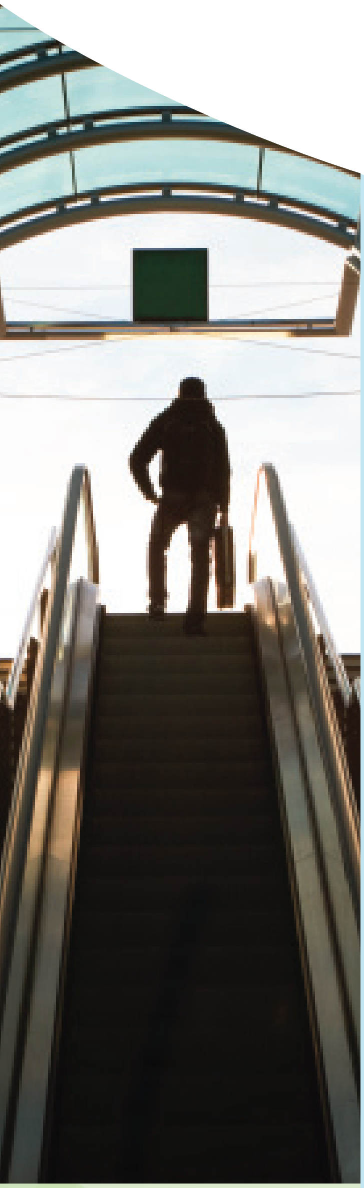
THE EMPLOYEE BENEFIT
Forum
current issues in retirement benefit planning

qualified PLANS LLC



Automatic Contribution Escalation

SITUATION: We think adding an automatic contribution escalation feature to our 401(k) plan might help our employees save more for retirement.

QUESTIONS: How popular is this plan feature with other plan sponsors? Is there any data on plans using it?

ANSWER: According to a recent study of employer views on automatic plan features conducted by AARP,* just over a quarter (28%) of 401(k) plans have an automatic contribution escalation feature.

DISCUSSION: With automatic contribution escalation, a plan participant's deferral rate is gradually increased over time with no effort on the part of the employee. Employers must implement the increases according to a specified schedule. They also must notify employees of the amount of the deferral increases and when increases will occur. Employees have to be given the opportunity to opt out of increases.

Not surprisingly, a significantly greater percentage of employers in the study that automatically enroll employees in their plans had automatic contribution escalation (46% versus 14% of those that don't have automatic enrollment). Offering employer matching contributions also increased the likelihood of a plan having automatic contribution escalation. Thirty percent of plans with matching contributions offered the feature. Only 22% of plans with no employer match did.

For both employers that have automatic enrollment and those that don't, the top reasons they don't offer automatic contribution escalation are:

- Employees wouldn't like it.
- Employees would find it confusing.
- The company is concerned about the cost of employer matching contributions.

Other reasons cited by respondents were concerns about administering the feature and the need for more information.

If you would like more information about automatic contribution escalation or automatic enrollment, please talk with us. We would be happy to go over the pros and cons of each and help you determine if adding automatic features to your plan would be right for you and your employees.

* *Automatic 401(k) Plans — Employer Views on Enrolling New and Existing Employees,* AARP, June 2010

A Helping Hand

Getting employees to contribute to your retirement savings plan is only the beginning. To have a comfortable retirement, plan participants have to make wise investment decisions that will help them accumulate the sums they need to provide an adequate retirement income.

What are other plan sponsors doing to help participants better invest their plan accounts? Most provide participants with materials that teach them about their plan and investing for retirement. In addition, many sponsors are offering options such as professionally managed accounts, investment advice, and target-date funds that relieve participants of much of the work of investing their accounts.

According to the 401(k)/Profit Sharing Council of America, in 2009, 90.9% of plans offered at least one of these options. Here's the breakdown: professionally managed accounts, 31.4% of plans, investment advice, 60.1%, and target-date funds, 62.3%. More than a third, 35.8%, offered two of the options, and 18.6% offered all three.

Pump Up Your Education Program

Different generations have their own favorite music, their own slang, and different ideas of what's important. So it shouldn't be surprising that they will respond to employer educational materials in different ways — one of which may be to not respond at all. If your employee education program isn't as effective as you'd like it to be, you might be able to pump it up by tailoring information to specific employee groups.

Vary the Message

Rather than talking retirement to young, lower paid employees who are just starting their careers, consider a broad-based financial education program. Help them see how they can afford to start saving for retirement. Incorporating financial planning in your retirement planning materials can work with other employee groups, too. The message for employees in their 30s and 40s might be how to contribute to your retirement plan while working toward competing financial goals.

Employees nearing retirement want retirement-specific information. Also, they may respond better to seminar and presentation speakers who are closer to their age, rather than significantly younger. And, no matter what your message, keep it clear and simple.

Use Different Media

Also look at the ways you make information available to your employees. Targeted seminars and workshops with handouts can be particularly effective at reaching employees. However, some people prefer to research things on their own, and others like to find out more after attending a seminar or workshop. Internet access to educational information and planning tools can appeal to these employees' learning needs. Telephone help and additional printed materials may be needed, as well, if you have a significant group of employees who are not computer savvy.

And, no matter what your message, keep it clear and simple.

Participant Fee Disclosure — Are You Ready?

Employers take note. Generally starting in 2012, your employees must receive more information regarding the fees and expenses associated with their retirement plans. Below, we answer questions about this new requirement from the U.S. Department of Labor (DOL).

Which plans do the disclosure rules apply to?
The rules apply to most plans that allow participants to direct the investment of their account assets, such as 401(k) plans and profit sharing plans. The rules don't apply to simplified employee pension plans (SEPs), SIMPLE plans, IRAs, or non-ERISA employer-sponsored plans.

When do we have to provide disclosure?
Participants and beneficiaries must receive certain general plan- and investment-related information on or before the date they can first direct their plan investments. You must provide follow-up disclosures annually. In addition to the information that must be furnished up front and annually, participants must receive statements, at least quarterly, showing the dollar amount of certain administrative and individual expenses actually charged to or deducted from their plan accounts. Statements must describe the services for which the charge or deduction was made. You may include these specific disclosures with your plan's quarterly benefit statements.

What kinds of general plan-related information do we have to provide? You must give participants information about the structure and mechanics of the plan, such as: (1) a current list of investment options offered; (2) an explanation of how they may give investment instructions, and (3) if applicable, a description of any brokerage window, self-directed brokerage account, or similar arrangement that enables a participant to select investments beyond those designated by the plan.*

What administrative and individual expenses do we need to report? Your disclosures must explain any fees and expenses for general plan administrative services that may be charged to or deducted from all individual accounts, such as the costs of legal, accounting, and recordkeeping services. You also must explain any individual expenses that may be charged to or deducted from the individual account of a specific participant or beneficiary based on the actions taken by that person. Examples include fees and expenses for plan loans and for processing QDROs.*

What about investment-related information?
The following investment-related information must be disclosed: (1) one-, five-, and 10-year returns for mutual funds and other plan investment options that do not have a fixed rate of return; (2) annual rate of return and investment term for fixed rate investments; (3) the name and one-, five-, and 10-year returns of an appropriate broad-based securities benchmark index (matching plan investment performance data periods); (4) for mutual funds and other plan investment options that do not have a fixed rate of return, total annual operating expenses expressed as both a percentage of assets and as a dollar amount per $1,000 invested; (5) for both variable and fixed rate investments, any shareholder-type fees or restrictions on purchases or withdrawals; (6) an Internet website that provides access to specific additional information about the plan's investment options for individuals who want more or more current information; (7) a glossary of terms to help participants and beneficiaries understand the plan's investment options or a website address where they can access such a glossary.*

Your plan's investment-related information must be presented in a chart or similar format designed to make it easy for participants to compare each of the investment options available under your plan.

* These lists are not all-inclusive.

RECENT DEVELOPMENTS
In Benefit Plans

402(f) Notice. 401(k), 403(b), and governmental 457(b) plans that adopt an in-plan Roth rollover provision must update their 402(f) notice to include a written explanation of the in-plan Roth conversion feature and its tax implications and timely provide the notice to employees and beneficiaries who request a distribution that is eligible for rollover. IRS Notice 2010-84 includes model language that can be used to describe the in-plan Roth rollover option.

Baby Boomers and Retirement. Baby Boomers, Americans born from 1946 through 1964, make up a significant portion of some employers' work forces. The oldest members of this generation began reaching retirement age (65) on January 1, 2011. In anticipation of the potential exodus of Boomers from the work force, the Marist College Institute for Public Opinion asked adults in general if the Boomers should retire at age 65. The majority answer was "no." The survey found that 71% of those surveyed think Boomers should be encouraged to work past age 65. Why? Some 61% cited concerns about Boomers bankrupting Social Security, and 59% are worried Boomers will overload the health care system. Still, 69% of those surveyed feel they have a responsibility to provide for individuals who retire before they do.

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