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RETIREMENT REPORT

Five Steps for Retirement Plan Success

At a recent virtual PLANADVISER National Conference, panelists identified five ways plan sponsors can re-focus their goals for plan significance and success.

1. **Market Your Plan** – Plan sponsors are becoming more paternalistic, and therefore reaching out more to help participants make informed decisions concerning their retirement. Plans sponsors should ask themselves: “Is the plan currently being marketed to participants as a valuable component of the company’s employee benefits package? If not, how can we better promote the plan?”
2. **Focus on Benefit Adequacy** – Participants need to be educated to the realities of retirement planning. Oftentimes participants have expectations that are not entirely realistic, including the appropriate deferral percentage. Plan design can be a key element in dealing with this issue (i.e., automatic enrollment, automatic escalation features).
3. **Understand Plan Costs** – Plan costs should be readily available, transparent, and meaningful to both plan sponsors and plan participants. Pending final regulations are anticipated to play a major role in ensuring that this happens.
4. **Evaluate Your Target Date Funds*** – Don’t get too caught up with returns alone. Consider risk levels, glide paths, and equity/ bond exposures before deciding on a target date fund series which best reflect the needs of your participant demographic. *(*The target date is the date of expected withdrawals at retirement; the fund is not guaranteed at the target date or any other time. These funds are subject to risk, including the loss of principal.)*
5. **Maximize Plan Design** – What is the goal of this plan? Is it maximizing financially sound retirement experiences for participants? If so, what can you do in pursuit of this goal? Whatever the goal, plan design may be a key ingredient in achieving success (e.g., increase your match, shorten the eligibility period, or eliminate loan provisions).

Remember, your retirement plan can be a powerful recruiting tool and it is the one benefit that your employees will utilize throughout their lifetime.

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DOL Extends Comment Period for Fiduciary Definition Change

The U.S. Department of Labor's (DOL) Employee Benefits Security Administration (EBSA) announced on March 8 that it is extending the time for submission of public comments on testimony submitted at the March 1-2, 2011, public hearing on the proposed rule defining when a person is deemed a "fiduciary" under the Employee Retirement Income Security Act of 1974.

According to the DOL, under ERISA a person is considered to be a fiduciary by reason of giving investment advice to a pension plan or a plan's participants. Upon adoption, the proposed rule would protect beneficiaries of pension plans and individual retirement accounts by amending a 35-year old rule that may inappropriately limit the types of investment advice relationships that give rise to fiduciary duties on the part of the investment advisor. More information can be found at www.dol.gov/ebsa. The proposed regs are anticipated to become final regs later this year.

The Effect of Withdrawal Rates in Retirement

As more "baby boomers" enter retirement, it is critical that retirees understand the impact withdrawal rates have on the longevity of their respective portfolios. Doing the appropriate planning today to avoid any surprises in the future is something that cannot be understated. For example*, Jon decided to retire with \$500,000 in his retirement plan back in 1975:

- A withdrawal rate of 6% in 1975 would have lasted approximately 35 years.

- At a withdrawal rate of 7%, the portfolio would have run out of money before 1997.
- At a withdrawal rate of 8%, the portfolio would have run out of money before 1991.
- At a withdrawal rate of 9%, the portfolio would have run out of money before 1988.
- And at a withdrawal rate of 10%, Jon's money would last just over 10 years in retirement.

Even a small increase in the withdrawal rate can have a dramatic effect.

**For illustrative purposes only. Example shows the hypothetical performance of a portfolio from 1/1/1975 to 12/31/2009 given various withdrawal rates set at retirement. Hypothetical portfolio is comprised of 50% bonds and 50% stocks that is rebalanced annually. The yearly withdrawal amount is a fixed percentage of the initial amount of \$500,000 and is then inflation adjusted over the period. Returns to stocks are represented by the S&P 500 total return, returns to bonds by the Barclays Aggregate Index total return, and inflation by the Consumer Price Index. Data Source: JPMorgan.*

2011 Hot Topics in Retirement: A Changing Horizon



The AON Hewitt 2011 Hot Topics in Retirement reveals employers are continuing to assess the most effective way to deliver retirement benefits to their employees and keep

up with the evolving retirement landscape. Responses from more than 210 employers with plans that cover more than 6 million participants offer a preview of the changes we can expect in the retirement landscape during 2011.

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The overwhelming theme in this year's survey is the continuing shift in responsibility and risk from the employer to the employee. This can be done through resources that encourage and support the employees taking accountability for their future (such as online tools available through the record keeper). Also top of mind is plan design, noting that 39% of plan sponsors are very likely to assess their plan design this year. 57% of plans already have automatic enrollment and 13% not offering it today intend to add the feature sometime in 2011.

There continues to be interest in the Roth 401(k), but only about 34% offer it and most employers report the reason they have not offered it in their own plans is because of the lack of significant employee usage for those who already do.

Target date funds continue to be the most popular type of asset allocation tool for participants. About 83% of plans surveyed offered target date funds in their plan. Plan sponsors are looking to provide even more participant communication about these types of investments in 2011.

Communication Corner: Making the Most of Your Retirement Plan

This month's sample employee memo looks at some common "Do's" and "Dont's" when it comes to saving for retirement.



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