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THE 401(K) END GAME: A QUICK LOOK AT GAP ANALYSIS



Participant-directed retirement plans put onus on the employee to make important decisions regarding their financial future. The obvious (and most important step) an employee can take when it comes to their retirement plan is to *participate* in the plan. But what is the next important step? Choose from the multiple choice below:

- **A. Asset Allocation and Diversification.** While this is a critical determiner in the return a participant will earn, it is not the most important step he or she can take.
- **B. Pick the fund(s) with the best returns from last year.** This is probably the least recommended way to choose an investment, although it is commonly employed by many participants.
- **C. Setting an appropriate deferral savings rate.** Yes!!! *Correct Answer.* Reality is, if the participant's deferral rate isn't set at the appropriate level, the investment selection (e.g., asset allocation and diversification) play a minimal role in reaching retirement readiness.

Until recently, the service provider community had yet to uncover a simple way of helping participants determine how much they should be saving to reach a sufficient post-retirement income. Nowadays you may have already heard about an approach called "Gap Analysis." This technique uses a participant's current deferral rate, account balance and salary, together with estimated Social Security payments and sponsor matching contributions, to determine whether the participant's income at retirement will be sufficient to meet a user-specified replacement percentage (typically 80%-90%; source: ebri.org). If a gap exists, the Gap Analysis proposes a deferral percentage that will close or eliminate the gap. It also demonstrates the impact of working longer and making do with a lower replacement income assumption.

We all know that we can be saving a bit more for a worthy cause: our future financial security. Gap Analysis provides a bias for action among participants to help themselves become financially secure at retirement. To learn more about Gap Analysis, check with your retirement plan provider or contact Planned Financial Services.

Plan Limits Reminder

On October 28, 2010, the IRS announced cost of living adjustments applicable to retirement plan contribution limits for 2011. As a result of low inflation over the previous 12 months, the contribution limits remain unchanged. The table below shows the 2010 and 2011 contribution limits. For more information about retirement plan limits, please contact your RPAG plan consultant, or visit www.irs.gov/retirement.



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Plan Limits for Plan Year	2011	2010
Elective Deferrals	\$16,500	\$16,500
Annual Defined Contribution Limit	\$49,000	\$49,000
Annual Compensation Limit	\$245,000	\$245,000
Catch-Up Contribution Limit	\$5,500	\$5,500
Definition of Highly Compensated Employee	\$110,000	\$110,000
Social Security Wage Base	\$106,800	\$106,800

Plan Sponsor Primer: Retirement Committee Meetings

As consultants, we often receive questions from our clients regarding the content and timing of retirement Committee Meetings. Most committees wonder, "How frequently should we meet?" For most, quarterly meetings are sufficient. Plans with minimal activity may be satisfied with one annual meeting, so long as meetings occur with adequate frequency to handle items critical to properly manage the plan.

The purpose of the Committee is to oversee investment and administrative issues. Committees should be formalized via a written document (i.e., Committee Charter) which identifies the members and establishes specific roles and responsibilities. During the course of each Plan Year the following items should be considered by the Committee:

1. Review and monitor the plan's investments pursuant to procedures contained in the Investment Policy Statement, including selection and replacement when appropriate.
2. Review plan expenses. The plan should understand and determine reasonableness of plan expenses. Recent litigation in this area has reinforced the primacy of this issue for fiduciaries. A complete fee analysis and benchmarking of vendors should occur every three to five years.
3. Review plan services available and those currently being provided. This is a key component going hand in hand with the expense review. Quantity and quality of services provided should certainly be among the factors considered in addressing the appropriateness of expenses. Also, the breadth and scope of services are constantly expanding and the Committee should be aware of those services which may produce a value added impact on their plan.
4. Consider emerging trends, legislation, and external/internal factors which may impact the plan. Examples include the significant implications of the Pension Protection Act of 2006, Roth 401(k), asset allocation accounts (lifetime/lifecycle), automatic enrollment/escalation, etc.
5. Review plan demographics. Are plan provisions understood and being administered properly? How do these provisions compare to industry norms or "best practices" guidelines? Do plan fiduciaries understand and practice their roles and responsibilities accordingly?
6. Review participant demographics. Are participants in position to achieve a financially successful retirement experience? Specific items for fiduciary review are participation rates, average deferral rates, appropriate asset allocation/diversification and average account balances.
7. Review participant communication/education programs. Fiduciaries are required to ensure all participants have sufficient information to make informed investment decisions. Is there evidence this is currently the case? If not, what would be appropriate courses of action?



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Be sure to pursue the above issues, and any others, with the appropriate degree of procedural prudence as required of ERISA fiduciaries. Investigate the issues, take the appropriate action, and document the entire process. Your Retirement Plan consultant is available to assist you in any of the areas identified above. Email jeremy@plannedfinancial.com for more information.

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