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

Retirement Confidence Sank Even Lower

The Employee Benefit Research Institute (EBRI) *2013 Retirement Confidence Survey* revealed that 28% of workers were "not at all confident" about having enough money for a comfortable retirement, an increase of 23% among those who also participated in the 2012 survey. About 13% were "very confident," which is essentially unchanged from the previous survey.

About 17% of workers felt "very confident" that they were doing a good job of retirement preparation, while those who felt "not at all" or "not too" confident that they've done so remained unchanged at 36% from the 2012 survey.

Savings efforts continued to decline

Two-thirds (66%) of workers said they and/or their spouses have saved money for their retirement, which continues the decline from the 75% who responded this way in 2009. Also falling was the proportion of respondents who said they and/or their spouse were currently saving: 57%, versus 65% in 2009.

As previous Retirement Confidence Surveys have found, an alarming percentage of workers have little or no savings or investments. About 57% of workers reported that their savings and investments, excluding the value of their primary residence and any defined benefit plans, were less than $25,000. Also of concern is that 28% said their savings total was less than $1,000.

Only 10% reported that their savings and investments amounted to $250,000 or more.

Too few have set savings goal

Only 46% of workers said they and/or their spouse have calculated how much they need to save for a comfortable retirement, up from 42% in the 2012 survey. And 29% said they think they'll need less than $250,000 for retirement.

Expected retirement age rose

Almost one-quarter (22%) of survey respondents said their expected retirement age would be later than planned. In the new survey, 25% stated that they expect to retire after age 65. Those expecting to retire at age 70 or older represented 26% of those responding.

Confidence in retirement affordability declined

Workers continue to have limited confidence in their ability to pay for basic expenses (16% were "not at all confident"), medical costs (29% were "not at all confident") and long-term care expenses (39% were "not at all confident) in their retirement years.

As far as Social Security's ability in the future to provide benefits at least equal to those that retirees receive today, 41% were "not at all confident" this would happen. Similarly, 37% responded that they were "not at all confident" that Medicare would continue to provide benefits at today's level.

EBRI's survey can be found at http://tinyurl.com/EBRI2013RetConfSurvey.

Plan Sponsor Quiz: Plan Loans to Participants

According to the Plan Sponsor Council of America's 55th Annual Survey of Profit Sharing and 401(k) Plans, 89% of 401(k) plans permit participants to request a loan. On average, about 25% of participants had loans outstanding at the end of 2011, with an average balance of $8,873.

Even if your plan currently offers this feature, take the following quiz to test your knowledge of the basics of participant plan loans.

Test Yourself

Note whether you think each of the following statements is true or false, and then check your answers on page 4.

1. Loans cannot exceed a term of five years.
2. The Internal Revenue Code's general rule regarding the maximum loan is that it is the greater of 50% of the participant's account balance and $50,000.
3. Plans may, but are not required to, suspend loan repayments during an unpaid leave of absence.
4. The "cure period" for a missed loan payment is nine months.
5. Loans can be granted for any purpose.
6. The Internal Revenue Code sets no limit on the number of plan loans that a participant may have outstanding at any one time, but the plan may set a maximum.
7. Department of Labor rules impose a maximum of $100 for the loan fee that a plan administrator may charge a participant.
8. When a participant with a loan is granted bankruptcy protection, repayments by payroll deduction must stop immediately and the outstanding loan balance is discharged.
9. The Department of Labor requires that loan repayments be deposited in the plan's trust in the same time frame as elective deferrals and other participant contributions. ■

The Investment Company Institute has frequently asked questions about 401(k) plans and links to its 401(k) resources at http://tinyurl.com/ICI401kFAQs.

Pension Plan Limitations for 2013	
401(k) Maximum Participant Deferral	$17,500* *(*$22,500 for those age 50 or over, if the plan permits)*
Defined Contribution Maximum Annual Addition	$51,000
Highly Compensated Employee	$115,000
Annual Compensation Limit	$255,000

Automatic Features Remain Popular with Sponsors

According to a new survey conducted jointly by the American Benefits Institute (affiliated with the American Benefits Council) and WorldatWork, 56% of responding plan sponsors reported that they offer automatic enrollment.

The survey report, Trends in 401(k) Plans and Retirement Rewards, noted that one-fourth of these sponsors use automatic enrollment with an automatic contribution rate escalation feature and 30% have auto enrollment without auto escalation. About 18% of respondents not currently offering these provisions are considering auto enrollment.

Participation and contribution rates not surprising

About three-quarters of respondents said that their plan's participation rate was 70% or greater.

Similarly, 77% reported that the average participant contribution rate was at least 5%. Another 20% identified their average contribution rate as between 8% and 10%. The most commonly reported range of rates was between 5% and 7%.

Most sponsors indicated that fewer than 10% of participants contribute the maximum to the plan. And only two-thirds said that at least half of their participants were contributing at a level that would earn the full company match.

Education topics are expanding

More than half of respondents offered retirement planning and 41% made investment planning education available to participants. Newly introduced education topics included cash and debt management (offered by 20% of those responding), estate planning (11%) and insurance planning (9%).

Loans and hardship withdrawals decline from 2008

In the 2008 edition of this survey, 43% of respondents said they had seen an increase in hardship withdrawals and 49% saw an increase in loans. In the latest survey, only 25% of sponsors reported a rise in hardship distributions and 37% had seen more loan requests.

The full report can be found at http://tinyurl.com/AmerBenCouncilTrends. ■

Plan Sponsors Ask…

Q&A

Q: We have several new members of our plan's Administrative Committee. Is there a good source of information about fiduciary obligations that they can explore on their own?

A: The Department of Labor's Employee Benefits Security Administration has consolidated all of its guidance regarding fiduciary responsibilities in one location on its website.

This page, http://tinyurl.com/DOLFiduciaryEducation, includes a link to its ERISA Fiduciary Advisor, which is an excellent resource for definitions, duties and liabilities related to a fiduciary's role in retirement plan administration. Through a series of questions and answers, the ERISA Fiduciary Advisor serves as a useful introduction to this topic.

Also included are links to various Department of Labor publications, such as *Meeting Your Fiduciary Responsibilities and Understanding Retirement Plan Fees and Expenses*.

Q: Does providing account balance and retirement income projections encourage participants to save more for retirement?

A: Yes, according to research by the Center for Retirement Research at Boston College. However, it was not just the income projections that led to increased savings. It was the combined effect of receiving retirement planning information along with the projections that resulted in greater savings.

Researchers divided a sample population into four groups: a control group, a group that received general material about saving for retirement, one that received general information regarding how additional contributions could result in higher account balances at retirement and a group that was given age-specific estimates of how higher contributions could increase retirement income.

The group receiving age-specific projections proved more likely than the control group to change their contributions. As a whole, members of the group receiving age-related estimates (including those who changed contributions and those who did not) increased their annual saving by a modest $85. But, when only those who changed their contributions are considered, annual saving increased by $1,150 more per year than the control group.

The researchers concluded that income projections had a statistically significant and beneficial effect on participants' knowledge and confidence, particularly when coupled with practical retirement planning information.

Do Income Projections Affect Retirement Saving? can be found at http://tinyurl.com/CRRProjections.

Q: Based on our review of retirement plan trends, it's clear that we need to consider adding an automatic enrollment feature to our retirement plan. Where can we go to get specific information about rules and requirements?

A: You will find the Internal Revenue Service's web page on this topic to be a helpful introduction to automatic enrollment.

The frequently asked questions (FAQs) cover the benefits of automatic enrollment, what notices must be furnished to employees, adding this feature to an existing plan and employee elections to not participate in automatic enrollment.

The FAQs can be found at http://tinyurl.com/IRSAutoEnrollFAQs. Also find *Automatic Enrollment 401(k) Plans for Small Businesses*, a brochure jointly produced by the Internal Revenue Service and the Department of Labor, at http://tinyurl.com/AutoEnrollBrochure.

The Investment Company Institute reported that Americans' retirement assets were nearly $20 trillion at the end of 2012. Of that amount, $5.4 trillion were in IRAs and $5.1 trillion were in defined contribution plans. See retirement asset details at http://tinyurl.com/ICIRetAssets2012.

Answers to Plan Loans to Participants Quiz on page 2

1. False. The one exception to the rule regarding the maximum loan term is the purchase of a principal residence, in which case the term can be greater than five years.
2. False. The Internal Revenue Code specifies the general maximum as the lesser of 50% of the vested account balance and $50,000.
3. True. Note that interest continues to accrue during the leave.
4. False. The "cure period" cannot extend past the end of the calendar quarter following the quarter in which the payment was due.
5. True.
6. True.
7. False. The Department of Labor requires only that, in practice, fees do not cause loans to be withheld from any participant and do not prevent large numbers of participants from receiving loans.
8. False. Federal bankruptcy laws were changed in 2005 to provide that the prevention of collection of certain debtor obligations during bankruptcy does not apply to a payroll withholding authorization to repay a plan loan. Such loans are also not discharged in bankruptcy.
9. True.

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
PLAN SPONSOR 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.

October

- Audit third 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 July 1 and September 30 received and returned an enrollment form. Follow up for forms that were not returned.
- For calendar year safe harbor plans, issue the required notice to employees during October or November (within 30 to 90 days of the beginning of the plan year to which the safe harbor is to apply). Also, within the same period, distribute the appropriate notice if the plan features an EACA (Eligible Automatic Contribution Arrangement), QACA (Qualified Automatic Contribution Arrangement) and/or QDIA (Qualified Default Investment Alternative).

November

- Prepare to issue a payroll stuffer or other announcement to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R to be mailed in January for reportable plan transactions in 2013.
- Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure that they are up to date.

December

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing. (Calendar year plans)
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during the year and if using an IRS or DOL self-correction program would be appropriate.

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