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SEPTEMBER 2008 NEWSLETTER



403(b) Participants Accumulate Less Retirement Savings than 401(k) Participants

Only 38% of participants in 403(b) plans contribute 6% or more of their salaries to their retirement plans, compared with 48% of private-sector 401(k) participants. In addition, among those eligible to make catch-up contributions, participants in 401(k) plans are twice as likely to be doing so as 403(b) participants.

Spectrum Group's survey of 205 participants in 401(k) plans and 196 participants in 403(b) plans found that just 57% of 403(b) participants receive employer match contributions - considerably fewer than the 74% of 401(k) participants who do. Those enrolled in 403(b) plans are twice as likely as those in the 401(k) group to receive no employer contributions at all.

What's more, participants in 403(b) plans are slightly more conservative investors than 401(k) participants. Overall, 52% of 403(b) participants describe their plan investment strategy as very

In This Issue

[403\(b\) Participants Accumulate Less Retirement Savings than 401\(k\) Participants](#)

[Proposed Participant Disclosure Rules](#)

[Companies Considering Impact of Upcoming Retirements](#)



Companies Considering Impact of Upcoming Retirements

Employers facing an unprecedented talent shortage, with 25% of the workforce nearing

or somewhat conservative compared to 43% of 401(k) participants.

The two groups have about the same number of investment options available to them, but on average, 403(b) participants use a smaller number of these funds than 401(k) participants (4.5 versus 6.1). In addition, 403(b) participants are also less likely to have any of their investments in target-date or lifestyle funds. Stable value funds are the most widely used; 56% of 403(b) participants invest all or some of their balances in them.

Perhaps as a result of these differences, 36% of 403(b) participants report a retirement plan balance of \$50,000 or more, compared to 39% of 401(k) participants. Thirty-eight percent of 403(b) participants have an account balance less than \$10,000 versus 33% of 401(k) participants.

Both 403(b) and 401(k) participants say they expect their retirement plan balances will be their largest asset at retirement (44% and 40%, respectively). The traditional largest asset, equity in a primary residence, ranks second (28% and 30%, respectively).

About half of both groups use professional advisers to assist them with plan investment decisions. The proportions who describe themselves as self-directed and that rely on friends and family members are also essentially the same. However, 403(b) participants report using an adviser associated with a plan provider that they met at the workplace, while 401(k) participants are more likely to use an outside adviser that they met through a referral from a friend or business associate.

Most 401(k) and 403(b) participants have some degree of confidence that they will have sufficient income to live comfortably in retirement (69% of 401(k) participants and 73% of 403(b) participants.)

retirement age, are considering the impact of upcoming retirements on their organization.

According to a Hewitt Associates survey, more than 140 mid-size and large employers revealed more than half (55%) have already evaluated the impact potential retirements could have, and 61% say they have developed or will develop special programs to retain targeted, near-retirement employees.

While only 21% say phased retirement is critical to their human resources strategy today, that number nearly triples (61%) when employers look ahead five years. Almost half (47%) have some type of phased retirement arrangement available to employees. However, 40% expressed an interest in establishing a formal phased retirement program in the future.

Almost three-quarters of employers (72%) say retaining the experience, skills, and knowledge of older workers was the most important benefit to them in offering phased retirement programs. Other key employer benefits include easing the difficulty of replacing key skills

TECHNICAL CORNER

Proposed Participant Disclosure Rules

In last month's newsletter, we described proposed Department of Labor (DOL) regulations requiring service providers to disclose to responsible plan fiduciaries certain information pertaining to their compensation and potential conflict of interest.

On July 23, 2008, the DOL issued proposed regulations that would require fiduciaries of 401(k) plans and other participant-directed defined contribution plans to make new disclosures to participants regarding plan-related fees, investment-related fees and investment performance data. The regulations are proposed to be effective for plan years beginning on or after January 1, 2009.

The proposed regulations require fiduciaries to make disclosures of certain general plan information, administrative and individual expense information, and investment-related information, as follows:

General Information

- Information about how participants may give investment instructions, including any limitations on such instructions, such as restrictions on transfers to or from investment alternatives under the plan.
- A description of plan rules relating to the exercise of voting, tender and similar rights with respect to the available investment alternative options under the plan.
- A listing of the investment alternatives offered under the plan.

In addition to the normal time period for disclosure discussed below, participants must be furnished with a description of any material changes to the required information no later than 30 days after the date of any such changes.

Plan and Account Expenses

- At least annually, an explanation of any fees and expenses for plan administrative services (e.g., record-keeping), and the basis on which such charges will be made to participants' accounts (e.g., pro rata or per capita).
- At least quarterly, a statement of the dollar amount actually charged during the preceding quarter to participants' accounts for administrative services, including a general description of the services to which the charges relate.
- At least quarterly, a statement of individual expenses that are charged to participants' accounts (Such expenses could include, for example, fees for loans, for investment advice or for processing a qualified domestic relations order).

Investment-Related Disclosures

The proposed regulations require, on an annual basis, certain general disclosures concerning the investment alternatives available under the plan, such as the name of the investment fund and investment category (e.g., money market fund, balanced fund, index fund) and whether the investment alternative is actively or passively managed. In addition, participants must be given an Internet Web site address that is specific enough to lead them to additional information regarding an investment alternative, such as its investment objectives, risks, performance and cost.

Performance Data

(52%) and helping with transfer of key skills from experienced to inexperienced workers (50%).

A majority of employers (86%) say one of the largest benefits of a phased retirement program for near-retirement employees was the ability to gradually transition from the active workforce to retirement. Other benefits for workers include providing additional income to supplement their retirement income sources (67%) and/or providing workers with access to employer-subsidized health care (60%).

Of those companies that have begun gathering information, almost two-thirds (63%) use general industry research and discussions with key business leaders and managers as a way to gather information on phased retirement programs. Hewitt said, while less than 30% of companies currently look at diversity data, 41% say they are likely to do so in the future.

Almost two-thirds (65%) of employers surveyed have determined that offering part-time employment (on a year-round basis) is one of the most effective ways of

Specific performance data must be set forth in a prescribed format for each of the plan's investment alternatives. The performance data must include a comparison with the performances of broad-based benchmarks over time periods that are comparable to the performance data periods that are required under the regulations. The DOL expects that most plans will simply identify the performance benchmark already being used for the investment option pursuant to the SEC's prospectus requirements, if applicable.

Investment Fees

The regulations require the disclosure of fees and expenses relating to the purchase, holding and sale of each of the plan's investment alternatives. For each investment alternative with respect to which the return is not fixed or guaranteed, a plan fiduciary or its designee must provide the following information:

- The amount, and a description of, each shareholder-type fee charged directly against the participant's account, such as salesloads, sales charges, deferred sales charges, redemption fees, surrender charges, exchange fees, account fees, purchase fees, and mortality and expense fees.
- The total annual operating expenses of the investment alternative, expressed as a percentage (i.e., expense ratio).
- A statement indicating that fees and expenses are only one of several factors that participants should consider when making investment decisions.

The proposed regulations include model disclosure forms that can be used to satisfy the requirements of the regulations relating to performance data and investment fees.

Timing of Disclosures

Each of the various disclosures required by the regulations must be given within certain specific time frames. The disclosures regarding administrative fees and investment-related information must be provided to participants on or before the date of plan eligibility and at least annually thereafter. The disclosures concerning specific expenses charged to participants' accounts must be provided at least quarterly.

BCG Comment

While it is probable the effective date of the proposed regulations will be delayed and some changes will be made, BCG has already begun preparing for the final regulations to assist you in complying in the most cost-effective manner.

retaining near-retirement workers, and 37% of employers say giving near-retirement employees access to retirement benefits would be effective in retaining talent.

Of the companies that already have phased retirement arrangements in place, about one third (32%) say they are satisfied with their programs. Just 14% of companies said they actually measure the success of their programs, and 70% say they have no measures in place and no plans to implement a measurement strategy in the future.

Recent Seminars

Lisa Novak, Vicky Castagno, Kavita Goculdass, Ralph Marothy and Reed Cline attended the August meeting of the Mid-Atlantic Relius Group. This meeting included presentations on handling the new document restatements for the regulations under the Economic Growth and Tax Reconciliation and Relief Act of 2001, new Department of Labor rules on disclosures to plan participants, and advanced training on the Relius administration system.

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