Plan Sponsor
OUTLOOK
4TH QUARTER 2013
A CURRENT ISSUES RESOURCE FOR PLAN SPONSORS AND ADMINISTRATORS

Automatic Savings Features Are Evolving

Since the Pension Protection Act of 2006, automatic enrollment and automatic contribution rate increases have become very popular features of 401(k) plan design. In fact, most surveys indicate that about half of 401(k) plans have automatic saving provisions.

While automatic features have helped participation and savings rates, there is concern that low default deferral rates can result in low savings rates. Also, auto-enrollment is largely applied only to newly eligible employees. And even though automatic contribution increase provisions are common, they are often available on an opt-in basis.

What steps represent the second generation of automatic features?

Automatically enroll all eligible employees

T. Rowe Price's *Getting Beyond Ordinary: Advances in Automatic Savings Program Design* notes that an "enhanced" program would automatically enroll all eligible employees, not just those who are newly eligible. An "advanced" program would periodically enroll non-participating employees.

Automatically increase deferral rates

The T. Rowe Price report suggests that in an enhanced program, an effective approach to increasing participants' contribution rates is to require participants to opt out of automatic increases, as opposed to opting in.

Another new technique is called "auto boost." In this approach, deferral rates are automatically increased for current participants. Auto-boosting can help raise contribution rates to the basic default level and may maximize any company match.

A combination of auto-boosting and automatic rate increases could certainly help participants reach savings rates that are needed to accumulate comfortable retirement savings amounts. In an advanced program, the sponsor would periodically re-enroll participants who opted out of automatic increases in the past.

Use a QDIA to help diversify

Under an enhanced approach, the sponsor might "reset" participants' accounts into a Qualified Default Investment Alternative (QDIA) on a one-time, opt-out basis. This could be introduced to those who remain in a stable value default option and/or those who are using only one investment choice or otherwise do not have a well-diversified portfolio. An advanced program would periodically reset both the participant's contributions and account balance to the QDIA.

Visit http://tinyurl.com/TRPAutoSavingsDesign to view T. Rowe Price's white paper.

Best practices are suggested

The Defined Contribution Institutional Investment Association (DCIIA) recently released a white paper that, like the T. Rowe Price report, reviewed how automatic provisions can be structured to help participants achieve a better income replacement ratio in retirement. *Best Practices When Implementing Auto Features in DC Plans* reviewed case studies in which plan sponsors implemented auto features in "more robust" ways.

The review led to suggestions regarding best practices, including:

- Automatically enroll all current employees and future new employees in the plan.
- Establish the initial default deferral rate at a minimum of 6%.
- Implement automatic contribution rate increases of at least 1% or 2%, and set a maximum of no less than 15%.

The DCIIA study is at http://tinyurl.com/DCIIABestPractices.

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Participant-Directed Plans Allowed to Reschedule Annual Fee Disclosures to Employees

The participant fee disclosure regulations require participant-directed defined contribution plans to make annual disclosures. The annual disclosures include basic information regarding the plan, its expenses and investments. For most plans, the first disclosures were due August 30, 2012. Plan Administrators are required to provide the disclosures thereafter at least annually (defined by the Department of Labor (DOL) as once in a 12-month period). This means that a Plan Administrator who provided the first disclosures August 25, 2012, would have to provide the second disclosures no later than August 25, 2013. This locked Plan Administrators into an August distribution schedule every year and prevented them from sending out the disclosures at the same time as other required annual notices.

In response to retirement plan professionals requesting guidance and relief, the DOL issued Field Assistance Bulletin 2013-2 which gives Plan Administrators an extension to provide the second (2013) disclosures. Instead of being due 12 months after the 2012 disclosures, they are now due 18 months afterwards. So, if the first (2012) annual disclosures were distributed on August 25, 2012, the Plan Administrator could wait until February 25, 2014 to distribute he second disclosures.

This allows a ONE-TIME reset of the disclosures deadline, which means the disclosures could be distributed with other required notices or at a time that is more convenient for the Plan Sponsor. For example, the disclosures could be provided with the annual Safe Harbor Notice, Vesting Notice, Qualified Default Investment Alternative Notice or after the end of the year. The extension is permitted if the Plan Administrator determines that using the extension will benefit participants and beneficiaries.

The DOL acknowledged that this guidance was issued too late for some Plan Administrators to utilize for 2013. Accordingly, if the second (2013) disclosures have already been provided, or if the Plan Administrator is already far along in preparing them, the DOL provided an option to delay the third disclosures instead. So, a

Plan Administrator could give the second (2013) disclosures in August 2013, and wait until as late as February 2015 to provide the third disclosures.

The DOL is also considering amending the regulation to allow a 30-45 day window to provide annual disclosures. The reason for considering this change is because over time providing the disclosure earlier than the latest date possible will result in a deadline that continually becomes earlier. For example, if the disclosures were due on November 14, 2014, but the Plan Administrator provided them on November 3, 2014, then the next disclosures would be due by November 3, 2015.

As you are aware, TRA previously provided you with information on distributing your second (2013) disclosures. Although for 2013 the DOL was too late in issuing this guidance for TRA to facilitate a reset of our disclosures this year, as it is always TRA's goal to ensure that the administrator of your plan is as efficient as possible, when we have established our action plan for facilitating a reset for providing the third disclosures, we will provide you with details.

More information can be found at
http://www.dol.gov/ebsa/newsroom/2013/ebsa072213.html.

Please note that your Plan Provider's approach for handling the reset for providing its disclosures may differ from TRA's.

Please contact your Retirement Plan Consultant if you have any questions or would like to discuss further. ■

Pension Plan Limitations for 2013

401(k) Maximum Elective Deferral (*$23,000 for those age 50 or older, if plan permits)	$17,500*
Defined Contribution Maximum Annual Addition	$51,000
Highly Compensated Employee Threshold	$115,000
Annual Compensation Limit	$255,000

Plan Sponsors Ask…

Q: We're considering developing a short seminar for our employees about retirement readiness. Our goal is to talk about broad issues and not get into too much detail. Where can we get some ideas for this?

A: As a starting point, you may want to look at the Transamerica Center for Retirement Studies' *14th Annual Transamerica Retirement Survey*. The focus of this year's edition is retirement readiness.

Five key elements of retirement readiness were identified:

- A clear vision of retirement (dreams, retirement age, working during retirement)
- A retirement strategy (savings needs, risks, backup plan)
- Retirement income (savings and investments, pensions, Social Security)
- Knowledge to make good decisions (investments, benefits, health care)
- Family understanding (dialogue, support)

In addition to survey results, the report offers some concepts you might find helpful in your presentation, such as seven tips to becoming ready for retirement.

The survey is available at http://tinyurl.com/TransamericaSurvey.

Q: As we consider adopting an automatic enrollment provision in our 401(k) plan, what fiduciary issue is most important?

A: The decisions to offer or terminate a 401(k) plan, adopt an automatic contribution feature, and/or set a default contribution rate are not fiduciary in nature. Rather, they are business decisions.

Choosing a default investment for automatically enrolled participants who do not make a choice of their own is a fiduciary act. If you establish a QDIA you will need to do so with the same level of "prudent person" diligence that applies to other fiduciary acts related to qualified retirement plans.

A QDIA must meet Department of Labor requirements in order to reduce fiduciary liability for the plan sponsor. For example, the QDIA must generally be one of the following: a target date or life cycle fund, a professionally managed account, a balanced fund, or a stable value fund.

Also, there are notice requirements and other provisions that must be satisfied.

Be sure to consult your plan's counsel about implementing an automatic enrollment program.

Q: Has there been research into whether online calculators and/or financial advisors are effective in helping participants set retirement savings targets?

A: Yes. The Employee Benefit Research Institute (EBRI) used data from the *2013 Retirement Confidence Survey* to determine if its participants' Retirement Readiness Ratings would change if they used calculators and/or advisors. (Retirement Readiness Ratings reflect the probability of having sufficient retirement income.)

For those in the lowest income quartile, EBRI found that the Retirement Readiness Rating (RRR) increased by 14.6 percentage points to 18.2% if participants used calculators. In the highest income quartile, the increase in the RRR ranged from 8.7 to 14.7 percentage points.

For those who used the assistance of a financial advisor, the RRR for the lowest income group increased by a range of 9.1 to 12.6 percentage points. In the highest income quartile, the range of the increase in the RRR was 6.3 to 11.0 percentage points.

The data indicates that using online calculators and obtaining advice from a financial advisor have a positive impact on the likelihood of having enough retirement income.

EBRI's study can be viewed at http://tinyurl.com/EBRICalculators. ■

Participation Reaches All-Time High

After reviewing data about the behavior and accounts of more than 3.5 million participants, Aon Hewitt's *2013 Universe Benchmarks* report indicates that overall defined contribution plan participation reached a new high of 78% in 2012. The rate was nearly 82% for those plans with automatic enrollment and about 64% in plans without that feature.

The average pre-tax contribution rate was 7.3%, and the average Roth 401(k) contribution was 6%. Almost 73% of participants contributed at or above the employer match threshold.

Slightly more than two-thirds (68%) of total plan assets were invested in equities. The average participant allocation to pre-mixed portfolios was almost 40%.

Only 14% of participants traded in their accounts in 2012, down from 20% in 2008.

Visit http://tinyurl.com/Aon2013UniverseBenchmarks to see more of Aon Hewitt's research. ■

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 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 on 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.

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