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EXECUTIVE BENEFIT PLANS, INC.
Employee Benefit & Pension Specialists

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The Six Biggest 401(k) Mistakes

Your 401(k) for your retirement is like a screwdriver for an assembly. It will help a great deal, but you still have to put in the effort to use the tool properly. 401(k)s bring millions of people in the U.S. many steps closer to a comfortable retirement. But like everything else in life, 401(k)s don't provide absolute retirement security. Here are six mistakes many people are making with their 401(k) plan.

1. **Thinking a 401(k) is it.** Again and again I hear others justify their outrageous spending as okay because they fund their 401(k)s. Just because you contribute to your 401(k) does not necessarily mean that you are going to have a comfortable retirement. Living below your means is still key and a simple fact that is all too easily forgotten.
2. **Relying on auto pilot.** Automatic deposits are a great way to save, but it presents problems when we just deploy the set and forget strategy. Even if your plan allows you to automatically rebalance your portfolio, there's a need to change your allocation based on your continually changing needs. For those who don't know how to change allocations by yourself, learn how by asking your colleagues for tips, or the plan administrator for an introductory guide.
3. **Ignoring alternative investments.** Traditional IRAs, Roth IRAs, savings, and investment accounts are all investments that you should have if you want to enjoy your twilight years. Just because 401(k) plans have tax advantages doesn't mean that it's automatically the best place to put your money. The only way to be certain is to do a thorough comparison of the differences between a traditional IRA and a 401(k).
4. **Paying high expense ratios.** One of the reasons a 401(k) may not be the best place to put your money is that many plans have funds that charge

The Six Biggest 401(k) Mistakes, Cont'd.

unnecessarily high expense ratios. Just as personal finance 101 taught us, you'll need a higher return to justify the higher expense. Keep track -- it's just simple mathematics.

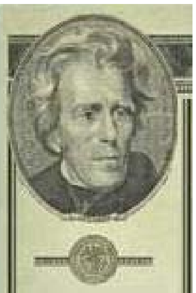
5. **Forgetting that a 401(k) is for retirement.** I shouldn't say forget, because most people probably know this. The problem is actually the temptation of that lump sum whenever there's a job change. Too many people will need to rely heavily on their 401(k) to fund their retirement, but then swiftly deplete their account whenever they change jobs, making their nest egg balance a big fat zero. The lure of now is always greater than the future, but 401(k) plans should be set up to allow for a comfortable future. Never forget that.
6. **Failing to optimize tax breaks.** This is more a missed opportunity than a mistake. Not enough people think about optimizing their entire investment portfolio as a whole. Retirement account assets grow tax free. Consider putting heavily taxed investments in a retirement account and leaving the tax efficient investments in taxable accounts.

While 401(k) plans are great for everyone who is able to participate, having one doesn't mean you are set for life. A comfortable retirement is still your responsibility.

The Four "R's" of the Mid-Year 401k Checkup Process

Recent market volatility has caused many 401k investors to wonder if their retirement savings are on track. Consequently, plan service providers are encouraging people to perform a mid-year review of their 401k plan investments, and have outlined a simple process to help guide these reviews.

The halfway point for the year provides a good opportunity for 401k investors to assess their retirement savings plan, especially given the market turbulence



The Four "R's", continued from page 1

we have experienced of late. It's important to periodically check that your risk exposure, savings rate and plan investments continue to be in line with your overall retirement savings plan and goals.

401k investors should follow the four "R's" when conducting their mid-year 401k check-up:

- **Rebalance:** Once you have established an asset allocation strategy for your 401k portfolio based on your retirement savings goals and time until retirement, review your account every so often to make sure allocations match their original targets. This can be particularly important if the stock market significantly rises or falls. For example, an investor with 60 percent of his assets in mutual funds that invest in stocks and 40 percent of his assets in mutual funds that invest in bonds will likely see the proportion of assets he has in stocks increase if the market were to increase 20 percent, making it a riskier account than it was originally designed to be.

401k investors can manually rebalance themselves or investigate whether their plan includes features that do it automatically, such as an automatic rebalancing tool or an appropriate target date retirement fund.

- **Risk:** Determining the level of risk you're comfortable with can be difficult and is often most clearly revealed during times of market tumult. If you can't sleep at night because you're worrying about your investments, then you're probably taking on too much risk.

However, determining the right level of risk for a 401k portfolio shouldn't be solely driven by whether big swings in the value of your portfolio disturb your rest; your capacity for risk matters as well. Younger investors generally can afford to be more aggressive and take on more risk, because they have a bigger window of time to make up shorter term losses.

- **Review:** 401k investors should also review the amount they are contributing into their plan, especially if they made the decision to lower their contribution rate or stopped contributing to their plan altogether

The "Four R's", Cont'd.

over the past few years. A good rule of thumb is to try saving at least enough to get the full benefit of any matching contribution your employer might make. Of course if you can afford to save more, that's icing on the cake.

Annual salary increases or raises also present a good opportunity to boost 401k savings, because it gives you the opportunity to take home some of the additional income today while also putting additional savings away for your golden years. And, as with most of our 401k plans, people age 50 and older are permitted to make "catch-up" contributions. In 2010, 401k investors eligible to make "catch-up" contributions can save up to an additional $5,500 above the standard limit of $16,500 – a total of $22,000 deducted from gross income contributed as a 'pre-tax' contribution.

- **Repeat:** Staying invested and continuing to boost the amount you save is key to achieving your retirement savings goals, despite market ups and downs. Remember, time in the market is more important than timing the market, and dipping in and out of a 401k is never a good strategy.

For example, during 2009, missing the best 10 days of the S&P 500 (that's 10 days out of 252 trading days) would have reduced your annual return from 26.5% to negative 17.5%. Missing the best 20 days would have pushed your annual return down to negative 38.4%.* Treat your 401k like a lockbox, to be opened only when you reach retirement, and resist the urge to withdraw from the account when times are tough.

* **Source:** *Schwab Center for Financial Research with data provided by Standard and Poor's. Return data is annualized based on 252 trading days within a calendar year. The year begins on the first trading day in January and ends on the last trading day of December, and daily total returns were used. Returns assume reinvestment of dividends. When out of the market, cash is not invested. Market returns are represented by the S&P 500 Index which represents an index of widely traded stocks. Top days are defined as the best performing days of the S&P 500 during 2009. Indices are*

unmanaged, do not incur fees or expenses, and cannot be invested in directly. Past performance is no indication of future results.

When It Comes To Retirement, 67 Is The New 55

Looking forward to retirement? You may have to wait a bit longer. Financial pressures are pushing up retirement ages all over.

William Reichenstein, who teaches finance at Baylor University, tells his students that they will have to save a lot more of their working income if they hope to retire as comfortably as their parents and grandparents, simply because they're going to live longer.

On Wednesday, France, which was the last holdout in Western Europe maintaining an official retirement age of 60, proposed increasing it to 62 by 2018. On the same day, California's Republican Gov. Arnold Schwarzenegger announced a deal with four state public employee unions to raise the retirement age by five years for newly hired workers.

These moves follow several recent age increases across Europe and among U.S. states. Faced with one of the worst pension shortfalls in the country, Illinois in March lifted the retirement age for new state workers from as low as 55 all the way to 67.

The increases also anticipate the coming debate among members of the White House deficit commission over raising the eligibility age for Social Security benefits. The group will release recommendations on lowering the federal debt this fall.

The motivations driving all these various governments are similar. People are living longer and, therefore, are drawing retirement benefits for longer periods. That has placed enormous strain on pension programs of all sorts.

As a result, benefit cuts and higher retirement ages are becoming the norm. "That's where we are," says Sujit CanagaRetna, a senior fiscal analyst with the Council of State Governments. "We're in a very tight situation where these types of changes are inevitable."

Longevity's Price Tag

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finance at Baylor University, tells his students that they will have to save a lot more of their working income if they hope to retire as comfortably as their parents and grandparents, simply because they're going to live longer.

Retirement Ages Around The World

View a sampling of official retirement ages around the world, according to a 2009 report from the Organization for Economic Cooperation and Development, based on data from 2002-07. France is among the countries listed that have already announced plans to raise their retirement ages in the coming years.

"If their parents are going to retire at 65 after working 40 years, they need to plan for about a 20-year investment horizon," he says. "For my students' generation, with life expectancy going up about a month a year, in their cases they have maybe 25 years in retirement they have to plan for", says Adrienne Wollman of NPR.

Another result of longer lifespans in the United States is that the ratio of people paying into Social Security, compared with those drawing benefits, is shrinking rapidly. "We know that in 2017, Social Security will begin paying out for the foreseeable future more in benefits than it collects in taxes," says Richard W. Johnson, director of the Urban Institute's retirement policy program.

The Social Security trust fund will be able to make up the shortfall for 20 to 25 years. "But that trust fund is now being used to offset other parts of the deficit," Johnson says. "Once we can no longer use that trust fund to fund other services, the deficit really balloons."

How Old Is Fair?

That's why President Obama's deficit commission is seriously considering raising the retirement age. Currently, people can start collecting reduced benefits at 62, with full benefits available at 66. The full retirement age is set to rise to 67 for people born after 1960.

Raising the full retirement age by 2020, rather than 2027, would save $92 billion, according to the Congressional Budget Office.

"We have this huge problem we really have to address," says Steven Sass, director of the Center for Financial Literacy at Boston College. "We either have to cut benefits or increase revenues."

Sass points out, however, that raising Social Security's retirement age will disproportionately affect low- and moderate-income workers. People who work longer into old age tend to hold less physically demanding office jobs and are better educated. Those who are less educated or work in manual labor make up a greater share of people who are opting for the lower-paying early retirement benefits. Their numbers are increasing with the recession.

Because Social Security benefits are paid out on a sliding scale — you lose about 7 percent for every year you retire early — raising the full retirement age amounts to a de facto cut for those who are forced to retire early. "It's a terrible way to cut benefits," says Eric Kingson, a professor of social work at Syracuse University and co-director of Social Security Works, a coalition of unions and other groups that lobbies against benefit cuts.

"Life expectancy has improved, but not for all the groups," he says.

IRS 401(k) Questionnaire Follow-Up - Common Questions

IRS Employee Plans Compliance Unit (EPCU) sent the 401(k) Compliance Check Questionnaire to 1,200 plan sponsors in May. As of June 18, 2010, 177 sponsors had completed the Questionnaire and 183 partially completed it.

IRS estimates that there are over 500,000 Form 5500s filed for 401(k) plans, covering over 40 million individuals. The information gathered from the Questionnaire will provide a comprehensive view of 401(k) plans -

their trends, compliance issues and whether the size of the plan is a factor in overall plan compliance. EP will use this information to make future audits more productive and focus on necessary education, outreach, guidance and enforcement efforts.

If you have any questions you should contact the person listed on the letter you received or e-mail EPCU@irs.gov. Some of the most frequently asked questions about the compliance check are:

Can someone complete the Questionnaire for me?
Yes, someone else can complete the Questionnaire for you if you provide them with the information to access it. However, if you would like someone else to communicate with the IRS about the Questionnaire, you must submit Form 2848, Power of Attorney and Declaration of Representative.

What should I do if I get an error message when I try to access the Questionnaire?
Please verify the accuracy of the PIN, Password and Source ID you entered. For example, it is possible the letter "I" was mistaken for the number "1." If this does not resolve the problem, contact the person listed on the letter you received.

The letter references the 2007 plan year, but the instructions request 2008 plan year information.

Please use data as of the end of the 2008 plan year unless the question specifically lists the 2006, 2007 and 2008 years. In this instance, you must answer the question by providing data for all years listed.

I discovered a qualification failure when completing the Questionnaire. What should I do?
Plan sponsors may either self-correct or submit an application under the Voluntary Correction Program. Please refer to Revenue Procedure 2008-50 on our Correcting Plan Errors page. Search for the EPCU Web page at http://www.IRS.gov for more information on the Questionnaire.

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