

## Helping Employees Reach a Higher Level of Preparedness

There are a variety of goals for any retirement plan. Surely one of the most important is to help employees reach a state of retirement readiness. This is no small task, considering that retirement may last 30 years or even longer for many people working today. The industry and employers continue to learn how best to accomplish this daunting goal. After all, in most cases employees cannot count on a pension. Yet they are often resistant to save. Accumulating enough on their own is a challenge for them and for their employers.

Recognizing this dilemma and seeking to help employers pave a smoother road for their employees, Fidelity identified a four-pronged strategy it calls “Retirement Vision 2020.” This strategy was designed to ensure that as many American workers as possible can achieve a secure retirement.

One of the chief recommendations of the strategy is that companies view retirement in a holistic way. It is the end goal, and should be informed and built in a way that considers both attitudes and other benefit programs.

According to Fidelity’s roadmap, a successful retirement program should:

- **Design for income.** Traditionally, employers and advisors recommend that employees strive to contribute a particular percentage of pay. Rather than focusing on contributions, the report suggests that employees should be encouraged to aim for an income replacement level in retirement, and measure their contributions and balances against that goal. The 2020 report suggests a reasonable starting point of 50% of final net pay, but acknowledges that some employers may set different goals depending upon other factors, such as an existing pension plan.
- **Account for health care.** When designing or making changes to the retirement plan, the retirement committee should not operate in a vacuum. Rather, the design group should include representatives from the employer’s health care team and other pertinent areas. All parties (including plan participants) need to understand the increasingly



significant role health care costs are playing for retirees. In fact, Fidelity’s 2014 Retiree Health Care Cost Estimate shows that the average 65-year-old couple may need more than \$220,000 to pay for health care expenses in retirement.

- **Engage and empower.** Employees in general need more than a handout and a link to a website in order to engage with the plan. The right combination of guidance and easy access to resources can make a big difference in employee engagement—and engaged employees tend to save more. Fidelity’s own research shows that employees using their Web-based tools raised their average deferral percentages by 4.3%. Of course, some employees don’t engage at all. For those, aggressive automatic features can help. Setting the bar high in terms of enrollment percentage and contribution increases, and automatically investing them in age-appropriate funds, may make a real difference.
- **Transition with confidence.** Retirement dreams differ from person to person, but one thing is constant: the need for an income to support them. Fidelity’s research shows that 31% of Americans are unsure whether they can meet their retirement income requirements, and 11% are sure they can’t. Employers can help them gain confidence to take on the future by providing needed tools and support, and helping them engage.

Fidelity’s Retirement Vision 2020 is available online at <http://tinyurl.com/Fidelity2020>.

# The Major Impact of New Plan Design, Provisions

The upswing in the number of plans utilizing automatic features and the associated managed investments is having a dramatic impact on participant accounts. Auto features include automatic enrollment and automatic contribution increases. These are very often accompanied by a Qualified Default Investment Alternative that is managed on the participant's behalf.

Today's private sector retirement plan system is dominated by defined contribution plans. More than 90 million Americans are covered by DC plans, holding their more than \$6.5 trillion in assets.

In the 2015 entry in its series "How America Saves," Vanguard examined their 2014 recordkeeping data to arrive at some high-level insights into the U.S. retirement system. It is interesting to compare the current report to those of earlier years, going back to the report's genesis in 2000.

Of its 4,700 plan sponsors' plans covering 3.9 million participants, Vanguard found that in 2014, 98% of plans defaulted participants into a balanced investment strategy, with 95% directing balances into a target date fund (TDF).

This emphasis on TDFs shows in several areas of the data. For example:

- At year-end 2014, 39% of Vanguard participants were invested in a single TDF.
- Eight out of 10 new plan entrants in 2014 were solely invested in a professionally managed account, often a TDF.
- Eighty-eight percent of plan sponsors offered TDFs at the end of 2014, up 17% from 2009.
- Sixty-four percent of all Vanguard participants use TDFs.

Vanguard expects to reach a milestone during 2015—it anticipates that during the year, half of all participants will be entirely invested in a professionally managed account, like a TDF, and that the figure will reach 63% by 2018.

The use of automatic features has grown by 50% since the end of 2009, according to the report. Thirty-six percent of Vanguard's plans had adopted automatic enrollment by the end of 2014. But, because large plans are more likely to offer automatic enrollment, 60% of all new plan entrants in 2014 were enrolled automatically.

What's the result of all the emphasis on auto features? Median participant balances declined, according to Vanguard's report. In 2014, the median participant account balance was \$29,603 (the average was \$102,682), 6% less than the prior year's median.



While more people are now enrolled in their plan, they are often automatically enrolled at a low contribution rate.

On a positive note, the stock market's strong performance in 2014 resulted in a median one-year participant total return of 7.2%, and five-year participant total returns averaging 9.9%. In fact, for participants continuously enrolled between 2009 and 2014, the median account balance rose by an impressive 137%. The increase represents both investment returns and ongoing contributions.

Plan assets are very likely to be invested in equities, with 72% of them directed that way. A few participants take extreme positions with their investments; 8% invested 100% in equities, and 5% held none. The rise of TDFs seems to be resulting in less likelihood of these extreme positions.

Participant positions in employer stock continued their decline since Vanguard first observed the shift in 2006. Among plans offering company stock, the number of participants who have at least 20% of their balance invested there fell from 30% in 2009 to 28% in 2014. The number of plans actively offering company stock also declined to 10% in 2014.

The Vanguard survey reflects data from more than 3.9 million participants. It is available at <http://tinyurl.com/VanguardAmericaSaves2015>.

## Pension Plan Limitations for 2015

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

# Plan Sponsors Ask...

**Q:** We'd like to boost the contribution levels of our plan participants. We added an employer match last year, but many employees don't contribute enough to receive the entire match. What else can we do?

**A:** You're not alone. In a study by Financial Engines covering 4.4 million participants in retirement plans at 553 companies, nearly 25% of employees did not contribute enough to receive the entire match in 2014. According to the study, employees missed out on \$1,336 per employee. Financial Engines determined the total loss over 20 years for every plan participant is \$42,855—a figure significant enough to get some attention.

Effective communication can be key to encouraging participation and contributions. Try a campaign targeted at those individuals who are not claiming the entire match. Let them know how much money they missed out on, and express it using a long-term view as Financial Engines did. Break it down even further by translating that lump-sum figure into a monthly income figure at retirement.

Sometimes people won't fully engage no matter how you communicate. Those people may benefit from an auto-enrollment feature. But be careful you don't enroll at a low rate. Research has shown that even when the automatic enrollment rate is 6% or higher, few people opt out. Aim high and track your results.

Review the report at <http://tinyurl.com/FinEnginesMatch>.

**Q:** We've seen a big increase in the number of employees who take out loans in our 401(k) program. They usually repay the loans. But even though they pay interest, articles suggest that it's still not ideal to take out a loan. Can you explain why?

**A:** First of all, thanks to compound interest any money that leaves the plan—for any reason—impacts future savings. Think about the contrast between people who left their money in equities during the recession and those who moved their accounts to cash. Within a few years, the stock market had not only recovered, but it has also been on quite a roll since then. People whose accounts were entirely invested in cash or equivalents have been enjoying a grand rate of return of around 1%. If a participant took a loan and repaid it at market interest rates, the return would still be minimal.

Some companies don't offer loans at all. While this might seem to be a way to discourage those who take retirement plan loans to pay for luxury items, those people may not be the ones who take loans. In fact, a report from HelloWallet suggests that roughly 25% of households with a DC plan have used some or all of their retirement savings for nonretirement



needs. Seventy-three percent of the households that cash out their retirement accounts for nonretirement needs say they did so due to basic money management issues.

Employers concerned about nonretirement use of retirement money could try providing financial wellness education to employees. Better day-to-day financial decisions can limit the need to use retirement funds to pay off credit cards, for example. Give employees the tools they need to control their finances and you may get the results you want.

Learn more about how and why employees lose their retirement savings at <http://tinyurl.com/HelloWalletLeakage>.

**Q:** Employees tell us they are worried about having enough money to retire, but they seem afraid to find out. What can we do to help?

**A:** The feelings expressed by your employees seem on target with those of many Americans. According to LIMRA, as reported in the April 16, 2015, issue of PLANADVISER magazine, fewer than half of those responding to a recent LIMRA survey said they understand how much they should be saving for retirement. And that, says the article, is in spite of “unprecedented access to online financial planning tools.”

Access to financial advisory services may help. While a few hardy souls (1 in 10, according to the PLANADVISER article) say they are very knowledgeable about investments or financial products, around 50% of people at each age group self-describe as somewhat, not at all, or not very knowledgeable.

Cecilia Shiner, LIMRA Secure Retirement Institute's associate research director, says in the article, “Across all generations, only about one-quarter of workers are using a paid financial professional. Prior research has found that consumers who use a financial professional to plan for retirement are more likely to feel confident in their retirement security. Even among boomers, our research shows only 30% have a retirement plan—and only a third of them say it is a formal plan.”

Visit <http://tinyurl.com/ProfessionalAdviceValue> to read the PLANADVISER article.

## Younger Employees Prefer Face-To-Face Education

In spite of their “wired” reputation, younger members of the workforce seem to prefer to receive their retirement education in person rather than online. That’s according to a Greenwald & Associates survey, as reported on in the April 22, 2015, issue of Employee Benefit News.

The survey of 2,122 people ranging from age 21 to age 48 said an advisor is a major source for financial information. That figure beats the Internet as a preferred resource.

The information may be important to plan sponsors who seek to increase their participation numbers, because in-person education may be one factor that encourages these workers to save in their company retirement plan. They know they need to: 90% of them said saving for retirement is important. Yet 66% of them don’t know how much they will need for retirement, and 48% said they are behind on retirement savings.

The article is online at <http://tinyurl.com/EBN-FacetoFace>.

### Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans	<a href="http://www.irs.gov/ep">www.irs.gov/ep</a>
Department of Labor, Employee Benefits Security Administration	<a href="http://www.dol.gov/ebsa">www.dol.gov/ebsa</a>
401(k) Help Center	<a href="http://www.401khelpcenter.com">www.401khelpcenter.com</a>
BenefitsLink	<a href="http://www.benefitslink.com">www.benefitslink.com</a>
PLANSPONSOR Magazine	<a href="http://www.plansponsor.com">www.plansponsor.com</a>
Plan Sponsor Council of America	<a href="http://www.pasca.org">www.pasca.org</a>
Employee Benefits Institute of America	<a href="http://www.ebia.com">www.ebia.com</a>
Employee Benefit Research Institute	<a href="http://www.ebri.org">www.ebri.org</a>

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## 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 for 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 nonstock 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 by 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 each fiduciary understands his or her 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 posted and readily available to employees, and that information is complete and current.