Retirement Report

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

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Market Update: Implications Surrounding the Turmoil on Wall Street

Recent turmoil on Wall Street has left the markets in a state of crisis, leaving some of the industry's largest financial stalwarts beaten up and in some cases, left for dead. As the credit crunch and liquidity crisis begins its second year, the U.S. Government made clear over the past weekend that the support it had given to other firms such as Bear Stearns, Fannie Mae and Freddie Mac, may be fleeting. Lehman Brothers, in a bid to win the Government's support to stay afloat, failed, and on Monday the 15th filed for Chapter 7 bankruptcy.

Accordingly, September 15th saw the largest one-day point drop for the U.S. market since the September 11th, 2001. Tuesday, the 16th, saw a change of events when the U.S. Government decided to rescue AIG, suggesting that maybe, this firm was "too big to fail." Regardless, the financial markets are now mired in a state of panic. Other financial institutions may face similar situations if they are not successful in raising additional capital, or in being acquired by a partner with capital sufficient to withstand the current environment. Merrill Lynch, for example, found a partner in Bank of America. Leveraged positions built up over the past 10 years are now in trouble amid a poor housing market and lack of liquidity, and the current de-leveraging phase has, is and will be very painful.

The current environment has not only been challenging for financial institutions and investment managers trying to navigate the turbulent markets, but also for plan sponsors and participants who rely on their retirement plan(s) as the main vehicle for their retirement savings. The prudent course of action for the plan sponsors is to continue monitoring the underlying investments and strategies used in the Plan. Are they appropriate, are they managing risk? Monitoring the current crisis and its resulting impact to the investments offered in the plan is a serious fiduciary role.

For plan participants, a new course of action is only warranted if it is the right one. Evaluating one's own situation, diversification among asset classes, having the right mix and high enough default rates, is warranted, and leads to the positive actions a participant can make. Bailing out of the markets and the 401(k) is the wrong action, which can be detrimental to future long-run retirement savings. Timing the market has proved to be futile, and with current market conditions as they are, there is no clear direction as to where we are headed and for how long. With losses now over 20% from the market's peak last October, we are technically in a bear market. The good news is that as the bear market draws on it gives participants time to "get in" while markets are low.

The U.S. market, in particular, is dynamic and resilient in moving on from crisis after crisis throughout the history of its existence. While the Great Depression may be too long ago for most to remember, it wasn't long ago we endured September 11th and the dot-com bubble. The implications surrounding the current turmoil should call on the plan sponsor and participant to focus on what they should otherwise be doing on a regular basis. Be mindful of the situation, but diligent about the process.

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Survey Says: Single Women Falling Behind the Retirement Savings Curve

According to the Ninth Annual Transamerica Retirement Survey many single women are ill-prepared and unlikely to achieve a financially secure retirement if they don't take action now. The survey reports that single women estimate needing a median amount of $500,000 by the time they reach retirement – an amount nearly two-thirds of respondents admitted was simply a guess. More than one-third report that they have saved less than $25,000 for retirement, while only one in 10 reports having saved more than $100,000. Only 6% completed a worksheet or calculation, or received their estimate from a financial adviser.

The survey found that single women most frequently cite 401(k) plans and IRAs as their expected primary source of income in retirement, yet only 69% of single women who work full time report that their current employer offers them a 401(k) plan. The majority of single women cite either "just getting by" (33%) or "paying off debt" (30%) as their greatest financial priority while only 17% cite "saving for retirement," Transamerica said.

Fiduciary Obligations 101

In accordance with ERISA and related Labor regulations and guidance, plan sponsors and other fiduciaries must exercise an appropriate level of care and diligence given the scope of the plan and act for the exclusive benefit of plan participants and beneficiaries, rather than for their own or another party's gain. Responsibilities of fiduciaries include:

- selecting and monitoring any service providers to the plan;
- reporting plan information to the government and to participants;
- adhering to the plan documents, including an investment policy statement;
- identifying parties-in-interest to the plan and taking steps to monitor transactions with them;
- selecting and monitoring investment options the plan will offer and diversifying plan investments; and
- ensuring that the services provided to their plan are necessary and that the cost of those services is reasonable.

ERISA allows plan sponsors to hire companies that will provide services necessary to operate their 401(k) plan if certain conditions are met. In general, ERISA prohibits parties-in-interest – such as service providers, plan fiduciaries, the employer, the union, owners, officers, and relatives of parties-in-interest – from doing business with the plan, but provides various exemptions to these prohibited transactions.

For more information on understanding your basic fiduciary responsibilities, and for more on prohibited transactions, please contact your Plan Consultant or email bwright@twgservices.com.

Communication Corner: "Staying the Course"

This month's sample employee memo corresponds to our feature article about recent market turmoil on Wall Street. Participants are encouraged to remain diversified and not panic in these times of crises. Email bwright@twgservices.com for a copy you can print and distribute to employees.