



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

### Happy New Year!

As we look forward to a new year and the hope it brings, we look back as well on our achievements in 2009, and the degree to which we accomplished our primary goals—protecting you as a fiduciary and helping your plan participants prepare for retirement. Congratulations for all that you accomplished in 2009.

For the January issue of *Retirement Report*, we have included “excerpts” from issues published in 2009.

### What Should Fiduciaries Be Doing in Down Markets? [May 2009]

With the tremendous stock market drop over the past year, fiduciaries are wondering what they should be doing, or if they have done enough. Following are three governance items for you to follow in times of market turmoil.

- **Analyze investments thoroughly.** The *Scorecard*<sup>SM</sup> reviews actively managed funds from several different quantitative and qualitative points. The key findings in the Scorecard are as important today as they have always been. Probably the most important aspect of analyzing investments is to make sure that you adhere to written guidelines, which are commonly found in the Investment Policy Statement. Decisions regarding investments must be consistent with other timeframes. Remember you protect yourself by following and documenting a Fiduciary process.
- **Talk to Employees.** Employees need to be reminded they should be investing in appropriate investments for their timeframe and risk tolerance. It's important to explain how their contributions work for them during these times when the markets are down. Participants need to remember that they are buying shares of a fund, not a return. As such their dollars may buy more shares today than they did a year ago.



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### DOL Finalizes Investment Advice Rule [January 2009]

The DOL said in a release that the rule will make investment advice more accessible for participants in 401(k) plans and individual retirement accounts (IRAs). The rule includes a regulation that implements the new statutory exemption for investment advice added to the Employee Retirement Income Security Act (ERISA) by the Pension Protection Act (PPA) and a related class exemption. The final rule provides general guidance on the exemption's requirements, including computer model certification and disclosures by fiduciaries. The regulation also includes a model form to assist advisers in satisfying the exemption's fee disclosure requirement, and a class exemption expanding the availability of investment advice. "Now more than ever, workers need

## DOL Finalizes Investment Advice Rule (cont'd)

independent, personally tailored investment advice to help them navigate the turbulent markets and safeguard their financial futures ... These new regulations make our bipartisan promise of high-quality investment advice a reality," said House Republican Leader John Boehner (R-Ohio) in a statement.

## Are You On the Right Glide Path? [October 2009]

(Shortened to fit this format) While the term "glide path" may still be defined by Merriam-Webster as "the proper path of descent for an aircraft preparing to land", those of us in the 401(k) world know it as the path that target date funds take to gradually reduce their equity exposure at and throughout retirement. While aircraft may have a proper path of descent (as defined by the term), target date funds seem to be all over the board in terms of their glide paths (some are very conservative while others can be pretty aggressive). Target date fund glide paths vary due to the different assumptions investment managers make with life expectancy, accumulated retirement assets, contribution rates, and rates of return. Of course, as individuals, we all have our own unique set of circumstances and objectives for retirement (giving us our own unique glide path), which may or may not match with the pre-packaged glide path available today in our own 401(k) plan. So, while there may not be one right glide path for everybody, is there one that is better than the rest?

For participants, the decision when selecting a target date fund from an already pre-determined glide path or set of funds (like a "2030", "2040", "2050", etc.) may be just as complex as it is for Plan Sponsors selecting the glide path (or, set of funds). While the selected glide path may be appropriate for most plan participants, there may, and will, be cases where the glide path's assumptions don't perfectly match up with the participants' assumptions. Understanding the assumptions behind the investment strategy may ultimately help a participant decide whether to go with a "2030" fund or the "2040" fund. While participants may not have much input into the particular glide path for the fund options within the Plan, with the proper education, they do have the opportunity to fine tune where on the glide path they want to be. Just as a pilot needs to understand how the aircraft works in order to achieve a safe landing, participants and Plan Sponsors need to have a good understanding of how these funds (and their glide paths) work, so that their glide path to retirement can be a relatively smooth one.

## A New Kind of Hybrid: The DB(k) [September 2009]

(Shortened to fit this format) Beginning in 2010 small employers will have the opportunity to take advantage of an "eligible combined plan," aka a "DB(k) plan." The DB(k) will be a hybrid plan, part defined benefit and part defined contribution. The design will allow employers to sponsor a plan that provides employees with a low employer-paid guaranteed lifetime income that the employee can supplement with their own deferrals. The following are some of the requirements and definitions for these new plans:

- "Small Employer" means that the sponsor employed between 2 and 500 employees on each business day during the preceding calendar year (reasonable expected average can be used for new employers)
- Assets are held in a single trust (for both portions of the plan)
- Single 5500 required for both portions of the plan
- Defined benefit must be funded at 1% of final average pay for up to 20 years of service, or using an age-weighted cash balance method
- Defined contribution must be an automatic contribution arrangement (4% deferral) where the employer is required to match 50% of deferrals (as long as the deferral does not exceed 4% of compensation)
- The accrued defined benefit must be fully vested after three years of service