

employee benefits update

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The retirement benefits road ahead

What employees want, what
employers should consider providing

6 steps to starting a 401(k) plan

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The retirement benefits road ahead

WHAT EMPLOYEES WANT, WHAT EMPLOYERS SHOULD CONSIDER PROVIDING

Just what do your employees think about their retirement benefits? And what kinds of retirement benefits can you offer to attract and retain employees while containing costs? Employees are looking for benefits that will meet retirement, financial and family security needs. Careful retirement benefits planning will be indispensable in future years to ensure the retention of key and skilled employees.

Old (pension plans) vs. new (401(k) plans)

For the past 20 years, employers have been gradually cutting back on pension plans. In fact, many companies have simply stopped their pension plans in favor of a more affordable option: 401(k) plans. (For more about starting a 401(k) plan, see “6 steps to starting a 401(k) plan” on page 5.)

What makes 401(k) plans so attractive to employers? Pension plans generally cost a company 10%

to 15% of an employee’s salary. On the other hand, 401(k) plans usually cost only about 3% to 5% of an employee’s salary through matching contributions.

By improving communication, many employers can enhance the cost-effectiveness of benefits.

While this is a huge savings for employers, not as much money goes into an employee’s retirement fund. This means the employee must contribute more through salary deferral to compensate for the loss of funds.

Participation trends

According to Deloitte’s 2009 *401(k) Benchmarking Survey*, employers are continuing to do more to increase plan participation. The biggest trend in increasing participation is the use of automatic enrollment, and the number of survey respondents with an automatic enrollment feature exceeded 50%.

Under automatic enrollment, a percentage of the employee’s salary is placed in an individual account without requiring the worker to take any action. However, you must notify employees in advance and permit them to leave the plan if they wish to.

According to the IRS, automatic enrollment has been shown to increase employee participation in 401(k) plans and similar salary reduction retirement savings plans. But retirement plan sponsors typically seek IRS approval of plan amendments adopting automatic enrollment, potentially delaying implementation. To streamline the process, the IRS issued Notice 2009-65 in September 2009,



Other benefits employees care about

Of course health care is the other benefit that's on *every* employee's mind. Not only are employees often caught in the crossfire as health care skyrockets, with employers delegating more of the costs back to them through higher premiums and deductibles, but they're concerned about what health care reform might mean to them. So employees are trying to understand what their best options are. More employers are offering a menu of health benefits to choose from — allowing employees to choose between, for example, a traditional plan and a high deductible program with a Health Savings Account (HSA) — rather than just offering one health program.

Health-care-related benefit meetings are essential to address employee questions. The challenge for employers is designing a fair and equitable program that enables employees to care for themselves and their families, while still meeting company objectives.

Wellness programs designed to prevent many health issues are booming throughout the country. Other trends for employers to consider include health reimbursement arrangements and Section 125 flexible spending plans, which can increase opportunities for employees to save money.

More employees also are looking to their employers for advice about savings and investment concerns not traditionally covered by employee benefit programs, including:

College funding. As many families plan for their children's education, some employers are choosing investment firms that can help educate employees about college funding tools. A 529 plan, for example, is an investment vehicle where contributions are after-tax, but distributions used for the qualified higher education expenses of a designated beneficiary are tax free.

Long-term care. Long-term care expenses generally aren't covered by health insurance or Medicare. According to the *MetLife 7th Annual Study of Employee Benefits Trends*, the majority of employees see the need to provide for their own long-term care needs, so offering long-term care insurance could help employers attract and retain employees.

Providing for aging parents. As the population of older individuals living a longer life increases, many employees are dealing with aging parents. The *MetLife* study found that 43% of employees said they were concerned about caring for aging parents.

Allowing for flexible work schedules so employees can meet their aging parents' needs is essential. Employers can further help workers by providing educational seminars to discuss community programs available to assist with elder-care issues. You may also consider counseling or support groups as an ancillary benefit. Although these needs may seem personal, they concern many employees. Employers may want to consider a future benefits program that goes beyond providing just retirement and health benefits and encompasses these issues. Employers that can provide assistance in these areas will be rewarded with a loyal workforce.

which provides two sample amendments that plan sponsors can adopt with automatic IRS approval.

Another way to increase participation is to have shorter waiting periods for eligibility. In fact, 55% of respondents in Deloitte's survey allowed immediate plan enrollment.

Education trends

Even though the burden of saving has shifted to the employee through the use of 401(k) plans, many employees still look to their employers for advice on saving for retirement, according to *MetLife's 7th Annual Study of Employee Benefits*

Trends. In fact, more than 50% of employees in the study expressed interest in employer-provided financial planners for their employer-sponsored retirement plan. Compare this with the 14% of employers who found it a priority to provide 401(k), 403(b) or 457 investment education.

What does this mean for employers in the future? While you're probably already providing some level of investment education to your plan participants, you should consider providing even more training and education materials with your plan. This will help employees determine how much they'll need for retirement and then plan their lifetime investing strategy accordingly.

Younger employees may benefit from choosing more aggressive options because they have more time to benefit from compounded growth.

Choosing how much and where to invest based on age, risk tolerance and the investment options offered is important. Younger employees may benefit from choosing more aggressive options because they have more time to benefit from compounded growth as well as to recover from periods of market volatility.

For those nearing retirement, it's important to determine how close their investments are to meeting retirement objectives. These participants will also have to determine whether they need to adjust their allocations to help protect their nest eggs from market volatility over their relatively short time horizons.

Encourage your employees to maximize contributions as much as possible. With each pay raise, they should put more

money into the employer-sponsored plan and contribute at least enough to receive the maximum employer match.

Again, employees are looking to employer-provided investment professionals to help strategize when adjustments to their investment allocations are necessary. Employers should consider providing these experts as an ancillary benefit to help employees plan.

According to the MetLife study, only one-third of surveyed participants agree that benefits communication effectively educates employees. By improving communication, many employers can enhance the cost-effectiveness of benefits.

Follow the yellow brick road

While the burden of saving and planning has shifted from employers to employees, the 2009 *MetLife Study of the American Dream* shows that more than 90% of Americans believe it's important for companies to continue to offer benefits, even if the employee must pay most or all of the cost. So employers' retirement benefits objective for the future will be to create cost-effective programs that give employees tools to help them with key planning objectives. 🕒





Upcoming compliance deadlines:

- 2/28** Deadline for filing 2009 Form 1099s with IRS
- 3/15** Deadline for making corrective distribution for failed 2009 average deferral percentage (ADP) and average contribution percentage (ACP) tests without 10% excise tax penalty
- 3/15** Deadline for filing 2009 corporate tax return and making contributions eligible for deductibility without extension
- 4/15** Deadline for corrective distribution of 2009 402(g) excess deferral failures
- 4/15** Deadline for filing of 2009 individual and partnership tax returns and making contributions eligible for deductibility

6 steps to starting a 401(k) plan

Over the past 20 years, employer-sponsored defined contribution retirement plans have become an increasingly popular way for employees to save for retirement. A defined contribution plan is one in which the employee saves for his or her retirement through deferrals into the plan and the employer can also make contributions.

401(k) plans are the most common defined-contribution plans in the public sector. This is because they're flexible in both the actual plan structure and the investments available to participants. If you're thinking about starting a 401(k) plan for your employees, here's an overview of the steps you'll need to take.

Step 1: Determine your goals

Before making any decisions, make sure you have a clear understanding of what you're looking for in a plan. Some questions to ask are:

- › How many employees does your company have?
- › Who will be eligible to participate in the plan?
- › Will your company make matching contributions to the plan?

- › Does your company want a vesting schedule attached to employer contributions?

Once you've determined your goals, it will be easier to choose the plan structure that best suits your needs.

To encourage plan participation and provide a greater benefit to employees, you can choose to match part or all of the employees' deferral contributions. You also can deposit additional amounts into the employees' 401(k) accounts. Most 401(k) plan contributions are on a pretax basis, but, with the introduction of the Roth 401(k) plan, you can give employees the option to contribute either pre-tax or after-tax.

Step 2: Choose the plan structure

Generally 401(k) plans are one of three types:

1. **Traditional plans.** Employees can make deferral contributions through payroll deductions, and employers can choose to make contributions for their employees as well as match employee deferral contributions. The plan will have a vesting schedule to determine the percentage of employer

contributions an employee is entitled to based on their years of service. The plan will need to conduct annual tests to ensure that the staff is getting benefits proportional to those of the company's owners and managers.

When searching for an investment company, give each candidate information about your company as well as information about the kind of service you expect.

2. Safe harbor plans. These are similar to traditional plans, but the rules aren't as complex. Generally, employees are immediately vested in employer contributions instead of having a vesting schedule. Safe harbor plans generally require the employer to make certain minimum contributions each year. These plans are attractive to employers because they're not subject to annual testing, thus reducing plan costs.

3. SIMPLEs. These Savings Incentive Match Plans for Employees are an option only for companies with fewer than 100 employees who had at least \$5,000 in compensation in the previous year. In SIMPLEs, employees cannot receive contributions from other plans from the same employer. Like safe harbor plans, SIMPLEs generally require the employer to make certain minimum contributions each year and aren't subject to annual testing. Many employers that are eligible to provide a SIMPLE, however, find the SIMPLE IRA option more beneficial than the SIMPLE 401(k).

Step 3: Appoint a trustee

Generally, the contributed funds are held in a trust. Once you choose the plan structure, you'll need to appoint a trustee to oversee the funds. The trustee must ensure that the plan uses the assets solely for the benefit of the plan's participants and their beneficiaries.

The trustee can be someone inside or outside your company. You're required to have one trustee, but some employers choose to name more.

Step 4: Choose an investment company

When searching for an investment company, give each candidate information about your company as well as information about the kind of service you expect.

Be sure to ask questions. Some things to consider are:

- › How does the investment company choose the investment options?
- › How many investment options do they offer?
- › How does the financial advisor manage the investment options?
- › Do the investment company and financial advisor have fiduciary liability insurance?

Make sure you understand how your financial advisor is being compensated. This will avoid any surprise fees and commissions.



Step 5: Choose an administrator

You may want to have someone outside your firm administer the plan. The plan administrator will handle the day-to-day operations, perform any necessary testing and prepare the plan's annual report.

It's important to note that the plan administrator and investment provider shouldn't be from the same company. This creates conflict of interest that may become a problem.

Step 6: Inform your employees

You need to inform your employees about the plan so that they understand the plan basics, such as when they're eligible to participate and their investment options.

You're required to distribute a summary plan description to all plan participants explaining the plan's general requirements and features. It's also beneficial to educate employees about the amount of money they may potentially need for retirement.

Now's the time

Offering a 401(k) plan option to your employees is a great way to show that you value them. It allows you to give them the opportunity to plan for their future and obtain more financial security for retirement. In turn, you'll benefit by attracting and retaining talented employees. 🕒

2010 vs. 2009 retirement plan limits

Due to low inflation (deflation in some cases), the limits for 2010 remain the same as the 2009 limits.

TYPE OF LIMITATION	2009 & 2010 limit
Elective deferrals to 401(k), 403(b), 457(b)(2), and 457(c)(1) plans	\$ 16,500
Annual benefit for defined benefit plans	\$ 195,000
Contributions to defined contribution plans	\$ 49,000
Contributions to SIMPLEs	\$ 11,500
Contributions to IRAs	\$ 5,000
Catch-up contributions to 401(k), 403(b), 457(b)(2), and 457(c)(1) plans	\$ 5,500
Catch-up contributions to SIMPLEs	\$ 2,500
Catch-up contributions to IRAs	\$ 1,000
Compensation for benefit purposes for qualified plans and SEPs	\$ 245,000
Compensation for SEP coverage	\$ 550
Highly compensated employee threshold	\$ 110,000
Social Security taxable wage base	\$ 106,800