Plan Sponsor
Outlook
A Current Issues Resource for Plan Sponsors and Administrators 4th Quarter 2008

Employers Seek Easier Routes to Participation

The *401(k) Benchmarking Survey, 2008 Edition** found that less than one in five plan sponsors believes that "most" employees are saving enough for retirement, despite average participation rates remaining steady at about 75%.

As a result, employers are focusing on making enrolling and participating as easy as possible for their employees.

Enrollment is simplified

Fifteen percent of sponsors reported using "easy enrollment" procedures, such as a postcard or similarly simple authorization form to enroll.

Automatic features gain in popularity

About 43% of respondents use automatic enrollment, up from 23% in the last survey, and another 26% said they are considering it. Virtually all (96%) of the sponsors who have implemented auto enrollment said they are pleased with it.

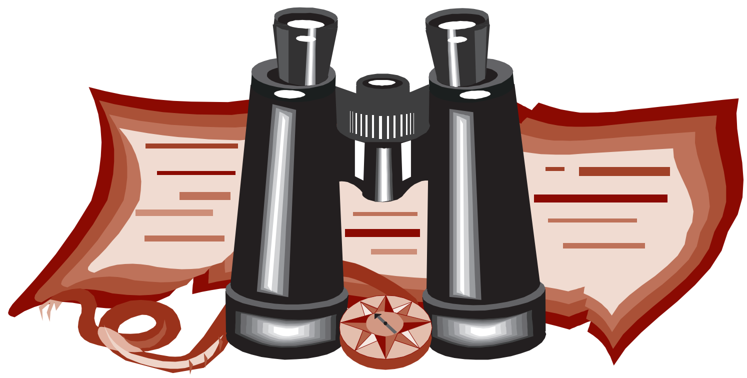
Automatic increases in deferral percentages are used by 35% of sponsors, which is nearly double the number reporting having this feature last year.

About two-thirds reported a default contribution rate of 3%, up from 50% the previous year.

Lifecycle funds are widely available

Time-based lifecycle funds are offered by 57% of respondents, versus 44% last year and only 28% in 2004. About half said they use this type of fund as their default investment vehicle.

* *International Foundation of Employee Benefit Plans, International Society of Employee Benefit Specialists, Deloitte Consulting LLP, © 2008.*



Sponsors define plan success

Survey participants reported that they measure their plan's success by looking at the participation rate. They identified "lack of employee understanding" and "ineffective employee communications" as the biggest barriers to plan success.

The majority (81%) said "where to invest or which funds to use" was the most confusing aspect of the 401(k) plan for their employees, followed by "how much to save for retirement " (55%).

The complete survey is at http://tinyurl.com/6al4v2. ■

Americans' savings for retirement totaled $17.6 trillion at year-end 2007, of which defined contribution plans held $4.5 trillion. Find out more in the Investment Company Institute's *The U.S. Retirement Market, 2007* at http://tinyurl.com/5bvmw5.

PB&H BENEFITS
Third Party Administrator • Benefits Consultants

PB&H Benefits, L.L.C.
A subsidiary of Pattillo, Brown & Hill, L.L.P.
401 W. Hwy 6
Waco, TX 76710
www.pbhcpa.com

888 629-2363 toll free
254 772-0455 fax

Pension Plan Limitations for 2009

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

Replacement Ratio Rises

New research shows that the rule of thumb of needing 70% to 80% of one's pre-retirement income during retirement may be outdated and much too low. In fact, only 19% of 401(k) plan participants will meet 100% of their financial needs in retirement, according to the researchers.

On average, the projected retirement replacement ratio for the nearly two million employees whose actual balances and behavior were studied by Hewitt Associates is 85%.

But, when inflation and rising medical costs are considered, researchers predict that workers will need to replace, on average, 126% of final pay upon retirement. The average estimated gap is 41% of pre-retirement income.

Health care costs play a huge role in this gap. For example, an individual retiring in 2007 should have set aside an average of $86,000 just to cover medical expenses not paid by Medicare. (See other estimates of replacement ratios and medical costs in Plan Sponsors Ask on page 3.)

Highlights of *Total Retirement Income at Large Companies: The Real Deal 2008* are at http://tinyurl.com/6dq971. ■

How do demographics affect 401(k) plan participation? See the Employee Benefit Research Institute's *Fast Facts* at http://tinyurl.com/6eto5o.

HEART Act Affects 401(k) Plans

The Heroes Earnings Assistance and Relief Tax Act (HEART Act), which became law in June, 2008, requires that employers provide additional benefits to those on military leave and permits them to offer additional features to help armed services members.

Required provisions affecting retirement plans include:

- If a plan participant dies in qualified military service, his or her survivors must be given any additional benefits, such as accelerated vesting, that the participant would have received if he or she had returned to employment and then died.
- If an employer chooses to pay differential pay, such pay is "compensation" for retirement plan purposes.
- For purposes of receiving a distribution of his or her elective contributions, an employee on active military duty for more than 30 days must be treated as having terminated employment, and cannot make elective deferrals for six months after the distribution date.

An optional provision allows plans to treat persons who die or become disabled while in qualified military service as if they had returned to employment on the day before death or disability, and then terminated employment on the date of death or disability. This allows plans to give the employee or survivors all or part of the benefit accruals that plans are required to provide to reemployed veterans.

The HEART Act also permanently waives the 10% early withdrawal penalty for qualified reservist distributions.

Plan sponsors should consult their plan's legal counsel or tax advisor for guidance regarding HEART Act provisions and effective dates. ■

In *Pension Sponsorship and Participation: Summary of Recent Trends*, the Congressional Research Service provides a wide variety of helpful information about employer-sponsored retirement plans. This *CRS Report for Congress* is at http://tinyurl.com/3grmtk.

Plan Sponsors Ask…

Q: In light of all the efforts plan sponsors make to provide investment education to plan participants, is there any information indicating where retirement plan participants actually get investment advice?

A: Yes. A recent Spectrem Group survey of plan participants found that only 12% of participants refer to the materials made available by their employer and 22% never use them.

So, what are the sources participants turn to for advice? Almost one-third said they make investment decisions without feedback from any other person. (About 32% of these participants never used the materials furnished by their employer.) And 20% of participants get advice from family and friends.

Almost half of the participants seek advice from a financial services representative. Within this group, one-fourth get guidance from an adviser not associated with the plan's provider, and another 25% obtain advice from a plan provider's representative.

Q: We plan sponsors constantly stress to our employees the need to focus on how much money they'll need for a secure retirement. Are they making progress?

A: Yes. Steady participation rates and low numbers of loans, for example, indicate that the message is getting through. But, there is room for improvement.

A recent analysis of the National Retirement Risk Index (NRRI) by the Center for Retirement Research at Boston College found that more than 40% of households that are statistically at risk of having insufficient funds for retirement aren't even aware of their precarious situation.

Overall, 61% of workers are at risk of not being prepared financially for retirement, according to the NRRI. This is a 17-point increase from the previous NRRI issued in mid-2007. Rising costs of medical care were said to be the primary factor in the rise.

Almost 20% of households state that they have enough financial resources for retirement, but the NRRI clearly indicates that they will definitely have money problems in retirement, due largely to increasing health care costs. In fact, the Center for Retirement Research estimated that an average couple retiring in 2010 would need about $200,000 in savings just to cover their out-of-pocket medical expenses during their retirement years.

For more information about the NRRI and this research, visit http://tinyurl.com/6rmx6p.

Q: Are women still behind men in terms of being financially prepared for retirement?

A: According to a Hewitt Associates study, the answer is yes. After studying the projected retirement of two million employees, Hewitt's researchers found that both men and women will likely be able to replace 85% of their pre-retirement pay. But, women need to replace 130% of their final pay at retirement, versus 123% for men.

They concluded that the average woman needs to save 2% of pay more per year than the average man, over about 30 years, to reach the same standard of living.

Among the factors affecting women's preparedness is longevity: women are expected to live three years longer than men. In addition, women tend to contribute less to their retirement plan and take less advantage of the employer match. Other factors include research that shows that women invest less than men in equities, and they wait longer than men to start saving for retirement.

More information about Hewitt's study and solutions is at http://tinyurl.com/5afacu. ■

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

PPA Positively Affects Savings

A simulation study by the Employee Benefit Research Institute (EBRI) indicates that the Pension Protection Act's safe harbors for auto enrollment and auto escalation 401(k) plan features will generate additional retirement savings for many workers.

The simulations found that higher paid workers do not benefit from automatic features as much as those who are lower paid.

For lower paid workers, the difference in retirement savings is dramatic. Median 401(k) accumulations for the lowest-income quartile would be only 0.1 times final earnings at age 65 under voluntary enrollment. If all plans used auto enrollment, the median accumulation for this group jumps to 2.5 times final earnings, even under the most conservative assumptions regarding automatic escalation of contributions, and 4.5 times final earnings using the most beneficial assumptions.

EBRI's *The Impact of PPA on Retirement Savings for 401(k) Participants* Issue Brief is at http://tinyurl.com/6d83u6.

Plan Sponsor's Quarterly Calendar

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

JANUARY

- Audit fourth 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.
- Send payroll and employee census data to the plan's recordkeeper for plan-year-end compliance testing. (Calendar year plans)
- Verify that employees who became eligible for the plan between October 1st and December 31st received and returned an enrollment form. Follow up on forms that were not returned.

FEBRUARY

- Review and revise the roster of all plan fiduciaries and confirm each individual's specific responsibilities and duties in writing. Ensure that each fiduciary understands his or her obligations to the plan.
- Update the plan's ERISA fidelity bond coverage to reflect the plan's assets as of December 31st. Remember that if the plan holds employer stock, bond coverage is higher than for non-stock plans. (Calendar year plans)
- 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.

MARCH

- Review all outstanding participant plan loans to determine if there are any delinquent payments. Also, confirm that each loan's repayment period and the amount borrowed do not violate legal limits.
- Begin planning for timely completion and submission of the plan's Form 5500 and, if required, a plan audit. Consider the Department of Labor's small plan audit waiver requirements. (Calendar year plans)
- Check bulletin boards and display racks to make sure that posters and other plan materials are conspicuously posted and readily available to employees, and that the information is current.

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