Plan Sponsor
OUTLOOK

1996 TRA 2016 — 20th Anniversary — The Retirement Advantage

A RESOURCE ON CURRENT ISSUES FOR PLAN SPONSORS AND ADMINISTRATORS

4TH QUARTER 2016

Plan Sponsors: Employees Want Automatic Retirement Plan Features, So Why Not Offer Them?

Eighteen years ago, the retirement industry rolled out automatic enrollment to help combat employee inertia, increase participation in workplace retirement plans, and foster higher savings rates. Still, a surprising number of plan sponsors don't offer it. However, employees say they value defined contribution plans, and they desire automatic enrollment and escalation features.

A recent survey revealed this disparity between the DC plan benefits employers offer and those that employees actually say they want. It's an interesting conundrum that provides food for thought for plan sponsors considering ways to modify their retirement plans to better fit employees' needs.

Overall, just 21% of plan sponsors offer automatic enrollment, the survey found. However, 71% of workers would like to be auto-enrolled in their retirement plan. Breaking it down, large companies (41%, with 500 or more employees) are more likely than small, non-microcompanies (28%, with 100-499 employees) and microfirms (18%, 1-99 employees) to offer an auto-enroll feature.

Is a 3% Automatic Deferral Enough?

In plans with automatic enrollment, sponsors report median default contribution rates of 3% of annual pay, according to the survey. However, industry observers fear that this number may mislead participants, as it implies that a minuscule deferral rate is sufficient to fund a comfortable retirement. In most cases, however, it is not.

Fortunately, workers seem to understand this, as many say they believe 6% (median) would be an appropriate deduction from their paycheck upon being automatically enrolled in a 401(k) or similar plan.

Auto-Escalation Is Appealing

Moreover, 67% of employees say they would like their employer to offer auto-escalation. In fact, they would opt for an automatic increase in their contributions of 1% of their pay annually, or each time they receive a raise, until they decide to switch off the auto-escalation feature. Again, larger company plans are more likely to offer auto-escalation — 43% automatically increase participants' contributions every year, while just 26% of small and microcompanies do so, the survey found.

The survey findings are revealing, particularly with regard to how plan sponsors and employees view features such as auto-enrollment and auto-escalation. The knowledge that employees desire these provisions creates an opportunity for sponsors to proactively encourage participation in retirement plans. By implementing these features to increase participation and salary deferrals, sponsors play a key role in making it easier for workers to save and prepare for retirement.

You can see the study, from Transamerica Center for Retirement Studies, online at http://tinyurl.com/TCRSsurvey.

Follow us on Facebook and LinkedIn for more resources and tips on how to ease the administration of your retirement plan.

www.facebook.com/tratpa

www.linkedin.com/company/the-retirement-advantage

TRA The Retirement Advantage

Phone: 888.872.2364 | www.tra401k.com

How Does the New DOL Fiduciary Investment Advice Rule Impact Plan Sponsors?

As you probably know, the Department of Labor issued final guidance on the fiduciary rule in April. Now that the dust has settled, let's take a closer look at how the new standards affect plan sponsors.

The biggest change is an expanded definition of fiduciary advice and who provides it. As such, you may see changes in the recommendations you receive from your retirement plan advisors and professionals, and probably additional, more detailed disclosures than before, too. Additionally, in many circumstances, the "investment advice" provided may be subject to ERISA fiduciary standards.

What Constitutes Fiduciary "Investment Advice"?

Broadly speaking, any communication that can be construed as a recommendation that a plan, participant or beneficiary take or avoid a specific action, typically in exchange for a fee, is potentially subject to the rule. According to the DOL, these may be recommendations related to: 1. An investment e.g., buy, sell, hold), 2. Dealing withdistributions from a plan or IRA, and/or 3. Investment management (e.g., investment policies/strategies, asset allocation, investment advisor or management selections, etc.).

The more the communication is customized, the more likely it may be considered a recommendation. For example, a list of stocks tailored to a particular investor's goals would likely be viewed as fiduciary investment advice.

Who Is a Fiduciary?

Furthermore, the recommendation must be made directly or indirectly e.g., through an affiliate) by someone who either:

- Confirms he or she is acting as a fiduciary,
- Provides advice based on the recipient's investment needs, with a clear understanding between both parties that they are doing so, or
- Makes recommendations to a specific recipient on the suitability of a particular investment or management decision in a retirement plan or IRA.

At worst, not clearly understanding and following these guidelines could lead to a bevy of prohibited transactions, resulting in a 15% penalty tax to the plan sponsor.

The DOL provides some relief in a provision called the "Best Interest Contract" (BIC) exemption. Simply, that means those providing investment advice must put their clients' best interests ahead of profits, avoiding payments that create conflicts of interest or receiving compensation in compliance with an approved exemption.

What Communications Aren't Subject to the Rule?

Communications such as provider marketing, general communications, plan information and investment education, as well as routine advisor marketing activities that do not include or result in specific recommendations or advice, are excluded from the DOL fiduciary advice guidelines, and are not considered recommendations under the rule.

What Do I Need to Do?

Here's the key takeaway: You should carefully review your current relationships with your plan's advisors and professionals and make sure they're in line with the guidelines provided under the new fiduciary rule. You'll need to evaluate whether or not they should be treated as fiduciaries and, depending on their roles, how they should be compensated. Moreover, you'll need to determine if those relationships still serve the best interests of your plan and participants.

Plan sponsors have until April 2017 to implement any changes related to the new fiduciary rule, and even longer to deal with implications of the BIC exemption. There's still time, but given the work involved, you'll want to start reviewing these relationships and making any necessary modifications as soon as possible. In short, there's no time like the present.

Find more details on the new DOL rule at http://tinyurl.com/DOLFiduciaryAdviceInfo. ■

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

PLANSPONSOR 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

Plan Sponsors Ask…

Q: How do we improve participant engagement with our retirement plan?

A: Fostering retirement plan engagement is important, especially since it's a sure first step to helping create successful outcomes for participants.

According to Milliman, the key is integrating your participant education and communication program with your company's culture. Without regular, ongoing communication campaigns tailored to employees' personality and preferences (e.g., do they prefer email over paper communications, or vice versa?), employees may not understand the plan's benefits, how the plan works, or how much to save. Communications should also clearly explain the call to action — what the company wants participants to do.

Moreover, concise content that should address specific issues in appropriate language — DO play on participants' emotions in a proper way; DON'T use descriptive, over-the-top language or fear tactics. Be direct and, again, customize the language to reflect your workforce's culture. Emails that come from the plan sponsor rather than the provider are more likely to be read. One-on-one meetings are also an effective way to boost participant engagement because they offer an opportunity to ask questions and interact with plan experts.

One way to ensure consistency with your company's culture is to create an education policy statement that clearly outlines the frequency of communications, how they'll be distributed, what will be communicated and to whom, and where employees can go for more information.

Discover additional participant communication best practices at http://tinyurl.com/CommunicatingEffectively.

Q: How can we reduce our fiduciary risk when selecting Qualified Default Investment Alternatives (QDIAs)?

A: While the de facto options for most retirement plans are target date funds (TDFs) and risk-based funds, not all QDIAs are created equal. When evaluating funds and providers, watch out for red flags, such as unreasonably high fees or inappropriate glide paths.

Also, TDFs assume that all investors in one age group have similar needs. They don't account for differing risk tolerances, or participants who may end up retiring sooner or later than their projected retirement date due to health concerns, a lack of employment opportunities, or inadequate savings.

Risk-based funds claim to address some of these issues; however, most risk-based funds make inappropriate assumptions about participants' risk tolerance that actually prevent them from taking the proper amount of risk for their situation and time horizon, causing them to fall short of their accumulation goals.

Avoiding fiduciary pitfalls through proper due diligence and careful research is critical when selecting any fund in your plan's investment lineup, not just QDIAs. Additionally, keeping detailed records of your rationale for choosing certain funds and educating participants about how the funds work, what they do and don't do, and the associated risks are all key to reducing your fiduciary exposure.

Learn more about reducing fiduciary risk when choosing QDIAs here: http://tinyurl.com/QDIARedFlags.

Q: We heard annuities might be offered in retirement plans in the near future. Why should we consider providing such an option in our plan?

A: Most plan sponsors and advisors seem to have an inherent bias against offering a deferred income annuity in their retirement plans. However, retirees' needs are changing, and, therefore, so must the options for taking distributions from their defined contribution plan upon retirement.

A new white paper from Principal Financial shows how in-plan deferred income annuities can help future retirees manage concerns such as interest rate and inflation risks, outliving their savings, and unpredictable market cycles. Deferred income annuities offer a balance between growth and guaranteed investments. Since retirees are likely to live longer, and many may have higher expenses, such as mortgages, credit card debt, and even student loans, these products are one way to help ensure retirees can turn their savings into income when they need it. Ultimately, the idea is to make guaranteed income easier to set up and access within a qualified retirement plan.

The Principal white paper also discusses risks related to making income last throughout retirement, and how an annuity can help address those risks better than other products available today. It also includes details on how plan fiduciaries can research the options and make prudent decisions.

Go to http://tinyurl.com/PrincipalPaper to read the entire Principal paper online. ■

PPA Results in Record DC Plan Participation; Deferrals, Balances Could Be Better

It's been 10 years since the passage of the Pension Protection Act (PPA). The law has had a positive impact — aggregate defined contribution retirement plan participation is at an all-time high and continues to rise.

Plan participation reached 78% in 2015, according to Vanguard's 15th annual How America Saves report. Automatic enrollment and contribution escalation features introduced under the PPA are largely responsible for the record participation.

Still, there's work to be done. While automatic enrollment has spiked participation — three quarters of eligible employees participated in their employer-sponsored retirement plan, up from two-thirds 10 years ago — it's created lower deferral rates. Nearly three-quarters of Vanguard plans have default deferral rates of 4% of less, which are generally insufficient to meet retirees' income needs. The average deferral rates was 6.8% in 2015, down from a peak 7.3% in 2007. Smaller balances are also a concern. In 2015, Vanguard participants' average account balance ($96,288) fell 6%.

Overall, however, PPA provisions have done participants more good than harm. As such, plan sponsors and the industry should continue to focus on continuing to improve plan participation and savings rates in years to come.

Vanguard's latest How America Saves Report is online at http://tinyurl.com/HowAmericaSaves2015. ■

Pension Plan Limitations for 2016

401(k) Maximum Elective Deferral (*$24,000 for those age 50 or older, if plan permits)	$18,000*
Defined Contribution Maximum Annual Addition	$53,000
Highly Compensated Employee Threshold	$120,000
Annual Compensation Limit	$265,000

PLAN SPONSOR'S QUARTERLY CALENDAR

JANUARY

- Send payroll and employee census data to the plan's recordkeeper for plan year-end compliance testing (calendar-year plans).
- Audit fourth 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 October 1 and December 31 received and returned an enrollment form. Follow up for forms that were not returned.

FEBRUARY

- Update the plan's ERISA fidelity bond coverage to reflect the plan's assets as of December 31 (calendar-year plans). Remember that if the plan holds employer stock, bond coverage is higher than for non-stock plans.
- Issue a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Review and revise the roster of all plan fiduciaries and confirm each individual's responsibilities and duties to the plan in writing. Ensure that each fiduciary understands his or her obligations to the plan.

MARCH

- Begin planning for the timely completion and submission of the plan's Form 5500 and, if required, a plan audit (calendar-year plans). Consider, if appropriate, the Department of Labor's small plan audit waiver requirements.
- Review all outstanding participant plan loans to determine if there are any delinquent payments. Also, confirm that each loan's repayment period and the amount borrowed comply with legal limits.
- Check bulletin boards and display racks to make sure that posters and other plan materials are conspicuously posted and readily available to employees, and that information is complete and current.

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

Survey Submission Winner

Enter to win a prize by clicking on the survey link in our emails and completing the survey. A winner is picked quarterly! This quarter's winner is

Vince from Argento & Battista LLC

Kmotion, Inc., 412 Beavercreek Road, Suite 611, Oregon City, OR 97045; 877-306-5055; www.kmotion.com

© 2016 Kmotion, Inc. This newsletter is a publication of Kmotion, Inc., whose role is solely that of publisher. The articles and opinions in this publication are for general information only and are not intended to provide tax or legal advice or recommendations for any particular situation or type of retirement plan. Nothing in this publication should be construed as legal or tax guidance, nor as the sole authority on any regulation, law, or ruling as it applies to a specific plan or situation. Plan sponsors should always consult the plan's legal counsel or tax advisor for advice regarding plan-specific issues.