



**Benefit Consultants Group**

"Celebrating Service Excellence for Over 50 Years"

# May Newsletter



**ATTENTION FINANCIAL ADVISORS! ONLY A FEW SEATS LEFT!**

## SIGN UP NOW!

### SALES SEMINAR & GOLF EVENT

Benefit Consultants Group and The Bank of New York Mellon are proud to co-sponsor this exciting and innovative sales seminar and golf event.

Don't miss this opportunity to participate in an in-depth seminar designed to bring financial professionals up to speed on some hot topics regarding retirement plan programs, and enjoy a day of golf at the prestigious [Laurel Creek Country Club](#).

Laurel Creek Country Club, 701 Centerton Rd., Mt. Laurel NJ 08054  
Tuesday, June 16  
Sales Seminar Starts at 8 a.m.

*Seating is limited. Please RSVP to [dwhite@bcgbenefits.com](mailto:dwhite@bcgbenefits.com) or contact Deborah White directly at (856) 368-7217.*

*In light of all the press 401(k) plans have been receiving lately, we think the following article, published by the Investment Company Institute, is very appropriate.*

## 10 Myths About 401(k)s- And the Facts

### 401(k)s and the Financial Crisis

**MYTH No. 1:** Thanks to the financial crisis, Americans are bailing out of their 401(k) plans.

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## Get to Know BCG

***Developing a  
Culture of Service  
Excellence...***

***BCG's "New"  
Client Service  
Model***

By Ken Weaver,  
Director of Client Relations

Over the last year, the Client Relations department has made a lot of changes. One of the most exciting initiatives is the introduction of our new enhanced client

**FACT:** Americans are not abandoning their 401(k)s.

True, 401(k) accounts have been hard-hit by the broad economic downturn. One large recordkeeper reports that the average balance in accounts it administers dropped 27 percent in 2008.

But these losses are not driving Americans out of their 401(k)s. ICI's study of 22.5 million defined-contribution (DC) accounts shows that only 3 percent of plan participants had stopped making contributions through October 2008. Only 3.7 percent of plan participants had taken withdrawals from their participant-directed retirement plans, including 1.2 percent who had taken hardship withdrawals. This level of withdrawal activity is in line with past years' experiences. Recent loan activity is also in line with historical experience: in 2008, 15 percent of participants had outstanding loans, compared to 13 to 17 percent with loans in annual studies since 1996. Most loans tended to be small, amounting in 2007 to 12 percent of the remaining account balance, on average.

Retirement-saving assets are down in all forms of accounts because the stock market is down, not because of any fundamental flaw in 401(k)s. In fact, thanks to diversification and ongoing contributions, the average account fared better in 2008 than the S&P 500, which was down 38 percent.

**MYTH No. 2:** Americans have lost confidence in the 401(k) system.

**FACT:** Americans of all income groups support 401(k)s.

A comprehensive survey of 3,000 American households, conducted by ICI from October to December 2008, shows that Americans of all income groups support 401(k)s. Even among households that don't currently own DC plans or Individual Retirement Accounts, large majorities support the tax incentives for these retirement savings plans. More than 80 percent of DC-owning households agreed that the "immediate tax savings from my retirement plan are a big incentive to contribute." More than half of the lowest-income households—those making less than \$30,000—say they probably would not invest for retirement at all if they didn't have a plan at work.

**MYTH No. 3:** 401(k) savers have suffered much greater losses than other retirement investors.

**FACT:** There is no shelter from the market storm: All retirement plans have seen their assets fall.

All retirement plans—DC plans, defined benefit (DB) plans, state and local government retirement plans, and IRAs—are long-term savings vehicles and invest a large share of their assets in equities. Thus, they all have suffered in the market turmoil. The latest data available, from the first three quarters of 2008, show that the assets of private-sector and state and local government DB plans were down 14 percent, and IRA assets were down 13 percent. Assets of 401(k) plans fell somewhat less, by about 11 percent, and 403(b) plan assets were down 10 percent over the first three quarters of 2008. Over the same period, the S&P 500 total return index was down 19 percent.

## **401(k)s' Role in Retirement**

service model. We can now offer our financial advisors and plan sponsors a host of benefits that will make your experience with BCG a more rewarding one.

BCG has established a culture of service excellence that continuously seeks to provide the highest level of client satisfaction. We look to find creative, unexpected ways to anticipate, meet and exceed our clients' expectations, surpassing the level of outstanding service that you expect and deserve.

With our enhanced client service model, you have direct access to your own personal Plan Account Manager who is dedicated to assisting you with all your plan administration needs. They will provide you with personalized attention, and offer you a comprehensive suite of complimentary benefits and services to better serve you.

Our model features the following services:

### **Dedicated Plan Account Manager for Plan Sponsors and Financial Advisors**

- Personal account management and advocacy within BCG to ensure our support meets your unique needs and expectations
- Review and answer questions about your account
- Make recommendations for other BCG services if necessary

**MYTH No. 4:** Before 401(k)s, most workers had defined benefit plans offering guaranteed, risk-free benefits.

**FACT:** Defined benefit pensions never were universal or risk-free. In 1981, before the creation of 401(k)s, not one in five retirees received any benefits from a private-sector pension. For those who did, their median benefit was \$6,000 a year in today's dollars. The golden age of the golden watch never existed.

**MYTH No. 5:** DB plans are fairer to workers and would protect them from the market turmoil.

**FACT:** Today's lower-income workers get better coverage-and more portable benefits-thanks to DC plans.

Today, lower-income workers are more likely to be covered by 401(k) or other DC plans than by DB plans: 19 percent of working age households earning less than \$25,000 have a DC plan, versus only 7 percent with a DB plan. For working age households earning \$25,000 to \$34,999, 42 percent have DC plans, versus 17 percent with DB plans.

Although defined benefit plans will and should continue to be an important component of the private-sector retirement plan system, they are not the answer to the insecurity created by today's markets. As noted, DB plan assets have fallen along with all other retirement assets. Moreover, DB plans expose workers to other forms of risk, such as the risk that the sponsor will freeze workers' benefits (by freezing the plan, terminating the plan, or going out of business) or that a worker will lose or change jobs without accruing significant DB benefits. For today's typical worker-who will hold seven or more jobs in his or her career-DB plans can be a poor fit.

## 401(k)s and Fees

**MYTH No. 6:** Participants in 401(k) plans pay exorbitant fees, up to 5 percent of assets.

**FACT:** The numbers bandied about by critics of the 401(k) system vastly exaggerate the fees that most plans charge.

In fact, the fees that employers and participants pay are very reasonable. ICI and Deloitte Consulting LLP recently compiled a detailed survey of fees paid by 130 plans of various sizes, and using various recordkeeping models. The survey found that the median all-in fee-covering investment, recordkeeping, administration and plan sponsor and participant service expenses-was 0.72 percent of total assets in 2008. In dollar terms, based on the average account size, the median fee per participant was \$346 a year. While fees vary across the market, 90 percent of all plans surveyed had an all-in fee of 1.72 percent or less.

Half of all 401(k) assets are invested in mutual funds. ICI research shows that 401(k) investors concentrate their assets in low-cost mutual funds. The average asset-weighted total expense ratio incurred by 401(k) investors in stock mutual funds was 0.74 percent in 2007, substantially less than the industry-wide asset-weighted average of 0.86 percent.

### Communication

- Priority Notice Calls/Emails of New Products & Services
- Monthly Newsletter and updates written by senior BCG ERISA professionals

### Extensive Educational Opportunities

- Technical Webinars
- On-Demand Video Library

### Payroll Monitoring

- Email notification to advise you of delinquent payroll submission/funding to support plan compliance

### Annual Account Reviews

- Review of all aspects of the plan and BCG performance
- Ad hoc plan consulting and re-confirmation of expectations

### Premier Online Support

- Online enrollment, loans and distributions
- 24/7/365 online investment education and advice for your participants, which provides the plan with additional 404(c) protection

### Welcome Orientation Session for New Plans

- Formal introduction to BCG and the trusted partner program
- Review of plan provisions and confirmation of plan and Financial Advisor expectations

You are certainly in great hands with your Plan Account Manager, who can be reached at 800-524-4015, option 5. However, if

**MYTH No. 7:** The cost of 401(k)s invested in mutual funds is substantially understated because funds don't disclose trading costs-a hidden and excessive fee.

**FACT:** Funds follow SEC rules on disclosing trading costs-and fund managers have strong legal and market incentives to minimize those costs.

All investment products-commingled trusts, separate accounts, exchange-traded funds (ETFs), mutual funds, and others-incur both explicit and implicit costs in buying, holding, and selling portfolio securities. Brokerage commissions are the most obvious and easily calculated trading cost. Other trading costs-market impact costs and opportunity costs-cannot be measured as easily or accurately.

The Investment Advisers Act of 1940 requires all mutual fund managers to seek "best execution" of trades, a standard that requires close attention to total trading costs. Further, trading costs directly affect a fund's performance-the most important consideration that most investors use to judge funds. Therefore, fund managers have strong legal and market incentives to minimize these costs.

The SEC has examined disclosure of trading costs repeatedly and has concluded that the portfolio turnover rate, which measures how often a fund "turns over" its securities holdings, is the best proxy for trading costs. Recent changes to mutual fund disclosure rules make the disclosure of portfolio turnover more prominent in fund prospectuses. Mutual funds also make available to investors, including retirement plans, detailed information on their total brokerage commissions and trading policies.

ICI research shows that 401(k) investors in mutual funds tend to own funds with low turnover rates. The asset-weighted turnover rate experienced in stock mutual funds held in 401(k) accounts was 44 percent in 2007, compared to 51 percent for all stock funds.

**MYTH No. 8:** The mutual fund industry opposes disclosure of 401(k) fees.

**FACT:** Mutual funds have more comprehensive disclosure than any other investment option available in 401(k) plans, and have strongly supported improved disclosure.

Under the securities laws, mutual funds must and do provide robust disclosure of fees and other information of importance to their investors. ICI and its member funds have advocated for better disclosure in retirement plans for more than 30 years. In 1976-at the dawn of the ERISA era and before 401(k) plans even existed-ICI sent a letter to the Department of Labor arguing that participants in participant-directed plans should receive "complete, up-to-date information about plan investment options." ICI has continued to advocate that participants in all plans receive key information-not just on fees, but also including data on investment objectives, risks, and historical performance-for all products offered in 401(k) plans. ICI strongly supports the comprehensive fee disclosure agenda the Department of Labor is pursuing.

## 401(k)s and Smart Investing

**MYTH No. 9:** Participants should base their choices among investment

you should ever have any questions, concerns and/or recommendations regarding our support, please do not hesitate to contact me at 800-524-4015 extension 7223 or [kweaver@bcgbenefits.com](mailto:kweaver@bcgbenefits.com).

## **Free Speaker Service**

If you are a financial advisor and need to hold a seminar for your clients or colleagues, BCG can help.

BCG has speakers available on various retirement planning topics. We will travel at our expense within a 100 mile radius of our Delran office.

### **Seminar topics include:**

- 401(k) Plan Basics
- Cash Balance Plans
- Cross Tested Profit Sharing Plans
- 457 Deferred Compensation Plans
- Non-qualified Plan Basics
- Qualified Default Investment Alternatives
- Dividing Plan Benefits in a Divorce (Qualified Domestic Relations Orders)
- Automatic Enrollment in Plans
- 401(k), 403(b) & 457: What's the

options in their 401(k) plan solely on the options' fees.

**FACT:** Fees are only one factor participants should weigh in meeting their savings goals.

The most important task for a 401(k) participant is to construct a diversified account with an asset allocation appropriate for the participant's savings goals. Fees and expenses are only one piece of necessary information and should always be considered along with other key information, including investment objectives, historical performance, and risks. The lowest-fee options in many plans often are those with relatively low long-term returns (for example, a money market fund) or higher risk (such as employer stock). Most employees will fare poorly if they invest solely in these low-fee options without regard to the risks or historical performance.

Participants must be told that fees are only one factor in making prudent investment decisions-and must be shown the importance of other factors by presenting fees in context. For example, any disclosure associated with employer stock also should describe the risks of failing to diversify and concentrating retirement assets in shares of a single company (especially when that company is also the source of an employee's earned income).

**MYTH No. 10:** 401(k) savers should only invest in index funds because they are always superior to actively managed funds.

**FACT:** Index funds are a good option-but aren't necessarily a "one-stop" solution.

Mutual funds were the first to make index investing broadly available to individual investors more than three decades ago, and today there are hundreds of index mutual funds available in the market. Index funds are innovative investments that are appropriate for many investors in many situations.

However, index funds are not necessarily a "one-stop" solution for retirement investing. Index funds vary widely in their choice of index, which leads to widely varying risks and returns. No one index fund is right for all investors in all markets.

Index funds are hardly immune from market downturns. One of the largest indexed investments, the Federal Thrift Savings Plan's C Fund, which attempts to track the S&P 500 index, was down 37 percent in 2008. The TSP's indexed I Fund, which attempts to track the Morgan Stanley Capital International EAFE Index, was down 42 percent.

Actively managed funds, like index funds, can be excellent investments. The returns that investors receive on either kind of fund will depend heavily on the mix of actively managed and index funds that are considered, as well as the period over which returns are measured. For example, ICI examined the top 10 mutual funds (in terms of 401(k) assets) in 1997, which included some actively managed funds and some index funds. Over the 10-year period to 2007, an investment made at year-end 1997 in those actively managed funds would have earned a higher return (6.82 percent, net of fees) than a comparable investment made in the index funds (5.83 percent, again net of fees).

difference and does it matter.

- ERISA Fiduciary Responsibilities
- ERISA Compliance Reviews

Please contact Steve Sokolic at 856-368-7215.

## "New" Website Features

We've made some recent changes to our website.

We've added a "[Compliance Calendar](#)" to assist you in monitoring your plan's compliance with filing deadlines.

Another feature is an ongoing selection of videos that will be added periodically under our "[Video Library](#)" section.

This month, we added a video entitled, "ERISA Compliance Reviews" presented by our own ERISA attorney, Steve Sokolic.

So, if you haven't visited our site recently, check us out at...

[www.bcgbenefits.com](http://www.bcgbenefits.com)



Employers recognize the benefits of both forms of investing when they select menus of investment options for 401(k) plans. A survey by the Profit Sharing/401k Council of America found that 70 percent of plans offered a domestic equity index investment option in 2007. These are decisions properly left to plan sponsors-fiduciaries who are held to ERISA's stringent standards.



Benefit Consultants Group is the first retirement benefits  
TPA firm in the country to be ISO 9001 Registered.

For more information about our services, please call  
1-800-524-401k, or visit our website at [www.bcgbenefits.com](http://www.bcgbenefits.com)