

Reminder about Plan Records Retention

Both the Internal Revenue Service (IRS) and the Department of Labor (DOL) have issued detailed guidelines regarding the retention of electronic records and storage requirements.

In Revenue Procedure 98-25, the IRS stated that records needed to demonstrate compliance with tax laws must be available for IRS review at all times, and must be retained as long as they are “material” for administering the Internal Revenue Code. Taxpayers (in this case, plan sponsors) must ensure the ability to retrieve, manipulate, print and produce output of electronic media.

ERISA generally requires that the plan sponsor retain the records and information relied upon in completing annual Form 5500 reports and filing other items with the DOL for a period of least six years after the date on which the annual report or other item is submitted.

Even though the Form 5500 must be filed electronically, the records related to it must be kept in reasonable order, in a safe and accessible place, and in a manner readily permitting inspection. A copy of the Form 5500, with schedules and attachments, must be kept on file, along with required signatures. The DOL’s rules also state that paper copies of records that cannot be clearly, accurately or completely converted to an electronic recordkeeping system must be retained.

Consult your plan’s legal counsel for guidance specifically related to your plan. ■

Read about recent updates of the IRS’ Employee Plans Compliance Resolution System (EPCRS) at <http://tinyurl.com/IRSComplianceResolution>.

Retirement Readiness is Top Priority

Employers are focusing on their employees’ financial wellness and retirement readiness in 2013, according to a survey of 425 employers (representing 11 million employees) conducted by Aon Hewitt.

Workers need 11 times their annual salary to have a financially secure retirement, but the average worker has a savings shortfall of 2.2 times their annual salary, reports Aon Hewitt. About 80% of surveyed employers plan to address this gap by making financial wellness a top priority this year. And 86% of sponsors said they would focus communications initiatives on helping employees evaluate and understand their retirement savings needs.

Also, plan design changes are in place or being considered to help employees manage their money when they retire. In-plan retirement income solutions are offered by 28% of sponsors, up from 16% a year earlier. These solutions include managed accounts with a drawdown feature, managed payout funds and annuities. Nearly one-third (30%) of employers who currently do not offer such solutions plan to do so this year.

Other key findings include:

- The percentage of sponsors who plan to use social media to communicate with employees rose from 6% last year to 18% this year.
- 52% of employers will use podcasts and 42% will use text messages to educate employees about their retirement benefits this year.

Survey results are at <http://tinyurl.com/AonHewittReadiness>. ■



Plan Sponsor Quiz: Roth 401(k) Options

According to the Plan Sponsor Council of America's *55th Annual Survey of Profit Sharing and 401(k) Plans*, nearly 50% of plans permit participants to make Roth after-tax contributions to their 401(k) plans. When given the opportunity, 17% of participants made Roth contributions.

Whether your 401(k) plan currently offers this feature or its addition to the plan is just being considered, why not take the following quiz to test your knowledge of this provision that continues to grow in popularity?

Test Yourself

Note whether you think each of the following statements is true or false, then check your answers on page 4.

- a. The income limits that apply to Roth IRAs also apply to Roth 401(k) plans.
- b. Roth contributions are generally not taxed when distributed.
- c. A 10% tax penalty applies to Roth contributions and earnings if they are distributed prior to age 59½.
- d. Participants may make both traditional 401(k) and Roth 401(k) contributions, but the combined contributions cannot exceed the Internal Revenue Service's annual maximum deferral limit.
- e. The ADP nondiscrimination test that applies to traditional 401(k) plans is also required in Roth 401(k) plans.
- f. It is not necessary for a plan to have a designated Roth option available in order for it to allow an in-plan rollover.
- g. Roth accounts must allow for designated Roth deferrals and rollover contributions.
- h. An in-plan rollover can include only amounts that are eligible to be distributed to the participant.
- i. Only investment earnings on rolled-over 401(k) contributions within a plan are taxable.

Now turn to page 4 to compare your answers. ■

Pension Plan Limitations for 2013

401(k) Maximum Participant Deferral	\$17,500* <i>(*\$23,000 for those age 50 or over, if plan permits)</i>
Defined Contribution Maximum Annual Addition	\$51,000
Highly Compensated Employee Threshold	\$115,000
Annual Compensation Limit	\$255,000

Target Date Funds in the News

DOL Issues Tips

The Department of Labor (DOL) recently issued general guidance to help plan fiduciaries select and monitor target date funds offered in 401(k) and similar participant-directed individual account plans.

The bulletin, *Tips for ERISA Plan Fiduciaries*, offers a summary of the nature and purposes of a target date fund. It also includes points to remember when choosing and periodically reviewing these funds, and provides tips on understanding the fund's investments and how they will change over time.

The DOL's tips are at <http://tinyurl.com/DOLTipsAboutTDFs>.

Usage Continues to Grow

At year-end 2012, 84% of plans that Vanguard provides recordkeeping for offered a target date fund (TDF). Half of all participants had invested in these funds, and nearly one-third of total plan contributions went to TDFs. Below are some of the results of Vanguard's review of 3.2 million participants in 2,000 defined contribution plans.

In 2012, about 27% of participants were invested in a single TDF. Of new plan entrants, 65% held just one.

Only 13% of plans offered TDFs in 2004; by 2012, that had risen to 84%.

Total plan assets in TDFs were 17% at the end of last year (compared to 1% in 2005), and 31% of contributions went to TDFs (versus 2% in 2005).

Vanguard researchers concluded that three factors support the growing popularity of TDFs among plans and participants:

- They offer a simplified approach to investment decision-making and the process of assembling a portfolio.
- Automatic enrollment continues to grow.
- TDFs are frequently designated as a qualified default investment alternative).

Vanguard's Research Note, *Target Date Fund Adoption in 2012*, is at <http://tinyurl.com/TargetDateFunds2012>. ■

Do you need to select an auditor for your plan? If so, the Department of Labor has a helpful "Selecting an Auditor" section on its website. It describes what to consider in choosing an auditor, what you should know about the audit and how to review the audit report. For guidance visit <http://tinyurl.com/DOLSelectingPlanAuditor>.

Answers to Roth 401(k) Rules Quiz on page 2

- a. False.** Roth 401(k)s do not limit participation by income.
- b. True,** if the distribution is “qualified” (when or after the participant reaches age 59½, on or after the participant’s death, or if the participant becomes disabled, and the participant’s first Roth contribution was made five or more years earlier).
- c. False.** The 10% tax penalty applies only if the distribution is not “qualified.” It is calculated only on the earnings.
- d. True.**
- e. True.** Roth contributions are considered elective deferrals for the ADP test, but are generally not subject to the ACP test.
- f. False.** There must be a Roth account provision in place before an in-plan rollover can be offered.
- g. True.**
- h. False.** The American Taxpayer Relief Act of 2012, effective January 1, 2013, removed the requirement that rollovers within the plan can consist solely of amounts that are eligible for distribution to the participant.
- i. False.** Because pre-tax dollars are being rolled into an after-tax Roth account in an in-plan rollover, the entire taxable amount, not just earnings, is included in the participant’s gross income. ■

Web Resources for Plan Sponsors

Internal Revenue Service, Employee Plans	irs.gov/ep
Department of Labor, Employee Benefits Security Administration	dol.gov/ebsa
401(k) Help Center	401khelpcenter.com
<i>Plan Sponsor Magazine</i>	plansponsor.com
BenefitsLink	benefitslink.com
Profit Sharing/401(k) Council of America	psca.org
Employee Benefits Institute of America, Inc.	ebia.com
Employee Benefit Research Institute	ebri.org

Plan Sponsor’s Quarterly Calendar

July

- Conduct a review of second quarter payroll and plan deposit dates to ensure compliance with the Department of Labor’s rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between April 1 and June 30 received and returned an enrollment form. Follow up for forms that were not returned.
- Ensure that the plan’s Form 5500 is submitted by July 31, unless an extension of time to file applies. (Calendar year plans)

August

- Begin preparing for the distribution of the plan’s Summary Annual Report to participants and beneficiaries by September 30, unless a Form 5500 extension of time to file applies. (Calendar year plans)
- Submit employee census and payroll data to the plan’s recordkeeper for mid-year compliance testing. (Calendar year plans)
- Confirm that participants who terminated employment between January 1 and June 30 elected a distribution option for their plan account balance and returned their election form. Contact those whose forms were not received.

September

- Send a reminder memo or e-mail to all employees to encourage them to review and update, if necessary, their beneficiary designations for all benefit plans.
- Begin preparing the applicable safe harbor notices to employees, and plan for distribution of the notices between October 2 and December 2. (Calendar year plans)
- Distribute the plan’s Summary Annual Report by September 30 to participants and beneficiaries, unless an extension of time to file Form 5500 applies. (Calendar year plans)

Consult your plan’s financial, legal or tax advisor regarding these and other items that may apply to your plan.

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