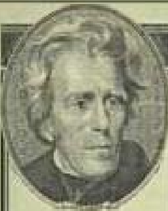

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EXECUTIVE BENEFIT PLANS, INC.

Employee Benefit & Pension Specialists

Plan Insight

A Qualified Plan Newsletter for Plan Sponsors

JULY 2010

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Measuring The Impact Of 401(k) Fee Disclosures

Starting soon, 401(k) plan sponsors will be required to tell employees clearly just how much they pay in fees. In turn, investment firms will have to spell out for plan sponsors what they shell out in charges. How might all this candor about costs change the settled world of 401(k) plans?

By one estimate, fees could plunge $700 million per year as plans bargain harder, buy services à la carte, and replace mutual funds with less-expensive institutional funds and separate accounts. Benefits officers might be swamped with employees incensed at 401(k) charges. And recordkeepers could find themselves having to frantically rewrite computer programs.

Or, then again, nothing much might happen. Participants still won't bother to read 401(k) material, and hence will continue to ignore fees. And retooling computer systems might cost recordkeepers only a few dollars per investor. Whatever the case, the 401(k) realm will know soon enough: The Department of Labor hopes to issue plan participant rules by this summer, and has released a plan sponsor–service provider version.

"For individuals, it's really important to understand how their account balance is affected by fees," says Phyllis Borzi, the DoL assistant secretary who supervises the Employee Benefit Security Administration, which oversees 401(k)s.

Without Washington's saying a word, annual fees for the most common 401(k) funds slid from an average of almost 66 basis points in 1997 to 54 in 2008, according to the Investment Company Institute. One reason: Plans can negotiate better rates as they grow. In addition, plans are shopping around for lower-priced funds. Lawsuits alleging overcharging have also spurred closer scrutiny by employers.

There are three basic 401(k) levies:

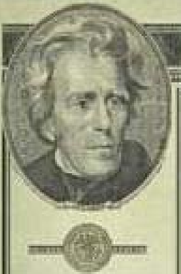
Measuring The Impact Cont'd.

investment management fees, fees for special services like loans, and administrative fees covering recordkeeping, accounting, compliance and other plan wide work. Participants pay the first two in all cases, and in 59 percent of plans they also fork over the administrative fee, according to consultant Hewitt Associates of Lincolnshire, Illinois.

Payment information must already be included in fund prospectuses and may also appear in plan descriptions or on employers' Web sites. Yet most experts say that few employees understand what they're paying, because it typically comes out of returns. "There are participants who don't realize they're paying a thing," says Robert Liberto, a senior vice president at New York benefits consultant firm Segal Co.

Many plan sponsors, especially at smaller companies, aren't much better informed. "A lot of employers think recordkeeping is free," because it's wrapped up with other fees, Borzi says. Particularly mysterious is the fee-splitting arrangement called revenue sharing — the fees that outside funds pay to a recordkeeper to be included in a plan. The DoL worries that such arrangements hide a conflict of interest.

Some in the industry are skeptical of the whole thrust of disclosure. The 2008 proposals were going to require so much information that it's not likely participants would have read it, says Robyn Credico, national director of defined-contribution consulting for New York consulting firm Towers Watson. By contrast, most consultants and plan sponsors, too, want a detailed fee breakdown. Employers, says Hewitt's director of retirement research, Pamela Hess, should know the answers to such questions as "How does my vendor make money on rollovers?" Nevertheless, as Segal's Liberto points out: "Providers have been reluctant to give this information. It identifies the significant amount of money they're



receiving."

David Wray, president of the Profit-Sharing/401(k) Council of America, says a detailed breakdown may not matter much for most employees, who have become less active in reading the fine print. With the advent of automatic enrollment and target-date funds, he says, participants are saying, "Make the decision for me."

Americans' Savings Problems Self-Imposed

According to financial advisers, the largest impediments to Americans' financial security are self-imposed. ---

A survey from the Principal Financial Group found advisers said the top three roadblocks to Americans' financial security are living beyond ones means (70%), not saving enough (66%), and fear (62%). Rounding out the top five were not saving for retirement early enough during working years (56%) and reluctance to take financial action (55%).

As for how much people should be saving in order to have enough money in retirement, on average, advisers indicated their clients should be saving around 17% of their pay. One quarter of advisers said their clients should be saving 10% of pay, 30% suggested savings of 15% of pay, and 29% of advisers said clients should be saving at least 20% of pay in order to have enough money in retirement.

When asked what the number one factor was that has impacted their clients' overall financial well being in the last decade, the largest number of advisers (29%) said it was the Dow Jones Industrial Average dropping below 7,000 points in March 2009. Also cited by about one-fifth of advisers each was the collapse of Lehman Brothers in September 2008 (22%) and the real estate market decline (20%).

However, when employees and retirees were asked this question in a recent Principal Well Being Index survey at the end of 2009, Principal said they were most likely to say it was the price of gasoline in September of 2008.

In order to help clients get back on track, advisers are telling clients to pay down debt (72%), increase retirement savings

(65%), increase emergency fund savings (57%), spend less money (57%), and talk with their financial adviser more often (56%).

Furthermore, advisers are connecting with clients more actively. Eighty-one percent of advisers are touching base with clients on a regular basis to help them deal with increased financial worry brought on by the downturn in the economy; 71% are providing reassurance to ward off stress; and 65% are helping clients create a financial plan to help them deal with recent financial stress brought on by the downturn in the economy.

The survey, commissioned by the Principal Financial Group and conducted by Harris Interactive, included feedback from a nationwide sample of 650 producing financial advisers, including independent broker/dealers, wire house and regional brokerage firms, insurance agencies, independent wealth management firms, banks, and independent asset management firms.

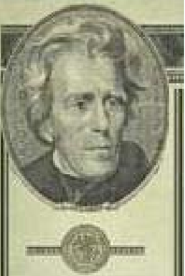
Transamerica Fiduciary Management Program[SM]

Transamerica provides a range of tools to help satisfy the investment portion of your fiduciary responsibility, which can give peace of mind to clients' as plan fiduciaries.

Extra Assurance for Plan Fiduciaries Transamerica's Fiduciary Warranty provides extra support for your plan's fiduciaries. Our Fiduciary Warranty provides specific covenants that your investment choice line-up will:

- Satisfy the applicable requirements set forth under section 404(c) of ERISA that plans offer a broad range of investment alternatives;
- Meet the prudence requirement of section 404(a)(1)(B) of ERISA, that the investment choices be selected according to prevailing industry practices and generally accepted investment theories; and
- Be appropriate for long-term investing.

If you are a Transamerica client and wish to discuss this, contact us directly, or call the Transamerica Plan Sponsor Desk for details at (866) 498-4557.



401(k) Participants Retreat from Equities in May

-- As the Dow Jones Industrial Average slid more than 7% in May, 401(k) participant transfers became strongly fixed income-oriented, according to the results of the Hewitt 401(k) Index. --

A total of $635 million moved from equities into fixed income investments during the month, which represented 0.55% of total assets. Eighty percent of days during the month saw fixed income-oriented transfers.

Participants reacted strongly to the downturns of the market, the data shows. On May 6, when the Dow Jones Industrial Average was down 3.2%, net transfers were strongly fixed income-oriented, in total four times the typical average, Hewitt said. Again, on May 20, volumes of transfers (fixed income-oriented) were three times the norm when markets were down 3.6%.

The three fixed income asset classes received a total of $706 million of net transfers, which represented 86% of the inflows in May. GIC/stable value and bond funds received $424 million and $248 million, respectively. Company stock funds also experienced positive inflows of $113 million.

On the other hand, all diversified equity asset classes saw net outflows. As the MSCI EAFE Index declined more than 11%, international funds had the biggest losses, with $247 million moving out of these funds. Large and small U.S. equities also experienced $195 million and $121 million in outflows, respectively, followed by lifestyle funds with $109 million.

Volumes of transfers were significantly higher than average, according to the Index. Overall, 0.06% of balances were shifted on a net daily basis, a level not seen since the first quarter of 2009. For the month, net transfers were 0.70% of total assets, considerably higher than the 0.46% average since the inception of the index.

Nine days in May had an above-normal level of transfer activity, with two-thirds of these days being fixed income-oriented.

401(k) participants' equity contributions were nearly unchanged at 61.1% at the

401(k) Participants Retreat Cont'd.

end of May, according to the results of the Hewitt 401(k) Index.

Lifestyle/premixed funds took in more than a quarter of employee-only contributions, while GIC/stable value funds pulled in 18%, and Large U.S. equities received 17%. Seven percent of employee-only contributions went into company stock funds.

Overall contributions followed a similar pattern with 24.75% going into Lifestyle/premixed funds, 17% into GIC/stable value funds, and 16% into Large U.S. equities. Company stock funds received 11.96% of overall contributions.

However, due to both market declines and participant transfers, the overall equity allocation of the 401(k) index was down significantly from 59.5% at the end of April to 57.3% at the end of May.

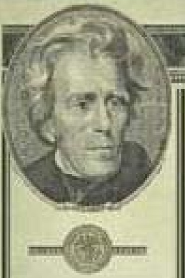
DoL News - Target Date Funds

On May 6, DOL/EBSA and the U.S. Securities and Exchange Commission issued guidance to assist investors and plan participants to better understand the operations and risks of target date fund investments. Target date funds, also known as life cycle funds, are designed to provide a convenient way to invest for retirement by automatically reallocating funds from higher to lower risk investments over time as the fund's target date approaches. There can be significant differences in how target date funds invest and how they reallocate assets between equity and fixed income investments up to and through the target date of the fund. This guidance helps in assessing the benefits and risks associated with target date funds and the appropriateness of including such investments as part of a retirement portfolio.

Why Add Automatic Enrollment to Your 401(k) Plan?

By providing a 401(k) plan to your employees, you have helped many of them start on the road to a secure retirement. You may be looking to increase participation in your plan so that more of your employees will get started. If so, an automatic enrollment 401(k) plan may be the option for you.

Automatic enrollment permits you to act on your employees' behalf by getting



Why Add Automatic Enrollment Cont'd.

them to build their retirement savings with pre-tax employee contributions and matching contributions from you.

Currently, about one-third of eligible workers do not participate in 401(k) plans when offered at their workplaces. Automatic enrollment can reduce the number of employees that do not participate in these plans and can significantly increase their retirement savings. And once your employees are in the plan, it is likely that they will stay in the plan. By adding an automatic enrollment feature to your 401(k) plan, you provide your employees with an important long-term benefit that will help you attract and retain qualified employees.

Automatic enrollment 401(k) plans offer additional advantages. Employers may invest the accounts of automatically-enrolled employees in a default investment that is designed to grow employees' accounts at the pace needed to build adequate retirement savings. Moreover, the employer may be protected from fiduciary liability for having chosen default investments that meet certain requirements.

Automatic enrollment also offers significant tax advantages, including deduction of employer contributions and deferred taxation on contributions and earnings until distribution. Automatic enrollment increases participation, thereby making it more likely that a plan will pass the Internal Revenue Code's nondiscrimination testing.

With more workers approaching retirement, saving is a high priority. Automatic enrollment 401(k) plans are an effective way to get employees to save now and to continue saving. Please call us for more information on how to amend your plan to provide this feature.

Study Examines Plan Sponsor Motivation – Future Changes

A LIMRA news release about its report: "U.S. Employer Trends for Retirement Plans: Implications for Future Retirees," said the study covered more than 500 plan sponsors to assess their outlook about their plans.

Meanwhile, according to LIMRA, the study found that employers with a defined benefit (DB) plan currently looking or considering looking in the next two years for a DC plan provider are more likely to be planning to drop their DB plan in the next two years than those not thinking about a provider search.

Companies with DC plan assets under $5 million are more likely to consider adding other types of DC plans (profit sharing, money purchase) than companies of other asset sizes, LIMRA found in its poll.

Sponsors with non-401(k) DC plan assets of $1 million or more are more likely than companies with smaller DC plans plan to add a 401(k) plan in the next two years.

Nearly 18% of employers plan to make changes to their company match and nearly half of them plan to increase it.

The study also found that employers:

- have not yet embraced automatic deferral rate escalation or in-plan guarantees;
- offering a Roth 401(k) are more likely to be more committed to preparing their employees for retirement and have providers that are more engaged;
- whose DC providers offer employee education are much more likely to be concerned with understanding legislation, employee retirement readiness, costs, and employees' abilities to make changes to their plans;
- whose providers offer investment advice are more concerned than those who do not with legislative changes, retirement readiness, costs, participation, and employees' abilities to make changes to their plans.

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