Plan Sponsor
OUTLOOK

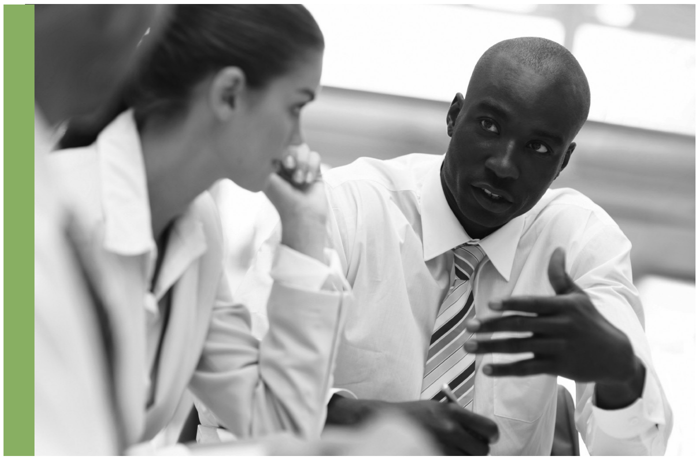
A Current Issues Resource for Plan Sponsors and Administrators

2nd Quarter 2011

Employers Focus on Employees' Retirement Readiness

Plan sponsors identified employees' retirement preparedness as one of their top priorities in 2010, according to Deloitte Consulting's *Annual 401(k) Benchmarking Survey for 2010*. Nearly two-thirds of the 650 employers responding said that they have a responsibility to take interest in whether employees are headed toward a comfortable retirement.

Only 15 percent of sponsors said most employees will be sufficiently prepared for retirement.



Participants were cautious

Adding to sponsors' concerns were recent participant activities. The most common actions taken by participants in the previous 12 months were:

- Decreased deferral rates (seen in 41 percent of plans)
- Increased loan activity (41 percent)
- Increased withdrawals (49 percent)
- Rebalancing to less aggressive portfolios (21 percent)

Eligibility requirements were limited

To make it easier for employees to participate in the company's retirement plan, 56 percent of responding sponsors had no service requirement for enrolling in the plan, and 42 percent had no minimum age requirement. (For another view of eligibility, see "*Eligibility Requirements Trend Continues*" on the next page.)

Almost 50 percent said their plans included automatic enrollment, and 47 percent noted a higher average contribution rate as a result.

Automatic contribution escalation was a feature in 44 percent of plans, but less than 10 percent of participants were using it.

Contribution rates were fairly steady

Deferral rates for highly compensated employees remained unchanged from the previous year, averaging between six percent and eight percent. The average rate for non-highly compensated employees fell from the six percent to eight percent range to the four percent to six percent range.

Investments received attention

In the latest survey, sponsors reported offering 20 investment options, which is about the same as the previous year.

Almost two-thirds reported that they review investment performance on a quarterly basis.

In the past year, nearly 40 percent of plans had replaced a fund due to poor performance.

More than half (51 percent) offered individual financial counseling and/or investment advice to participants.

The entire survey is available at http://tinyurl.com/Deloitte2010Benchmarking. ■

Form 5500 help is available in the Department of Labor's *Troubleshooter's Guide to Filing the ERISA Annual Report*. For formation about compliance requirements and avoiding common reporting errors, go to http://tinyurl.com/DOLForm5500Guide.

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Pension Plan Limitations for 2011

401(k) Maximum Participant Deferral (*$22,000 for those age 50 or over, if plan permits)	$16,500*
Defined Contribution Maximum Annual Addition	$49,000
Highly Compensated Employee Threshold	$110,000
Annual Compensation Limit	$245,000

Retirement Plans' Role Studied

An uncertain economy has resulted in employees looking more closely at their benefit plans, particularly those involving health care and retirement. A Towers Watson survey found that retirement plans play a major role in attracting and retaining employees.

When making their employment decision, 25 percent of survey respondents agreed or strongly agreed that their company's retirement plan was an important factor in deciding to work for their current employer. An even larger proportion (41 percent) agreed or strongly agreed that their employer's retirement program is an important reason why they stay with their current company. (The retirement plan may have been a defined benefit plan, a defined contribution plan, or both.)

About 21 percent of those who are offered only a defined contribution plan responded that their employer's retirement plan was an important reason in their decision to accept a job with their current employer. As far as why those who have only a defined contribution plan stay with their present employer, 32 percent said the retirement plan is an important factor.

Younger employees indicated that their employer's defined contribution plan plays a role in their employment decisions. Of those who have such a plan available to them, 17 percent under age 40 reported that it was an important factor in choosing their current company, as did 24 percent of those in the 40-to-49 age group.

In the under-40 age group, 26 percent said that the defined contribution plan is an important reason that they stay with their present employer. In the 40-to-49 age group, 37 percent reported this attitude.

Details of this survey are at http://tinyurl.com/TowersWatsonRetention.

Eligibility Requirements Trend Continues

The responses of more than 500 employers to a Profit Sharing/401(k) Council of America survey indicate that service and age requirements for 401(k) plans are minimal for increasing numbers of companies.

The *401(k) and Profit Sharing Plan Eligibility Survey, 2010* found that 60 percent of plans allow immediate participation, and 78 percent permit participation within the first three months of employment. About 38 percent of small plans (fewer than 100 employees) allowed elective deferrals within the first month of employment. Among large companies (1,000 or more employees), nearly 90 percent permit entry within the first three months.

Only 11 percent of plans require one year or more of service for eligibility to participate.

Regarding matching contributions, 60 percent of plans require three months or less of service for eligibility. Almost 32 percent allow eligibility for non-matching employer contributions within the first three months.

Minimum age requirements continue to apply in fewer plans. About 44 percent of plans have no minimum for participation, and roughly the same percentage applies to both matching and non-matching company contributions.

Where a minimum age requirement exists, the most common age is 21.

The trend toward liberal service requirements is strong. In 1998, only 24 percent of plans permitted employees to contribute immediately upon employment. In 2005, that figure had grown to about 49 percent of plans. In 2010, 60 percent had no service requirement.

Immediate eligibility for matching contributions was present in 36 percent of plans in 2005, versus 48 percent in 2010. The trend is less strong regarding non-matching employer contributions: 17 percent of plans offered immediate eligibility in 2005, compared to 25 percent in 2010.

The full results are available at http://tinyurl.com/PSCA2010Eligibility.

Need advice on Roth conversions within 401(k) plans? See the Internal Revenue Service's Notice 2010-84, available at http://tinyurl.com/IRSRothConvGuidance, for questions and answers.

Plan Sponsors Ask...

Q: What documentation should the plan have regarding plan loans to participants?

A: The starting point is to verify that the plan document permits loans. Assuming that it does, a detailed loan policy should be prepared. This would include the administrative procedures for determining the minimum and maximum loan amounts a participant may be granted, the reasons for which a loan can be requested and how the loan term and interest rate will be determined. The policy should also address missed repayments, default, leave of absence rules and what happens when a participant with a loan terminates employment.

A loan application is also necessary. On this form, the participant indicates the loan amount requested, and acknowledges receipt of a copy of the loan policy and any other documents to enable him or her to fully understand the loan's terms and conditions.

You will also want to have a formal loan approval document which confirms the terms of the loan and administrative details, such as when payroll deduction repayments will begin.

Most plans also require a promissory note. The note includes the participant's promise to repay the loan and the key loan terms, such as the amount borrowed, the interest rate and the repayment schedule.

The Internal Revenue Service offers questions and answers about retirement plan loans at http://tinyurl.com/IRSFAQsLoans.

Q: Are there new ways of structuring the employer matching contribution to increase saving by plan participants?

A: Analysis recently completed by the Principal Financial Group shows that a new way of designing the match does improve participant contributions. A review of over 100,000 participants' saving behavior indicated that participants contributed more to their 401(k) plans when the fixed match targeted higher contributions.

With a match formula of 100 percent up to 2 percent of pay, the average participant contribution was 5.3 percent. There was slight increase (to 5.6 percent) in the participant contribution when the match was 50 percent up to 4 percent of pay. The contribution rate rose significantly, to 7.0 percent, when the match formula was 25 percent of the first eight percent of wages, even though the employer's total contribution did not change.

The conclusion is that even when the employer match remains at two percent, the higher target deferral does result in participants saving more.

In addition, the analysis found that there was no negative impact on participation rates when the match was stretched to a higher level.

Q: Are many plan sponsors adopting the Roth 401(k) conversion feature?

A: A new survey from Mercer found that only 31 percent of plan sponsor respondents say they will allow Roth conversions by the end of this year. Another 24 percent plan to add the feature at some point in the future. The remaining 45 percent have no plans to add this option.

Reasons cited by sponsors for waiting include seeing if employees express interest (37 percent), determining when recordkeepers will be prepared to administer conversions (34 percent) and seeing what other plan sponsors will do (23 percent). ■

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

Profit Sharing/401(k) Council of America
www.psca.org

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

Employee Benefit Research Institute
www.ebri.org

Employers Help Meet Retirement Goals

Aon Hewitt's recent survey of more than 200 companies found that only 38 percent of employers have confidence that employees are taking responsibility for their financial future, down from 43 percent a year before. Further, only 30 percent are confident that workers will be sufficiently prepared for retirement.

To increase the likelihood that employees will be prepared, companies are adding features like automatic enrollment (57 percent of plans), automatic contribution increases (47 percent of plans) and automatic rebalancing (almost 50 percent of plans).

Employers are also adding a Roth 401(k) contribution feature to their plans. One-third of plans offer this option, and of those that do not, 38 percent said they would add the option this year.

Related Aon Hewitt research indicates that many workers are not maintaining a diversified portfolio of investments, are assuming unreasonable levels of risk and don't rebalance their portfolios on a regular basis. To address these areas of concern, employers are looking to add online investment guidance and offer managed accounts.

Find the survey results at http://tinyurl.com/AonHewittSurvey.

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 counsel or tax advisor regarding these and other items that may apply to your plan.

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