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RETIREMENT PLAN ADVISORY GROUP

Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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Safe Harbor Regulations Rethought

Traditionally safe harbor contributions have been rather stringent in the sense that once adopted, there seemed to be little leeway allowing suspension or discontinuance. In 2014, the IRS issued new, final regulations of the requirements that need to be met to reduce or suspend a safe harbor contribution during a plan year. The new regulations are effective for plan years beginning on or after January 1, 2015. If the plan year is the calendar year, the new regulations apply now.

Under the new regulations, a safe harbor match or safe harbor non-elective contribution may be suspended or reduced midyear in two instances:

1. The plan sponsor is "operating at an economic loss" as defined in Code Section 412(c)(2)(A), (one determinant of whether the business is experiencing a hardship).

2. The annual safe harbor notice provided prior to the beginning of the plan year included a statement that the safe harbor contribution may be reduced or suspended during the plan year.

In addition to one of these two requirements being met, certain procedural requirements must be met as well. The procedural requirements are as follows:

1. Amend the plan prior to year end to reduce or suspend the safe harbor. The amendment should not be effective until the earlier of its adoption date or 30 days after participants are provided the supplemental notice.

2. Provide participants with a supplemental notice explaining the consequences of the reduction/suspension.

3. Give participants a reasonable opportunity to change their deferral elections as a result of the reduction/suspension.

4. Make all safe harbor contributions through the effective date of the amendment.

5. The plan amendment must provide that the plan will satisfy ADP & ACP testing for the entire plan year using the current year testing method.

6. The plan must satisfy the top-heavy requirements.

While certain allowances have been made, the idea behind safe harbor remains the same which is to enhance the participant benefit. Although there is some new flexibility, the decision to suspend or discontinue safe harbor plan design should be thoughtfully considered.

If you have any questions about these new safe harbor regulations, please contact your retirement plan consultant.

The Retirement Equation

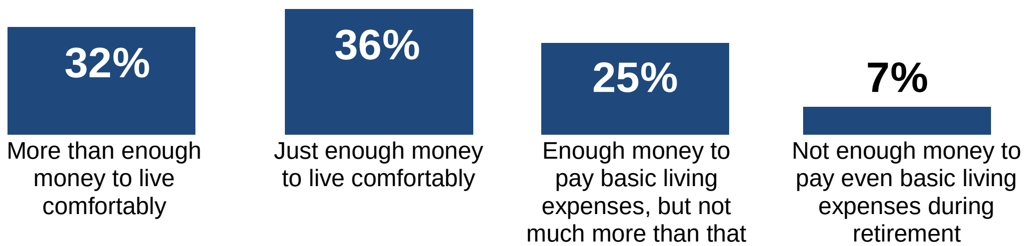
TOTAL CONTRIBUTIONS + INVESTMENT GAINS – WITHDRAWALS = BALANCE AT RETIREMENT

A 2014 study by MFS surveyed 1,000 defined contribution plan participants in the U.S. between the ages of 20 and 69 who are employed and have at least a $1,000 balance in a plan with their current employer. They asked questions about total contributions, investment gains and withdrawals.

Total Contributions

Participant perspective: Amount needed to save for retirement.
Most participants see $1 million in retirement savings as enough to live comfortably in retirement; 68% believe this amount is enough or more than enough.

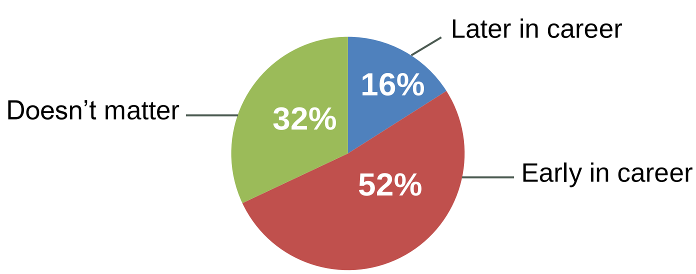
Saving $1 million for retirement at age 65, would give you:



Investment Gains

Participant perspective: Importance of returns.
Participants see returns as having a major positive impact on their plan balance but don't understand the importance of timing returns.

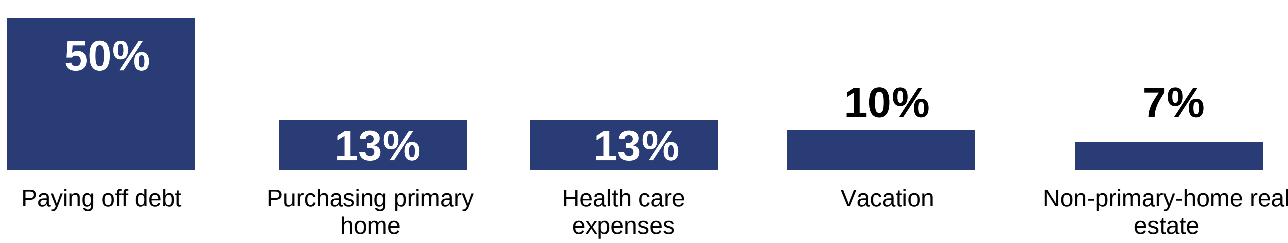
In a 401(k), when is it preferable to earn the best market returns?



Withdrawals

Half of participants who take 401(k) loans use them to pay off debt. Nearly one-quarter of borrowers say they had other options, yet tapped their 401(k) anyway.

Loans were used for:



This article is an excerpt from MFS' white paper, The Retirement Equation. Results of MFS' 2014 DC Pulse Survey.

Are You On the Right Glidepath?

While the term "glidepath" may still be defined by Merriam-Webster as "the proper path of descent for an aircraft preparing to land", those of us in the retirement planning world know it as the path that TDFs take to gradually reduce their equity exposure at and throughout retirement. While aircrafts may have a proper path of descent (as defined by the term), TDFs seem to be all over the board in terms of their glidepaths (some are very conservative while others can be pretty aggressive). TDF glidepaths vary due to the different assumptions investment managers make regarding life expectancy, accumulated retirement assets, contribution rates, and rates of return.

One size does not fit all, meaning that there is neither a "best" nor a "right" glidepath. Since we all have our own unique retirement objectives and glidepaths, it is a challenge to select one glidepath (product) for a retirement plan. Plan sponsors need to understand the assumptions made for the glidepath (product) in their plan to determine if those assumptions are appropriate for their plan participants as a collective whole. The decision requires a good understanding of the plan's demographics. For example, some glidepaths glide to a lower equity exposure *at* retirement (typically age 65) while others glide to a lower equity exposure *through* retirement (typically age 85-90). A plan containing participants with well funded participant accounts and participants who typically leave the plan at retirement may be better off with a glidepath that glides to a lower equity exposure *at* retirement. So, while it is nice to know that the glidepath (to some extent) can be addressed at the plan level, how can participants, as individuals, be sure that they are on the right "glidepath"?

For participants, the decision when selecting a TDF from an already pre-determined glidepath or set of funds (like a "2030", "2040", "2050", etc.) may be just as complex as it is for plan sponsors selecting the glidepath (or, set of funds). While the selected glidepath may be appropriate for most plan participants, there may, and will, be cases where the glidepath's assumptions don't perfectly match up with participant assumptions. Understanding the assumptions behind the investment strategy may ultimately help a participant decide whether to go with a "2030" fund or the "2040" fund. While participants may not have much input into the particular glidepath for the fund options within the plan, with the proper education, they do have the opportunity to fine tune where on the glidepath they want to be. Just as a pilot needs to understand how the aircraft works in order to achieve a safe landing, participants and plan sponsors need to have a good understanding of how these funds (and their glidepaths) work, so that their glidepath to retirement can be a smooth one.

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 on-going requirements in order to receive company contributions.

The maximum waiting period that a company can choose is two years and the age requirement cannot exceed 21. If a plan has a two year waiting period, the employee must be 100% vested immediately in employer contributions. The maximum number of hours that an employee can be required to work to become eligible is 1000 hours. 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 age 21 or age 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 on-going requirement, companies can require employees to be employed on the last day of the plan year and/or work at least 1000 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 (1st pay period after meeting eligibility requirements) to an annual entry date which is only available if the plan has immediate eligibility and no waiting period. Common entry dates are immediate, monthly and quarterly.

For plans that choose a waiting period of less than one year of service and less than age 21, annual ADP/ACP non discrimination testing rules allow plans to test the group of employees with less than a year of service and less than age 21 separately from those that have met the one year of service and age 21. The annual ADP/ACP non discrimination testing compares the average contributions from highly compensated employees to non-highly compensated employees and if the difference between the averages is above the permissible amount, a correction needs to be made to pass the test. This usually results in taxable refunds back to highly compensated employees. Generally speaking, plans have lower participation from shorter term employees and companies can choose to use the test with the more favorable results – those with a year of service and age 21 and those without.

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.

Communication Corner: Tax Saver’s Credit

This month’s employee memo is titled: Tax Savers Credit Reminder. This memo reminds participants that they may be eligible for a valuable incentive, which could reduce their federal income tax liability by contributing to the company’s retirement plan.

As a reminder, we post each monthly participant memo online via the Fiduciary Briefcase (fiduciarybriefcase.com).

Call or email your Plan Consultant if you have questions or need assistance.