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

Automatic Features Have Positive Impact

More participants, especially young, lower-income and minority workers, are likely to have healthier retirement savings thanks to automatic features in their retirement plans. Vanguard's *How America Saves 2014*, which included data on 3.5 million participants, reports that automatic enrollment and automatic contribution rate increases continue to rise in popularity among sponsors and are improving participation and savings rates.

Automatic enrollment growth continues

More than one-third of the plans for which Vanguard provides recordkeeping had automatic enrollment by the end of 2013. Almost two-thirds of employees who participated in their 401(k) plan for the first time in 2013 were in automatic enrollment plans.

Although many auto-enrollment plans (69%) applied this feature only to new hires, now half of those plans also apply it to eligible employees who are not participating.

Most auto-enrollment plans also automatically increase participants' contribution rates each year.

The participation rate for those who were automatically enrolled was 82%, versus 65% for those who enrolled voluntarily.

Target date funds remain primary default

Nearly all auto-enrollment plans offer a target date fund (TDF), other balanced fund or managed account as the default investment. Of those, 90% use a TDF.

At the end of 2013, 40% of participants invested only in an automatic investment option. Of this group, 31% invested in one TDF, 6% were in a balanced fund, and 3% were in a managed account.

About 55% of all participants invested in TDFs, and of those participants, nearly 56% had their entire account in a single TDF.

Participation stayed steady

In 2013, the average plan participation rate was 76%, which was largely unchanged from recent years.

The average deferral rate was 7.0%, which has changed little over the past five years.

Roth 401(k) feature usage grew

More than half of the plans had adopted a Roth 401(k) provision by the end of 2013.

In such plans, 13% of participants made Roth contributions. The usage rate has grown slowly but steadily over recent years.

Trading and loan activity was flat

Only 10% of participants traded in their accounts in 2013, which was virtually the same as the last few years.

Similarly, loan activity was unchanged in recent years. In 2013, 18% of participants had an outstanding loan, the average balance of which was $9,500.

Visit http://tinyurl.com/VanguardHowAmerSaves2014 for the full report.

Case Study: Stuck at 2%

Executives at PinnacleHealth in Pennsylvania noticed that participants were headed toward insufficient income in retirement. PLANSPONSOR.com reported that PinnacleHealth had implemented automatic enrollment in 2007 with a default deferral rate of 2%. Analysis revealed that many participants remained at the 2% rate and were not increasing their retirement savings.

Full employer match not utilized

PinnacleHealth offers a 50% match of the first 6% of participant contributions. After five years of service, the match rate rises to 67% of the first 6% of deferrals.

Participants at the 2% default rate were missing significant matching dollars.

First step: reenrollment

The employer decided to conduct a reenrollment as the first step in a campaign to encourage employees to save more for retirement. The reenrollment was completed at the end of 2013 and was a success. Before the reenrollment, 355 employees were not contributing to the plan. Only 79 were still not participating after this step was taken.

Executives reported no problems with or complaints about the reenrollment.

At the same time, PinnacleHealth put in place an automatic contribution rate increase feature, in which hundreds of employees enrolled.

Updated website introduced

PinnacleHealth also updated and rebranded its website for participants. It was made easier to use in getting information about the retirement plans, and it permits employees and participants to perform transactions, such as enrolling, increasing contributions and designating beneficiaries. The modernized website also contains current, relevant and frequently updated educational information.

The end result is that the action steps taken by management resulted in significantly renewed employee interest in the retirement plans. Also, the revitalized plans are more focused on reaching PinnacleHealth's goal: "to help employees retire with dignity."

Details are at http://tinyurl.com/StuckAt2.

The Internal Revenue Service offers a brief guide for plan sponsors for verifying incoming rollover contributions. See Verifying Rollover Contributions at http://tinyurl.com/IRSVerifyRollover and the Rollover Chart at http://tinyurl.com/IRSRolloverChart.

Building a Financial Wellness Program

A recent webinar regarding development of an effective financial program yielded a number of practical steps employers can take, reported PLANSPONSOR.com. (For more information, go to http://tinyurl.com/BuildingFinWellness.)

Liz Davidson, CEO of Financial Finesse, a well-known provider of financial wellness services, mentioned specific steps employers can follow to create a successful program. These include:

- Study demographic data about your employees in order to understand them.
- Target communications to specific topics and groups.
- Use several methods of communications (such as emails, printed materials, posters) to publicize the program.
- Beware of overwhelming employees with too much information.
- Offer education and specific action steps that employees can take.

Also effective is a system that acknowledges when progress is made and when milestones are reached.

Overall, Davidson said the key is the employer's demonstration of its commitment to helping employees reach financial wellness.

At least one program thrives

The Meredith Corporation, a 3,200-employee media company, offers a very comprehensive financial wellness program to its employees.

Each participant receives an annual retirement readiness assessment and has access to on-site and online financial planning seminars presented by skilled advisors. There are even incentive programs that track and reward participants' progress toward reaching their individual goals.

The company and a partner developed a benchmarking exercise to indicate financial stress felt by employees. They then implemented an annual financial wellness checkup, which is used to recommend actions regarding the investments offered in the retirement plan.

The program goes far beyond retirement planning. It can provide help in setting a personal budget, managing stress and optimizing a participant's investment strategy.

The program has been a huge success. About 22% of Meredith employees said they had high financial stress in 2010; that figure is just 8% in 2014. Cash flow stress dropped from 41% to 22% in the same period. Similar declines were seen in the number of workers who felt distracted by their financial situation during work hours.

Meredith's efforts are described in PLANSPONSOR.com and can be found at http://tinyurl.com/MeredithWellness.

Plan Sponsors Ask...

Q: Is there information available regarding whether or not plan participants follow investment advice they receive?

A: Yes. The Employee Benefit Research Institute (EBRI) found in the *2014 Retirement Confidence Survey* that about 20% of workers said they had received investment guidance from a professional financial advisor who was compensated by fees or commissions.

Of those who received advice, 27% followed all of the guidance, 36% followed most of it, and about 30% acted on some of it.

Reasons cited for not acting on all of the guidance included:

- Distrusting the advice (34%)
- Having other ideas, or other plans or goals (16%)
- Couldn't afford it (20%)
- Circumstances changed so advice was no longer useful (4%)
- Getting better advice elsewhere (4%)

EBRI's *Are There Trust Issues With Investment Advice?* article is at http://tinyurl.com/EBRIInvestAdvice.

Q: What are the basics of the law regarding retention of plan records?

A: Even if the plan sponsor retains outside recordkeepers or other service providers, the sponsor is legally responsible for safeguarding records that support reports and filings required by law.

Documents required to be retained are the original signed and dated plan document, all signed and dated plan amendments, and the IRS approval notice. These should be kept until after the plan terminates.

Copies of Form 5500 filings should be retained for at least six years after the submission of the annual report.

Financial and other reports that support the plan document and operations, such as discrimination testing results, must also be kept for at least six years. This includes administrative committee actions related to the plan and complete census data.

Other items generally covered by the six-year rule include all communications issued to participants and beneficiaries, and all loan and hardship withdrawal documentation.

Plan records are to be kept in a manner that allows them to be retrieved readily. Electronic records are permitted, as long as there are controls to ensure their accuracy and they can be reproduced as legible paper copies.

Some legal experts suggest retaining records for longer periods to help in participant divorce cases and lawsuits brought by unhappy employees. Be sure to consult your plan's counsel for specific guidance.

Q: Did defined contribution plan participants generally stay on course in 2013?

A: According to the Investment Company Institute's (ICI's) *Defined Contribution Plan Participants' Activities, 2013*, activity was almost the same as in 2012.

Only 2.7% of participants stopped contributing to their plans in 2013 and only 3.5% requested withdrawals.

Hardship withdrawal activity in 2013 was the same as in the prior year, when 1.7% of participants requested this type of distribution. Loan activity remained relatively low: Only 18% of participants had loans outstanding.

The ICI's report is at http://tinyurl.com/ICIDCActivities2013.

The Social Security Administration has eliminated its letter-forwarding program, a locator service that had been used by plan administrators to find missing participants. This step echoes the IRS's decision several years ago to curtail its letter-forwarding service to include only emergencies.

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

IRS Updates Key Web Resources

The IRS has revised several reference guides for plan sponsors. The guides represent practical and helpful resources for both new and experienced sponsors.

Updated Web pages include:

- *A Plan Sponsor's Responsibilities*, which lists tips to help sponsors operate retirement plans properly. Learn more online at http://tinyurl.com/IRSSponsorRespon.
- *Internal Controls Protect Your Retirement Plan*, at http://tinyurl.com/IRSInternalControls. This addresses the need for controls to prevent plan errors.
- Details about internal checks in *Policies, Procedures and Internal Controls Self-Audit*. Included are specific questions and topics to address in conducting internal reviews. See http://tinyurl.com/IRSControlsSelfAudit.

Also revised was the comprehensive *401(k) Plan Fix-It Guide*, which is an excellent source of information about finding and correcting plan mistakes. To view the new edition go to http://tinyurl.com/IRS401kFixItGuide

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.

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 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 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.

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

LPL Financial