

# REPTECH Report

Issue 55

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## Quarterly Quotes

*Boomer withdrawals from tax-deferred accounts “are likely to increase income tax receipts by about 0.25 percent of GDP over the next 25 years, and twice that amount by the end of 75 years.”*

*2008 Economic Report of the President, Page 120*

<http://www.gpoaccess.gov/eop/index.html>



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## Phasing in the Final 415 Regs

You have to love the predictability of pension laws. To borrow a line from Bob Dylan, those laws, “They are a-changin’.”

In April 2007, the IRS released Final 415 Regulations, which affect every qualified plan. Pursuant to IRS procedures, all plans must be amended to conform with these regulations. Briefly:

**Purpose:** The regulations modify compensation used for applying the 415 limit, determining highly compensated employees, applying top-heavy provisions and deferral compensation.

**Timing Rules:** Two timing rules govern the determination of compensation for the 415 limit.

- ⇒ First, to be treated as 415 compensation for a particular year, in general, the compensation must be paid or made available to the employee within the year. Exception: the “first few weeks rule.”
- ⇒ Second, to be treated as 415 compensation for any limitation year, the compensation must be paid or made available to the employee prior to severance of employment. Exception: the “post-severance rules.”

**First Few Weeks Rule:** Under this rule, the plan may provide that compensation

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## Recap: Time to Restate Documents

To reiterate from our October 2007 issue:

- Watch for us. Very soon, we’ll contact you about the amendment and restatement of your prototype or volume submitter plan.
- This is necessary to implement

parts of the Economic Growth and Tax Reconciliation Act of 2001 (EGTRRA), which substantially changed pension laws.

- The last time we completely restated REPTECH clients’ documents

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# Industry Weighing In on QDIA

What could be more harmless than the new qualified default investment alternative (QDIA)? Plan sponsors have two words for that: A lot.

Effective in December, QDIA clarified protections for fiduciaries who invest funds for a plan's auto-enrolled participants.

QDIA evolved from the Pension Protection Act of 2006 (PPA), part of which, the U.S. Department of Labor says, removed impediments that "prevented many employers from adopting automatic enrollment, or led them to invest workers' contributions in low-risk, low-return 'default' investments." PPA charged DOL with devising a regulation that would help employers select those default investments. In the end, that included fiduciary protections.



Enter QDIA. According to the Government Accountability Office, DOL received more than 120 responses to its initial September 2006 QDIA proposal, before issuing the final version in October 2007.

Among the final version's provisions: To achieve the safe harbor protection, fiduciaries must invest the assets in QDIAs. Three acceptable types of funds: lifecycle funds; balanced funds; and managed account services.

*'DOL received more than 120 responses to its initial ... proposal.'*

The regs also require that fiduciaries offer participants and beneficiaries a chance to direct the investment, and furnish a notice to participants and beneficiaries before the initial investment — followed by annual notices.

Also mandated: regular prospectuses and a quarterly chance to direct funds out of the QDIA. Finally, QDIA limits fees and mandates a "broad range of investment alternatives," DOL notes.

Questions arise, though, on several points:

- The regulation grandfathers existing investments that are in QDIA-type funds, but any defaults after the Dec. 24, 2007, effective date must go into a QDIA for the fiduciaries to receive the desired protection.
- New default investments can go into a short-term money market for up to 120 days, but then must go into a long-term QDIA that conforms with one of the three approved approaches. The problem with this solution is administrative. Who will be monitoring the required transition? This will likely cause mistakes, and we do not recommend this bifurcated approach.

Also under scrutiny are the exact dates for QDIA notices, timing of defaults, the status of a participant's future undirected funds, and the limited options in the QDIA regulations.

The DOL reportedly is devising an assistive Q&A document. We will keep you posted.

## Amendment Mode: 415s set to start

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for the limitation year includes amounts earned but not paid during the limitation year, as long as it is solely because of the timing of pay periods and pay dates, provided:

- The employer pays the amounts during the “first few weeks” of the next limitation year;
- The plan included amounts on a uniform and consistent basis for similarly situated employees; and
- The plan does not include

compensation in more than one limitation year.

**Post-Severance Compensation Categories:** The final regulations identify five types of compensation paid after severance from employment, which the plan must or may treat as 415 compensation:

- Regular pay or other compensation for services (mandatory);
- Leave cash-outs (optional);
- Certain nonqualified, unfunded, deferred compensation

plan payments (optional);

- Military service continuation payments (optional); and
- Certain disability payments (optional).

Watch for the 415 Regulation Amendment, which incorporates language to help your plan conform. REPTECH will send those before March 15, 2008, with instructions, a Summary of Material Modifications and a Consent form.

## BLS: Workers favor retirement over health benes

Check out the Bureau of Labor Statistics' National Compensation: Employee Benefits in Private Industry.

Among the 2007 report's findings:

- ◇ “More workers had access to medical plans (71 percent) than to retirement plans (61 percent), but workers were

more likely to participate in the latter.”

- ◇ More large companies — those with 100+ employees — offered defined benefit plans (33% compared with 10% of smaller companies).
- ◇ Small companies made a bigger showing with defined con-

tribution plans. A solid 42% offered one, compared with 82% of larger employers.

Peruse the 2007 report at your leisure at:

<http://www.bls.gov/ncs/ebs/sp/ebsm0006.pdf>.

## Documents Revisited and Revised

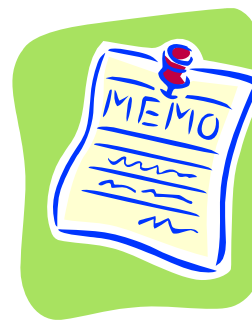
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was for the GUST restatements of 2002.

- Presently, we await necessary Internal Revenue Service Opinion and Advisory letters on the plan formats that we submitted in 2006.

- The prototype and volume submitter restatements are on a six-year cycle, which began in 2006.
- All prototype and volume submitter plans must be amended and restated in 2008 and 2009.

- We will send you a detailed memorandum in April regarding these required plan updates.





## Did you know: Retirement notes

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- ◇ **T**empted to tackle retirement-plan tips from the Internal Revenue Service? If the mood strikes, try <http://www.irs.gov/retirement/sponsor/index.html>. The rundown includes write-ups on retirement plan tips, FYIs, FAQs — and determination letters. A don't-miss!
- ◇ You know statistics. Too often, they're several years old by the time they reach you. And so when the Government Accountability Office reports a median \$22,800 account balance in all workers' retirement plans, realize those are 2004 numbers, reported in November 2007. Still, for a hard look at American savings — one version, anyway — see the whole 65-page "Private Pensions" report at <http://www.gao.gov/new.items/d088.pdf>.
- ◇ For a more optimistic number, check the Employee Benefits Research Institute's Fast Facts report at <http://www.ebri.org/pdf/publications/facts/fastfacts/fastfact092707.pdf>. The nonprofit notes balances of \$121,202 as of 2006 — for consistent participants.
- ◇ Or check this from a 2006 FDIC rundown on Baby Boomers' retirements: "For baby boomers who were in their 40s and 50s in 2003 and had 401(k) plans, the maximum average 401(k) accumulation was less than \$140,000, and many had *considerably* less." [http://www.fdic.gov/bank/analytical/regional/ro20061q/na/2006\\_spring01.html](http://www.fdic.gov/bank/analytical/regional/ro20061q/na/2006_spring01.html).
- ◇ Not surprisingly, retirement plan participation grows as a worker ages. According to the Employee Benefits Research Institute, 19.5% of those in the 21- to 24-year range join. Numbers grow steadily, and peak at 50.2% for the 45- to 54-year-old group, then decline slightly for older workers, to 49%. See the "Age Differences" report at: <http://www.ebri.org/pdf/publications/facts/fastfacts/fastfact01302008.pdf>.

## REPTECH News

**True to the times**, REPTECH is reporting a few changes – in our case, in staff.

First, a departure: We truly regret losing Sarah Gorman (Griffith) to Mercer's actuarial-training program in November, but we are happy to see her pursuing her career goal of becoming an actuary. We wish her the best.

Now for the good news:

Eric Butler joins us as an Associate Pension Analyst. After graduating from Metropolitan State College of Denver with a marketing degree in 2004, Eric worked in real estate and mortgages. He is married and the proud father of 20-month-old Olivia. Eric will work with a Senior Analyst on year-end valuations.

Chris Bolton, an Associate Pension Analyst, also is an MSCD graduate. He earned a finance degree in



2006. Chris is a skilled soccer vet, and for five years played defense for MSCD's Roadrunners. He works on the benefits desk, processing distributions and loans.

Tina Turner is a new Pension Analyst, recently relocated from Des Moines, Iowa, with her 18-year-old son. She comes to REPTECH with a biology degree and 14 years of experience in retirement plans. Tina is working on year-end reports with a Senior Analyst.

Steve Flannery, Senior Pension Analyst, hails from New York. A 2002 math grad from Colgate University, Steve worked at Mercer for five years before coming to Colorado. He is a staunch New York Giants fan, backing the team's win over the New England Patriots in Super Bowl XLII. Steve will work on REPTECH's DB/DC combination plans.

We are excited to have these new team members.