

Retirement Report

*News and updates for Plan Sponsors and
Fiduciaries of Defined Contribution Plans*

March 2011

Increase Your Contributions in 2011

This month we wish to remind plan sponsors about the unique opportunity to encourage employees to increase (or begin) their contributions toward the company's retirement plan, as a result of this tax cut.

The new tax bill allows, among other things, for a one year reduction in workers' Social Security taxes from 6.2% to 4.2% for all earned wages up to \$106,800 for the 2011 tax year. For example, a worker earning \$50,000 will save \$1,000 and a \$100,000 earner will save \$2,000 in 2011. An increase in a participant's deferrals equal to that savings would further reduce taxable income and have a positive impact on amounts available at retirement. As a result of this tax change, a participant enrolling at a 3% deferral rate equates to less than a 1% reduction in net take-home pay for 2011 from an identical salary in 2010. If this amount is matched dollar-for-dollar, the new participant would experience approximately a 1% reduction in take-home pay and have a total contribution of 6% of salary. For a \$50,000 earner this would amount to a \$3,000 total contribution (employee + employer) for a reduction in take-home pay of less than \$10 per week.

Although not an end in itself, this opportunity would allow a new participant a terrific start, and an existing participant a great boost, toward a financially successful retirement. Assuming an average 7% annual net return this 3% deferral (if matched at 100%) would generate approximately \$283,000 of additional assets in 30 years for less than a \$10 reduction in weekly pay. Pretty impressive!

For more information contact your Henderson Brothers Retirement Plan Services consultant.

Checking the Right Box On The Form 5500

When you complete your annual Form 5500 you are asked to indicate if your intent is to comply with ERISA Section 404(c). Many times your 401(k) vendor (who typically prepares this form for you) will answer this question in the affirmative on your behalf; however, the "Yes" answer can be considered fraudulent by the DOL in the event the fiduciary did not research and document his or her understanding and acknowledgement of his or her fiduciary responsibilities. If you have not taken the necessary steps in identifying your plan's fiduciaries and documenting their responsibilities, please contact Henderson Brothers Retirement Plan Services.

Retiree Issues: How Long Will the 'Nest Egg' Last?

J.P. Morgan Asset Management recently released their "Retirement Insights: 2010 Guide to Retirement," focusing on important issues and considerations for retirees. Retirement needs continue to show that couples require nest eggs that last for perhaps two decades or more. As a result, the number of people still working during their "retirement" years are increasing. The reasons, categorized as "needs," include the following:

- 57% (keep working) to keep insurance benefits
- 47% (keep working) to make "ends meet"
- 38% (keep working) to buy extras

Others, however, retired earlier than planned for reasons beyond their control, including:

- 42% (retired early) for health problems or disability
- 34% (retired early) for changes at company (downsizing/closure)
- 22% (retired early) for work related reasons
- 18% (retired early) to care for spouse or family member

Another important consideration for retiree is the potential costs of healthcare in retirement. For retirees, without employer medical coverage, the present value of costs for retirees in 2008 was:

- For Men, \$156,000 to cover 50% of possible health outcomes, and \$331,000 to cover 90%
- For Women, \$217,000 to cover 50% of possible health outcomes, and \$390,000 to cover 90%

The present value for costs for retirees in 2018 is estimated at:

- For Men, \$261,000 to cover 50% of possible health outcomes, and \$555,000 to cover 90%
- For Women, \$364,000 to cover 50% of possible health outcomes, and \$654,000 to cover 90%

