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2ND QUARTER 2009

Fast Eligibility Continues

Immediate eligibility is the norm

In 1998, only 24% of 401(k) plans permitted new employees to contribute to the plan immediately upon employment. In 2008, that figure more than doubled to 55%. The Profit Sharing/401(k) Council of America's *401(k) and Profit Sharing Plan Eligibility Survey 2008* confirms that the trend toward early eligibility remains strong.

At nearly 73% of companies, employees may participate within the first three months of employment. Only about 15% of all plans require service of one year or more in order to participate.

In this survey, only 29% of employers require a year or more of service to be eligible for matching contributions; 38% provide immediate eligibility. Non-matching employer contributions present a different picture: almost 50% of companies required at least a year of service.

Regarding age requirements, 43% of employers have no minimum age for participants to contribute or to receive non-matching employer contributions. Where there is an age requirement, 21 is the most common (34% of plans). Almost 23% have set age 18 as the minimum age for participation.

Complete survey results are available at http://tinyurl.com/2008EligibilitySurvey.

Participant Allocations Are Encouraging

It appears that the message regarding the need for diversification is getting through to participants, if recent analysis of the EBRI/ICI 401(k) database is any indication. The Employee Benefit Research Institute (EBRI) and the Investment Company Institute (ICI) found that 25% of all participants were invested in lifecycle (or target-date) funds, and assets in those funds were 7.4% of all 401(k) assets. Lifecycle funds were available in two-thirds of plans. Across all age groups, more new or recent hires invested in balanced funds, including lifecycle funds. At the end of 2007, 28% of the account balances of recently hired participants in their 20s were in balanced funds, compared with 24% a year earlier and only 7% in 1998. Almost 19% of the account balances of recently hired participants in their 20s were invested in lifecycle funds, up from 16% the previous year.

The majority of assets continue to be invested in stocks. About two-thirds of 401(k) participants' assets were in equity securities.

Participants seem to be continuing to pursue diversification. Company stock represented only 10.6% of investments, continuing a decline that began in 1999. Newly hired participants were less likely to invest in employer stock than in the past.

EBRI's *401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007* Issue Brief is available at http://tinyurl.com/AllocationStudy.

Pension Plan Limitations for 2009

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

Loans, Withdrawals and Exchanges Remain Steady[1]

Despite economic and market downturns in 2008, participant activity with respect to loans, hardship withdrawals and exchanges remained almost the same between 2007 and 2008, according to a new analysis. This study looked at the activities of 11 million participants in over 17,000 401(k) plans.

In 2007, 9.7% of participants initiated a plan loan. That number declined slightly to 9.0% in 2008.

Hardship withdrawals were up only a very small amount in 2008 to 1.8% of all participants, compared to 1.6% for the year before. The average amount of such withdrawals was $6,000.

Exchanges between investment options were requested by 13.9% of participants in 2008, down from 14.2% in 2007. Only 2.9% of participants who had all of their plan assets in lifecycle funds requested an exchange last year versus 13.9% of the overall participant population.

These and other topics are covered in this year-end 2008 analysis, which is available at http://tinyurl.com/Loans2008. ■

The Investment Company Institute found through recent surveys that defined contribution plan participants did not tap their accounts during recent market volatility any more than in the past, and only 3% stopped contributing in 2008. For details, see http://tinyurl.com/SavingDuringVolatility.

1 Source: Benefitslink.com Jan 2009

Match Directly Impacts Participation[2]

A study of 3.5 million participants concluded that an employer match drives participation rates up significantly.

Offering the most common match ($.50 on every dollar, up to 6% of pay) raises participation by as much as 9%.

Find out more at http://tinyurl.com/MatchParticipation. ■

DOL Updates Compliance Guide

The Department of Labor published a revision of the *Reporting and Disclosure Guide for Employee Benefit Plans* late last year. It serves as a quick reference resource for basic reporting and disclosure requirements under ERISA. For each compliance item, the booklet describes the type of information to be reported or disclosed, to whom and when.

It covers the various notices that must be provided to participants and beneficiaries of benefit plans, disclosure requirements specific to retirement plans and the Form 5500 schedules.

This handy tool is at http://tinyurl.com/ReportDisclosGuide. ■

Retirement Savings Gap Rises

In mid-2008, Hewitt Associates predicted that employees needed to replace, on average, 126% of their final pay upon retirement, after taking into account inflation and rising medical costs. Most workers were expected to replace only 85% of their income.

New analysis considered the market downturn and concluded that workers are on track to replace just 81% of income.

To replace what was lost in 2008, the average 40-year-old saving 7% in his or her 401(k) account will have to work one more year or save an extra 1% of pay each year to age 65 to recoup losses.

More information is at http://tinyurl.com/SavingsGap. ■

2 Fidelity Feb. 2009

Plan Sponsors Ask...

Q: ERISA requires fidelity bonding for people who handle plan funds. What exactly does "handle" mean?

A: The bonding requirement is intended to protect employee benefit plans from risk of loss due to fraud or dishonesty by persons who handle the plan's funds or other property. The Department of Labor's Field Assistance Bulletin No. 2008-04 (the FAB) addresses this and other bonding issues in a question-and-answer format.

The FAB notes that "handling" is not limited to physical contact with funds or property. The general standard is that a person handles funds whenever his or her duties or activities with the funds carry a risk that such funds could be lost in the event of fraud or dishonesty on the part of this person.

Criteria under this general standard include:

- physical contact with cash, checks or similar property;
- power to transfer funds or property from the plan to oneself or a third party;
- disbursement authority;
- authority to sign checks; and,
- supervisory or decision-making responsibility over activities that require bonding.

Handling doesn't include circumstances where the risk of loss is negligible, such as where physical contact is merely clerical in nature and subject to close supervision and control.

The FAB on these and other bonding topics is at http://tinyurl.com/ERISABonding.

Q: How has the economic climate affected how plan sponsors manage their 401(k) plans?

A: One well-publicized step taken by employers is to reduce or suspend employer matching contributions. But, there are other ways that sponsors are trying to encourage employees to save wisely for retirement that aren't making headlines.

A Hewitt Associates survey of mid- and large-sized employers found that 77% now offer life cycle (target date) funds. Among those not currently offering these funds, more than half plan to add them this year. About half of the respondents offer automatic enrollment and automatic rebalancing.

Many sponsors are stepping up communications to employees. Topics being covered are staying properly diversified (91%), investing for the long term (87%) and rebalancing on a regular basis (50%).

More information about the survey is at http://tinyurl.com/EmployerSteps.

Q: Where can we get information about common errors in 401(k) plans?

A: The Internal Revenue Service (IRS) has several helpful resources to increase awareness of common mistakes.

One excellent tool is *401(k) Plan Potential Mistakes*, which offers detailed discussions of how to identify a number of common mistakes, how to correct them and how to avoid making them in the first place. Included are links to explanations and other resources, such as relevant regulations. This educational and very practical resource is at http://tinyurl.com/IRSFixItGuide.

Another resource is the IRS' *Retirement News for Employers*. This periodic newsletter includes in-depth articles addressing common errors, and focuses on fixing them and avoiding them in the future. An index of these articles, with direct links, is at http://tinyurl.com/IRSCommonPlanMistakes.

While you're at it, why not subscribe to the e-mailed *Retirement News for Employers*? To sign up, go to http://tinyurl.com/IRSSubscribe.

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

Profit Sharing/401(k) Council of America
www.psca.org

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

Employee Benefit Research Institute
www.ebri.org

New Brochure for Small Employers

The Department of Labor (DOL) and the Internal Revenue Service (IRS) collaborated on a new brochure for small employers: *Automatic Enrollment in 401(k) Plans for Small Businesses.*

The booklet describes the automatic enrollment feature in a 401(k) plan, how to set up such a plan, management of the plan and fiduciary responsibilities. It also includes a compliance checklist, as well as a discussion of disclosure and reporting requirements.

Though its primary audience is small employers, the brochure is a comprehensive overview that would be helpful to all plan sponsors, regardless of company size.

The booklet can be downloaded at http://tinyurl.com/AutoEnrollBrochure. It can also be ordered from the DOL by calling 866-444-3272, or from the IRS by calling 877-829-3676 (ask for Publication 4674). ■

Plan Sponsor's Quarterly Calendar

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

JULY

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

AUGUST

- 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 1st and June 30th elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.
- Begin preparing for the distribution of the plan's Summary Annual Report to participants and beneficiaries by September 30th, unless a Form 5500 extension of time to file applies. (calendar year plans)

SEPTEMBER

- Begin preparing the applicable annual safe harbor notices to employees, and plan for distribution of the notices between October 3rd and December 2nd. (calendar year plans)
- Send a reminder memo or e-mail to participants to encourage them to review and update their beneficiary designations for all of their employee benefit plans.
- Distribute the plan's Summary Annual Report to participants and beneficiaries. (calendar year plans)

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; 877-306-5055; www.kmotion.com