ROCHESTER BUSINESS JOURNAL
RBJ
VOLUME 25, NUMBER 48 WWW.RBJDAILY.COM FEBRUARY 19, 2010

Retirement plan participants seek to protect savings

Though the market has been erratic, sponsors are not shifting to pension plans

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Photo by Kimberly McKinzie

Robert Newton, senior manager of client services at Epic Advisors Inc., says most retirement plan sponsors are looking for the best solution to help participants save money and grow it for the future.

After a decade of mostly stagnant and sometimes volatile investments, retirement plan participants are seeking ways to protect their nest eggs.

Though most understand the importance of staying the course with their 401(k) or defined contribution plans, participants want to increase retirement savings and still safeguard them against market downturns.

"Participants are nervous, and they're looking for help," says Robert Newton, senior manager of client services at Epic Advisors Inc., a retirement plan consulting and recordkeeping firm. "I think most plan sponsors are doing the same and looking for the best solution to help everybody put away money and help it grow for the future."

The solution, however, does not seem to be a shift back to older-model pension plans, the defined benefit plans in which participants are guaranteed a certain payout upon retirement, experts say.

Defined benefit plans are too expensive for most small businesses, Newton says, and therefore not viable as a retirement savings vehicle.

Janice Nearen-Bell, vice president of human resource services sales at Paychex Inc., also says defined benefit plans are not making a comeback.

"We've seen a little increased interest in defined benefit plans, but nothing significant enough to indicate a trend," Nearen-Bell says.

Retirement plan consultants say more employers are considering a hybrid called a combination or cash balance plan, which combines some features of a defined contribution plan like the 401(k) with aspects of a defined benefit plan. The defined contribution component mainly involves employee contributions traditionally managed by the staffer using a mix of mutual funds. The defined benefit component has employer contributions put into a pooled account with a guaranteed payment upon retirement for each participant. This money is professionally managed and is expected to earn a very conservative rate of return each year.

"This type of plan is relatively new, within the last decade, and represents a very small percentage of retirement plans," Newton says.

He adds: "Plan sponsors are still looking at defined contribution plans but are trying to find ways to increase the ability to put away more money or to put away money that can be paid out in guaranteed benefits. That is where combination plans come into play."

Though businesses recognize the importance of retirement benefits and are focused on long-term growth, the recession has had an impact on some employers' plans.

"What we have seen, of the existing 401s, is an increase in plan terminations that are driven by small businesses no longer being able to afford the fees, afford making contributions for participants or because they are going out of business," he says. "We've seen a lot of that in 2008 and 2009, but it has slowed down in the last quarter."

Though Newton's firm saw some businesses terminate 401(k) offerings, he notes that companies that are interested in helping employees save for retirement continue to offer the plans. Epic Advisors is still creating as many new accounts as it did before the downturn.

Paychex also has not seen a decline in new plans, says Marilyn Lam, regional manager of human resource services sales.

The University of Rochester's employees have not asked to change retirement plans either. The area's largest employer offers a 403(b) plan, the equivalent of a 401(k) in the non-profit realm, to eligible staffers.

UR's retirement program allows employees to make voluntary contributions. It then provides for a university contribution to eligible employees who meet the service requirements, regardless of whether the employee makes contributions or not. Staffers can choose to make pre-tax or after-tax contributions.

"We really haven't had employees coming to us, asking for alternate vehicles for savings," says Michele Hill, manager of the benefits office at UR. "We were tracking participation to see if there was any decrease, and our participation levels pretty much stayed the same throughout the whole financial market crisis.

"I like to believe employees recognize that they still need to be putting money away because it is for the long term."

At Econo Products Inc., President Peter May says he tries to offer the best and safest retirement options available to his employees. Though he is open to considering other savings plans in response to the economic environment, his staffers have not come to him with concerns about their investments.

"I think most of them realize that the 401(k) plans are still a good way to invest for the future," May says, adding that employees have multiple options to build their portfolios.

Econo Products offers a defined contribution plan through Paychex to its 16 employees.

Employee education about retirement savings is an important aspect of any plan, especially in turbulent times. Smaller companies, like Econo Products, have access to outside firms such as Paychex to help sift through options. Larger employers, like UR, have in-house departments that give employees access to many types of guidance.

"I think that employee education is certainly increasing with the volatility in the market," Paychex's Lam says. "Things like guided savings are something our clients have been looking for and asking for because participants have questions in a time when they're unsure and they really need someone to give them guidance."

Benefits administrators keep a look out for new options for clients.

"Business owners are always asking, 'Is there something new?'" Newton says. "They want to know how they can best serve their participants. There are products being built right now that enable participants' assets to be managed by a money manager.

"The reason that's never taken off in the past is because no money manager wanted to work at an individual level."

Epic Advisors uses the services of Georgia-based Stadion Money Management to solve that problem.

"If a participant uses a managed solution as a qualified default investment alternative, each participant will have their assets managed, based on their age, within the core plan by this firm," Newton says. "We send file feeds to them every day, and they monitor market trends using a data-driven system.

"So when they see a very volatile market, they move everybody to a defensive, conservative stance," he adds. "And if the market is bullish, they can move people to a more aggressive stance."

Newton explains that this type of money management allows for participants' plans to take fewer hits in a downturn while still making profits when the market has an upswing. Though the profits in this type of account may be 5 percent to 10 percent less than the market overall, the losses also are significantly less, he believes.

"It's so much easier to make money when you don't lose it," Newton says. "I think it's the next wave."

Change also may come in the form of proposed legislation. The idea is to institute "auto IRAs," so that employers not offering retirement plans would automatically enroll each employee in an Individual Retirement Account with payroll deduction. The system would offer tax breaks for both employers and employees, and staffers would be able to opt out of participation.

Patricia Beggs is a Rochester-area freelance writer.