

# Plan Sponsor Retirement ZONE



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1ST QUARTER 2012

## Participation Rate Rose Slightly

### How does your plan compare?

The average participation rate in 401(k) plans was 86.3% at the end of 2010, according to the *54th Annual Survey of Profit Sharing and 401(k) Plans* by the Plan Sponsor Council of America (PSCA). The rate the year before was 82.3%.

The pre-tax participant deferral rate averaged 5.3% for non-highly compensated employees and 6.6% for highly compensated employees. The average for all eligible participants was 6.2%.

### Fast eligibility continued

About 60% of companies permit employees to contribute to the plan immediately upon hire. Almost half grant immediate eligibility to receive the company match, while 29% require one year of service.

Almost 40% of companies have no minimum age requirement to participate.

### Auto enrollment remained popular

Nearly 42% of 401(k) plans had an automatic enrollment feature. It applied to new hires in 82% of these plans and to all non-participants in almost 17% of these plans.

The most common default deferral rate was 3% of pay (62% of plans). Target retirement date funds remained the most common default investment option (53% of plans).

Automatic increases in contribution rates were reported by 38% of plans. Most plans cap the auto increases at 6% of pay.

### Roth feature usage rose

Over 45% of plans permitted Roth 401(k) contributions, up from 41% the previous year. Of those eligible to make Roth contributions, 16% did so.

### Investment options didn't change

The average number of investment choices offered to participants remained at 18.

Almost 64% of plans offered target date funds.

### Investment advice still common

Advice was available in 57% of plans. About 22% of participants used advice when offered. Small plans tended to have the highest usage.

### Other survey results included:

- The typical plan had about 63% of assets invested in equities.
- Less than 15% of plans offered company stock as an investment option.
- Almost 89% of plans allowed hardship withdrawals, and about 2% of participants had such a distribution in 2010.
- Loans were permitted in 90% of plans.
- Almost 20% of plans used a safe harbor match, and 10% used a safe harbor non-elective contribution.
- About 37% of plans offered immediate vesting of the company match.

The survey reflects 2010 experience of 820 plans with 10.5 million participants and more than \$691 billion in plan assets. It may be ordered from the PSCA at [www.psc.org](http://www.psc.org). ■

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## Pension Plan Limitations for 2012

401(k) Maximum Elective Deferral (*\$22,500 for those age 50 or over, if plan permits)	\$17,000*
Defined Contribution Maximum Annual Addition	\$50,000
Highly Compensated Employee Threshold	\$115,000
Annual Compensation Limit	\$250,000

## Investment “Help” Raises Return

A new report from Aon Hewitt and Financial Engines found that 401(k) plan participants who used investment “help” had annual returns that were nearly three percent higher than those who handled their portfolios on their own. More than 400,000 participants’ investment results during 2006–2010 were studied.

*Help in Defined Contribution Plans: 2006 Through 2010* reviewed the impact of professional investment “help,” which was defined as online advice, managed accounts and target date funds for the purposes of this study. Not only did those who used help have higher returns, they accomplished that with lower risk.

The gap was greatest in 2009, when those not using help experienced poorer investment performance due to investing errors and attempts at market timing at a time when the market was rallying.

By the end of 2010, nearly one-third (30%) of participants were using help. Automatic enrollment and the availability of a Qualified Default Investment Vehicle (QDIA) likely contributed to this result.

Target date funds are more likely to be used by younger participants with smaller account balances, while online advice is more likely to be used by younger participants with larger balances. Those close to retirement are most likely to use managed accounts.

Participants aged 50 and older who did not take advantage of help had a wide variety of risk levels; some took on risk above that of the S&P 500 index. They also had the highest incidence of reacting impulsively in the 2008 market downturn by moving out of equities and into cash and bonds, which resulted in poor performance results in 2009.

The report is available at <http://tinyurl.com/HelpInDCPlans>. ■

Generation Y (generally those born in 1980 and later) outnumbers Baby Boomers and Generation X and will likely have more of an influence on politics, culture and the workplace than Baby Boomers. See Colonial Life’s *Pump Up Productivity from the Next Generation: Build Voluntary Benefits into Workplace Strategies to Attract, Engage and Retain Generation Y*, at <http://tinyurl.com/GenerationYStudy>.

## Best Practices to Reduce Negative Saving Behaviors

Some participants use their 401(k) account as a source of emergency funds rather than a long-term savings account for retirement. Loans appear to lead participants who take them to contribute less to their plan. Hardship withdrawals remove savings that cannot be repaid. And impulsive behavior, like trying to time the market, can have a severe impact on investment performance.

Employers can reduce these behaviors by a combination of plan design and financial education, according to Liz Davidson, CEO of Financial Finesse.

To reduce loans, Ms. Davidson suggests:

- Lower the number of loans that participants may have outstanding at one time.
- Limit funds that can be borrowed to participant contributions and gains on those contributions.
- Educate participants who request a loan by requiring them to talk with a financial counselor about the impact of taking a loan.

Sponsors might reduce the usage of hardship withdrawals by:

- Using the Internal Revenue Service’s guidelines for withdrawals, rather than just a broad “heavy financial need” threshold.
- Automatically starting contributions after the six-month suspension following a hardship withdrawal.
- Requiring participants to speak with a financial counselor before taking a withdrawal.

To reduce impulsive financial actions, sponsors could:

- Somewhat restrict the frequency and number of investment changes participants can make from, for example, daily to weekly or monthly.
- Offer the chance to speak with a financial advisor before making an investment change.
- Make available education that is relevant to current trends in the markets.

Ms. Davidson notes that there is a “delicate balance to be struck.” Plan design that is too restrictive may lead participants to dislike the employer-imposed limitations. But, design can shape positive behavior. Combining effective plan design with financial education can encourage good participant saving behavior and simultaneously protect the company.

The complete article, “Best Practices for Reducing Loans, Hardship Withdrawals and Impulsive Investment Decisions” is at <http://tinyurl.com/BestPracticesLoans>. ■



# Plan Sponsors Ask ...

**Q:** How can we be sure that our loan interest rate meets ERISA requirements?

**A:** In general, the Department of Labor (DOL) treats a participant loan as an investment governed by the same ERISA fiduciary rules as any other plan investment. So, setting the loan interest rate requires the same diligence used in choosing and monitoring other plan investments.

Essentially, the rate you set is viewed as reasonable if it is roughly equivalent to rates charged by commercial lenders for loans in similar situations for borrowers of approximately the same creditworthiness.

To ensure that your plan is in compliance with DOL rules, survey regional banks to see what rates they are using for loans of similar amount and duration. If your plan's rate is not consistent with local rates, you may need to adjust it. Be sure to document all the steps taken to review and set the rate, and disclose the rate clearly in loan information material and applications. And plan to update your survey of lenders each quarter.

Note that the DOL has stated that a national rate might be justified for plans that are offered in many locations throughout the country. If the plan is not national, however, the rate must be the result of reviewing regional rates.

**Q:** Have any researchers attempted to determine an average retirement age in the U.S.?

**A:** Yes. Alicia Munnell, director of the Center for Retirement Research at Boston College, recently conducted research on this topic.

In "What Is The Average Retirement Age?" the author studied how incentives have resulted in a significant increase in labor force activity of both women and men since the mid-1980s. Among the factors leading to the increase are Social Security's delayed retirement credit, the shift from defined benefit to defined contribution plans, improved health and living longer, and less physically demanding jobs.

As a result of these and other factors, Ms. Munnell found that the average retirement age of men rose from 62 to 64 over the last twenty years or so.

The labor force participation of older women is approaching that of men, leading the author to conclude that women's average retirement age is 62.

The full report is at <http://tinyurl.com/AverageRetireAge>.

**Q:** Has the trend toward automatic enrollment as a plan feature affected minority groups?

**A:** New research from Vanguard indicates that automatic enrollment raises participation for all racial and ethnic groups.

The increase in participation was especially notable for blacks and Hispanics, particularly those with low wages. Participation rose from 57% to 94% for blacks and from 67% to 95% for Hispanics. Asians participate in retirement plans at a higher rate than others, whether enrollment is automatic or voluntary.

About 68% of whites and 60% of Asians stayed in the default investment option following automatic enrollment. More than three-quarters of blacks and Hispanics did so.

Whites and Asians were more likely to choose a higher contribution rate than the default rate under automatic enrollment. The deferral rates for these two groups were about one-half to two percentage points higher than rates for Hispanics and blacks.

The full report, "Diversity and defined contribution plans: The role of automatic plan features," is at <http://tinyurl.com/DiversityInAutoPlans>. ■

The Department of Labor issued Technical Release 2011-03R to provide guidance about the use of electronic disclosure methods to comply with the fee disclosure requirements for participant-directed individual account plans. View the Technical Release at <http://tinyurl.com/TR2011-03R>.



## Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans  
[www.irs.gov/ep](http://www.irs.gov/ep)

Department of Labor,  
Employee Benefits Security Administration  
[www.dol.gov/ebsa](http://www.dol.gov/ebsa)

401(k) Help Center  
[www.401khelpcenter.com](http://www.401khelpcenter.com)

Plan Sponsor Magazine  
[www.plansponsor.com](http://www.plansponsor.com)

BenefitsLink  
[www.benefitslink.com](http://www.benefitslink.com)

Plan Sponsor Council of America  
(formerly the Profit Sharing Council of America)  
[www.pzca.org](http://www.pzca.org)

Employee Benefits Institute of America, Inc.  
[www.ebia.com](http://www.ebia.com)

Employee Benefit Research Institute  
[www.ebri.org](http://www.ebri.org)

## Plan Design Improves Saving

A new study of 3.7 million participants in 37,000 retirement plans adds further support to the value of financial education for participants. For example, having access to a group educational meeting during the previous 12-month period resulted in a plan participation rate 5.5% higher than those plans that did not offer meetings.

Plans offering one-on-one counseling had higher participation (71%) and deferral rates (7.0%) than those not offering individual guidance (59% participation and a 6.8% deferral rate).

Online, interactive resources boosted saving significantly. Participants using the tools were saving an average of almost 40% more for retirement than those who had not used them.

Principal's *The Total View 2011* also includes data on retirement readiness, plan design features such as automatic enrollment and contributions increases and other aspects of saving behavior. The report is at [www.principal.com/totalview](http://www.principal.com/totalview). ■

## PLAN SPONSOR'S QUARTERLY CALENDAR

### APRIL

- If a plan audit is required in connection with the Form 5500, make arrangements with an independent accountant/auditor for the audit to be completed before the Form 5500 due date. (Calendar year plans)
- Audit first 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 January 1 and March 31 received and returned an enrollment form. Follow up for forms that were not returned.

### MAY

- Monitor the status of the completion of Form 5500, and, if required, a plan audit. (Calendar year plans)
- Issue a reminder memo or e-mail to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans by which they are covered.
- Perform a thorough annual review of the Plan's Summary Plan Description (SPD) and other enrollment and plan materials to verify that all information is accurate and current, and identify cases in which revisions are necessary.

### JUNE

- Begin planning an internal audit of participant loans granted during the first six months of the year. Check for delinquent payments and verify that repayment terms and amounts borrowed do not violate legal limits.
- Confirm that Form 5500, and plan audit if required, will be completed prior to the filing deadline or that an extension of time to file will be necessary. (Calendar year plans)
- Review plan operations to determine if any qualification failures or operational violations occurred during the first half of the calendar year. If a failure or violation is found, consider using an Internal Revenue Service or Department of Labor self-correction program to resolve it.

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