Plan Sponsor

Outlook

A Current Issues Resource for Plan Sponsors and Administrators 3rd Quarter 2007

Are Workers Overconfident?

About 27% of workers are very confident about their financial security in retirement, and 43% are somewhat confident. But, according to the latest Retirement Confidence Survey*, 24% of the very confident survey participants are not currently saving for retirement, 43% have less than $50,000 in savings and 37% have not performed a financial needs calculation.

Almost half of those saving for retirement reported total savings, not counting primary residence equity or defined benefit plans, of less than $25,000. Of even greater concern are the 70% of workers not saving for retirement who have total assets of under $10,000.

Changes don t cause action

Nearly half of workers say that changes in the pension system have made them less confident about what they can expect from defined benefit plans, and 17% have experienced a reduction in the retirement benefits offered by their employer. But, only a third say they are saving more as a result.

Advice may not be taken

About 20% of workers said they would be very likely to take advantage of an investment advice service, and another third said they would be somewhat likely to do so. Of those likely to seek advice, only 2 in 10 said they would act on all the recommendations they received. Two-thirds would implement only those suggestions that coincided with their own ideas, and 11% would not act on any of the recommendations.

The 2007 Retirement Confidence Survey is at http://tinyurl.com/2r92ko.

**2007 Retirement Confidence Survey, ©2007 Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.*

NEW: TRA Administration Forms Updated for PPA

Visit www.tra401k.com to obtain updated plan administration forms for your company's retirement plan. The forms have been revised according to the Pension Protection Act guidelines and should be used for plan transactions going forward. Please contact your TRA Retirement Plan Consultant with any questions.

Employers List Top Concerns

Plan sponsors appear serious about helping employees prepare financially for retirement, according to Buck Consultants' Defined Contribution Plan Trends Survey. Providing "retirement income adequacy" was among the highest priorities of 82% of employers who responded.

Employer concerns included encouraging employees to assume responsibility for their retirement savings (96%). They indicated that the biggest obstacles to effective savings plans were:

- employees don't pay enough attention to their retirement income needs (80%),
- low level of current savings (55%), and
- lack of diversification in employees' allocations (42%).

As a result, two-thirds of respondents will significantly change their plan design and communications. About 70% plan to enhance communications, 65% will offer more education about investment diversification and planning for retirement, and 70% have or will introduce automatic enrollment this year.

More information about the survey's results is at http://tinyurl.com/379tza.

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Pension Plan Limitations for 2007

401(k) Maximum Participant Deferral *(*$20,500 for those age 50 or over, if plan permits)*	$15,500*
Defined Contribution Maximum Annual Addition	$45,000
Highly Compensated Employee Threshold	$100,000
Annual Compensation Limit	$225,000

IRS Identifies Top Compliance Issues

To help plan sponsors focus their internal reviews of plan operations, the Internal Revenue Service (IRS) has reported the top ten issues its agents found during 401(k) plan examinations.

The ten most often seen compliance violations are:
1. Late deposit of 401(k) contributions
2. Improper employer timing of deduction
3. Use of incorrect compensation definition
4. Improper exclusion of eligible employees in nondiscrimination testing
5. Misclassification of highly and non-highly compensated employees in nondiscrimination testing
6. Failure to take corrective action for nondiscrimination testing failures
7. Incorrect employer matching contributions
8. Allowing excess elective deferrals
9. Failure to follow 401(k) safe harbor plan requirements
10. Improper hardship distributions

These are described in detail on the IRS' Web site. Some of the violation descriptions include helpful examples, and each topic has specific information about the violation and procedural steps that sponsors can take to prevent them.

Learn more about these compliance issues at http://tinyurl.com/32xhhl.

At the end of 2006, 401(k) plans had $2.7 trillion in assets, $1.5 trillion of which was in mutual funds.

Source: 2007 Investment Company Fact Book, ©2007, Investment Company Institute. http://tinyurl.com/23jpun

Roth 401(k) is Popular with New Enrollees

The Roth 401(k) option was adopted by 14% of plans in 2006, the first year it was available, according to a recent survey. At the individual plan level, 8% of participants elected to make Roth 401(k) contributions, and more than half of Roth participants allocated 100% of their savings to Roth contributions.

Roth participants tended to be younger and have shorter tenure. In fact, those with less than one year of service had the highest rate of choosing the Roth feature (10%).

The survey concluded that "early Roth adopters" appear to be participants who are more likely to be actively involved in the 401(k) saving concept. They had a contribution rate of 14% (compared to 9% for those not choosing Roth contributions), had higher household income and higher non-retirement-plan wealth. They also were more likely to register for Web access to their accounts. Finally, they had, on average, account balances more than $40,000 greater than those not making Roth contributions.

The full results are at http://tinyurl.com/2gyyog.

IRS Issues Final Roth 401(k) Guidance

"Qualified" distributions may begin only after the completion of five consecutive taxable years of participation. Further, according to the Internal Revenue Service's (IRS) final regulations, which were generally effective on January 1, 2007, distributions can be made only after the participant has reached age 59 1/2, becomes disabled or dies. A qualified distribution is not subject to federal income tax.

Hardship distributions, required minimum distributions and periodic payments may be considered qualified distributions. Some distributions from Roth accounts can never be qualified, such as excess deferrals and deemed distributions due to loan defaults.

The IRS' final rules are at http://tinyurl.com/2svaj2.

Have Roth 401(k) Questions?

Visit the IRS' "FAQs Regarding Designated Roth Accounts" at http://tinyurl.com/326x2f for information about contributions, distributions, rollovers, and reporting and recordkeeping rules.

Plan Sponsors Ask…

Q: We haven t reviewed our 401(k) plan s loan interest rate recently, and probably need to update it. What factors should we consider?

A: Having a reasonable interest rate on loans is a requirement for plan qualification under the Internal Revenue Code, so it needs to be determined carefully.

Department of Labor (DOL) rules state that a reasonable interest rate is one that provides a return similar to the prevailing rate charged by independent lenders in the geographic area that make consumer loans. Plan sponsors are expected to conduct a survey of lenders offering similar types of loans in their area. The rate is then set by using the average from the survey.

The Internal Revenue Service (IRS) has, unlike the DOL, accepted rates set by reference to a broad national standard, such as the prime rate. In practice, the IRS generally goes along with the procedure described in the DOL's regulations.

Q: Has there been a change in federal rules regarding benefits for domestic partners?

A: Yes. The Pension Protection Act of 2006 (PPA) included two provisions affecting participants who are in a domestic partnership or similar relationship.

Prior to the PPA, plans could permit hardship withdrawals due to financial hardship incurred by the participant or his or her spouse or dependent. The PPA allows plans to approve hardship distributions for medical, schooling or funeral expenses for a "primary beneficiary." (A primary beneficiary is defined as a person named as beneficiary under the plan and who has a right to all or part of the participant's account balance following the participant's death.) So, a domestic partner may benefit from a participant's hardship withdrawal if he or she is the primary beneficiary under the plan.

The second PPA provision allows non-spouse beneficiaries to roll over the deceased participant's account proceeds to an inherited individual retirement arrangement (IRA). Before the PPA, only a surviving spouse could roll over a deceased participant's account balance to his or her own IRA. All other beneficiaries were generally required to take the account balance in a lump sum over a five-year period.

Both provisions are optional and are not required to be adopted by 401(k) plan sponsors.

Q: We d like to find several lost participants in order to see how they want their account balances distributed following their termination of employment. How do we go about the search?

A: Lost participant problems are common, and the Department of Labor's (DOL) Field Assistance Bulletin 2004-02 (FAB) provides specific guidance. (The FAB is at http://tinyurl.com/34ppy8.) While the FAB is limited in scope to terminated defined contribution plans, most experts agree that the search methods it requires are appropriate for active plans as well.

Four search methods are described, and each must be used, regardless of the size of the account balance:
- certified mail notification,
- check records of other benefit plans,
- contact the designated beneficiary, and
- use a government agency letter-forwarding service.

Both the Internal Revenue Service (IRS) and Social Security Administration (SSA) offer letter-forwarding services. The IRS' program is described at http://tinyurl.com/35np37. Find details about the SSA's service at http://tinyurl.com/3668kn.

The FAB also suggests other search options, such as Internet search tools, commercial locator services and credit reporting agencies. If the cost of an option will be charged to the participant's account, the plan sponsor must decide if using the option is prudent, given the size of the balance. ■

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

BenefitsLink
www.benefitslink.com

BenefitNews
www.benefitnews.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

Allocations to Company Stock Declining

As a percentage of assets, participants' allocation to employer stock continues to fall, according to analysis of data by the Employee Benefit Research Institute (EBRI). Contributing to this trend are newly hired 401(k) plan participants.

The trend shows plan assets invested in company stock at 19% in 1996, 16% in 2002 and 13% at the end of 2005.

In plans offering employer stock as an investment option, almost 61% of recently hired participants (those with two years of service or less) had company stock in their portfolios in 1998; only 46% did in 2005. And while 11% of the account balances of newly hired participants in their 20s was in employer securities in 1998, that number was 8% at year-end 2005.

About 21% of short-tenure participants had more than half of their plan assets in employer stock in 1998, but only 11% did in 2005.

More information is in EBRI's Issue Brief No. 296, which is available at http://tinyurl.com/35t6xn.

Plan Sponsor s Quarterly Calendar

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

OCTOBER

- For calendar year safe harbor 401(k) plans, issue the required notice to employees between October 3rd and December 2nd (that is, within 30 to 90 days of the beginning of the plan year to which the safe harbor is to apply).
- Audit third quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rule regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between July 1st and September 30th received and returned an enrollment form. Follow up on forms that were not returned.

NOVEMBER

- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure receipt of Form 1099-R to be mailed in January for reportable transactions in 2007.
- If your plan intends to use the automatic enrollment safe harbor, generally effective on January 1, 2008, finalize arrangements for minimum deferral percentage, employer contribution, vesting acceleration and advance notice to employees.
- Prepare and issue a payroll stuffer or other notice to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.

DECEMBER

- Verify that participants who terminated employment during the second half of the year selected a distribution option for their account balance and returned the proper form. Contact those who did not return a distribution election form.
- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing. (Calendar year plans)
- Review plan operations to determine if any ERISA or tax-related violations occurred this year and if using an IRS or DOL self-correction program would be appropriate.

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