

# Plan Sponsor Retirement ZONE



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1ST QUARTER 2010

## Participation Rate Rises Slightly

*How does your plan compare?*

The average participation rate in 401(k) plans was 82.7% at the end of 2008, according to the *52nd Annual Survey of Profit Sharing and 401(k) Plans* by the Profit Sharing/401(k) Council of America. That is a very small increase over the previous year's rate of 81.9%.

Pre-tax participant deferrals averaged 5.5% of pay for non-highly compensated employees and 6.6% for highly compensated employees.

### *Roth 401(k) feature usage spread*

Roth 401(k) contributions were permitted by nearly 37% of plans, up from 30% in 2007. Of those eligible to make Roth contributions, almost 16% did so, compared to 13% in the previous year.

### *Auto enrollment gained in popularity*

Automatic enrollment, as expected, continued to be a popular feature: 42% of 401(k) plans used it at the end of 2008, an increase from 36% over the year before. Of all plans that have adopted it, most (84%) applied auto enrollment to new hires only and 16% used it for all non-participants.

The most common default deferral rate was 3% of pay (57% of plans), and 54% automatically increase the deferral percentage over time. About 60% of plans offer target retirement funds as the default investment option. (For another view of automatic features, see results of another survey in "Plan Sponsors Ask" on page 3.)

### *Investment options were unchanged*

After several years of increases in the number of options offered, the average stayed steady at 18 in recent years.

The most commonly offered funds were actively managed domestic and international equity, indexed domestic equity and actively managed domestic bond funds.

Other survey results were:

- 52% of plans offered investment advice.
- Immediate vesting in matching contributions was a feature of 37% of plans.
- 90% of plans permitted hardship withdrawals.
- 24% of plans offered a safe harbor match.
- Almost 85% of plans reported having an investment policy statement.
- 58% of plans offered target-date funds.
- The typical plan had approximately 60% of assets invested in equities.



The survey reflects 2008 experience of more than 900 plans with 7.4 million participants and more than \$600 billion in plan assets. Highlights are available at <http://tinyurl.com/PSCA2008Survey>. ■

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## Pension Plan Limitations for 2010

401(k) Maximum Participant Deferral	\$16,500*
<i>(* \$22,000 for those age 50 or over, if plan permits)</i>	
Defined Contribution Maximum Annual Addition	\$49,000
Highly Compensated Employee Threshold	\$110,000
Annual Compensation Limit	\$245,000

## Many Participants Cash Out

Almost half of those leaving their jobs in 2008 took a cash distribution of their 401(k) account balances. The remainder rolled their balance over to an IRA or other qualified plan (25%) or left their money in their former employer's plan (29%). These results, from a recent Hewitt Associates study of 170,000 terminated participants, are nearly identical to those found in a 2005 study.

There was a direct connection between account balance and cash out rate. About half (45%) of participants with balances between \$1,000 and \$5,000 cashed out, while only 8% of those with balances of \$100,000 or more and 17% with account balances between \$20,000 and \$99,999 did so.

Younger workers (in their 20s) were much more likely to take a cash distribution than those in their 50s: 60% and 34%, respectively.

The study noted that a participant who takes \$5,000 in cash from his or her retirement plan at age 25 nets only about \$3,500 and could potentially be sacrificing \$75,000 upon retirement.

More information is at <http://tinyurl.com/401kCashouts>.

What has happened to investors' attitudes after the 2008-2009 market drop? According to the survey, they remain committed to equities for retirement saving purposes, but are concerned about risk and investment returns. Find out more at <http://tinyurl.com/InvestorAttitudes>.

## Retirement Preparedness Falls

The Center for Retirement Research at Boston College recently revised its National Retirement Risk Index (NRRI), which measures the share of U.S. households who are at risk of not being able to maintain their pre-retirement standard of living during retirement.

In 2004, the percentage of households at risk was 43%, rising to 44% in 2007. The latest update indicates the NRRI rose to 51% in 2009. The decline of the housing market, the drops in the investment markets and the rising full retirement age for Social Security benefits all contributed to the higher NRRI.

The researchers noted that this is a conservative view, since health care and long-term care costs were not reflected in the latest estimate.

A different, but just as gloomy, measure was developed by McKinsey & Company. Their Retirement Readiness Index (RRI) considers Social Security, retirement plans (DB and DC) and personal savings. To maintain one's current standard of living in retirement, an RRI of 100 would be required. An RRI of 80 to 100 would mean a lower standard of living during retirement due to reduced discretionary spending. An RRI below 80 would result in cutting spending on essentials like housing, food and health care.

According to McKinsey, the average household today has an RRI of 63. That leaves a savings gap of 37%, adding up to about \$250,000, upon retirement for the average household.

The Center for Retirement Research's study is at <http://tinyurl.com/RetireRiskIndex2009>. McKinsey's research is available at <http://tinyurl.com/RetireReadinessIndex>. ■

The U.S. Government Accountability Office recently studied the effects of automatic enrollment. Read the report at <http://tinyurl.com/GAOAutoEnrollment>.

# Plan Sponsors Ask...

**Q:** Has the Department of Labor granted an extension of the starting date of mandatory electronic filing of Form 5500?

**A:** No. Department of Labor (DOL) regulations issued in 2007 require that Form 5500 for all plans be filed electronically for plan years beginning on or after January 1, 2009.

Electronic filing applies to both Form 5500 and Form 5500-SF, the new form for small plans available for the 2009 plan year, but not to Form 5500-EZ.

The filing program is called the ERISA Filing Acceptance System (EFAST2). To help sponsors understand EFAST2 and the filing requirements, the DOL has made available a series of frequently asked questions. Topics include vendor software for use with EFAST2, electronic signatures, exporting a draft Form 5500 for review by others and registering for electronic filing credentials.

The FAQs are at <http://tinyurl.com/Form5500FAQs>.

**Q:** The trend in plan design is clearly toward putting a number of features on “autopilot.” Just how fast is this trend moving?

**A:** It’s moving at lightning speed, according to a recent Hewitt Associates survey. In some cases, the number of plans using certain automatic features has nearly tripled in just four years.

Of the companies surveyed, nearly 60% had adopted automatic enrollment by 2009, and 44% had automatic contribution increases in place. Automatic rebalancing was used by nearly 50% of respondents.

To get a flavor for the growth of the autopilot concept, note the growth of the percentage of plans offering automatic features in recent years in the following chart.

Feature	2005	2007	2009
Enrollment	19%	34%	58%
Contribution Escalation	9%	35%	44%
Rebalancing	26%	42%	47%



Details about these and other related plan design aspects, such as the use of target-date funds, are at <http://tinyurl.com/HewittSurvey09>.

**Q:** For ERISA purposes, are we permitted to give a “Summary Prospectus” to participants rather than a full prospectus?

**A:** Yes. By way of background, ERISA Section 404(c) provides relief of fiduciary liability due to a participant’s investment instructions if certain requirements are met. One such requirement is furnishing to participants the most recent mutual fund prospectus upon request and when the first investment is made in the fund.

In January, 2009, the Securities and Exchange Commission enacted a rule permitting a Summary Prospectus as an alternative to a full, statutory prospectus. It is a shortened, plain English alternative to the full prospectus in a user-friendly format. It can be issued to investors as long as the full prospectus is available upon request at a specific Internet address or by e-mail, or on paper by calling a specific telephone number.

Plan sponsors asked the Department of Labor (DOL) about the Section 404(c) implications of using a Summary Prospectus, and the DOL responded in September, 2009 via Field Assistance Bulletin 2009-03 (FAB). The FAB advises that a Summary Prospectus satisfies ERISA Section 404(c) rules because the required contents provide the key information about a mutual fund that participants must have to make informed investment decisions.

The FAB is at <http://tinyurl.com/DOLSummaryProspectus>. ■

## 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)

Profit Sharing/401(k) Council of America  
[www.pasca.org](http://www.pasca.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)

## Eligibility Is Often Immediate

More than half of responding plans provide for immediate eligibility to participate in the 401(k) plan, according to Hewitt Associates' biennial *Trends and Experience in 401(k) Plans* survey. Nearly 75% of plans did not have a service requirement for participation in 2009, up from 61% in 2007.

A large proportion of plans (56%) had no service requirement for receiving the employer match, an increase from 44% in the previous survey.

In other findings, 60% of plan sponsors ranked adequate performance of investment options and the degree to which employees value and appreciate the plan as the two most important measures of plan success. Also ranked highly were the plan's participation rate and employees' retirement income security.

About 90% of plans had an investment policy statement. Regarding fund selection, historical performance was the most important factor in the prior survey. In this one, investment fees and expense ratios were the most-cited criteria (by 60% of plans), followed by fund objective and style consistency (48%).

Details about these and other survey topics, such as the use of safe harbor plan design, are at <http://tinyurl.com/HewittTrends2009>. ■

## Plan Sponsor's Quarterly Calendar

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

### APRIL

- Audit first quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rule regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between January 1st and March 31st received and returned an enrollment form. Follow up for forms that were not returned.
- 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)

### MAY

- Perform a thorough annual review of the Plan's Summary Plan Description and other enrollment and plan materials to verify that all information is accurate and current, and identify situations in which revisions are necessary.
- 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.
- Monitor the status of the completion of Form 5500, and, if required, a plan audit. (Calendar year plans)

### 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.

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