NATIONAL RETIREMENT SERVICES, INC.

IDEAS TO HELP BOOST 401(K) PLAN PARTICIPATION!

Employers and their Human Resources staff frequently ponder the question of increasing 401(k) retirement plan participation; particularly among the lower paid employee classes. This is not surprising, since the greater the deferral rates for the "Non-Highly Compensated Employees," the greater the deferral rates available to management members and other key employees. The great majority of plan design steps to improve deferral rates and participation ratios start with an analysis of the mind set of participants, particularly those in lower pay grades.

Based on written surveys and personal interviews, the reason many eligible employees fail to sign up is not simply that they cannot afford to be without the current cash. In fact, the main reason for low employee participation ratios is the employee being unable to satisfactorily answer the following key questions:

"I know I need to start saving for retirement, but how much is the right amount to save?"

"I can afford a few dollars going into the company retirement plan, but where should I invest my retirement money?"

"I joined the plan a while back and it's pretty easy. However, am I really saving enough at my age and if not, how much more should I save?"

Successful 401(k) plans usually contain design features that address these very real employee concerns. Automatic enrollment programs simultaneously address two issues - inertia and uncertainty. Unless the employee specifically declines plan participation or elects a specific salary deferral rate, the employee is automatically enrolled at a pre-determined deferral rate (e.g. 6% of pay). Automatic enrollment plans also take care of the "Where do I invest my money?" question by establishing a Qualified Default Investment Alternative (QDIA) for those unable or unwilling to direct their own money. Since the company 401(k) plan is usually the only retirement plan available, employees will spend years, even decades, slowly building up the proverbial nest egg. Looking at the plan from a long term perspective, it is easy to see that an adequate salary deferral rate for a married 25 year old with young children is probably much too low for a middle aged employee turning 50. Automatic escalators can be built into the plan that gradually builds up the key deferral rate to a pre-determined figure (e.g. 12% of pay). The Government promoted Qualified Automatic Contribution Arrangement (QACA) is an example of such a plan. However, any plan can add an escalator feature and it does not have to be a QACA in order to do so.

Besides designing an "easy to join plan," employer matching contributions can be designed to create an offer that is just too good to refuse. For example, a common employer match is expressed as "50% of salary deferrals up to a maximum of 6% of pay." Hence, if an employee defers 6% of pay, then the employer puts in half of that, or 3% of pay. For employees not electively deferring pay into a plan that has an attractive employer matching contribution, you may ask them, "Where are you going to get a 50% guaranteed return on your money?" Many times, by asking this question, the employee will begin elective deferrals. Also, the services of a qualified investment advisor can be a great help in increasing employee participation and giving plan participants guidance in selecting appropriate investment options.

Plans that offer a good cross section of available investments, while avoiding an overly diverse set of investment options, tend to have better participation rates than those with less attractive alternatives. Studies have shown that employee

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participants tend to avoid an overly broad array of investment choices.

Additionally, for plans that continually fail their annual Average Deferral Percentage (ADP) Test, the Plan Sponsor may want to explore adding a safe harbor employer contribution (either matching or non-elective contribution) so that no testing would be necessary. Or, possibly exclude certain employment classes that simply do not respond to plan participation invitations, making the ADP test easier to pass.

Because all pre-approved 401(k) plans must be restated during the next two years, now may be a good time to review plan design and implement changes as part of the restatement process.

HIGHLIGHTS

Change to 60 Day Rollover Rule

The IRS is changing a long standing rule. The change relates to the rule that permits the recipient of a retirement plan or IRA distribution to hold the distribution up to a maximum of 60 days and avoid current taxation as long as the money is deposited to another plan or another IRA. This permits the recipient to use the funds for any reason, provided they are back in a plan or IRA at the end of the 60 days. Formerly, the rule associated with this practice required that such a transaction could occur only once each year per plan or IRA. The new rule will become only once per year per taxpayer. Publication 590 that discusses the transaction is being rewritten and the new rules are likely to be effective as early as the 2015 tax year.

Defined Contribution Plans/PPA Plan Restatement

The IRS just announced (Announcement 2014-16) the beginning of a two year period ending April 30, 2016 during which all employers sponsoring defined contribution plans who use preapproved plan documents must restate those plans to incorporate current required provisions. This is part of a six year cycle established several years ago designed to systematically keep pre-approved documents current. The first such cycle began in 2008 and required all pre-approved defined contribution plans to be restated by April 30, 2010. Those restatements were commonly referred to as 'EGTRRA restatements," since many of the updated provisions were required by the Economic Growth and Tax Relief Reconciliation Act of 2001. The current cycle of plan restatements is referred to as the 'PPA restatements," after the Pension Protection Act of 2006. According to the Announcement, the IRS expects to issue approval letters on, or immediately after, March 31, 2014. Based on experience during the EGTRRA restatement process, the PPA restatements will likely get underway in the next few months. The IRS notes that employers who make minor changes in volume submitter documents may submit them to the IRS for approval starting May 1, 2014 and ending April 30, 2016. NRS will be in touch with clients who are affected by these restatements concerning more details in the near future.

Section 403(b) Pre-approved Plan Documents – One Year Postponement

On a related note, the IRS also announced a one year postponement until April 30, 2015 in the date for their accepting draft 403(b) plan documents that are meant to become pre-approved documents. Currently, employers who sponsor Code 403(b) plans do not have pre-approved documents and the IRS is in the process of providing pre-approved documents for these plans. The delay in the acceptance date probably means that pre-approved 403(b) plan documents will become available no earlier than April 2017.

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APRIL 2014 REMINDERS

- **April 1 –** This is the deadline for the first minimum distribution to be paid to participants who reached age 70½ during 2013 and who have terminated employment or who own more than 5% of the company.
- **April 15 –** This is the deadline for processing corrective distributions of calendar 2013 salary deferrals in excess of Code 402(g) limits.
- **April 15 –** Form 5500 series and Form 8955-SSA are due for Plan Years ending 6/30/13 if they are on extension.
- **April 15 –** Retirement plan employer contributions are due for corporate tax returns due April 15 covering the fiscal period ending 1/31/14 and for 7/31/13 returns on extension.
- **April 15 –** This is the deadline for filing partnership and/or individual calendar 2013 tax returns and for making associated deductible 2013 contributions. Automatic filing extensions to September 15 (partnerships) and October 15 (individuals) may be requested by this date.
- **April 30 –** Forms 5500 series and Form 8955-SSA are due for Plan Years ending 9/30/13 unless an extension applies.

FOR MORE INFORMATION OR TO REQUEST A PROPOSAL, PLEASE VISIT OUR WEBSITE AT WWW.NRSERVICES.COM, OR FOR SALES SUPPORT, PLEASE CONTACT:

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