

# Retirement Plan Trends

April 2009

Losses of 40.3 percent in the S&P alone kept U.S. investors riveted to financial news in 2008. 401(k) participants in companies across the country were among those most battered by market losses. The following are just a few of the statistics that are ringing alarms throughout the retirement plan arena:

- According to U.S. News and World Report, the average stock fund lost 38 percent in 2008;
- In February of 2009, the Stock Market hit its lowest levels since 1997;
- A new study from the Employee Benefits Research Institute (EBRI) shows that the average retirement account lost between 15 and 25 percent, large accounts and older workers were hardest hit;
- Even target funds (funds managed by experts according to retirement timelines or specific investment strategies) were also hard-hit. Morningstar reported that even conservative funds lost an average of 22 percent in 2008; and
- A recent survey from Watson Wyatt showed that 12 percent of responding companies indicated that they would be decreasing or eliminating company matches for their retirement plans.

Plan sponsors are seeing trends that will directly impact the workplace including:

- Despondency among employees over losses in retirement plans that form one of the most important components of a company's benefits program. Along with these losses comes greater scrutiny from participants and regulators on the employers who offer plans, including selecting and overseeing their underlying investments;
- Morale and retention issues as employers whose own strained bottom lines (and benefits budgets) have forced them to decrease company contributions to 401(k) accounts or consider prospective benefit cut-backs;
- Reduced plan participation and savings levels due to employees' lack of market confidence or need for money.

Such trends will potentially have a huge impact on retirement accounts in the future and an employer's ability to survive nondiscrimination testing; and

- A potential trend of delayed retirements as employees lack the funds to transition out of the workplace.

Here are a few ways that companies can deal with the storm of uncertainty around their retirement plans:

**Keep the lines of communication open.** Plan sponsors should ensure that they are communicating with employees about company successes and challenges, especially if benefit reductions appear to be on the horizon. Uncertainty is often worse than bad news; while open handling of challenges can help motivate employees to work with leadership to help the company turn the corner.

**There's no better time for retirement education.** Active retirement education programs are always critical to helping participants gain the most benefit from 401(k) plans, and can go a long way towards easing fears and discomfort in times of market decline. It is critical that participants be provided with the tools and information to ride out volatile markets, including:

- Asset diversification and portfolio rebalancing;
- Long-term benefits of plan participation, which will form the core of their income in later years; and
- Buying in a down market.

**Review the investment vehicles in the plan.** On a quarterly basis at the minimum, plan sponsors should review the investment vehicles offered in their retirement programs to ensure that funds remain suitable for inclusion in the plan portfolio. Reviews should include at a minimum:

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- Historical fund performance (over long-term, not short-term);
- Manager stability, including tenure and performance;
- Asset allocations of portfolio (i.e., has there been style drift, or is the fund still suitable for the particular niche in the portfolio); and
- The health of the institution providing the investment vehicle.

**Educate fiduciaries on their responsibilities as well as the potential risks of their positions.** Such education should occur at least annually and include not only named fiduciaries, but also those who substantively participate in the administration or oversight of the plans.

**Prepare for the finalization of new fee disclosure rules.** In 2008, the Department of Labor published long-awaited proposed guidelines that would greatly increase disclosure requirements of underlying plan fee structures by plan sponsors. These new rules are expected to be finalized in 2009, and will necessitate significant effort from plan sponsors to make sure that participants understand not only the more evident fees charged by fund providers and record keepers, but underlying revenue-sharing arrangements or less visible management fees, such as 12(b)(1) amounts.

**Review or develop your investment policy.** Every plan sponsor should have an up-to-date investment policy that describes the strategy of plan fiduciaries in selecting investment vehicles for inclusion in a plan portfolio and the process for monitoring these vehicles on a regular basis. Also noted should be a sponsor's action plan for removing investment vehicles that no longer fit the policy.

**Establish internal audit protocols.** Every benefits administration function should conduct a quarterly internal audit to ensure that plan records are in order, contributions are flowing in a timely and accurate manner and other required administrative actions are being taken. These audits should be formally documented.

**Keep a vigilant eye on compliance activities.** Compliance issues are potentially expensive and damaging for plan sponsors and scrutiny is increased even more at times of market volatility. Don't be "penny wise" by curtailing resources for compliance. Make sure plan documents and summary plan descriptions are up-to-date and being disseminated correctly. Ensure that your plan is being operated in accordance with its terms. Finally, make sure you are on top of regulatory changes at all times. (For example, are you aware that minimum required distributions for employees over age 70 and a half have been waived for 2009, under the Worker, Retiree and Employer Recovery Act of 2008, signed in late December?)

As the financial markets continue to struggle, retirement plan sponsors must be more on their game than ever before. For more information on retirement plan trends, contact Helios HR at (703) 860-3882, email us at [info@helioshr.com](mailto:info@helioshr.com) or visit our website, [www.helioshr.com](http://www.helioshr.com).