

# Pentec, INC.

PENSION ACTUARIES & CONSULTANTS

72 QUEEN STREET \* PO BOX 653 \* SOUTHLINGTON, CT 06489 \* PHONE 860•628-2555 \* FAX 860•628-5155

To: Clients & Advisors

From: Michael E. Callahan, FSPA, EA, CPC, MAAA

Re: Automatic Plans

The Pension Protection Act of 2006 provided significant planning opportunities from plan sponsors wishing to have their 401(k) plan as the primary retirement source for their organization.

The new law provided for automatic plans:

- Automatic deferrals for all people who are hired or who have not completed forms in the past
- Automatic investment that provide a free pass to fiduciaries if participants default to those investments
- Automatic increases in deferrals so that employee will be in a better position to ensure adequate retirement benefits

These automatic plans greatly reduce the risk of employees successfully suing their employer for most of the fiduciary issues or employment issues surrounding the adequacy of retirement.

Automatic deferrals are catching on significantly in the larger plan arena. Hewitt's recent survey indicated over 50% of the largest 401(k) plans are using automatic deferrals. The employee is automatically saving anywhere from 1 to 10%. The new safe harbors indicate a 3% statutory amount, but those plans must increase the deferral rate each year an additional 1% unless the participant elects otherwise until the deferral rate is 6% or more. Many employers may want to use a 6% statutory deferral rate so that the automatic escalator is not required. We are waiting IRS Guidance for this provision.

Congress has provided the highest level of fiduciary protection for the default investment option. If the default investment option is a lifecycle, lifestyle balanced fund or asset allocation, then the participant is deemed to have selected the option and the fiduciary has only to review the suitability of the investment for the plan (not for the participant).

I will be communicating on the the Qualified Default Investment Alternative under a separate Client Advisor letter.

We are working with our vendors and referral sources to bring a very cost effective Automatic 401(k) program to the market very shortly. We will keep you updated with our results.

Should you have any questions, please feel free to contact me at (860) 628-2555.