

# Retirement Report

NEWS AND UPDATES FOR PLAN SPONSORS AND  
FIDUCIARIES OF DEFINED CONTRIBUTION PLANS

## Is Your Company Match Achieving its Objective?



What is the true objective of your company match? Is it intended to help your employees save more for retirement? Is it used as a tool to recruit new employees? Do you offer a match to incentivize lower paid employees to save more in order to improve your non discrimination test? In the end, is your company match achieving its objective?

After all, more than 95% of plans offer a match according to a 401khelpcenter.com article titled, "Benchmark Your 401(k) – 2012." When was the last time your match was discussed and evaluated? Have you considered restructuring your match in order to help participants save more for retirement? Reducing corporate expenditures was on the forefront of the minds of many companies back in 2007 and 2008. As a result, some organizations reduced or eliminated their match altogether while most entertained the idea at a minimum. According to a study by Towers Watson titled, "A Look at Defined Contribution Match Reinstatements," in 2011, 75% of those who suspended their match have since reinstated it. The majority of the companies that have reinstated the match have done so within 9 to 12 months following the original suspension date.

A company match is a very powerful tool when used correctly. According to Vanguard Center for Retirement Research's article titled, "401(k) Plan Design: Match, Loan, and Investment Menu Effects," match design typically increases participation rates by 5-15%, yet it is one of the top three reasons why participants save for retirement. For example, the most common match by far among plan sponsors is to match 50% of the first 6% that an employee defers. This means that participants are incentivized to save

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# King of the Hill

Does peer group dominance imply mutual fund superiority? Maybe.

In the world of investments lies a plethora of verbiage, acronyms, figures, and charts. It's amazing to consider that with all of this information "active" investors have one single common goal: To maximize investment return<sup>1</sup>. The word "active" in the previous sentence is stressed as a contrast to the "passive" investor. A "passive" investor is one who seeks to track benchmark returns.

Like scientists, an investment advisor conducts "experiments" to identify skillful money managers. Peer groups are important, but what good is the peer group when it is not beating the benchmark. Particular market trends can bring on difficult times to be an active money manager, and this has been a recent trend.

The chart below, which is published by Markov Processes International (MPI), looks at the performance of the benchmark for large cap blend (the Russell 1000 Index) versus the peer group universe of large cap blend funds (Morningstar Large Blend Peer Group). Each square on the chart represents a 5-year time period, and the squares are rolled on a quarterly basis. The black diamond is the iShares Russell 1000 Index (Ticker: IWB), an ETF that tracks the Russell 1000 Index.

The blue shaded areas of the chart represent quartiles of the asset class peer group. One thing to notice, the index has been in the top half of the peer group throughout the entire duration of the study. This would certainly indicate that it has been a tough environment for active money managers to outperform the benchmark. Looking at the most recent 5-year window (at 12/31/2012 Qtr end), the index is in the top

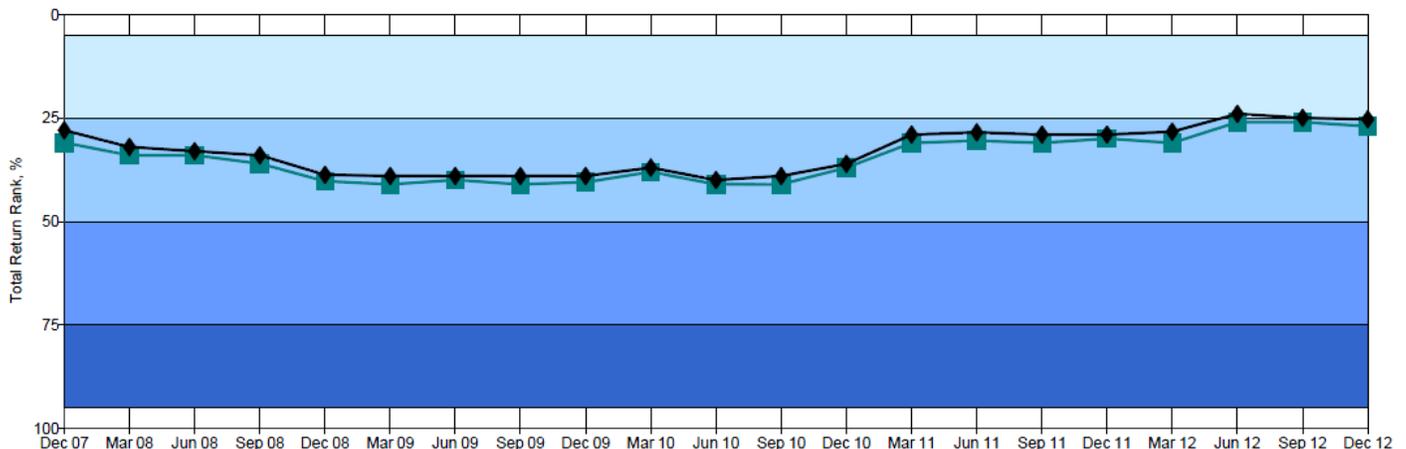
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## Peer Group Return Ranking

Dec-12

Rolling 10 Year Return Rank

20 quarter rolling windows, Dec 07 - Dec 12



## Return Rank

	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr
■ iShares Russell 1000 Index	50	28	28	16	27	27
◆ Russell 1000 Index	49	26	26	13	25	24
Large Blend Average	40	58	58	52	54	45
Large Blend Size	500	484	484	445	415	319

## Match

*continued from page 1*

up to 6% of their pay. However, in order to achieve successful retirement outcomes, most participants should save between 10-15% of their pay. This can be achieved through other “Courageous Plan Design” features, such as Auto Escalation (which will be discussed in future newsletters). Using the match as a key driver in helping more participants achieve successful retirement outcomes is a topic that committees should discuss regularly.

One restructured formula to incentivize employees to save more would be a 30% match on the first 10% the employee defers into the plan. This structure is great for those companies that currently use the common 50% up to 6% formula since they are already matching 3% of an employees pay. This would encourage participants to target 10% versus a lesser amount like 6%, yet it will not increase the company’s additional matching dollars.

If you need assistance in discussing the objective of your company match and any potential changes, we encourage you to contact your dedicated Plan Consultant today. ●



## King of the Hill

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quartile, beating 75% of the peer group<sup>2</sup>.

When you compare/evaluate funds, it is important to look beyond just a single fund characteristic. This leads us to our initial question: Does peer group dominance imply mutual fund superiority? As we’ve seen, that may not necessarily be the case when you can’t outperform the benchmark. An ever changing market environment constantly challenges investors to select skillful money managers. When looking at a fund score using the proprietary Scorecard System<sup>SM</sup>, 20% of a fund’s score pertains to peer group ranking, and it is imperative to look at other factors to identify manager skill. ●

1. Please note that before investing, you must consider the fund's investment objectives, risks, charges and expenses. Contact your advisor for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.
2. The analytics in this example do not take sales loads into account. Past performance does not guarantee future results.

### COMMUNICATION CORNER: Asset Classes

This month’s sample employee memo is titled, “Asset Classes”. This memo provides a brief description of asset classes and introduces the concept of the “risk / reward” spectrum.

As a reminder, we post each monthly participant memo online via the Fiduciary Briefcase™ ([www.fiduciarybriefcase.com](http://www.fiduciarybriefcase.com)) in both English and Spanish.

For assistance, please contact your plan consultant. ●

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