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DFK/USA

CONFERENCE CALL – EMPLOYEE BENEFITS PLAN COMMITTEE

Thursday, July 19 @ 2:30 PM ET, 11:30 AM PT

RETIREMENT ISN'T WHAT IT USED TO BE

Most pensions are gone, replaced in many cases by volatile, poorly understood and underutilized 401(k) plans primarily funded by employee contributions. Many employees don't even have that.

And the Social Security horse that bore prior generations into the sunset years? While not going bankrupt (as many believe), future Social Security benefits are undoubtedly facing a long-term challenge as ***TEN THOUSAND baby boomers are projected to retire EVERY DAY for the next TWENTY YEARS.*** The golden years, in short, are beginning to look rather dark for many.

AND IT'S ONLY GETTING DARKER

The hands on the gold watch of retirement are ticking an ominous countdown. The retirement facts and statistics about **AMERICAN WORKERS** are shocking. In a recent Employee Benefit Research Institute report, <u>60% of households reported the total value of their savings and investments – excluding their homes – at less than $25,000</u>.

- 46% have less than $10,000 saved for retirement and 29% have less than $1,000
- As a group, American workers are estimated to be **$6.6 TRILLION short** of what they need to retire comfortably
- 74% expect to keep working once they are "retired"
- 40% of them expect to work "until they drop"
- Those aged 55 and older now account for 20% of all bankruptcies, compared with only 12% back in 2001
- 20% say they have postponed their planned retirement age at least once in the past 12 months, as compared with 14% in 2008
- In 1950, **16 U.S. workers** paid for each retiree's Social Security benefit. Today, there are **only 1.75 full--time, private sector workers** for each person receiving benefits
- **36% say they don't contribute anything at all to retirement savings**

While it would seem these alarming facts should speak for themselves, apparently they aren't speaking loudly enough. Many politicians – and many of those that put them in office – often appear to have their heads in the sand – passing the problem "down the road," as if it were a calamity that will only REALLY befall future generations and only REALLY have to be dealt with by future politicians.

THE PROBLEM – THE CRISIS – IS HERE, NOW. WHAT CAN YOU DO?

The new 408(b)(2) regulation addresses at least one (of the three) largest obstacles to retiring with financial dignity – **EXCESSIVE PLAN FEES.** Over-time, **high fees absolutely devastate** retirement savings. While not all plans are paying too much, MANY are.

Case Study: Mr. Participant is 30 years old and, so far, has saved $25,000 in his Plan. We assume an annualized 7% investment return until he turns 65. He annually contributes $10,000 to the Plan over the next 35 years.

A REDUCTION IN FEES HAS A HUGE POSITIVE EFFECT ON RETIREMENT INCOME

From 3% to 2% = 24% MORE DOLLARS/$189K = **$700 MORE/Month**

From 2% to 1% = 25% MORE DOLLARS/$241K = **$900 MORE/Month**

From 3% to 1%= 54% MORE DOLLARS/$430k = **$1,500 MORE/Month**

PLAN SPONSORS MUST TAKE 408(B)(2) SERIOUSLY

ON DOL RADAR SCREENS –

- This regulation is front and center at the DOL; and plan fees, in general, will likely remain a high-profile item for a long time.
- This regulation and the related participant disclosures are **MAJOR EVENTS** at the DOL. The requirements to monitor fees and insure they are reasonable have been in existence since the enactment of ERISA in 1974. *This regulation requires a formal assessment but is, essentially, a one-time event*. **DOL WILL BE LOOKING FOR IT!** In a sense, it requires every plan to get current with their fee responsibilities, take necessary corrective action and move forward with a better plan. You must still monitor and evaluate fees on an on-going basis and receive the *required* information from all NEW vendors in the future.

PROBABILITY OF A BREACH OF FIDUCIARY RESPONSIBILITY IS HIGH –

- Must assure all CSP have made appropriate and complete disclosures. If they have not, the plan is technically in a prohibited transaction. **BREACH.**
- To avoid this, plans must review all vendor disclosures for completeness. Must notify an offending vendor, in writing, to provide the required information within 90 days or face termination and being reported to the DOL. This act **creates a PT "safe harbor"** for the plan.

- Must complete and document the plan has reviewed and analyzed the information received and made a determination as to the reasonableness of the fees for the services provided. Didn't do this? **BREACH**.
- What is reasonable? Compared to what? ***At a minimum***, the current fees should be **benchmarked** to other similarly sized plans to provide some reasonably FACTUAL COMPARISON.
- The reported vendor fee information, in part, forms the **FOUNDATION** for the participant disclosures that follow on August 30, 2012. If the review finds the fees are less than reasonable, the sponsor can, at least, be in a "corrective mode" and in a better PR situation when the information ultimately reaches participants.
- In most cases, it is **EASY** for plans to, at least, achieve a modest reduction in plan fees. Even a small improvement will make a positive difference over-time.
    - Just "asking" for a fee reduction will often work fine.
    - Inclusion or conversion to low-cost, index funds can significantly reduce overall investment fees.
    - For plans with many investment options, reducing the number can lead to lower administrative costs.

MOST PLANS WILL NEED HELP! They simply do not have the fiduciary and investment expertise (in-house) that is necessary to:

- understand the regulation's requirements or to
- successfully complete them.
- Unlike in the past, this is a task (in most cases) that should **NOT BE DELEGATED TO AN EXISTING VENDOR** – they are conflicted and often part of the problem. (Another objective of this regulation was to uncover conflicted plan/vendor relationships).
- An independent, unbiased and experienced consultant **IS THE BEST SOLUTION** in assisting them in understanding and completing these regulatory requirements.
- And, to help get their plans on a better course in providing participants with an improved opportunity for a retirement with dignity, not despair.

BIOGRAPHY/CONTACT INFO

RICHARD A. CAMPBELL, CFA has twenty-five years of consulting and investment experience working with public, corporate, multi-employer retirement plans and various charitable funds. He is President and co-founder of the Dover Consulting Group.

Rich received his B.S. Degree in Business from Indiana University, an MBA Degree in Finance from Western Michigan University and was designated a Chartered Financial Analyst (CFA) in 1988.

Prior to founding Dover Consulting Group in 1989, his experience included positions as a senior trust investment officer managing the investments of employee benefit and personal accounts. Rich's responsibilities also included investment analysis of the paper and chemical industries and management of a fixed income common trust fund. He is a combat veteran of the U.S. Army.

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