PLAN SPONSOR
outlook
A Current Issues Resource for Plan Sponsors and Administrators
4th Quarter 2012

Retirement Confidence Remains Low

The Employee Benefit Research Institute's (EBRI) *2012 Retirement Confidence Survey* revealed that 23% of workers were "not at all confident" about having enough money for a comfortable retirement, which was a slight improvement over the 27% who were in this group in the 2011 survey. About 14% were "very confident," which is essentially unchanged from the previous survey.

Those who felt "very confident" that they were doing a good job of retirement preparation was at 19%, while those who felt "not at all" or "not too" confident that they've done so remained unchanged, at 36% in the 2012 report.

Savings efforts continue 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 percentage of respondents who said they and/or their spouse were currently saving: 58%, versus 65% in 2009.

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: half of this group said their savings total was less than $1,000.

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

Will working longer help?

Working to age 70 is a risky strategy for ensuring retirement income adequacy, especially for low-income workers, according to a new Employee Benefit Research Institute report, available at http://tinyurl.com/EBRIWorkToAge70.

Too few have set savings goal

Only 42% of workers said they and/or their spouse have calculated how much they need to save for a comfortable retirement, the same as in the 2011 survey. Only 34% said they think they'll need less than $250,000 for retirement.

Just over two thirds (67%) responded that they are "a little" or "a lot" behind in planning and saving for retirement.

Expected retirement age rose

One quarter (25%) of survey respondents said their expected retirement age had changed in the past year. In the 2012 survey, 37% stated that they expect to retire after age 65. Those expecting to retire at age 70 or older represented 26% of those responding.

New technologies not used fully

Workers, especially older ones, aren't using new technologies to the fullest in helping to manage finances. A little more than half of respondents reported using a computer to monitor their financial matters.

A small number of respondents said they feel comfortable completing financial management tasks online. Only 37% used online calculators to assist in financial decision-making, and 10% said they were comfortable receiving advice from financial advisors online.

EBRI's survey is at http://tinyurl.com/EBRI2012RetConfSurvey.

Professionally Managed Options Growing in Use

A study of more than three million participants found that professionally managed allocations are increasingly popular. (Those with such allocations were defined as participants who have invested their entire account balance in one target-date or balanced fund, or a managed account advisory service.) The number of participants using these options nearly doubled in five years: 17% of all participants in 2007, compared to 33% at the end of 2011.

At year-end 2011, 24% of all participants invested in one target-date fund, 6% had one traditional balanced fund and 3% used a managed account service.

Among those enrolling in a defined contribution plan for the first time in 2011, nearly three-quarters (72%) chose a professionally managed allocation.

Target-date funds continue to attract

Target-date options were used by 47% of all participants at the end of 2011. Of those, 52% had their entire account balance in one target-date fund. Of all participants, 25% had invested in a single target-date option.

As of the end of 2011, two thirds of plans in this study had designated a QDIA (qualified default investment alternative), and of those 90% had chosen a target-date fund and 10% selected a balanced fund.

Other findings provide snapshot

Automatic features have grown significantly. In 2007, 15% of plans had automatic enrollment; by the end of 2011, 29% of plans had adopted this feature. In 80% of plans, auto enrollment applied only to new employees.

Automatic contribution rate increases were adopted by 70% of plans, up from 30% in 2005.

Other findings include:

- 46% of plans permitted Roth 401(k) contributions, and 9% of participants chose that option
- The overall participation rate was 76% at year-end 2011
- The average contribution rate was 7.1%
- In 2011, 18% of participants carried an outstanding loan, the average balance of which was $9,000

Details are at http://tinyurl.com/HowAmericaSaves2012.

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

Roth 401(k) Plans: Reviewing the Basics

Sponsors of 401(k) plans have been permitted to amend their plans to accept Roth (after-tax) contributions since 2006. Plan participants can benefit from having their Roth contributions grow with tax-free earnings, and their contributions can be distributed to them at retirement with no future income tax liability. Unlike a Roth IRA, participation has no income limit and contributions can go up to the maximum allowed in a traditional 401(k) plan.

Internal Revenue Code sets requirements

To offer a Roth 401(k) feature, the first requirement is that the employer must have a traditional 401(k) plan available. In addition:

- Participants must be permitted to designate some or all of their elective deferrals as Roth 401(k) contributions
- The employer must report Roth contributions in the employee's income
- Roth deferrals have to be kept in a separate account

Participants may make both 401(k) and Roth contributions, but their total cannot exceed the annual maximum contribution limit set for 401(k) plans. Catch-up contributions for those age 50 or more are permitted, and are subject to the same limit as 401(k) catch-up contributions.

Distributions may be "qualified"

The rules applicable to 401(k) distributions are the same for Roth contributions. If permitted by the plan, distributions from Roth 401(k) accounts can be made upon termination of employment, death, disability, reaching age 59½ and hardship.

Tax-free "qualified" distributions can be made after the participant reaches age 59½, dies or becomes disabled. The participant's first designated Roth contribution has to be made at least five years earlier.

For more information, including in-plan rollover rules, see the Internal Revenue Service's Retirement Plans FAQs on Designated Roth Accounts at http://tinyurl.com/IRSRothFAQs.

Q&A

Plan Sponsors Ask...

Q: Has there been research on the level of risk taken by retirement plan participants who select their own mix from the menu of options available to them?

A: While there doesn't appear to be research available regarding specific risk levels assumed by participants, there is a recent study that compared the extent of risk taken on by those who invest in target date funds and those who choose their own investments.

A review of 2.4 million participants indicated that do-it-myself investors are generally exposed to greater risk due to decreased diversification than those who choose target date funds. The do-it-myself participants were investing in an average of two to four investment choices, while those in target date funds may benefit from many more options, covering a variety of asset classes, in the typical target date portfolio.

The study also found that do-it-myself participants used automatic rebalancing infrequently and young investors had much less exposure to equities than if they invested in a target date option.

More information about this study can be found at http://tinyurl.com/DoItMyselfParticipants.

Q: Our plan now permits only one plan loan at a time. Several participants have expressed interest in taking a second loan. Does the law permit multiple loans at one time?

A: The Internal Revenue Code places no limit on the number of loans that a plan may allow participants to have outstanding at any given time. However, the plan may limit the number of loans, as yours does now. Whatever the maximum number is, it should be stated in the plan document and/or the plan's loan policy.

Keep in mind that, regardless of the number of loans your plan permits, the maximum loan amount is generally the lesser of 50% of the participant's vested account balance or $50,000. The $50,000 is reduced by the highest outstanding loan balance in the previous one-year period.

As a result, the balance of outstanding loans has the effect of reducing both the 50%-of-vested-account-balance and $50,000 limits, which may leave participants who want a second loan dissatisfied with the amount they can borrow.

Q: Does a large investment option menu result in smart choices by participants?

A: While a large menu may be used wisely by some participants, a group of university researchers found that the number of participants choosing the default fund rose as the number of options in the menu increased.

Another important finding was that increasing the investment option assortment increases participants' tendency to spread their contribution dollars evenly among the options they selected. Thus, some are allocating their investment money by using simple math as opposed to a solid investment strategy.

Read *Investing for Retirement: The Moderating Effect of Fund Assortment Size* at http://tinyurl.com/FundMenuSize.

IRS Ends Letter-Forwarding Program

Since 1994, the Internal Revenue Service's Letter-Forwarding Program has been available to plan sponsors to assist in contacting "missing" participants who may have plan assets due to them. Revenue Procedure 2012-35, applicable as of August 31, 2012, states that letter-forwarding services are no longer available to plan administrators and sponsors.

Is Focus on Asset Allocation Misplaced?

Financial advice often focuses on the importance of asset allocation as a key investment strategy. Advisors frequently point to the value of dividing investments among different asset classes to increase the potential for financial security in retirement.

Researchers from the Center for Retirement Research at Boston College looked at other strategies and concluded that because most Americans don't have significant financial wealth, asset allocation may not be a realistic approach for many people. They found that several alternatives to asset allocation may be just as effective in providing financial security in retirement.

Using models, replacement and withdrawal rates and other factors, the authors of *How Important is Asset Allocation to Americans' Financial Retirement Security?* reported that delaying retirement, taking advantage of home equity by taking out a reverse mortgage, and controlling spending may be "as powerful" as pursuing an asset allocation approach for those with limited financial resources.

The study is presented in a Working Paper (PRC WP2012-09) from the Pension Research Council at the Wharton School of the University of Pennsylvania. Find this report at www.pensionresearchcouncil.org.

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
Plan Sponsor Magazine	plansponsor.com
BenefitsLink	benefitslink.com
Profit Sharing/401(k) Council of America	psca.org
Employee Benefits Institute of America, Inc.	ebia.com
Employee Benefit Research Institute	ebri.org

Plan Sponsor's Quarterly Calendar

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 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 than 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.

Consult your plan's financial, legal or tax advisor regarding these and other items that may apply to your plan.

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