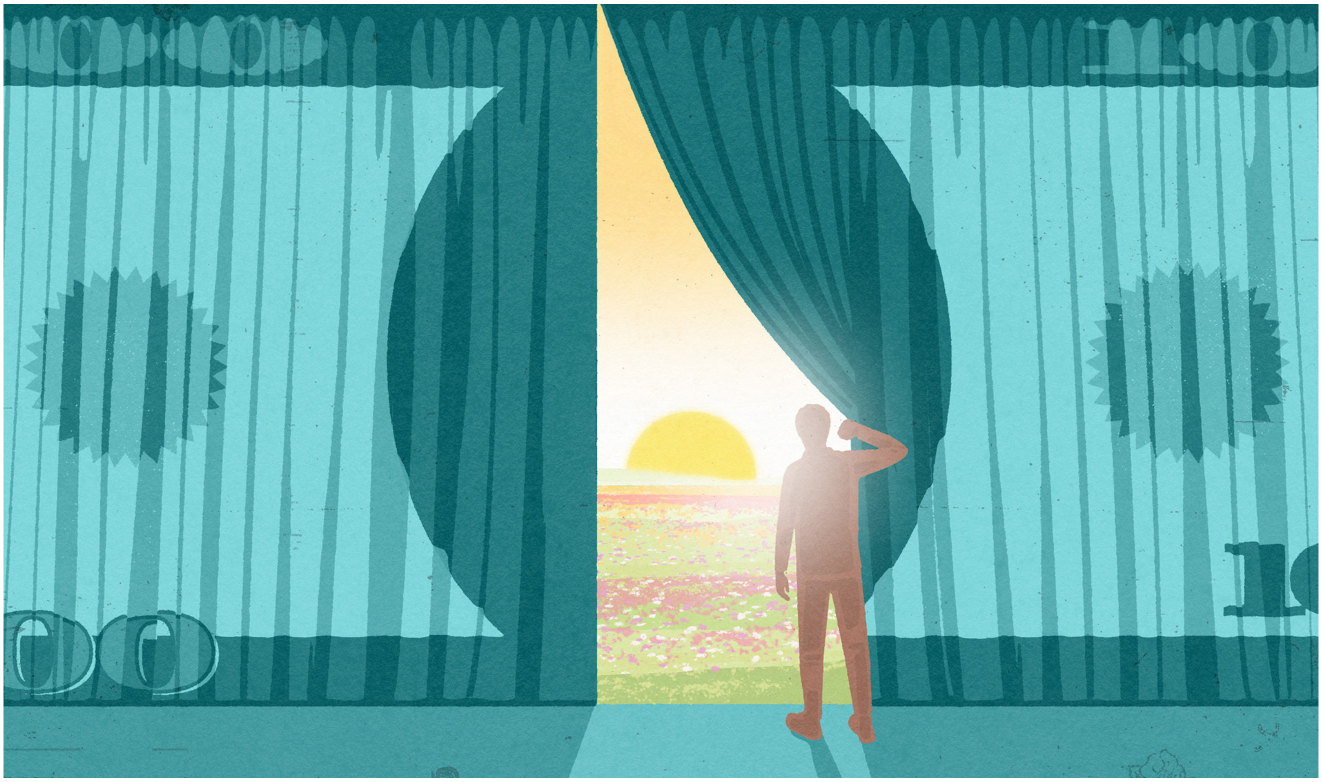

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Navigating the Future of 401(k) Plans and Income

HOW DESIGNING THE RIGHT PLAN BENEFITS COMPANIES AND THEIR EMPLOYEES

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Retirement Plans Today—and How They're Changing

Over the recent past, some things about workplace retirement plans have remained constant. Eager to recruit and retain top employees, employers and plan sponsors have continued to offer 401(k)s and 403(b)s as an incentive. They have encouraged workers up and down the salary scale to participate, often by agreeing to match a portion of the employees' contributions. Companies have also sought to educate their workforces about the very real benefits of setting aside as much as possible as early as possible to help ensure a secure and comfortable life after work.

Yet there has also been constant tinkering with those basic formulas. The advent of Roth account options has given employees another way to save that could provide a tax-free stream of retirement income. Target-date retirement funds have simplified plan menus and offered an increasingly popular investment choice that adjusts investment allocations over time. Automatic enrollment, which signs up employees who don't opt out, has been remarkably successful at increasing participation rates, which have reached record highs. In 2025, the SECURE 2.0 Act of 2022 will make that a mandatory feature for most plans.

Consider some of the latest trends for defined contribution plans.

▶ A diverse four-generation workforce

Millennials lag other age groups in participation in defined contribution retirement plans (just 54% contribute to a 401(k) plan), level of contributions (70% put in less than $5,000 a year) and proportion who contribute the allowable maximum (4%). Gen Z, meanwhile, has embraced saving for retirement but is constrained by paying off debt, meeting current living expenses and building emergency savings. Compared with other generations, more of those in Gen X (69%) feel they are behind on saving for retirement, and only 19% feel completely financially secure. Almost half of baby boomers expect to work past age 70, and although many have done a good job saving for retirement, they now need help turning savings into income.

▶ The impact of a tight job market

The monthly unemployment rate tallied by the U.S. Bureau of Labor Statistics reached a high of 4% in May 2024. The last time it was that high was January 2022. And in recent research, half of employees said they were open to changing jobs. In that environment, employers must constantly reevaluate their benefits, including retirement plans, to make sure they remain competitive.

▶ A growing focus on financial wellness

The financial stress of the pandemic, heightened by high inflation and volatile investment markets, has weighed on America's workers. According to one survey, inflation has been a particular worry, leading 25% of adults to decrease their retirement saving and 12% to stop saving altogether. To educate employees and help reduce their financial stress, employers and plan sponsors are providing an expanding range of financial wellness programs, with articles, podcasts, webinars, worksheets and even individual counseling on everything from basic financial literacy and budgeting to advice for buying a home and meeting retirement saving goals.

▶ Changing strategies to meet employees

Communicating crucial retirement plan information to employees took an abrupt turn during pandemic shutdowns. Having in-person meetings came to a full stop as employers pivoted to other platforms and channels—from emails and webinars to social media and texting apps. But companies are learning that one strategy does not fit all and are developing customized approaches that respond to generational preferences.

5 Ways the SECURE 2.0 Act Changes Retirement Plans

Signed into law at the end of 2022, this landmark legislation affecting retirement plan sponsors and retirement savers will be phased in over several years. But some changes have already taken effect. Of more than 90 provisions affecting retirement plans, these five are among the most significant.

1 Catch-up contributions

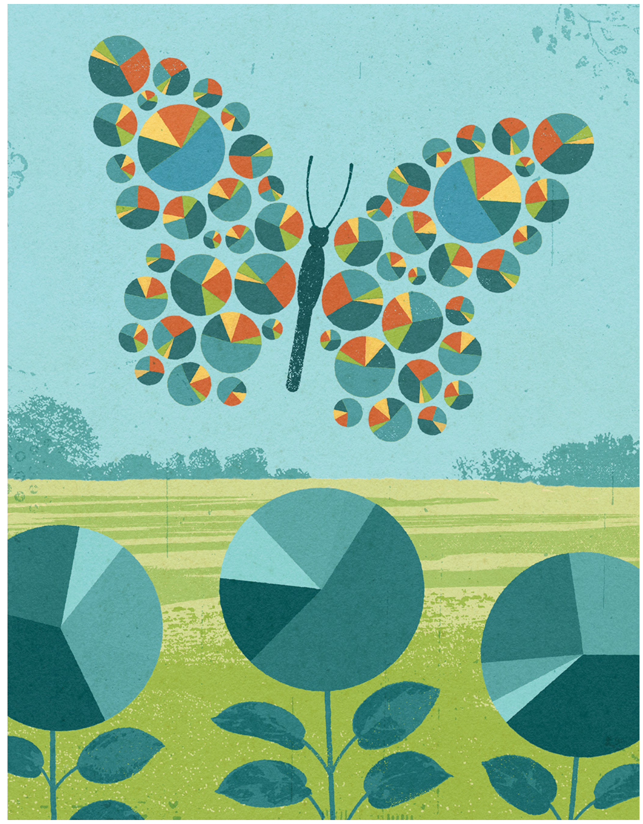
Beginning in 2025, the current $7,500 annual limit for additional 401(k) contributions for workers ages 50 and older will rise to $10,000 for those ages 60 through 63. Starting in 2026, workers who made more than $145,000 during the previous calendar year (salary level adjusted for inflation) will have to direct catch-up contributions into a Roth account using after-tax compensation.

2 Required minimum distributions (RMDs)

Two changes took effect in 2023: The age at which RMDs must begin rose to 73, and the penalty for failing to withdraw the required amount was reduced from 50% to 25% of the amount that should have been withdrawn. Workplace Roth accounts are no longer subject to RMDs and, in 2033, the beginning age for RMDs will rise to 75.

3 Employer match for student loan payments

Employers can now make contributions to employees' retirement accounts that match workers' payments on their student loans.

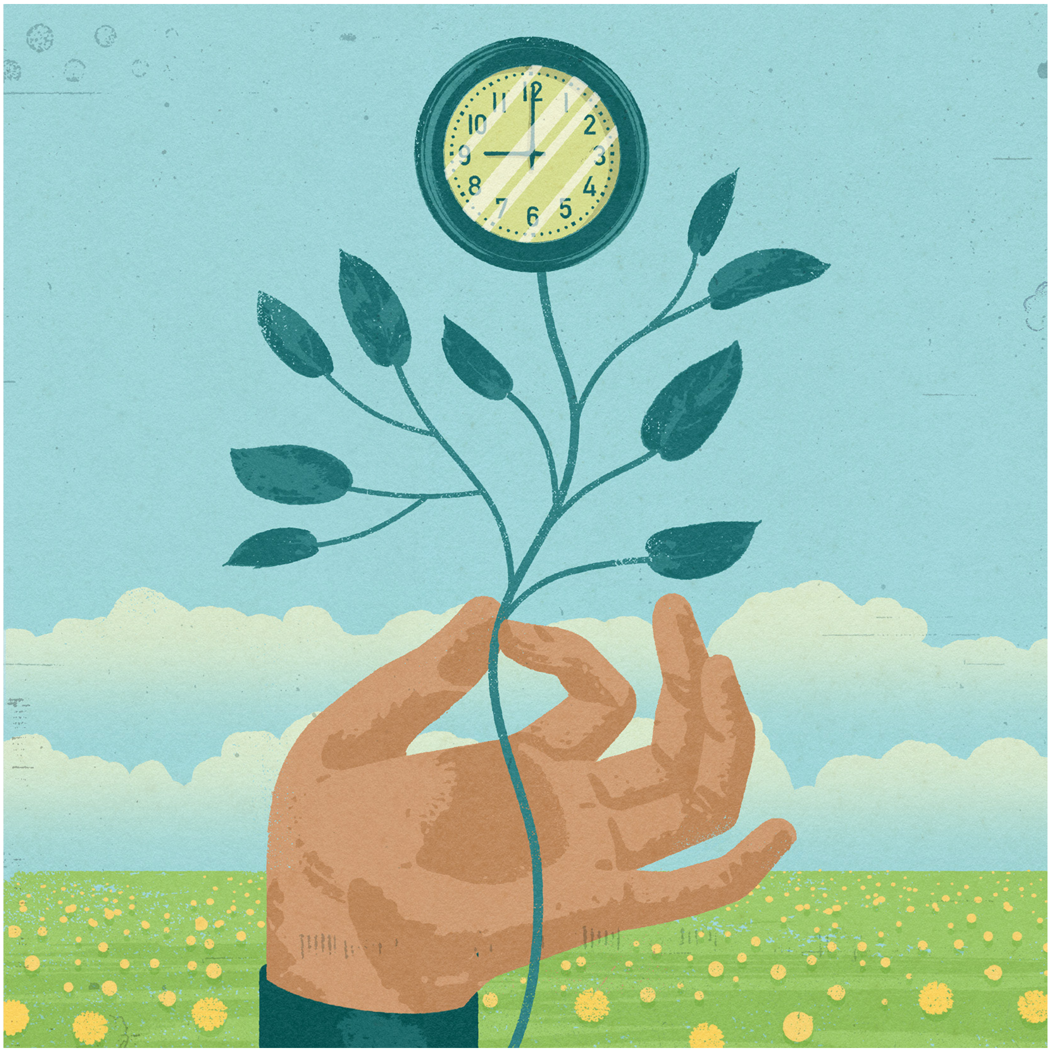


4 Part-time workers' eligibility

Since 2021, a new formula for part-time employees has enabled them to qualify to participate in employer retirement plans once they've worked at least 500 hours in three consecutive years. Effective in 2025, a provision of SECURE 2.0 reduces that requirement to two years. The law also amends the Employee Retirement Income Security Act of 1974, or ERISA, to include this new rule, making it legally enforceable.

5 Emergency savings accounts

Employers may now set up Roth accounts in their defined contribution retirement plans that enable non-highly compensated workers to set aside after-tax salary to cover emergency expenses. Four penalty-free annual withdrawals are permitted.



5 Trends in Retirement Plan Investments

Creating a flexible menu of prudent investment choices that meets the needs of employees is a key responsibility of each retirement plan sponsor. Several factors are changing what those menus look like.

1 Target-date funds have solidified their position

They are the choice of most employees contributing to workplace retirement plans. At the end of 2022, according to the Investment Company Institute, the more than 60 million active participants in defined contribution plans, with $6.6 trillion in assets, had allocated 59% of those assets to target-date funds. Moreover, in plans that offer these funds, more than 80% of plan participants choose them, often investing their entire account balance in the funds.

2 Target-date funds have solidified

These funds have been designed to adopt more conservative investment allocations as an employee moves closer to a projected retirement date. They shift from having upward of 80% in U.S. and international stocks for the youngest investors, for example, to a more balanced allocation of stocks and bonds at retirement. But because many workers choose to keep their savings in a former employer's 401(k) or 403(b) even after they've left the workforce, many target-date funds are now designed not for getting investors to retirement but rather through it. The funds may continue to adjust allocations during the first several years of retirement, then hold steady to provide investment income while seeking to preserve participants' original investment.

3 Menus offer fewer options

The overwhelming popularity of target-date funds as a one-stop investment solution has led to a reduction in other kinds of plan investments, as plan sponsors seek to provide sufficient choice for plan participants without overwhelming them. Typically, target-date funds form the core of plan investment menus, which also include a selection of passive and active strategies in individual asset classes for investors who prefer to build their own portfolios.

4 Some plans offer managed accounts

Through these accounts, participants can opt to have an investment advisor select investments customized to their personal financial circumstances and goals. Investors usually pay an additional investment management fee that is based on a percentage of the assets invested.

5 Options for retirement income

Developing options for retirement income has become a priority for many plan sponsors responding to the needs of older employees. Actually delivering those income-oriented solutions is a work in progress, but some annuity-type products are now being offered. Plans are also making sure employees have access to tools and advice that can help them shape their own retirement income solutions.

WHICH KIND OF FIDUCIARY DO YOU NEED?

Amid the raft of changes brought by the SECURE 2.0 Act, as well as heightened regulatory scrutiny and a proliferation of legal challenges against retirement plans and plan sponsors, meeting your obligations as a fiduciary under the Employee Retirement Income Security Act of 1974, or ERISA, has never been more complicated, or more crucial. Although you maintain ultimate responsibility for running the plan solely in the interests of participants and beneficiaries, you're likely to work with an outside firm serving in one of these capacities.

3(21) FIDUCIARY

These fiduciaries share investment decision-making with the plan sponsor. As a financial advisor to the plan, they may recommend investments that align with criteria the plan sponsor has established in an investment policy statement and could suggest adjustments to the investment menu. But the plan sponsor must consent to any changes.

3(38) FIDUCIARY

These advisors take responsibility for selecting, monitoring and maintaining an investment lineup for the plan sponsor. This kind of advisor, sometimes known as an outsourced chief investment officer, or OCIO, will communicate with the plan sponsor about investment selections but has discretionary responsibility to handle all investment decisions. A 3(38) fiduciary must act in the best interest of the plan and its participants and determine that investment options are appropriate and well diversified. Working with a 3(38) fiduciary delegates responsibility for selecting plan investments, thus reducing a plan sponsor's fiduciary obligations.

How Discussions with Regions Can Help

The Regions Institutional Retirement Services team works with plan sponsors to create and maintain defined contribution retirement plans that meet employers' and employees' needs, adapt to shifting regulatory requirements and help give companies a competitive edge in recruiting and retaining key employees. Ongoing discussions with the Regions team can provide help in several important areas.

- **Create a lineup**
  Serving as either a 3(38) or a 3(21) fiduciary, Regions works with your company to create a lineup of prudent investment choices, starting with an investment policy statement that explains the criteria for choosing those investments and making changes in the menu over time.

- **Ongoing overviews**
  In committee meetings, the investment team provides an overview of the investment lineup and reports on how employees are using the plan. How many are choosing target-date funds? Have there been recent changes—for example, with workers increasing their cash holdings in response to market volatility or other concerns?

- **Benchmarking**
  The Regions team provides benchmarking tools that help companies compare their benefit offerings to those of their competitors.

- **A robust menu**
  Companies working with Regions can also give their employees access to a robust menu of financial education and wellness resources, through the Regions Next Step program. There are articles with tips and advice, self-paced interactive video courses, planning worksheets and templates and podcasts on key financial wellness topics. Next Step on-site seminars and online webinars cover a wide range of essential financial subjects—from banking basics for students and building financial know-how to protecting yourself from identity theft and developing a business plan.

At Regions, we sit on the same side of the table with our clients, helping you evaluate your current retirement program and finding solutions that fit your organization's size, demographics and goals.

If you would like to know more about how we could help your organization, visit **regions.com/wealth-management/retirement-plan-services.** ▲