

Retirement Plan Developments

Most Companies Planning to Restore 401(k) Match in 2010

Many U.S. employers are increasingly losing confidence in their workers' ability to save for retirement and, as a result, plan to step up their efforts this year to help workers maximize their 401(k) savings, according to a new survey by Hewitt Associates, a global human resources consulting company. High on employers' priority lists in 2010: restoring company 401(k) matches that were suspended or reduced during the market downfall and adding automated tools and investment features that take the guesswork out of saving and investing.

Hewitt's study of 162 mid- to large-sized U.S. companies representing 5.7 million employees reveals employers today (54 percent) are less confident about their workers' ability to retire with sufficient assets than they were in 2009 (66 percent). In addition, more than one in five (18 percent) say they are not confident about their employees' ability to have enough retirement income to last through their retirement years.

To help employees reach their financial goals in retirement, Hewitt's survey found that 80 percent of companies that suspended or reduced their company

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match in 2009 are planning to restore it in 2010. In addition, Hewitt's survey showed a continued emphasis among employers on automating 401(k) plans to help workers maximize the benefits of their retirement plans. Most half (46 percent) of employers that do not already offer automatic rebalancing—a tool that helps employees regularly balance their portfolios with their target allocations—are very or somewhat likely to add it to their plan in 2010. Nearly four in ten (38 percent) are very or somewhat likely to add automatic contribution escalation—where employees can elect to have their contribution rates increased automatically over time.

An increasing number of employers are also offering investment services and tools to help employees make better investment and savings decisions. Half (51

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percent) currently offer online investment guidance and another 42 percent are very or somewhat likely to do so in 2010. In addition, 28 percent of employers currently offer managed accounts, which allow workers to delegate the overall management of their accounts to an outside professional. One-quarter of companies (25 percent) indicate they are very or somewhat likely to offer managed accounts in the coming year.

“In the last 18 months, employees’ 401(k) accounts took a serious financial hit due to the severe market downturn. Some of them also lost the additional retirement savings that their 401(k) employer match provided,” explains Pamela Hess, Hewitt’s director of retirement research. “While there has been marked growth in 401(k) balances since the market recovery began, we still see too many workers not saving and investing in a way that will help them achieve their retirement goals. Employers are trying to do their part to help—which is why they are restoring their matching contributions and offering features and tools that push workers to save more throughout their working years.”

Other Key Findings

- Fifty-nine percent of employers offer automatic enrollment, up from 51 percent in 2009. Among those that do not currently offer the feature, more than one-quarter (27 percent) are very or somewhat likely to add it in the coming year.
- Employers are taking considerable action to mitigate risk in their 401(k) plans. Nearly seven in ten (68 percent) are very or somewhat likely to increase the amount of employee communication surrounding the investment fees and overall fund fees in their 401(k) plans in the coming year. In addition, six in ten (60 percent) are very or somewhat likely to review their plan’s governance structure, and two-thirds (51 percent) are very or

somewhat likely to benchmark plan administration and procedures to best practices in 2010.

- Companies are taking a similar risk management approach for their defined benefit pension plans. Of the survey respondents that offer pension plans, 80 percent are very or somewhat likely to review funding strategy and 73 percent are very or somewhat likely to assess how their current strategies are approaching pension plan risks. Almost two-thirds (64 percent) plan to adjust equity exposure and/or overall asset allocation while slightly more than half (52 percent) are very or somewhat likely to adjust their plan investments to align with their plan’s liabilities.
- The number of employers offering target date funds in 2010 (78 percent) remained consistent with 2009 (77 percent).
- Nearly one-third (29 percent) of companies currently offer a Roth 401(k) to their employees, consistent with 2009. Twenty-five percent said they are very or somewhat likely to add one in 2010. Among the employers that are unlikely to add a Roth 401(k) account to their plan, 54 percent said that it must be clear employees would use the feature before they added it.
- Fourteen percent of employers currently offer annuities outside their plan as a rollover option, up from 8 percent in 2009. More than one-quarter (28 percent) are very or somewhat likely to add them in 2010.

Surprising Trends in 401(k) Participant Attitudes About Retirement Planning and Investing

A recent survey of defined contribution plan participants conducted by MassMutual’s Retirement Services Division reveals some surprising findings about participant attitudes and approaches toward investing – and some striking differences based on gender.

MassMutual conducted the online survey of more

than 1,000 of its retirement plan participants between November 15, 2009 and January 15, 2010. Surprisingly, overall, 75.8% of participants surveyed were optimistic about the stock market, believing that performance will improve in the next 12 months compared to only 7.6% who think it will decline.

However, while women were just as optimistic as men relative to the market outlook, women were significantly less confident in making their own investment decisions (32.5%) compared to men (47.8%). Likewise, more men enjoy managing their investments (61.5%) than do women (48.1%). More women also prefer to spend as little time as possible on investment decisions (39.3%) compared to men (28%). While overall 70.9% of participants enjoy learning about investments compared to 8.2% who don't, a higher percentage of men (75.4%) enjoy learning vs. women (63.1%).

"Regardless of gender, being able to retire is the greatest concern among 401(k) participants (37.3%) – more than double the concern about healthcare costs (16.0%), job security (14.5%) and managing debt (12.2%)," says Elaine Sarsynski, executive vice president of MassMutual's Retirement Services Division and chairman and CEO of MassMutual International LLC. "While almost nine times as many participants believe that they need to save more for retirement as don't (72.9% vs. 8.2%), women are more concerned that they won't have enough (70.3%) compared to men (63.2%)."

Another interesting finding from the study is the manner in which both male and female participants prefer to learn about retirement planning. "By an overwhelming majority, participants prefer to receive their information from their retirement plan provider and financial advisor (67% combined) than other sources," adds Sarsynski. "It is incumbent upon providers and financial advisors in the retirement space to provide the information

necessary to help both men and women make good decisions."

In terms of approach to retirement planning in the current economy, overall 40.3% reported becoming more conservative, 32.9% became more aggressive, and 26.8% have not changed their approach. Men who changed their approach were fairly evenly divided between those who became more conservative (39.0%) and those who became more aggressive (35.3%). Women were far more likely to take a more conservative approach (42.5%) than to be more aggressive (27.7%) and a review of their account balances shows this to be true. Average account balances of female participants showed far less volatility than those of men, reflecting their more conservative investment selections and indicating their actual behavior lined up with their survey responses.

Women More Likely to Seek Help from a Financial Professional

Only 11.9% of surveyed participants currently work with a personal financial advisor. However, the percentage (34.1%) of participants who are more likely to seek help from an advisor as a result of the recession is more than double the percentage who are less likely (12.7%), with the remainder no more or less likely to seek help than before. Significantly, women are almost 25% more likely to already work with an advisor than men (11.9% vs. 9.6%) and are almost 20% more likely than men to seek help as a result of the recent economy (34.1% vs. 28.8%).

MassMutual's participant behavior data supports the findings of the survey. MassMutual's average participant balance was up 29.1% in 2009 vs. 2008 and participants are displaying increasing confidence in equities. As of year-end 2009, participant assets in bonds and stable value funds declined slightly, while assets in equities and asset allocation investments as a percentage of total assets grew to 62.3%, a high for the year. Investments in MassMutual's asset allocation options increased from 18.6% at year-end 2008 to 21.6% at year-end 2009, a 16% increase – and the highest level of assets in asset allocation funds as a percentage of total retirement assets at MassMutual to date.

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EBSA Announces Outreach and Compliance Assistance for 403(b) Plans

The U. S. Department of Labor's Employee Benefits Security Administration (EBSA) announced new outreach and compliance assistance efforts for 403(b) pension plans subject to Title I of the Employee Retirement Income Security Act (ERISA). The initiatives are part of the agency's ongoing compliance assistance program to help employers, plan officials and service providers.

The department is sending a letter to administrators of the approximately 16,000 403(b) plans subject to ERISA to remind them that their 2009 Form 5500 annual reporting requirements have changed and to direct them to various EBSA resources for help in understanding and complying with the new requirements.

Like administrators of 401(k) plans, 403(b) plan administrators now must file basic financial and compliance information annually with the government on a Form 5500 or Form 5500-SF (a simplified report that many small 403(b) plans can use). Large plans (generally those with 100 or more participants) must include a report of an independent qualified public accountant with their Form 5500. All Form 5500s beginning with the 2009 plan year must be filed electronically using the department's new EFAST2 system.

The department's outreach letter points out that EBSA has also issued specific legal guidance and has several publications that are designed to explain the new annual reporting and electronic filing rules. For example, a new Field Assistance Bulletin (FAB) 2010-01 just released last month was developed to answer many frequently asked questions from the 403(b) community on the new Form 5500 reporting requirements.

The department also published a brochure entitled *Getting Ready for Changes in Filing Your Plan's Annual Return/Report Form 5500*. All of these materials are available on a newly created EBSA Web site at www.dol.gov/ebsa/403b.html that focuses on

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Code 403(b) plan issues.

Many Defined Benefit Plans Face Unexpected Haunting Funding Demands

Many employers with defined benefit plans could face unexpected and significant challenges as early as April. Required contributions could more than double this year as funding levels could drop enough to trigger benefit payment restrictions put in place by the Pension Protection Act (PPA) of 2006.

Plan sponsors would be wise to take action now to learn the status of their defined benefit plan and steps they can take to help prevent restrictions.

“The temporary pension relief from Congress and some market recovery in 2009 have led many plan sponsors to expect a better funded status and lower required contributions than they will actually experience in 2010,” said Barry Young, consulting actuary. “The reality is, because interest rates have dropped, most plans will need higher contributions in 2010 and 2011. Retirement plan assets have not recovered enough to cover future liabilities. There are no guarantees of Congressional relief in 2010, so plan sponsors are urged to contact their actuaries so they are prepared.”

“Credit is still very tight and an unexpected cash infusion into the plan could force employers to make difficult choices in order to fund their defined benefit plans,” said Young. “But if they find out now what they are facing, it will at least help them plan their cash flows early enough to possibly help prevent restrictions on their plans.”