Shannon & Associates LLP
Certified Public Accountants
Management Consultants

Employee Benefit Advisor

COMMITTED TO YOUR SUCCESS

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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 plans 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.

IN THIS ISSUE

Plan Rollovers at a Glance	Rolling distribution to			
Rolling distribution from	401 (k)/ qualified plan	Roth 401(k)	Traditional IRA	Roth IRA
401(k) and other qualified plans (pretax)	Yes	Yes	Yes	Yes
403(b) (pretax)	Yes	No	Yes	Yes
Governmental 457(b) (pretax)	Yes	No	Yes	Yes
Designated Roth account (401(k), 403(b), or 457(b))	No	Yes	No	Yes
Simple IRA	Yes, after 2 years	No	Yes, after 2 years	Yes, after 2 years
SEP-IRA	Yes	No	Yes	Yes

Is Employee Education Passe?

No doubt about it. More amd 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 employees 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 seminars/workshops, Internet/intranet sites, email, 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%) firms. Slightly more than a third of plan sponsors create their own educational programs.

Types of Educational Materials Plan Sponsors Use	(% of sponsors)
Individually targeted communication	40.4%
Fund performance sheets	44%
Newsletters	48.9%
Email	52.5%
Internet/intranet sites	59.3%
In-person seminars/workshops	63.5%
Enrollment kits	70.2%

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% used 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 availablility rules requiring that all employees (with limited exclusions) have the ability to contribute elective deferrals to a 403(b) plan. The organizations 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.

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's bottom line.

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.

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 by lowering turnover and, thus, lessening the need for training costs. The plan could also allow withdrawal of the funds once they had 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 decease 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 themselvese 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.

Julie Courtney, CPA, Partner, our Director of Accounting and Auditing for Shannon & Associates, is in charge of the firm's employee benefit plan audit practice. Julie is involved in all aspects of the audits we perform as well as plan consulting and advisory services.

- Julie has over 18 years of public accounting experience. Her areas of expertise include benefit plan and financial audits and financial reporting. Her responsibilities include advising closely-held businesses, internal control review, and various tax engagements. She also assists in quality control and staff training for the firm. Julie has over 11 years of experience in the employee benefit plan audit area and she attends the AICPA National Conference on Benefit Plans annually. She has served clients in many industries including the following: manufacturing, non-profit organizations, real estate development, wholesale distributors, restaurant, construction (home builders), and professional services. Julie holds a Bachelor of Arts degree in Accounting from Western Washington University.

Bethany Hulbert, CPC, our Employee Benefits Consultant, has over 9 years experience specializing in defined contribution plan administration and holds the Certified Pension Consultant (CPC) credentiol from the American Society of Pension Professionals and Actuaries (ASPPA). This experience, along with her educational background in accounting and attendance at numerous seminars and courses, has resulted in an up-to-date mastery in profit sharing, 401(k), and money purchase pension plans. We encourage you to contact Bethany regarding any questions you may have with your defined contribution plans.

Bethany provides expert and timely services in the following areas:

- Plan document design, implementation and submission to the IRS
- Employee communications
- All aspects of plan administration
- Evaluation of controlled groups and related businesses
- Discrimination/coverage testing and solutions
- Compliance with all reporting required by the IRS and DOL
- Minimum required distributions
- Qualified domestic relations orders

CAN WE HELP?

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

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