Plan Sponsor
OUTLOOK
2nd QUARTER 2016
A RESOURCE ON CURRENT ISSUES FOR PLAN SPONSORS AND ADMINISTRATORS

DC Plan Participants Want More Encouragement From Employers to Boost Savings

While employers are largely supportive of workers' efforts to save for retirement, defined contribution plan participants are looking for additional guidance from sponsors to help improve their savings habits.

In a recent study, participants aged 25-54 and pre-retirees between 55-65 acknowledged that they could and should save more for retirement and said they understood the consequences of not doing so. Moreover, they said "life gets in the way" of their goals, citing inadequate earnings, debt and expenses related to children, dining out and vacations as primary obstacles to saving.

The study showed that participants recognize they aren't doing enough on their own to put aside necessary savings for their post-working years. However, they revealed they would happily comply if their employers established specific savings requirements.

Interestingly, a majority of employers adopt a "hands-off" approach when it comes to providing particular parameters for savings. According to the study, participants want sponsors to implement clearly established guidelines and helpful plan provisions, such as automatic enrollment and default contribution rates.

Participants and Sponsors: Disparate Viewpoints

Participants said they value their employer-sponsored defined contribution plan as a vehicle to help them prepare for the future. However, they graded employers a B- when it comes to providing a retirement plan that meets their savings, investing and accumulation needs. Plan sponsors gave themselves higher marks: One-fifth graded their efforts an A, and another 63% gave themselves a B.

If they received additional encouragement from their employer, participants said they would save more. Less than two-fifths of 55- to 65-year-olds and roughly one-third of 25- to 54-year-olds believe their companies have done everything they could to support their retirement savings efforts. What's more, participants look to their employers to offer motivation to help boost their savings. Two in 5 would like "a slight nudge," while an additional 2 in 5 prefer either "a strong nudge" or a "kick in the pants." Only 1 in 6 said they'd like their employer to "leave [them] alone." Conversely, plan sponsors believe just one-quarter of participants prefer more than a slight nudge, and 3 in 10 want to be left alone.

Default Features Can Positively Impact Savings

Provisions such as automatic enrollment and higher default contributions can positively impact savings rates. Six in 10 participants agree their company should offer 6% automatic enrollment, and 4 in 10 believe that if plans offered this feature it would significantly impact savings. Furthermore, annual automatic increases also garnered favor, with 7 in 10 participants indicating they'd be receptive to increases of 1%. Participants are also encouraged by offerings such as illustrations that show the income their savings can produce, annual reviews, retirement accumulation projections, and projection calculators.

The study, from American Century Investments, is available online at http://tinyurl.com/AmericanCenturySurvey. ■

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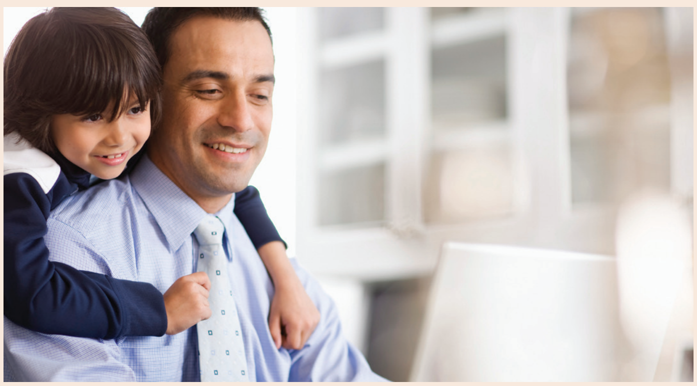
Demographics, Plan Design Influence Participants' Retirement Portfolio Allocations

We know a majority of U.S. workers (58%) are saving for retirement in a defined contribution-type account. But what, specifically, determines their wealth at retirement? Is it how they invest? Their income? Their education? Their contribution rates? It turns out all of these affect how much savings DC plan participants accumulate over the course of their careers.

Towers Watson looked at patterns in American workers' asset allocations at three-year intervals (2004, 2007, 2010 and 2013) and determined that investment behaviors in DC plans were influenced by age, net worth, income, risk tolerance, education and financial planning horizon. Plan design is also a key factor.



All In or All Out on Equities

In most American households, DC allocations fall at both ends of the spectrum — 15% of investors have zero allocation to equities, while approximately 22% have 100% of their savings in the asset class. However, it seems retirement portfolio diversification has improved over time, as the instance of these extremes declined from 2004 to 2013. Although the financial crisis of 2008 prompted panic selling and equity aversion, it appears DC plans' increased use of qualified default investment alternatives (QDIAs) has lured more participants back into equities.

There are perils to both extremes. Completely avoiding equities causes investors to miss opportunities for higher returns, and it may significantly impede the growth of retirement wealth. Conversely, investing 100% in equities is generally considered unwise, given the risk for large losses, which could be especially detrimental to workers relying solely on DC accounts to save for retirement. Experts generally suggest an asset allocation that reflects risk tolerance, economic situation, retirement plan provisions, and other demographics, according to Towers Watson.

Other Factors Impact Asset Allocation

Age plays a role, too. Equity allocations are lower among older workers. Just 26% of 65-to-74-year-olds allocate 75% or more of their retirement savings to equities, compared to 37% for 25-to-34-year-olds. This trend is consistent with life-cycle financial advice, which encourages investors to reduce equity allocations as they age. It's also in line with target date funds' (TDFs') increasing popularity as QDIAs in recent years. The number of DC plans offering TDFs as the default option rose from 64% to 86% in 2014. TDFs automatically reduce equity exposure as investors near retirement. Please keep in mind that different investment managers use different investment strategies. Participants should review holdings as they approach retirement age to make sure the investments remain consistent with their objectives. The principal value of TDF's are never guaranteed, including at the target date.

Better-educated households and those with longer financial planning horizons are more likely to have heftier equity allocations as well. So are those with higher total net worths. Almost 45% of households with at least a $5 million net worth allocate 75% or more of their retirement savings to equities, compared to 32% of those with net worths less than $50,000. Higher-income households are more apt to invest in equities, too.

Participants who are aware of their plan's investment options and are able to select their own funds also allocate more to equities. Conversely, 33% of households with no discretion over their investment choices have no equity allocation. However, plans that don't give participants the ability to select their investments may offer more conservative options, preventing them from creating overly risky allocations.

See more of Towers Watson's analysis at http://tinyurl.com/TowerWatsonAllocationPatterns. ■

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 Sponsors Ask…

Q: Women are better retirement savers but still lag behind men in outcomes. What gives?

A: Indeed, there is a noteworthy imbalance in retirement wealth accumulation among men and women. Men consistently come out ahead, despite women's superior savings behaviors.

Women are more likely to save, but men have higher account balances, according to a Vanguard white paper. Its data shows that women are 14% more likely than men to participate in their employer-sponsored retirement plan. Further, once enrolled, women save at higher rates — typically 7%-16% higher than men.

Don't "autopilot" provisions like auto-enrollment equalize things? On the participation front, yes; for savings, no. Among auto-enroll plan participants, men and women participate at similar rates, but men defer at 5% higher rates. Moreover, women are conscientious savers, and auto-enrollment provides them an advantage. Sixty percent fall into lower wage brackets than men, but lower-income individuals experience more positive impacts on savings due to auto-enrollment.

What's more, higher incomes cancel out default features. Among male Vanguard participants, average wages were 25% higher, accounting for higher contribution rates by men in auto-enroll plans. In voluntary-enroll plans, women save at 6% higher rates. Vanguard's paper highlights a lingering income disparity between men and women and shows that American employers have more work to do to close the gender gap in retirement outcomes.

Read more at http://tinyurl.com/WomenAreBetterSavers.

Q: Many younger participants are simultaneously saving for retirement and paying off student loans. How do we help them successfully accomplish both?

A: Putting off retirement savings to pay down student loans is among the biggest financial mistakes younger workers can make. In fact, LIMRA found that a 22-year-old with $30,000 in student loan debt could have $325,000 less in savings at retirement than his or her debt-free counterpart.

So what's a plan sponsor to do? Emphasize holistic financial well-being by:

- Encouraging DC plan participants to make the minimum monthly payments on their student loans, and also reminding them to save enough in their retirement plan to get matching contributions. According to Financial Engines, 1 in 4 employees don't take advantage of the match, meaning they're leaving up to $43,000 on the table over 20 years.
- Emphasizing creating an emergency fund for unforeseen expenses so they won't be tempted to borrow from their retirement account or use credit cards.
- Advising them to direct any remaining funds strategically, either by paying down high interest student loans or investing more into their retirement portfolios and putting the money to work through compounding.
- Encouraging participants to stash that extra cash in their retirement accounts once their debt is paid off. Many experts say workers should be saving 15% of their income by age 25 to ensure a comfortable retirement.

Visit http://tinyurl.com/LIMRAStudentLoanResearch and http://tinyurl.com/StudentDebtVsRetirement to find out more about helping workers save for retirement while paying off student loans.

Q: Is it true that workers with higher incomes benefit more from participating in tax-deferred savings plans due to higher marginal tax rates, and that our current tax system creates an "upside-down" incentive to save because of tax deferrals?

A: A recent ICI paper summarizing Peter Brady's book, "Who Benefits From the U.S. Retirement System," examined this issue and found that these beliefs about tax deferral are myths. ICI's simulations discovered that the design of the Social Security system, not income tax, is responsible for the increase in tax deferral benefits with lifetime earnings. Higher earners tend to benefit more from tax deferral because they contribute more to retirement plans over their careers. Thus, Social Security benefits replace less of their pre-retirement income, so higher earners need to save more to achieve their target income replacement rates.

Further, ICI found the current tax code does not create an upside-down incentive to save. By taxing investment returns, normal income tax treatment discourages saving. So tax deferral boosts savings and "equalizes" the incentive, effectively taxing all workers' investment returns at a zero rate.

See ICI's additional findings at http://tinyurl.com/ICIBenefitsOfTaxDeferrals. ■

LIMRA Predicts Technology Disruptions for Retirement Industry

The retirement industry landscape is shifting rapidly, and various circumstances indicate that its future will differ greatly from the past.

One of the biggest changes likely to take place in the next decade is the role of technology in transforming employer-sponsored retirement plans and participant behaviors, according to the LIMRA Secure Retirement Institute.

LIMRA expects technology to disrupt the industry in the following ways:

- DC plan providers will increasingly cater to retirees, offering solutions that improve the connection between customer relationship management in employer-sponsored retirement plans and go-to money management tools used in retirement, whether offered in-plan or not.
- Online offerings for self-directed investors will allow them to customize their retirement planning experience. While investors will do the heavy lifting, these will still require professional interaction due to the importance of retirement planning decisions.
- Technology infrastructure needed to reach mainstream America will evolve, altering traditional sales and distribution models.
- New advice platforms will fundamentally change how products are developed and packaged, and how wholesalers and advisors fit into the mix.
- New first-to-market leaders may emerge, changing the competitive marketplace.

Read more of LIMRA's predictions at http://tinyurl.com/LIMRAIndustryPredictions. ■

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

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

- 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 election form. Contact those whose forms were not received.

SEPTEMBER

- 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 (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).
- Send a reminder memo or email to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit 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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