THE EMPLOYEE BENEFIT
Forum
current issues in retirement benefit planning

Allen, Gibbs & Houlik, L.C.
CPAs and Advisors

2 403(b) Plan Preapproval Program

2 Have Participants Missed the Recovery?

3 Tailoring Your Retirement Plan Communications

4 Recent Developments In Benefit Plans

Choosing Target Date Funds

SITUATION: We're thinking about adding target date funds to our plan's investment lineup but have concerns about how to choose the right target date funds for our plan.

QUESTION: Is there any guidance on how to select appropriate target date funds for a retirement plan?

ANSWER: The popularity of target date funds has prompted the U.S. Department of Labor (DOL) Employee Benefits Security Administration to issue informal guidance to assist plan sponsors and other plan fiduciaries in selecting and monitoring target date funds.

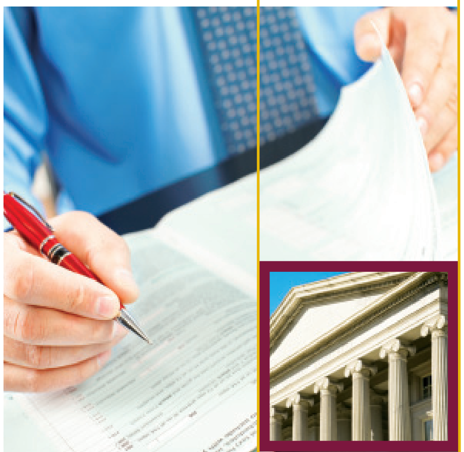
DISCUSSION: The guidance explains that "target date" refers to a target retirement date and is often part of a fund's name. Target date funds offer a long-term investment strategy with an asset allocation that automatically becomes more conservative over time as the participant gets closer to retirement. This shift in the asset allocation is referred to as the "glide path."

A fund's glide path uses either a "to retirement" or a "through retirement" approach. A "to retirement" approach reaches its most conservative investment mix at the target date. With a "through approach," generally the fund has a higher equity exposure at the target date and doesn't reach its most conservative point until sometime after retirement.

When choosing target date funds, it's important to establish a process for comparing funds. Consider a fund's investment performance and understand how it allocates its assets among the different asset classes (stocks, bonds, and cash alternatives) and how the allocation will change over time. Review the fund's fees and expenses and consider whether the fund's glide path aligns with employees' ages and likely retirement dates.

Once you've chosen target date funds for your plan, establish a process for periodically reviewing the funds you've selected to ensure their continued suitability. Develop effective employee communications to ensure that your employees receive appropriate information about target date funds in general and as a retirement investment option, as well as information about the specific funds your plan offers. Document the selection and review process, including how you reached decisions about individual investment options.

COMMENT: Employers that offer target date funds as plan investment options may want to revise their plan's investment policy statement as necessary to incorporate the points the DOL makes in its informal guidance.



403(b) Plan Preapproval Program

Starting in 2009, organizations sponsoring 403(b) retirement plans were required to have written documents in place for their plans. Recently, the IRS released procedures for preapproving 403(b) plan documents (Revenue Procedure 2013-22), along with sample language to use in such documents.

Until now, the IRS has not had a procedure for employers to obtain formal approval of their 403(b) plans. Plan sponsors were to make good faith efforts to ensure that the terms of their plans complied with Section 403(b) of the tax code and the related IRS regulations.

In the new procedure, the IRS says it is not establishing a determination letter program for 403(b) plans at this time. Thus, organizations will not be able to submit their current plans for IRS approval. Instead, they will have to adopt a preapproved plan that has received an opinion or advisory letter under the new program. The deadline for employers to adopt a preapproved plan is expected to be sometime after April 30, 2015.

Have Participants Missed the Recovery?

Plan participants who bailed out of stocks during the recession haven't been quick to jump back in. Nor does it seem new participants are investing as heavily in stocks as their 2006 counterparts did. At the end of 2012, the percentage of defined contribution plan assets invested in mutual funds holding equities remained eight points lower than in 2006.*

After hitting a low in February 2009, the U.S. stock market, as measured by the S&P 500 index, posted a cumulative return of 94% through year-end 2012. By March 2013, it had recouped its recession losses and then some. Missing this growth could make it more difficult for many participants to accumulate the amount they'll need for a comfortable retirement.

What can plan sponsors do? Make sure participants understand the importance of having a portfolio diversified according to their risk tolerance *and* retirement investment time frame (see the following article on targeted communications). Also review your investment lineup. Do you offer sufficient stock funds to meet the needs of all your employees? How about lifecycle/lifestyle/target date funds with higher stock allocations appropriate for younger participants? These funds now represent the second-most-popular retirement savings account allocation after U.S. large-cap stock funds.

Asset Class	% of Defined Contribution Plan Assets Invested Each Year						
	2006	2007	2008	2009	2010	2011	2012
U.S. Stock Funds	57	53	44	45	45	43	43
World Stock Funds	15	17	13	14	14	13	13
Hybrid Funds (mix of stock and fixed income investments)	15	16	18	20	21	22	23
Bonds	9	9	13	13	14	15	16
Money Market	5	6	12	8	6	6	5

* Source: Investment Company Institute, *The U.S. Retirement Market, 2012*

Missing this growth could make it more difficult for many participants to accumulate the amount they'll need for a comfortable retirement.

Tailoring Your Retirement Plan Communications

Many American workers haven't saved enough for retirement. According to the EBRI *2013 Retirement Confidence Survey*,* 57% of workers report that the total value of their household's savings and investments is less than $25,000. Clearly, it's important to encourage employees not only to participate in your plan but also to use it effectively. Tailoring employee communications and education can help. Plan messages that have a targeted approach can be quite effective.

How do targeted communications encourage plan participation? Different groups of people often have different retirement planning needs. When a retirement plan communication is tailored toward a specific group, that message is more relevant to the participants. For example, older employees who are approaching retirement may be less interested in a message that is directed toward younger employees who are just joining the retirement plan.

What types of employee groupings should be considered? It really depends on the demographics of your work force. Grouping employees by life stages is a relatively common approach. But other criteria, such as income or educational level, also may be useful.

In addition to demographics, you may want to look at retirement plan behaviors. Messages can be targeted toward employees who don't participate in the plan, employees who contribute only enough to receive an employer's match, employees who don't increase their contribution level over time, employees who don't adjust investment risk level over time, and employees who take loans from their plans.

Should messages and education about retirement planning be gender-specific? Women have a longer average life expectancy than men do. They also are more likely to have stopped working at some point during their careers due to the demands of their families. Workshops, articles, and other communications that discuss issues like these may encourage female employees to make sure they're taking action to have sufficient income during retirement.

Should employee communications target specific cultures? If a workplace has a significant non-English speaking population, providing bilingual plan communications and presentations that also are sensitive to specific cultural differences could help boost plan participation and contributions.

Which strategies may be effective when communicating with younger employees? Younger employees need information on the importance of joining their retirement plan and contributing as much as possible. Communications should concentrate on how the plan works and the advantages of pretax contributions, tax-deferred compounding, starting early, and contributing regularly. In addition to tailoring the message, also consider how employees will receive the information. Younger employees may be interested in learning about financial issues through social media, for example.

What topics will resonate with older employees? Participants who plan to retire in the next five years need information on transitioning from accumulating assets to spending those assets in retirement. Older workers generally are interested in information on shifting their account's asset allocation into investments that are more conservative. The impact inflation may have on their expenses and investments is another topic of interest. Older employees also should understand their plan's distribution options and the need for a withdrawal strategy during retirement that helps guard against depleting savings too quickly.

* *The 2013 Retirement Confidence Survey*, Employee Benefit Research Institute

Allen, Gibbs & Houlik, L.C.
CPAs and Advisors
301 N. Main, Suite 1700
Wichita, KS 67202-4868
www.aghlc.com
(316) 267-7231

RECENT DEVELOPMENTS In Benefit Plans

Less Plan "Leakage." The economic recovery appears to have slowed hardship distributions and participant loans from 401(k) plans, according to the *2013 Trends in 401(k) Plans and Retirement Rewards* survey of American Benefits Council and WorldatWork member companies. From 2008 to 2012, the percentage of employers reporting an increase in the number of plan participants taking hardship withdrawals during the previous 12-month period fell from 43% to 25%. The percentage of employers reporting an increase in participant loans dropped from 49% to 37%.

Matching Contributions. Employers participating in the *Trends* study also reported that many plan participants are not taking full advantage of their employer matching contributions. More than a third of the employers (34%) said that half or fewer of their plan participants deferred enough compensation to receive the maximum matching contribution available to them. Fifty-seven percent reported that more than half, but less than 90%, of participants took advantage of the full match available. Only 9% of employers said 90% or more of their plan participants were receiving the full match.

Cash Balance Plans on the Rise. From IRS Form 5500 data for 2011 (the most recent available) and reported in the *2013 Cash Balance Research Report*: The number of new cash balance plans added in 2011 was 1,097, bringing the total number of plans nationwide to almost 8,000 and participants in these plans to more than 11 million. The total assets held in cash balance plans in 2011 was $724 billion.