



JULY 2008 NEWSLETTER



Participants Fall Short of Savings Need in Retirement

According to new research from Hewitt Associates, less than one in five (19%) employees who participate in their companies' 401(k) plans will be able to meet 100% of their estimated needs in retirement.

When factoring in inflation and increases in medical costs, Hewitt predicts that employees will need to replace, on average, 126% of their final pay at retirement, the company said in a press release. This is significantly more than the traditional expert estimates of 70% to 90% pay replacement.

The study, which examined the projected retirement levels of nearly 2 million employees at 72 large U.S. companies using actual employee balances and behaviors, found that on average, employees are projected to replace just 85% of their income in retirement. More than 1.2 million employees (67%) are expected to have less than 80% of their projected needs at retirement, the press release said.

According to research results, the situation is more serious for employees who do not contribute to their 401(k) plans. While

In This Issue

[Participants Fall Short of Savings Need in Retirement](#)

[The Allure of a Plan Loan](#)

[BCG Featured in PLANSponsor's 2008 Recordkeeping Survey](#)



BCG Featured in PLANSponsor's 2008 Recordkeeping Survey

This was PLANSponsor's 10th Annual Defined Contribution Recordkeeping Survey. The questionnaire is distributed to providers of full service and unbundled recordkeeping for defined contribution plans. The questionnaire, which asked for approximately 144 different data points pertaining to each provider's product and service capabilities, was available for providers to complete online between

employees who contribute an average of 8% of pay to their plan can replace 96% of their pre-retirement income at age 65, that number drops to 54% for those employees who do not contribute. Employees who have a pension plan may expect to replace just 62% of their income at retirement if they do not contribute to their 401(k) plan, Hewitt said.

Hewitt's study found that employer-subsidized retiree medical coverage can help employees achieve adequate retirement savings levels. Employees who are offered a high level of employer subsidy - typically covering half of total costs not covered by Medicare - could have their retirement income shortage reduced to only 12% of final pay, rather than the average 15%, if they are saving in their 401(k) plan.

On the other hand, the fact that people are living longer is making the retirement savings picture worse. Hewitt said assuming employees need to prepare for a longer life span - approximately 10 years beyond the expected lifetime of 84 years old for someone age 65 - increases the average shortfall by 80%.

Research Results Lead to Retirement Savings Tips

Results from Hewitt's research seem to suggest the following strategies can help employees boost their retirement savings:

- * Retire later and save more - For employees who contribute to their 401(k) plan, retiring just two years later - at age 67 - and saving 2% more a year (an average of 10% total contribution) boosts projected retirement income replacement from 85% to 107% of final pay.
- * Start early and take advantage of match - Failing to participate in a 401(k) plan may mean leaving money on the table in terms of an employer matching contribution. According to Hewitt research, more than 90% of large companies offer an employer match. Employees hired before the ages of 25 - 35 who have more than 30 years of service at retirement can generally replace over 100% of their final pay at retirement if they contribute, on average, 8% of their pay each year throughout their career.
- * Take advantage of advice and target date funds - Diversify with an appropriate risk tolerance and do not invest too much in company stock.
- * Watch out for fees - Hewitt's study finds that additional annual expenses of 0.25% - the difference between the typical institutional fund and retail mutual fund portfolio - can reduce projected retirement income adequacy substantially over time. For younger employees, these higher costs can erode 401(k)-related retirement income levels by nearly 6% in retirement.

Contact your BCG financial advisor to discuss your financial needs in this changing marketplace.

TECHNICAL CORNER

March late April 2008.

BCG IN THE NEWS...

Listed below is an article that was recently published by The401kWire.

National Financial
Gains Individual
401(k) Partners
By 401kWire.com

Filed on Monday, June 30, 2008

(401kWire.com) - National Financial has a new alliance in the self-employed defined contribution space. The 401kWire has learned that the Fidelity company is working with Benefit Consultants Group and Mid Atlantic Trust Company on an individual 401(k) product.

Beau Adams, Executive Vice President of Business Development at BCG, confirmed that MATC handles the new product's trust services and National Financial provides brokerage accounts as funding vehicles, while BCG does the administration, compliance, documentation and more. According to Adams, the product just launched this month.

Fidelity spokesman Steve Austin said the alliance is "answering clients' demand" and

The Allure of a Plan Loan

Large financial institutions have reported sharp increases in loans (as well as hardship withdrawals) from tax-sheltered retirement vehicles like 401(k) plans. It's not hard to see why loans have become more popular, especially in these challenging economic times. Getting a loan from a company retirement plan (e.g., profit sharing or 401(k) plan, but not a SEP or SIMPLE IRA) usually is quick, can be requested for any reason, doesn't affect a person's credit rating, and often will cost less than a bank loan (typically the interest rate will be prime plus 1%). What is more, the interest paid on the loan will be funneled back into the plan participant's account (and continue to grow on a tax-deferred basis until withdrawals commence) instead of being paid to a lender. Finally, the loan won't have any tax consequences if it is set up properly.

But plan participants shouldn't be lulled into complacency by the idea that they are really "just borrowing from themselves." A plan loan must be timely repaid or there will be unattractive tax consequences. If not handled properly, defaulted loans can cause problems for plan sponsors as well. Participants should be encouraged to treat plan loans as a real legal obligation.

Keeping the loan tax-free. To keep the loan proceeds from being taxable, the following rules must be observed:

- The loan amount can't exceed the lesser of: (1) \$50,000, or (2) 1/2 of the present value of the employee's vested benefit or account balance under the plan. But a loan up to \$10,000 is allowed as long as it does not exceed 100% of the vested benefit or account balance. (These limits are relaxed for certain natural disaster victims.) A participant may have more than one outstanding plan loan at a time. However, any new loan, when added to the outstanding balance of all of the participant's plan loans, can't exceed the plan maximum amount. In determining the plan maximum amount, the \$50,000 ceiling is reduced by the difference between the highest outstanding balance of all the participant's loans during the 12-month period ending on the day before the new loan and the outstanding balance of the participant's loans from the plan on the date of the new loan.
- The plan loan generally must be repaid within five years in substantially level payments, made not less frequently than quarterly, over the term of the loan. The five-year repayment limit doesn't apply to a plan loan used to buy a dwelling unit which, within a reasonable amount of time, is to be used as the participant's principal residence. In general, a refinancing can't qualify as a principal residence plan loan. (The level amortization requirement doesn't apply while the borrower is on a leave of absence not lasting more than one year (longer, if for military service, see below), and either not receiving pay or receiving pay at a rate that's less than the installments required under the loan. However, the loan (plus the interest that accrues during the leave) still must be repaid by the end of the last permissible loan term. Special rules apply if the borrower is on leave for military service.
- The plan loan must be evidenced by a legally enforceable written agreement with terms that demonstrate compliance with the requirements for non-distribution treatment, specifying the amount

described it as "part of an ongoing effort to enhance [National Financial]'s retirement offerings."

"This follows from our commitment to offer best-of-breed products," Austin told The 401kWire, adding that the new product simply "formalizes a process that already exists," as some National Financial clients already offer individual 401(k)s.

"This will be available to all of National Financial's 330-plus broker-dealer clients," Austin said. "It provides a compelling option to those clients when it comes to finding an individual 401(k) product."

On the BCG side, Adams said the Delran, New Jersey-based TPA has a long history of such partnerships.

"We've got a lot of private-label experience," Adams told The 401kWire, adding that BCG is "thrilled" to work with MATC and National Financial, and noting that the latter works with 85,000 financial advisors.

BCG now works with over 2,000 plans, with 190,000 participants and over \$1 billion in assets.

For its part, the Mid Atlantic group of companies works with bank trust departments and TPAs in the

and date of the loan, and the repayment schedule.

Deductions for interest paid. For a plan loan which is not treated as a distribution, no deduction is generally allowed for interest paid or accrued unless the interest qualifies a qualified residence interest.

Nonpayment of plan loan. A plan loan that is in default is generally treated as a deemed distribution. Where the plan provides for a grace period (e.g., borrower has until the end of the calendar quarter following the quarter in which the repayment was missed to make up missed payments) a loan default won't become a deemed distribution until that grace period expires without the default being remedied. For example, if the quarterly payments were due at the end of each calendar quarter, and the participant made the March payment but missed the June payment, the loan would be in default as of the end of June, and the loan would be treated as a distribution at the end of September. Unless there is a separate administrative committee, the plan sponsor, acting as plan administrator, determines when a default has occurs.

A deemed distribution is treated as an actual distribution for purposes of determining the tax on the distribution, including the 10% premature penalty tax that may apply. For example, a 45-year-old plan participant who defaults when his loan balance is \$30,000 (and hasn't made nondeductible contributions to the plan) would owe tax at ordinary income rates on the \$30,000 deemed distribution plus a \$3,000 penalty tax. A deemed distribution also is subject to withholding and information reporting. However, a deemed distribution is not treated as an actual distribution for other purposes, such as determining whether a plan satisfies the restrictions on in-service distributions applicable to certain plans (e.g., 401(k) plans).

If a plan loan isn't repaid, the participant could face two different taxable events: a deemed distribution as described above, or a regular taxable distribution of a plan loan offset amount. A plan loan offset amount is a distribution that occurs when, under the plan terms governing a plan loan, the participant's benefit or account balance is reduced (offset) in order to repay the loan (including the enforcement of the plan's security interest in a participant's accrued benefit). A distribution of a plan loan offset amount can occur in a variety of circumstances where the participant is entitled to receive a distribution under the plan. For example, the plan may require that if the employee terminates his employment or asks for a permitted distribution, the loan must be repaid immediately. A distribution of a plan loan offset amount also occurs when, under the terms governing the plan loan, the loan is cancelled, accelerated, or treated as if it were in default (e.g., where the plan treats a loan as in default upon an employee's termination of employment).

Example: In 2008, a participant borrows \$30,000 from his profit-sharing plan account when it has a balance of \$100,000. For simplicity, we'll assume he never makes any payments on the loan and immediately terminates his employment before a default occurred. At that point his account shows a balance of \$70,000, plus a \$30,000 loan receivable, and he asks for a lump-sum distribution of his account balance. The loan provides that the entire balance is due upon termination of employment. The plan makes a

retirement space, offering custodial, directed-trustee, paying agent and settlement services. According to Tim Friday, Group CEO of Institutional Services, Mid Atlantic supports about 8,000 defined contribution plans and counts nearly \$20 billion in DC assets under administration.

RECENT SEMINARS

Rich Malaspina and Steve Sokolic attended an ASPPA Benefits Council meeting where there was a presentation on the EGTRRA document restatement process.

\$30,000 plan loan offset amount distribution and a \$70,000 cash distribution.

Result: The participant winds up with \$100,000 of ordinary income subject to tax: a regular taxable distribution of \$30,000 for the plan loan offset; and a regular taxable distribution of the \$70,000 balance in his plan. He'll also pay a 10% early withdrawal penalty on the \$100,000 if he is under age 59-1/2.

Note: Had the participant defaulted on the loan prior to termination of employment and a deemed distribution been declared, the plan loan offset distribution would still occur on termination of employment, but the participant would not be taxed on the offset distribution because he was already taxed on the deemed distribution.

Plan loans that aren't repaid can be messy for the plan as well as the participant. Because a plan loan offset amount is treated as an actual distribution for tax purposes, a plan may be prohibited from making such an offset under the terms of the plan. For example, 401(k) plans cannot make distributions before age 59-1/2 unless there is a termination of employment.



"Celebrating 50 Years of Service Excellence"

**For more information about our services, please call 1-800-524-401K,
or visit our website at www.bcgbenefits.com.**

***Benefit Consultants Group is the first Retirement Benefits TPA firm
in the country to be ISO 9001 Registered.***