



UNDER THE SURFACE OF THE FINANCIAL INDUSTRY UPHEAVAL

Opportunities and Responsibilities for Review of Retirement Programs

The aggressive mortgage lending and asset leveraging practices of the last several years have led to unprecedented challenges for big multi-national banking corporations due to their involvement in the credit crisis. The near-term impact of these bank failures on the global economy and on world capital markets is unclear. Long-term, the extent of the “bail-out” involvement by the U.S. government and the related financial burden on taxpayers is impossible to quantify.

At the same time, sponsors of tax-qualified retirement programs can use this turning point to reevaluate all aspects of retirement program design, services and administration. Sound processes and documentation of decision making can also help fulfill fiduciary responsibilities. The changing financial industry and economic environment present areas where an organization may want to consider taking action as outlined below.

Employee Communications

In light of the recent stock and credit market turbulence, employees are most likely experiencing uncertainty. They are being bombarded by headlines in the press that prompt doubts about retirement security. Communication and messages providing information on the representative topics listed below may be both necessary and appreciated by employees:

- Asset allocations and periodic rebalancing of investments
- Calculation of appropriate savings amounts and revisiting the anticipated timing for retirement
- Financial pressures on a family where a partner or other wage earner has lost a job
- Senior employees wondering when, or if, they will have enough money to retire
- Highlights of a Roth contribution feature as an alternative tax saving strategy, and a hedge against the possibility of increased tax rates in the future
- Optional forms of benefit under the retirement program, including those that can provide some level of guaranteed income, such as annuities (and new products)

Employee communications can be delivered through various channels to help recruit, retain, reward and retire valued employees. Tailored messages can be targeted to specific segments of an employee population based on identified needs.

Evaluation of Retirement Program Investments

One of a retirement plan sponsor’s responsibilities under ERISA is to diversify investments to minimize the risk of large losses.

- Review both asset allocation and diversification of investments*
- In light of recent events, it may be prudent to review defined benefit plan investment allocations and defined contribution plan investment fund line-ups to assess various industry weightings, specific stock holdings and total exposure to the financial sector

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Controlling Costs

Based on recent developments, many indicators point toward increased borrowing costs.

- For budgeting purposes, it may make sense to review retirement program cost projections and the associated benefit levels for various categories of employees
- There are risk management techniques and plan design adjustments that can help control retirement program expenses

Defined Benefit Plans

Employees who participate in defined benefit plans may appreciate them more now, considering the stock market volatility of the past ten years.

- Consider adopting adjustments to defined benefit designs for reduced costs, while retaining the plan for enhanced employee relations and as a “differentiator” to note as a recruiting tool
- The Pension Protection Act created restrictions for plans that fall below an 80% (or 60%) funding level. Based on investment returns through September 30, 2008, plan asset performance during 2008 will likely pull funding ratios down going into 2009. Plan sponsors should make it a priority to consider the ramifications of crossing either of these funding thresholds, including additional funding requirements, required notices to participants and benefit restrictions.
- Review plan assets and liabilities to forecast budgeting needs and minimize funding surprises
- Think about a funding policy and an optimal funding level that complements the goals of the organization
- Explore utilization of annuities as an avenue to facilitate plan terminations and “lock-in” costs

Mergers and Acquisitions

If an organization is involved in a merger or acquisition, retirement plans must be reviewed:

- Consolidate plans and plan assets to streamline services and reduce plan expense ratios for participants
- Consider updated expectations for employee turnover, hiring/layoffs or growth

Review Goals of your Organization

- Consider targets for growth and/or refinements to the mission of the organization
- List characteristics of the workforce, executives and management personnel that must be attracted and provided with retirement benefits in order to solidify a cohesive and dynamic team of employees

Conclusion

When economic and political turbulence rise to the forefront of current events, employees often look at retirement benefits. Given the expected increase in federal government spending related to the credit turmoil, questions continue regarding the viability of maintaining the current level of Social Security benefits. Accordingly, when employees look to the future, they may perceive enhanced value in employer sponsored retirement plans.

When making changes to retirement programs, employers are well served to pay special attention to “best practices” for decision making. ERISA requires that sponsors of qualified retirement plans, as fiduciaries, take actions in the best interests and for the exclusive benefit of participants. We recommend a formal and ongoing process for review and periodic monitoring of all aspects of retirement program administration and design.

Should you need any assistance with any aspect of your retirement program, please contact your USI Consulting Group representative directly.

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This Update has been prepared for informational purposes only and is not designed to be a comprehensive analysis of any topic discussed herein and should not be relied upon as the only source of information. Additionally, this Update is not intended to represent advice or a recommendation specific to your plan.

** Diversification and asset allocation do not guarantee against a loss, nor do they guarantee that a diversified portfolio will outperform a non-diversified and/or non-asset allocated portfolio.*

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