

THE 401(k) HANDBOOK

Employee Benefits Series

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Are There Viable Alternatives To Public Pension Plans?

A large number of state and local governments offer traditional defined benefit plans for their eligible employees, and due to declining investment returns and recession-induced reductions in tax revenue, more than half are underfunded. Many in the retirement plans community agree that when faced with declining markets and a recession, traditional pension plans are cost prohibitive. What are the alternatives to reduce costs while preserving the pension plan benefit?

While many corporations have, in an effort to better control benefit plan costs, frozen or terminated traditional pension plans and opted instead to sponsor a defined contribution or 401(k)-type plan, affected government sponsors are less likely to do so. This month, Contributing Editor Arris R. Murphy explains why this is and highlights the latest trends for public pension plans and their alternatives. *Page 2*

Loans Against 401(k) Plans: 1 in 10 Defaults

A new study funded through the Financial Literacy Research Consortium has found that roughly 1 in 10 loans against 401(k) plans results in a default. Published in October, "An Empirical Analysis of 401(k) Loan Defaults" used data collected from more than 100,000 participants between July 2005 and June 2008 to determine this and other statistics.

This 1-in-10 statistic may not be too shocking, as many 401(k) retirement plans allow participants to borrow against their pensions before retirement — as many as 18 percent of defined contribution plan participants. The study, published by the RAND Corporation, also outlines contributing factors and options to reduce such defaults in the future. *Page 4*

DOL Seeks Comments On Electronic Disclosure

ERISA already requires certain employee benefit plan information to be disclosed. Now the Department of Labor (DOL) is seeking comments on the possibility of that disclosure coming electronically.

The DOL's Employee Benefits Security Administration announced April 7 that it is welcoming comments on whether it should expand, beyond the current safe harbor allowing it, plan administrators' ability to electronically furnish information that ERISA says must be provided to participants about an employer's benefit plan. Read on to find out what the shift in disclosure could mean for you, and how to comment. *Page 5*

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