

## Plan Sponsors Seem Pleased with Automatic Features

A new Defined Contribution Institutional Investment Association (DCIIA) poll of plan sponsors found that companies offering automatic enrollment raised their participation rate by nearly 30 percent above pre-automatic-enrollment rates, and that participants enrolled automatically had a favorable view of this enrollment method.

### Ideal deferral rate was studied

When sponsors were asked to identify the optimal participant saving rate, only 14 percent suggested a rate below 10 percent. Almost two-thirds recommended a rate between 10 percent and 15 percent. Two in ten sponsors supported a rate greater than 15 percent.

But, more than half of the sponsors set the default percentage under automatic enrollment at three percent, which is inconsistent with the majority recommendation of a deferral rate greater than 10 percent.

### New hires are automatically enrolled

About half of the plans have an automatic enrollment provision. Of those, 95 percent apply it to new hires.

Most plans do not periodically enroll existing employees automatically, though more than one-third did complete a one-time automatic enrollment of existing employees.

### Participants appear satisfied

About 70 percent of sponsors characterized their employees' view of automatic enrollment as either very favorable or somewhat favorable. The remaining 30 percent reported that their employees were indifferent toward it.

Two-thirds of automatic enrollment plans reported that employee opt-out rates were less than 10 percent.



### Sponsors' opinions not all favorable

Of sponsors who do not offer automatic enrollment, two-thirds said it was unlikely that they would implement it in the next year. Reasons for not adopting it included that it is unnecessary since participation is already high (23 percent), it's too paternalistic (19 percent), it is inappropriate in the current economic situation (18 percent) and that it would be too costly in terms of the employer match (18 percent).

### Automatic escalation tied to automatic enrollment

Nearly half of responding sponsors have an automatic contribution increase program, and they typically offer it together with automatic enrollment. The most common reasons they cited for automatic escalation were concerns about participants' financial security in retirement and participant inertia.

About 90 percent of sponsors keep the annual increase at one percent, largely because that amount appears acceptable to participants.

More information on the 2011 DCIIA Automatic Features Survey is available at <http://tinyurl.com/DCIIAAutoFeaturesSurvey>. ■

401(k) plans held \$3.1 trillion in assets at the end of 2010, according to the Investment Company Institute. Other retirement asset facts, including information about IRAs, are at <http://tinyurl.com/ICI2010RetirementAssets>.

## Target Date Fund Use Grows

Research conducted by Vanguard provides more evidence that there continues to be major growth in the use of target date funds in defined contribution plans. At the end of 2010, 79 percent of plans for which Vanguard does recordkeeping offered a target date fund, and nearly half of participants invested in them when offered.

Risk-based lifestyle funds are quickly being replaced by target date funds. From 2004 through 2010, use of risk-based funds declined from 45 percent of plans to 12 percent. During the same period, target date fund usage rose from seven percent to 62 percent.

In 2010, target date funds accounted for one of every seven dollars of plan assets among plans offering them. Participants who enrolled in their retirement plan in 2010 directed 54 percent of their contributions to these funds.

Three-quarters of Vanguard's plans had a target date fund as the default investment option last year. About two-thirds of plans had specifically designated a qualified default investment alternative (QDIA), and nearly all of those chose a target date fund as their QDIA.

Of the 3.1 million participants studied, 20 percent were invested in just one target date fund. In 2004, only one percent of single-fund participants chose a target date fund. By 2010, 53 percent made that choice.

The Vanguard researchers identified three key factors behind the growing popularity of target date funds:

- The simplification of investment decision-making for participants
- The increasingly widespread use of automatic enrollment
- Target date fund designation as a qualified default investment under the Pension Protection Act.

Details of Vanguard's *Target Date Fund Adoption in 2010 Research Note* are at <http://tinyurl.com/TargetDateFunds2010>. ■

## Pension Plan Limitations for 2011

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

## Retirement Confidence Reaches Record Low

The Employee Benefit Research Institute's (EBRI) *2011 Retirement Confidence Survey* found that the percentage of workers "not at all" confident about having enough money for a comfortable retirement rose to 27 percent, the highest level in the 21 years of this survey. The number of those who are "very" confident dropped to 13 percent.

While the proportion of workers who are "very" confident that they've done a good job of financial preparation for retirement has remained fairly steady at about 22 percent in recent years, the rising percentage of those "not too" or "not at all" confident reached 36 percent in 2011.

### Saving results are declining

Two-thirds of workers said they and/or their spouse have saved money for retirement. Only about 60 percent said that they are currently saving for retirement.

More than half of the workers responding reported that their savings and investments (excluding their primary residence and any defined benefit plan) total less than \$25,000. Of those, almost a third said they have under \$1,000.

Only 10 percent said they have total savings and investments of \$250,000 or more.

### Few have set savings goal

Only 42 percent of workers said they and/or their spouse have calculated how much they need to put aside for a comfortable retirement. And almost one-third of them concluded that they will need \$250,000 or less in savings.

More than two-thirds (70 percent) of workers said they are "a little" or "a lot" behind schedule in planning and saving for retirement.

### Expected retirement age is rising

Twenty percent of workers said the age at which they expect to retire increased in the past year. The top reasons cited were:

- Poor economy (36%)
- Lack of faith in Social Security (16%)
- Change in employment situation (15%)
- Can't afford to retire (13%)
- Cost of living in retirement higher than expected (10%).

In 1991, 31 percent of workers expected to retire between the ages of 60 and 64; in 2011, that dropped to 16 percent. Those planning to retire at age 65 represented 34 percent of respondents twenty years ago, but only 26 percent in 2011.

Three-quarters of those now working said they plan to work for pay after retiring.

EBRI's survey is at <http://tinyurl.com/EBRI2011RetConfSurvey>. ■

## Plan Sponsors Ask...

**Q:** We're starting to hear discussions of "income replacement solutions." What are they?

**A:** Since the inception of defined contribution plans (DC) plans, sponsors have focused on helping participants manage their accounts and make appropriate investment decisions. The focus has been on the asset accumulation phase of retirement planning, rather than the distribution of income during retirement.

Early indications of a coming trend are that some sponsors are now looking at income replacement options, such as annuities and other lifetime guarantee products, to help participants convert their account balances into an income stream during retirement. A recent survey by Grant Thornton found that nine percent of sponsors were considering a retirement income option. These respondents were about evenly split regarding whether income solutions should be within the plan or outside of it.

The researchers concluded that DC plans are on the frontier of a transformation from savings and investment programs to becoming the major component of income replacement for many Americans. There are, of course, hurdles to overcome, such as more complicated investment choices and the absence of guidance from regulators. But, a trend has clearly begun.

For more information on this topic and others covered by *Trends and Insights: Focusing on the Fiduciary Agenda*, go to <http://tinyurl.com/GrantThornton2011Survey>.

**Q:** Have Americans' attitude toward 401(k) plans changed due to market and economic volatility in recent years?

**A:** According to the Investment Company Institute's (ICI) recent *Commitment to Retirement Security: Investor Attitudes and Actions* report, 91 percent of surveyed households had favorable impressions of 401(k) plans, which is consistent with previous polls. Most respondents indicated that their positive view was based on the potential of 401(k) accounts to accumulate significant savings, performance of investment options and personal experience with 401(k) plans.

Most households with these retirement plan accounts said that the plans helped them look at the long term and made it easy for them to save for retirement. More than 40 percent



said they likely wouldn't be saving for retirement if they didn't have a 401(k) plan.

More than 80 percent noted that immediate tax saving from 401(k) contributions was a major incentive to participate, and about the same number said their 401(k) plan had a good variety of investment options.

The ICI's report is at <http://tinyurl.com/ICIRetireSecurity>.

**Q:** Is the Department of Labor expected to issue a safe harbor rule for large plans regarding timely deposit of participant contributions, as they did last year for small plans?

**A:** The Department of Labor's (DOL) safe harbor for small plans (those with fewer than 100 participants at the start of the plan year) provides that contributions will be considered deposited on a timely basis if they are deposited in the plan no later than the seventh business day following the day on which the contribution is received or withheld by the employer.

Larger plans are still bound by the DOL's long-standing rule requiring that employee contributions must be deposited as soon as they can reasonably be segregated from the employer's assets, but not later than the fifteenth business day of the month following the month during which contributions are received or withheld by the employer.

It has been reported that informal discussions with DOL representatives indicated that there are no plans to develop a safe harbor for large plans. If anything, it appears that the DOL expects large plans to make deposits even more promptly than small plans.

Regardless, timely deposit of participant contributions remains an audit focus of DOL investigators. ■

## Retirement Wealth Grew Despite Recession

Although there were major market and economic shocks in 2008 and 2009, retirement plans savings grew for most participants. Vanguard's The Great Recession and 401(k) Plan Participant Behavior study also concluded that participant saving and investment behavior returned to pre-recession benchmarks in 2010.

The average account balance of the three million participants studied rose to \$79,077 last year, a 17 percent upward change since 2005. More than 90 percent of participants experienced a positive change in their account balance during this period.

About two percent of active participants stopped contributing to their retirement plan in 2010, which is consistent with the figures for prior years.

Allocations of contributions and assets changed little between 2005 and 2010. Participant account balances were invested 71 percent in equities in 2005 and 68 percent in 2010. Contributions in 2010 were invested in equities at a rate of 70 percent, versus 71 percent in 2005.

While loan activity rose in 2009 and 2010, it returned to pre-recession levels found in 2005. Hardship withdrawals rose 49 percent over the 2005-2010 period, but still averaged only 2.2 withdrawals per thousand participants in 2010, compared to 1.5 per thousand in 2005. See the full report at <http://tinyurl.com/VanguardParticBehavior>. ■

### Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans	<a href="http://irs.gov/ep">irs.gov/ep</a>
Department of Labor, Employee Benefits Security Administration	<a href="http://dol.gov/ebsa">dol.gov/ebsa</a>
401(k) Help Center	<a href="http://401khelpcenter.com">401khelpcenter.com</a>
Plan Sponsor Magazine	<a href="http://plansponsor.com">plansponsor.com</a>
BenefitsLink	<a href="http://benefitslink.com">benefitslink.com</a>
Profit Sharing/401(k) Council of America	<a href="http://psca.org">psca.org</a>
Employee Benefits Institute of America, Inc.	<a href="http://ebia.com">ebia.com</a>
Employee Benefit Research Institute	<a href="http://ebri.org">ebri.org</a>

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## PLAN SPONSOR'S QUARTERLY CALENDAR

### October

- Audit third 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 July 1 and September 30 received and returned an enrollment form. Follow up for forms that were not returned.
- For calendar year safe harbor plans, issue the required notice to employees during October or November (within 30-90 days of the beginning of the plan year to which the safe harbor is to apply). Also, within the same period, distribute the appropriate notice if the plan features an EACA (Eligible Automatic Contribution Arrangement), QACA (Qualified Automatic Contribution Arrangement) and/or QDIA (Qualified Default Investment Alternative).

### November

- Prepare to issue a payroll stuffer or other announcement to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R to be mailed in January for reportable plan transactions in 2011.
- Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure that they are up-to-date.

### December

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing. (Calendar year plans)
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during the year and if using an IRS or DOL self-correction program would be appropriate.

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