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2ND QUARTER 2012

Surveys Reveal Sponsors' 2012 Focus

Two recent surveys indicate that plan sponsors have shifted their attention from simply raising participation rates, to broader and more fundamental topics involving retirement plan participants.

Retirement readiness is high priority

Deloitte's *Annual 401(k) Benchmarking Survey, 2011 Edition* found that only 15% of plan sponsors think that most employees will be financially prepared for retirement. About 85% responded that only some or very few employees will be financially secure.

When asked about preparing employees for retirement, approximately two-thirds (64%) indicated that their responsibility includes being interested in whether employees are headed toward a comfortable retirement. Another 20% felt very responsible for preparing their workers for retirement.

Retirement readiness of active participants was rated as very important or quite important by 72% of responding sponsors. Nearly all (92%) said that providing the right investments to help employees reach their retirement goals was very important or quite important.

Compliance concerns are seen

The new fee disclosure regulations were seen as very important or quite important by 71% of sponsors. More than two-thirds also cited improving plan governance and controls as quite important or very important. Nearly 80% rated reducing plan risk and potential fiduciary responsibility, and improving understanding of plan expenses, as highly important.

Another survey adds perspective

Among the 500 employers responding to Aon Hewitt's *2012 Hot Topics in Retirement* survey, confidence in their employees' retirement success has declined sharply. Only 4% said they were very confident that employees will have sufficient assets when they retire, down sharply from 30% in the previous year's survey.

Only 10% of sponsors were confident that their employees were accepting accountability for their financial situation in retirement, and fewer than 20% had confidence that workers could manage their income during retirement.

Sponsors plan actions

Nearly half (44%) of responding sponsors said they would concentrate on helping employees retire with adequate financial resources, and about two-thirds (60%) reported that they would focus on assisting their employees with understanding and using the sponsor-provided tools available to them.

Concrete actions include adding an online advice feature (26% of plans) and adding managed accounts (24%). Also, 64% of sponsors said they were likely to add online modeling tools to help employees estimate how much they can spend each year in retirement.

The Deloitte survey is at http://tinyurl.com/Annual401kBenchmarking. Aon Hewitt's *2012 Hot Topics in Retirement* is at http://tinyurl.com/AonHewitt2012HotTopics. ■

Among full-time, full-year workers, women have a higher plan participation rate than men. Find out more in the Employee Benefit Research Institute's Fast Facts at http://tinyurl.com/WomenParticipation.

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

Final Service Provider Disclosure Rules Issued

The Department of Labor issued final regulations specifying required service provider fee disclosures to retirement plan fiduciaries. These regulations are coupled with rules regarding disclosures by plan sponsors to eligible employees and plan participants. Those rules require disclosure of plan-related administrative expense and fee information and investment-related information, much of which must now be made available to sponsors as a result of the service provider disclosure regulations

Covered Service Provider is defined

The final rules define a Covered Service Provider as one that enters into a contract with a covered plan and reasonably expects to receive at least $1,000 in compensation for its services.

Compensation must be disclosed

Service providers must now disclose all direct and indirect compensation expected to be received by the Covered Service Provider. Descriptions of compensation or cost may be expressed as dollar amounts, formulas, percentages of plan assets, per-participant charges or other reasonable methods. Good faith estimates are permitted.

Total annual operating expenses of investment options, such as a mutual fund, must be disclosed.

Effective date is changed

The interim final regulations issued in 2010 specified an April 1, 2012 effective date for the service provider disclosure rules. The final regulations extend the effective date to July 1, 2012.

This changes the effective date of the participant-level disclosure rules, which is 60 days after the effective date of the service provider rules. The result is that, for calendar year plans, the initial disclosure of plan-related and investment-related fee information must be furnished to participants no later than August 30, 2012. ■

Retirement Security Confidence Improves Among Participants

Although surveyed employees reported increasing satisfaction with their financial situation, they are still concerned and are planning to take steps to improve their finances.

Towers Watson's *Retirement Planning In a Post-Crisis Economy* report found that 41 percent of survey respondents reported improved satisfaction with their finances, up from 33% in 2010. Also, 47% reported having seen a significant decline in their pension and retirement savings, down from 60% in 2009. Even so, nearly 60% were generally unsatisfied with their financial situation.

Retirement confidence rises

In stark contrast to the results of the surveys of plan sponsors described on page 1 of this newsletter, about 68% of workers said they were very or somewhat confident about having sufficient financial resources to live comfortably for 15 years in retirement, up from 62% the year before.

They have less confidence about living comfortably throughout retirement. Those who were very or somewhat confident that they will have enough resources to last 25 years in retirement amounted to less than half (47%) of respondents. In 2010, that figure was 40%.

Actions planned this year

Retirement planning was reported to be a high priority for survey respondents. The top four planned actions this year were:

- Review how much I need to save for retirement (37%)
- Increase my monthly savings (33%)
- Review my financial situation (30%)
- Obtain professional financial advice (29%)

Retirement will be delayed

Almost 40% of workers reported planning to delay retirement. The majority of those (60%) expected to work at least an additional three years.

Education sources are identified

Nearly three-quarters (74%) of respondents reported using the plan sponsor's or plan administrator's website to prepare for retirement. Online retirement modeling tools were used by 65% of those responding, and the same percentage reported using educational material that was sent to their home.

The Towers Watson report is at http://tinyurl.com/TowersWatsonRetPlanning. ■

Plan Sponsors Ask…

Q: Are target date funds popular with younger 401(k) plan participants?

A: Analysis by the Employee Benefit Research Institute (EBRI) indicates that target date funds are increasingly attractive to those in their 20s and 30s. In fact, at the end of 2010, more than one-third (35%) of the account balances of recently hired participants in their 20s were invested in target date funds.

EBRI found that in 2006, the percentage of recently hired 401(k) participants (defined as two or fewer years of service) investing in target date funds was 28%. That grew to 44% in 2008 and to 47% in 2009. At the end of 2010, the number was almost 48%.

About 52% of recent hires in their 20s held target date funds at the end of 2010, versus 42% of recent hires in their 60s.

Large numbers of recently hired participants in their 30s (almost 48%) and 40s (45%) are also investing in these funds.

Overall, target date funds are increasingly popular with participants in all age groups. But, the most rapid growth in their popularity is clearly among participants in their 20s.

EBRI's Fast Facts report on this topic is at http://tinyurl.com/EBRITargetDate.

Q: What is the amount of ERISA bond coverage we should have for our retirement plan?

A: ERISA requires that every fiduciary of an employee benefit plan be bonded in order to protect the plan against loss resulting from dishonesty, fraud or theft by persons who handle funds for the plan.

The value of the bond must be equal to at least 10% of the total amount of funds handled during the previous plan year. ("Funds handled" is generally viewed as the total of the plan's assets.) The bond must be at least $1,000 and not more than $500,000. If the plan holds employer stock, the maximum is $1,000,000.

Remember that the ERISA bond differs from fiduciary liability insurance. While the bond protects the plan from fraud and dishonesty, fiduciary liability insurance generally protects the employer or fiduciaries from losses due to a breach of fiduciary duty. While the bond is required, liability insurance is not.

Q: What major steps did plan sponsors take last year in response to the economic situation?

A: The Plan Sponsor Council of America (PSCA) surveyed more than 500 plan sponsors near the end of last year and found that about half of those who had suspended their matching contribution in the previous four years had fully restored it.

Of all plans responding, two-thirds maintained their match, 12% increased it or added a match, 7% had restored a reduced or suspended match, and about 14% still had a suspended or reduced match.

Other steps were reported in the PSCA's *401(k) and Profit Sharing Plan Response to Current Conditions* survey results. Almost two-thirds (64%) of sponsors changed their investment option menu in 2011, up from 56% in 2010 and only about 20% in 2009.

More than half of the respondents increased employee education efforts last year, and 43% offered education specifically related to financial market volatility.

The PSCA's report is available at http://tinyurl.com/PSCACurrentConditions. ■

Do you have new staff members working with the plan, or others needing a refresher on fiduciary responsibilities? Refer them to http://tinyurl.com/FiduciaryEducGuide, which offers key information and links to federal government resources.

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

Plan Sponsor 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

Cues Change Saving Behavior

Using several versions of e-mails to retirement plan participants, researchers at Yale University conducted experiments to determine if certain written cues would affect the saving behavior of participants. The e-mails reminded participants of the employer match and how much the participant had contributed so far in the year, and allowed the researchers to study the impact of specific wording and examples on saving rates.

The researchers concluded that small numerical cues can, indeed, influence retirement plan contributions. Contribution rate increase examples, when relatively low, decreased contribution rates up to 1.5% of income. When high, rates rose by almost 3% of income. They also found that an example of a high savings goal increased contribution rates by up to 2.2% of income. And when a higher savings threshold was used as an example, contributions rose up to 1.5% of income. Lastly, when the maximum permissible contribution rate was presented as an example, contributions rose by almost 3% of income.

Small Cues Change Savings Choices from Yale University is available at http://tinyurl.com/CuesChangeSaving. ■

PLAN SPONSOR'S QUARTERLY CALENDAR

JULY

- Conduct a review of second 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 April 1 and June 30 received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan's Form 5500 is submitted by July 31, unless an extension of time to file applies. (Calendar year plans)

AUGUST

- Issue initial fee disclosures to employees by August 30. (Calendar year plans)
- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30, unless a Form 5500 extension of time to file applies. (Calendar year plans)
- Submit employee census and payroll data to the plan's recordkeeper for mid-year compliance testing. (Calendar year plans)
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their proper form. Contact those whose forms were not received.

SEPTEMBER

- Send 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.
- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2. (Calendar year plans)
- Distribute the plan's Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies. (Calendar year plans)

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

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