



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

3Q'09 Market Review: Marching Forward

U.S. equity markets continued marching forward over the third quarter, up 16.3 percent (Russell 3000) and close to the second quarter's record-breaking (over the last 10 years) 16.8 percent mark. These two quarters represent one of the largest back-to-back quarterly percentage gains in history. There is little doubt that equities are now pricing in an economic recovery.

International equities also continued full-steam ahead, out pacing their U.S. counterparts by returning a positive 19.5 percent (MSCI EAFE) for the third quarter. Corporate earnings growth (primarily from cost cutting) helped build confidence, but consumer spending and housing were mostly unchanged. Unlike the second quarter, U.S. fixed income markets also participated on the upside, returning a positive 3.7 percent (Barclays Capital Aggregate Bond) for the third quarter. In fact, bond funds experienced the majority of new fund flows over the quarter, which helped contribute to their strong performance, but also resulted in lower yields. At the end of September the 10-year Treasury was still yielding 3.31 percent, well above the levels seen at the end of 2008 (which were approximately 1 percent lower), when investors flocked to fixed income for safety and away from the declining stock markets.

While any economic recovery is dependent on the consumer and housing markets, the government's market-friendly policies have helped with the current recovery. With capital markets awash in liquidity, investors have cranked up their risk-taking for additional return, driving equity and fixed income markets higher. Current market valuations suggest that a recovery is, indeed, underway. The low rate environment helps, and rates continue to be at their historical low range of 0-.25 percent. This, however, is not likely to last. The Fed indicated their Treasury Buyback Program will end in October and their Mortgage Buyback Program will end in early 2010. Both programs have helped supply additional liquidity to the markets, so these changes indicate a reversal in the Fed's liquidity policies. Removing liquidity now should help temper inflation down the road (a very big concern in the markets), but will also put pressure on both bond and stock market returns. The Fed's removal of liquidity oriented programs indicates that a rate increase may well occur sometime next year; however it will likely wait in deciding when, and by how much, until after these programs have started to successfully unwind. The first big test will occur in October, when the Fed begins to remove part of its liquidity safety net that helped get us to where we are today.

Plan Limits for 2010 Stay the Same

On October 15, 2009 The Internal Revenue Service announced that the maximum contribution levels for retirement plans will not increase for 2010 because of a falling cost-of-living index. Participants in 401(k) and other defined contribution plans will be able to contribute up to \$16,500 to the plans in 2010, which is the same as the 2009 maximum limit. Under the 2010 maximum contribution rates, the dollar limitation for catch-up contributions to an employer defined contribution plan for individuals aged 50 or over remains unchanged at \$5,500. For more information on the limits for 2010, please contact your plan consultant or email 401khelp@hubinternational.com.



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	2010	2009
401(k) Elective Deferrals	\$16,500	\$16,500
Annual Defined Contribution Limit	\$49,000	\$49,000
Annual Compensation Limit	\$245,000	\$245,000
Catch-Up Contribution Limit	\$5,500	\$5,500
Definition of Highly Compensated Employee	\$110,000	\$110,000
Social Security Wage Base	\$106,800	\$106,800

What About the Employer Match?

During difficult economic times the decision to reduce or possibly eliminate matching contributions may be tempting for some plans. While the decision may become necessary, there are other potential cost saving strategies which may avoid this step, including shifting billable expenses to be paid by the plan, renegotiating service provider contracts, lengthening waiting periods for new employees, eliminating costly plan features which may be underutilized (i.e., brokerage account), and/or utilize forfeitures to offset the expense of matching. Because most participants are not saving at an adequate rate to allow them to attain a financially successful retirement, it can be argued that diminishing or eliminating employer matching contributions sends the message to participants that maintaining their contributions may also be less important. According to a Hewitt Associates study, about half of the companies that suspended matches will be restoring them in 2010 (a similar trend occurred when the economy slipped after the dot-com bust). Please contact your plan consultant if you wish to discuss this topic further or email 401khelp@hubinternational.com.

Three Stages of Rebuilding Your 401(k)

Over the past year participants have seen widely varied results in their 401(k) plans. First we saw tremendous drops in values, most notably in the fourth quarter of 2008. Much of 2009 experienced a rebound effect, but there remains concern regarding how much of the rebound has been based on a fundamental recovery of the economy. This has led participants to a point of confusion as to what they should do next. Following is a summary of the three stages of rebuilding:

Stage 1: Emotional to Rational. For years participants invested with their emotions. This often led to increased risk by participants that wanted to make sure they were “getting their share” when the markets were strong. In some cases it also led to pulling out of the market well after they had dropped in value. In either case the investment decision was based on emotion and not on realistic goals for their future. Step one is for participants to set rational goals and understand and use the types of investments that can assist them.

Stage 2: Passive to Active. For too many participants the only thing they will ever do is complete an enrollment and withdrawal form during their careers. They feel they have no control over, or understanding of, their account. It’s important to remind them of their ability to choose, monitor and change their account. Original investments might need to be rebalanced or changed to something more appropriate. Participants should consider the professionally-managed asset allocation investment funds.

Stage 3: Short-term to Long-term. Participants who take an active role often spend too much time on short-term issues, such as market movement and economic indicators. If participants focused on long-term goals they could position themselves to take advantage of shorter term volatility. Thus a 30 year old investor who experiences a fund that drops 10 to 20 percent in value, may view it as a dollar cost averaging opportunity, instead of a reason to change strategy. Markets are always differing in their respective performance, but a long-term investing strategy can help build a pool of mutual fund shares that take advantage of market movement.

Perhaps the most effective way to communicate with employees about these phases is through education. Group education meetings can spark interest. Contact us for more information by email: 401khelp@hubinternational.com.

Communication Corner: 2010 Plan Limits

This month's sample participant communication memo outlines the 2010 plan dollar limits (which remain unchanged from 2009). Email 401khelp@hubinternational.com for assistance.

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