PLAN SPONSOR
outlook
A Resource on Current Issues for Plan Sponsors and Administrators
Third Quarter 2014

Retirement Confidence Has Risen

The Employee Benefit Research Institute's (EBRI's) *2014 Retirement Confidence Survey* revealed that 24% of workers were "not at all confident" about having enough money for a comfortable retirement, a decline from 28% who were in this group in the 2013 survey. About 18% were "very confident," which is an increase from 13% in the previous survey.

About 22% of workers felt "very confident" that they were doing a good job of retirement preparation, while one-third of respondents felt "not at all" or "not too" confident that they've done so.

Savings efforts continued to decline

Almost two-thirds (64%) of workers said they and/or their spouses have saved money for their retirement, which is a very small decline from the 2013 survey. The proportion of respondents who said they and/or their spouse were currently saving remained unchanged at 57%.

As previous Retirement Confidence Surveys have found, an alarming percentage of workers have little or no savings or investments. About 60% 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 36% said their savings total was less than $1,000.

Only 11% reported their savings and investments amounted to $250,000 or more.

Too few have set a savings goal

Only 44% of workers said they and/or their spouse have calculated how much they need to save for a comfortable retirement, which is down slightly from the 2013 survey. And 28% said they think they'll need less than $250,000 for retirement.

Expected retirement age rose

Fifteen percent of survey respondents said their expected retirement would be later than planned. In the 2014 survey, 33% stated that they expect to retire after age 65. Those

expecting to retire at age 70 or older represented 22% of those responding.

Confidence in retirement affordability improved

Workers continue to have limited confidence in their ability to pay for basic expenses in retirement (11% were "not at all confident"), medical costs (14% were "not at all confident"), and long-term care expenses (30% were "not at all confident"). These proportions are slightly less than those reported in last year's study.

Investment advice not widely followed

About 20% reported having received investment advice from a paid financial advisor. Only 27% of this group said they followed all of it, 36% followed most of it, and 29% followed some of the advice they received.

View of Social Security was better

As far as Social Security continuing to provide benefits at least equal to those that retirees receive today, 35% were "not at all confident" this would happen. Similarly, 29% responded that they were "not at all confident" that Medicare would continue to provide benefits at today's level. These figures are slight improvements over last year's survey.

EBRI's survey is at http://tinyurl.com/EBRI2014RCS.

Target Date Fund Popularity Grows

A study of defined contribution plan and participant activity in 2013 in plans for which Vanguard performs recordkeeping indicates that the trend toward increasing availability and usage of target date funds* continues.

Target Date Fund Adoption in 2013 notes that 86% of plans offered a target date fund (TDF) in 2013, and 81% of plans have established a TDF or balanced fund as the default investment vehicle.

TDFs attract participants

At the end of 2013, 55% of participants had a position in TDFs, and one-third of plan contributions went to these funds.

Participants potentially reducing risk via TDFs

The study notes that by design the risk taken falls as the participant ages and helps mitigate the problem of extreme allocations among participants.

Ten years ago, 13% of participants did not invest at all in equities (giving up the potential for higher returns) and 22% had their entire balances in equities, leaving them exposed to the higher risks related to equities. Thus, 35% were at the ends of the equity risk spectrum.

By contrast, in 2013 about 23% of "do-it-myself" investors were at either end of this risk spectrum. About 10% had no equity investments and 13% invested solely in that asset class.

Vanguard's report is at http://tinyurl.com/VanguardTDFs.

* The target date is the approximate date when investors plan to start withdrawing their money. The principal value of a target date fund is not guaranteed at any time, including at the target date.

Cash-Outs Require Communication

According to analysis of more than 12 million defined contribution plan participants, Fidelity Investments found that many participants changing jobs are receiving their retirement savings well in advance of when they should.

Younger, lower-paid participants cash out their savings at high rates, a trend that has been consistent over the last five years. About 44% of those between the ages of 20 and 29 cashed out some or all of their account balances. The rate for those in their 30s was almost 40%, and it was 33% for participants in their 40s.

Half of participants earning $20,000 to $30,000 cashed out, as did 43% of those in the $30,000 to $40,000 earnings range.

As a result, Fidelity recommends extra effort on the part of plan sponsors to urge employees changing employment to keep their retirement savings in the plan. Sponsors should point out that a cash-out significantly reduces savings and the likelihood of income replacement in retirement. They should also emphasize the potential income tax consequences. Focusing on the loss of potential savings growth and earnings when participants take money out of their account would also be helpful.

Fidelity's report, "Cashing Out Can Derail Retirement," is at http://tinyurl.com/FidelityCashouts.

Plan Design Ideas for Millennials

Millennials (those born after 1980) seem to favor lifestyle over salary, expect to change jobs and careers, are technologically advanced, and have a tendency to act later rather than sooner. These traits, according to a report from Buck Consultants, suggest a different approach to plan design is needed to engage this group.

Plan design suggestions include:

- Offer a robust website that includes frequently asked questions, as well as blogs and community chat forums. Millennials will also expect a smartphone application.
- Include both automatic enrollment and automatic contribution increase features.
- Offer managed accounts and target date funds.
- Make socially responsible investments available.
- Use emails to maintain plan awareness.
- Offer a Roth 401(k) option.

Buck's report is at http://tinyurl.com/BuckMillennials.

Plan Sponsors Ask...

Q: Is it helpful to participants to add an automatic contribution increase feature to our 401(k) plan?

A: The answer is definitely yes, according to analysis by Fidelity Investments.

For a participant in his or her mid-20s, a 1% contribution rate increase, which would be about $33 per month for an employee earning $40,000, could yield an extra $200 to $330 each month in retirement income. An additional $180 to $270 in monthly retirement income could be available to someone in his or her mid-30s earning $60,000. (The 1% increase in this case would be about $50 each month.)

One-third of all participant contribution percentage increases through the end of 2013 were attributed to the automatic increase feature, according to Fidelity's research.

On average, only about 13% of employees opted out of automatic increases.

Given the potential for a boost in retirement income, adding this plan design component has the potential to be very helpful to participants.

Q: What should we consider as we conduct an annual review of our plan's investment menu?

A: You may want to keep in mind one of the results of TIAA-CREF's Investment Options Survey: More than one-third of retirement plan participants said they are not familiar with their plan's investment options. Further, 36% said they have either too few or too many choices.

The ideal approach is to keep the investment option menu simple, according to the report. It suggests that the number of choices that is probably about right is in the range of five to 10, though there is no magic number that is suitable for all plans.

Plan sponsors have an opportunity to engage participants, since 81% of participants reported that they trust the information and education they receive from their employer. One-on-one advice would be particularly effective, because some investments are complicated and few participants seem willing to raise questions in group sessions.

Go to http://tinyurl.com/TIAAInvOptions to see TIAA-CREF's survey report.

Have questions about implementing automatic features in your plan? See the Defined Contribution Institutional Investment Association's helpful frequently asked questions at http://tinyurl.com/DCIIAAutoFAQs.

Q: Are index funds popular with most plan participants?

A: Based on the activity of participants in plans for which Vanguard performs recordkeeping, there has been significant growth in the use of low-cost index funds in recent years, thus confirming that they remain attractive to participants. By the end of 2012, the average participant had 60% of his or her account balance in index funds.

At the same time, there has been a significant drop in the number of participants invested only in actively managed funds. In 2004, almost 40% of participants held only actively managed investments. By 2012, only 19% followed this strategy.

With regard to index funds, only 10% of participants invested only in these funds in 2004. At the end of 2012, that number was 38%.

Perhaps a better indicator of index funds' popularity relates to current contributions. Between 2004 and 2012, the percentage of contributions invested in index funds rose from 32% to 64%. During the same period, actively managed fund contributions fell from 37% to 20%.

In the case of Vanguard's participants, at least, plan sponsors' approach of reducing participants' costs to invest and reducing exposure to actively managed fund risk has been met with positive reactions from retirement plan savers.

Vanguard's report is at http://tinyurl.com/VanguardIndex.

Pension Plan Limitations for 2014

401(k) Maximum Participant Deferral	$17,500* **$23,000 for those age 50 or over, if the plan permits*
Defined Contribution Maximum Annual Addition	$52,000
Highly Compensated Employee Threshold	$115,000
Annual Compensation Limit	$260,000

More Guidance Is Available on Target Date Funds

Last year, the U.S. Department of Labor issued general guidance for plan fiduciaries about selecting and monitoring TDFs in 401(k)s and similar participant-directed individual account plans. *Tips for ERISA Plan Fiduciaries* is available at http://tinyurl.com/DOLTipsAboutTDFs.

The Defined Contribution Institutional Investment Association (DCIIA) has published a guide concerning TDFs that is intended to supplement the Department of Labor's suggestions.

The *DCIIA Guide to U.S. Department of Labor Tips on Selecting Target Date Funds* offers discussions on how to develop a prudent process, portfolio construction considerations, asset allocation, and the use of active and passive funds. Also included is a review of factors related to off-the-shelf and custom TDFs. See the guide at http://tinyurl.com/DCIIATargetDateFunds.

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.

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 applies). 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, which is mailed in January for reportable plan transactions in 2014.
- Check current editions of enrollment materials, fund prospectuses and other plan information that are 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 Department of Labor self-correction program would be appropriate.

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; 877-306-5055; www.kmotion.com

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RP-0049-0614
Tracking #1-275123