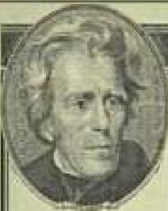

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EXECUTIVE BENEFIT PLANS, INC.
Employee Benefit & Pension Specialists

Plan Insight
A Qualified Plan Newsletter for Plan Sponsors

OCTOBER 2010

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## Timing is Everything

*Saver's Credit: A Bonus for Saving in Tough Economic Times*

Many people are rethinking their spending habits and cutting back these days. However, your retirement savings may be the wrong place to cut back. More money in your pocket now means less money when you and your family may need it later. Try making the most of your salary deferrals. Remember, the more of your pre-tax wages that you contribute to your retirement plan, the less your taxable income will be for the year.

Low- and moderate-income taxpayers can save even more on their taxes by saving for retirement. The Saver's Credit is a tax credit of up to $1,000 ($2,000 if married filing jointly) if you contribute to a traditional or Roth IRA, 401(k), 403(b), governmental 457, SARSEP or SIMPLE IRA plan.

The credit is equal to 50%, 20% or 10% of your contribution depending on your adjusted gross income reported on Form 1040 or 1040A (federal income tax return). The maximum annual contribution for determining the credit is limited to $2,000 per person. *The credit you may claim against your 2009 taxes is shown in the special table on the last page of this newsletter*. *(see table – page 4)*

For 2010, the income limits to claim the credit at the 50% rate are increased to: $33,500 for married filing jointly; $25,125 for head of household; and $16,750 for all other filers. The starting income limits to claim the 20% rate are increased to: $33,501 for married filing jointly; $25,126 for head of household; and $16,751 for all other filers. All other income limits remain the same for 2010.

Claim the 2009 Saver's Credit by filing Form 8880, Credit for Qualified Retirement Savings Contributions.

See Publication 590, Individual Retirement Arrangements (IRAs), for additional information.

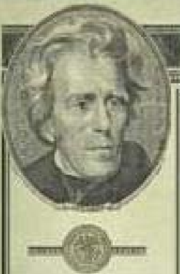
## Retirement Savings is a Top Concern for Employees

WASHINGTON, DC, -- A new national survey conducted by the Employee Benefit Research Institute (EBRI) and commissioned by the Protect 2010 coalition - of which the Insured Retirement Institute (IRI) is a member - found that retirement planning continues to be a top concern for employees across the country.

Led by The Financial Services Roundtable (FSR), the goal of the "Protect 2010" program is to educate the public about the value of workplace benefits and insurance as an important way to protect their assets from unexpected occurrences, which might otherwise become financial catastrophes. The results of this new survey were released in September at a symposium on the current state of workplace benefits and insurance in America.

Among the employees surveyed, 69 percent believe retirement savings accounts to be extremely important in providing protection for themselves and their family, and nearly one quarter (21 percent) consider annuities to be extremely important. In addition, three out of five employees surveyed said they are not confident they will receive Social Security when they retire, with nearly 60 percent of those lacking confidence in Social Security stating that they have been putting aside more money in retirement savings accounts.

"Unfortunately, as the promise of Social Security continues to be on unsure footing, working Americans are coming to realize that they will need more than just that paycheck to sustain them throughout their retirement," said Insured Retirement President and CEO Cathy Weatherford. "Increasingly, they are looking for ways of securing their retirement income through annuities, retirement savings accounts and other insured retirement strategies. Employers can play an important role in helping to connect employees with available benefits





that can lead to a financially sound future."

While a majority of employees receive benefits from their employer, 64 percent purchase additional coverage. Of these employees, 35 percent set aside money in additional retirement savings accounts and 17 percent added annuities to their financial portfolio.

Among the key findings:

- 94 percent of employers offer benefits to their employees.
- Three-quarters of employees are not taking advantage of all of the benefits and insurance offered by their employer.
- Seven out of 10 employers offer retirement savings accounts for their employees. Over half - 54 percent - offer pensions and about one-fourth of employers offer their employees annuities.
- Of those employees offered benefits by their employers, over half participate in the employer's retirement account, about four in 10 receive pensions and 16 percent receive annuities.

The Protect 2010 survey was conducted by the Opinion Research Corporation. A sample of 1,007 adults 18 years old and older, living in private households in the continental United States were interviewed. The survey was conducted from September 10 through September 13, 2010.

**What is an Actuary? - A Brief Overview**

In general, actuaries assess the financial consequences of risks and use mathematics, statistics and financial theory to analyze and determine the financial impact of uncertain future events.

Pension actuaries suggest methods to eliminate or reduce damage to parties if a future event occurs. They are primarily concerned with the payment of benefits, including death benefits, from a pension plan. Pension actuaries also calculate the required amount of an employer's annual contribution to a defined benefit plan to ensure that current and future plan benefits are available to the participants.



*Enrolled Actuaries:*

Many pension actuaries are Enrolled Actuaries - individuals who have satisfied the standards and qualifications of the Joint Board for the Enrollment of Actuaries and have been approved by the Board to perform actuarial services required under ERISA. These individuals have fulfilled knowledge and experience requirements related to pension laws and regulations, including:

- ERISA;
- the Internal Revenue Code;
- Treasury Regulations;
- IRS Revenue Rulings and IRS Notices;
- PBGC Premium Payment Instructions, Regulations and Technical Updates; and
- Department of Labor Regulations and Bulletins.

IRS Employee Benefit Actuaries may either work as a:

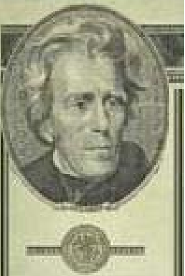
- Policy Actuary in Rulings and Agreements, or
- Field Actuary in Examinations.

*Policy Actuaries:*

- Review private letter ruling requests about topics such as waivers of the Code §412 minimum funding standard, approvals of a plan's change in its funding method or assumptions and correct interpretation and application of ERISA and the Code;
- Work on field agents' technical advice cases to produce a Technical Advice Memorandum on issues such as the correct application of a general Code §401(a)(4) nondiscrimination test on Form 5300-Demonstration 6 attachment;
- Assist in drafting and reviewing regulations, revenue rulings, revenue procedures, notices and announcements;
- Respond to taxpayers' questions;
- Provide expert reports and testimony in a court of law; and
- Assist with special projects (for example, cash balance moratorium cases, promoter investigations (life and annuity insurance) and voluntary compliance cases.)

*Field Actuaries:*

- Assist with retirement plan audits and attend related meetings with pension plan representatives;





- Support revenue agents who work on determination letter applications by reviewing demonstrations, plan documents and answering technical questions;
- Draft responses to information requests and review documents submitted to revenue agents;
- Have expertise in topics including 403(b) arrangements, fully insured plans, governmental plans, employee plans team audits, multiemployer plans and PPA funding and benefit restriction issues; and
- Assist with guidance projects such as developing new regulations.

In addition to these roles, both policy and field actuaries teach new and current IRS employees. They also speak at other professional seminars across the country. Sometimes policy and field actuaries work together on large teams for IRS projects.

**New Law Allows In-Plan Rollovers to Designated Roth Accounts**

The Small Business Jobs Act of 2010 permits employers to amend their §401(k) or §403(b) plans to allow participants to transfer an eligible rollover distribution (ERD) into their designated Roth account in the plan if the transfer is of an ERD:

1. made after September 27, 2010;
2. from a non-designated Roth account in the same plan;
3. because of an event that triggers an ERD from the plan; and
4. otherwise meets the rollover requirements.

The new law also permits sponsors of governmental §457(b) plans to add designated Roth accounts to their plans in taxable years beginning after 2010, and then these plans can be amended to allow in-plan ERD transfers to participants' designated Roth accounts if the ERD meets conditions 2 through 4 above.

If a participant rolls over an ERD into a designated Roth account, he or she must include any previously untaxed portion of the ERD in gross income. However, the rolled over amount is not subject to the additional 10% early withdrawal tax.

For 2010 only, if a participant rolls over



an ERD into a designated Roth account in a §401(k) or §403(b) plan, he or she can include:

1. half of the taxable amount of the rollover in 2011 gross income and half in 2012 gross income; or
2. the entire taxable amount of the rollover in 2010 gross income.

A participant that elects to include the rolled over amount in his or her 2010 gross income may not revoke that election after the due date, including extensions, of his or her 2010 federal income tax return. The participant may also owe estimated taxes on the taxable amount of the rollover for the year or years it is included in gross income or may incur an underpayment penalty.

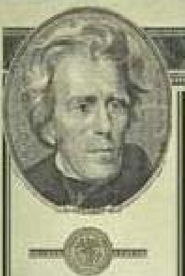
**Plan Loans Proposed to be Reported as Notes Receivable**

(PLANSPONSOR.com) - The Financial Accounting Standards Board (FASB) has unanimously approved its position on how participant loans should be reported on defined contribution plan financial statements.

The FASB's proposed accounting standards update would require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest. The International Foundation of Employee Benefit Plans (IFEBP) explained in a regulatory update that participant loans are currently classified as an investment in accordance with existing DC plan guidance, and most investments held by a plan, including participant loans, are required to be presented at fair value.

In practice, most participant loans are carried at their unpaid principal balance plus any accrued but unpaid interest, which was considered a good faith approximation of fair value.

In comments which were accepted until September 7th, some stakeholders questioned whether that measurement conforms to guidance, which requires the use of observable and unobservable inputs such as market interest rates, borrower's credit risk, and historical default rates to estimate the fair value of



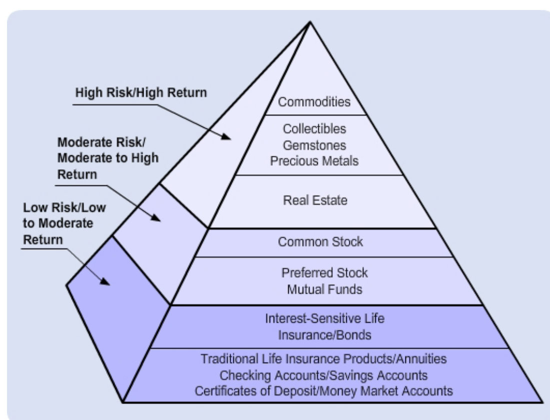
*Plan Loans Cont'd. . .*

participant loans. Other stakeholders have questioned whether the use of those assumptions would result in information that is useful.

The amendments in this proposed update would require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest.

### Fiduciary Perspective: Investment Risk vs. Return

The risk and return relationship of investment products is often illustrated as a pyramid. The base of the pyramid houses products that are characterized by little risk and comparatively low rates of return. As we move up the pyramid, the products grow riskier but have the potential for greater returns.




The idea behind the pyramid is that a personal financial and investment plan should be developed according to similar proportions. Beginning with a base of

*Fiduciary Perspective Cont'd. . .*

financially sound and safe products, the plan then expands to incorporate various investment types, with varying degrees of risk and return potential. Using the pyramid concept as a guide, a diversified investment portfolio emerges, which spreads risk by mixing invested assets among different types of investments. Take a  moment to review the pyramid in terms of risk, return, and liquidity in relation to what your plan offers.

### What is the End Game With Target-Date Funds; Retirement or Death?

An article recently published in a retirement plan industry journal addressed criticisms of the construction of Target-Date Retirement portfolios that are based on a "through" retirement approach. The term "through" retirement implies that the glide-path, the formula by which the portfolio's asset allocation rebalances over time, carries through retirement to death. This strategy is contrasted by the "to" retirement approach, in which the glide-path is designed to end, or become static, at retirement, as opposed to death. Which is right, retirement or death?

On the surface, the case for the "through" approach is a rational argument, based on historical rates of return and patterns of inflation, combined with increasing life expectancies. But this view implies that a DC plan participant, upon choosing a TDF, makes a decision that is intended to carry through until his or her death. Why do your participants choose TDF's? A question to consider when offering TDF's in your plan.

**Tax Saver's Credit Schedule** *(supporting lead article on page 1)*

| Credit Rate | Married Filing Jointly | Head of Household | All Other Filers* |
|---|---|---|---|
| 50% of Contribution | not more than $33,000 | not more than $24,750 | not more than $16,500 |
| 20% of Contribution | $33,001 - $36,000 | $24,751 - $27,000 | $16,500 - $18,000 |
| 10% of Contribution | $36,001 - $55,500 | $27,001 - $41,625 | $18,001 - $27,750 |
| 0% of Contribution | more than $55,500 | more than $41,625 | more than $27,750 |

**single, married filing separately or qualifying widow(er).*

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