SAPERS & WALLACK

Retirement Report

Volume 11, No. 10

In This Issue:

- "Let Plan Design Show Us the Way"; EBRI's Annual Retirement Confidence Survey Shows Need for Action Now
- Exchange Traded Funds in Retirement Plans
- Prohibited Transactions: Fiduciaries Beware
- Record Retention: What Should I Keep, for How Long and How Should I Organize It?
- Communication Corner: Saving and Investment Decisions

"Let Plan Design Show Us the Way"; EBRI's Annual Retirement Confidence Survey Shows Need for Action Now

Retirement Confidence

This survey highlights that workers' confidence regarding their ability to "live a comfortable lifestyle" in retirement has dropped to its lowest point in 23 years, with 28% of respondents identifying themselves as "not at all confident." Several subsequent readiness questions echoed the theme of slowly declining retirement confidence levels among workers. Further examination of survey data found that those with debt problems (either major or minor) are the most likely to characterize themselves as not at all confident in their ability to save for retirement. Data from respondents also indicated that half of workers surveyed (and 52% of retirees) could not come up with $2,000 in the next month to cover an "unexpected need." Clearly, low savings levels and high consumer debt are problems for workers, demonstrating an urgent need for action. Another cause for these low retirement confidence levels could be continued fallout from

continues >

the Great Recession. Job uncertainty is the top concern among workers (and retirees), with 30% of workers indicating that job uncertainty is the top issue facing most Americans. In an almost self-fulfilling prophecy, "saving or planning for retirement" was the lowest-rated issue facing most Americans, with only 2% of workers selecting this category as a top issue.

How Workers Save for Retirement

The total number of workers actively saving for retirement continues to decline, from a high in 2009 of 65% to just 57% today. Almost all of this decline can be attributed to households earning less than $35,000. The number of workers saving for retirement in households with combined incomes of $35,000 to $74,999 actually increased by 2% over 2012, and those with household incomes over $75,000 have continued to increase their participation in saving for retirement by 1% per annum since 2009.

Automaticity and Plan Design Can Help

Better plan design would have an (almost) immediate impact in helping participants save for retirement. The 2006 Pension Protection Act green-lighted automatic enrollment. A survey conducted by Dimensional Fund Advisors asked workers that are automatically enrolled into a retirement plan about a 3% and 6% deferral rate. The results showed only 2 in 10 would opt out, with 77% continuing in the plan at a 3% rate, at a lower rate, or even at a higher rate. Subsequently when asked to think about a 6% savings rate, only 3 in 10 said they would opt out. Two-thirds of workers would continue to contribute at a 6% rate—and some at a decreased rate or at a rate exceeding 6%. The power of "opting out" – as opposed to volunteering to save for retirement – is one of the keys to plan design success. Combining both automatic enrollment and automatic escalation beyond the industry norm of 3% can and will impact the savings rates for workers. With this immediate change in plan design, workers can effectively capitalize on inertia and start on the path to saving for a better retirement.

This article was originally published by Dimensional Fund Advisors in their Summer 2013 *DC Dimensions* magazine.

Exchange Traded Funds in Retirement Plans

Over the last several years, exchange traded funds (or ETFs) have become very popular among investors because of their lack of a minimum investment, their low cost of ownership and their ability to be intra-day traded. Most ETFs track an index such as the S&P 500, but, unlike an index mutual fund, ETFs can be bought and sold just like a stock. That means that they can be bought or sold at any time during normal trading hours while mutual funds trade just once a day, at the end of a trading session.

While retail investors enjoy the trading flexibility of ETFs, retirement investors do not receive this same advantage. Participant trades within a retirement plan must be executed at the same time to avoid discrimination. As such, intra-day trading flexibility is lost within a retirement plan.

An attractive benefit of ETFs is their low cost. Most ETFs are passively managed and therefore, relative to actively managed mutual funds, they appear inexpensive. However, when compared to similar passively managed mutual funds, the cost difference between the two is negligible.

A drawback of ETFs in a retirement plan is that they do not contain the ability to revenue share to help offset plan record-keeping costs. In a mutual fund, record-keeping costs can be built into the fund to help pay plan expenses. If a retirement plan was to offer ETFs, it would have to find an alternative method if there was a need to offset plan expenses.

ETFs have gained notoriety over the last several years for their low cost and ability to trade intra-day. However, they are far less common and less advantageous in retirement plans, because the benefits are diluted in the defined contribution world.

Prohibited Transactions: Fiduciaries Beware

Under ERISA, plan sponsors have a legal obligation to act in the manner most beneficial to participants. Stated differently, rather than acting in a manner that is beneficial to shareholders, a plan fiduciary must apply all of his or her skills and expertise to benefit plan participants, and the organization's interests should be completely excluded from consideration. If this "Exclusive Benefit Rule" is violated, it becomes a "Prohibited Transaction." Prohibited transactions arise when an interested party enters into, or benefits from, any transaction involving plan assets, including a sale, exchange or lease of property, extension of credit, transfer or use of plan assets, investments, employer securities or employer real estate, in excess of legal limits. Unfortunately, prohibited transactions are not always immediately recognizable. For example, entering into a lease for building space with a tenant who happens to be a family member of someone providing services to the pension plan may be a prohibited transaction. ERISA's rigid prohibited transaction rules continue to cause confusion though they have been in effect for 30 years. Should you encounter a situation that creates any doubt as to whether a prohibited transaction exists, contact your plan consultant for clarification and/or an ERISA attorney referral.

Record Retention: What Should I Keep, for How Long and How Should I Organize It?

We hear time and time again, "What records should I keep? How long should I keep them? And how should I organize my files?" Remember several rules of thumb when it comes to record retention.

- Plan documents should never be discarded. This includes basic plan documents, adoption agreements, amendments and summary plan descriptions.
- Annual filing reports should be maintained for at least six years. This includes 5500s, supporting materials for contributions, testing results, plan audits, summary annual reports and distribution records.
- Participant records should be retained during the participant's employment and at least six years after the participant's termination. This includes enrollment forms, beneficiary forms and distribution forms. Loan records should be maintained at least six years after the loan is paid off.

As for organizing your fiduciary file, we suggest a format that includes the following sections:

1. Documents: all plan documents, amendments, tax filings, etc.
2. Administrative: all audit results, contribution records, plan review meeting minutes, fee benchmarkings, participant complaints
3. Participant Communication: copies of enrollment materials, communication memos, meeting sign-in sheets
4. Investments: listing of fund menu with expenses, investment review meeting minutes

The key is twofold: keep the things you need, and store them so you can find them easily if a participant, auditor or U.S Department of Labor agent requests plan information. For questions, contact your plan consultant.

Communication Corner: Saving and Investment Decisions

This month's sample employee memo is Part Four of our six-part series, where we answer common participant questions. In Part Four, we answer the question, "Why does it seem difficult to make saving and investment decisions in our retirement plan?"

Call or email your plan consultant if you have questions or need assistance.

This material was created by NFP (National Financial Partners Corp.), its subsidiaries or affiliates for distribution by their registered representatives, investment advisor representatives and/or agents. This material was created to provide accurate and reliable information on the subjects covered but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation.

Securities and Investment Advisory Services may be offered through NFP Securities, Inc., member FINRA/SIPC. NFP Securities, Inc. and Benefits Partners are affiliated. NFP Securities, Inc. is not affiliated with any other entities listed on this document.

275 Washington Street, Suite 205, Newton, MA 02458 | (627) 225-2600 | www.sapers-wallack.com

108473 10/13 (BP-15429-12) Copyright © 2013. All rights reserved.

SAPERS & WALLACK

We're Listening to You!

We are pleased to present the fourth installment in our six-part series, answering the most common questions we receive from you, our participants, on the path to becoming retirement ready.

We are committed to helping you retire on time and to keeping you informed. The more questions you ask and the more active you are in your retirement plan, the more we can focus on what is important to you. Let's keep this communication going!

Question:

Why does it seem difficult to make saving and investment decisions in our retirement plan?

Answer:

It can be intimidating to make decisions for a future event like retirement, but it doesn't need to be. Sadly, most people don't think about saving for retirement until they are close to it, and that can prove to be too late. It is greatly to your advantage to make some retirement planning decisions early. A long window for investment and the compounding of interest are a powerful combination.

Here's how to simplify early retirement planning:

How much should I contribute?
Most participants will contribute the maximum amount matched by their employer because they don't want to leave money "on the table." Participants desirous of a higher probability of a financially successful retirement need to save much more. **The average 30–45-year-old should save 12–15 percent of their annual salary (including company match).** Saving this much, though advantageous, can be difficult unless you adopt it gradually. Tell your retirement provider or plan administrator that you want to **increase your contribution by 1–2 percent,** and consider doing this Jan. 1 of every year until you get to a contribution rate of 12–15 percent. Since no taxes are deducted before your contribution is made, the 2 percent will barely be missed.

How should I invest?
Your plan offers numerous excellent investments, but only one is most important, most popular and most supported by regulators and plan sponsors nationwide. This investment is your plan's **Qualified Default Investment Alternative** (QDIA). More than likely, your plan's QDIA is a target date fund (TDF). Look for the fund that includes a year in its name (e.g., Target Date 2030, 2035, 2040, etc.). The target date is the approximate date when investors plan to start withdrawing their money. (Note that the principal value of the fund(s) is not guaranteed at any time.) Select the one closest to the year in which you plan to retire. For example, if you are 30 years old, consider the 2050 fund (close to 2048, the year in which you turn 65). TDFs are **managed by professionals** who design diversified portfolios of mutual funds appropriate for participants retiring in a specific year. As the target retirement date approaches (and often continuing after the target date), the fund's asset allocation shifts to include a higher proportion of more conservative investments, like bonds and cash instruments, which generally are less volatile and carry less investment risk than stocks. (Refer back to our second installment for more information on TDFs.)

For questions, please see the plan administrator or contact our retirement plan consultant.

Be on the lookout for installment five of our six-part series where we answer the following question:

"Is a Roth 401(k) the right option for me?"

This material is not intended to replace the advice of a qualified attorney, tax advisor, investment professional or insurance agent.

This material was created by NFP (National Financial Partners Corp.), its subsidiaries or affiliates for distribution by their registered representatives, investment advisor representatives and/or agents. This material was created to provide accurate and reliable information on the subjects covered but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation.

Securities and Investment Advisory Services may be offered through NFP Securities, Inc., member FINRA/SIPC. NFP Securities, Inc. and Benefits Partners are affiliated. NFP Securities, Inc. is not affiliated with any other entities listed on this document.

275 Washington Street, Suite 205, Newton, MA 02458 | (627) 225-2600 | www.sapers-wallack.com

108473 10/13 (BP-15429-12) Copyright © 2013. All rights reserved.