Retirement Report

News and updates for plan sponsors and fiduciaries of defined contribution plans

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Every Fund Has Style!

Benefit Planning Specialist, Inc.'s Investment Due Diligence process places an important emphasis on a fund's style, employing a technique called "quadratic optimization." A big word, and even bigger mathematical equation, which basically calculates the style of a fund, reflecting how a fund behaves, or what segment of the market the fund best represents. Most managers have a unique investment philosophy that decidedly places them in some segment of the equity or fixed income marketplace. The U.S. equity marketplace has some of the most numerous and varied managers, whose focus ranges from large company stocks to small company stocks, and whose stock prices may be considered to be "value" (companies with low prices relative to various accounting measures) or "growth" (fast growing companies with high growth rates). Many managers may also reflect what is called a "blend" style, which means they invest in both "value" and "growth" companies.

Style is important for two reasons. First, it helps us determine whether a plan is well diversified among its various investments. At the most basic level, it is important to have investment exposure in a broad array of asset classes, from U.S. equity and international equity to fixed income. Understanding a fund's style within these asset classes allows the investor to be well diversified, or said another way, not have "all of his or her eggs in one basket." For some asset classes, such as U.S. equity, there is often a greater level of analysis that needs to be done to determine the diversification among the different styles. Secondly, style helps us determine manager skill. Without style analysis, we would not be able to tell with any certainty if a certain benchmark is correct for a fund, or if that fund is being classified in its most appropriate area. A well performing small cap fund may look attractive against the S&P 500 Index (a large cap benchmark), but analyzing it more closely against an appropriate small cap benchmark may lead to the conclusion that the manager has done a poor job selecting small cap stocks (due to the fund's "relative" performance). Indeed, measuring a fund against its most appropriate benchmark helps us find the most skilled managers in their respective categories.

~Jeff Elvander, CFA
Chief Investment Officer

Record Retention: What to Keep and for How Long

When it comes to plan-related document storage remember that your primary goal should be to preserve materials in a format allowing for quick and easy retrieval. It's appropriate to store plan records electronically whenever possible. Also, be sure to retain an executed copy (or countersigned copy, as applicable) of each record and not the unsigned original that may have been sent to you for signature. While most providers can provide reports and current plan documents, the plan administrator remains ultimately responsible for retaining adequate records that support the plan document reports and filings.

Documentation	Retention Requirement for Audit Purposes*
Plan Documents (including Basic Plan Document, Adoption Agreement, Amendments, Summary Plan Descriptions, and Summary of Material Modifications)	At least six years following plan termination
Annual Filings (including 5500, Summary Annual Reports, plan audits, distribution records and supporting materials for contributions and testing)	At least six years
Participant Records (including enrollment, beneficiary, and distribution forms; QDROs)	At least six years after the participant's termination
Loan Records	At least six years after the loan is paid off
Retirement / Investment Committee **meeting materials** and notes	At least six years following plan termination

For litigation purposes, we recommend that documents be retained indefinitely.

If you have questions, contact your Benefit Planning Specialist, Inc. plan consultant or email msouchek@cambridgeresource.com.

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By the Numbers: Industry Report Reveals Retirement Plan Trends

Principal recently released their The Total View 2011 report, which examines changing trends within the retirement plan services marketplace. Principal gathered data from a variety of retirement plans including defined contribution (DC), 401(k), 403(b), defined benefit (DB), employee stock ownership plans (ESOP), and nonqualified plans (NQ). The data from just DC plans included over 30,000 plans, with 3.1 million participants and $95.6 billion in assets. Below is a summary of the key findings.

Savings improvements:

- Over 19% of participants increased their contributions, while 9.7% either decreased or stopped contributing altogether.
- Average salary deferral amounts in 2010 were higher than in 2009, but still below 2008 levels.
- Number of participants using lifecycle investment options increased nearly 12% from 2008 to 2010.

Retirement income planning:

- Less than 20% of participants nearing retirement have actually created a plan for distributions.
- 56% of pre-retirees believe that withdrawal rates of 6% in retirement are sustainable, and over 33% believe 8% or more is sustainable, despite most financial experts suggesting 4%.
- Nearly 60% of participants are unfamiliar with the concept of retirement income planning.

A general rule of thumb for participant savings:

- Most participants, according to Principal, should be saving 11%-15% of their pay (including employer match).
- Most plan sponsors felt employees should save 12% of their pay.
- Median response from financial professionals suggest saving approximately 15% of their pay (including employer match) to have enough income during retirement.

Automatic provisions and restructuring the match:

- Contribution levels are more than 19% higher for plans that utilize automatic enrollment and automatic escalation, than plans that don't offer those automatic features.
- 61% of participants reach an overall contribution level greater than 11% when their employer defaulted them at 6%. This is nearly twice the amount of participants who got to 11% after being defaulted at 3%.
- Stretching the match can be useful to increase contribution rates. Consider changing a 50% up to 4% of pay match to a 25% up to 8%. Principal saw increases in the average participant contribution based on stretching the match formula, which is evidence that many employees just stop their contribution amount at the basic match formula.

For information about "participant experience" metrics specific to your plan, please contact your Benefit Planning Specialist, Inc. plan consultant or email msouchek@cambridgeresource.com.

Communication Corner: Five Steps to Take in Turbulent Times

This month's sample participant communication memo reminds participants to be proactive in times of volatile markets. Key point: staying invested in times of market turmoil will help you participate fully in potential market gains. You can access this and other memos by sending an email to msouchek@cambridgeresource.com or calling 402-466-5109.

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