Plan Sponsor
OUTLOOK

A Current Issues Resource for Plan Sponsors and Administrators 4th Quarter 2011

New Fee Disclosure Rules Are Effective Soon

The Department of Labor's (DOL) regulations requiring disclosures of fees and expenses to retirement plan participants are effective in just a few months. They are coupled with new rules concerning information that service providers must give to plan sponsors.

The rules for disclosures to participants involve information that is plan-related and investment-related.

Disclose plan-related information

Plan administrators must disclose basic plan information, including a list of investment options and when and how participants may give investment instructions. Administrative expenses for plan services that may be deducted from all individual accounts must be described, as well as actual charges that may be deducted from certain participants' accounts, such as loan origination fees.

Investment-related data must be provided

For each investment option, performance data, such as the average annual total return for 1-, 5- and 10-year periods, and a comparison of returns to a benchmark must be disclosed. Further, a website address where participants can get additional specific investment information and a glossary of investment terms are also required.

Different notices are required

An annual disclosure of plan and investment information must be sent to current participants, those eligible but not contributing, beneficiaries and those with rights under a QDRO.

Full disclosures must be furnished to new participants on or before the date they first contribute to a particular investment option. Quarterly statements identifying actual dollar amounts of administrative and individual expenses actually charged to the participant's account during the preceding quarter are required.

Also, if there are changes in any plan-related information contained in the annual and/or new participant disclosures, updated information has to be provided at least 30 days, and not more than 90 days, before any changes are implemented.

Plan ahead for effective date

While the regulations for participant disclosures were in effect on the first day of the first plan year beginning on or after January 1, 2010, the DOL announced a transition rule that postpones the required initial issuance of the annual and new participant disclosures to May 31, 2012 for calendar year plans.

The initial quarterly statement disclosure is required by August 14, 2012 (45 days after the end of the second calendar quarter) for calendar year plans.

For plans that do not use a calendar year as the plan year, the new rules apply beginning on the later of (a) 60 days after the beginning of the first plan year after November 1, 2011, and (b) 60 days after the effective date of the service provider disclosure rules (April 1, 2012). For example, if the plan year begins July 1, 2012, the disclosure rules apply on August 29, 2012. ■

Resources for new disclosure rules:

DOL's Fact Sheet:
http://tinyurl.com/DOLFeeFinalRule

DOL's Model Comparative Chart:
http://tinyurl.com/DOLFeeModelNotice

Phone: 888.872.2364 | www.tra401k.com

Pension Plan Limitations for 2012

401(k) Maximum Elective Deferral (*$22,500 for those age 50 or over, if plan permits)	$17,000*
Defined Contribution Maximum Annual Addition	$50,000
Highly Compensated Employee Threshold	$115,000
Annual Compensation Limit	$250,000

Retirement Savings at Risk Due to Leakage

Leakage factors such as loans, hardship withdrawals and final distribution cash outs have a negative effect on the adequacy of retirement income, according to new analysis by the Defined Contribution Institutional Investment Association (DCIIA). Such leakage can reduce the probability by almost 15 percent that lower-wage 401(k) plan participants will be able to replace at least 80 percent of their income during retirement.

Distributions and cash outs upon termination are major causes of the loss of retirement savings. Studies have shown that as many as one-third of terminating participants take their distribution in cash, and that the smaller the account balance, the more likely the participant is to take a cash distribution.

Hardship withdrawals, though used by a relatively small number of participants, are particularly damaging to retirement savings because the withdrawn amount cannot be repaid to the plan. Also, the suspension of contributions for six months worsens the damage.

Loans were found to be a relatively minor source of leakage, since most participants repay their loans. But, payroll deduction repayments may result in the participant reducing his or her regular contributions. Also, many participants with loans default at termination of employment.

The DCIIA recommends that plan sponsors consider steps to reduce leakage, such as:

- actively promote to new employees the advantages of rolling over their account balance in their previous employer's plan into the new plan,
- encourage those about to retire to leave their savings in the plan,
- offer simplified online rollover options,
- automatically start contributions when the hardship withdrawal suspension period ends, and
- reduce the number of loans permitted and/or lower the maximum permitted loan balance.

The DCIIA's study, *Plug the Drain: 401(k) Leakage and the Impact on Retirement*, is available at http://tinyurl.com/DCIIA401kLeakage. ■

Communicating Effectively with Gen X: Best Practices

Generation X, generally considered to be those born between 1964 and 1980 and are now in their thirties and forties, have challenges that differ from Generation Y and Baby Boomers. As a result, communications about retirement saving need to be tailored to their needs, according to Liz Davidson, founder and CEO of Financial Finesse.

Members of Gen X have poorer financial literacy scores than Baby Boomers and Gen Y, as evidenced by:

- only 66 percent have control over their cash flow,
- about 52 percent pay their entire balance on their credit cards each month, and
- the large drop in retirement plan contributions of this group in recent years.

Ms. Davidson notes that Gen X is more skeptical. Also, many are dealing with competing priorities involving taking care of young children, providing care for aging parents and trying to save for retirement.

To address Gen X's skepticism, she recommends removing any hint of a sales pitch in plan communications. Rather, provide direct communication with lots of information they can explore on their own. Make sure there's no hidden agenda: they want information from a source they see as credible and independent. Also, provide hands-on tools with which they can experiment.

Gen X is "behind the curve," so provide easy-to-use solutions. For example, set up automatic enrollment for all employees, not just new hires, and implement automatic escalation of contributions. Encourage investment in ready-made asset allocation portfolios, target date funds and managed accounts. Make things simple for them by making automatic rebalancing a plan feature.

Some of Gen X's priorities and resources compete for their attention, so integrate all the parts of financial planning to help them visualize and implement strategies to address several financial goals at the same time.

Details are available at http://tinyurl.com/GenXBestPractices. ■

401(k) investors in mutual funds tend to have lower-cost funds that have below-average portfolio turnover. These and other cost-related findings are available in the Investment Company Institute's *Economics of Providing 401(k) Plans: Services, Fees and Expenses, 2010*, which is at http://tinyurl.com/ICI401kPlanFees.

Plan Sponsors Ask…

Q: We'd like to have an overview of what we should do to keep our retirement plan current and in compliance. Is there a broad checklist available?

A: The Internal Revenue Service has tips on its website to help you maintain the plan. Among the recommended activities are:

- watch for new laws and regulations,
- give your plan a check-up to identify errors, and correct those errors now,
- be aware of common mistakes, such as not following the exact terms of the plan document,
- arrange for an independent review of the plan and its operations,
- monitor the people who administer the plan, and
- file required government reports on a timely basis.

Links to resources to help you properly maintain your retirement plan are available at http://tinyurl.com/IRSPlanMaintReminders.

Q: Has the turmoil in the financial markets significantly changed participants' activities in their retirement plans?

A: In most aspects, participant behavior changed very little in the last few years, according to the Investment Company Institute's *Defined Contribution Plan Participants' Activities, 2010* report.

Only three percent of participants took any withdrawal in 2010 and fewer than two percent received a hardship withdrawal that year. Both percentages were virtually the same as in 2008 and 2009.

The number of participants who stopped contributing to their retirement plan dropped to 2.4 percent in 2010, a full percentage less than the year before.

About ten percent of participants changed the allocation of their account balance in 2010, down from nearly 12 percent in 2009 and 14.5 percent in 2008. Similarly, eight percent reallocated their current contributions, compared to 10.5 percent in 2009 and 12.4 percent in 2008.

Loan activity did increase. About 18 percent of participants had loans outstanding at the end of 2010, up slightly from 16.5 percent at year-end 2009.

See the full report at http://tinyurl.com/ICIParticActivities2010.

Q: Our first hardship withdrawal request in over a year was just submitted, and we want to handle it properly, of course. What are the basics of which we need to be aware?

A: First, keep in mind that, according to the Internal Revenue Service (IRS), your plan can grant such a request only if it is permitted by the plan, is needed to satisfy an immediate and heavy financial need of the participant and is in an amount necessary to meet the need.

Second, follow these IRS-recommended steps:

- review the plan's terms,
- obtain a written statement from the participant about the hardship,
- determine that the hardship qualifies under the plan's terms,
- document that the participant has no other recourse, such as a loan, under the plan,
- verify that the amount requested does not exceed plan limits and includes only eligible amounts, and
- depending on the plan's terms, advise the participant about suspension of contributions.

The IRS' "*Do's and Don'ts of Hardship Distributions*" is at http://tinyurl.com/IRSHardship. ■

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

Retirement Trends Report Is Released

Plan sponsors continue to measure the success of their retirement plans primarily by investment performance, cost-effectiveness of the plan and satisfactory facilitation of participants' retirement savings and income. This is one of a number of results contained in Aon Hewitt's *2011 Trends & Experience in Defined Contribution Plans* survey report.

The survey also found that 81 percent of plans determined that they are compliance with ERISA Section 404(c).

About 85 percent of responding plan sponsors make matching contributions, and almost half vest these employer contributions immediately. Nearly 30 percent offer non-matching contributions.

Automatic features remain popular: 56 percent of plans use automatic enrollment, half offer automatic contribution increases and about the same proportion offer automatic rebalancing.

Target-date portfolios are offered by 81 percent of plans, and about 30 percent offer access to a self-directed brokerage option.

Find the full survey report at
http://tinyurl.com/AonHewittDCTrends ■

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 e-mail 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 than 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.

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; 877-306-5055; www.kmotion.com

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