PLAN SPONSOR
outlook
A Resource on Current Issues for Plan Sponsors and Administrators
First Quarter 2015

Getting Employees' Attention Is Key

Having an effective employee engagement strategy is the most important component of a successful retirement plan, according to a recent white paper. The impacts of plan design, plan management, and investment solutions are all reduced without one.

Engaging employees involves three major factors. First, plan sponsors need to understand that different employee groups, based on age, gender and other characteristics, are subject to different demands. Therefore, different messages will appeal to each group.

Second, communications to employees need to be brief, concise, relevant and easily understood. They must quickly interest and intrigue readers and present simple ways to take the next steps, such as completing the enrollment process or raising their plan contributions. Sponsors need to embrace technology and communicate through email, social media and plan websites.

Third, use relevant guidance and advice. Guidance educates and informs employees about the retirement plan's benefits, and advice helps them reach and implement decisions that are likely to enhance their retirement readiness. Advice can be helpful in reducing employee inertia and keeping employees on track with retirement saving.

Relevance is key to a successful engagement approach. Knowing the employees' characteristics, using their favorite technologies to reach them, and offering guidance and advice that has meaning to them should result in engaging employees and supporting their efforts in building a secure financial future.

TIAA-CREF's *Retirement Readiness Starts With Employee Engagement*, which includes specific engagement tips for Generation Y and women and a helpful checklist covering five key engagement steps, can be read online at http://tinyurl.com/TIAACREFEngagement.

Are You Using Electronic Disclosures?

If your plan uses electronic delivery of required disclosures to employees, you are likely simplifying the disclosure process, making information delivery more reliable and reducing plan administration costs, according to the Principal Financial Group.

Principal's Electronic Delivery of Participant Disclosure Materials is a guide for plan sponsors to the Department of Labor (DOL) and Internal Revenue Service (IRS) requirements regarding the use of electronic means to deliver ERISA-required and other notices to employees.

This brochure describes approved electronic delivery options, such as the DOL's Electronic Disclosure Safe Harbor, which enables sponsors to meet the requirement that delivery methods are "reasonably calculated to ensure actual receipt of the material." In addition, there is a summary of the IRS's Electronic Media Guidance, which conforms to the principles of the DOL's safe harbor.

A helpful list of important required notices and disclosures, specifying the information that should be included in the disclosures and which electronic delivery options may be used by plan sponsors, is included.

This practical and concise booklet is available at http://tinyurl.com/ElectronicDisclosures.

Savings Rate Should Be 14%

The National Retirement Risk Index (NRRI) estimates that about 50% of working families are at risk of being unable to maintain their current standard of living in retirement. Boston College's Center for Retirement Research (CRR) studied how much workers would need to save to maintain their pre-retirement standard of living.

CRR researchers concluded in How Much Should People Save? that, on average, workers need to look to retirement savings plans for about 35% of their retirement income. To reach that income target, the average required savings rate is 14%, assuming that saving begins at age 35 and retirement is at age 65.

Prudential, which sponsors the NRRI, noted in The Role of 401(k)s in Retirement Income that 401(k) plans can enhance retirement security with matching contributions, automatic enrollment, retirement income modeling tools, and guaranteed retirement income options.

The CRR report is at http://tinyurl.com/CRRSavingRate, and Prudential's paper is at http://tinyurl.com/PruRetIncome.

Gen X Is Not Prepared to Retire

Workers between the ages of 37 and 50 are poorly prepared for retirement, according to the *15th Annual Transamerica Retirement Survey of Workers*. Only 24% of Generation X (those born between 1965 and 1978) reported that their greatest financial priority is saving for retirement.

One-third of survey respondents expect a decline in their standard of living in retirement. As a result, more than half plan to work beyond age 65 or not retire at all. About 51% plan to continue working following their retirement.

The overall picture for Generation X gets even bleaker. Almost 40% prefer not to think about or bother with retirement investing until their retirement date is closer, and two-thirds admit that their retirement investing knowledge isn't at the level it should be.

On a brighter note, two-thirds of respondents said they want more information and advice.

Go to http://tinyurl.com/TransGenerationX to see the Generation X survey results.

Regulatory Briefing

DOL Issues Missing Participant Guidance

Following the cancellation of the letter-forwarding programs offered by the Social Security Administration and the Internal Revenue Service, the Department of Labor (DOL) issued new guidance regarding required efforts to reach missing participants and beneficiaries.

The DOL's Field Assistance Bulletin 2014-01 (FAB 2014-01) lists steps that must be taken to locate missing participants. These steps include:

- Send a certified letter,
- Check related plan and employer records,
- Contact the designated plan beneficiary, and
- Use no-cost Internet search tools.

If these efforts fail, rollover to an IRA or annuity remains the preferred distribution option for participant account balances.

While this guidance applies in the case of plan terminations, it may also be helpful in other situations.

FAB 2014-01 is at http://tinyurl.com/DOLMissingPartic.

IRS and DOL Update Disclosure Guides

Both the Internal Revenue Service (IRS) and Department of Labor (DOL) have revised their guides to required notices and filings for plan sponsors.

The IRS's *Retirement Plan Reporting and Disclosure Requirements* focuses on forms that must be filed with the IRS and notices to employees involving safe harbor plans and various contribution arrangements. This guide is at http://tinyurl.com/IRSReportingGuide.

Similarly, the DOL's *Reporting and Disclosure Guide for Employee Benefit Plans* outlines ERISA-required notices, such as Section 404(c) and blackout period disclosures. The DOL's guide is available at http://tinyurl.com/DOLReportGuide.

The IRS's revised *401(k) Plan Checklist*, with links to background and correction information, is at http://tinyurl.com/IRSPlanChecklist.

Plan Sponsors Ask...

Q: What are some of the key points we need to keep in mind in handling forfeitures?

A: When a plan participant terminates employment, his or her unvested account balance becomes subject to forfeiture. These amounts arise when employer contributions to the participant's account are not 100% vested.

Most plans provide that forfeitures occur after five consecutive one-year breaks in service. Other plans provide for immediate forfeiture upon distribution of a participant's vested account balance. In any case, forfeiture provisions should be spelled out in the plan document.

Internal Revenue Service rules specify four ways in which forfeitures can be used. They can:

- Reduce future employer contributions.
- Pay reasonable plan expenses.
- Be allocated among participants as additional contributions.
- Restore previously forfeited participant accounts.

Handling forfeitures is a discretionary function under ERISA, so fiduciaries managing them must act in the best interests of participants and beneficiaries.

As far as timing, the Internal Revenue Code generally requires that forfeitures are to be distributed on an annual basis.

Correction activity, such as removing an erroneous employer contribution, and missing participants may provide challenges to plan sponsors with respect to forfeitures. Other issues may come up in a plan termination. Be sure that your plan document and administrative procedures are fully documented as to how forfeitures will be managed.

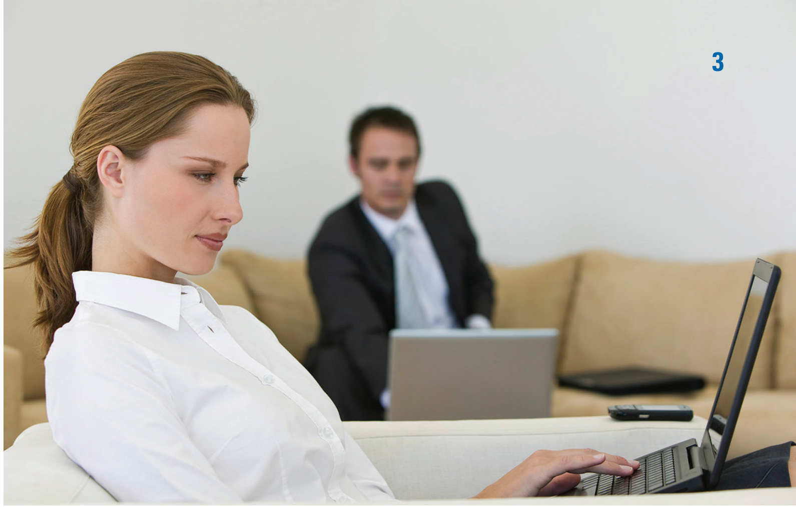
See http://tinyurl.com/VanguardForfeitures for a helpful overview of this topic.

Q: Can simplifying the enrollment process enhance the likelihood that employees will complete the enrollment process and save at a higher rate?

A: Recent research by Fidelity Investments indicates that an easy enrollment method can definitely increase enrollment and savings rates.

The researchers noted that a large number of employees don't complete the traditional enrollment process due to complicated forms and having to decide how much to save and how to invest. A wide range of financial literacy levels and numerous investment options contribute to this failure.

They tested both the standard enrollment method, in which the user chooses a savings rate and investment option, and an easy method, which provided a guided enrollment process offering three prepackaged options, each including a specific savings rate and a single investment choice.



The results of the experiment were that participants greatly preferred the simplified method over the standard enrollment process 78% to 22%. Also, the participants' average deferral rate was 8.3% under simple enrollment versus 6.5% in the traditional enrollment experience.

The researchers concluded that a guided, simplified enrollment approach may improve retirement saving outcomes and have a positive effect on participants' savings rates.

Details of this study are at http://tinyurl.com/FidelityEnrollment.

Q: Can you suggest an easy-to-understand overview of fiduciary responsibility that we can give to new members of our plan's administrative committee?

A: J.P. Morgan Asset Management recently published a helpful guide for fiduciaries. *A Plan Sponsor Fiduciary Guide: Understand Your Fiduciary Role* is a resource for those new to plan sponsor responsibilities. It also could serve as a refresher course for those who have been involved with plan administration for some time.

The guide covers the primary duties of a fiduciary, defines who is considered a fiduciary, and addresses how to limit risk.

It also includes an informative discussion of ERISA Section 404(c), as well as an introduction to QDIAs (Qualified Default Investment Alternatives) and how to meet the related regulations. Plan expenses are also described.

Practical guidance about establishing a plan committee is included, as is an ERISA compliance checklist.

The guide is at http://tinyurl.com/JPMFiduciaryGuide.

Pension Plan Limitations for 2015

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

Maximize Employer Match

More than 75% of those contributing to an employer-sponsored retirement savings plan receive matching contributions, and more than three-fourths of those participants contribute enough to receive the full match, according to TIAA-CREF's *Perfect Match Survey*. But, only 72% of women and 64% of workers earning less than $35,000 annually receive the entire match.

Many people don't appreciate what they're giving up by not getting the full match. As an experiment, researchers developed a specific set of facts regarding how much could be earned from the employer match (earn $50,000 annually from age 35 to age 65, a 3% match, contribute enough to get the full match). They calculated that the employer contribution would be worth almost $73,000 by the time the participant reached age 65.

Almost one-third of respondents said it would be worth less than $50,000. Generation Y respondents, those earning less than $35,000 annually, and women were even more likely to underestimate the value of how much the full match could be worth in retirement. TIAA-CREF concluded that data-driven examples would help participants realize how much they're giving up by not contributing enough to earn the full employer match. Learn more at http://tinyurl.com/TIAACREFMatch.

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
BenefitsLink	www.benefitslink.com
PLANSPONSOR Magazine	www.plansponsor.com
Plan Sponsor Council of America	www.psca.org
Employee Benefits Institute of America	www.ebia.com
Employee Benefit Research Institute	www.ebri.org

Plan Sponsor's Quarterly Calendar

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

APRIL

- If a plan audit is required in connection with the Form 5500, make arrangements with an independent accountant/auditor for the audit to be completed before the Form 5500 due date (calendar-year plans).
- Audit first 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 January 1 and March 31 received and returned an enrollment form. Follow up for forms that were not returned.

MAY

- Monitor the status of the completion of Form 5500, and, if required, a plan audit (calendar-year 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 in which they are covered.
- Perform a thorough annual review of the plan's Summary Plan Description (SPD) and other enrollment and plan materials to verify that all information is accurate and current, and identify cases in which revisions are necessary.

JUNE

- 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.

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RP-0124-1214
Tracking #1-334271