

Retirement Report

News and updates for plan sponsors and fiduciaries of defined contribution plans



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2012 Plan Limits Reminder

Last October the Internal Revenue Service announced cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for 2012. In general, many of the pension plan limitations will change for 2012 because the increase in the cost-of-living index met the statutory thresholds that trigger their adjustment. However, other limitations will remain unchanged. For more information about retirement plan limits, please contact Independent Benefit Services, or visit www.irs.gov/retirement.

Plan Limits for Plan Year	2012	2011
401(k), 403(b), 457 Plan Deferral Limit	\$17,000	\$16,500
Catch-Up Contribution Limit	\$5,500	\$5,500
Compensation Limit	\$250,000	\$245,000
Defined Contribution Limit	\$50,000	\$49,000
Defined Benefit Limit	\$200,000	\$195,000
Key Employee Officer	\$165,000	\$160,000
Definition of Highly Compensated Employee	\$115,000	\$110,000
Social Security Wage Base	\$110,100	\$106,800

Locating Missing Participants

At one time or another all plan sponsors will likely be in the position of having to locate missing participants. This may be related to delivery of regulatory required communications, distributing of assets, or communicating fund changes to active and/or terminated participants. If the delivery of necessary communications is encumbered because a participant cannot be located there exists a fiduciary requirement to perform a “reasonable search” for this “missing” participant. There are various search methods that would be considered as reasonable good faith efforts, including:

- Certified Mail (with a return receipt) to the last known address;
- Checking records of other benefit plans (i.e., employer provided health plan);
- Using the IRS or SSA letter forwarding program;
- Engaging a commercial locator service (such as www.unclaimedretirementbenefits.com); and
- Using internet search tools.

In the event that your plan allows cash-out distributions on terminated participants with account balances under \$1,000, or rollover to IRA for balances between \$1,000 and \$5,000, be sure to check the provisions described in the plan document. Typically a rollover to an IRA on behalf of these participants can be accomplished for participants deemed to be missing. For more information on this topic please contact Independent Benefit Services.

The Three Stages of Rebuilding

Over the past few years participants have seen widely varied results in their retirement plans. First we saw tremendous drops in values, most notably in the fourth quarter of 2008. Much of 2009 experienced a rebound effect, with more volatility in both 2010 and 2011. This volatility has led participants to a point of confusion as to what they should do next. Following is a summary of the three stages of rebuilding:



- **Stage 1: Emotional to Rational.** For years participants invested with their emotions. This often led to increased risk by participants that wanted to make sure they were “getting their share” when the markets were strong. In some cases it also led to pulling out of the market well after they had dropped in value. In either case the investment decision was based on emotion and not on realistic goals for their future. Step one is for participants to set rational goals and understand and use the types of investments that can assist them.
- **Stage 2: Inertia to Action.** For too many participants the only thing they will ever do is complete an enrollment and withdrawal form during their careers. They feel they have no control over, or understanding of, their account. It's important to remind them of their ability to choose, monitor and change their account. Original investments might need to be rebalanced or changed to something more appropriate. Participants need to take a more active role, for example sitting down with a financial professional for assistance.
- **Stage 3: Short-term to Long-term.** Those participants who do take an active role often spend too much time on short-term issues, such as market movement and economic indicators. If participants focused on long-term goals they could position themselves to take advantage of shorter term volatility. Thus a 30 year old investor who experiences a fund that drops 10 to 20 percent in value, may view it as a dollar cost averaging opportunity, instead of a reason to change strategy. Markets are always differing in their respective performance, but a long-term investment strategy can help build a pool of mutual fund shares that take advantage of market movement.

Perhaps the most effective way to communicate with employees about these phases is through education. Group meetings can spark interest, followed by an opportunity to meet with a financial professional on an individual basis. Contact Independent Benefit Services for details.

Are You Monitoring Your Forfeiture Account?

Qualified plans have a requirement to not carry forward any unallocated assets from year-to-year. Unfortunately, this rule is frequently neglected by plan sponsors, much to their chagrin when the failure is discovered on audit by the IRS or Department of Labor (DOL). Thus, it is important to remember that forfeitures must be allocated on an annual basis.

The process is typically determined per the provisions in your plan document, or by plan procedures. Forfeitures should not be held over from year-to-year; if they remain accidentally unallocated, complications can result. On audit it is not uncommon for the regulatory agencies to require a plan sponsor to retroactively determine who should have received allocations on a year-by-year basis. Once those retroactive allocations have been made, the regulatory agencies typically require the plan sponsor come out of corporate pocket for earnings on all retroactively allocated amounts. This is not only a monetary burden, but an administrative burden as well due to the fact that fiduciaries must find participants who may have terminated, because they were due these allocations (and earnings) as well as participants who remain active. For questions on this topic, contact Independent Benefit Services.

Communication Corner: Highly Compensated Employee Refund Notice

This month's sample participant communication memo is intended for the highly compensated employees (HCEs) in your plan who may be subject to a refund in 2012 due to failed ADP or ACP tests. Email michelek@iben.com for a copy that you can print and distribute to employees.

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