

Best Practices for Administering Auto Enrollment Plans



JJ McKinney, CPC, ERPA, QPA, QKA
Principal/Chief Operations Officer
Retirement Strategies, Inc.

Best Practices for Administering Auto Enrollment Plans

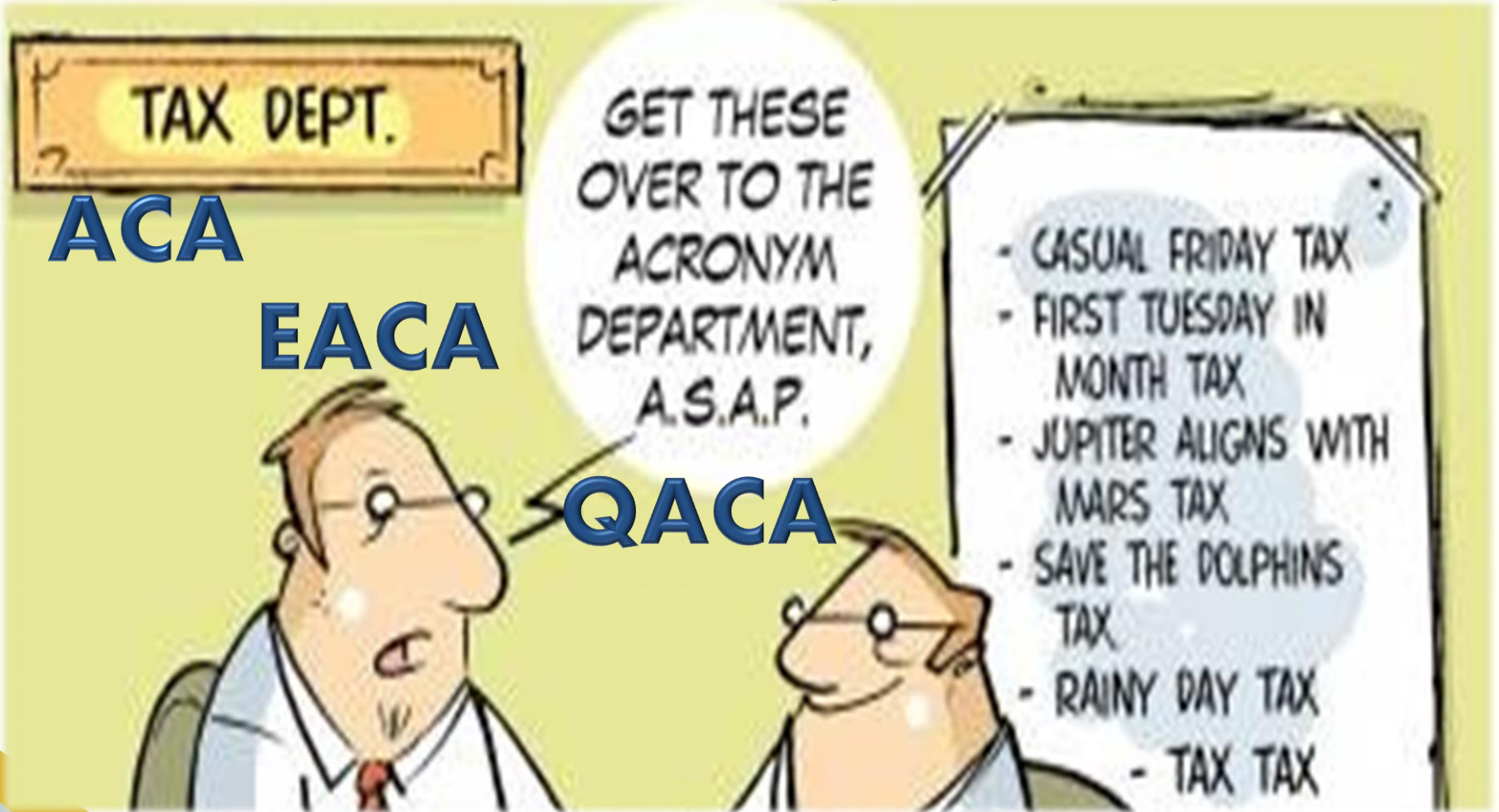
Designs & Features

Hazards & Fixes

Consultants' Craft



Design



A glass of red wine is on the left, and a slice of blue cheese is on a fork on the right. The background is green with a white and blue curved border at the top right and a yellow and green curved border at the bottom left.

Design
401(k)
403(b)
sar-sep
simple ira
457(b) governmental

Features



Default Percentage



Eligibility & Entry

QDIA



Auto Escalation

Re-enrollment



Safe Harbor



Notice

No-Foul Distribution

ER Contributions



Why

Retirement Success

Fight Apathy

Increase Participation

Easy Button

Improve Testing



Why Not

Default Investments

Administrative Burdens

Default Contribution

Will It Succeed?

Cost – Contributions/Administration

Hazards

Wage Garnishment

Fiduciary Liability

Vendor Limitations

Sponsor Limitations

Small Balances

Pension-Administrator Limitations

Missed Deferrals/Defaults

Hazards

Wage
Garnish

Small
Balances

Fiduciary
Liability

PPA

Missed Deferral

Service Provider & Sponsor Limitations

Hazards-Missed Deferral

Rev. Proc. 2013-12 = 50% QNEC

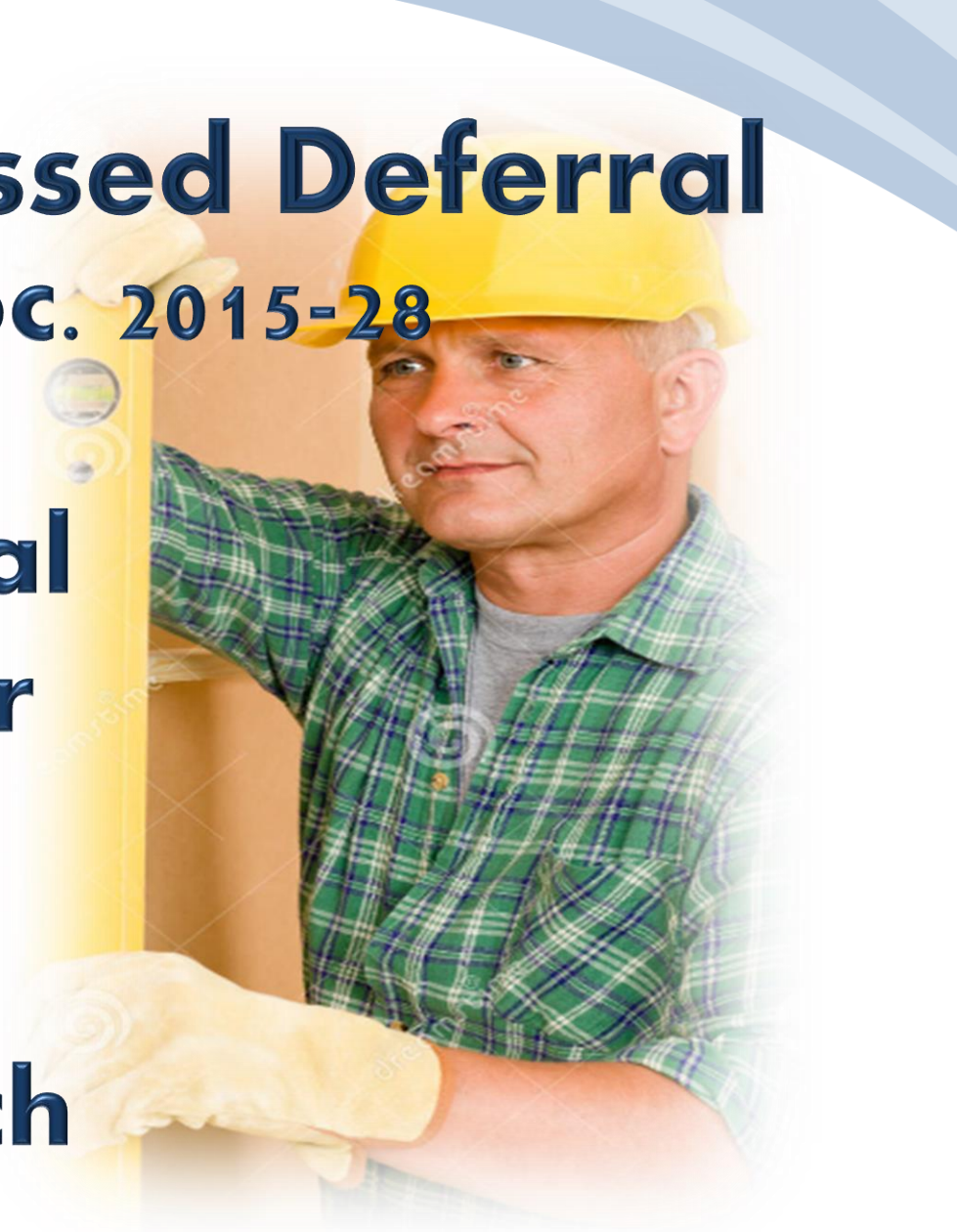
Rev. Proc. 2015-28

Consistent with ASPPA GAC / Cl(k)R
Comment Letter Sept. 19, 2012

Hazards-Missed Deferral

Rev. Proc. 2015-28

1. **Start Deferral**
 - a) **EE Discover**
 - b) **Other**
2. **Notice**
3. **Missed Match**



Example-Missed Deferral

Wee Missed Toddler Care

Fact Pattern:

- Immediate entry with 5% default, annual re-enrollment
- 25% up to 5% match
- Target Date Portfolios Only – QDIA 5% return over period
- Semi-monthly pay dates 1st & 15th



Example-Missed Deferral

Wee Missed Toddler Care

Fact Pattern (cont.):

- **Marianne – notifies WMTC 11/1 missed since 5/15 (\$1,000/pp)**
- **Ginger – notifies WMTC 11/1 missed since 2/1 (\$1,500/pp)**
- **Diane – affirmative election 1/1 6% of pay (\$1,200/pp)**
- **Carla – affirmative election 9/1 10% of pay (\$1,300/pp)**



Example-Missed Deferral

Wee Missed Toddler Care

Correction Rev. Proc. 2015-28:

		Employer Correction				
		Totals	Contribution	Earnings	Total	
Marianne	Compensation	\$15,000				
	Correct Deferrals	\$750	\$0	\$0	\$0	Start Deferrals no Later than 1/1/2016
	Associated Match	\$195	\$195	\$6	\$201	
Ginger	Compensation	\$33,000				
	Correct Deferrals	\$1,650	\$0	\$0	\$0	Start Deferrals no Later than 1/1/2016
	Associated Match	\$418	\$418	\$19	\$437	
Diane	Compensation	\$28,800				
	Correct Deferrals	\$1,728	\$432	\$22	\$454	Start Deferrals no Later than 10/15/2016
	Associated Match	\$360	\$330	\$17	\$347	Sooner deferrals start lower QNEC Cost
Carla	Compensation	\$10,400				
	Correct Deferrals	\$624	\$156	\$3	\$159	Start Deferrals no Later than 10/15/2016
	Associated Match	\$128	\$128	\$2	\$130	Sooner deferrals start lower QNEC Cost

Decisions, Decisions

Who to Autoenroll?

Default Rate?

Auto Escalate?

Eligibility requirements?

Employer Contribution?

Logistics?

How to Roll Out?

Who can help us?

How a Plan Comes Together

**Investment
Consultant**

**Recordkeeper/Technology
/Education**

**ERISA
Consultant**



**Willing
Sponsor**



**The Willing Sponsor
Invites Expertise**

**Wants Help
Trusts Consultants**

Follows Recommendations

Recordkeeper/Technology/Education

Data Limitations?

Calculations?

Bundle?
Notices?

Enrollers?

Investment Consultant

Gatekeeper

Introductions

'Focus Efforts

*Supplement Participant
Education*



Pension Administrator ERISA Consultant

Diagnose

Design

Test

3(16)?

A woman with brown hair in a bun is shown in profile, looking thoughtful with her hand to her chin. Above her head is a large thought bubble containing a glowing lightbulb with rays emanating from it, symbolizing an idea or case study. The background is a soft, out-of-focus grey.

Case Studies

Case Study One

Thirsty's Beverage Co. Inc.



Fact Pattern:

- Family owned, son taking over
- Parents staying on payroll \$50k/year
- Added 401(k) two years ago – dismal uptake
- Typical ER = 5 percent of pay (\$140k - \$160k over last five years)

Case Study One

Thirsty's Beverage Co., Inc.

Fact Pattern (cont.):

- **Key elig comp last five = \$400k-\$450k**
- **Current key = \$365k**
- **Staff elig comp = \$1.3 - \$1.6 M**
- **Average staff tenure = 12 years**
- **No HCEs defer, NHCE Rate = 0.135%**



Case Study One

Thirsty's Beverage Co.. Inc.



Recommendations

- **Keep age 21, one YOS, dual entry**
- **EACA, default 6 percent**
- **Annual re-enrollment**
- **Grouping allocation method**



Case Study Two

IM IT, PC 401(k) Plan



Fact Pattern:

- IT staffing firm with 80% working on client's site
- Average contract 28 months
- Plan as talent retention tool
- Husband & wife own 50/50, each make in excess of 401(a)(17)

Case Study Two

IM IT, PC 401(k) Plan



Fact Pattern (cont.):

- **One MOS – deferrals, 1 YOS match**
- **Entry 1/1 & 7/1 for all**
- **30/75 participate, HCE refunds**
- **Match three of last four years, 500 hour req., last day req., 50% to 3%**

Case Study Two

IM IT, PC 401(k) Plan

Recommendations



- **One MOS – deferrals & match**
- **Quarterly entry**
- **Default 6 percent**
- **Match pay period 25% to 6%**
- **Future work towards QACA**

Case Study Three

Got A Light? Engineers, Inc.



Fact Pattern:

- **Paternalistic 401(k) with pro-rata profit sharing**
- **Seven partners, 150 staff (22 HCE)**
- **Grow by ten EE per year**
- **Last five years PS range \$300k - \$190k, 2% - 1.35% of pay (declining)**

Case Study Three

Got A Light? Engineers, Inc.



Fact Pattern (cont.):

- **Age 21, 6 months, quarterly**
- **Immediate vesting**
- **PS slowing 401(k)**
- **Willing to commit HR resources**

Case Study Three

Got A Light? Engineers, Inc.



Fact Pattern (cont.):

- Request (1) design to fit \$200k - \$250k ER budget
- Request (2) design w/o budget limitation
- Partner elig comp \$1,855,000
- HC staff elig comp \$3,438,000
- NHC elig comp \$8,964,000

Case Study Three

Got A Light? Engineers, Inc.



Recommendations

Budget Conscious:

- Immediate entry EACA 6 percent, ground swell enroll
- Match 25% to 4% each pay
- \$100,000+ discretionary PS, last day 1,000 hour
- Grouping allocation method



Case Study Three

Got A Light? Engineers, Inc.



Recommendations

No Budget:

- Immediate entry QACA 6 percent, ground swell enroll
- QACA Match
- Discretionary PS, last day 1,000 hour
- Grouping allocation method



Case Study Four

Stick Out Your Tongue Consolidated

Fact Pattern:

- Consortium of general medical practices
- Add three to four practices annually
- 401(k) with match
- History of miscalculations, late contributions, missed enrollments, etc.

Case Study Four

Stick Out Your Tongue Consolidated

- **New VP HR – priority to “fix” the plan**
- **Currently bundled arrangement**
- **Consulting engagement**

Case Study Four

Stick Out Your Tongue Consolidated



Recommendations

3(16) Opportunity!

- Introduce advisor – investment/platform selection
- Recordkeeper



Case Study Four

Stick Out Your Tongue Consolidated



Recommendations

3(16) Opportunity!

- **Work directly with payroll provider to gather full census each pay**
- **Run calculations, review census**
- **Upload to recordkeeper**

Case Study Four

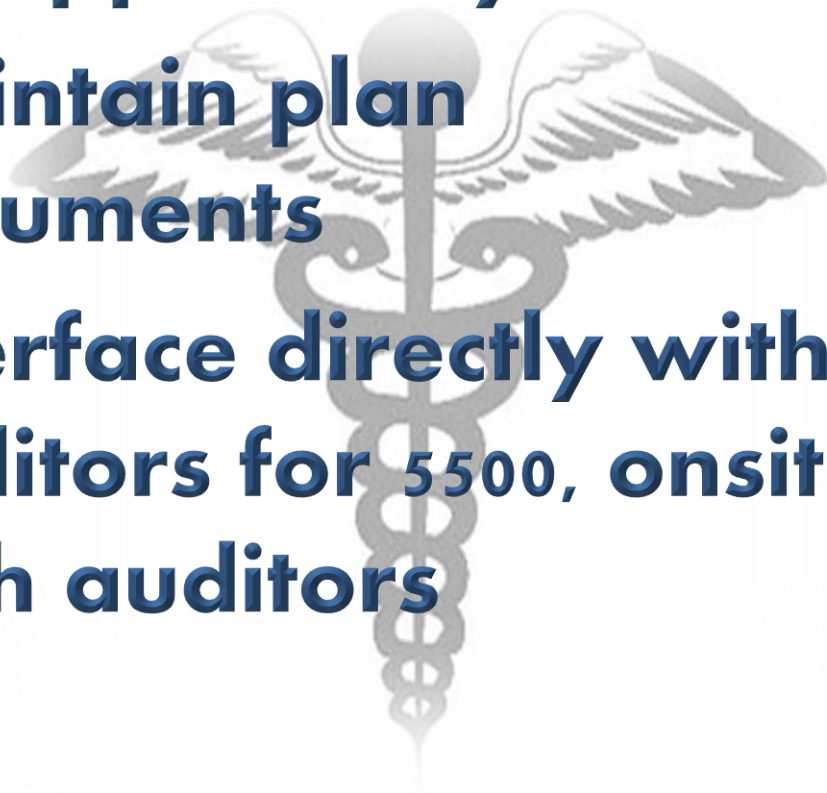
Stick Out Your Tongue Consolidated



Recommendations

3(16) Opportunity!

- **Maintain plan documents**
- **Interface directly with auditors for 5500, onsite with auditors**



Case Study Four

Stick Out Your Tongue Consolidated



Recommendations

- **Three MOS, monthly entry**
- **Service based match from hire or acquisition of group whichever later**
- **Three-year tiers (billable BRF)**
 - **0-3: 25% to 8%**
 - **4-6: 50% to 8%**
 - **7-9: 75% to 8%**
 - **10+: 100% to 8%**

Questions?