



Retirement Report

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Happy Holidays!

It is our pleasure to extend to you the greetings of this special season. It is certainly one of our favorite times of year, and the perfect opportunity to express our gratitude to you for selecting us as your committed consultant. As we look forward to a new year and the hope it brings, we also look back on our achievements in 2013, and the degree to which we accomplished our primary goals — protecting you as a fiduciary and helping your plan participants prepare for a meaningful retirement. Congratulations on all that you accomplished in 2013. We remain fiercely proud of being your dedicated retirement plan consultant.

As we do each December, this month’s Retirement Report highlights excerpts from issues published in 2013. Please contact us with any questions or feedback; we look forward to serving you in 2014!

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Women and Retirement

Unique circumstances make saving for retirement a challenge for women. On average, not only are women earning less than men, but they're living longer as well. Also affecting their ability to save are gaps in employment many women experience while raising children or caring for aging parents. With the odds stacked against them, it's no wonder many women find saving for retirement overwhelming or even impossible.

In actuality, women possess inherent qualities that prove advantageous when it comes to the topic of retirement. They are natural planners and savers. In fact despite earning less, women save a greater percentage of their income. Women also tend to invest in a target-date fund, resulting in minimizing their overall risk.

Consider adopting features (automatic enrollment/escalation, company match, etc.) in your plan to help your women participants become retirement ready.

Understanding Plan Eligibility

Is your company's eligibility attracting and retaining quality employees? Is it competitive with other companies?

Eligibility is a waiting period and an age requirement for participants to meet in order to become eligible for a retirement plan. Some plans may also require an employee to work a certain number of hours to become eligible, and there may be ongoing requirements to receive company contributions.

The maximum period that a company can choose to impose on employee deferrals is one year, and the age requirement cannot exceed 21. If a plan has a two-year waiting period for employer contribution eligibility, the employee must be 100 percent vested immediately in employer contributions. The maximum number of hours that an employee can be required to work to become eligible is 1,000. Immediate eligibility is permissible, and plans are not required to have a waiting period, age requirement or hours worked requirement. Most companies have a waiting period of one year or less and choose 21 or 18 as the age requirement. To align with other employee benefit plans, companies will commonly choose the same waiting period as they have for their other employee benefits. As an ongoing requirement, companies can require employees to be employed on the last day of the plan year and/or work at least 1,000 hours during the 12-month plan year to be eligible for a company contribution.

Plans can have different waiting periods for employee contributions and employer contributions. For example, companies can choose "dual-eligibility" and allow employees to begin contributing their own contributions after three months of employment, but complete a year of service to be eligible for company matching contributions. Companies will consider this option if employer matching cost and employee turnover are a concern. Once an employee has met the eligibility requirements for the plan, they will enter the plan on pre-established intervals. These entry dates can be anywhere from immediate entry (first pay period after meeting eligibility requirements) to an annual entry date that is only available if the plan has immediate eligibility and no waiting period. Common entry dates are immediate, monthly and quarterly.

A company's eligibility requirements should be monitored to ensure that eligible employees have access to join the plan. Also, companies should have automated processes in place to administer their eligibility requirements effectively.

Is Your Company Match Achieving Its Objective?

What is the true objective of your company match? Is it intended to help your employees save more for retirement? Is it used as a tool to recruit new employees? Do you offer a match to incentivize lower paid employees to save more in order to improve your nondiscrimination test? In the end, is your company match achieving its objective?

After all, more than 95 percent of plans offer a match according to a 401khelpcenter.com article titled, "Benchmark Your 401(k) – 2012." When was the last time your match was discussed and evaluated? Have you considered restructuring your match to help participants save more for retirement? Reducing corporate expenditures was on the forefront of the minds of many companies back in 2007 and 2008. As a result, some organizations reduced or eliminated their match altogether, while most entertained the idea at a minimum. According to a study by Towers Watson titled "A Look at Defined Contribution Match Reinstatements," in 2011, 75 percent of those who suspended their match have since reinstated it. The majority of the companies that have reinstated the match have done so within nine to 12 months following the original suspension date.

A company match is a very powerful tool when used correctly. According to Vanguard Center for Retirement Research's article titled "401(k) Plan Design: Match, Loan, and Investment Menu Effects," match design typically increases participation rates by 5–15 percent, yet it is one of the top three reasons why participants save for retirement. For example, the most common match by far among plan sponsors is to match 50 percent of the first 6 percent that an employee defers. This means that participants are incentivized to save up to 6 percent of their pay. However, to achieve successful retirement outcomes, most participants should save 10–15 percent of their pay. This can be achieved through other "courageous plan design" features, such as auto escalation (which will be discussed in future newsletters). Using the match as a key driver in helping more participants achieve successful retirement outcomes is a topic that committees should discuss regularly.

One restructured formula to incentivize employees to save more would be a 30 percent match on the first 10 percent the employee defers into the plan. This structure is great for those companies that currently use the common 50 percent up to 6 percent formula since they are already matching 3 percent of an employee's pay. This would encourage participants to target 10 percent versus a lesser amount like 6 percent, yet it will not increase the company's additional matching dollars.

If you need assistance in discussing the objective of your company match and any potential changes, we encourage you to contact your dedicated plan consultant today.

When "Float" Is a Bad Thing

What is "float"? Float refers to the earnings or "compensation" accruing to a service provider while a plan's contribution remittance (or other assets held in suspense) is awaiting deposit or distribution.

With many service providers, a contribution received after 2 p.m. ET will not be deposited until the next day. Any return on these remittances that are held overnight (if placed in an interest-bearing account and retained by a service provider) is considered by the U.S. Department of Labor to be "compensation" and therefore should be disclosed as required by ERISA Section 408(b)(2). The plan sponsor, per 408(b)(2), has a responsibility to determine reasonableness or else the float may be considered a prohibited transaction.

This may be a good time to inquire with your service provider as to the issue of float so it does not become a compliance issue down the road. The question to pose is, "Are there any opportunities for you, the service provider, to obtain what ERISA considers compensation for plan assets held in abeyance either for contributions pending allocation, which may be held in an interest-bearing account, a forfeiture account or a distribution check issued but not yet cashed?"

This ounce of prevention may be worth pounds of cure.

Communication Corner: Retirement Crisis

This month's employee memo is the finale of our six-part series in which we answer common participant questions. In part six, we answer the question, "I've heard in the media that we are in the midst of a 'retirement crisis.' Is this really true?"

As a reminder, we post each monthly employee memo online via the Fiduciary Briefcase (fiduciarybriefcase.com), and it is also available in Spanish.

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

About Benefits Partners

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We're Listening to You!

We are pleased to present the finale of 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:

I've heard in the media that we are in the midst of a "retirement crisis." Is this really true?

Answer:

It is true that many people are saving too little for retirement. With discipline and effort, this can be overcome. There are only two things you need to do to increase your savings, and neither involves immediate sacrifice.

First, consider making your plan's default option your sole investment for existing assets and new contributions. The default fund is likely one that government regulators have deemed an appropriate investment for participants who do not make their own affirmative investment election, and to qualify as such it must pass a series of requirements. It also must be very closely monitored by the plan and its advisor to ensure continued approval. If you are not sure which this investment is, ask your Benefits department or the plan's investment advisor (contact information to follow).

Second, tell your Benefits department you want to begin an automatic increase of your contributions by two percentage points annually (you can do 1 percent, but 2 percent is better) starting on Jan. 1, 2014, and continuing each year until you reach a savings rate of 12 percent of your salary. Don't forget, the 2 percent additional savings will be tax deferred, so you will barely feel it, especially if you are to receive a pay increase at the same time. This step is by far the most important to help accumulate a significant retirement account.

You've already made a great decision to save in your retirement plan. Surely you don't regret your participation and the money you saved. Now take these two steps to increase your savings and reach your retirement goals.

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

Thank you for following our six-part series! We look forward to continuing to address participant retirement questions in 2014!

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