Plan Sponsor
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1ST QUARTER 2014

Participant Deferral Rate Rose Slightly

How does your plan compare?

The average participation rate in 401(k) plans was 88% at the end of 2012, according to the *56th Annual Survey of Profit Sharing and 401(k) Plans* by the Plan Sponsor Council of America (PSCA). (The rate is defined as the average percentage of eligible employees who had a balance in the plan.) The year before the rate was 86%. An average of nearly 81% of eligible employees made contributions to the plan in 2012.

The average participant pre-tax deferral rate was 6.8%, compared to 6.4% the year before.

Fast eligibility continued

About 62% of companies permit employees to contribute to the plan immediately upon hire. Almost half (46%) grant immediate eligibility to receive the company match, while 29% require one year of service.

Auto-enrollment remained popular

Over 47% of plans had an automatic enrollment feature.

The most common default deferral rate was 3% of pay (52% of plans). More than 35% of plans reported a default deferral rate greater than 3%.

Target retirement date funds remained the most common default investment option (73% of plans).

About 58% of plans with automatic enrollment also provide for automatic increases in contribution rates over time.

Roth feature usage rose

About 54% of plans permitted Roth 401(k) contributions, up from 49% the previous year. Of those eligible to make Roth contributions, 20% did so. Based on ADP test results, the average Roth deferral rate of lower paid participants was 4.0%. For higher-paid participants, the average was 4.9%.

Number of options did not change

The average number of investment choices offered to participants remained at 19.

Other survey results:

- More than 89% of plans had an investment policy statement. Monitoring of investments occurred most often on a quarterly basis (67% of plans).
- Immediate vesting of matching contributions was reported by 41% of plans.
- More than 18% of plans offered company stock as an investment option.
- Almost 88% of plans allowed hardship withdrawals, and about 2% of participants had such a distribution in 2012.
- Loans were permitted in 88% of plans. More than half of these plans (51%) allow only one loan at a time.
- Rollovers were accepted in nearly 98% of plans. Nearly two-thirds of plans required employees to be eligible to make elective deferrals before they could roll over assets into the plan.
- Catch-up contributions were permitted in nearly 98% of plans. About 24% of those eligible for these contributions made catch-up contributions.

The survey reflects the 2012 experience of 10.3 million participants in 686 plans that had a total of more than $769 billion in plan assets.

The survey may be purchased from the PSCA at www.psca.org. ■

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Employers Seek to Enhance Retirement Readiness

Employee retirement readiness is a top priority among more than three-fourths of employers participating in Deloitte Consulting's *Annual 401(k) Benchmarking Survey, 2012 Edition*. Only 12% of plan sponsors said that most employees are or will be "financially prepared for retirement."

Employers are attempting to address this situation by implementing retirement readiness assessments; nearly two-thirds reported conducting such assessments in 2012.

Automatic enrollment is among steps taken

Other steps taken by sponsors include offering automatic enrollment. About 86% of those whose plans have this feature see a positive effect on employee participation rates. More than 50% of plans offer a Roth 401(k) option to enhance participation. And almost two-thirds are offering individual financial counseling and advice, demonstrating the focus that plan sponsors are placing on participant education.

Planning tools are not being used

Unfortunately, the survey results also revealed that participants aren't using education tools and other planning resources to the fullest. This has led to employers encouraging providers and recordkeepers to develop innovative approaches like podcasts and webcasts, where participants can get education on demand, and more extensive social media and mobile applications.

Visit http://tinyurl.com/Deloitte2012AnnualBenchmarking for more Deloitte survey results. ■

Retirement Tool Kit Available

The Department of Labor has published its *Retirement Toolkit*, a brochure that guides employees through issues related to retirement savings plans, Social Security and Medicare. It offers extensive resources for additional information on related topics. See it at http://tinyurl.com/DOLRetirementToolkit.

Pension Plan Limitations for 2014

401(k) Maximum Elective Deferral (*$23,000 for those age 50 or older, if plan permits)	$17,500*
Defined Contribution Maximum Annual Addition	$52,000
Highly Compensated Employee Threshold	$115,000
Annual Compensation Limit	$260,000

Generation Y Taking Action to Save

According to a LIMRA survey, Generation Y employees (generally those now in their mid 20s to mid 30s) seem to be more confident about their retirement savings efforts than in the past. Only 25% of respondents in this age group are concerned about having saved sufficiently for retirement.

In fact, 21% of those identifying themselves as Generation Y said that they are very confident that they will enjoy a financially secure retirement.

Almost half of "Gen Y" survey participants reported that their primary source of financial information is their parents and other family members. One-fourth noted that they have learned from the mistakes of others.

Gen Y learned from 2008 crisis

While many Americans had a rude awakening during the 2008 financial crisis, it appears that Gen Y learned more and took more positive actions after the crisis than those in other age groups.

Similar results were found in Fidelity Investments' Fidelity Five Years Later Research report, which studied investors' attitudes and behaviors five years after the 2008 financial meltdown. Results indicated that more than 80% of Gen Y now view themselves as more knowledgeable about their finances versus 66% of older age groups. More than half (55%) feel greater confidence as investors. And two-thirds of Gen Y respondents are now saving more on a regular basis.

Financial decision-making is different

Investing and financial decisions seem to be made differently by Gen Y than older generations, Fidelity reported. For example, as the LIMRA survey indicated, Gen Y respondents were more likely to consult family and friends for financial guidance than other age groups. They were also more likely to pursue research online and use online calculators and other tools.

Gen Y are also focused on saving. One-third of Gen Y respondents had increased their liquid assets, and almost 40% had increased their contributions to retirement savings accounts.

See the LIMRA report, which includes data regarding Generation X, at http://tinyurl.com/LIMRAGenX. The Fidelity study is at http://tinyurl.com/FidelityFiveYearsLater. ■

IRS Explains Automatic Contributions

A new page on the Internal Revenue Service's website offers helpful considerations for plan sponsors regarding automatic contribution increase provisions. Resources include FAQs, sample plan amendments, and a comparison of EACA and QACA requirements. See http://tinyurl.com/IRSAutoContributionIncrease.

Plan Sponsors Ask…

Q: Is there a relationship between automatic enrollment and employer decisions about matching contributions and total compensation?

A: Recent research by the Center for Retirement Research at Boston College (CRR) found that auto-enrollment is related to relatively low employer match rates and default rates, but not overall compensation.

The *How Does 401(k) Auto-Enrollment Relate to the Employer Match and Total Compensation?* report indicates that auto-enrollment plans had a matching rate of about 0.4 percentage points less than plans without auto-enrollment, even taking into account other factors.

The researchers also investigated whether low-default contribution rates are chosen by employers who have auto-enrollment in their plans. It appears that employers who have this feature may be using a relatively low default rate, with resulting lower matching, to somewhat offset the higher costs that occur from higher participation rates found in auto-enrollment plans.

The study concluded that auto-enrollment increases saving for workers who would not have participated in the plan without that provision. However, employees who would have participated in the absence of auto-enrollment may, over time, save less because of relatively low employer match rates.

The CRR's report is at http://tinyurl.com/CRRAutoEnroll.

Q: What's the latest on employee preparedness for retirement?

A: Financial Finesse's third annual report on overall retirement preparedness showed small but steady improvement since 2011. However, most employees have done little to prepare. For example, 61% of survey respondents stated that they have not projected their retirement income with a financial calculator.

The report speculates that improved market performance and changes that participants had been making in their investment approach have had more to do with employees' improved retirement preparedness than adjustments in their saving behavior.

Only one-third of lower-income employees had performed a retirement income projection, and only 10% had confidence in their ability to achieve their income-replacement target. Similarly, just 17% of women and the same percentage of the youngest group of workers expressed confidence in being able to reach their income-replacement goal.

See Financial Finesse's commentary at http://tinyurl.com/RetirePreparedness.

Q: What are some ideas we could consider to reduce the negative effect on retirement savings resulting from loan defaults upon termination of employment?

A: A recent Aon Hewitt report, *Minimizing Defined Contribution Plan Loan Leakage*, recommends several preventive steps that plan sponsors can take to reduce the number and dollar amount of loan defaults.

First, sponsors can add an option allowing borrowers to make loan repayments from their personal bank account, known as a direct debit repayment option. Plans with this feature report 22% fewer defaults than those that don't offer this choice.

Reducing the number of loans that participants can have outstanding at one time is another preventive measure. Research shows that plans allowing two or more loans at the same time report loan balances of $1,600 more on average than plans allowing only one at a time.

Money available for borrowing could be limited to employee contributions. Plans with this restriction indicate that average loan balances are $370 less than those that permit borrowing employer match money as well as participant contributions.

Lastly, Aon Hewitt's white paper notes that the most effective step to reduce leakage from defaults is to have higher loan-origination fees. Plans that charged $100 or more had an average of $4,600 less in outstanding loan balances than those with fees of $50 or less.

The report is at http://tinyurl.com/AonLoanLeakage. ■

Women Are Saving Less

One of the findings in Aon Hewitt's *2013 Universe Benchmarks Report* is that women are saving less for retirement than men.

Although men and women participate in their employers' defined contribution plans at the same rate, women are saving less: 6.9% of pay for women versus 7.6% for men. Also, women are contributing below the threshold for the employer match in greater numbers than men.

While women and men receive loans from their retirement savings plans at relatively equal rates, women are more likely than men to default on a loan upon terminating employment. Almost three-quarters (71%) of women defaulted following termination, while only 64% of men defaulted.

Aon Hewitt recommends that women start investing earlier and contribute more, take full advantage of the employer match, and use automatic features, such as automatic contribution increases.

Details of Aon Hewitt's study are at http://tinyurl.com/Aon2013UniverseBenchmarks. ■

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 SPONSOR'S QUARTERLY CALENDAR

APRIL

- If a plan audit is required in connection with 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 on 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 email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans they are covered by.
- 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 the plan audit, if required, will be completed prior to the filing deadline, or whether 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 IRS 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.

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