



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

Are You On the Right Glide Path?

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?

Unfortunately, one size does not fit all, meaning that there is neither a “best” nor a “right” glide path. As stated above, we all have our own unique retirement objectives and glide paths. This makes it challenging when selecting one glide path (product) for a 401(k) plan. Plan Sponsors need to understand the assumptions made for the glide path (product) in their plan to determine if those assumptions are appropriate for their Plan participants as a collective whole. As would be suspected, this decision requires a good understanding of the Plan’s demographics. For example, some glide paths glide to a lower equity exposure *at* retirement (typically age 65) while others glide to a lower equity exposure *through* retirement (typically age 85-90). A Plan containing participants with well funded participant accounts and participants who typically leave the plan at retirement may be better off with a glide path that glides to a lower equity exposure *at* retirement. So, while it is nice to know that the glide path (to some extent) can be addressed at the Plan level, how can we, as individuals, be sure that we are on the right “glide path”?

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.

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Workplace Retirement Plan Solutions

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What distinguishes us from other service providers is the breadth of our specialized knowledge. Our professional staff includes a nationally recognized ERISA attorney. Our plan consultants and administrators have earned professional designations from national organizations, such as the American Society of Pension Professionals and Actuaries (ASPPA). Our investment consultants are licensed with the Financial Industry Regulatory Authority (FINRA) and the California Department of Insurance. We are a Registered Investment Advisor.

For more information on our services, please visit www.jrnbenefits.com.

2009 Year-End Reminders for Plan Sponsors

PPA Amendments

The PPA Amendment deadline for calendar-year Plans is December 31, 2009. Amendments reflecting changes made to qualified retirement plans to comply with elements of the Pension Protection Act of 2006 (PPA) must be adopted no later than the last day of the plan year commencing on or after January 1, 2009.

Notices

Safe Harbor; Automatic Enrollment; and Qualified Default Investment Alternative (QDIA) Notices must be distributed in a timely manner to all employees no later than December 2, 2009 (for calendar-year plans).

To discuss these and other plan design considerations for 2010, please contact us at 401khelp@hubinternational.com.

HEART Act Provides Benefits for Active Duty Military

On June 17, 2008, the Heroes Earnings Assistance and Relief Act of 2008 (HEART Act) was signed into law. This law provides additional tax and pension benefits to individuals who leave employment to perform uniformed military service while on active or inactive duty. Some provisions are retroactive to January 1, 2007, although plans must be amended by the last day of the plan year beginning on or after January 1, 2010. The new law requires plan sponsors to treat participants who die after 1/1/07, while performing qualified military service, as being re-employed and dying with entitlement to certain additional benefits under the plan such as 100% vesting and other survivor benefits available only when a participant dies while an active employee. The HEART Act also makes permanent the special tax treatment for active duty military qualified distributions as provided in The Pension Protection Act of 2006. For additional information about the Act, contact us at 401khelp@hubinternational.com.

Can Your 401(k) Investment Committee be More Effective?

Investment Committees should pause periodically and evaluate their effectiveness. Hub International typically offers a framework for this discussion, which may consist of the following ingredients:

Define Success: There are many approaches to defining success for an investment committee. Some definitions may be very specific and some may be more global, such as maximizing the retirement experience for plan participants. Either approach can work assuming reasonable efforts are made (and documented) toward the stated goal.

Statement of Investment Beliefs: Key investment related assumptions should be documented. This is typically done within an investment policy statement which acts as the roadmap for investment decision-making. Also incorporated within this technical document a statement of investment philosophy may be appropriate. Here a committee might comment on core beliefs concerning risk tolerance or any characteristics specific to the needs of the plan participants as a whole.

Selecting Appropriate Committee Members: ERISA suggests that if expert decision-making credentials are not found among the committee personnel, experts should be retained in areas needed. There is also the suggestion that committee personnel be capable of making value added contributions to the process.

Define Committee Member Roles: This is usually best accomplished through formal documentation establishing the committee, as in a Committee Charter. This document would identify committee members (typically by title) and delegate responsibilities of the committee. This document can limit the liability of the ultimate decision maker (i.e., Board of Directors) and the committee members as well.

Set Procedural Standards: Identify frequency of committee meetings. For example: "Our investment menu will be reviewed quarterly/semiannually with respect to manager performance relative to industry accepted benchmarks.

Communication Corner: 401(k) Housekeeping

Now is a good time to remind employees to reevaluate their retirement plan in lieu of the past year's economic downturn, whether it is to re-start deferrals or diversify from cash. Please continue to distribute these participant memos to your plan participants every month.