contains 92 retirement savings provisions, many of which are designed to expand retirement savings and coverage and simplify retirement plan rules. A number of these provisions will serve as the foundation for new plan formation among small businesses and may propel overall increased participation and savings rates.

This is one of the largest pieces of retirement plan legislation in some time. This legislation has been anticipated for nearly a year, with key features contained in previously proposed bills presented over the last several years. While some of these features are identical to what was previously proposed, others have been modified to some extent in the final version of the law.

[Read the highlights of retirement plan provisions of SECURE 2.0](#)

Inflation – Tackling the Trend

Dealing With Inflation's Negative Effect on Employee Retirement Planning

An August 2022 survey from Nationwide Retirement Institute found that 40% of workers age 45 and older plan to delay their retirement due to inflation and rising living costs. That figure is double the percentage of workers who said they delayed retirement last year due to the COVID-19 pandemic. While the current inflationary environment presents a host of retirement plan challenges for both employers and employees, tackling the trend with prudent and sensible solutions remains the best course of action.

Inherent Costs to Employers

The 2022 Nationwide In-Plan Lifetime Income Survey indicates that 36% of private-sector employers say workers' delayed retirements have affected their ability to hire new talent. In addition, 34% said delayed retirements have affected promoting young workers and 35% said they have made their health benefits plans more expensive.

Nationwide also found that employers are reporting effects to the well-being of their employees because of delayed retirements. Data show that among employers:

- 30% reported lower team morale
- 29% reported negative effects on employees' mental health
- 27% have noticed lower workforce productivity
- 22% reported negative effects on the physical health of employees.

The study also found that only 58% of workers have a positive outlook on their retirement plan and financial investments, compared with 72% in 2021.

Potential Solutions To Consider

The survey found that 66% of all employees cited inflation as a top retirement concern, versus 53% in 2021. General education campaigns, in partnership with your plan advisor and recordkeeper, should continue to be prioritized and promoted. Focused topics for consideration include defining inflation and current contributing issues and factors, historical contexts, managing inflation risk in your portfolio and sticking to your savings strategy over the long term. These topics could be supplemented with information on general financial wellness, such as budgeting and managing spending, paying down high-interest debt and building an emergency fund.

In addition, plan sponsors may want to consider ways to further support their older workforce and improve their confidence in meeting their income needs as they near retirement. The Nationwide report shows growing interest from workers in lifetime income investment options. According to the data, 53% of all employees age 45 and older are interested in guaranteed lifetime income investment options included as part of a target-date fund, compared with 42% in 2021; 48% reported they are interested in contributing to such investment options as part of a managed account; and 41% would likely roll over retirement savings into a guaranteed lifetime income investment option if they had the chance.

The 2022 Nationwide In-Plan Lifetime Income Survey can be viewed at: https://tinyurl.com/5hxxa3

Reaching Retirement Readiness

Study Reveals Plan Participants Are on a Positive Trajectory, Aided by Auto Features

Being able to replace working income with income generated from retirement savings is the essential definition of retirement readiness. The percentage of working income that an individual may need in retirement will vary, depending on a number of factors, such as whether or not they will still have a mortgage, the amount of their Social Security benefit, their tax bracket, variable healthcare costs, lifestyle choices and having income from part-time work, among others.

When projecting retirement income needs, a 70%-85% target replacement ratio is commonly cited. Recent research by Vanguard reveals that that goal may be well within reach for many plan participants. The 2022 Vanguard Participant Saving Rate Index suggests that 7 in 10 DC plan participants are currently saving at rates that would enable them to attain a 65% replacement rate in retirement. Furthermore, their data show that just a modest increase in participant elective deferral rates would enable most plan participants to attain a 75% replacement rate.

Assumptions Used

Vanguard's researchers analyzed approximately 1.9 million eligible employees and 1.5 million actively contributing participants in approximate 880 plans for which the firm serves as recordkeeper. Research modeling assumes that target saving rates are 9% where income is less than $50,000, 12% where income is between $50,000 and $100,000, and 15% where income is more than $100,000 (saving rates include both the employee elective contributions and any employer contributions). It also assumes a 75% target replacement ratio, 4% real return, 1% real wage growth, 40 years of saving (from age 27 to 67), and a 4% withdrawal rate at retirement.

The Impact of Automatic Features

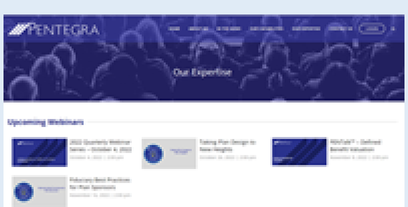
The researchers note that while some participants may not be saving at or above their target rate, many are close. Auto-enrollment coupled with auto-escalation will be instrumental in helping many of the participants get the rest of the way. Currently, 4 in 10 of the participants in the study are automatically enrolled and will see their saving rates rise by 1 - 3 percentage points over the next few years. At this rate, the study's modeling shows that 70% of participants would reach a 75% replacement rate in retirement.

Additional Observations

Across all eligible participants in plans with automatic enrollment, employees are much more likely to be saving effectively (45% compared with 26% in plans without automatic enrollment). As of year-end 2021, 58% of plans default at a rate of 4% or higher, compared with just 32% ten years ago. An automatic enrollment default of 6% or higher was a strong predictor of participants saving effectively, along with a generous employer match. Plan size did not affect the results of the study.

The 2022 Vanguard Participant Saving Rate Index can be viewed at: https://tinyurl.com/yahvzrwn

Missed our PENTalk last week on The SECURE 2.0 Act of 2022? Listen to the complete webinar here.



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https://www.pentegra.com/expertise/videos/

Look For Us At These Upcoming Events

January 23-24 TAIS Heads, CEOs and Trustees Conference The Peabody Memphis Memphis, TN	February 12-14 ABA Conference for Community Bankers JW Marriott Orlando Grande Lakes Orlando, FL
February 19-22 NBOA Annual Meeting JW Marriott Los Angeles L.A. Los Angeles, CA	March 19-20 SHIFT Hyatt Regency Hill Country San Antonio, TX

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