Plan Sponsor
OUTLOOK

1st QUARTER 2016

A RESOURCE ON CURRENT ISSUES FOR PLAN SPONSORS AND ADMINISTRATORS

DC Plan "Ease of Use" Drives Higher Savings Rates, Employee Engagement

Today's workforce relies primarily on defined contribution plans to help them save for retirement. However, industry consensus is that there's no panacea for plan engagement. That's why it's vital that workplace retirement plans are accessible and their features as easy to use as possible.

Plan sponsors are taking notice, and this emphasis on "ease of use" is paying off, according to Deloitte's 15th "Annual Defined Contribution Benchmarking Survey." Employee contribution rates and account balances are up thanks to features like auto-enrollment, step-up contributions and smartphone/tablet apps, as well as less-stringent service requirements for plan entry and immediate matching contributions. Combined with a stable, growing economy and steady job market, these enhancements have fueled positive developments in DC plan engagement.

Effective plans, engaged employees

Conducted with the International Foundation of Employee Benefit Plans (IFEBP) and the International Society of Certified Employee Benefit Specialists (ISCEBS), Deloitte's 2015 survey found that average employee participation rates remained high at 75%, in line with the 77% reported in 2013-14. A majority of plan sponsors, 60%, ranked "high level of participation" as the top indicator of plan effectiveness, compared to 51% in 2013-14.

Participants' saving habits reflected improved plan engagement, too. The average account balance grew nearly 4% to $99,011 in 2015 from $95,227 in 2013-14. Contribution rates rose, with the median actual deferral percentage for non-highly compensated employees increasing to 5.9% from 5.2%.

Employer match still powerful

Employees gave varied reasons for plan participation, and the survey sought to identify the most prevalent. In 2015, the personal desire to save for retirement was No. 1 at 40% (up slightly from 39%), beating last year's leader—receiving the maximum company match—at 35% (down from 43%).

Nonetheless, sponsors recognize the match is still powerful. According to the survey, 94% of plan sponsors offer a matching or profit-sharing contribution, with 6% increasing the match. This is consistent with the last three years' findings. Notably, for the first time since 2009, 100% of plan sponsors with discretionary matching reported making matching contributions.

Employers use a variety of strategies

However, the results show there's no universal solution to foster plan engagement. In response, plan sponsors are implementing strategies focused on plan mechanics and offerings:

- Seventy percent responded that auto-enrollment had a positive impact on deferrals (up from 56% in 2013-14), participation (88% vs. 79%), and participant awareness (64% vs. 57%).
- Sixty-two percent of plans offered step-up contributions, a significant increase from 46% in 2013-14.
- Sixty-six percent indicated no service requirements for plan entry compared to 62% in the last survey.
- Seventy-one percent offered an immediate match (up from 62% in 2013-14), and 43% offered full vesting in the match (up from 32%).

Deloitte's 2015 Benchmarking Survey is available online at http://tinyurl.com/DeloitteDCBenchmarking2015. ■

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Older Participants' Distribution Decisions Have Implications for DC Plan Design

With 10,000 baby boomers turning 65 every day, and millions poised to retire, plan sponsors, providers and lawmakers are paying close attention to the distribution decisions retirement-age employees make when accessing their defined contribution plan assets.

In light of an imminent mass exodus from the workforce, it can be instructive to examine participant withdrawal behaviors over time. That is exactly what Vanguard did in its September 2015 update to its December 2013 analysis of participant distribution decisions among retirement-age DC plan participants. The report, "Retirement Distribution Decisions Among DC Participants—An Update," considered distribution behaviors through year-end 2014 of 249,600 DC plan participants age 60 and older who terminated employment in calendar years 2004-2013.

Observing these behaviors has implications for plan design, especially target date funds[1] and retirement income programs. For example, should target date funds take a "to" or "through" retirement approach? When it comes to target date fund glide paths, the former suggests a more conservative strategy that assumes assets are used right away at retirement; the latter, an approach that accounts for the preservation of assets several years post-retirement. Please keep in mind that different investment managers use different investment strategies. Participants should review holdings as they approach the target date to make sure the investments remain consistent with their objectives.

Majority of assets rolled over or stay in plan

Vanguard's findings seem to support a "through" strategy. According to the study, more than two-thirds of retirement-age participants acted to preserve assets, and 9 in 10 plan dollars are preserved for retirement. Specifically, 2% remained in the plan with no installments, 7% remained in the plan with installment payouts, and 57% completed an IRA rollover. In asset terms, 4% remained in the plan with no installment payments, 12% remained in the plan with installment payments, and 72% rolled over to an IRA.

Moreover, the financial crisis of 2008 and 2009 did not trigger an uptick in cash-out rates among participants terminating during those years, further supporting a "through" retirement approach for target date funds design, according to Vanguard.

The report's authors also observed that most DC plan participants age 60 and older leave their employer's plan within five years of terminating their employment, with the majority rolling assets over to an individual retirement arrangement. This termination behavior seems to be motivated by plan rules governing partial distributions.

Most plans disallow partial withdrawal; should that change?

It's no wonder. A full 87% of Vanguard DC plans require participants who desire a partial ad hoc distribution to take

a lump-sum distribution of their entire account balance. For example, a terminated participant with a $100,000 plan balance who wishes to make a one-time withdrawal of $100 must withdraw the entire amount—i.e., by rolling over the entire $100,000 to an IRA and withdrawing $100, or by executing an IRA rollover of $99,900 and taking a $100 cash distribution. Vanguard suggests that plan sponsors might boost in-plan distributions by eliminating rules prohibiting partial ad hoc distributions.

Research cited in the report shows retirees seldom withdraw IRA assets until age 70, when required minimum distribution rules apply.

Additionally, these findings emphasize the importance of more flexible in-plan retirement income strategies. With an emphasis on lump-sum distributions, participants will need help transforming their savings into a consistent income stream. Based on Vanguard's analysis, these decisions will be made mostly in the IRA marketplace, not within employer-sponsored qualified plans. However, retirement-age participants' distribution behaviors may change over time as more providers adopt in-plan payout options.

Vanguard's complete analysis is available online at http://tinyurl.com/VanguardDistributionUpdate2015.

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

1 The principal value of a target date fund is not guaranteed at any time, including at the target date.

Plan Sponsors Ask…

Q: Younger employees are participating in our retirement plan, and that's good. But their contribution rates are lower than we'd like, and we're concerned they may not be savvy enough to make informed investment decisions. How do we help them save more and invest with confidence?

A: Your observations are spot-on. Although they're just starting their careers, and paying down credit card and student debt is a top financial priority, 67% of workers in their 20s are already saving for retirement, according to a recent report from Transamerica Center for Retirement Studies.

However, savings rates for 20-somethings are quite low. The median contribution rate is 7% of annual pay, and many experts agree it should be around 10% for this age group.

Their investing knowledge is rudimentary, too. Thirty-seven percent say asset allocation—a basic, yet vital retirement investing principle—is a mystery. According to Transamerica, 27% "aren't sure" how their contributions are invested, and 24% are in low-risk, low-return investments that may be too conservative for their time horizon.

So what's a plan sponsor to do? Implementing step-up contributions is one way to help raise savings levels over time and attain that recommended 10% deferral rate faster than participants might on their own.

Offering a qualified default investment alternative (QDIA) also makes it easier for employees to make smarter investing choices. Target date funds are an excellent way to pursue long-term investing success.[1] And a strong education and communication program, including face-to-face meetings with a financial advisor, informative materials that explain basic investing concepts and detail the plan's investment options, and calculators to assist them in determining their retirement savings needs, can help all employees invest wisely and maximize the benefits of years of good savings habits.

Learn more about 20-somethings' retirement attitudes at http://tinyurl.com/Transamericatwentysomethings.

Q: Our plan is on the smaller side, and we want to boost participation and deferrals. How can we accomplish this?

A: You may find that emphasizing plan features and education will help. Recent research from Guardian Retirement Solutions indicates that participants in smaller plans don't have access to the same features and investment options available to those in larger plans. There are three primary ways you can make the plan more enticing:

- **Diversify the investment offerings.** Too many funds may leave participants overwhelmed. And don't include more than one or two of each investment type.
- **Focus on income.** Fifty-four percent of respondents said they pay a "great deal" of attention to their account balance, vs. 29% who pay a "great deal" of attention to how much income that balance will create in retirement. Including income projections on participant statements can help, but it's even more impactful to remind participants to focus on income during open enrollment or face-to-face meetings, for example.
- **Education is key.** Ongoing education and communication programs, including enrollment meetings, online tools, calculators and more, can help increase participation, deferral rates and engagement. A little education can prompt employees to make better choices in managing their DC plan accounts, boost overall job satisfaction, and help them achieve more successful outcomes in retirement.

View more findings from the Guardian survey at http://tinyurl.com/GuardianSmallPlanSurvey.

Q: We've noticed millennials tend to save for retirement, but they don't seem to be doing anything else to prepare for it. How do we motivate them to actively plan for their post-work years?

A: It's true. A recent study on the retirement outlook of millennials (ages 20-37) discovered that while 68% said they're saving for retirement, only 29% said they are actively planning for it. Sixty percent of millennials actually believe it's more difficult to plan for retirement than to maintain a diet, according to research from the Insured Retirement Institute and the Center for Generational Kinetics.

Still, millennials need to do more if they aspire to a financially secure retirement. Partnering with a financial advisor can help by assisting millennials in setting realistic expectations, determining goals, and creating plans to achieve them. In fact, 62% of millennials said they'd like an advisor to walk them through every step of the retirement planning process. For planning-averse millennials, working with an advisor is key to making sure they receive the necessary guidance to properly prepare for retirement.

Review the full results at http://tinyurl.com/MillennialRetirementOutlook.

Who Is Confident About Retirement?

People who participate in a retirement plan are more confident about their ability to retire with enough money to live comfortably when compared to people without a plan. The most recent figures from the Employee Benefit Research Institute (EBRI), released in its "2015 Retirement Confidence Survey," show that 22% of workers are now very confident they will have enough money to live comfortably throughout their retirement years. Twenty-eight percent of those who have money (or whose spouse has money) in a DC plan, defined benefit plan, or an IRA say they are very confident about living comfortably in retirement. In contrast, just 12% of those without a plan say the same.

You can view EBRI's Retirement Confidence Survey at http://www.ebri.org/surveys/rcs/. ■

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 the 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 for 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 by which they are covered.
- 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 plan audit if required, will be completed prior to the filing deadline or that 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 Internal Revenue Service 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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