

Plan Leakage Check-Up

Retirement plan assets distributed prior to retirement can put plan participants at risk of a retirement savings shortfall. One study estimated that 1.5% of assets “leak” out of the 401(k) system each year.¹ Leakage accounts for a 25% reduction in aggregate retirement wealth.¹

Employers should evaluate the level of plan leakage within the retirement plans they make available to employees. A good place to start is by evaluating two plan features that may contribute to plan leakage: loans and hardship distributions.

Following is worksheet to help assess the impact of a plan’s current loan and hardship distribution features, as well as a checklist of some action steps that may help reduce leakage.

Plan Loans	
Rules Refresher	<ul style="list-style-type: none"> • Loan limit • 50% of participant’s vested plan assets • Up to \$50,000 • Must be repaid within five years (unless for primary residence) • At least quarterly installment payments must be made • Loan documentation and collateral (usually vested balance) required • Defaulted loans are taxable in year of default
Evaluation	<ul style="list-style-type: none"> • Outstanding loans <ul style="list-style-type: none"> _____ Total number of loans per plan _____ Total number of participants with outstanding loans _____ Dollar amount of all outstanding loans • Defaulted loans – Most recent three years <ul style="list-style-type: none"> _____ Total number of defaulted loans _____ Total number of participants and former participants with defaulted loans _____ Dollar amount all defaulted loans during three-year period • Benchmark loan features against comparable plans
Action Steps	<ul style="list-style-type: none"> <input type="checkbox"/> Participant education – tax and retirement savings impact of defaulted loans <input type="checkbox"/> Changes in loan program <ul style="list-style-type: none"> <input type="checkbox"/> Limit number of outstanding loans to one at a time <input type="checkbox"/> Limit loans to one per year <input type="checkbox"/> Increase minimum loan amount – \$ _____ <input type="checkbox"/> Other: _____

This summary of plan loan and hardship distribution features is designed as an educational resource to identify some of the issues that can result in a loss of participant savings in a retirement plan. It is not intended to be all-inclusive and should not be used as a substitute for competent ERISA counsel and other plan design support.

¹ Center for Retirement Research at Boston College, The Impact of Leakages from 401(k)s and IRAs, February 2015

Plan Leakage Check-Up

Hardship Distributions	
Rules Refresher	<ul style="list-style-type: none"> • Immediate and heavy financial need (safe harbor reasons) <ul style="list-style-type: none"> – Medical expenses – Principal residence – Tuition and fees – Eviction or foreclosures – Funeral expenses – Repair principal residence • Sources available <ul style="list-style-type: none"> – Pre-tax deferrals – Designated Roth contributions – After-tax employee contributions – Profit sharing – Employer matching – Rollovers • Pre-tax portion is taxable in the year distributed • If under age 59½, the 10% early distribution tax applies to taxable portion of distribution unless an exception applies • Not eligible for rollover • Temporary suspension of elective deferrals (safe harbor)
Evaluation	<ul style="list-style-type: none"> • Total number of hardship distributions <ul style="list-style-type: none"> ____ Current year ____ Three most recent years • Number of participants who took hardship distributions <ul style="list-style-type: none"> ____ Current year ____ Three most recent years • Dollar amount of all hardship distributions from the plan <ul style="list-style-type: none"> ____ Current year ____ Three most recent years • Benchmark loan features against comparable plans
Action Steps	<ul style="list-style-type: none"> <input type="checkbox"/> Participant education – tax and retirement savings impact of hardship distributions <input type="checkbox"/> Changes in hardship distribution program <ul style="list-style-type: none"> <input type="checkbox"/> Limit sources available for hardship distributions <input type="checkbox"/> Limit reasons available for hardship distributions <input type="checkbox"/> Other: _____

Plan Design Benchmarking

The Plan Design Tool provides advisors a platform to conduct a comprehensive, detailed analysis of plan features and fiduciary best practices against plans of a similar size. Virtus ensures that the information is current and relevant through continuous updates to the database supporting the Plan Design Tool. The information Virtus provides in its plan design reports will enable you to help your clients design retirement plans that are competitive and drive their business objectives for the plan.

To learn more about the Plan Design Tool or other advisor resources available from Virtus Investment Partners, visit planadvisorstools.com.

Intended for investment professional or institutional use.

This material is provided by Virtus Investment Partners for informational and discussion purposes only. Plan sponsors and others should consult their own counsel and designated advisor, if applicable, for specific guidance on their particular circumstances. The analysis and opinions provided may not be relied upon as investment advice and may change without notice. Statements of fact are from sources considered reliable but no representation or warranty is made as to their completeness or accuracy. Unless otherwise noted, the opinions provided by the authors and other sources are not necessarily those of Virtus Investment Partners. Information provided is general and educational in nature. It is not intended to be, and should not be construed as, investment, legal, estate planning, or tax advice. Virtus Investment Partners does not provide legal, estate planning, or tax advice. Laws of a specific state or laws relevant to a particular situation or pensions in general may affect the applicability, accuracy, or completeness of this information. Federal and state laws and regulations are complex and are subject to change. Consult with an attorney or a tax or financial advisor regarding your specific legal, tax, estate planning, or financial situation. All investments involve risk.

Registered representatives of a broker-dealer and employees of registered investment advisers are subject to their firm's policies. All third party marks are the property of their respective owners.