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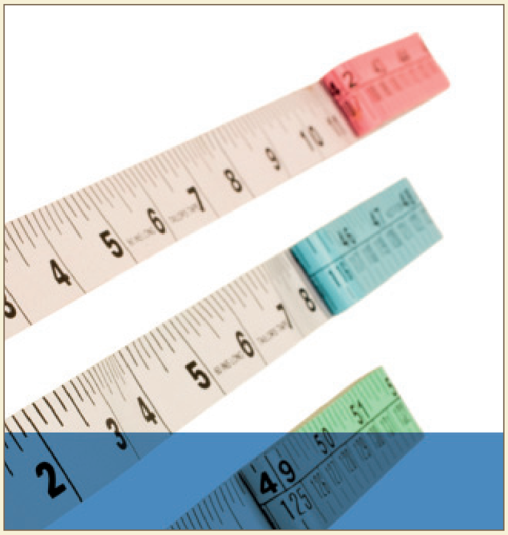
Retirement PLAN news

Make benchmarking your plan an annual exercise

Plan benchmarking is an effective way to help plan sponsors stay abreast of changing industry trends, assess participant metrics, and measure their own plan's features against those of comparable companies. It also offers insight into the costs associated with maintaining a plan and whether those costs are in line with industry norms.



PLANSPONSOR recently polled its plan sponsor readers, asking them how often they benchmarked their defined contribution plans and what features they included in the evaluation.* The vast majority (91.7%) said that they benchmarked their plans annually. The remaining 8.3% reported benchmarking their plans every five years.

"Very important" benchmarking metrics

When asked to rank the benchmarking criteria they considered to be "very important" in determining the success of their defined contribution plan, sponsors responded as follows:

- Investment expenses (as compared with peers) — 100%.
- Administrative expenses (as compared with peers) — 91.7%.
- Average employee participation rate — 81.8%.
- Average deferral percentage — 81.8%.
- Percentage of participants getting the full match — 63.6%.
- Percentage of participants properly diversified in investments — 58.3%.
- Percentage of participants on track to replace a certain income level in retirement — 36.4%.
- Participant use of educational materials/website — 25%.

How does your plan stack up?

To help plan sponsors gain perspective on how well their own retirement plan might stack up along some standard criteria, we have included highlights from the *2015 Annual Defined Contribution Benchmarking Survey*.** While the industry segment with the highest representation in this study consists of those organizations with 1,000 to 5,000 employees (31%), this data can provide a general sense of the trends and priorities emerging within the industry at large.

Employee participation rate: 75%, consistent with 77% reported in 2013-2014. Plan sponsors now consider employee participation to be the top measure of plan effectiveness.

* *PLANSPONSOR*, "Plan Benchmarking Measures," February 2015

** Deloitte Consulting, LLP, the International Foundation of Employee Benefit Plans, the International Society of Certified Employee Benefit Specialists, "Annual Defined Contribution Benchmarking Survey, 2015 Edition"

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Devlin&Hale
Employee Benefit Consultants & Administrators

2275 Silas Deane Highway, 3rd Floor
Rocky Hill, CT 06067-2329
Phone: 860-258-1910 Fax: 860-258-1915

Employer contribution trends

Two recent studies reinforced the value of employer contributions to defined contribution retirement plans and identified key trends on how plan sponsors are applying these contributions to participant accounts.

According to BrightScope and the Investment Company Institute (ICI), 76% of 401(k) plans offer an employer contribution of some sort and 88% of participants are in a plan that provides an employer contribution. Additionally, employer contributions account for one third of contributions to 401(k) plans.*

A report by Deloitte, whose analysis also included 403(b) plans, found that 94% of employers offer matching contributions, profit sharing contributions, or both.**

In recent years, the employer match has become more generous, allowing plan participants to benefit from tax deferral more fully.

Reduced service requirements for eligibility. Deloitte found that 71% of employers who offered matching contributions in 2015 did so immediately upon participation, up from 56% in 2012. An immediate match is more prevalent in plans of larger employers.

Frequency of contributions. Most employer matches are applied frequently — Deloitte found that 89% of employers calculated and deposited the match with each paycheck. Only 7% made contributions annually, and the remaining 4% used a schedule that was less frequent than each pay period.

Contribution formulas. Dollar-for-dollar matches are gaining traction, although 50% matches remain the most common. Deloitte found that 12% of employers matched 100% of the first 6% of employee contributions, while 18% matched the first 3% to 5% dollar for dollar. The most common matching formula was 50% of the first 6% of employee contributions, which was offered by 18% of employers participating in the study.

When benchmarking your plan's employer match, it is important to ensure that you are comparing apples to apples. For example, BrightScope and ICI found that the percentage of 401(k) plans with employer contributions varied widely by the size of the plan, ranging from 75% in plans with fewer than 100 participants to 95% in plans with 5,000 to 9,999 participants. Even so, trends noted above are likely to be reflected across the board to varying degrees.

* BrightScope and the Investment Company Institute, "The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2013," December 2015

** Deloitte Consulting, LLP, the International Foundation of Employee Benefit Plans, the International Society of Certified Employee Benefit Specialists, "Annual Defined Contribution Benchmarking Survey, 2015 Edition"

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Average account balance: $99,011 — up about 4% from $95,227 in 2013-2014.

Deferral percentage: For nonhighly compensated employees, the median deferral rate was 5.9% (compared to 5.2% in 2013-2014). The median deferral rate for highly compensated employees was 7%, consistent with 2013-2014 data.

Auto enrollment: In 2015, 62% of plans had an auto-enrollment feature. Of that group, 40% of plans offered the feature while also satisfying the safe harbor conditions contained in the Pension Protection Act of 2006. The most common default deferral rate reported was 3%, which was employed by 47% of plan sponsors. Lifecycle/target date funds continue to be the most common default investment option with 85% of plan sponsors (up from 72% in 2013-2014). More than three out of four plans (77%) offer a qualified default investment alternative, up from 64% in 2013-2014.

Eligibility/vesting: Today, 66% of plans allow employees to begin contributing to their retirement accounts immediately. Similarly, with regard to employer matching contributions, 71% of companies begin making contributions when the employee begins participating in the plan — an increase over the 62% of employers who did so in 2013-2014. Forty-three percent of plans provide immediate vesting for matching contributions — up from 32% in 2013-2014.

Employer contributions: Virtually all (94%) employers surveyed now offer some type of company matching/profit sharing contribution. (To learn more about the value of matching contributions, see the sidebar article.)

Roth 401(k) option: Roth 401(k)s are now offered by 60% of plan sponsors — a significant increase over the 51% of plans that offered them when the 2013-2014 study was conducted.

Top plan priorities: When asked to rate a number of issues in order of their importance to the company's plan, sponsors sent clear messages. "Providing the right investments to help participants achieve their retirement goals" was the top priority, with 89% of respondents indicating this was a "very" or "quite" important goal. Following closely in second place was "improving participant education" at 86%, and in third place, "retirement readiness," at 83%. These responses were consistent with those in previous surveys.

While this current snapshot of common features and measures of defined contribution plans just scratches the surface, it may provide a general basis of comparison for the state of your own plan. To view the study in its entirety, go to *http://www2.deloitte.com/us/en/pages/human-capital/articles/annual-defined-contribution-benchmarking-survey.html.*

QDIAs — ten years on

Back in 2006, the Pension Protection Act created the qualified default investment alternative (QDIA) as a fiduciary safe harbor to encourage plan sponsors to automatically enroll participants in employer-sponsored retirement plans, e.g., 401(k) plans.

The basics of QDIAs

Generally speaking, a QDIA should be an investment product that can meet your participants' long-term retirement savings needs. Among the potential QDIAs are:

- A product with a mix of investments that takes into account the individual's age, retirement date, or life expectancy, such as a lifecycle or target date retirement fund.
- A product with a mix of investments that takes into account the characteristics of the group of employees as a whole rather than each individual, such as a balanced fund.
- An investment service that allocates contributions among existing plan options to provide an asset mix that takes into account the individual's age or retirement date, such as a professionally managed account.

A capital preservation product can be a QDIA at enrollment, but it can only be used for the first 120 days of participation. After 120 days, the plan fiduciary must redirect the participant's investment into one of the other QDIA categories, unless the participant opted out of the plan or redirected his or her investments. And keep in mind that when the regulations took effect in 2007, preexisting arrangements defaulting to stable value products were grandfathered, but only for contributions that had already been made at that time. New default investment contributions were required to be directed to one of the above QDIA options.

If your plan involves variable annuities, the default annuity investment option can be a QDIA, provided its investment objectives meet the general rules for QDIAs.

There are some important additional rules that apply to the investment policy and governance of QDIAs.

- Generally, a QDIA may not be invested in employer securities.
- A plan may not restrict participants from transferring the funds in a QDIA to any other investment alternative available under the plan. The transfer must be permitted with the same frequency that applies to other plan investments, but not less than quarterly.
- A QDIA must be managed by either an investment manager, plan trustee, or plan sponsor who is a named fiduciary, or by an investment company registered under the Investment Company Act of 1940.

The plan sponsor's QDIA carrot: fiduciary relief

From the sponsor's perspective, perhaps the most significant benefit of a QDIA is the fiduciary relief. Sponsors using QDIA investments can find a safe harbor from fiduciary risk associated with the QDIA's return on investment if the sponsor satisfies these conditions:

- Assets must be invested in one of the above QDIA investment categories.
- Participants must have had the opportunity to direct their investments but failed to do so. If an investment directive is filed later, then the investment direction from the participant will supersede the QDIA. A notice must generally be provided at least 30 days in advance of either an employee's eligibility or his or her first investment in a QDIA. A notice is also to be provided to participants 30 days in advance of each subsequent plan year.
- Investment materials for the QDIA (e.g., prospectuses, account statements, etc.) that are provided to the plan must also be furnished to participants invested in the QDIA.
- Participants must be able to direct investments out of a QDIA as frequently as they can switch out of other plan investments — but at least quarterly. During the first 90 days after the first automatic enrollment deferral is invested in a QDIA, no surrender charge, liquidation or exchange fee, redemption fee, or similar expense will be charged. However, ongoing fees related to the operation of the investment *may* be charged. After the 90-day period, the restrictions, fees, and expenses of the plan will apply to a QDIA.
- The plan must offer a "broad range of investment alternatives" as defined in the ERISA Section 404(c) regulations.

All investment funds, model portfolios, and investment management services must be prudently selected and monitored by plan fiduciaries (e.g., the employer).

Devlin&Hale
Employee Benefit Consultants & Administrators

2275 Silas Deane Highway, 3rd Floor
Rocky Hill, CT 06067-2329

RECENT developments

PATH provisions

The Protecting Americans from Tax Hikes (PATH) Act contains the following provisions affecting certain retirement plans:

1) The public safety employee exception to the 10% penalty on separation of service withdrawals from retirement accounts after age 50 has been expanded to include nuclear material couriers, United States Capitol Police, Supreme Court Police, and diplomatic security special agents. This is effective for distributions after December 31, 2015.

2) A church that maintains both a qualified plan (such as a 401(k)) and a 403(b) plan is allowed to transfer all or a portion of a participant's or beneficiary's accrued benefit from one plan to the other or merge the two plans if the following two requirements are met:

   a) The total accrued benefit of each participant/beneficiary immediately after the transfer or merger must be equal to or greater than the benefit immediately before the transfer or merger, and

   b) The total accrued benefit is to be nonforfeitable (for example, 100% vested) after the transfer or merger and at all times thereafter. The transfer or merger cannot result in income inclusion by the participant/beneficiary and can't affect the tax-favored status of the qualified retirement plan or 403(b) plan.

3) A safe harbor will become available for correcting *de minimis* errors in information returns (e.g., Form 1099-R) or payee statements when certain conditions are satisfied. A *de minimis* error is any single incorrect dollar amount differing from the correct amount by no more than $100, or $25 in the case of any type of withholding. If, however, the payee requests a correction, then the correction is required. This change is effective for information returns required to be provided after December 31, 2016.

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