



Why say "I'm Sorry" when you can send cash?

Inside this issue:

<i>The three really big monkeys and the Fiduciary</i>	2
<i>Eliminating the "wild card" in retirement planning</i>	2
<i>401(k) plans promise nothing — they are just savings plans with a license to defer taxes on investment earnings</i>	3
<i>401(k)Secure for non-qualified deferred compensation plans</i>	3
<i>How 401(k)Secure works</i>	4

Imagine you get this letter from one of your employees named Mary Jenkins:

"I recently had a severe stroke. My doctor tells me I won't be working soon — if ever. My 401(k) deferrals and matching contributions are \$16,000 a year. I calculate they will be worth around \$500,000 when I retire. I've been counting on that nest egg to see me through - but will my contributions continue now that I can't work any more?"

What can we say to her? In most cases the best that can be done is to send her a "We are sorry to tell you that your 401(k) contributions will not continue" letter along with her disability insurance claim and her COBRA rights.

A better letter could be written if Mary's 401(k) plan had included *401(k)Secure* — our patent protected feature that continues contributions to disabled participants' 401(k) accounts. It might go something like this:

"Dear Mary, I'm sorry you had a stroke but we have good news for you about your 401(k) contributions — they are going to continue! That's because last year you elected to have \$8.10 a month deducted from your 401(k) account to buy *401(k)Secure* disability protection.

As a result our insurance company is going to pay \$16,000 a year directly into your 401(k) account for the next 25 years. This means there is a good chance your \$500,000 nest egg will be there for you just as you planned. With this off of your worry list we offer you our best wishes for your recovery."

Just as Mary got some very good news there is also some very good news for your company: *401(k)Secure* can be made available to your employees at little or no corporate cost. This means, from now on, you can tell your employees who become disabled that their 401(k) assets will continue to grow just as if they were working — and that the money they were counting on when they hoped to retire will be there for them.

Certainly a far better response than "I'm sorry".

What do the statistics mean?

Applying standard probabilities of disability to a base of 60 million defined contribution participants shows 3 million of them will suffer a long-term disability over the next 10 years.

The Three Really Big Monkeys and the Fiduciary

We came across an *MSN* article entitled “*How the 401(k) System Fails Most People*” by Scott Burns. In it he talks with Brooks Hamilton, a benefits attorney, who describes why workers are “retiring to despair”.

According to Hamilton, workers have three big 401(k) monkeys on their backs that take the form of questions:

- Should I participate in my 401(k) plan?
- How much should I contribute to my 401(k) plan?
- How should I invest my 401(k) assets?

He then sifts 1,000 employees through this “gantlet” and finds that 30% of the employees don’t participate; 70% of the employees don’t maximize their contributions; and 90% of the employees won’t achieve near-market investment results.

The result: out of the 1,000 employees only 43 will be able to retire with dignity.

He then goes on to ask this question, “*If only 5% of the people can retire in dignity, can the board of directors, the investment committee, the trustees, the accountants, and the providers claim they’ve honored their fiduciary duty?*”

Hamilton’s answer is “no”.

The Pension Deep Freeze is the title of a recent editorial in the *New York Times* about the large number of defined benefit pension plans that are being scuttled. The editorial said the message to employees is that now “you are on your own”.

The editorial concluded that there is a “looming retirement crisis” and that legislators, and business and labor leaders should confront it now.

Eliminating the “Wild Card” in Retirement Planning

A 2003 *Wall Street Journal* article entitled “Protecting the Nest Egg in Disability” referred to disability as the “wild card” in retirement planning. Here’s why:

First, when you are totally disabled you will lose your job - and your 401(k) contributions will stop. As a result you can face a catastrophic loss of your retirement assets at age 65 – the very time when payments to you from your group long-term disability insurance plan end.

Second, when you become totally disabled your spendable income will be drastically reduced (the typical group long-term disability insurance benefit is 60% of compensation). In addition the cost of your medical insurance will usually skyrocket and your medical expenses will probably increase. As a result you will be fortunate to be able to maintain your standard of living, much less save for the future.

Finally, it is very difficult for employees to significantly increase the amount of their disability insurance to hedge against this risk because: (1) insurance companies have strict limits on how much insurance they will issue, (2) they usually require medical examinations to qualify, and (3) individual disability policies are expensive.

Fortunately, you can acquire *401(k)Secure* protection without medical evidence of insurability and at a de minimus cost. As a result it eliminates the disability wild card by continuing your 401(k) contributions if you get sick or hurt - that means your retirement assets will grow just as if you were working!

Things that used to kill now disable - in the last 20 years:

<u>Condition</u>	<u>Death</u>	<u>Disability</u>
Hypertension	-73%	+70%
Heart disease	-29%	+44%
Cerebrovascular	-48%	+36%
Diabetes	-27%	+36%

“401(k) Plans promise nothing – they are just savings plans with a license to defer taxes on investment earnings”

That was how Roger Lowenstein characterized 401(k) plans in his *New York Times* article, “*The Death of Pension Plans*” as he was comparing them with defined benefit pension programs.

Actually, as some of us older folks may remember, 401(k) plans were never intended to be pension programs – they were simply a way of deferring compensation on a tax-advantaged basis. However, as more and more employers are dismantling their pension programs all that is left to provide retirement security to workers is the 401(k) plan.

But simply increasing plan sponsor contributions will not remedy the structural weaknesses of the 401(k) plans. So its time for some bold new thinking – in short, something new.

How about a “401(k)PensionPlan”?

Now no one has asked us to design a “401(k)PensionPlan” but, what the heck, we decided to do it anyhow. Here’s what it could look like:

- Auto-enrollment.
- Indexing of contributions to compensation.
- Auto-enrollment into Managed Accounts.
- Continuation of contributions into disabled employees’ 401(k) accounts.
- Annuitization of assets attributable to employer contributions.
- Optional annuity distribution of assets attributable to employee contributions.

Integrating these significant security enhancements into your own 401(k) plan can be accomplished at lit-tle expense to your company – but the real and perceived value they bring to your employees can be enormous.

401(k)Secure for non-qualified deferred compensation plans

When we are talking to plan sponsors about 401(k)Secure – our new feature that continues contributions to disabled participants so their assets will grow just as if they were working – we are usually asked: “Our NQDC programs provide significant capital accumulation opportunities for our employees. However, when they become disabled, contributions and accruals to them stop and they can lose significant amounts of money – do you have a solution?”

The answer is “yes” – and it is *WealthSecure*TM, our patent-pending plan that is specifically designed to continue accruals to disabled employees’ NQDC plans. Equally important, *WealthSecure* can be made available without any employer cost or negative impact on the corporate financial statements.

None of us has a lease on good health and all of us have the chance of suffering from a devastating illness or being seriously hurt in an accident.

How much can be lost when a plan participant is disabled?

Totally disabled at age:	Loss of Retirement Assets at age 65 ⁽¹⁾		
	\$6,000 annual contribution	\$16,000 annual contribution	\$70,000 annual contribution ⁽²⁾
30	\$ 1,591,668	\$ 4,244,754	\$18,574,767
40	\$ 631,747	\$ 1,686,764	\$ 7,372,487
50	\$ 215,338	\$ 574,952	\$ 2,512,994

(1) At 8% interest – 3% salary scale.

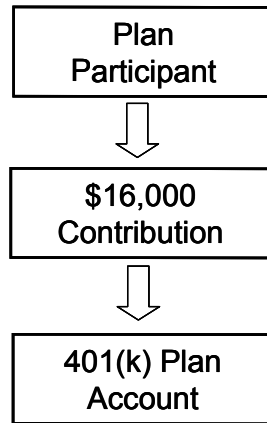
(2) Includes contributions to non-qualified benefits.

How 401(k)Secure works

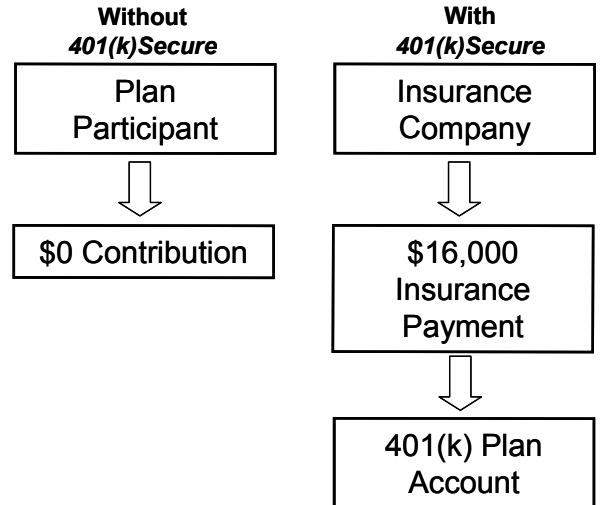
Example: \$16,000 annual 401(k) contribution

Before a disability

The purchase of 401(k)Secure disability insurance is treated as a plan investment. The insurance benefit is payable directly into the disabled employee's 401(k) account as an investment return. Therefore, premiums are paid with pre-tax dollars and the insurance benefits are tax-deferred.*



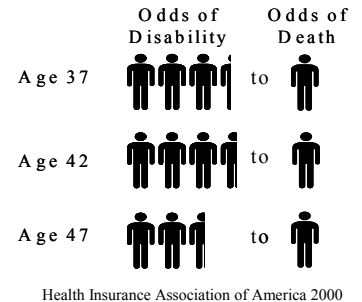
After a disability



* See PLR's 200031060 and 200235043 and the Groom Law White Paper.

The chances of being disabled are more likely than most people think

- 18.5 million working age individuals are, due to a disability, either prevented from working or limited in the kind or amount of work they are able to do. (U. S. Census Bureau Americans with Disabilities, P70-73, February 2001)
- 17% of all Social Security recipients are on disability benefits and 8 million workers in 2004 received Social Security Disability benefits. ("Disability Insurance Side of Social Security Raises Questions" by Alan B. Kreuger, The New York Times, March 03, 2005)
- During the course of a career people are 350% more likely to be injured or sick and need disability insurance than to die and need life insurance. (Health Insurance Association of America, 2000)



Visit our website: www.401ksecure.com
 Corporate Compensation Plans, Inc.
 457 Main Street, Danbury, CT 06811 — 203.792.7300