PLAN SPONSOR
outlook

A Resource on Current Issues for Plan Sponsors and Administrators

Second Quarter 2015

Participation Rate Rose Slightly

How does your plan compare?

Comparing your plan to others' can be an enlightening and useful experience. Each year, you have that opportunity, by reviewing the data in a popular industry survey. For example, the average participation rate in 401(k) plans was 89% at the end of 2013.* (The rate is defined as the average percentage of eligible employees who had a balance in the plan.) The rate the year before was 88%. An average of nearly 80% of eligible employees made contributions to the plan in 2013.

The average participant pretax deferral rate was 6.7%, compared to 6.8% the year before.

Fast eligibility continued

About 64% of companies permit employees to contribute to the plan immediately upon hire. Almost two-thirds (58%) grant immediate eligibility to receive the company match, while 30% require one year of service.

Auto-enrollment remained popular

About 50% of plans had an automatic enrollment feature.

The most common default deferral rate was 3% of pay (47% of plans). More than 40% of plans reported a default deferral rate greater than 3%.

Target retirement date funds remained the most common default investment option (72% of plans).

About 65% of plans with automatic enrollment also provide for automatic increases in contribution rates over time.

Roth feature usage rose

About 58% of plans permitted Roth 401(k) contributions, up from 54% the previous year. Based on ADP test results, the average Roth deferral rate of lower-paid participants was 3%. For higher-paid participants, the average was 2.6%.

Number of investment options was unchanged

The average number of investment choices offered to participants remained 19.

Other survey results

- More than 87% of plans had an investment policy statement. Monitoring of investments was done most often on a quarterly basis (67% of plans).
- Immediate vesting of matching contributions was reported by 38% of plans.
- A little over 19% of plans offered company stock as an investment option.
- Almost 86% of plans allowed hardship withdrawals, and about 2% of participants had such a distribution in 2013.
- Loans were permitted in 89% of plans. More than half of these plans (52%) allow only one loan at a time. The average loan balance was $10,385.
- Rollovers were accepted in nearly 98% of plans. Nearly two-thirds of plans (59%) require employees to be eligible to make elective deferrals before they can roll over assets into the plan.
- Catch-up contributions were permitted in 97% of plans. About 25% of those eligible for these contributions made catch-up contributions.

The survey results reflect the 2013 experience of 8 million participants in 613 plans that had a total of more than $832 billion in plan assets.

The survey may be purchased from the PSCA at www.psca.org.

* 57th Annual Survey of Profit Sharing and 401(k) Plans by the Plan Sponsor Council of America (PSCA), published December 3, 2014.

Company Stock Holdings Decline

Participants don't fully understand the risks of holding a large portion of their retirement plan assets in a single stock, including that of their employer, according to recent research. Even so, their retirement plan holdings in company stock are continuing to decline, thanks in part to employer concerns about risk.

Vanguard's June 2014 research, *Company Stock in Defined Contribution Plans: An Update*, analyzed about 1,500 plan sponsors and their 1,901 plans. Among these clients, Vanguard found fewer plans offering company stock and fewer participants holding a significant portion of their plan balances in company stock since its similar research in 2005. The update revealed a decline of about one-third in the number of plan sponsors now offering company stock in their plans.

Apparently, in recognition of the risks posed by substantial investments in company stocks in a retirement account—both for the participant and in terms of legal repercussions for the plan sponsor—plan sponsors in this research (which you can view at http://tinyurl.com/CoStockUpdate) often limit the ability of participants to invest their own contributions in company stock. Forty-seven percent of those actively offering company stock in their plans restrict employee elective contributions in company stock, with nearly a majority restricting it to 0%.

Plan Investments Heavy on TDFs, Index Funds

Take a peek behind the scenes of other sponsors' plans and you may gain some useful insights into ways to improve your own plan. Some key findings in a recent benchmarking report include:

- The most common investment vehicle was the mutual fund, which held 46% of 401(k) plan assets. In all but the largest plans, mutual funds held more than half of plan assets; the largest plans relied more on collective investment trusts, which held about 21% of assets overall for 401(k) plans.
- At the end of 2012, nearly 70% of 401(k) plans offered target date funds, up from about 29% in 2006.
- Index funds, which generally offer lower expense ratios than actively managed funds, held about 25% of plan assets in 2012. Plans with assets of $10 million or less had about 10% in index funds, compared to more than 20% in plans with more than $250 million in assets.
- BrightScope's research shows plan costs are trending lower. The 2012 average total plan cost (which includes administrative, advice, and asset-based management fees, as well as other fees gleaned from 2012 Form 5500 filings) was 0.91% of assets, down from 1% in 2009.

This information was gathered from private sector 2012 Form 5500 filings and compiled in a report by BrightScope and the Investment Company Institute (ICI), published December 2014. See *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans* online at http://tinyurl.com/ICICloseLook401k.

2015 Hot Retirement Plan Topics

Do Your Priorities Agree?

It can be both interesting and useful to keep an eye on trends in employer retirement plans. What are the hot topics in retirement plans, as determined by a variety of employers, for 2015?

One is a continued expansion of the tools available to plan participants that could aid their efforts to reach retirement readiness. Plan sponsors are also focused on overall financial wellness, recognizing that saving for retirement may take a back seat for people with unaddressed financial concerns.

The survey, the ninth annual from Aon Hewitt, asked nearly 250 employers of about 6 million employees what their top retirement plan concerns and priorities are for 2015. The highest priority, with 93% saying they are very likely or moderately likely to take action in 2015, was "Create or focus on financial well-being of employees beyond retirement."

Employers also said they are very likely or moderately likely during 2015 to:

- Measure competitive position of plan (82%);
- Implement initiatives to address retirement savings gaps (75%);
- Evaluate the design of the overall retirement program to make sure it is appropriate for our future workforce (75%);
- Measure/project the expected retirement income adequacy of employees (72%); and
- Evaluate phased retirement alternatives (38%).

Of note in the report is a changing approach to plan loans, which may hamper efforts to accumulate sufficient retirement assets. Seventy-seven percent of respondents said they believe minimizing leakage—in the form of plan loans or withdrawals—is a very or moderately important issue. Fifty-seven percent plan to take some action in 2015 to stem the leakage. The primary strategy would be to educate participants about the risks of taking a loan or withdrawal, with 86% of sponsors reporting they are very or moderately likely to do so. Sixty-eight percent said they are likely to study demographic data to learn more about participants taking loans, with a further 11% reporting they have already completed this task or don't believe it is needed in 2015.

On the financial wellness front, respondents indicated their understanding that financial well-being extends beyond retirement plan decisions. Almost 93% of them said they are very or moderately likely to create or focus on their employees' financial well-being outside retirement plan decision-making. Nearly half (49%) of employers believe that the significance of financial wellness is increasing, particularly in the last two years. Just 1% said it is less important.

Read more from the *2015 Hot Topics in Retirement* benchmarking report at http://tinyurl.com/Aon2015HotTopics.

Plan Sponsors Ask...

Q: We aren't seeing large numbers of participants utilizing the Roth accounts in our 401(k), even though it was introduced three years ago. What are other plan sponsors experiencing?

A: Like you, many employers that offer a 401(k) plan have added Roth accounts for their participants. In fact, Roth accounts have become increasingly popular for 401(k) plan sponsors, with over 50% of them now offering the option. But, says a working paper from the National Bureau of Economic Research, just under 9% of workers who have a Roth option in their employer-sponsored plan had taken advantage of it as of 2013.

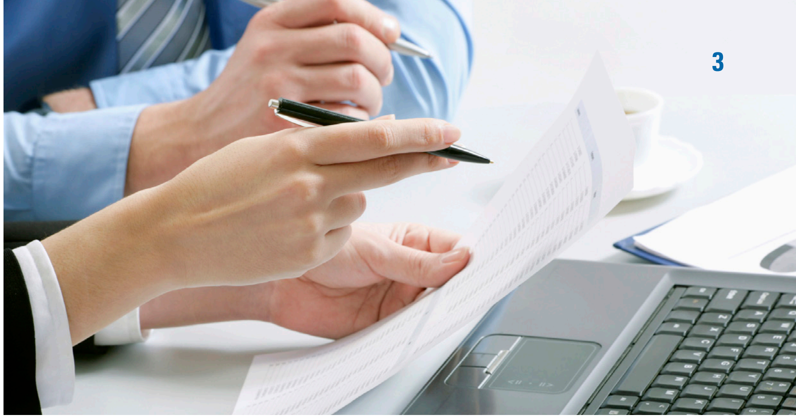
There is no one right answer to the question of whether a pretax or Roth account is better, and that may have something to do with the lack of uptake among participants. However, uptake is significantly higher—in fact, double—among participants hired after a Roth account was initially offered as compared to participants who were employed before. The authors of the working paper chalk this up to the human tendency to leave well enough alone; when people have already made a decision (where to direct their 401(k) contributions) or are intimidated by a decision ("Which kind of account is better for me?") they tend toward inertia. The Roth account may be better explained to new hires as compared to longer-tenured employees, too.

While both Roth and pretax options have merit, educating participants about their differences could benefit the retirement savings of your employees, so it's a good idea to regularly communicate about it if you have one available. Read the working paper here: http://tinyurl.com/NBERRoth.

Q: Plan participants have been asking us about lifetime retirement income options, and we are concerned about helping them make their money last. Can you provide some information on how we can do that?

A: Participants are indeed very concerned about ensuring a lifetime income in retirement. In fact, 84% of those responding to a recent survey said having a guaranteed monthly income for life is important to them. Yet, only 44% of them know for sure whether or not their plan offers a monthly retirement income option, and just 14% have purchased an annuity.

Providing access to financial advice is a key way employers can help employees understand their retirement income needs, according to the report. Sixty-two percent of respondents said they have not performed an analysis of how their retirement savings will translate into monthly income; only 10% have performed such an analysis with the help of a benefits expert through their employer.



Learn more by viewing TIAA-CREF's *Lifetime Income Survey* at http://tinyurl.com/TIAACrefLifetimeIncome.

Q: We have heard that health savings accounts could help employees save even more for retirement. What do we need to know?

A: Money accumulated in a health savings account can indeed be used in retirement. Much like a 401(k) plan, employee contributions to HSAs, as well as the earnings on the account, are pretax. That's why there are some who suggest using an HSA to help employees increase their pretax contributions—and their ultimate retirement savings.

The concern is that employees may need $200,000 or more solely for medical costs, including premiums and out-of-pocket expenses, in their retirement years. Employees whose 401(k) contributions reach the maximum allowable level each year need to find other ways to save money.

There is some debate about whether or not the HSA is a viable option. In an environment where a health insurance plan is a competitive benefit, a high-deductible health plan, to which the HSA must be tied, may not look attractive to candidates. The Employee Benefit Research Institute (EBRI) says that an employee saving in an HSA for 20 years could accumulate between $118,000 and $193,000, depending upon the rate of return and contribution amounts. But it concedes that in order to maximize the accumulations in the HSA, the employee would need to pay current medical expenses out of pocket using after-tax money—something that is likely to be a stretch for most employees.

Read more about HSAs and their potential for retirement savings in the EBRI report, *Lifetime Accumulations and Tax Savings From HSA Contributions*, at http://tinyurl.com/EBRIHSA.

Pension Plan Limitations for 2015	
401(k) Maximum Participant Deferral	$18,000* **$24,000 for those age 50 or older, if the plan permits*
Defined Contribution Maximum Annual Addition	$53,000
Highly Compensated Employee Threshold	$120,000
Annual Compensation Limit	$265,000

Can Participants Really Save $1 Million in Their 401(k) Plans?

Maybe participants really can save $1 million in their 401(k) plans by contributing a modest percentage of pay, if they start early, invest well, and receive regular pay raises.

Columnist Andrea Coombes came to that conclusion after tinkering with the 401(k) calculator at BankRate.com. Specifically, Coombes says a participant earning $75,000 annually and receiving 3% pay raises each year could accumulate $1 million by contributing 7.3% of pay every year for 30 years. The participant would need to get a 7% rate of return on the account and an employer match of 50% of the first 6% of contributions.

A goal of $1 million in retirement savings very likely seems out of reach to many participants. Regularly communicating about saving and investing, including showing projections translated into retirement income "paychecks," can make a difference.

Read Coombes' MarketWatch column for more information at http://tinyurl.com/SaveMillionMktWatch.

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.

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 1 and June 30 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 31, 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 30, 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 midyear compliance testing (calendar-year plans).
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

SEPTEMBER

- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2 (calendar-year plans).
- Distribute the plan's Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies (calendar-year plans).
- Send a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans.

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