

B E N E F I T S B R I E F

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Who's the "A" Student

Large retirement service providers are increasingly utilizing ratings from independent research groups in place of client-focused review as a method to provide plan fiduciaries a guide towards selecting funds. Other than the clear conflicts associated with pre-screening fund universes for shelving fees before utilizing these independent assessments, "Reasonable minds may differ" as it relates to evaluating funds. [Click here to review our most recent assessment of research services.](#)

Mutual Fund Trading Scandal Not Going Away

As much as the industry would like the trading scandal to go away, plan sponsors remain concerned about the lack of ethics displayed by their investment managers and their proclivity to seek revenues above the interests of investors. [Click here to review the results of a recent survey by CFO Magazine.](#)

Putnam Back Under the Microscope

The Massachusetts Securities Division and the Office of the Attorney General for the State of New York have sent subpoenas to Putnam requesting information relating to plan expense reimbursement agreements between Putnam and certain unidentified client multi-employer deferred compensation plans. In addition, the subpoenas are seeking information related to Putnam's relationships with consultants retained by those multi-employer plans, according to the quarterly 10-Q filing by Boston-based Putnam's parent company Marsh & McLennan Cos. [Click here for more information on the latest area of inquiry.](#)

What Happens With Those Mutual Fund Settlements

Settlements with regulators now add up to \$1.2 billion in civil fines and disgorgement for mutual fund companies. While the settlement amounts have received a great deal of press, most plan sponsors and investors do not know how this money is allocated. [Click here to see how the process of fine settlement allocation is conducted.](#)

Will Plan Participants be Harmed in Wake of Mutual Fund Trading Reform

The American Society of Pension Actuaries (ASPA) filed extensive comments with the Securities Exchange Commission (SEC) on proposed rules imposing mandatory fees on redemptions of mutual fund investments and reporting requirements. ASPA is urging the SEC to consider limiting the application of redemption fees to participant-directed "exchanges" and "transfers," which are the only transactions in plans susceptible to late-day trading. [Click here for the Press Release from ASPA.](#)

Ethical Behavior an Obligation, Not a Regulation

Until recently, employees took for granted that they could trust those managing their 401k money. But due to the financial scandals beginning in 2001, that sense of trust is being challenged. Unfortunately, the misdeeds of a few are forcing government policymakers to respond with new regulations. Even more unfortunately, the problem is not insufficient regulation, it's people in positions of trust betraying that trust. [Click Here for the story.](#)

We Have Led the Horse to Water... Can We Make it Drink?

Research from the field of behavioral finance suggests that many participants in defined contribution plans are not active, self-motivated decision-makers. This report analyzes the insights recent research reveals regarding participants' varied planning skills and their decision-making processes. It also discusses automatic or autopilot 401k plans, which are designed to respond to the behavioral biases of reluctant savers by altering key plan-default decisions. [Click here for the full paper by Vanguard Investments.](#)

IRS Issues Further Guidance on Automatic Enrollment

In a General Information Letter, dated March 17, 2004 the IRS reiterated its interpretation of the amount that employers may elect as an automatic deferral into a 401(k) plan for employees that do not change their "default" election. While not stating a percentage of pay cap to deferrals, automatic enrollment provisions may:

- Be for any percentage of compensation that is otherwise permitted under the plan
- Contain an automatic schedule under which the percentage changes over time; and
- Automatically apply to compensation increases such as pay raise or bonus

However, if a participant does not make a positive election as to how their deferrals are to be invested, the sponsors default fund election is construed as a fiduciary decision and should be managed accordingly. We are strongly advising plan sponsors to review design provisions that may provide participants a method to automatically increase deferral percentages over time without having to make additional elections. Statistically these types of programs have contributed greatly to increased retirement readiness by participants.

House Votes to Let Reservists Tap Retirement Plans

The House unanimously passed legislation on April 21 that would allow active-duty members of the National Guard and Reserve to tap their 401(k), 403(b), and IRA accounts without incurring the 10% early withdrawal penalty. The waiver would apply to troops deployed for more than 179 days and activated between September 11, 2001, and September 12, 2005. They could elect to replenish the accounts within two years after their tour of duty ends. [Click here to view the bill in its entirety.](#)

Tax Credits Still Available to Small Businesses

As corporations complete their calendar year tax returns, or prepare to go on extension, please remember that the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) provides for a nonrefundable tax credit for 50% of the administrative and retirement education expenses of certain small businesses that adopt a new tax-qualified defined benefit, defined contribution, SIMPLE or SEP for their business. The credit is for expenses paid or incurred in the tax years starting after 2001 and apply to the first \$1,000 of qualifying expenses of the plan in each of its first three plan years. A maximum credit of \$500 a year for three years is allowed.

To be eligible, an employer must have had, in the preceding year:

- Less than 100 employees with compensation in excess of \$5,000 each
- Established the plan after 2001
- Covered at least one “non-highly” compensated employee

A plan is considered “new” if the employer sponsored no other qualified retirement plan(s) in the three years prior to the first year the credit is available. An employer claiming the credit is not allowed a business expense deduction for the 50% of the expenses for which the credit is also claimed.

Financial Health of Multi-employer Pension Plans Concerns GAO

A study released in March by Congress’ investigatory arm, the General Accounting Office (GAO), explained the role of the Pension Benefit Guaranty Corp. (PBGC) in maintaining the multi-employer plans’ financial solvency, outlined trends in funding and worker participation, and identified potential challenges to the plans’ long-term prospects. [Click here to learn more about the GAO study.](#)

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