Plan Sponsor
OUTLOOK
A Current Issues Resource for Plan Sponsors and Administrators 4th Quarter 2010

Participants Did Well in 2009

A study of three million participants in 2,200 plans found that, by the end of 2009, many participants had increased account balances, traded little despite market volatility, used automatic investment programs to diversify their assets, and preserved plan distributions upon termination of employment.

Account balances rose

Average account balances rose in 2009 compared to 2008. The average year-end 2009 balance was $69,000, up 23% from the previous year.

Trading activity was minimal

Only about 13% of participants initiated exchanges in 2009, which was just a small amount less than in 2008.

Only 1% of participants moved from some equity investing to an all-fixed-income portfolio.

Automatic savings grew

About 25% of participants were invested in one automatic investment program, such as target date funds, balanced funds or a managed account service, compared to only 7% five years earlier.

Nearly 16% of participants invested in just one target date fund, 6% held one balanced fund and 3% used a managed account program.

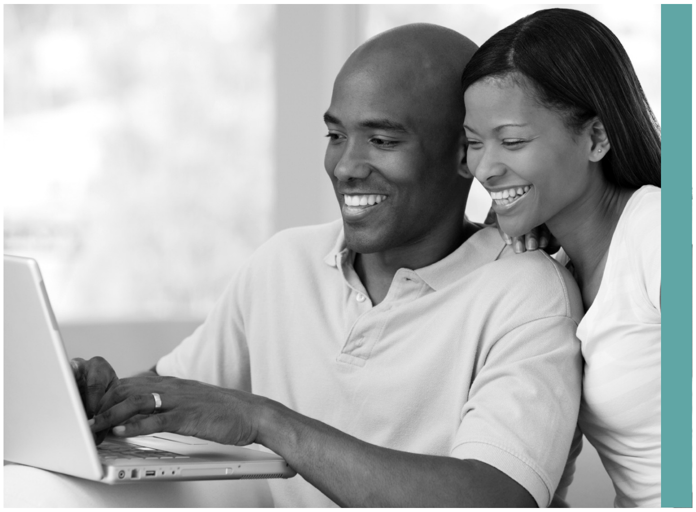
At the end of 2009, 21% of plans had adopted automatic enrollment, and most used it only for new employees. Of plans with automatic enrollment, 75% had also added an automatic contribution rate increase feature.

Plan participation rate fell

The overall participation rate was 75%, down slightly from 2008.

The average contribution rate was 6.8%, below the 2007 peak of 7.3%. About half of the decline could be attributed to automatic enrollment, the researchers concluded: while auto enrollment does increase participation, 75% of auto enrollment plans have a default rate of 3% or lower.

Automatic enrollment has increased participation in groups which have historically had low participation.



For example, those earning less than $30,000 participated at a rate of 52% in 2009, up from 45% in 2007. The rate for employees younger than age 25 increased from 38% in 2007 to 45% in 2009.

Other results include:

- 16% of participants had outstanding loans, and the average loan balance was $8,700;
- One-third of plans offered a Roth 401(k) contribution option, and 8% of those in such plans used the option; and,
- 75% of plans offered target date funds, and 42% of participants offered such funds invested in them.

Details of this review are at http://tinyurl.com/HowAmericaSaves2010. ■

TRA® | The Retirement Advantage™

Phone: 888.872.2364 | www.tra401k.com

Sponsor Quiz: Hardship Withdrawals

Which of the following are safe harbor reasons for a hardship withdrawal, according to the Internal Revenue Service?

Choose six:

a. Expenses for medical care

b. Costs of purchasing a principal residence

c. Expenses to purchase a vehicle for getting to employment

d. Tuition and related expenses of post-secondary education

e. Expenses to prevent eviction from principal residence

f. Cost of insurance for home or auto

g. Funeral expenses

h. Cost of capital improvements to principal residence

i. Damage repair costs for principal residence

See answers on back page.

For Internal Revenue Service guidance on hardship withdrawals, go to http://tinyurl.com/HardshipReasons and http://tinyurl.com/HardshipFAQs ■

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

Boomers "At Risk" in Retirement

The Employee Benefit Research Institute's (EBRI) Retirement Readiness Rating suggests that almost half of early baby boomers (ages 56-62) are "at risk" of running short of money for basic retirement expenses and uninsured health care costs.

Among late boomers (ages 46-55), about 44 percent are "at risk," and 44 percent of Generation X (now ages 36-45) are "at risk."

The "at risk" results are lower than when the Retirement Readiness Rating was established in 2003 due largely to the automatic enrollment and contribution rate provisions of the Pension Protection Act of 2006, and more diversified default investments in 401(k) plans. These have resulted in higher 401(k) participation rates, larger account balances and better retirement preparedness of many workers.

When ranked by pre-retirement household income, those in the lowest third are "at risk" 70 percent of the time, while the middle income group is "at risk" 42 percent of the time. The rate drops to 23 percent for the highest income group. EBRI's study is at http://tinyurl.com/EBRIRetireReadiness. ■

Women's Financial Security Studied

A survey of American women found that many lack confidence in making financial decisions and don't have a good understanding of today's sophisticated financial products. Prudential's *Financial Experience & Behaviors Among Women* also revealed that women are optimistic about the future and want financial education and guidance.

Despite the fact that a majority (55%) believe they will need to work longer and delay retirement, three-fourths said they are on track to meet their long-term financial goals or are positioned well to catch up.

Those feeling "very prepared" to make smart financial decisions made up less than 20% of respondents. One-third said they "need a lot" of assistance.

About one-third have a detailed financial plan. In the 25-34 age group, only 10% have a plan.

Over half of the respondents are willing to have others make retirement planning decisions for them. More than 60% look to family and friends for guidance, rather than financial advisors. Those using financial professionals are more likely to say they are on track financially than those who do their own planning.

The study is available at http://tinyurl.com/WomenFinancialExperience. ■

Plan Sponsors Ask…

Q: ***Are 401(k) plan loans now exempt from disclosure requirements?***

A: Yes, but with respect only to truth-in-lending rules. On July 1, 2010, revised rules issued by the Federal Reserve System's Board of Governors became effective. The revision exempted most plan loans from the Trust in Lending Act's (TILA) disclosure requirements.

TILA requires that those who extend credit to consumers more than 25 times in a year disclose key terms of the credit arrangement. Participant loans from employer-sponsored retirement plans had been subject to TILA's rules if the plan granted more than 25 loans per year. Among the required disclosures were the amount financed, the finance charge, payment schedule and late payment charges.

The Federal Reserve System concluded that because principal and interest payments are reinvested in participants' accounts, and no third party imposes finance charges on participants who take plan loans, such loans do not need the detailed disclosures required by TILA.

Keep in mind that ERISA's disclosure rules still apply. They require, for example, that the plan's Summary Plan Description identify any fees that may be charged to a participant or his or her individual account in order to receive plan benefits. Plan loans are a "plan benefit."

Q: ***Our plan's Investment Committee would benefit from knowing how other such committees operate. Is there information available to help us?***

A: Yes. A recent survey of investment professionals who have been members of or observed investment committees resulted in recommendations that serve as a helpful guide to best practices.

Characteristics of the best investment committees include adherence to a charter that defines the roles and responsibilities of committee members, support staff and any consultants. Another best practice is the development of a clear investment strategy that includes reasonable assumptions about risk tolerance and expected investment results.

These and other best practices are described in detail in the report, along with practical advice about they can be incorporated into the processes of investment committees. The survey is available at http://tinyurl.com/InvestCommPractices.

Q: ***What key points should we keep in mind as we review our plan's ERISA fidelity bonding for the new plan year?***

A: As you look at your bonding for next year, remember that ERISA-required fidelity bonding protects the plan against loss of money resulting from fraud or dishonesty by persons who handle the plan's funds. Fiduciary liability insurance is quite different; it covers personal liability for a fiduciary's act or omission.

The amount of the bond must be at least 10% of the plan's assets at the end of the preceding plan year. There is a minimum bond coverage amount of $1,000 and a maximum of $500,000. If your plan holds employer stock, the maximum is $1,000.000.

An excellent resource covering various bonding topics is the Department of Labor's Field Assistance Bulletin No. 2008-04. View this helpful question-and-answer guide at http://tinyrul.com/ERISABonding. ■

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

Regulatory Activities Spur Action

Audit and enforcement activities of the Internal Revenue Service and Department of Labor are leading plan sponsors to take action, according to a survey of defined contribution plan sponsors conducted by Mercer.

About 60% of sponsors responding to the survey said they would focus on specific actions, such as:

- conducting a review of plan operations (65%),
- reviewing administration with the plan's vendor/recordkeeper (27%), and
- performing an independent operational compliance review (22%).

Other findings were that 45% of sponsors were considering adding an annuity option or minimum withdrawal benefit to their plan. Also, 25% said they intend to add investment advice as a result of final Department of Labor rules on advice. Survey results are at http://tinyurl.com/SponsorFocus. ■

Sponsor Quiz: Hardship Withdrawals
Correct answers: a, b, d, e, g, i

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 1st and December 31st 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 31st. (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 counsel 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