THE EMPLOYEE BENEFIT
Forum
current issues in retirement benefit planning

qualified PLANS LLC

The Employer Match Is Back

SITUATION: Like many other companies, we suspended employer matching contributions to our 401(k) plan at the height of the recent recession. Now, to remain competitive in our industry and as a way to boost participation in our plan, we're considering resuming matching contributions at some level.

QUESTION: Have other companies that suspended or reduced their matching contributions already brought them back?

ANSWER: Many plans that suspended or reduced matching contributions have either restored them or plan to do so.

DISCUSSION: According to the Plan Sponsor Council of America's (PSCA) *401(k) and Profit Sharing Plan Response to Current Conditions* (2011), half of the companies that suspended their matching contributions since January 1, 2008, have fully restored them. Of all surveyed plans, 7.3% have fully restored suspended or reduced contributions, 12.1% have added a matching contribution or increased their match, and 13.9% still have suspended or reduced matches. About a quarter of plans that currently have suspended or reduced matches plan to restore them within the first half of 2012.

Restoring your match may help increase plan participation. Studies show that plans with matching contributions generally have higher participation rates than those without one. But, while offering *any* match as opposed to no match generally increases participation, there's no real consensus among researchers as to what the optimal match is. If you decide to resume your match, you may want to review the matching formulas other companies in your industry use. The table below may be helpful.

How Much?
Average Matching Contribution Formulas

Industry	Cents matched per $1	Maximum % of pay matched
Durable goods manufacturing	57	4.7
Nondurable goods manufacturing	57	5.7
Wholesale distribution & retail trade	55	5.1
Financial	65	5.3
Insurance & real estate	67	4.6
Services	59	5.0
All plans (includes respondents outside listed industries)	61	5.1

Source: *54th Annual Survey of Profit Sharing and 401(k) Plans*, Plan Sponsor Council of America (2010 plan experience), *www.psca.org*

Avoid Compensation Errors

The compensation you pay employees generally determines the amount your company can contribute to your retirement plan on their behalf and deduct for federal income-tax purposes. Using an incorrect definition of compensation in your retirement plan can lead to costly operational failures that can affect your plan's qualified status.

Here are five tips the IRS has provided for avoiding compensation-related failures:

1. Review your plan document's definition of compensation for each plan purpose.
2. Use the statutory definition of compensation when required.
3. Transmit accurate compensation data for each employee to your payroll processor and plan administrator.
4. Consider amending your plan to use one definition of compensation for all plan purposes.
5. Periodically review your plan for errors and fix them as quickly as possible using the IRS's Employee Plans Compliance Resolution System (EPCRS).

Retaining Plan Records

Completing Form 5500 (*Annual Return/Report of Employee Benefit Plan*) by itself creates a substantial amount of records, not to mention all of the other documents required in administering your plan. Having an established document retention system that allows you, as the plan administrator, to periodically review, update, preserve, and dispose of documents in an organized fashion fosters good administration and helps the plan comply with pension law (ERISA).

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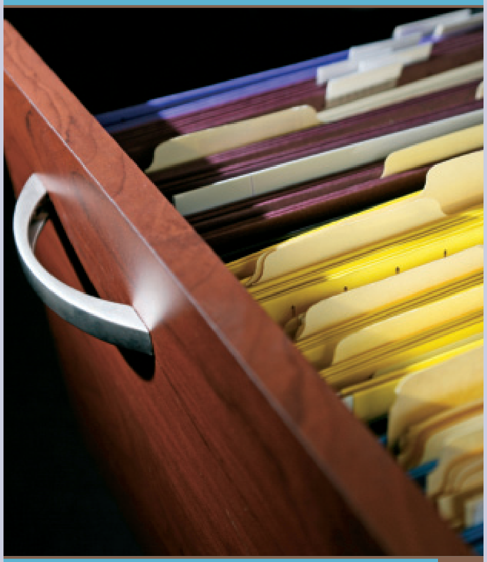
Government Reports and Supporting Records

Government reports, such as Form 5500, and the records used to prepare them generally must be kept for at least six years after the filing date. What supporting records does your plan need to retain? Basically, whatever records a government auditor might need to verify the accuracy of the original report. These include, but aren't limited to, financial records; service provider information; hours of service and vesting determinations; corporate income-tax returns (to reconcile deductions); the plan's fiduciary bond; documents relating to plan loans, withdrawals, and distributions; and nondiscrimination and coverage test results.

Other Records

Other records that should be maintained and updated on a more or less permanent basis include the plan document; applicable IRS opinion, advisory, or determination letters; insurance contracts; Summary Plan Descriptions, Summaries of Material Modifications, and other employee communications; resolutions, benefit determinations, and distributions; and information about plan participants. For participants, you should retain eligibility-determination and hire and termination information, beneficiary designations, notarized spousal consents and waivers, loan and hardship withdrawal documentation, vesting data, and compensation used for nondiscrimination testing, elective deferrals, and matching contributions.



Plan Investments: Time for a Review?

In 2011, an unprecedented 63.8% of plans surveyed by the Plan Sponsor Council of America* changed the investments they offer plan participants. Similarly, in 2010, a majority of plans surveyed (56.2%) reported modifying their investment offerings. Only 19.7% made changes to their lineups in 2009. Whether you should change your plan's investment choices depends on how well they are meeting the needs of the plan's participants. Below, we answer questions you may have about reviewing and revising investment choices.

Why is it important to periodically review plan investments? Plan sponsors are not responsible for guaranteeing that plan participants will experience positive returns on their account investments. However, pension law (ERISA) and the U.S. Department of Labor do hold plan fiduciaries, including plan sponsors, responsible for the prudent selection of plan investment options. As a plan sponsor and fiduciary, you must carefully evaluate the *continuing* suitability of your plan's current investment choices and whether those choices offer participants enough variety given current economic conditions.

What should we consider in our review? Evaluate each investment choice as to performance, style, and risk. "Style drift" and/or active management may have caused a fund to carry more risk than it did when you initially added it to your lineup or last reviewed your plan's investment options. Conversely, if your work force has become younger, your investment choices may be too conservative and not provide enough growth potential for younger employees. Demographics are particularly important when evaluating and/or adding target date funds to a plan's investment choices. Be sure to offer a sufficient selection to adequately meet the needs of all age groups.

As a frame of reference, what are other plan sponsors doing? While the 2011 survey does not identify the actual changes sponsors have made, the *PSCA's 54th Annual Survey of Profit Sharing and 401(k) Plans* noted that more than 20% of plans surveyed added or deleted an entire asset class from their lineups in 2010. The survey also found that the use of target date funds continues to rise. In 2010, 63.6% of plans offered these funds, up from 57.7% in 2008 and 33.4% in 2006.

Target date funds are the most common default investment for plan participants and beneficiaries who fail to direct the investment of their account assets. Slightly more than half of the plans surveyed (53.1%) have a target date fund as their default. Perhaps in response to the addition of target date funds, the use of balanced stock/bond funds dropped by more than 10 percentage points in 2010, to 62.3%. Three quarters of plans (75.8%) offered balanced funds in 2009.

Overall, plans offer participants an average of 18 investment choices. The five most frequently offered investments are actively managed domestic equity funds (89.3%), actively managed international equity funds (84.1%), domestic equity index funds (82.4%), actively managed domestic bond funds (77.7%), and balanced stock/bond funds (62.3%). Most plan sponsors (86.4%) use an investment policy statement (IPS) to choose investments for their plans.

How frequently should we monitor our plan investments? As often as necessary to ensure you're meeting the needs of plan participants. According to the PSCA, plan sponsors most often monitor investments quarterly (66.2%), followed by annually (15.7%).

* *401(k) and Profit Sharing Plan Response to Current Conditions*, PSCA, 2011

RECENT DEVELOPMENTS
In Benefit Plans

New Deadline for Participant Fee Disclosure. The U.S. Department of Labor (DOL) recently issued final regulations on fee disclosures that extend the deadlines for both the fee disclosures service providers must furnish to plan sponsors and the disclosures plan sponsors must provide to participants in 401(k) and similar retirement savings plans. For sponsors of calendar-year plans, the deadline for furnishing participants with initial fee disclosure notices is August 30, 2012. The first quarterly statement (for fees incurred July through September) must be furnished no later than November 14, 2012.

Electronic Signature Mandatory for Form 5500. Beginning in 2012, all Forms 5500 (*Annual Return/Report of Employee Benefit Plan*) and 5500-SF Short Form (*Annual Return/Report of Small Employee Benefit Plan*) must be signed electronically by the plan sponsor/employer, plan administrator, or a properly authorized plan service provider. The IRS electronic filing system will reject forms that aren't electronically signed or are signed with an invalid electronic signature. Forms with no electronic signature will receive a filing status of "unprocessable" and the original will have to be signed and resubmitted. Those with an invalid electronic signature will receive a status of "processing stopped." The plan sponsor will have to electronically sign and file an amended form.

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