2022 Q1 CHP RETIREMENT TIMES

As flowers and trees begin to bloom, we bring you our spring season quarterly newsletter. In this edition, you will find information on helping employees make their money last as well as financial wellness statistics. For participants, we include a "key dates" that they need to keep in mind for 2022. We hope you enjoy the material and look forward to connecting soon.

INSIDE THE EDITION:

2022 NEW DEFFERAL LIMITS

	2022	2021	2020
401(k), 403(b), 457 Elective Deferral Limit (calendar year)	$20,500	$19,500	$19,500
401(k), 403(b) & 457 Catch-Up Contribution Limit (calendar, plan or limitation year)	$6,500	$6,500	$6,500
Annual Compensation Limit (Plan year BEGIN)	$305,000	$290,000	$285,000
Defined Contribution Limit (limitation year END)	$61,000	$58,000	$57,000
Defined Benefit Limit at ages 62-65 (limitation year END)	$245,000	$230,000	$230,000
Definition of Highly Compensated Employee (HCE) (plan year BEGIN)	$135,000	$130,000	$130,000
Key Employee Compensation Threshold (plan year END)			
5% Owner	All	All	All
Officer	$200,000	$185,000	$185,000
IRA Contribution Limit	$6,000	$6,000	$6,000
IRA Catch-Up Contributions	$1,000	$1,000	$1,000

Retirees' Retirement Asset Withdrawal Rate

Will Your Money Last?

For many years the investment advisory community has proposed that if retirees withdrew their retirement assets at the rate of 4% annually there is a high probability that assets would last to normal life expectancy.

The 4% "rule" is not a one-size-fits-all solution, and there are several variables to consider, but it could at least provide a starting point to be adjusted based on individual circumstance.

This starting point is based on actuarial tables and thousands of return based scenarios. The rule determined that a 65-year-old retiree withdrawing at the rate of 4% annually (inflation adjusted) had a high likelihood of not outliving their retirement assets based on current life expectancy, assuming no portfolio changes.

However, in previous generations retirees could live off bond portfolios that yielded 4% to 5%. Currently, 10-year bond yields are closer to 1.5%, producing potential negative returns after inflation. As we begin 2022, we see annual inflation is close to 7% annually for 2021. As a result, it becomes appropriate to review these basic assumptions.

Based on Morningstar's research, the projected starting safe withdrawal rate for the next 30 years is 2.7% for assets in a cash account. The highest safe withdrawal rate is 3.3% for portfolios with 40% to 60% in stocks. But even so, if you retire soon, this fixed withdrawal rate is not certain as there is much uncertainty about inflation and potential market volatility.

Any current projection should assume potential variability in income from year to year. One approach worthy of consideration and that can lead to a higher rate gives retirees an opportunity to increase the subsequent year's withdrawal when the portfolio has done better than projected and to reduce withdrawals when underperforming.

Certainly, this is a difficult time to project long range withdrawal rates and the current bond market is not as reliable as in the past, but the S&P 500 in 2021 did end up 26.9%, which virtually no one projected.

Bottom line…don't simply assume the "old law" of 4% withdrawal rates going forward. Assess your retirement income needs and adjust as appropriate going forward. Consider current portfolio alterations, acknowledge fixed vs. discretionary expenses, and be flexible but diligent in your retirement planning. You may want to seek professional advice if you are close to retirement. An error in planning, at this stage, can be more costly than this potentially transitory inflation and bond yield environment.

If you are not near retirement…. save more so you can withstand future unexpected financial events and have a wonderful retirement experience.

Survey Says:

Your Take on Financial Wellness Programs

A recent comprehensive TIAA survey of financial wellness plan participant perceptions may be helpful to plan sponsors who have, or are considering implementing, a wellness plan for their employees.

Employees' definition of financial wellness varies considerably: "having the means to take care of your family and others" (53%), "not worrying about money or debts" (51%), and "feeling protected financially from life's unexpected events" (51%), well ahead of retirement financial security (36%). Also, they rank the "ability to pay monthly bills without difficulty" (38%) and "having a reliable source of income" (38%) ahead of being on track with retirement savings (16%) when asked about their current priorities for securing financial wellness.

Interestingly, the TIAA survey found most people don't consider retirement planning as a component of their financial wellness. However, 57% of respondents are interested in learning more about retirement planning through an employer financial wellness program. Many employees feel that it is difficult to focus on their retirement when there are more immediate pressing needs. "The most impactful financial wellness programs help address both short-term and long-term goals since they are linked together." according to Snezana Zlatar, senior managing director and head of financial wellness advice and innovation at TIAA.

Employees who have participated in a wellness program appear to be much more confident about their progress on key markers of good retirement planning in areas of being able to retire when they want to (54% vs. 32%), afford the retirement lifestyle they want (54% vs. 29%), and live comfortably in retirement without running out of money (50% vs. 29%).

Some obstacles to employees who choose not to engage with a financial wellness program include:

Worried about hidden costs or fees – 27%; Don't want to disclose finances/issues to employer – 25%; Wouldn't be as effective as offerings you could find on own – 20%, Don't think offerings would make a difference – 17%.

These impediments can be mitigated through targeted, ongoing education about the benefits, confidentiality of financial information, explicit cost reporting and recognition of a diverse employee population.

Zlatar says, "Whether employees are interested in guaranteed income for life or help managing their federal student loans, we've seen that increased flexibility in benefits, more financial education and personalized advice ultimately lead to better outcomes and increased feelings of financial wellness,"

The TIAA "Financial Wellness Survey" was conducted online from October 22 to November 3, surveying 3,008 Americans ages 18 and older on a broad range of financial management issues and topics.

Are You Ready?

No one wants to be caught flat-footed when the auditors come calling. And with a new standard issued by the American Institute of Certified Public Accountants (AICPA), both the auditors and plan sponsors will be subject to new responsibilities.

The AICPA's Statement on Auditing Standards (SAS) No. 136, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, raises the bar on benefit plan audits. Issued in 2019, the standard was originally scheduled to go into effect in 2020 but was delayed due to the pandemic. It is now effective for audits of ERISA plan financial statements for periods ending on or after Dec. 15, 2021.

SAS 136 impacts all ERISA plan audit phases and makes significant changes to the content of audit reports in an effort to promote greater transparency. But in addition to the impact on accounting professionals who conduct the audit, the new standard introduces new requirements for plan sponsors. For example, when receiving a "limited scope audit" — a term the new standard replaces with "ERISA Section 103(a)(3)(C) audit" — auditors will no longer issue a disclaimer of opinion and will instead provide an audit report. But before the auditor can accept the audit, the plan sponsor must indicate in writing that he or she permits the engagement and that it will meet ERISA requirements.

Plan sponsors are also now required to acknowledge responsibility for administering the plan in the audit engagement letter. What's more, at the end of the audit, they need to acknowledge additional responsibilities such as maintaining a copy of the plan document, ensuring transactions conform to the plan's provisions, and maintaining sufficient participant records to determine benefits due to them.

Further changes in the standard come from new provisions regarding completion of Form 5500. Before the audit engagement, plan sponsors will need to provide the auditor with a substantially completed copy of the form, as well as its schedules. The auditor will then compare the form against the financial statements to determine if there are any material discrepancies and indicate whether either the form or the statements require any corrections.

Compliance with SAS 136 will result in a much more thorough audit, and a more revealing report on the organization's compliance with ERISA requirements. With that in mind, plan sponsors should note the potential for additional exposure to legal risk. According to ERISA expert Timothy Verrall in a recent PlanSponsor.com article, the audit report, which may disclose noncompliance issues, is attached to Form 5500 and then becomes publicly available.

"Anyone can look at it," Verrall says in the article. "One way lawsuits get started is people doing searches on Form 5500 data filings. This could potentially provide a new source of ammunition to plaintiffs' lawyers."

"That said, from a pragmatic perspective most issues reported in annual auditors reports are of a limited, and even individual, nature," says Joel Shapiro, SVP ERISA of NFP "and they are often immediately remedied, thereby leaving little real 'meat on the bone" for class action plaintiffs attorneys as the result."

With so much change being introduced, sponsors will want to ensure they're adequately prepared to meet the new requirements and thoroughly understand their responsibilities. That way, when the auditors come knocking, you won't be caught unawares. To see the full AICPA revision, download SAS 136 from the institute's website (PDF).

Participant Corner:

Key Dates as you Approach Retirement

At what age can retirement plan distributions begin? When can a person begin to receive Social Security? As you get closer to your retirement date you may start to wonder about your eligibility for certain withdrawals and programs you are entitled to. Refer to this timeline to remember important dates as you get closer to

62
Earliest age to start Social Security[2]

65
Entitled to Medicare coverage

66-67
Social Security full retirement age[2]

59½
May withdraw money from qualified plans/ IRAs without IRS penalty[1]

70
Latest age to start Social Security[2]

55
May withdraw retirement plan savings without penalty, if you leave your job or retire

72
Must start Required Minimum Distributions (RMDs)[3]

[1] If the retirement plan allows.
[2] Partial, full or late retirement age is based on the year you were born. See ssa.gov for details.
[3] If a participant in a qualified plan is still employed and not a greater than 5 percent owner, they are not required to start minimum distributions from that plan until they retire.
Distributions before the age of 59½ may be subject to an additional 10% early withdrawal penalty.
Distributions and withdrawals are subject to ordinary income taxes.

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Information and Articles Provided by the Retirement Plan Advisory Group, January, February, and March 2022 issues of the Retirement Times.