Plan Sponsor RetirementZone

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3RD QUARTER 2016

DC Plans Alive, Well and Thriving

Although the private, employer-sponsored retirement plan system went through a shaky period during the 2008 financial crisis (when plan balances declined and the number of loans rose), DC plans have evolved, adapted and come back stronger as America's economy and workers have recovered. A new survey finds that participants continue to save, and have increased their savings in employer-sponsored retirement plans, mostly thanks to solid education programs from plan sponsors and providers on topics such as market volatility, asset allocation, and target-date funds.

Eligibility, Participation and Deferral Rates Show Strength

Eligibility rates are strong. Nearly 99% of all full-time employees are eligible to participate in their employer-sponsored plan. What's more, half of plans allow part-time workers to contribute. Participation rates are steady, too. A full 88% of eligible participants in the plans surveyed have an account balance, and 80% are making contributions.

Deferral rates are higher than pre-crisis levels. According to ADP testing, deferrals for "non-highly compensated employees" — those earning below $115,000 a year — averaged 5.8% of pay in 2014, compared to 5.3% in 2013. Further, this group is catching up to its highly compensated counterparts, whose pretax contributions are typically around 6.9% of pay.

Sponsors Are Helping to Boost Savings, Too

Employer-matching contributions are also on the rise. Sponsors made contributions in 95.6% of plans. In 2014, the average 401(k) plan contribution was 3.2%, up from 2.9% in 2013. Moreover, 51% of plans have no service requirement to receive the match.

A majority of plans — more than 52% — now offer automatic enrollment. However, plan size makes a difference: While 70% of plans with 5,000-plus participants have an auto-enroll feature, just 19% of plans with less than 50 participants offer one. That's significant, because participation is about 10% higher in plans with auto-enrollment, according to the survey. Sponsors typically auto-enroll workers at a 3% rate, but some are opting for higher default rates. The survey showed about equal deferral rates for auto- vs. self-enrolled participants.

Some Key Findings

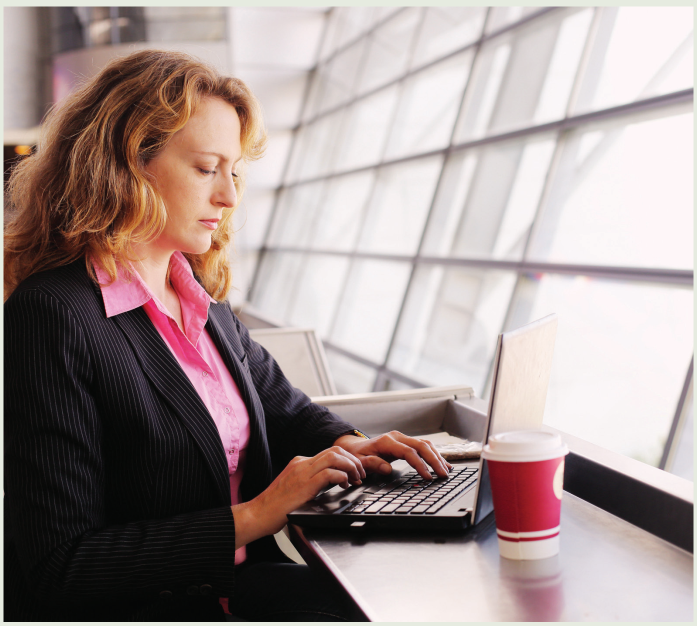
- The average fund menu included 19 options.
- Seven out of 10 plans offered a target-date fund (TDF). On average, 15.8% of plan assets were allocated to TDFs, a notable uptick from 4.5% in 2007.
- Eighty percent of plans used a qualified default investment option (QDIA); 74% of sponsors chose a TDF as the QDIA.
- Nearly 70% of sponsors used investment advisors.

The 58th Annual Survey from the Plan Sponsor Council of America is available online at http://tinyurl.com/PSCA58survey.

Gen X Needs Retirement Planning Help

Much has been written about generations in the workplace, most of it focused on baby boomers and millennials. Just like a middle child, members of Generation X have been largely overlooked with regard to their long-term financial needs.

Considering that the youngest members of this generation, born between 1965 and 1980, are now reaching their 50s — peak wealth accumulation years for most people — it's high time for that to change. Weber Shandwick's study, Leveraging the Gen X Retirement Market: From Overlooked to Opportunity, discusses the financial needs of Gen Xers for the benefit of financial advisors. Its insights may also be useful for employers seeking to help this segment of their employee population.



Gen Xers were up-close witnesses to the recession of the early 1990s at a critical point in their lives. They were just emerging from their so-called slacker period and launching their careers. They were hit again as the first wave of them entered their early 40s, and the Great Recession swept away much of their financial progress. According to the Pew Charitable Trusts, Gen Xers took the biggest financial hit among the generations during that time, losing almost half (45%) of their total wealth in a four-year period. (Pew Research Center, "Generation X: America's Neglected 'Middle Child'")

This information isn't a surprise to members of Gen X; the study reveals many are worried about their long-term financial security, especially when asked about financing their health care as they age. The worry doesn't seem to be motivating additional saving, though. This group wants and needs financial strategies, programs, advice and encouragement.

As you research and implement strategies to help Gen Xers save more for their retirement, discuss with your advisor or TPA resources they can provide and how they can help. Some of the ideas offered up by the Weber Shandwick study include:

- Consider Gen X as an individual target segment, distinct from the boomers and millennials. Ask your retirement plan advisor or TPA for products and services that address the specific needs and investment gaps of the Gen Xers in your midst.
- Gen X holds a substantial amount of wealth, but they are less than confident in its security — understandably, considering their early financial experiences. Help them understand their investment options; show them incremental steps toward achieving their retirement goals; and continue to show the impact of equity investing while acknowledging their concerns.
- Make sure your communications address future health care costs. Talk about elder care costs and options, and offer regular updates and commentary about the changing health care marketplace.
- Provide both basic and advanced financial training, to meet the needs of beginners and those with investing experience. Webcasts can be effective, as can access to a financial planner. Be sure to address questions about managing 401(k) investments, insurance, taxes and fees.

Read the study online at http://tinyurl.com/Weber-Shandwick-GenX.

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

PLANSPONSOR Magazine
www.plansponsor.com

BenefitsLink
www.benefitslink.com

Plan Sponsor Council of America
www.psca.org

Employee Benefits Institute of America, Inc.
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

Plan Sponsors Ask…

Q: Is choosing my plan's qualified default investment alternative (QDIA) a fiduciary responsibility? What options do most DC plan sponsors use?

A: Yes, selecting a QDIA is considered a fiduciary act, and without an approved QDIA deferral option, plan sponsors and fiduciaries are potentially liable for losses when participants defer money into a DC plan but don't actively direct their investments.

However, there are ways to limit your liability. Most plan sponsors use one of three QDIAs: target-date funds (TDFs), date-specific asset allocation funds chosen based on a participant's age, retirement date and life expectancy, where participants are defaulted into the most age-appropriate option; balanced funds, which provide a diversified portfolio based on the plan's demographic as a whole; and managed accounts, individual accounts handled by a professional investment manager. These QDIAs were established as safe harbors under ERISA and the Pension Protection Act of 2006 (PPA). So plan sponsors and fiduciaries are exempt from any liability due to investment losses in plans that comply with Department of Labor (DOL) regulations under PPA. According to the 2015 PLANSPONSOR Defined Contribution (DC) Survey, 61.7% of respondents chose active, indexed or customized TDFs as their plan's QDIA.

Learn more at http://tinyurl.com/3PSQDIAfaves.

Q: In an increasingly connected world, employees are bombarded with communications from various sources every day. How do we make sure they don't miss out on the all-important message about retirement planning?

A: The key words here are "don't miss out." The average worker receives more than 100 emails every day, not to mention text messages, social media, news and the entire internet at his or her fingertips 24/7. Your ability to rise above the din may lie in a centuries-old concept with a new name: FOMO, or fear of missing out, according to a recent Deloitte study. Using FOMO in retirement plan communications enables you to deliver information to workers in the way they want to receive it. As such, your messages will garner closer attention and spur workers to take action.

Use four simple FOMO techniques to deliver retirement plan communications to workers in the right way, at the right time:

1. **Send fewer messages:** Limiting the number of messages increases their perceived value. For example, send enrollment emails quarterly instead of monthly. If workers believe they might miss the opportunity rather than being constantly reminded of it, they are more likely to pay attention and take action.

2. **Target your communications:** Mix things up: Try unconventional techniques such as video or written communications rather than defaulting to email to ignite attention, engagement and FOMO.
3. **Select senders strategically:** A message from someone with a personal connection to the recipient will likely be more high-impact. Again, targeted messages distributed to peer or social groups also naturally arouse FOMO because they are more personal, interesting and valuable than a generic, company-wide communication.
4. **Create a feeling of exclusivity;** choose your words carefully: Exclusivity creates heightened interest, along with increased engagement and reaction. Words like "elite" and "limited" grab attention and spark interest. Tailor the communication to be highly specific and relevant, then make it available to a select audience. The message becomes more attractive because the audience feels it is part of a "privileged" group.

Find out more at http://tinyurl.com/DeloitteFOMOstudy.

Q: We want to conduct more frequent, effective plan reviews. What should we focus on?

A: You're not alone. Many plan sponsors say they want to review their plans more often. The 2016 MassMutual Retirement Plan Review study showed that in plans with advisors, 57% said they'd like help reviewing their plans semiannually; only 44% of sponsors reported this actually happens. Unfortunately, making sure employees are saving enough often falls to the bottom of the list during plan reviews, both for sponsors who work with an advisor (27%) and those who don't (25%), according to MassMutual.

The primary focus should be the plan's effectiveness and educational efforts to ensure workers are adequately prepared for retirement. Employers may face significantly increased costs for health care, disability and workers' compensation for employees who work past the traditional target retirement age of 65-67. Proactively making sure a retirement plan is helping employees to retire by the time they're eligible for full Social Security benefits can drastically reduce those costs. Any plan improvements should start with a detailed review, then consultation with knowledgeable plan experts, such as legal counsel and advisors.

Read all about it at http://tinyurl.com/MassMutualPlanReview.

'You Can't Take It with You' – Maybe

More and more, the discussion surrounding taking money out of the 401(k) plan centers around lifetime income. One problem with guaranteed lifetime income products within a DC plan is a perceived lack of portability. How can a plan with a guaranteed lifetime income option change to a record keeper that does not have that option, for example?

The Institutional Retirement Income Council (IRIC) says that portability is within reach for many plans. In its April 2016 paper, "In-Plan Guaranteed Lifetime Income: Debunking Portability Myths," IRIC recommends that plan sponsors answer some questions for themselves to begin breaking down the barriers.

IRIC suggests that plan sponsors who are selecting a guaranteed lifetime income product, either as a payout or an investment option within the plan, consider the value that portability brings. Portability is an administrative concern, so it is important for the insurance company and the record keeper to support administration and record keeping functions for the guaranteed product. IRIC's paper says the number of plans now offering in-plan guaranteed lifetime income products now exceeds 33,500, so the willingness of insurance companies and record keepers to build out their portability capabilities is increasing.

For more information about portability of guaranteed lifetime income products in DC plans, read IRIC's paper at http://tinyurl.com/IRIC-Portability. ■

Pension Plan Limitations for 2016

401(k) Maximum Elective Deferral (*$24,000 for those age 50 or older, if plan permits)	$18,000*
Defined Contribution Maximum Annual Addition	$53,000
Highly Compensated Employee Threshold	$120,000
Annual Compensation Limit	$265,000

PLAN SPONSOR'S QUARTERLY CALENDAR

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 30-90 days of the beginning of the plan year to which the safe harbor is to apply). 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 to be mailed in January for reportable plan transactions in 2015.
- 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 record keeper 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.

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

Kmotion, Inc., 412 Beavercreek Road, Suite 611, Oregon City, OR 97045; 877-306-5055; www.kmotion.com