



The Retirement Advisor

“ A Newsletter for Retirement Plan Sponsors

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How To Get Younger Employees Interested in a 401(k) Plan

Situation: Company's 401(k) salary deferral plan was set up as a way to attract and retain talented workers and to motivate employees. While management is satisfied with the morale-boosting effects of the plan, the plan's participation rate among younger workers is less than desirable.

Question: What can be done to make the plan more appealing to younger employees?

Answer: Getting twenty-something workers excited about a retirement savings plan is not the impossible dream. The company can help increase employee participation in its plan by targeting its communication efforts to younger workers.

Discussion: Not long ago, a stable job at a big company usually meant a pension at retirement. Now, however, many younger employees have to take responsibility for their own retirement, making the most of their 401(k) plans. That's why it's important to educate younger workers about the benefits of investing for retirement in a 401(k) plan. Here are some suggestions to help increase plan participation.



•Furnish plenty of plan information to employees to reinforce the company's retirement message. Focus the marketing materials on younger workers who stand to benefit the most from compound investment earnings over time. Use several media outlets to tell employees about the plan, such as e-mail, newsletters, Internet and Intranet promotional materials, posters, and paycheck stuffers. (Continued on Page 3)

Plan Loan and Hardship Distribution Requests

For many employees, the assets in their 401(k) plan accounts represent a majority of their savings. So, not surprisingly, over the past year as money has gotten tighter, employers have seen an increase in requests for plan loans and hardship distributions. If you are receiving distribution requests, the following information should be a helpful review for handling them.

Plan Loans

Under federal tax law, the maximum amount an employee can borrow from his or her plan account is (1) the greater of \$10,000 or 50% of the balance of the employee's account; or (2) \$50,000, whichever is less. All of the employee's outstanding loans are taken into account when determining the maximum loan amount.

Most plan loans must be repaid within five years. However, loans used to buy a principal residence may have a longer repayment period. Loans are typically repaid through payroll deduction.

To help control the use of plan loans, many employers impose restrictions, such as loan fees and a minimum loan amount (usually between \$500 and \$1,000), and place limits on the number of outstanding loans an employee can have at a time. (Continued on Page 3)



Quotes of the Quarter

“Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves.”

Peter Lynch

“You make most of your money in a bear market, you just don’t realize it at the time.”

Shelby Davis

Do You Need a Plan Audit?

The annual Form 5500 filing for a qualified retirement plan generally must include audited financial statements for the plan. However, the U.S. Department of Labor (DOL) exempts a small retirement plan from the general audit requirement under certain conditions.

Definition of a Small Plan

Plans with fewer than 100 participants at the beginning of the plan year are eligible for the audit waiver if they meet specific requirements. In addition, a plan that has between 80 and 120 covered participants at the beginning of the plan year that filed a small plan annual report for the previous year may elect to continue to file as a small plan.

Covered participants generally include active plan participants and beneficiaries; employees who were eligible to participate in the plan as of the beginning of the plan year, even if they don’t contribute to the plan; and terminated participants who have plan account balances.



Other Waiver Requirements

In addition, a plan has to meet three other basic requirements to be eligible for the audit waiver:

- As of the last day of the preceding plan year, at least 95% of the plan’s assets must be “qualifying plan assets.” If less than 95% are qualifying plan assets, any person who handles nonqualifying assets must be bonded in an amount at least equal to their value.
- The plan must include certain information in the Summary Annual Report (SAR) furnished to participants and beneficiaries in addition to the usual required information.
- The plan administrator must furnish, without charge, copies of statements the plan receives from financial institutions holding or issuing the plan’s qualifying plan assets to any participant or beneficiary who requests the information. In addition, the administrator must provide participants evidence of any required fidelity bond, upon request.

Check with us if you have questions about plan audit requirements or the waiver. ■

My Business Is My Retirement Plan

If that pretty much sums up your thoughts on the matter, you’re in good company. It’s not unusual for most of a business owner’s wealth to be tied up in the business he or she has built. Have you thought about what will happen to your business when you retire — and how you’ll get your money out?

Don’t wait until the last minute. You’ll need time to consider your options and come up with a workable plan.

Where You Want To Be

To start the process, you’ll want to identify your personal goals for retirement. Consider the lifestyle you’d like to lead and project your financial needs. Then think about your business. It’s basically your creation — what are your long-term objectives for it? Would you like the business to stay in the family? Or is your dream to build it up and then sell it? Until you’ve envisioned the future, you won’t be able to plan effectively. (Continued on Page 4)



**Quotes of
the Quarter**

“Your success in investing will depend in part on your character and guts, and in part on your ability to realize at the height of the ebullience and the depth of despair alike that this too shall pass.”

John Bogle

“Just as a cautious businessman avoids investing all his capital in one concern, so wisdom would probably admonish us also not to anticipate all our happiness from one quarter alone.”

Sigmund Freud

How To Get Younger Employees Interested in a 401(k) Plan Cont'd

- Direct communication efforts at younger workers, and emphasize the benefits that may persuade them to participate, such as portability and loan options. If younger workers realize they can take their money with them if they switch jobs and have access to their money in an emergency, they may be more likely to begin contributing to the plan.
- Prepare for employee enrollment meetings by getting to know the audience prior to the meeting. Find out basic demographic information to better target their needs and concerns. Create a comfortable environment to foster audience involvement. Allow employees several opportunities to ask questions and participate in discussions.
- Hold enrollment/education meetings on a regular basis. Require employees to attend a meeting immediately before they're eligible to participate. Arrange for employees who decline participation to attend another meeting. This will help to keep the retirement savings message fresh in the minds of non-participants. Remember, the more opportunities employees have to enroll, the more apt they are to join.
- Use specific examples to impress on employees the importance of investing in their 401(k) plan for retirement. Let young workers know that delaying contributions can make a big difference in the long run. For example, if a 24-year-old defers \$100 a month for the next 41 years and earns an 8% average annual total return during all those years, the account would be worth \$379,321 at age 65. Under the same circumstances, if this person waits just *one year* to begin contributions, the account would total \$349,101 at age 65. That's a difference of \$30,220. Factor in a 25% employer matching contribution and the difference swells to almost \$38,000.
- Don't forget about an extra incentive to save for retirement: Not only will deferrals not count as taxable income in the year contributed, but workers may also qualify for a saver's tax credit — a direct reduction of a worker's tax bill — on a portion of the contributions they make to their 401(k) plan. Eligibility for the credit is based on the participant's adjusted gross income. ■

Plan Loan and Hardship Distribution Requests Cont'd

Hardship Distributions

The plan documents must specify a method for determining eligible hardships. Hardship distributions — unlike loans — are not repaid to the plan. Where a plan uses a facts-and-circumstances method, the plan administrator reviews all relevant facts and circumstances in each individual situation. While the plan generally can allow a hardship distribution for any reason, it must have established rules to ensure that the distribution will be used for an immediate and heavy financial need.

The safe harbor method permits hardship distributions to: (1) pay certain medical expenses incurred by the participant, participant's spouse, or dependents; (2) purchase a principal residence; (3) cover post-secondary educational expenses for the participant, the participant's spouse, children, or dependents; (4) prevent eviction from or foreclosure on a principal residence; (5) pay the funeral expenses of a spouse, parents, children, or dependents; and (6) repair damage to the participant's principal residence that would qualify for the income-tax casualty loss deduction (without regard to whether the loss exceeds 10% of adjusted gross income). Participants generally are prohibited from making elective deferrals to the plan for six months following the hardship distribution.



Hardship distributions generally are limited to the amount of the employee's total elective contributions as of the date of distribution minus the amount of any previous hardship distributions.

Please talk with us if you have questions about plan loans, hardship distributions, or your retirement plan's provisions for them. ■



My Business Is My Retirement Plan Cont'd

The Situation Today

You've seen your financials and know the book value of your company. But how much would it bring if you were to put it up for sale today? A business appraisal can tell you what the likely sale price would be. Even if you have no intention of ever selling the company, you need to know what it is worth for planning purposes. If you aren't happy with the number, you can take steps to improve it.

Your business isn't just about numbers; it's also about people. Maybe one or more of your children work in the business. You may have employees from outside of the family who play key roles. If you expect your business to continue after you retire, it's not too soon to start identifying the next generation of leaders and help them prepare for the responsibilities they could have in the future.

Your Strategy

After you've addressed the preliminaries, you'll be ready to get down to the nitty-gritty of developing a specific retirement strategy. You don't have to accomplish everything all at once. But, from a big-picture perspective, each step you take should lead you on a path to achieving financial security and meeting your goals. ■



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