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Retirement Report

NEWS AND UPDATES FOR PLAN SPONSORS AND FIDUCIARIES OF DEFINED CONTRIBUTION PLANS

To Loan or Not to Loan?

As you re-evaluate your retirement plan's design, consider asking yourself, "Should our plan continue allowing participants to take loans from their retirement accounts?"

If your retirement plan currently permits loans, you are not alone. According to the Profit Sharing Council of America's (PSCA) recently published ***55th Annual Survey of Profit Sharing and 401(k) Plans***, loans are permitted in 88% of profit sharing/401(k) plans.

Many mistakenly believe that the loan provision enhances the plan and encourages participation. On the contrary, participants utilizing the loan option substantially reduce their savings potential. And contrary to myth, loan elimination does not deter participation. This is why plan sponsors are increasingly embracing and adopting a "courageous" plan design philosophy to eliminate loans. There are many concerns:

- As loan assets are removed (borrowed) from the plan, they are not invested in the plan's offerings and may result in a lost opportunity for asset growth.
- While it is true that the participant is (re)paying himself/herself back, the after-tax interest paid on plan loans (which can be considerable) is added to the participant's account as a "pre-tax" deposit by the plan's record keeper, resulting in "double-taxation" when the account is eventually paid out.
- Loan set-up and maintenance fees may apply.
- Participants often elect to reduce or suspend contributions during the repayment period resulting in diminished accumulation.
- Termination of participant employment most often triggers immediate and full loan repayment; participants unable to do so incur taxes and, in many cases, penalties.
- Loans require plan sponsor administration which can be time-consuming, cumbersome and costly.

The continued allowance of loans should not be assumed or taken lightly. Consider adding it to the agenda of your next fiduciary committee meeting. Does the loan provision further your committee's efforts to maintain a successful plan? If the answer is not a resounding "yes" then consider taking action to eliminate it. As always, act in the best interests of your participants and their beneficiaries.

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PARTNERS WEALTH MANAGEMENT

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

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Health Care Reform Overview and Retirement Plan Implications

Pre-2014 Outlook

Balance Competitive Advantage and Cost Management

- Current benchmark: competitive offering and cost management techniques

2014 and Beyond Development

New Options and New Benchmarks

- Availability of individual coverage through public exchanges
- The Affordable Care Act sets new floor (now effective in 2015) and ceiling (effective in 2018) for large employer sponsored health coverage

Impact

Cost Impact for Some, Consulting Opportunity for All

- Predictable financial impact of employer mandate
- Key to consulting is demonstrating the variety of options available

Opportunity

Call to Action

- Plan sponsors must partner with brokers and consultants who will guide them through the uncertainty
- Begin talking about employer's health plan strategies now to learn about retirement opportunities

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Are You Excluding Part-Timers From the Retirement Plan?

Many plan sponsors mistakenly believe that they are not required to offer the retirement plan to part-time employees. Regardless of what type of retirement plan you have, all part-time employees must be offered the retirement benefit. Though your plan may contain a service requirement that essentially prevents “part-timers” from ever becoming eligible (such as a 1 year and/or 1,000 hours requirement), part-time employees may NOT be excluded as a class of employees.

If you have not informed your part-time employees that they are eligible to participate in the retirement plan, please contact your plan consultant to discuss immediate corrective measures.

Healthcare

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Three important questions for retirement plan sponsors:

3) Do you plan to offer health coverage in 2014?

   There is a lot of speculation about how many employers will stop offering health plans because of Health Care Reform, particularly now that the employer mandate provisions are postponed until 2015. As employers think more strategically about whether and why they offer health benefits, the retirement plan can be an increasingly important component to an employer’s total rewards package.

1) Are you planning to make changes to your workforce?

   One of the most talked about strategies to minimize Health Care Reform costs is workforce management. Since Health Care Reform’s employer penalties are based on the number of full-time employees, many employers have or are considering cutting hours below 30 hours a week. That change could affect the number of employees eligible to participate in the retirement plan.

2) Are health benefits part of your executive compensation package?

   Health Care Reform imposes new nondiscrimination requirements for some health plans, making it more difficult for employers to use executive health plans as part of the executive compensation package. As a result, there is a growing interest in tax preferred retirement benefits for key employees and executives.

MANNING &NAPIER

This information was originally published by Manning & Napier in their *2013 Health & Wealth Resources for Retirement Plan Advisors*.

Eligibility

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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.