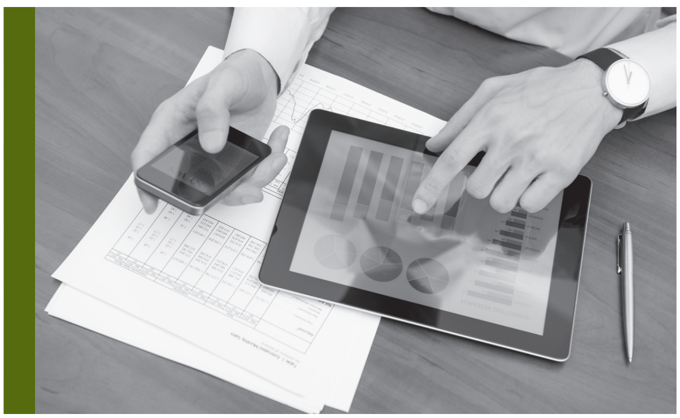
Plan Sponsor
OUTLOOK
2nd QUARTER 2013
A CURRENT ISSUES RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS

Sponsors' Fund Choices Affect Performance

Research conducted by the Center for Retirement Research (CRR) at Boston College found that when plan sponsors and administrators change a 401(k) plan's investment menu, they "chase returns" and do not improve investment performance.

Plan sponsors in CRR's sample added 215 mutual funds and removed 45 funds during the period studied. Many of the added funds were from investment categories not represented in the plan's menu at the time they were added. Performance of the added and dropped funds was analyzed for three years before the change was made and three years after the change.



Performance was not improved

Newly added funds performed better than randomly chosen funds in the three years before they were added. But, this "performance bonus" disappeared after the fund changes were made: the added funds did worse, and the removed funds did better. This suggested to the researchers than sponsors were chasing returns, but their efforts had essentially no effect on overall performance.

Participants also chased returns

The study found that 401(k) plan participants also appeared to chase returns. They transferred assets to better-performing funds as opposed to rebalancing to return to their original asset allocations. The performance of their investments was no better than if they allocated assets evenly among funds.

Read details of this study at http://tinyurl.com/CRRSponsorChoices. ■

Retirement Readiness is Top Priority

Employers are focusing on their employees' financial wellness and retirement readiness in 2013, according to a survey of 425 employers (representing 11 million employees) conducted by Aon Hewitt.

Workers need 11 times their final pay to have a financially secure retirement, but the average worker has a savings shortfall of 2.2 times pay, reports Aon Hewitt. About 80% of surveyed employers plan to address this gap by making financial wellness a top priority this year. And 86% of sponsors said they would focus communications initiatives on helping employees evaluate and understand their retirement savings needs.

Also, plan design changes are in place or being considered to help employees manage their money when they retire. In-plan retirement income solutions are offered by 28% of sponsors, up from 16% a year earlier. These solutions include managed accounts with a drawdown feature, managed payout funds and annuities. Nearly one-third (30%) of employers who currently do not offer such solutions plan to do so this year.

Other key findings include:

- 52% of employers will use podcasts and 42% will use text messages to educate employees about their retirement benefits this year.
- The percentage of sponsors who plan to use social media to communicate with employees rose from 6% last year to 18% this year.

Survey results are at http://tinyurl.com/AonHewittReadiness. ■

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Pension Plan Limitations for 2013

401(k) Maximum Elective Deferral (*$23,000 for those age 50 or over, if plan permits)	$17,500*
Defined Contribution Maximum Annual Addition	$51,000
Highly Compensated Employee Threshold	$115,000
Annual Compensation Limit	$255,000

Plan Sponsor Quiz: Roth 401(k) Rules

According to the Plan Sponsor Council of America's *55th Annual Survey of Profit Sharing and 401(k) Plans*, nearly 50% of plans permit participants to make Roth after-tax contributions to their 401(k) plans, and 17% of participants made Roth contributions when given the opportunity.

Whether your 401(k) plan currently offers this feature or its addition to the plan is just being considered, why not take the following quiz to test your knowledge of this provision that continues to grow in popularity?

Test Yourself

Note whether you think each of the following statements is true or false, then check your answers on page 4.

a. The income limits that apply to Roth IRAs also apply to Roth 401(k) plans.

b. Roth contributions are generally not taxed when distributed.

c. A 10% tax penalty applies to Roth contributions and earnings if they are distributed prior to age 59 ½.

d. Participants may make both traditional 401(k) and Roth 401(k) contributions, but the combined contributions cannot exceed the Internal Revenue Service's annual maximum deferral limit.

e. The ADP nondiscrimination test that applies to traditional 401(k) plans is also required in Roth 401(k) plans.

f. It is not necessary for a plan to have a designated Roth option available in order for it to allow an in-plan rollover.

g. Roth accounts must allow for designated Roth deferrals and rollover contributions.

h. An in-plan rollover can include only amounts that are eligible to be distributed to the participant.

i. Only investment earnings on rolled-over 401(k) contributions within a plan are taxable.

Now turn to page 4 to compare your answers.

TARGET DATE FUNDS IN THE NEWS

DOL Issues Tips

The Department of Labor (DOL) recently issued general guidance to help plan fiduciaries to select and monitor target date funds offered in 401(k) and similar participant-directed individual account plans.

The bulletin, *Tips for ERISA Plan Fiduciaries*, offers a summary of the nature and purposes of a target date fund. It also includes points to remember when choosing and periodically reviewing these funds, and provides tips on understanding the fund's investments and how they will change over time.

The DOL's tips are at http://tinyurl.com/DOLTipsAboutTDFs.

Usage Continues to Grow

At year-end 2012, 84% of plans for which Vanguard provides recordkeeping offered a target date fund (TDF), half of all participants had invested in these funds, and nearly one-third of total plan contributions went to TDFs. These are some of the results of Vanguard's review of 3.2 million participants in 2,000 defined contribution plans.

In 2012, about 27% of participants were invested in a single TDF. Of new plan entrants, 65% held just one.

Only 13% of plans offered TDFs in 2004; by 2012, that had risen to 84%.

Total plan assets in TDFs were 17% at the end of last year (compared to 1% in 2005), and 31% of contributions went to TDFs (versus 2% in 2005).

Vanguard researchers concluded that three factors support the growing popularity of TDFs among plans and participants:

- They offer a simplified approach to investment decision-making and the process of assembling a portfolio.
- Automatic enrollment continues to grow.
- TDFs are frequently designated as a qualified default investment alternative (QDIA).

Vanguard's Research Note, *Target Date Fund Adoption in 2012*, is at http://tinyurl.com/TargetDateFunds2012.

Plan Sponsors Ask...

Q: We mistakenly did not process a deferral election that a participant submitted several months ago. How can we correct our error?

A: The employer must make a corrective contribution to the participant's account to resolve this mistake.

To correct for the "missed deferral opportunity," a qualified nonelective contribution (QNEC) is made. The missed deferral opportunity is 50% of the deferral that was not made, based on the participant's compensation for the period in which the elective deferrals were not made, plus earnings.

The formula is __% (deferral percentage chosen by the participant) times $_____ (the participant's compensation during the missed period). That missed deferral amount is multiplied by 50%. The result is the missed deferral opportunity.

This approach also applies to Roth deferral elections.

If there was a company match in effect, the match formula is applied to the missed deferral. The employer then makes a QNEC, plus earnings, to the participant's account.

For more information, see http://tinyurl.com/IRSDeferralError.

Q: Is there recent research available regarding the projected retirement readiness of people in Generation X?

A: Yes. The Employee Benefit Research Institute (EBRI) recently took a closer look at its Retirement Readiness Ratings for Generation X (those born between 1965-1978, ages 35-48). Earlier analysis indicated that about 44% of Generation X households would be at risk of having insufficient income and assets to meet retirement expenses.

In this new research, almost 20% of Generation X people were predicted to have less than 80% of what was deemed adequate income for retirement. Another 31% were found to have between 80% and 120% of adequate income, and the remaining 49% were predicted to have more than 120% of sufficient income.

The overall conclusion confirmed that almost 44% of those in Generation X are at risk of being unable to cover retirement expenses and unreimbursed medical expenses throughout their retirement years.

EBRI's research is at http://tinyurl.com/EBRIRetReadiness.

Q: An internal audit revealed that participants' salary deferrals weren't deposited in the plan on a timely basis. How should that situation be fixed?

A: Failure to deposit deferrals in the plan trust as soon as they can be segregated from the sponsor's general assets can be a fiduciary violation resulting in Department of Labor (DOL) penalties and loss of qualified status for tax purposes.

There are two correction programs available for this error: the DOL's Voluntary Fiduciary Correction Program (VFCP) and the Internal Revenue Service's Employee Plans Compliance Resolution System (EPCRS). The VFCP's goal is to avoid civil penalties, while the goal of the EPCRS is to preserve the tax benefits resulting from qualified status.

To correct for late deposits, the sponsor must contribute the earnings those late deposits missed. The earnings are what the delayed deposits would have accumulated had they been made timely, measured from the earliest date the sponsor could have segregated them from its general assets to the date the deferrals were deposited in the plan trust.

Note that the two correction programs have different earnings calculations.

To get more information on this topic, go to http://tinyurl.com/IRSLateDeposit. ■

Do you need to select an auditor for your plan? If so, the Department of Labor has a helpful "Selecting an Auditor" section on its website. It describes what to consider in choosing an auditor, what you should know about the audit and how to review the audit report. This guidance is available at http://tinyurl.com/DOLSelectingPlanAuditor.

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

Department of Labor,
Employee Benefits Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

Plan Sponsor Magazine
www.plansponsor.com

BenefitsLink
www.benefitslink.com

Plan Sponsor Council of America
www.psca.org

Employee Benefits Institute of America, Inc.
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

Answers to Roth 401(k) Rules Quiz on page 2

a. False. Roth 401(k)s do not limit participation by income.

b. True, if the distribution is "qualified" (on or after the participant reaches age 59½, on or after the participant's death, or if the participant becomes disabled, and the participant's first Roth contribution was made five or more years earlier).

c. False. The 10% tax penalty applies only if the distribution is not "qualified." It is calculated only on the earnings.

d. True.

e. True. Roth contributions are considered elective deferrals for the ADP test, but are generally not subject to the ACP test.

f. False. There must be a Roth account provision in place before an in-plan rollover can be offered.

g. True.

h. False. The American Taxpayer Relief Act of 2012, effective January 1, 2013, removed the requirement that rollovers within the plan can consist solely of amounts that are eligible for distribution to the participant.

i. False. Because pre-tax dollars are being rolled into an after-tax Roth account in an in-plan rollover, the entire taxable amount, not just earnings, is included in the participant's gross income.

PLAN SPONSOR'S QUARTERLY CALENDAR

JULY

- Conduct a review of second quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between April 1 and June 30 received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan's Form 5500 is submitted by July 31, unless an extension of time to file applies. (Calendar year plans)

AUGUST

- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30, unless a Form 5500 extension of time to file applies. (Calendar year plans)
- Submit employee census and payroll data to the plan's recordkeeper for mid-year compliance testing. (Calendar year plans)
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

SEPTEMBER

- Send a reminder memo or e-mail to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans.
- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2. (Calendar year plans)
- Distribute the plan's Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies. (Calendar year plans)

Consult your plan's financial, legal, or tax advisor regarding these and other items that may apply to your plan.

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