Retirement Report

News and Updates for Plan Sponsors and Fiduciaries of Defined Contribution Plans

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Q1'08 Market Summary: Turbulent Times Cause Unrest in the Markets

Global equity markets sunk over the first quarter, ending with some of the worst quarterly returns seen over the past 10 years. Fixed income securities proved to be the brightest spot in the markets, posting positive returns amid the equity market fallout. U.S. fixed income markets returned a positive 2.2% for the quarter, as measured by the Lehman Brothers Aggregate Bond Index, in contrast to the negative 9.4% return posted by the S&P 500. International markets failed to remain immune from the fallout, posting a negative 8.8% return for the quarter. All styles and markets across the globe felt the impact from the credit crunch (and U.S. housing slowdown). Credit concerns and large write-offs by prominent financial companies fueled the decline, and the uncertainty as to when the write-offs and losses would stop did not help. One of the positives over the quarter was the Fed's actions to buffer the economy.

During the last month of the quarter, the Fed met and lowered the Fed Funds rate by 50 basis points, to 2.25%. This alone, however, was not enough to cushion the blow to the economy, inflicted by the credit crunch. The most notable event came late in the quarter when the Fed stepped in to "rescue" Bear Sterns (at one point the 5th largest U.S. investment bank), which was a culprit of its large and leveraged positions in risky mortgage related securities. The Fed ultimately provided liquidity and guarantees to JP Morgan Chase, so that they could acquire Bear Sterns before it fell into bankruptcy. The JP Morgan Chase deal provided stability to Bear Sterns creditors and clients, so creditors could be paid off in an orderly fashion and Bear Stern's separate businesses could continue to be viable (with, hopefully, a stronger financial institution). The Fed's signaling and show of support helped ease fears surrounding the problems that have ensued from the credit crunch. This, and time (allowing banks and investment firms to write-off past excesses and reorganize) should help provide a base for future growth and more stabilized markets. The housing market will also play a role, but it is still to be determined how large of a role it will play. In the meantime, lower market valuations provide participants a great time to "buy low."

Allowable Plan Expenses: Can the Plan Pay?

The payment of expenses by an ERISA plan (401(k), defined benefit plan, money purchase plan, etc.) out of plan assets is subject to ERISA's fiduciary rules. The "exclusive benefit rule" requires a plan's assets be used exclusively for providing benefits. ERISA also imposes upon fiduciaries the duty to defray reasonable expenses of plan administration. Certain expenses (recordkeeping, compliance work, etc.) easily fall objectively within the parameters of this standard, but other expenses may be more subjective in nature. General principles of allowable expenses include the following:

- The expenses must be necessary for the administration of the plan.
- The plan's document and trust agreement must permit use of plan assets for payment of expenses.
- The expenses must be reasonable in nature and must be incurred primarily for the benefit of participants/beneficiaries.
- The expense cannot be the result of a transaction that is a prohibited transaction under ERISA, or it must qualify under an exemption from the prohibited transaction rules.

In light of today's plan fee environment, it is incumbent upon fiduciaries to request full disclosure of fees and expenses, how they breakdown with services provided, as well as a request for full explanation of who will be the recipient of fees. Ultimately the ability to pay expenses from a plan trust is a facts and circumstances determination that needs to be made by plan fiduciaries. Because it is possible that the DOL may challenge such determinations it is important that fiduciaries consult ERISA counsel prior to paying questionable expenses from a plan trust and document the decision and reasoning. If you desire more information in regards to plan expenses or help in determining how to identify proper plan expenses please contact your plan consultant or email bwright@twgservices.com.

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Retirement Confidence Drops According to EBRI Survey

The Employee Benefit Research Institute (EBRI) recently released their 2008 Retirement Confidence Survey, finding that overall the confidence workers have about their future and specifically about retirement planning dropped to an 18 year low. Following are some of the noted results published in the survey:

- Percentage of workers who were very confident about having enough money to retire comfortably dropped from 27% in 2007 to just 18% in 2008.
- Percentage of retirees who were confident with their financial assets also dropped from 41% to just 29%.
- The largest drops in confidence occurred with the youngest workers and those with the lowest income.
- Household income under $35,000 saw their confidence drop from 14% to 5%.
- Household income from $35,000 to $74,999 dropped from 25% to 13%.

On the positive side, the survey found almost half of the workers surveyed (47%) have completed a retirement needs calculation. This was an increase from the low of 29% over 10 years ago. Certainly much of the drops in confidence can be attributed to the economy in general and specifically to the volatility of the markets. If you are hearing concerns from your employees remember your plan consultant is here to help. Email bwright@twgservices.com for assistance.

Communication Corner: Market Comebacks

This month's sample participant communication memo charts market behavior over a 28-year period, showing how positive returns are more common than not. Email bwright@twgservices.com for a copy that you can print and distribute to employees.