Plan Sponsor
Outlook
A Current Issues Resource for Plan Sponsors and Administrators 3rd Quarter 2009

Retirement Confidence Hits Record Low

The percentage of workers who are very confident about having enough money for a comfortable retirement was just 13% in the *2009 Retirement Confidence Survey* from the Employee Benefit Research Institute. This is the lowest result since 1993, when the question was first asked, and is down by one-half in just two years.

About 44% are not too confident or not at all confident about their financial resources for retirement.

Retirement will be delayed

About 28% of respondents said their target retirement age changed in the past year. Of these, nearly 90% said they have delayed retirement in order to increase financial security.

More workers are planning to work for pay during retirement to supplement their income. In the 2009 survey, 72% stated their intention to work in retirement, up from 66% in the previous survey.

Planning is still lacking

Less than half (44%) of workers reported that they and/or their spouse have tried to calculate how much money they need to have saved upon retirement. An equal proportion (44%) simply guesses how much they will need.

Despite the apparent need of many respondents to focus on planning, 75% or workers responded that they and/or their spouse have set aside money for retirement. The proportion of those who said they have saved for retirement has risen since 2007, when it was 66%, and is at its highest since 2000 (78%).

Actual amounts saved are worrisome. More than half (53%) of those working said they had total savings and investments, not counting home equity and defined benefit plans, of less than $25,000. Nearly one-third (30%) of those age 55 or more had savings of less than $10,000, and only 26% of those in this age group had savings of $250,000 or more.

Projections may be low

About 42% of workers responded that they need to accumulate $500,000 by the time they retire to live comfortably in retirement. Almost 20% said they need between $250,000 and $500,000, and 28% said they need less than $250,000.

Those who have done a retirement needs calculation (23%) were twice as likely as workers who have not (11%) to anticipate that they will need to have at least $1 million saved before retirement.

The *2009 Retirement Confidence Survey* is at http://tinyurl.com/2009RetConfSurvey.

For more information about financial preparedness for retirement, see the National Retirement Risk Index question and answer on page 3. ■

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Pension Plan Limitations for 2009

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

401(k) Myths Exposed

One of the 401(k) myths debunked by the Investment Company Institute (ICI) is that Americans are bailing out of their 401(k) plans due to the economic situation. On the contrary, says the ICI, only 3% of plan participants had discontinued contributions by October, 2008, and less than 4% had taken withdrawals from participant-directed retirement plans.

Another myth addressed by the ICI is that 401(k) savers have experienced far greater losses than other retirement investors. Market turmoil has affected all long-term savings plans, notes the ICI. IRA assets were down 13% in 2008, defined benefit assets were down 14%, and the S&P 500 total return index was down 19%. However, 401(k) assets fell by only 11%.

The ICI's *10 Myths About 401(k)s—And the Facts* report addresses ten negative perceptions about 401(k) plans. The purpose is to counter media reports casting 401(k) plans in a poor light as a result of the financial crisis. Each myth is identified, and statistics and survey results are presented to reflect the facts.

The report is at http://tinyurl.com/ICIMyths. ■

The Internal Revenue Service has updated its Employee Plans Compliance Resolution System (EPCRS). The updates include sample correction methods for certain failures eligible for the Self-Correction Program and an expansion of the Voluntary Correction Program to include more failures. Review the new EPCRS via the Correcting Plan Errors page at http://tinyurl.com/EPCRS.

More Sponsors Use IPS

An investment policy statement (IPS) is a useful tool for plan fiduciaries who are responsible for investment management decisions. It can provide a framework for measuring and monitoring the performance of the plan's investments and may provide some protection for the fiduciary when his or her investment decisions are challenged.

More plan sponsors are recognizing the value of an IPS in describing investment strategy and monitoring methods. In a recent survey, 81% of responding sponsors said they have a formal IPS. Of those, nearly 40% said theirs was developed by the sponsor or a committee; a consultant or advisor created the IPS for 35% of respondents.

Most sponsors update their IPS as needed (49%) and 25% do so annually.

This and other topics such as investments, plan governance, fees and administration are found in Grant Thornton's *Retirement Plan Survey 2009*, which is available at Grant Thornton's Web site. ■

Sponsors List 2009 Priorities

As evidence of continuing employer efforts to ensure that employees take steps to achieve their retirement goals and needs, a recent survey found that 55% of employer respondents ranked employees' understanding of future retirement benefits as their highest priority for 2009. Getting employees to accept accountability for retirement followed closely as the next highest priority (52%).

For 39% of those responding, finding ways to help employees retire with sufficient retirement assets was another high priority.

Just over half of the plan sponsors offer automatic enrollment, and another 10% were very likely to adopt it this year. About 40% said they would add automatic contribution escalation as a default under automatic enrollment. Automatic contribution increases was a feature offered by 53% of plans, and almost half made automatic rebalancing available.

A large majority of sponsors said they will emphasize communication to employees this year. Key topics they said they would address include protecting against market fluctuations through diversification and staying focused on investing for the long term.

To read Hewitt Associates' *Hot Topics in Retirement 2009*, go to http://tinyurl.com/HotTopics2009. ■

Plan Sponsors Ask...

Q: Is it true that we no longer have to give lending-related disclosures to participants who take plan loans?

A: The Truth in Lending Act and the Federal Reserve Board's Regulation Z require that plans making 25 or more participant loans in a current or prior calendar year provide truth-in-lending disclosures, just like commercial loans.

The Federal Reserve Board has issued an exemption for plan loans. The exemption acknowledges the difference between a commercial loan and a plan loan using the participant's account balance. Specifically, it recognizes that under a plan loan, principal and interest payments are reinvested in the participant's account and the loan is not subject to finance charges imposed by a third party.

The rule change is effective on July 1, 2010.

Keep in mind that the exemption from truth-in-lending disclosure requirements does not relieve plans from ERISA and Department of Labor rules requiring the disclosure of plan administrative fees and other information, such as the procedure for setting the loan interest rate.

Q: Has the DOL's proposed safe harbor for depositing participant contributions in the plan been finalized?

A: No. The safe harbor rule remains a proposed rule, though the Department of Labor (DOL) has said that it would not claim an ERISA violation against a plan that complies with the proposed regulation before it is final.

The proposed safe harbor would allow small plans (those with fewer than 100 participants at the beginning of the plan year) a period of seven business days to deposit participant contributions and loan repayments in the plan. The effect would be that deposits made within the seven-business-day period would be treated as satisfying the current rule defining when contributions become plan assets. That rule requires deposit into the plan's trust as soon as they can reasonably be segregated from the employer's general assets.

Remember that when contribution deposits are late, the employer is viewed as using plan assets for corporate purposes, which is a prohibited transaction.

If the DOL proceeds with finalizing the safe harbor, it is expected to be effective upon publication of the final regulation.

Q: What are the latest figures from the National Retirement Risk Index?

A: The Center for Retirement Research at Boston College recently updated the National Retirement Risk Index (NRRI). Previous analysis had treated health care costs differently and had not reflected possible expenses for long-term care.

The NRRI measures the percent of working-age households "at risk" of being financially unprepared for retirement. The original NRRI assumed that health care costs would be balanced in retirement by reducing other spending. As a result, it was estimated that 44% of households would be "at risk." When health care is explicitly recognized, the NRRI rises to 61%, meaning that 61% will not be able to maintain their pre-retirement non-health care consumption. And when long-term care costs are included, the NRRI rises to 65%.

The study, *Long-Term Care Costs and the National Retirement Risk Index*, is at http://tinyurl.com/NatRetRiskIndex. ■

Need a quick refresher course on hardship withdrawals? Check the Internal Revenue Service's FAQs Regarding Hardship Distributions at http://tinyurl.com/HardshipFAQs.

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans
www.irs.gov/ep

Department of Labor, Employee Benefits Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

Plan Sponsor Magazine
www.plansponsor.com

BenefitsLink
www.benefitslink.com

Profit Sharing/401(k) Council of America
www.psca.org

Employee Benefits Institute of America, Inc.
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

Rollovers Boost IRAs

Individual retirement arrangements (IRAs) represented more than one-quarter of total retirement market assets in the United States in 2008, according to the Investment Company Institute. Over 47 million households owned IRAs. Among those, 78% also participated in employer-sponsored retirement plans.

IRAs have grown due to rollover activity. In 2008, more than half of those owning traditional IRAs had rollover assets in those IRAs. The majority of those households (85%) transferred, in their most recent rollover, their entire plan account balances to traditional IRAs.

For more information about the role of IRAs in retirement saving, see the ICI's report at http://tinyurl.com/IRAsIn2008. ■

Looking for benchmarks to use to compare your plan? See Deloitte's *401(k) Benchmarking Survey* at http://tinyurl.com/401-k-Benchmarking2008, and Hewitt's *2009 Hewitt Universe Benchmarks* at http://tinyurl.com/2009UniverseBenchmarks.

Plan Sponsor's Quarterly Calendar

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

OCTOBER

- Audit third quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rule regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between July 1st and September 30th received and returned an enrollment form. Follow up on 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 time frame, 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

- 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.
- 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 2009.
- 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.

DECEMBER

- Verify that participants who terminated employment during the second half of the year selected a distribution option for their account balance and returned the proper form.
- 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)
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during this plan year and if using an IRS or DOL self-correction program would be appropriate.

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