PLAN SPONSOR
outlook
A Current Issues Resource for Plan Sponsors and Administrators
Fourth Quarter 2013

Automatic Savings Features Are Evolving

Since the Pension Protection Act of 2006, automatic-enrollment and automatic-contribution rate increases have become popular features of 401(k) plan design. In fact, most surveys indicate that about half of 401(k) plans have automatic savings 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 enrolling all current employees and future new employees in the plan
- Establishing the initial default deferral rate at a minimum of 6%
- Implementing automatic contribution rate increases of at least 1% or 2%, and set a maximum of no less than 15%

The DCIIA study is in the Publications section at www.DCIIA.org.

Survey Finds Participants Want Advice

Workers appear to recognize that they are behind on saving for retirement: Only 30% of survey participants said they expected their savings to last through their retirement years.

Yet, the results of the J.P. Morgan Asset Management survey indicate that many participants are not confident in their ability to manage their retirement accounts or are just not interested. More than half (52%) said they don't have sufficient skills to plan for retirement, and almost half (44%) reported that they are receiving more 401(k) plan information than they can absorb.

Retirement planning knowledge is lacking

Survey participants were asked about confidence in their knowledge of retirement planning and investing. Only 22% indicated that they know which 401(k) investment options they should invest their contributions into. About one fourth felt they knew how to allocate their contributions across the plan's options.

Participants want professional advice

Nearly two-thirds of respondents want more detailed advice on how to save in their 401(k) plan, yet 65% said they don't take the time to read the investment information they receive.

About 52% would rather have an expert manage their account. Almost one in five (17%) would like to delegate retirement planning and investing entirely to a financial professional.

Income projections can help

Providing retirement-income projections to plan participants may encourage them to save more to reach the desired 75% to 100% income-replacement ratio recommended by many experts. One study found that those who receive projected retirement-income information increased their income-replacement ratio by 16%.

Visit http://tinyurl.com/Morgan2013PartSurvey for more information on this survey.

Pension Plan Limitations for 2013	
401(k) Maximum Participant Deferral	$17,500* **$23,000 for those age 50 or over, if the plan permits*
Defined Contribution Maximum Annual Addition	$51,000
Highly Compensated Employee Threshold	$115,000
Annual Compensation Limit	$255,000

Participants Move to Managed Allocations

According to Vanguard's How America Saves 2013, there is a clear trend of participants selecting professionally managed allocations in their portfolios. At the end of 2012, 36% of the 3 million participants studied were investing only in a single-target date fund, a balanced fund, or a managed account advisory service. This figure was only 17% in 2007.

At year-end 2012, 27% of participants were invested in one target-date fund, 6% were invested in a balanced fund and 3% used a managed-account option.

Among those enrolling in their defined contribution plan in 2012, 73% were invested only in a professionally managed allocation choice.

The growing popularity of target-date funds led the study authors to estimate that 55% of all participants and 80% of new enrollees will be in a professionally managed allocation option in five years.

Equity investing remained strong

Equities continued to be the largest asset class receiving plan funds. In 2012, 66% of assets were in equities, and 70% of participants' contributions went to equity investments.

With respect to requesting exchanges, only 12% of participants traded in their accounts in 2012. This represents a small decline from recent years.

Other results are consistent with the past

Among other activities included in the review, there was little change from previous years.

Key results:

- The average participation rate was 76% in 2012
- The average deferral rate was 7%
- 32% of plans had implemented automatic enrollment, and 70% of those plans had automatic-contribution rate increases
- 49% of plans permitted Roth contributions, and 11% of participants took advantage of that feature
- 18% of participants had an outstanding loan; the average balance was $9,000
- 82% of those who could have received a lump-sum distribution of their account balance due to separation from service remained in their former employer's plan or rolled over their accounts to an IRA or a new employer's plan

Details are available at http://tinyurl.com/HowAmericaSaves2013.

Expenses Declined

The Investment Company Institute (ICI) found that 401(k) participants' mutual-fund expenses declined in 2012. See the ICI's detailed report on mutual-fund fees, which can be found at http://tinyurl.com/ICIFees2012.

Q&A

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, healthcare)
- 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 for 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 Qualified Default Investment Alternative (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 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%to 18.2% if participants used calculators. In the highest income quartile, the increase in the RRR ranged from 8.7% to 14.7%.

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%. In the highest income quartile, the range of the increase in the RRR was 6.3% to 11.0%.

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

EBRI's study is 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	irs.gov/ep
Department of Labor, Employee Benefits Security Administration	dol.gov/ebsa
401(k) Help Center	401khelpcenter.com
BenefitsLink	benefitslink.com
PLANSPONSOR Magazine	plansponsor.com
Plan Sponsor Council of America	psca.org
Employee Benefits Institute of America, Inc.	ebia.com
Employee Benefit Research Institute	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.

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 in 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 all fiduciary understands their 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 displayed and readily available to employees, and that this information is complete and current.

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