Employee Benefits Report

HB resources Insurance Services
Solutions on Demand

101 Gregory Lane,Suite 32
Pleasant Hill, CA 94523

Phone: 925-671-0248
Fax: 925 671-0236
Email: Denise@hbrinsurance.com
Web: www.hbrinsurance.com

Retirement Plans March 2023 Volume 21 • Number 3

New DOL Rule Would Have Retirement Plans Consider Environmental and Social Factors

On November 22, 2022, the U.S. Department of Labor (DOL) introduced new regulations that allow retirement plans to factor in environmental, social, and governance (ESG) considerations when choosing investments and exercising shareholder rights. This update to legislation previously established in 2020 gives 401(k) participants access to climate-friendly funds and other ESG-focused options.

The Department has further specified that fiduciaries should allow participants to invest in projects considering climate change risks. However, they should also weigh the possible risk against expected returns. The revised policy

continued on next page

Companies Are Helping Their Employees Buy Homes

The cost of housing has become increasingly difficult for many people to afford. Over 40% of renters in the U.S. spend more than 30% of their income on housing while skyrocketing home values are outstripping wage growth in most U.S. markets.

To help address this issue, large employers such as Amazon, Walmart, and even the federal government are providing financial assistance to employees through employer-assisted housing programs (EAHPs). These programs offer grants, loans, down payments, security deposits, homeownership education, and counseling.

continued on next page

will become effective within 60 days of being published in the Federal Register, with specific proxy voting provisions set to take effect one year later.

Eliminating ESG-Related Restrictions

Previously, the rules didn't permit ESG investments to be used as QDIAs. A QDIA or Qualified Default Investment Alternative is the default option for employees who have not actively chosen their investments. The new regulations eliminate this restriction, giving retirement plan administrators greater flexibility when selecting investments for their QDIAs.

The 2020 rule also attempted to stop plan administrators from casting proxy votes that, according to the previous administration, were socially or politically influenced and didn't consider financial performance.

With the new rule, the Department of Labor has clarified that fiduciaries must exercise their voting rights when it is necessary to protect the financial interests of plan participants.

Considerations and New Provisions

ERISA (the Employee Retirement Income Security Act) and the law governing retirement plans require that fiduciaries act in the best interests of plan participants. According to the administration, the new rules abide by those principles, ensuring that ESG investments are consistent with the respective retirement plan's risk-return objectives.

Furthermore, the new policy includes text that clarifies that an administrator's duty of prudence must be based on relevant factors, including how climate change and other ESG issues could economically impact certain investments. Duty of prudence refers to the responsibility of a fiduciary to make decisions that are in the best interests of retirement plan participants.

The rule also includes a new provision stating the duty of prudence still applies when fiduciaries consider participant choices in developing fund portfolios for their defined contribution plans. This means that 'imprudent' investments cannot be included in the portfolio even if the participants want them, and plan sponsors could face liability should they add ESG funds that don't benefit the participants.

There are still open questions on how the rule's consideration of what participants prefer will be applied, such as when there are competing preferences or how important courts will consider the fact that a fiduciary considered participant choices if their investment decisions are considered to be imprudent.

While the DOL has eliminated significant barriers to ESG-focused investments, many plan sponsors aren't embracing them due to their duty of prudence.

Climate Risks vs. National Security

Fossil fuel investments continue to be a concern, with detractors pointing out that retirement plans focused on these assets are not in line with corporate climate goals.

Others have argued against discouraging investment in oil and gas companies, stat-

Some of the benefits employers see from providing house-buying benefits include:

- **Attracting and retaining a more diverse pool of employees.**
- **Increased worker productivity.**
- **Improved job access due to shorter commutes.**
- **Access to new business locations as housing prices impact where companies decide to locate their businesses.**

As housing costs continue to rise and the economic pressures increase employer-assisted housing programs can be a great resource for helping employees achieve financial stability and access to homeownership, in turn providing employers with a more stable and effective work force.

At this time, however, relatively few private companies offer EAHPs. Private sector employers are more likely to provide home-buying benefits as a temporary solution for employees who have experienced disasters such as hurricanes.

According to experts, there is a good chance that an increasing number of private companies will begin offering EAHPs soon. Easing the burden of homeownership for employees through EAHPs could be a win-win situation for employers and workers alike.

continued on next page

ing that cutting them off would be irresponsible from a national security perspective. They point out that the U.S. energy infrastructure relies heavily on oil and gas resources and that a sudden push away from these investments could lead to a shortage of energy, forcing the country to rely on imports from "foreign dictators and oligarchs" for its energy needs.

Republicans proposed a new law called the Safeguarding Investment Options for Retirement Act that would limit what non-financial aspects fiduciaries could consider when deciding on investments for defined contribution plans.

ESG Funds: Performance Concerns

Despite growing interest in ESG investment, some are not entirely convinced of its economic benefits. Critics point out that ESG funds have lagged behind other investments in performance, because they focus primarily on non-financial issues such as climate change and social responsibility, and they typically have higher fees.

For example, a study conducted by the Center for Retirement Research (CRR) at Boston College in 2021 found that pension funds incorporating ESG investments did not generate the same returns as those without them. Additionally, these funds tend to come with more expensive fees and poorer performance than comparable index funds.

How Employers Can Maintain Worker Well-Being with Leaner Budgets

As businesses across the country struggle to adjust their budgets during an uncertain economic climate, ensuring employee well-being has become increasingly difficult.

A study from JP Morgan Chase reported that two-thirds of small to mid-size business owners expect a recession in 2023 and beyond, leading to budget cuts and layoffs. Another study by Aflac revealed that 59% of American employees feel at least moderately burned out due to work and life stressors.

So, how can employers keep their budgets lean but still care for employee well-being? Here are five strategies to consider:

Streamlining HR with Technology

By leveraging technology in Human Resources, employers can streamline their processes and free up resources to focus on employee well-being. For example, automating repetitive tasks such as data entry and benefits administration allows HR professionals more time for initiatives that promote employee well-being, such as wellness programs, team-building activities, and personalized meetings.

Additionally, with HR management software, businesses can gain valuable insights into employee welfare by tracking metrics such as engagement and satisfaction levels and absence and turnover rates. This data can be used to make informed decisions when it comes to supporting the workforce.

continued on next page

Investing in Employee Education and Professional Development

With the growing cost of education, employees are looking for more affordable ways to further their professional growth. Investing in education and professional development is a win-win for businesses and employees.

Employers can offer various options, from corporate training to tuition reimbursements, as well as conferences, networking events, and mentorship programs to facilitate learning and growth within the organization. These initiatives not only allow workers to stay up-to-date on trends and best practices but also increase job satisfaction, engagement, and loyalty while reducing turnover rates.

Implementing More Flexible Work Options

Many employers are turning to flexible work arrangements like remote and hybrid work to benefit both their employees and their organizations. Studies have shown that flexible work arrangements offer many benefits, including improved job satisfaction, a better work-life balance, increased productivity, reduced absences, and lower turnover rates.

However, employers need to consider the most effective approach for their organization before implementing flexible work arrangements. This may involve developing clear policies and guidelines for remote workers, providing them with necessary technology and resources, and fostering ongoing communication and collaboration amongst team members.

Providing Access to Financial Wellness Programs

Many employees experience financial stress, which can detrimentally impact their well-being and job performance. Employers can introduce financial wellness programs to help employees manage their money and alleviate stress.

These resources provide budgeting guidance, access to advisors, and other tools that enable employees to understand their finances and plan for the future. For employers, financial wellness programs can reduce absenteeism and improve employee satisfaction and engagement.

Encouraging a Culture of Open Communication and Support

Finally, creating a culture of open communication and support in the workplace ensures employees have what they need to feel supported and valued at work.

It's also essential to ensure that all workers know what resources are available to them, such as counseling services and mental health professionals. Additionally, managers should be trained to recognize and address signs of stress, burnout, and other mental health issues in the workplace.

By fostering an environment of open communication and providing resources for employees' well-being, employers can encourage a healthy work-life balance and reduce turnover rates. ■

Do Rewards Programs Really Help Employee Retention?

Many companies have implemented rewards programs to retain employees and keep them engaged, motivated, and committed. The idea is that employees will be more satisfied with their job if they are rewarded for their hard work and dedication.

Since more than 60 percent of employees in the United States cited money, pride in doing a good job, and how their employers treat them as top engagement drivers, rewards programs seem to make sense. However, a sizable proportion from each generation – Baby Boomers (40 percent), Generation X (27 percent), Millennials (40 percent), and Generation Z (44 percent) – reported that they were planning to leave their current job within six months.

So, where is the disconnect? Are rewards programs truly a meaningful way to help retain employees, or is there something else at play?

Disconnect Between Employees and Employers

Recognition and rewards can build loyalty, but employees have to feel as if they are genuinely being rewarded. Not as if the effort is just an afterthought. For many companies, it seems that's what's happening.

According to global research by Gallup and Workhuman, 81 percent of leaders do not make recognition a strategic priority, 73 percent do not offer training in employee recognition, and nearly 66 percent lack a budget explicitly earmarked for recognition.

continued on next page

Automation and Personalization

To be effective, rewards programs have to be personalized, regardless of the level of automation involved. Automated and homegrown solutions can both work, but they aren't enough on their own.

Outsourced SAAS (software-as-a-service) solutions make managing a program at scale easier. However, the tradeoff is that less money is available for rewarding employees. Furthermore, only those employees who actively use the tool are rewarded.

These limitations can be resolved by instituting an internally managed program that ensures more of the budget is allocated to rewarding employees. And more oversight in the form of a committee can ensure that rewards are given out fairly.

So, while automation can streamline rewards programs, organizations must ensure they remain personalized and meaningful. Gallup findings indicate that the most successful recognition is commensurate with employees' expectations and needs (23 percent strongly agree), authentic (one-third strongly agree), equitable (one-quarter strongly agree), embedded in the culture (19 percent strongly agree), and personalized (10 percent strongly agree).

An automated tool might not be able to deliver the personalization and authenticity employees want, but that doesn't mean a homegrown solution is necessarily better. The key is to balance the needs of the organization's employees and those of the company.

Taking a More Human Approach

Some personalization is essential to an effective rewards program. Removing the emotion and personal touch from the rewards process can result in transactional and often ineffective programs. They might seem like a fun game, but they don't compare to the feeling of receiving genuine appreciation for a job well done.

An SAAS solution makes program management more effortless, while the other adds a personal touch. However, both require effective administration, an engaging organizational environment, and an understanding of what employees value.

Companies must understand their employees' wants, needs, desires, and dislikes to develop an effective reward program. Ultimately, the solution they opt for will depend on the resources available, the size of their organization, and the employee base.

For example, a SAAS-powered option might be the best option for a large organization with a distributed workforce. On the other hand, a smaller company with a tight-knit team may be able to make a more personal one-on-one approach work.

The point is that rewards programs can drive employee loyalty, but they won't be effective if they are too automated and lack personalization. Organizations must find the right balance between automation and personalization.

Reward programs are only one element of an overall approach to employee engagement and loyalty. For example, if employees are constantly overworked, aren't provided with well-being support, or feel disconnected from their job and colleagues, no amount of rewards and recognition will make a difference.

more on next page

Proposed Changes to the VFCP Would Make Self-Correction Easier

The U.S. Department of Labor's Employee Benefits Security Administration recently proposed an update to its Voluntary Fiduciary Correction Program that would allow employers and retirement plan officials to report self-correction of late deposits electronically. The proposed changes to the VFCP would make it easier and more cost-effective for plan officials to correct violations and for the department to improve compliance.

The self-correction component of the updated VFCP would cover a variety of late deposit situations, including late contributions or participant loan repayments sent to a retirement plan. Late deposits are currently the most common failure corrected through the VFCP. These proposed changes would enable employers to self-identify and correct failures without needing to submit an application for review and approval by the DOL.

Groups like the American Retirement Association have applauded the proposed changes to the VFCP. The ARA has long advocated for a self-correction component of the program as this would enable employers to correct violations more quickly and efficiently. It is hoped that these proposed changes will be approved, making self-correction easier and more cost-effective for employers.

Proposed Changes

The proposal includes more comprehensive guidance on the types of transactions that could be eligible for correction and a simplified administrative process. It would also amend Prohibited Transaction Exemption (PTE) 2002-51, which exempts certain VFCP transactions from Internal Revenue Code sanctions.

Compliance with the self-correction program would protect employers from civil monetary penalties and enforcement actions, though the DOL reserves the right to investigate if it believes the self-correction was not done properly.

Eligibility Criteria

For the self-correction component of the Voluntary Fiduciary Correction Program, self-correctors must meet all of the following criteria:

- Not being under investigation as defined in the VFCP.
- Remitting contributions or loan repayments within 180 days from the withholding or receipt date.
- Lost earnings not exceeding $1,000.
- Using the online calculator to determine lost earnings and the web tool to file the notice with the DOL.
- Completing and retaining a self-correction retention record checklist.
- Filing an electronic notice with the DOL.

Employers can still make corrections if a late deposit is not eligible, but it would have to be done through the traditional VFCP process.