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ASSOCIATES

TOP 10 REASONS SMALL BUSINESSES SHOULD CONSIDER IMPLEMENTING AUTOMATED PROGRAMS

RETIREMENT & BENEFIT PLAN SERVICES

One of the greatest challenges facing plan sponsors today is encouraging employees to enroll in their retirement plan and select investments and deferral rates. Automated programs may provide direct solutions to these challenges. The retirement plans made available through our partners include automatic enrollment, automatic deferral increase, automatic default investment selection, or a combination of all three options.

There are many reasons to implement automated programs for your 401(k) plan. We chose our “top 10” list, highlighting some of the key benefits for plan sponsors and employees.

1. Automatic enrollment allows you to assist employees with their retirement goals by enrolling them in your 401(k) plan as soon as they are eligible. With many people relying on defined contribution plans as their primary source of retirement income, it is more important than ever that employees start saving and investing early for retirement.

2. Automatic enrollment can help boost employee participation. Inertia prevents many employees from joining their retirement plan in the first place. By automatically enrolling employees when they become eligible, you are putting them on the path to retirement success.

3. Implementing automated programs may favorably affect your plan’s non-discrimination testing and reduce certain compliance risks. By increasing your plan’s overall participation and deferral rates, your highly compensated employees may face fewer restrictions on deferrals. If your plan adopts a “Qualified Automatic Contribution Arrangement (QACA) and fulfills the necessary requirements, it obtains safe harbor protection, eliminating the need for non-discrimination testing.

4. The Pension Protection Act (PPA) of 2006 provides relief for automated programs. Among other provisions, PPA removed a major barrier to automatic enrollment by generally preempting state laws that directly or indirectly prohibit or restrict the inclusion of automated enrollment features in a plan.

5. Simplifies investment options for long-term retirement savings and defaults. Businesses that want to include automatic programs can prudently select investment options for employees under new guidelines for Qualified Default Investment Alternatives (QDIA) without liability for investment returns. The QDIAs are generally diversified investments for the investment of employees’ contributions where the employee does not make an investment selection upon enrollment. Diversification does not protect against a loss or guarantee a profit.

6. Automated programs mean employees have to opt out of the retirement plan rather than in. Automated programs put inertia to work with no action required—automatic enrollment gets employees participating in the plan. Employees have the right to make an election to not contribute or to elect a different contribution rate. If they decide not to participate in the plan, employees can withdraw contributions made during the first 90 days of enrollment (called “unwind” withdrawals), which will not be subject to a 10% additional federal tax. The distribution will also not be considered a disqualification of the plan.

7. An enhanced defined contribution plan can be an attractive alternative or supplement to the offering of a defined benefit plan. With many employers freezing or terminating defined benefit plans, which traditionally covered all eligible employees, implementing automated programs in a defined contribution plan helps to continue the greatest possible coverage of eligible employees.

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WHO IT'S FOR

Automated programs may be appropriate for:

- Businesses with any number of employees, but not owner-only businesses
- Businesses that want to help employees increase their savings rates, especially lower income workers
- Plans having trouble passing Actual Deferral Percentage (ADP) and Actual Contribution Percentage (ACP) compliance testing
- Plans with low participation rates
- Plans facing contribution restrictions for highly compensated employees because of low plan participation / deferral rates

WHAT IT DOES

- Increases 401(k) participation and contribution rates by overcoming participants' inertia of saving and investing for retirement
- May provide all eligible taxpayers with additional tax relief through a retirement savings contribution credit
- May help satisfy nondiscrimination testing
- May provide investment fiduciaries with some degree of comfort in meeting fiduciary obligations

8. Automated programs can be tailored to meet the needs of your company and employees and may assist in retaining valuable talent. We will work closely with you to implement specific automated features based on your business objectives while helping to meet your employee's needs. Offering a 401(k) plan with automated programs may provide your business with a competitive edge in the marketplace.

9. Automated programs help maximize the tax incentives for contributions to 401(k) plans. Employee deferrals under a 401(k) plan are not subject to income tax at the time of contribution. This tax benefit, plus the deferral of income tax on any earnings on contributions in the 401(k), helps maximize a participant's savings for retirement. Of course, taxes are due upon withdrawal.

10. Automatic increase makes it easy for participants to defer more. Increasing the deferral rate on a regular basis can be an important factor in building assets and achieving a desired retirement life style. And, by linking the timing of deferral increases to pay increases, participants will be less likely to miss the deduction from their take home pay.

GETTING STARTED

If you wish to implement automated programs, we will help you implement this feature based on your plan design and demographics.

Here are some decisions and requirements to consider:

- Identify employee eligibility (typically includes all eligible nonparticipating employees or just new hires after a specific date).
- Determine the effective date.
- Identify a default investment from your plan's investment menu into which participants' automatic contributions will be directed if they do not make another investment selection, taking into account QDIA safe harbor protections (for automatic enrollment).
- Choose an initial deferral rate (for automatic enrollment), or the rate at which participants' contributions will be increased and when (for automatic deferral increases).
- Determine "opt-out" provisions.
- Communicate the programs to your employees.

For more information about automatic enrollment, visit the Department of Labor's website (http://www.dol.gov/ebsa). The Automatic Enrollment 401(k) Plans for Small Businesses publication provides a comprehensive overview of starting and operating this type of 401(k) arrangement including fiduciary responsibilities, and a checklist to help ensure compliance with the law.

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