



## Direct Rollovers to Another Plan

**SITUATION:** We have a former employee who wants to roll over his 401(k) plan balance directly to his new employer's 403(b) plan.

**QUESTION:** Can our plan go ahead and make the rollover?

**ANSWER:** Yes, as long as the new employer's 403(b) plan will accept the rollover. Plans are not required to accept rollovers.

**DISCUSSION:** As the table shows, generally a 401(k) plan can directly roll over a former employee's retirement plan account into another employer's 401(k) plan (or other qualified plan) or to a 403(b) plan. In addition, eligible distributions can be transferred to a traditional or Roth IRA. If the transfer is to a Roth IRA, the participant would have to include the taxable amount in income.

As for any designated Roth 401(k) contributions and earnings, these amounts can be rolled over only to a 401(k) or 403(b) plan that has a Roth feature or to a Roth IRA. And rollovers of otherwise nontaxable amounts to another designated Roth account must be accomplished through a direct rollover.

It is possible for an employee to receive a Roth account distribution and roll over any taxable portion of that distribution to a designated Roth account with another plan within 60 days. However, the recipient plan would have additional reporting requirements.

### Plan Rollovers at a Glance

Rolling Distribution From	Rolling Distribution To					
	401(k)	Roth 401(k)	403(b)	Roth 403(b)	Traditional IRA	Roth IRA
401(k)	Yes	No	Yes	No	Yes	Yes*
Roth 401(k)	No	Yes*	No	Yes*	No	Yes
403(b)	Yes	No	Yes	No	Yes	Yes*
Roth 403(b)	No	Yes*	No	Yes*	No	Yes

\* By direct rollover  
Additional rules may apply.

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## Saver's Credit Amounts for 2008

Employees must be at least age 18, not claimed as a dependent on another person's return, and cannot be a full-time student.

Credit Rate	With Adjusted Gross Income (AGI)		
	Married Joint*	Head of Household	Single
50% of Contribution Up to \$2,000	Up to \$32,000	Up to \$24,000	Up to \$16,000
20% of Contribution Up to \$2,000	\$32,001-\$34,500	\$24,001-\$25,875	\$16,001-\$17,250
10% of Contribution Up to \$2,000	\$34,501-\$53,000	\$25,876-\$39,750	\$17,251-\$26,500

\* Each spouse may make a credit-eligible contribution.

No credit is allowed with adjusted gross income of more than: \$53,000 (married joint), \$39,750 (head of household), or \$26,500 (single). Certain retirement plan distributions reduce the contribution amount used to figure the credit.

## Spread the Word

Sharing information about the value of the saver's tax credit could be just the thing to persuade nonparticipating employees to join your plan — and motivate participants to increase their contributions.

The credit is claimed on the federal income-tax return. It's a percentage — 50%, 20%, or 10% — of *up to \$2,000* in retirement plan contributions. The percentage depends on the employee's adjusted gross income (AGI) and filing status. It can increase an employee's refund or reduce the amount of tax owed to the IRS.

## Plan Participation and Employee Retention

One of the reasons for sponsoring a retirement plan is to retain qualified employees so that you can keep good employees on the job and control your recruitment and training costs. The conventional wisdom has long been that offering employees the opportunity to participate in an employer-sponsored retirement plan helps keep employees on the job.

A new annual study seems to support this wisdom.\* Surveys conducted in 2006 and 2007 looked at the relationship between employee turnover and voluntary retirement plan participation. They found that employees were far less likely to leave an employer if they had chosen to participate in the company's retirement plan.

### The Numbers

The 2007 survey found that, among those surveyed, 20% of employees who did not participate in their employers' plans had left their employers in the previous year versus 9% of employees who participated. The 2006 study similarly found that 25% of nonparticipants had left their employers compared to 10% of plan participants. In addition, among the employers who were surveyed in both the 2006 and 2007 studies, the overall plan participation rate increased by 1.74% and employee turnover decreased by 4.24%.

### Caveat

While these findings are encouraging, you cannot assume that increasing plan participation among your employees will automatically reduce employee turnover. You should view your retirement plan as just one component of your overall employee retention program.

\* *Turnover and Participation*, 2006 and 2007, Cammack LaRhette Consulting



## Employee Education is Not Passé

No doubt about it. More and more employers are incorporating automatic enrollment and investment features into their retirement savings plans. Does this mean employee investment education will become a thing of the past? Below, we answer questions about continuing to provide employee education.

**What is the purpose of plan education programs?** No matter how many automatic features a plan adopts, employees will always have a choice: to join or not to join. If they are knowledgeable, there's a better chance that they'll see the value of participating and feel empowered to make the most of the benefit you are providing.

A recent study<sup>1</sup> suggests that financial literacy is one of the determining factors in participation rates, even in automatic enrollment plans. So the need for employee education still exists. In the Profit Sharing/401(k) Council of America's (PSCA) most recent annual survey,<sup>2</sup> 39.4% of plan sponsors said their primary goal in providing education is to increase plan participation.

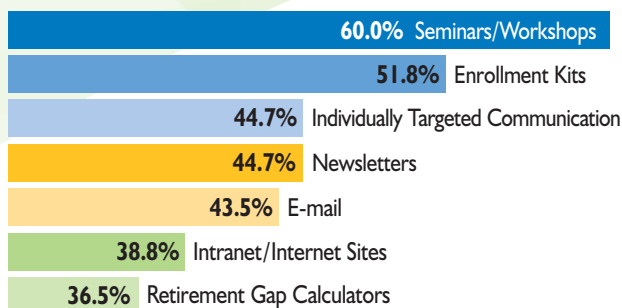
**What programs do plan sponsors use to increase participation?** The PSCA study shows that 76.9% of the plans surveyed use enrollment kits to increase participation and 51.4% use educational seminars or workshops. Other frequently used tools include Internet/intranet sites (48.1%), individually targeted communication (46.9%), newsletters (45%), and fund performance sheets (43.9%).

**What else are education programs used to accomplish?** Plan sponsors said they used a variety of education programs to reach other goals as well, specifically to increase deferrals, improve asset allocation, reduce fiduciary liability, and increase appreciation for their plans.

To increase deferrals, the top four methods of presenting information are seminars and workshops, enrollment kits, and individually targeted communication and newsletters (see graph).

### Approaches Used To Increase Deferrals

(% of employers using)



When it comes to improving asset allocation, seminars and workshops are once again used most often for educational purposes (55.4%), followed by fund performance sheets (50%), and enrollment kits (48.5%).

**What informational materials do participants use most?** The *2007 Retirement Confidence Survey*<sup>3</sup> provides some insight into how materials frequently used in education programs and other easily accessible educational materials are received. Not surprisingly, the survey says workers use information from a variety of sources to make decisions about their retirement plan and plan investments. Written materials received at work are used the most, followed by retirement plan benefit statements and information found on the Internet or in newspapers or magazines. Of these materials, workers found written information received at work most helpful.

<sup>1</sup> *Do Financial Literacy and Mistrust Affect 401(k) Participation?* Profit Sharing/401(k) Council of America, January/February 2008

<sup>2</sup> *PSCA's 50th Annual Survey of Profit Sharing and 401(k) Plans* (for the 2006 plan year)

<sup>3</sup> *2007 Retirement Confidence Survey*, Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc.

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## RECENT DEVELOPMENTS In Benefit Plans

**Future 401(k) Balances.** A team of MIT, Harvard, and Dartmouth economists, funded by the Social Security Administration, the National Institute on Aging, and the National Science Foundation, projects that the average balance in 401(k) plan accounts will be substantially higher in real terms by the year 2040 — even if stock market returns are lower than the historical average. If stocks underperform their historical average by three percentage points, the researchers project that the average account value will rise from \$29,700 in 2000 to \$269,000 by

2040. If stocks continue to perform at their historical level, they project an average account balance of \$452,000 by 2040. The research takes into account the trend away from defined benefit plans to retirement savings plans and the fact that by 2040 many individuals will have participated in their employers' retirement savings plans for a significantly longer time than current retirees.

**Investor Education.** A 2007 FINRA survey on investor education found that most investors have a high interest in basic investor education.

- 86% of those surveyed were interested in information about common investment scams and fraud.
- 83% wanted a checklist of steps they should go through when making investment decisions.
- 82% wanted a list of questions to ask an investment advisor.
- 80% were interested in definitions of common investment terms and products.

Retirement plan sponsors may be able to use some of the survey's specific findings to fine-tune employee education programs.

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