

PERSPECTIVES

ON EMPLOYEE BENEFITS

Rollovers from Other Employer Plans

Some retirement plan sponsors have concerns about accepting rollovers from other types of plans — for example, a 401(k) plan accepting a rollover from a 403(b) plan — because the sponsors fear losing their plan’s tax-exempt status if they mistakenly accept an invalid rollover. If you’re uncertain about accepting rollovers, the following should help.

Generally, if your plan’s provisions permit rollovers, you can accept rollovers from a variety of other employer plans (see table below). However, if the employee requesting the rollover has any designated Roth account contributions and earnings in his or her former employer’s plan, these amounts can be rolled over to your plan only if it has a Roth feature. Rollovers of designated Roth account amounts must be accomplished through a direct rollover. Various other requirements apply.

Advantages and Cautions

Accepting rollovers can have advantages. For instance, it may make your plan more attractive to

prospective hires and help you recruit qualified employees. However, you should take precautions to avoid having a rollover contribution considered an after-tax contribution subject to nondiscrimination testing and counted as an annual addition to the employee’s plan account.

Verify that your employee’s rollover is from an eligible plan (again, see table below). And, if the funds aren’t directly transferred to your plan from the employee’s former plan, make sure the rollover was made in a timely manner. An indirect rollover must be made within 60 days of the date the employee receives the distribution from the former plan.

Please contact us if you have additional questions about accepting rollovers from other retirement plans. ▼

Plan Rollovers at a Glance	Rolling distribution to			
	401(k)/qualified plan ¹ (pretax)	Roth 401(k)	Traditional IRA	Roth IRA
401(k) and other qualified plans ¹ (pretax)	Yes	Yes ^{2&3}	Yes	Yes ³
403(b) (pretax)	Yes	No	Yes	Yes ³
Governmental 457(b) (pretax)	Yes	No	Yes	Yes ³
Designated Roth account (401(k), 403(b), or 457(b))	No	Yes ⁴	No	Yes
SIMPLE IRA	Yes, after 2 years	No	Yes, after 2 years	Yes, ³ after 2 years
SEP-IRA	Yes	No	Yes	Yes ³

¹ Profit sharing, money purchase, defined benefit plans ² Must be an in-plan rollover ³ Must include in income ⁴ Must be a direct trustee-to-trustee transfer
Source: IRS

Is Employee Education Passé?

No doubt about it. More and more employers are incorporating automatic enrollment and investment features into their retirement savings plans. Does this mean employee investment education will become a thing of the past?

Not likely. No matter how many automatic features your plan adopts, your employees will always have a choice: to join or not to join the plan. Providing them with financial education may help them make the right choice. If they're knowledgeable, there's a better chance they'll see the value of participating in your plan and feel empowered to make the most of the benefit you're providing.

Education and Participation

The majority of employers look at employee education as a way to improve overall plan participation. In the Profit Sharing/401(k) Council of America's (PSCA) most recent annual survey,* 78.6% of the employers surveyed said one of the reasons they offer employee education is to increase participation. About 30% said increasing participation is the primary reason they offer educational information. Some of the other reasons employers give for employee education are to increase appreciation for the plan, to increase deferrals, to improve asset allocation, to introduce plan changes, and to reduce fiduciary liability.

Educational Materials

The most common types of educational materials these sponsors use are enrollment kits, in-person

Types of Educational Materials Plan Sponsors Use	(% of sponsors)
Individually targeted communication	40.4%
Fund performance sheets	44.0%
Newsletters	48.9%
E-mail	52.5%
Internet/intranet sites	59.3%
In-person seminars/workshops	63.5%
Enrollment kits	70.2%

Source: PSCA's 54th Annual Survey of Profit Sharing and 401(k) Plans

seminars/workshops, Internet/intranet sites, e-mail, newsletters, fund performance sheets, and individually targeted communication (see chart).

Most of the employers (66.4%) rely on their current plan providers for employee retirement education. Other sources used by the sponsors surveyed include third-party retirement education (20.7%) and advice (35.0%) firms. Slightly more than a third of plan sponsors create their own education programs. ▼

* PSCA's 54th Annual Survey of Profit Sharing and 401(k) Plans (for the 2010 plan year)

2012 Inflation-adjusted Plan Limitations

The IRS has announced the 2012 cost-of-living adjustments for plan limitations. As you can see below, after essentially remaining the same for an unprecedented three years, most of the limitations have risen due to inflation.

	2012	2011
Defined contribution plan dollar limit on annual additions	\$50,000	\$49,000
Defined benefit plan limit on annual benefits	\$200,000	\$195,000
Maximum annual compensation used to determine benefits or contributions	\$250,000	\$245,000
401(k), 403(b), and 457 plan deferrals/catch-up	\$17,000/\$5,500	\$16,500/\$5,500
SIMPLE deferrals/catch-up	\$11,500/\$2,500	\$11,500/\$2,500
IRA contribution/catch-up	\$5,000/\$1,000	\$5,000/\$1,000
Dollar limit used to define highly compensated employee	\$115,000	\$110,000
Compensation limitation defining key employee (officer) for top-heavy plans	\$165,000	\$160,000
Social Security taxable wage base	\$110,100	\$106,800

Could Your 401(k) Plan Better Meet Your Business' Needs?

The beginning of the year is a popular time for employers to review their retirement plans for compliance and effectiveness. This year, when you're evaluating your 401(k) plan, you may want to consider how, in addition to giving your employees a way to save for retirement, the plan could be used to improve your business' bottom line.

Consider whether your business is taking full advantage of the basic benefits of sponsoring a retirement plan or if modifying your plan's design could make it more valuable to the company. Employers generally sponsor retirement plans to help them recruit and retain qualified employees and for the tax advantages. Here are some business goals your plan might help you accomplish.

Protect Profits for Key Employees

Professional service firms and small businesses, in particular, may want to look at optimizing the plan's ability to accumulate capital for certain key employees and owners/stockholders in a tax-deferred and cost-effective manner. One way is to make sure that the total plan administrative costs, including employer contributions, are less than the income and FICA taxes that would be due on those contributions if paid as compensation. The fact that plan account balances are protected in bankruptcy is an added benefit for this group of employees.

"Using plan features to retain managers and trained employees can help maintain productivity levels."

Cut Training Costs

Has your business incurred high training costs due to turnover of managers or other skilled personnel who aren't viewed as "highly compensated" under the tax law? Use your 401(k) plan as a retention tool. One idea: Add a profit sharing feature to your plan that covers only these employees. Using a three-year cliff vesting schedule (100% vesting after three years) for the profit sharing contributions may help limit your training costs by lowering turnover and, thus, lessening the need for training. The plan could also allow withdrawal of the funds once they'd vested as an added retention incentive.

Increase Productivity

A management change often causes productivity to drop — sometimes significantly — while employees

familiarize themselves with the new manager and his or her expectations. Bringing in a new employee at any level can decrease productivity temporarily while that employee learns the job. Using plan features to retain managers and trained employees can help maintain productivity levels.

Including plan features that employees want, such as a variety of investment options to choose from and investment tools, education, and assistance to help them plan for retirement, can increase productivity. Employees who are happy with their jobs and appreciate their benefits generally are more committed to their employer and more productive in their work.

As a plan sponsor, you can foster commitment and productivity by regularly providing employees with plan information and financial education. Providing regular communication about benefits can sometimes increase commitment almost as much as the benefits themselves. Employees feel you, the employer, care about their future.

Improve Customer Satisfaction

Happy employees usually provide better service and leave customers more satisfied. In addition to using your 401(k) plan to generally improve work force morale, you might want to consider taking specific steps to tie the plan to customer satisfaction. For example, you might tie profit sharing contributions or discretionary employer matching contributions to feedback you receive from periodic surveys of your customers. You might engage employees by conducting meetings to update them on customer satisfaction and expected contributions.

Of course, every employer's needs are different. We would be happy to review your plan with you and discuss ideas for using it to accomplish specific business objectives. ▼

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► Benefit Notes

Automatic Enrollment Update

From the recently released Profit Sharing/401(k) Council of America's *54th Annual Survey of Profit Sharing and 401(k) Plans*: 41.8% of the plans responding to the survey had an automatic enrollment feature in 2010, up from 38.4% in 2009. (The survey uses 2010 plan year experience.) Of those plans, 82.3% use the feature with new hires only. The most common default deferral rate was 3%, and target date funds were the most common default investment option used.

403(b) Compliance Project

The IRS Employee Plans Compliance Unit has launched a compliance project focused on 403(b) plans sponsored by higher education organizations. More than 300 academies, colleges, universities, and other collegiate-level organizations were sent a questionnaire asking how they are complying with the universal availability rules requiring that all employees (with limited exclusions) have the ability to contribute elective deferrals to a 403(b) plan. The organizations are also asked questions designed to determine whether they have been in compliance with the "written plan document requirement" introduced by the final 403(b) regulations. The IRS will issue closing letters to organizations that appear compliant and assist

those that are not by providing recommended correction methods. Organizations that fail to respond could be subject to a plan examination.

People Working Longer

The recent recession has forced more U.S. workers to delay retirement, according to a report by The Conference Board. And the impact has been greater in some industries, such as health and construction, than in others. Employees in higher paying occupations were much more likely to delay retirement than those in low-paying positions, many of whom may have been forced into retirement by the recession and lack of employment opportunities. Being aware of employment/retirement trends may help you with your employee benefit and work force planning. ▼

CAN WE HELP?

Our firm offers a broad range of employee benefit plan services. If we can be of service to you, please call.