

Retirement Report

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

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Q2'08 Market Review: From Bull to Bear

Enigmatic of the latest market cycle, the second quarter started on a positive note, only to end lower in almost all cases. Some asset classes finished positive for the quarter, but they would not wipe out the losses witnessed over the last year. The broad U.S. equity market dropped 1.7% (Russell 3000) over the quarter, due to poor economic conditions and inflationary concerns. Value stocks posted the worst returns, as financial stocks in that style suffered from an unprecedented barrage of write downs due to mortgage related issues. Even the U.S. fixed income markets, which had posted strong positive returns just a quarter earlier, dropped 1% (Lehman US Aggregate Bond Index), evident of the widespread inflationary expectations. International equity markets were not immune to the problems in the U.S., or the more global concerns about inflation. Once a bastion of better returns (relative to the U.S. market), international markets experienced a negative 1.9% (MSCI EAFE).

Notable over the quarter was the fact that most equity markets were close to, if not already at or beyond, a negative 20% from the market's peak in October 2007, the high point for most equity markets. Technically, a 20% decline marks the beginning of a bear market, which is indicative of widespread pessimism in the marketplace. With oil topping \$140 a barrel during the quarter, inflationary concerns helped spark the equity market sell-off. In addition, the credit crunch continued on as large financial companies continued to struggle with write downs and problem loans. The up-tick in home sales volume, unfortunately, did not help increase sales prices over the quarter, but was, nonetheless, a good sign. The Federal Reserve Board (Fed) met over the quarter, and held rates steady at 2%, with language that left investors anticipating higher rates down the road. While a tighter monetary policy would help stave off inflationary pressures, it would likely hurt capital market returns. As markets transition to a bear market, it is anyone's guess as to the duration. The good news is come our next transition, by definition, it will be back to a bull.

EBSA Issues New Participant Disclosure Regulations

Federal regulators this month unveiled the long-awaited final portion of their three-part plan disclosures regulatory package that calls for sponsors of employee-directed plans to supply participants with basic plan information including investment returns and expenses. The latest proposed rule from the Employee Benefits Security Administration (EBSA) mandates that required disclosures be provided generally when a participant becomes eligible and every year thereafter. The proposal requires plan fiduciaries to disclose basic information about the plan, such as available investment options; how participants can give investment instructions; and a description of fees and expenses. In addition, plan fiduciaries must disclose to participants, on a quarterly basis, the actual dollar amount charged to the participant's account during the preceding quarter for specified administrative expenses. When finalized, the regulation will be effective for plan years beginning on or after January 1, 2009. According to Bradford P. Campbell, assistant secretary for the Labor Department's EBSA, the agency is proposing conforming changes to its regulation under 404(c) of the Employee Retirement Income Security Act (ERISA) to standardize disclosure requirements across various types of participant-directed plans. EBSA said the disclosure responsibility is higher because 401(k)-type plans give so much responsibility to participants to make their own decisions.

Compliance Reminder: Form 5500 Due July 31st

Just what is the Form 5500 anyway? The Form 5500 is an informational return that you file with the Employee Benefits Security Administration (EBSA – Department of Labor Processing Division) each year. Since this is an informational return, there are not taxes due with this return. The good news is that your retirement plan vendor will provide you with a signature ready 5500 form for you to sign and send directly to the EBSA. If your plan is on a calendar year-end (ending 12/31), then your Form 5500 must be postmarked no later than July 31st. You may file an extension of the return on the Form 5558, and this will extend the filing date to October 15, 2008. However, if you file the extension, it also must be postmarked no later than July 31st. Check with your plan vendor if you have not received your 5500 or if you need to file an extension.

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IRS & DOL Updates (Part II)

Last month we provided some insight into issues discussed by employees of both the IRS and Department of Labor (DOL) at the American Bar Association's Tax Section May Meeting held May 8-10 in Washington, DC. Please recall these individuals carefully couched their statements as their own, and not official representations of their respective regulatory agencies. As promised in last month's article, this Part II of the IRS & DOL Update provides a few more of the topics covered:

- Fee disclosure regulations (DOL)
 - Annual reporting on 5500 changes
 - Reasonable contract (ERISA section 408(b)(2)) regulations
 - Participant level disclosure requirements
- Timely remittance of contribution safe harbor for plans with 100 or less participants (7 days) (DOL)
- Update of electronic disclosure/notice regulations (DOL)
- Voluntary Compliance Program (IRS)
 - Filings up 39% in 2007 – additional 21% increase to date in 2008
 - Cases processed to completion within 173 days (much more expedient)
 - More self-correction actions to be added in an upcoming revenue procedure
- Rollovers to Roth IRAs from 401(k) plans to be addressed (IRS)
- Guidance regarding rollovers from U.S. 401(a) plans to Puerto Rican qualified plans is being designed (IRS)
- Allowance of automatic plan features for some, but not all, employees (IRS)
- QACA rules require participants previously enrolled at a percentage lower than 3% to be increased to 3% (unless they opt out) during the first plan year for the safe harbor to apply (IRS)

If you have any interest in any of the topics listed above, or would like to learn more how the IRS/DOL's opinions may impact your plan, please contact your plan consultant or email bwright@twgservices.com.

Why Go It Alone? Participant Investment Advice

Charles Schwab recently conducted an analysis of the 401(k) plans for which they provide services. The purpose of the study was to determine if participants who were provided with investment advice realized a greater return than participants who made their own decisions with no professional assistance. The study found that investors who used professional investment advice experienced greater returns than those who do not access professional advice. For the 2006 calendar year participants who used an independent investment advisor to help make investment decisions earned an average return of 14.1%, while those who did not realized an 11.1% return. This lends credence to the premise that the average participant can benefit from investment advice given by an independent professional. If one were to hypothetically calculate that difference over a 30-year period (assuming no further contributions are made) the person who received the advice would have more than double in their account than the person who did not. While no one expects returns in any one year to recur for 30 years, it is certainly possible that the person utilizing the professional investment advice is likely to enjoy a greater account balance as a result. Apparently, the regulators have reached this same conclusion as the Pension Protection Act of 2006 offers certain safe harbor for plans that offer investment advice (subject to specific procedures). For more information on this topic, email bwright@twgservices.com.

Communication Corner: Making The Most Of Your 401(k)

This month's sample employee memo looks at some common "Do's" and "Don'ts" when it comes to saving for retirement. Email bwright@twgservices.com for a copy you can print and distribute to employees.

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