BENEFITS ADVANTAGE

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Ascensus Consulting Is Now Coast-to-Coast

Ascensus, Ascensus Consulting's parent company, acquired two additional independent third-party administration firms at the end of 2016: National Retirement Services and Matthews Benefit Group. The addition of these firms, with their experienced teams of actuaries and consultants, increases Ascensus Consulting's reach from coast-to-coast.

Bringing these firms into the fold expands Ascensus Consulting's national footprint and allows us to offer services to more clients across the country who are looking for customized retirement plan design and administration services delivered through a personal service model.

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NATIONAL RETIREMENT SERVICES, INC.
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What Is the Right Automatic Enrollment Percentage?

If you're an employer contemplating adding an automatic enrollment feature to your company's retirement savings plan, you see the value in providing participants with the greatest opportunity to save for their future. However, as you move toward the implementation phase of your new plan design, you are now faced with a challenging question – what is the "right" automatic enrollment percentage?

Growing popularity of "opt-out" automatic enrollment

In 1998, the IRS issued guidance that provided employers the option to include automatic enrollment in retirement savings plans. In contrast to the traditional model in which participants are given the choice to voluntarily "opt in" and begin making elective deferral contributions, under the automatic enrollment model employers automatically enroll participants in the plan unless participants "opt out," (i.e., choose not to have elective deferrals made on their behalf).

Many employers were interested in the new feature but were hesitant to implement it because several unanswered questions remained. Of particular concern was whether some state's laws prevented automatic enrollment by requiring participants to choose to make elective deferrals on their own behalf. That concern was eliminated when the Pension Protection Act of 2006 (PPA) was enacted. Among other things, PPA provided for federal preemption of state laws in this regard and opened the floodgate for employers to add automatic enrollment.

Several studies of employers that have adopted automatic enrollment have shown a substantial increase in participation rates as a result. For example, one study from a RAND Corporation working paper for the Department of Labor found that across 460 plans, participation rates of employees hired between 2010 and 2012 went from 42 percent under voluntary enrollment to 91 percent under automatic enrollment. These studies suggest automatic enrollment has vastly improved participation in retirement plan savings.

The three percent "standard"

Initial automatic enrollment guidance issued by the IRS included examples of participants enrolled at a three percent automatic enrollment rate. Given the uncertainty about automatic enrollment in early years, many employers followed the IRS's examples and used the three percent rate. By the time PPA came along, three percent was more or less viewed as a "default" rate. This idea was further entrenched by a three percent minimum initial automatic enrollment percentage for PPA's qualified automatic contribution arrangement (QACA) safe harbor plan design.

This three percent rate is problematic for a few reasons. First, such a small rate of saving is unlikely to provide enough asset accumulation for most people to retire on, alone or in combination with other savings.
Second, the automatic enrollment rate is sometimes viewed

as a "suggestion" by participants. Although using a lower initial rate to encourage more participants to continue to save after being automatically enrolled may be well-intentioned, a low level may be inadvertently discouraging participants from saving at higher levels.

Third, studies show that after being automatically enrolled, participants have a tendency to take no further action, regardless of whether they view the initial automatic enrollment percentage as a suggestion as discussed above. This can be remedied by adding an automatic increase feature.

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The rest of the equation: automatic increases

The other part of the equation, and perhaps the most important part, is the implementation of an automatic increase feature. Several studies have demonstrated little impact on participation rates when the rate is increased.

Effective saving for retirement often takes effort and incremental change. An automatic increase feature provides for an increase in deferral rates, often coinciding with annual pay raises. Incorporating an automatic increase feature that requires participants to "opt out" to remain at the same deferral percentage may help to address participant inertia. Although you may have concerns about how such a feature will be received, a 2012 Defined Contribution Institutional Investment Association (DCIIA) survey indicated that the median opt-out rate for automatic increases was just five percent, indicating a 95 percent acceptance rate.

Another consideration in making automatic enrollment and increase plan design decisions is how quickly the combination of automatic enrollment and automatic escalation should move participants to an "optimum" savings threshold.

For example, a Bureau of Labor Statistics report from 2014 indicates that workers age 25-34 have a median tenure of three years with an employer. As a result, you may choose to get participants to a 10 percent savings rate within three years of employment.

With that goal in mind, an arrangement with a four percent automatic enrollment threshold and a two percent automatic increase each year may be appealing. The increase does not need to be limited to one percent, and a two percent increase gets participants to a targeted level of saving much faster.

What rate is right?

In a June 2013 DCIIA survey, 78 percent of employers reported that the optimal savings rate for participants is 10 percent or more. Similarly, in its research report "Raising the Bar: Pumping Up Retirement Savings," DCIIA indicates that more than two-thirds of participants know they should be saving about 10-12 percent of their paychecks to meet their retirement needs. Other studies suggest a 15 percent savings rate.

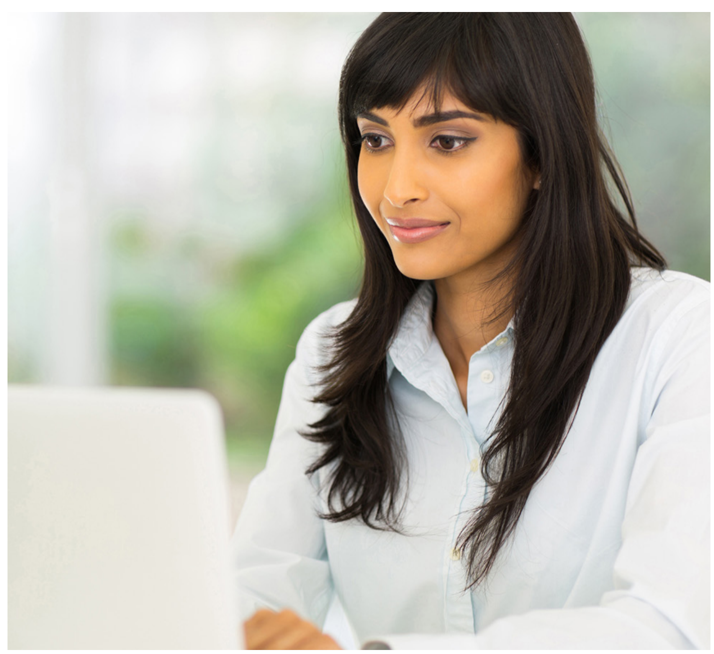
Given a suggested savings rate of 10 percent or more, simply enrolling participants at three percent may be a lesson in futility as it will not result in meaningful retirement asset accumulation.

With that in mind, what percentage of compensation should participants be encouraged to contribute? In its "Raising the Bar" report, DCIIA identified research showing that when automatic enrollment defaults are as high as six percent, opt-out rates are no higher than when they are as low as three percent. Ultimately, the "right" percentage depends on a variety of factors. However, you should not feel locked into three percent if you want to provide participants with the best opportunity to save for retirement.

Designing your program

There is no "one size fits all" approach to an automatic enrollment program. You need to consider administration, compliance, funding, and communication requirements, among other aspects. Employers' goals for an automatic enrollment program vary, as do demographics and individual financial factors. However, current design and implementation can be influenced by nearly a decade of data and analysis since the proliferation of these arrangements after the enhancements made by PPA.

Contact us to discuss adding an automatic enrollment feature to your retirement plan. If your plan already has an automatic enrollment feature, contact us with any questions about administering or modifying your plan.



Keep An Eye On Your Participant Notice Procedures

Failing to provide a plan-related document when required or requested can result in penalties that quickly add up. To help your plan run smoothly, you should periodically review your procedures and workflows to be sure you are delivering the right notice at the right times.

There are many reasons to provide your plan participants with required notices and disclosures. There are certain notices needed when signing up an employee for the plan for the first time and others are needed to regularly communicate information about the plan's operations and performance. Certain events, like a plan amendment, an investment change, or a distribution request also have very specific notice and disclosure requirements.

Below is a list of some of the most commonly required notices for retirement plans. This is not a complete list; other notices may be required depending on your specific retirement plan's design and features, or if you experience certain plan or participant events. However, it is a good place to start as a "check-up" for your plan.

Please contact Ascensus Consulting with questions about providing documents or notices for your plan.

Initial notices are provided when an employee becomes eligible for the plan or beneficiary commences benefits.

Notice	Timing requirements
Enrollment materials	Any time before becoming a participant
SPD - Summary Plan Description	Within 90 days of entry into the plan
Participant Fee Disclosure Applicable to plans that allow participant directed investments	On or before the date participant or beneficiary can first direct investments
ERISA 404(c) Notice Applicable to plans that elect to be 404(c) compliant	On or before entry into the plan
QDIA - Qualified Default Investment Alternatives Applicable to plans with designated QDIA	30 days before entry into the plan
Safe Harbor Contribution Notice Applicable to 401(k) plans that contain a Safe Harbor CODA feature	Up to 90 days before eligible for the plan
ACA, EACA, or QACA Notice Applicable to 401(k) plans with an ACA, EACA, or a QACA feature	Up to 90 days before eligible for the plan

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Periodic notices are provided quarterly or annually to each participant and beneficiary.

Notice	Timing requirements
Participant Benefit Statement	At least quarterly, within 45 days following the end of the quarter
Participant Fee Disclosure Applicable to plans that allow participant directed investments	Annually following the initial notice
QDIA - Qualified Default Investment Alternatives Applicable to plans with a designated QDIA	30-90 days before the start of each plan year
SAR - Summary Annual Report	Within nine months after the end of the plan year. If 5558 extension is filed – two months after the extended filing deadline.
8955 - SSA Participant Notice	Last day of the seventh month following end of the plan year (plus applicable extensions). Generally satisfied by providing Participant Benefit Statement.
Safe Harbor Contribution Notice Applicable to 401(k) plans that contain a Safe Harbor CODA feature	30-90 days before the start of each plan year
ACA, EACA, or QACA Notice Applicable to 401(k) plans with an ACA, EACA, or a QACA feature	30-90 days before the start of each plan year

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