Retirement Report

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

May 2011

First Quarter 2011 Market Review: Strong Start

U.S. equity markets continued where they left off in 2010, posting another strong quarterly return of a positive 6.1 percent (DJW 5000 Index). International equities lagged their U.S. counterparts over the quarter, posting a somewhat smaller but still attractive positive 3.4 percent return (MSCI EAFE Index). While riskier small cap growth equities continued to out-perform in the U.S., it was a different story abroad with large cap value equities posting the best returns. U.S. fixed income, reeling from poor negative performance in the fourth quarter of 2010, was flat out of the gate for the first quarter of 2011, posting a small yet positive return of 0.4 percent (Barclays Aggregate Index). Longer term yields inched higher, keeping pressure on the returns in many fixed income markets. All in all, 2011 was off to a strong start in most major market asset classes.

Fixed income markets continued their transition from a level of lower interest rates, with rates gradually inching higher since the fourth quarter's significant move up. The increase in rates has primarily been at the longer end of the yield curve, as inflationary signals and expectations have strengthened; subsequently, certain asset classes out-performed as well. TIPS (Treasury Inflation Protected Securities) was one of the better performing fixed income sectors over the quarter, posting a positive 2.1 percent return. In the equity markets, commodities-based sectors tended to be the strongest with energy being the best performing U.S. equity sector over the quarter, up a positive 16.8 percent (S&P 500 Energy). These signs indicate investors are also starting to anticipate the ending of the Fed's Quantitative Easing policy, which is expected in June 2011.

Additionally, first quarter equity markets held steady during the quarter, given the reversal in higher (long-term) interest rates. Coupled with the issues in the Middle East and Japan, there was no lack of issues to weigh on equity market investors over the quarter. Equity markets continued to benefit from the recovery in corporate earnings, driving long-term mutual fund flows back into equities. The Investment Company Institute estimates investors have put in over $30 billion into equity mutual funds since the beginning of 2011, marking a turnaround from a year ago when many investors were shying away from equities in favor of fixed income.

Survey Reveals Plan Sponsor Attitudes About Advisors

The 2010 Fidelity Investments *Plan Sponsor Attitudes Survey*, which included responses from 503 employers ranging in size from 25 to 2,500 participants, produced the following observations:

- The top three reasons for hiring an advisor include: 1) plan investment assistance, 2) improvement of plan performance, and 3) assistance with fiduciary concerns.
- More plans are utilizing the services of an independent investment advisor. Two years ago 69% (of plans coming to Fidelity) used an advisor and in 2010 that percentage increased to 82%.
- Advisor satisfaction is linked to sponsors' understanding of fiduciary responsibilities. Of the sponsors who indicated they were "certain" or "very certain" of their fiduciary obligations, 71% also indicated they were "very satisfied" with their advisor.
- 63% of plan sponsors said it was "important" or "very important" for advisors to take on a formal fiduciary role.

As your dedicated plan consultant, our primary value proposition is to help our clients navigate their fiduciary responsibilities in a documented, process-driven manner while enhancing investment opportunities for participants. We attribute this aspect of our service model to be a significant differentiator for us in the marketplace and key ingredient in the continued growth of our firm. To learn more about how Henderson Brothers Retirement Plan Services can educate and inform fiduciaries within a best-practices environment, please contact your plan consultant.

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What is the Real Purpose of a 401(k)?

Most plan sponsors, as well as participants, think of 401(k) plans as a tax advantaged savings vehicle. Lately, however, we are hearing more talk about the concept of "Retirement Income" with regard to 401(k) plans. Retirement planning tools are starting to emphasize income replacement and not just account balances. A recent bulletin from the offices of Reish & Reicher entitled "401(k) Account Balances as Monthly Retirement Income" addressed this fundamental shift in the purpose of a 401(k) plan. While historically participant statements have been the resource to show an account balance, statements in the future may be expanded to show what level of monthly retirement income their balance could potentially purchase. At the end of one's career, participants need a "paycheck" to pay their monthly expenses which may include rent, mortgage, automobile, utilities, food, clothing, etc. Not only does that paycheck need to adequately satisfy those expenses, but it also shouldn't run out.

As future retirees, we ask a lot of our 401(k) plans. A typical participant will plan to retire at about age 65. This means that the accumulation phase of the 401(k) should have taken place over about 40 years, from age 25 to 65. But remember that during the distribution phase, a married participant would likely have at least one spouse who will live to see the age of 95. Which means that 40 years worth of contributions, plus earnings, needs to provide income for perhaps 30 years or longer!

In our conversations with participants, we find that few of them have considered much beyond what their balance is today. They often don't see the plan as a savings vehicle to provide income and more importantly, that they may not outlive what it can realistically provide. Sustainable withdrawal programs are typically in the 4-5% range, although market conditions and investments can impact that as well. Thus for every $100,000 that a participant may have accumulated in their account, the amount of income may only be about $4,000 to $5,000 per year, or about $333 to $417 per month. It's the income amount that truly impacts the participant's behavior. The answer to the question of what their true retirement income will be may lead to increased contributions (including catch-up), a change in their retirement/withdrawal date, or even the need for a part-time job.

The Department of Labor and Treasury are requesting more information on the topic of retirement income. The method of reporting this information within a participant statement, if required, will be complex due to the types of assumptions that will need to be made. Look for more on this topic in future newsletters as it develops.

401(k) Assets Hit Record Level

Assets in 401(k) plans reached a record $3.075 trillion in 2010 according to the latest Marketplace Update report from the Society of Professional Asset-Managers and Record Keepers (SPARK) and The SPARK Institute. "Assets in 401(k) plans increased approximately 13 percent in 2010 due to favorable investment results and net cash flow higher than recent trend levels," said Bob Wuelfing, President of RG Wuelfing & Associates, Inc., which prepared the report. "Strong performance across all equity sectors, especially the U.S. market over the second half of 2010, coupled with positive returns in the bond markets, helped push total retirement market assets to an estimated $16 trillion by year-end, 2010." Wuelfing noted that there were 536,000 401(k) plans, covering more than 74 million workers in the U.S. in 2010, compared with 510,500 plans and 73.4 million participants reported in 2009.