



## Benefit Consultants Group

Celebrating Over 50 Years of Service Excellence

# FEBRUARY 2009 NEWSLETTER



## TECHNICAL CORNER

### My Plan Failed Non-Discrimination Testing--What Do I Do Next?

Each year BCG tests our clients' 401(k) plans to see if they pass the special non-discrimination tests known as the ADP (Actual Deferral Percentage) test. If your plan regularly passes testing, that's great news. However, if you are not so fortunate or your plan is on the cusp, there are steps you can take which will greatly increase your plan's chances of success. This article discusses those choices.

1. Assess alternate testing methods. BCG may be able to get your plan to pass using a testing method different from the one you have customarily used. If your plan just barely passes with an alternate testing method, you most likely will still want to consider making some changes to ensure a better outcome in following years.
2. Make any necessary refunds. Once your plan fails the testing, you must take corrective measures to keep your plan qualified - doing so is not optional! Generally, the first step is to reduce the contributions incurred by the highly-compensated participants to the point where the plan will pass the tests. Those highly-compensated employees who defer the most in dollar terms receive refunds first. For plan years 2008 and forward, refund distributions are taxable in the calendar year in which they are made.

This, of course, creates communications issues with the higher-paid employees. If the failure appears to have been an aberration, you may be able to treat it as such. If it appears to be part of a

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### Participants Don't Know Where Retirement Income Will Come From

The Spectrem Group surveyed 400 active retirement plan participants online during September and October 2008 and found that two-thirds of participants age 50 or over plan to work until age 65 or longer - with the largest proportion indicating they will retire when they reach the age where they qualify for full Social Security benefits.

The report said individuals with household incomes of \$50,000 or more annually expect that their retirement plan

trend, you may want to advise affected employees to reduce their deferral percentage to minimize their refund, or to be prepared to receive refunds in future years.

3. Consider making a Qualified Non-Elective Contribution (QNEC) or Qualified Matching Contribution (QMAC). If cutting back the highly compensated employees' contributions is highly unpalatable, there are other options. A QNEC is an employer contribution that is made to the plan on behalf of every eligible employee, whether or not he/she contributes to the plan. A QMAC is an employer matching contribution that is allocated only to those employees who defer. The employer would need to contribute enough money to make the plan pass the nondiscrimination test. Most employers do not take these approaches because doing so is expensive, and because the employer contributions are 100% vested immediately.

4. Build a case for retirement savings. Many employees do not save for retirement because they truly do not understand how important it is to do so, and how dire the future they might face could be if they do not. Placing retirement savings in context is essential but rarely done well. In addition, helping employees understand how the little choices they make every day can have huge impacts over time can help the message.

5. Target non-highly-compensated employees for a participation campaign. The reason a plan fails testing is that non-highly-compensated employees are not participating adequately. Targeted, personalized communication, mandatory enrollment meetings on paid time and tools that teach employees how to save can all help with this effort. BCG provides many tools on our web site, including our new "Guidance Plus" suite of services.

6. Involve supervisors if encouraging employees to save. Supervisors can have a substantial impact on plan participation. Consider rewarding them for having high group participation levels.

7. Make your match go further. The results of several studies demonstrate that a match has some interesting effects:

- Lower-paid employees tend to contribute up to the "focal point" created by the match limit. For example, if you match 50% to 6%, they will contribute at 6% of pay. They are, however, the group most influenced by the matching dollars on the table.
- Middle-income employees will often lower their contributions a little and offset that contribution reduction with the match. For example, a participant who might be willing to contribute 10% if no match were available will lower his/her contribution to perhaps 7% if a 3% match is available.
- Highly-compensated employees, by and large, are not influenced nearly as much by the match as they are by the tax advantages the 401(k) provides.

balances will be their largest asset when they reach retirement, while those earning less expect the equity in their home to be their largest asset.

The level of income participants expect to need to live comfortably in retirement also varies with current incomes. On average, those earning less than \$50,000 will need 91% of their current gross income, according to the Spectrem report. This figure trends downward as household income increases, reaching 76% for those earning \$100,000 or more.

Two-thirds of participants believe they will have income from a defined benefit plan when they retire; however, Spectrem believes some of them do not realize they are not covered by a DB plan. Another 22% own annuities which they will use to provide income. Those saying they will have income from real estate investments, a trust, or some other source total less than 10%.

One-quarter of participants cannot identify any specific source of retirement income other than Social Security, and just 17% of participants expect that Social

Just changing your matching structure without increasing the dollars involved can drive behavior. For example, if your current match is 50% of the first 4% of pay contributed, you will probably find a large number of non-highly-compensated employees contributing at the 4% level. If you were to change that match structure to 25% of the first 8% of pay contributed and couple that move with effective education, your plan would likely see an immediate migration toward the 8% of pay contribution level. However, economic conditions may play a big part in whether such an approach is successful. Contact your Plan Account Manager if you want to explore changing your match.

8. Institute automatic enrollment. The most proven way to boost participation is to institute automatic enrollment for all employees, not just those newly eligible to participate in the 401(k) plan. A recent survey showed that employers who enroll only newly eligible employees see, on average, only a 1% increase in participation. Because so many employees just don't take action when left to their own devices, automatic enrollment for all employees can easily increase participation rates from the typical high-60% range into the 90% or higher range. Some employers automatically enroll all non-participating employees once a year, even if the employees opted out during prior automatic enrollment cycle.

9. Institute automatic increases. One of the drawbacks to automatic enrollment done by itself is that employees who are automatically enrolled actually have a lower contribution rate than those who voluntarily enroll. This is because the most-used automatic enrollment level is 3% of pay, where the average voluntary enrollment percentage is 5.4% of pay. Instituting automatic increases of, for example, 1% per year until the participant is contributing at 10% of pay avoids this issue. Some employees will opt out, but the vast majority will stay at the higher contribution level.

BCG wants your plan to operate successfully and meet or exceed your goals for this important employee benefit. Please contact your Plan Account Manager if you have any questions about your plan's non-discrimination tests or want to discuss possible changes to improve your plan's performance.

## Recent Sales Seminar Update

We'd like to thank all the participants of our recent sales seminar for their participation.

The day encompassed a presentation regarding 401(k) Basics, Recognizing Plan Opportunities, and Initiating Great Conversations. Not only was the day filled with valuable retirement planning information, but ended with a guided tour of the Simeone

Security and the income sources they know about today will be sufficient to meet all of their income needs in retirement.

Overall, 57% of participants expect to have less than \$300,000 in total invested assets when they retire. Another 21% say they will have \$300,000 - \$600,000; 14% will have \$600,000 to \$1 million; and 8% say they will have \$1 million or more.

The research tested participants' knowledge and perceptions of three approaches to converting retirement plan assets into an income stream: payout mutual funds; variable annuities with a guaranteed minimum withdrawal benefit (GMWB); and the combination of mutual funds and fixed annuities.

Spectrem found:  
\* Awareness of all three approaches was low - 37% for payout mutual funds and 41% each for the other approaches.

\* Men were more aware of all three approaches than were women, and those with higher household incomes were more aware of all three than those with lower incomes.

\* None of the three

Automotive Museum filled with rare automobiles from around the world.

**Look for information about our future seminar in the next issue!**



alternatives is seen as a particularly attractive approach to retirement income. Payout mutual funds were rated attractive (i.e., 4 or 5 on a 5 point scale) by 15% of respondents; variable annuities with the GMWB feature by 22%; and the combination of funds and fixed annuities by 27%.

\* 61% of respondents select the combination of mutual funds and a fixed annuity. The remainder split about equally between the other alternatives.

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## BCG Employees Earn Designations

- Congratulations are in order for Pat Smith, Ann Nordin, Bob Wolf, and Alice Chambley for passing the DC2 (Defined Contribution) exam. This exam covered the processes and terminology associated with defined contribution plan administration.

- Congratulations to Ann Nordin and Alice Chambley for passing the final test in a series sponsored by the American Society of Pension Professionals and Actuaries (ASPPA) to be certified as a Qualified 401(k) Plan Administrator (QKA). The QKA designation is for professionals practicing in the pension plan area and demonstrates competence in all areas of 401(k) plan design, administration and recordkeeping.

Employee education and training is vital to the success of any company, and BCG is proud to honor these individuals for their efforts in striving for customer service excellence.

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- Joseph Solimeo, Director of Finance, has been named Director of the Southwest Jersey Chapter of the New Jersey Society of Certified Public Accountants for the fiscal year from June 1, 2009 to

May 31, 2010.



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