Retirement Plan Advisory Practice

OCTOBER 2010

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Q3 2010 Market Summary: Markets Bounce

U.S. equity markets bounced back from a poor second quarter showing, returning a positive 11.5 percent return for the third quarter of 2010 (Russell 3000). International equities posted even stronger results, returning a positive 15.8 percent for the quarter (MSCI EAFE). International equities, which have underperformed U.S. equities over the last few quarters, were now beginning to gain back favor, as those markets appeared to be farther ahead or on pace with their projected recoveries. U.S. fixed income also rallied, returning a positive 2.5 percent (Barclays Aggregate) for the quarter. The fixed income rally took yields lower, with the 10-year Treasury bond now at a yield of 2.5 percent by the end of the quarter. Year-to-date most major market asset classes were showing positive returns, a significant reversal from the second quarter, and another sign that volatility swung both ways (positive and negative).

The National Bureau of Economic Research (NBER) supplied some good news over the quarter stating that the longest recession since the end of World War II, which began in December 2007, had officially ended 18 months later in June 2009 (when the economy reached its lowest point). Interestingly enough, the Investment Company Institute reports investors continued to pull money out of equity mutual funds ($42.6 billion) over the quarter, continuing to favor fixed income investments, whereby adding $87.7 billion into bond funds. Most notably was the Fed's indication that they were ready to supply more liquidity, stating their preparation to "return inflation, over time, to levels consistent with its mandate."

Rules of Engagement: Participants Benefit from Investment Advice

A recent study conducted by Charles Schwab Retirement Plan Services indicates that professional investment advice has a profound impact on engaging plan participants. The study shows that 70% of participants who receive 401(k) investment advice make changes to their deferral rates and their savings rates nearly double as a result, increasing (on average) from 5% to 10% of pay. Also, the study shows that participants who receive professional advice are more properly diversified and have more confidence in their portfolio during times of volatility. Some other findings include:

- When free personalized advice is available through their employer, 55% of plan participants surveyed said they would use it;
- 70% of survey respondents indicate that their 401(k) plan is their primary source of retirement savings;
- 51% of respondents say they prefer a personal touch over online advice tools;
- 53% say they find retirement benefits even more confusing than their healthcare benefits;
- 65% say they need some kind of motivation to use advice; and
- 74% say they trust personal financial advisers.

The survey covered 755,000 401(k) participants from 911 plans and was conducted by an independent research firm (Koski Research). If you are interested in engaging more participants in this manner please contact the retirement plan professionals at New Wealth Advisors.

Small Business Jobs Act of 2010: Changes to Roth Rules

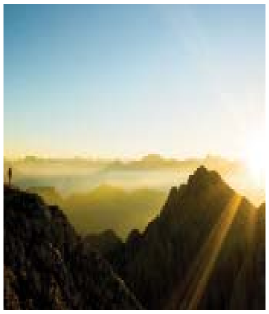
On September 27, 2010, the Small Business Jobs Act of 2010 ("SBJA '10") was signed into law. The new law significantly expands the potential use of Roth philosophy within the retirement plan landscape. Beginning in 2010 new rules allowed employees, eligible to receive a distribution, to rollover amounts from their retirement plans (401(k), 403(b), or governmental 457(b) to a Roth IRA. These new rules also allowed employees who did so to defer the tax due on such rollovers into 2011 and 2012. But the new rules didn't allow participants to convert pre-tax dollars to Roth dollars within their existing retirement plans. Moreover, the new rules allowed rollovers to Roth IRAs, but unlike most retirement plans the Roth IRA has income eligibility requirements which many employees may not have met, thus denying them the ability to convert their retirement savings from pre-tax to Roth. SBJA '10 addresses these issues, as well as expands the type of plans that can provide a Roth account to employees.

The new law permits plan participants to leave their money in their retirement plan, but convert it from pre-tax to Roth if certain facts and circumstances exist. First, the plan document has to allow for Roth contributions. The participant must have experienced a distributable event under the terms of the plan, thus conversion is not necessarily available to every plan participant. To allow more access for pre-tax-to-Roth conversions plan documents should be amended to allow for in-service withdrawals (if they do not allow for such at present).

Also, a participant's ability to defer taxation provided for rollovers to Roth IRAs has been extended to in-plan conversions that occur within 2010. In other words, if a plan allows, and a participant converts pre-tax dollars to Roth dollars in 2010, they are allowed to defer taxation into 2011 and 2012. Thus, if an employer wishes to provide this flexibility to their participants it behooves them to take action (amend plans, discuss with recordkeeper/administrator/TPA, communicate to participants, etc.) sooner rather than later. In addition, the SBJA '10 authorizes state or local government 457(b) plans to include Roth accounts, effective for plan years beginning after December 31, 2010.

If you have any questions regarding this legislation, or wish to discuss making changes to your plan, the retirement plan professionals at New Wealth Advisors are here to provide guidance.

Employers Slow to Restore Company Match

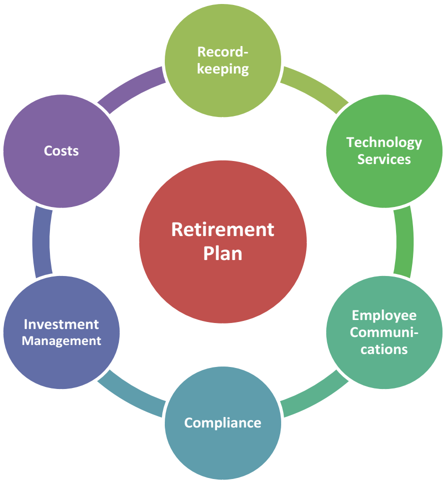


Since the financial crisis came to a head in September 2008, between 8% and 18% of employers either reduced or suspended their match of 401(k) plan contributions, according to various surveys by benefit consultants. For example, while Fidelity Investments' March survey of 293 plan sponsors listed the suspension rate at 7.9%, Towers Watson's April survey of 334 plan sponsors put the suspension rate closer to 13% and 5% reduced the match. Subsequently, surveys show that less than half of firms that reduced or suspended plan matches in recent years have yet to restore them. To ensure they don't make promises they may not be able to keep, some employers are making 401(k) contributions contingent on company profitability, benefit consultants say. FedEx Corp is one of the most recent major companies to restore its matching contribution to employees' 401(k) which was effective on 1/1/2011. For assistance reinstating your company's match or making changes to your plan design, be sure to contact Scott Tuxbury at stuxbury@newwealthadvisors.net.

COMMUNICATION CORNER

Increase Your 401(k) Contributions

This month's sample employee memo encourages participants to increase their deferral percentage, or rather, the amount they contribute to the plan each month. Increasing your contribution by even a small amount can make a big difference down the road. Email Scott Tuxbury at stuxbury@newwealthadvisors.net for a copy that you can print and distribute to employees.



About New Wealth Advisors' Retirement Plan Advisory Practice

New Wealth Advisors has an extensive practice that offers a full scope of fee based retirement plan advisory solutions designed to assist plan sponsors in understanding and effectively managing their complex retirement plan, including issues concerning plan investments and strategies to mitigate fiduciary liability. As independent advisors with a thorough knowledge of fiduciary responsibility, New Wealth's main objective is assist plan sponsors and other fiduciaries with the definition, implementation and ongoing monitoring of a clear and prudent process that maximizes plan efficiency, ensures compliance with ERISA's rigorous standards and allows for the delivery of a best-in-class retirement plan for their employees.