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3RD QUARTER 2010

Retirement Confidence Is Stabilizing

The percentage of workers who are "very confident" about having enough financial resources for a comfortable retirement has stabilized at 16%, according to the *2010 Retirement Confidence Survey* conducted by the Employee Benefit Research Institute.

About 46% are "not too confident" or "not at all confident" about having enough money in retirement.

PREPARATION STILL LACKING

Only 69% of workers reported having saved for retirement, down from 75% in 2009. And only 60% said they and/or their spouse are currently saving for retirement, compared to 65% in 2009.

Less than half of those now working reported that they and/or their spouse have attempted to calculate how much money they will need to have saved for retirement. Of those who have performed this calculation, 54% said they need to have at least $500,000 for retirement.

About 21% reported being "very confident" about having done a good job preparing for retirement; 35% were "not confident" they had done a good job.

SAVINGS AMOUNTS DECLINE

Compared to previous surveys, more workers responded that they have virtually no savings or investments. About 27% said they have less than $1,000 in savings, compared to 20% in 2009. More than half of workers (54%) reported that the value of their household savings and investments, not counting the value of their home and any defined benefit plans, was less than $25,000.

WORKING LONGER IS LIKELY

The age at which respondents expect to retire changed little from 2009. But, looking at past totals shows significant long-term change. The percentage expecting to retire at age 65 was 11% in 1991, 19% in 2000, 24% in 2005 and 33% in 2010.

About one-quarter of workers reported having postponed their planned retirement age in the last year. Reasons cited for delaying included the down economy (29%), a change in their employment situation (22%), insufficient finances (16%) and the need to make up stock market losses (12%).

Complete survey results are at http://tinyurl.com/EBRI2010RetConfSurvey. ■

> How many 401(k) plan participants have loans from their plans, and how much did they borrow? What are the average unpaid balances in recent years? For answers to these questions, see the Employee Benefit Research Institute's review of loan usage at http://tinyurl.com/EBRILoanAnalysis.

Target-Date Fund Usage Grows

Target-date funds are increasingly being offered in defined contribution plans, especially as a qualified default investment alternative (QDIA). A recent study of 2,200 plans with 3.2 million participants found that these funds were offered in 60% of plans at the end of 2009, compared to 13% of plans in 2004.

In plans designating a QDIA, 80% of those QDIAs were target-date options.

About 90% of automatic enrollment plans were using target-date funds as their default investment option.

Are participants using these funds? In plans offering them, 42% of participants had investments in these funds at year-end 2009. In 2004, only 10% did.

The study explored whether participant usage of target-date funds was simply because they were being defaulted into them or they actually chose them. The conclusion was that while many participants certainly take the easy route of using a QDIA, at least half chose target-date funds voluntarily.

The researchers also found that these funds are quickly replacing risk-based lifecycle funds. In 2004, lifecycle funds were offered in 45% of plans, but only 15% of plans in 2009. Target-date funds were available in 7% of plans in 2004, and 60% in 2009.

For more on the study, visit http://tinyurl.com/TargetDateFundUsage. ■

Pension Plan Limitations for 2010

401(k) Maximum Participant Deferral	$16,500*
($22,000 for those age 50 or over, if plan permits)*	
Defined Contribution Maximum Annual Addition	$49,000
Highly Compensated Employee Threshold	$110,000
Annual Compensation Limit	$245,000

A New Rule of Thumb?

In recent years, experts have recommended that most people plan to have available 70% to 80% of their pre-retirement pay in order to maintain their standard of living in retirement. Recent research by Hewitt Associates suggests a new perspective on this target.

Hewitt looked at projected retirement levels of more than two million employees who were participating in their employer's saving plan and could work a full career (assumed to be 30 years) at that employer.

When inflation and post-retirement medical expenses were factored in, Hewitt projected that employees will need 15.7 times their final pay for financial needs in retirement. Social Security would likely provide 4.7 times final earnings, leaving workers to accumulate the remaining 11 times final pay from other sources, such as employer-sponsored plans and personal savings.

Analysis indicated that workers who contribute to a defined contribution plan and work a full career would expect to build retirement resources of an average of 13.3 times their final earnings upon retiring at age 65. This includes savings in defined contribution plans, employer contributions to defined contribution and defined benefit plans, and Social Security.

As a result, employees would be 15% short of the 15.7-times-final-pay goal. In other words, they can expect to meet just 85% of their financial requirements during retirement.

The Hewitt study is at http://tinyurl.com/HewittRetireIncome. ■

401(k) Assets Near $3 Trillion

At the end of 2009, 401(k) plans held $2.8 trillion in assets, according to the Investment Company Institute's *The U.S. Retirement Market, 2009.* Over $1.5 trillion of those assets were in mutual funds.

Mutual fund assets in 401(k) plans were split among equity (59%), hybrid (21%), bond (13%) and money market (7%) funds.

For details, see http://tinyurl.com/ICIRetireMarket2009 ■

Plan Sponsors Ask...

Q: ***Is the trend toward immediate eligibility to participate in 401(k) plans continuing?***

A: Yes. The Profit Sharing/401(k) Council of America's (PSCA) most recent survey on eligibility found that 57% of all surveyed plans (and 71% of plans with 1,000 or more employees) allow immediate participation in their 401(k) plans. In 1998, only 24% of plans permitted immediate eligibility and in 2005, 49% did so.

The *401(k) and Profit Sharing Plan Eligibility Survey 2009* responses indicated that 76% of plans permit eligibility within the first three months of employment. Only 12% have a one-year or longer service requirement.

Only 29% of plans require one year of service or more for matching contributions, and 47% have a one-year-or-more service requirement for non-matching employer contributions.

About 44% of plans have no minimum age requirement for participant contributions or non-matching company contributions.

For details about the PSCA's survey, visit http://tinyurl.com/PSCA2009Eligibility.

Q: ***Are there new rules for providing investment advice to 401(k) plan participants?***

A: No. But, the Department of Labor (DOL) proposed new regulations earlier this year.

The Pension Protection Act of 2006 amended ERISA to provide a statutory exemption from the prohibited transaction rules to expand investment advice availability to 401(k) plan participants and others. The proposed rules address that amendment of ERISA.

The proposed regulations permit advice in two ways. One is through "a computer model certified as unbiased." The other is through an adviser compensated on a "level-fee" basis, meaning that fees are not variable based on the investments chosen by the participant.

Among the requirements that would be imposed under the rules are:

- A plan fiduciary must select the computer model or fee arrangement.
- An "independent expert" must certify the computer model in advance as unbiased.
- An annual audit is required.
- Advisers must provide disclosures to participants.

The proposal states that new regulations would be effective sixty days after publication of the final rule.

The DOL's Fact Sheet about the proposed rules is at http://tinyurl.com/DOLProposedAdviceReg.

Q: ***A great deal of attention is being paid to investment expenses, particularly to fees paid directly or indirectly by plan participants. What's the latest on mutual fund fees?***

A: The Investment Company Institute (ICI) has found that, since 1990, average fees and expenses paid by mutual fund investors have fallen by half for stock and bond funds.

In 2009, fees and expenses paid by investors in long-term mutual funds were unchanged from 2008. Stock fund investors paid, on average, 0.99% in fees and expenses, and for bond funds the average was 0.75%.

Average fees for money market funds fell slightly last year.

For more information, see the ICI's *Trends in the Fees and Expenses of Mutual Funds, 2009* report at http://tinyurl.com/ICIMutualFundFees2009. ■

Web Resources

FOR PLAN SPONSORS

Internal Revenue Service, Employee Plans
www.irs.gov/ep

Department of Labor,
Employee Benefits Security Administration
www.dol.gov/ebsa

401(k) Help Center
www.401khelpcenter.com

Plan Sponsor Magazine
www.plansponsor.com

BenefitsLink
www.benefitslink.com

Profit Sharing/401(k) Council of America
www.psca.org

Employee Benefits Institute of America, Inc.
www.ebia.com

Employee Benefit Research Institute
www.ebri.org

What Was That Statistic?

Can't find that statistic you need about what allocations are selected by new hires or other 401(k)-related topic? Chances are that you'll find what you need in one of the Employee Benefit Research Institute's (EBRI) handy Fast Facts reports. The Fast Facts summaries are usually one page of statistical information gathered through EBRI's many research studies, and cover a wide variety of retirement plan topics. You can check all of these useful summaries, and link directly to ones that interest you, at http://tinyurl.com/EBRIFastFacts. ■

How do race and ethnicity affect the likelihood of participating in a retirement saving plan? Find out in the Employee Benefit Institute's Fast Facts on this topic, at http://tinyurl.com/EBRIRaceEthnicity.

PLAN SPONSOR'S QUARTERLY CALENDAR

OCTOBER

- Audit third quarter payroll and plan deposit dates to ensure compliance with the Department of Labor's rules regarding timely deposit of participant contributions and loan repayments.
- Verify that employees who became eligible for the plan between July 1st and September 30th received and returned an enrollment form. Follow up for forms that were not returned.
- For calendar year safe harbor plans, issue the required notice to employees during October or November (within 30-90 days of the beginning of the plan year to which the safe harbor is to apply). Also, within the same period, distribute the appropriate notice if the plan features an EACA (Eligible Automatic Contribution Arrangement), QACA (Qualified Automatic Contribution Arrangement) and/or QDIA (Qualified Default Investment Alternative).

NOVEMBER

- Prepare to issue a payroll stuffer or other announcement to employees to publicize the plan's advantages and benefits, and any plan changes becoming effective in January.
- Conduct a campaign to encourage participants to review and, if necessary, update their mailing addresses to ensure their receipt of Form 1099-R to be mailed in January for reportable plan transactions in 2010.
- Check current editions of enrollment materials, fund prospectuses and other plan information that is available to employees to ensure that they are up-to-date.

DECEMBER

- Prepare to send year-end payroll and updated census data to the plan's recordkeeper in January for year-end compliance testing. (Calendar year plans)
- Verify that participants who terminated during the second half of the year selected a distribution option for their account balance and returned the necessary form.
- Review plan operations to determine if any ERISA or tax-qualification violations occurred during the year and if using an IRS or DOL self-correction program would be appropriate.

Consult your plan's counsel or tax advisor regarding these and other items that may apply to your plan.

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