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## RETIREMENT REPORT

### Fourth Quarter 2010 Market Review: Risk is Rewarded

U.S. equity markets finished the year strong, posting a positive 11.6 percent return (Russell 3000) for the fourth and final quarter of 2010. International equities continued to lag their U.S. counterparts, but nonetheless posted a strong absolute return of a positive 6.7 percent for the quarter (MSCI EAFE). Across U.S. and International equities, the riskiest small capitalization stocks out-performed. U.S. fixed income (the more conservative asset class from a risk perspective) posted quite different results, returning a negative 1.3 percent (Barclays Aggregate) for the quarter. Fixed income yields backed up, sending prices lower, causing the 10-year Treasury bond yield to jump 80 basis points (over the quarter) to finish at 3.3 percent. In the end, risk was rewarded for the quarter, and so it went for the year.

For the year ending 12/31/10 most major market asset classes posted solid positive returns. In many cases, returns were in the double digits. For the second consecutive year, U.S. equity markets posted strong positive double digit returns, marking a significant recovery in U.S. equity markets from one of its worst declines (2008) in history. While U.S. fixed income edged off its strong performance near the end of the year, it still managed to post one of its best years (6.5 percent, as measured by the Barclays Aggregate) over the last three years.

The Fed's Quantitative Easing (QE2) efforts did little to stop yields

from rising in the fourth quarter. Still, QE2 will likely continue to maintain some pressure on rising rates throughout the first quarter of 2011. QE2, along with the Government's other market interventions (e.g., the Fed holding short term rates low, in the 0-.25 percent range) was an integral part of sending riskier securities and asset classes higher over 2010. 2011 will likely be a year in transition for the economy and markets as the Government begins to reduce their support. With lower levels of Government support, it will be up to consumers and corporations to play a larger part in the economy in 2011 to continue moving forward.

### Company Match Makes a Comeback

Data from a recent Profit Sharing/401k Council of America's (PSCA) survey, titled "Response to Current Conditions" indicates that the economy just may be strengthening; companies that suspended or reduced contributions to 401(k) and profit sharing plans due to economic conditions are restoring or planning to restore them.

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“Companies continue to make their 401(k) plans a top priority,” said David Wray, PSCA President. “Those that have suspended their matches are in the process of restoring them, and companies are aggressively restructuring their investment lineups.”

More than 70 percent of companies made no changes to matching contributions and nearly 10 percent increased them in the last three years. Of the 14.8 percent of companies that suspended matching contributions in the last three years, 39.3 percent have restored them and 37.8 percent are planning to restore them within the next six months.

Employees are also continuing to contribute to their plans, with many increasing their contributions. While nearly 40 percent of companies reported no change to the number of employees making contributions, 31.6 percent indicated an increase. However, 78.1 percent of companies that suspended matching contributions (which remain suspended) reported a decrease in participation.

### Crystal Ball Predictions for 2011

With 2010 behind us, what are your predictions for 2011? The Rasmussen Reports national telephone survey consisting of responses from 1,000



Americans at the end of December shows that just 35% expect 2011 to be a good year or better than the one just past – and that’s the lowest level of optimism found since the end of 2003. Nineteen percent (19%) say 2011 will be a poor year. Other findings include:

- 22% of respondents rated 2010 as a good year or better
- 4% said 2010 was an excellent year
- 31% classify 2010 as a poor year overall
- 46% of adults believe the U.S. economy will still be in a recession at the end of 2011

### Complying with ERISA 404(c)

According to ERISA, plans intending to comply with 404(c) must provide that participants: Have the opportunity to choose from a broad range of investment alternatives (which are adequately diversified); may direct the investment of their accounts with a frequency which is appropriate; and can obtain sufficient information to make informed investment decisions. The plan sponsor must provide annual written notification to participants with its intent to comply with 404(c), and be able to provide the following:

- Information about investment instructions (including contact information of the fiduciary responsible for carrying out participant investment instructions);
- Notification of voting and tender rights;
- Information about each investment alternative; and
- A description of transaction fees and investment expenses.

Compliance with section 404(c) of ERISA protects plan fiduciaries from liability for losses that result from the investment decisions made by participants. Conversely, failure to comply with 404(c) could result in liability for losses due to poor investment decisions made by plan participants.

### Communication Corner: Extra Retirement Savings in 2011

What a great time to increase your deferral rate! This month’s sample participant communication memo addresses the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, reducing workers’ 2011 Social Security tax withholding rate from 6.2 to 4.2 percent of wages paid.