THE EMPLOYEE BENEFIT
Forum
current issues in retirement benefit planning

The Paragon Alliance Group LLC
Modeling Excellence In Benefits Solutions

Small Plan Audit Waiver

SITUATION: We sponsor a small retirement plan with fewer than 70 participants. We know that qualified small plans are allowed to elect to waive the annual audit requirement, but we're not familiar with all the rules surrounding when an audit is required.

QUESTION: How do we determine if our small retirement plan's books and records have to be audited for Form 5500 purposes?

ANSWER: The U.S. Department of Labor (DOL) generally requires qualified retirement plans to be audited annually by an independent certified public accountant. The DOL considers a plan with fewer than 100 participants at the beginning of the plan year to be a small plan that is eligible to waive the audit requirement when specific conditions are met.

DISCUSSION: Small retirement plans are eligible for the audit waiver if at least 95% of their assets are "qualifying plan assets." Qualifying plan assets include:

- Qualifying employer securities
- Loans to plan participants
- Assets held by a bank or similar financial institution, insurance company, registered broker-dealer, or any organization authorized to act as trustee for individual retirement accounts
- Shares issued by a registered investment company
- Investment and annuity contracts issued by a qualified insurance company
- Assets in individual accounts over which the participant or beneficiary exercises control and receives an annual statement from a regulated financial institution describing the assets held or issued by the institution and their amount

If less than 95% are qualifying plan assets, any person handling nonqualifying plan assets must be bonded.

The plan's summary annual report (SAR) must contain additional information, such as the name of each regulated financial institution holding or issuing qualifying plan assets and their amount as reported at the end of the plan year (except for certain qualifying assets). Additionally, the plan's SAR must provide the name(s) of the surety company issuing the required bonding, if applicable.

The SAR also must include a notice indicating that participants and beneficiaries may, upon request and without charge, examine or receive copies of evidence of the required bond and any statements from the regulated financial institutions describing the plan assets.

Retirement Confidence on the Rise

Retirement confidence is on the rebound, especially among employees who participate in a retirement plan. A recent survey by the Employee Benefit Research Institute* found that the percentage of workers who are very confident about being able to afford a comfortable retirement increased from 13% in 2013 to 22% in 2015. And among workers who have a retirement plan (or whose spouses have a plan), the percentage of those who are very confident almost doubled — from 14% in 2013 to 28% in 2015. Other key findings include:

- Only 12% of employees without a retirement plan say they are very confident they will have enough for a comfortable retirement.
- Over two thirds (69%) of workers think it is possible for them to save an additional $25 a week for retirement.
- Almost three quarters (74%) of workers anticipate receiving retirement income from an employer-sponsored retirement plan, and 46% expect the plan to be a major income source.

* *2015 Retirement Confidence Survey*, Employee Benefit Research Institute, 2015

Redesigning Your Match

How do you get employees to contribute more to your retirement savings plan? Consider redesigning your employer match. Spreading the company match over a larger portion of employees' contributions may boost participant contribution rates.

Making the Most of the Match

For some employees, the employer match is one of the main reasons they participate in their employer's retirement savings plan. They make sure they contribute enough to take full advantage of the match since it's "free" money. By redesigning the match formula, you may be able to encourage your employees to increase the amount they contribute to the plan.

A New Formula

Raising the threshold for your employer matching contribution could increase employee contributions at no extra cost to your company. For example, suppose your current formula is a 100% match on the first 3% of compensation. You redesign your match formula so that you offer a 50% match on the first 6% of compensation. Employees now have to contribute 6% of their income to receive the full match, potentially increasing participant contributions without increasing your overall matching contribution amount.

Opportunity To Educate

Redesigning your match also can be an opportunity to better educate your employees on the benefits of increasing their contribution rate. Review your communication materials to make sure they encourage employees to contribute more to the plan and to take full advantage of the employer match.

. . . you may be able to encourage your employees to increase the amount they contribute to the plan.

Engaging Employees Through Targeted Plan Communications

Your work force may include a number of employees who aren't taking full advantage of your retirement plan and are at risk of not having enough savings to retire comfortably. How can plan sponsors engage employees and encourage them to use their retirement plan effectively? Tailoring employee communications and education can help. Below, we answer questions you may have about targeted communications.

Why do targeted communications encourage greater engagement? Different groups of employees often have different retirement planning needs. When a retirement plan communication is tailored toward a specific group, that message is more relevant. For example, younger employees may be more interested in a message about the importance of getting an early start on saving and the power of compounding than older employees who are getting close to retirement age.

How should employees be segmented? 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. For example, messages can be targeted toward employees who don't participate in the plan, employees who don't contribute enough to receive the full employer matching contribution, employees who don't increase their contributions over time, and employees who take frequent loans from the plan.

Should retirement planning messages be gender specific? Women have a longer average life expectancy than men do. They are also 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 plan communications target specific cultures? If a workplace has a significant non-English-speaking population, providing bilingual plan communications and presentations that are also sensitive to specific cultural differences could help boost plan participation and contributions.

What 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 on 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.

Which 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. 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 impact inflation may have on their expenses and investments is another topic of interest.

Engaged employees who have received retirement planning information that is relevant to them are more likely to see the value of your retirement plan and to feel empowered to make the most of the important benefit you are providing.

Designing retirement plans to meet your business needs…

Combining our knowledge, experience, and integrity with the services of the industry's leading record keepers and investment providers to offer personal, customized plan designs and administration solutions.

300 Harleysville Pike
Souderton, PA 18964

215-703-0844

401(k), 403(b) & 457 Plans	Consulting	Retirement Plan Audits
Profit Sharing Plans Safe Harbor New Comparability	Employee Communications Plan Administration	Payroll Human Resource Consulting
Prevailing Wage Plans	Compliance Services	
Section 125 Cafeteria Plans	Governmental Filings	Strategic Planning

RECENT DEVELOPMENTS
In Benefit Plans

Retirement Plan Audits. The IRS reports that it processed 876,881 employee plan returns in calendar year 2013, but audited only 8,909 of those returns in fiscal year 2014. Among those processed were 3,828 Forms 5500, 366 Forms 5500-EZ, and 2,941 Forms 5500-SF.

New Timing for Annual Fee Disclosure. The U.S. Department of Labor (DOL) recently added a two-month grace period to the annual participant fee disclosure deadline. Sponsors of 401(k) and other individual account plans that permit participants to direct investments will now be required to provide the participant fee disclosure documents at least once in any 14-month period, regardless of whether the plan operates on a calendar- or fiscal-year basis. No changes have been made to the timing of the quarterly information, although the DOL is soliciting comments as to whether similar flexibility is needed for that information.

Greatest Retirement Fear. Younger generations are not immune from retirement worries. A recent Harris Poll found that 48% of Generation Xers and 32% of Generation Yers said one of their biggest financial concerns is not being able to retire when they want. Among Generation Xers, that ranked second only to their concern about not having enough money in emergency savings (51%).