

# Plan Sponsor Retirement ZONE



Experience Makes The Difference • Total Flexibility • International Knowledge, Global Access • Retirement Made Simple

2ND QUARTER 2010

## Sponsors List 2010 Priorities

Plan sponsors' top two priorities for this year are encouraging employees to be accountable for their own future and enhancing employees' understanding of their future retirement benefits, according to the survey results in Hewitt Associates' *Hot Topics in Retirement 2010*. A third focus is helping employees to retire with sufficient assets.

### *Automated features becoming standard*

Nearly 60% of survey respondents offer automatic enrollment, and 12% of those who don't are very likely to adopt it this year. Automatic contribution escalation is now included in 59% of plans. Of those who don't offer it, 38% said they are very or somewhat likely to do so in 2010.

More than half of sponsors (54%) reported offering automatic rebalancing. All of the remaining sponsors said they are very or somewhat likely to make it available this year.

### *Roth 401(k) remains steady*

Almost 30% of respondents permit Roth 401(k) contributions, about the same as last year. Of those not offering it, 25% said they are very or somewhat likely to add it this year.

### *Communications will be emphasized*

Communication campaigns will be launched in 2010, respondents said, including topics such as diversification and fund usage, plan participation, contribution levels, financial education and retirement income adequacy.

Messages specifically related to market volatility will include dealing with market swings through diversification, investing for the long term, the advantages of rebalancing and the importance of saving now to reach retirement goals.

To get these messages out to employees, sponsors will use articles posted on a benefits Web site (73%), targeted mailings (70%), e-mails (62%), online modeling tools (61%) and in-person seminars (59%). Webinars, articles in internal newsletters and educational videos are other vehicles that will be used.

Online investment guidance is expected to continue to grow this year: 42% of plans expect to offer it. Investment advice will be a feature added by 34% of sponsors.

### *Risk management will be studied*

Sponsors expect to look at their plan governance structure, benchmark plan administration, perform a compliance review, hire a third party to review the plan's investment offerings and review fund expenses.

For survey details, go to  
<http://tinyurl.com/HewittHotTopics2010>. ■

How does gender affect the likelihood of participating in a retirement plan? See the Employee Benefit Research Institute's analysis at  
<http://tinyurl.com/EBRIGenderDiff>.

Visit our website to sign up for future newsletters. While there take advantage of our myriad online tools to help you plan for your financial future.

**FMI**<sup>®</sup>  
Pensions123.com

## Pension Plan Limitations for 2010

401(k) Maximum Participant Deferral	\$16,500*
<i>(*\$22,000 for those age 50 or over, if plan permits)</i>	
Defined Contribution Maximum Annual Addition	\$49,000
Highly Compensated Employee Threshold	\$110,000
Annual Compensation Limit	\$245,000

## Final Safe Harbor Rule Is Published

The Department of Labor (DOL) announced the final safe harbor rule for small plans concerning timeliness of deposit of participant contributions in retirement plans. The final rule is consistent with the rule proposed by the DOL in February, 2008.

Currently, employee contributions must be deposited as soon as they can reasonably be segregated from the employer's assets, but not later than the 15th business day of the month following the month during which contributions are received or withheld by the employer.

The DOL's new safe harbor provides that contributions will be viewed as deposited on a timely basis if they are deposited in the plan no later than the 7th business day following the day on which the contribution is received or withheld by the employer. (In many cases, the contributions can "reasonably be segregated" well before 7 business days, so the safe harbor simply provides a cushion.) Note that "deposited in the plan" means placed in an account under the plan, without regard to whether the contribution has been allocated to specific investment options for a participant.

Compliance with the safe harbor rule is optional, and applies only to plans with fewer than 100 participants at the beginning of the plan year.

Contributions to which the safe harbor applies include elective deferrals, after-tax contributions and loan repayments.

The final rule is at <http://tinyurl.com/SafeHarborRule>. ■

## Savers Confused by Target-date Funds

Investors holding target-date funds with other funds may have a "potentially inferior portfolio" in terms of the risk/reward spectrum, according to research by the Employee Benefit Research Institute (EBRI). Savers could end up with more assets in certain sectors of the market than the target-date fund managers had planned.

Target-date fund (TDF) investors who also hold other funds are likely to be middle-income and middle-wealth participants and are referred to as "mixed" investors. They made up about 55% of those holding TDFs in their accounts. "Pure" TDF savers are more likely to be younger or lower-paid participants who are enrolled automatically in a default fund that is a TDF.

The study concluded that some "mixed" investors don't understand that a TDF is designed as an "all-in-one" portfolio solution. They're more likely to have multiple TDFs than "pure" savers who invest only in one TDF. Also, "mixed" investors with relatively aggressive TDFs for their age group, such as someone in his 50s investing in a 2050 fund, are more likely to actively invest in equity funds than those using an age-specific investment rule.

Details of this EBRI study of 401(k) investors are at <http://tinyurl.com/TargetDateFunds>. ■

## Americans Are Confident in 401(k) Plans

A large majority of Americans were confident in their 401(k) plan and their investment options in late 2009, according to the Investment Company Institute's (ICI) *Enduring Confidence in the 401(k) System: Investor Attitudes and Actions* report.

Nearly 78% of those surveyed said they are confident that retirement plan accounts help people achieve their retirement goals. Even larger majorities supported key 401(k) features such as tax advantages, payroll deduction, and individual choice and control.

Overall, 85% of those saving in a defined contribution plan agreed that their plans offer a good menu of investment choices. Nearly 100% said that it is important to them to have choice in, and control of, their retirement plan investments.

The ICI's study is at <http://tinyurl.com/ICI2009InvestorAttitudes>. ■

# Plan Sponsors Ask...

**Q:** Has any regulatory guidance been issued about the HEART Act?

**A:** Yes. Since the Heroes Earnings Assistance and Relief Tax Act of 2008 (HEART Act) made changes to the Internal Revenue Code, the Internal Revenue Service (IRS) issued advisory information in January, 2010 covering aspects of 401(k) and other benefits for employees called up for active military duty.

The guidance, in the form of questions and answers, includes questions related to treating individuals, for benefit accrual purposes, as if they returned to employment on the day before death or disability and then terminated on death or disability. For example, vesting credit must be granted for a deceased person if the plan would have given that credit upon death following actual reemployment.

Further, differential wage payments (to cover the difference between pre-active-duty pay and military pay) need not be treated as compensation for determining plan contributions.

The IRS' guidance is at <http://tinyurl.com/IRSHARTAct>.

**Q:** Is there research regarding the effect of educational level on retirement plan participation?

**A:** Yes, thanks to the Employee Benefit Research Institute (EBRI). EBRI's research found that workers with lower educational achievement had lower levels of participation in retirement plans. Also, educational attainment was strongly related to pay.

The most highly educated had the highest participation levels in retirement plans, even when controlling for earnings. Differences with less-educated employees were smaller. But, those with no high school diploma had significantly lower participation rates than those holding at least a high school diploma.

Less than half (48%) of workers without a high school diploma and earning \$50,000 or more participated in a retirement plan. By way of contrast, almost 63% of those with the same earnings and only a high school diploma, and 76% of workers with a graduate degree, participated.



Details of EBRI's research are at <http://tinyurl.com/EBRIEducationEffect>.

**Q:** How did plan sponsors cope with the effect of economic conditions on their 401(k) plans in the last few years?

**A:** Survey results indicate that, in general, sponsors demonstrated continued commitment to their participants during the downturn of 2008 and 2009. The Profit Sharing/401(k) Council of America (PSCA) found that the majority of plan sponsors maintained their matching or other employer contributions, and a large percentage enhanced their employee education programs.

The *Impact of Economic Conditions on 401(k) and Profit Sharing Plans* survey revealed that 77% of companies made no changes in their matching contributions and 74% did not change their non-matching contribution.

Plans took a number of actions to help plan participants. About 55% increased their education efforts. Almost 20% changed the investment menu, 10% added investment advice as an option and 10% delayed scheduled plan design changes.

Other employer actions included adding automatic enrollment and/or automatic contribution escalation, adding hardship withdrawal provisions to the plan, providing on-site training to cope with market volatility and adding target-date funds as investment choices.

The PSCA's survey is at <http://tinyurl.com/PSCAEconImpact>. ■

## Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans  
[www.irs.gov/ep](http://www.irs.gov/ep)

Department of Labor,  
Employee Benefits Security Administration  
[www.dol.gov/ebsa](http://www.dol.gov/ebsa)

401(k) Help Center  
[www.401khelpcenter.com](http://www.401khelpcenter.com)

Plan Sponsor Magazine  
[www.plansponsor.com](http://www.plansponsor.com)

BenefitsLink  
[www.benefitslink.com](http://www.benefitslink.com)

Profit Sharing/401(k) Council of America  
[www.pasca.org](http://www.pasca.org)

Employee Benefits Institute of America, Inc.  
[www.ebia.com](http://www.ebia.com)

Employee Benefit Research Institute  
[www.ebri.org](http://www.ebri.org)

## Fix-It Guide is Revised

The Internal Revenue Service (IRS) has revised both its *401(k) Plan Checklist* and the *401(k) Fix-It Guide* for plan sponsors.

The *401(k) Plan Checklist* is intended to help sponsors review, on an annual basis, their plan's compliance with ten key operational requirements, such as monitoring elective deferrals and compliance with loan and hardship rules.

It is supported by the *401(k) Fix-It Guide*, which includes a summary chart of the ten basic requirements in the Checklist and how to find, fix and avoid a violation of each one. It also offers helpful, concise overviews of 401(k) provisions and the IRS' Employee Plans Compliance Resolution System.

This resource also includes detailed and practical information and links to additional guidance for each of the ten major requirements.

The IRS' updated Checklist and Fix-It Guide are at <http://tinyurl.com/IRS401kChecklist>. ■

## Plan Sponsor's Quarterly Calendar

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

### JULY

- Conduct a review of second 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 April 1st and June 30th received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan's Form 5500 is submitted by July 31st, unless an extension of time to file applies. (Calendar year plans).

### AUGUST

- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30th, unless a Form 5500 extension of time to file applies. (Calendar year plans).
- Submit employee census and payroll data to the plan's recordkeeper for mid-year compliance testing. (Calendar year plans).
- Confirm that participants who terminated employment between January 1st and June 30th elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

### SEPTEMBER

- Send 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.
- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2nd and December 2nd. (Calendar year plans).
- Distribute the plan's Summary Annual Report by September 30th to participants and beneficiaries, unless an extension of time to file Form 5500 applies. (Calendar year plans).

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; 877-306-5055; [www.kmotion.com](http://www.kmotion.com)

© 2010 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.