

Inside this issue:

Do Plan Sponsors have a Fiduciary duty to offer 401(k)Secure?	2
Is there a fourth "Auto"?	2
The 401(k)Secure Test Solution	3
401(k)Secure - A Case Study	3
How 401(k)Secure works	4
The chances of being disabled are more likely than most people think	4

Money Magazine puts it in perspective

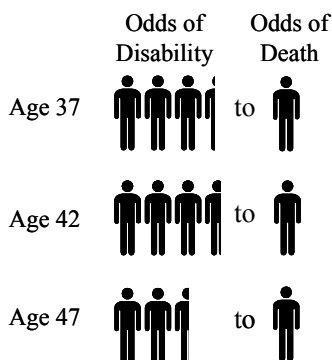
The September 2005 issue of Money Magazine found that the number one fear of young people is that of dying. But the article pointed out that far many more employees would become disabled during their working careers than those who die. Additionally, the article discussed the fact that 50% of those who file for bankruptcy do so because of health problems or medical bills. Further, it was found that 75% of those bankrupted by medical bills actually had health insurance.

Another (to us) interesting finding was that the number two fear was that the stock market would crash and that there would be a 51% chance that US stocks would lose a third of their value in any given year. However, Vanguard's Center for Investment Research calculates that the real

probability of that happening is only about 2%.

What does this have to do with 401(k)Secure? Statistics show that one in three working Americans will become disabled for 90 days or more before age 65*. In other words, the real threat to employees' capital accumulation plans isn't dying or investment risk – it is becoming disabled and not being able to invest at all.

* Commissioner's Individual Disability Table A.



Health Insurance Association of America 2000

What is 401(k) Secure?

When employees are disabled contributions to their 401(k) plans stop. As a result they can face a catastrophic loss of their retirement assets at age 65 - the very time when payments to them from their disability insurance programs usually end.

401(k)Secure solves this problem by continuing contributions to disabled employees' 401(k) accounts so that their retirement assets will grow just as if they were working. Recently implemented by IBM, 401(k)Secure solves a significant – and for the most part overlooked – threat to employees' financial security at a deminimus cost.

Never too rich to dismiss 401(k)

SEATTLE Bill Gates, considered the richest man in America, was given a 3 percent raise after a performance review by Microsoft, Marketwatch.com reported yesterday. Gates, whose estimated worth is \$51 billion, now makes an annual salary of \$620,000. Interestingly, Microsoft made \$2,469 in matching contributions to Gates' 401(k) plan. **Yes, the man is worth \$51 billion and he has a 401(k) plan.**

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Do Plan Sponsors have a Fiduciary duty to offer 401(k)Secure?

We thought about this possibility after reading an article in the September issue of *MarketWatch* about the possibility of a rash of class action law suits from plan participants when they find that they don't have enough in their retirement accounts to become financially independent (most of us like to blame someone else for our misfortunes).

Knowing that over 200,000 401(k) participants will become seriously disabled over the next 12 months we decided to ask our ERISA attorneys this question: "Do plan sponsors have a fiduciary obligation to offer participants the opportunity to insure that their 401(k) contributions will continue when they become disabled and cannot work?"

Their response was "no" – that offering 401(k) disability retirement protection was a corporate responsibility issue rather than a legal one.

How much can be lost when plan participants are 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.

Is there a fourth "Auto"?

Just about all of the statistics demonstrate that most 401(k) participants are not even coming close to having enough money to become financially independent. The three primary reasons for these personal disasters in the making seem to be: (1) inertia, (2) financial ignorance, and (3) failure to understand risk.

Recognizing that most employees need help to become financially independent, many plan sponsors are automating the 401(k) experience with: (1) automatic enrollment, (2) automatic acceleration of participant deferral rates, and (3) automatic investing into Lifestyle funds as the default option.

These "Autos" are great ideas but they are not of much help to employees who lose their jobs because they become disabled. Their 401(k) contributions will stop and many of them will have to draw down on their retirement assets to meet their financial obligations and increased medical expenses.

This being the case we suggest a fourth "Auto" – automatic enrollment in **401(k)Secure** to make sure all employees protect their contributions if they become disabled (of course those who don't want to obtain the contribution guarantee of **401(k)Secure** can opt out of it).

"Auto 401(k)Secure" also has a number of significant advantages for the plan sponsor itself: little if any cost, plan differentiation — another tool to help attract and retain talented employees, and perhaps most important of all, the assurance to their employees that if they get sick or hurt and can't work contributions can continue so retirement assets will be there for them when they need them the most.

The 401(k)Secure Test Solution

Many plan sponsors are reluctant to offer 401(k)Secure to their employees because they are afraid it won't be well received – an understandable concern if Auto 401(k) Secure or corporate subsidies are not being used.

To solve that problem we've developed an accurate testing technique that will allow you to know what percentage of your employees will participate in 401(k)Secure - which puts you in the position of knowing if you are going to have a benefit success before staking assets on it.

Give us a call and we'll talk about how it can work for you!

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%

(National Center for Health Statistics, 1999)

None of us have 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.

401(k)Secure – A Case Study

Susan is a human resources professional in a large bank and suffers from multiple sclerosis — an autoimmune disease that attacks her central nervous system. She is now at the point where she can no longer work effectively and her company has approved her long term disability claim. Here is a summary of her financial condition:

Susan was earning an \$80,000 salary and took home \$54,000 a year after taxes with an \$8,000 401(k) deferral. She will now receive a \$48,000 tax-free disability benefit, but her medical insurance premiums will increase by \$5,000 a year. The net result: an **\$11,000** annual loss in spendable income¹.

Susan's employer was providing a matching 401(k) contribution of \$4,000 a year. Her current 401(k) balance is \$65,000. Assuming a 7% investment return:

	<u>401(k) account balance at age 65</u>
If Susan had been able to continue to work she could expect to have:	\$ 1,360,273
But, because her contributions stopped she will have:	\$ 403,901
Therefore her disability created a loss of retirement assets of:	\$ 956,372

The bottom line: Susan's disability caused an immediate **loss of 20%** of her current spendable income and a **70% loss** of her expected savings and retirement assets at age 65.

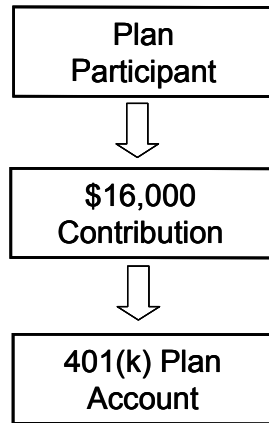
1. Because Susan's LTD benefit does not have a COLA provision her real spendable income at age 65 will only be \$19,478 — a 36% loss (assuming a 3% annual inflation rate).

How 401(k)Secure works

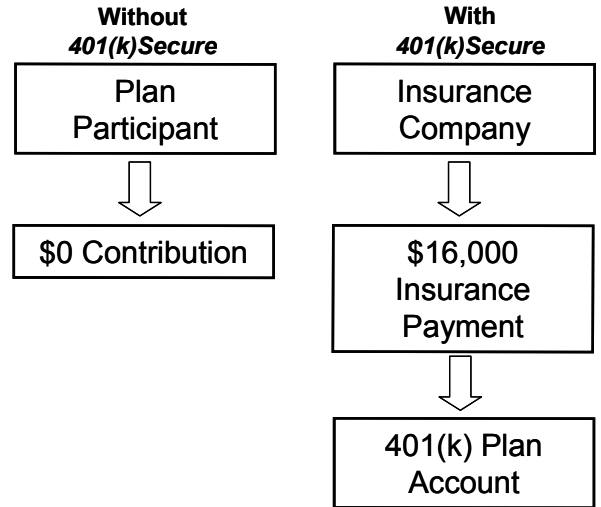
Example: \$16,000 annual 401(k) contribution

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.

Before a disability



After a disability



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

- 11.3 million Americans – 1 out of 15 – from age 16 to 64 have a severe work disability that makes it difficult to remain employed or to find a job. (*US 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. Krueger, *The New York Times*, March 03, 2005)
- During the course of a career people are 350% more likely to be injured and need disability insurance than to die and need life insurance. (*Health Insurance Association of America, 2000*)



Visit our website: www.401ksecure.com

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