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COMPLIANCE CALENDAR

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Welcome to the December 2010 Edition of Sponsor E-News

We send you our best wishes as we close 2010 and begin the new year. To help keep you informed of upcoming plan events, we have created a compliance calendar for 2011.

We are pleased to announce the enhancement of our Retirement Savings e-Tips. Our educational e-Tips are designed to help increase your employees' retirement planning knowledge through informative and impactful multimedia tools.

For your convenience, year-end testing results will once again be available online. Online access to plan-specific options will be available for some plan sponsors in the event that they fail ADP/ACP testing.

In Monthly Market Insight, the experts at BlackRock compare and contrast the economic crises of Japan and the U.S. to defend their belief that our economy will take a much different path than Japan's. Also, Natixis reminds us of the benefits of investing on a regular basis, especially during periods of market volatility.

Finally, plan sponsors may not be aware of all their options when dealing with forfeiture accounts. Transamerica provides some general information on the different ways forfeiture funds may be reallocated.



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Sponsor Connect
(866) 498-4557

INFORMATION

New Retirement Savings e-Tips

Transamerica Retirement Services is pleased to announce the enhancement of our Retirement Savings e-Tips. These informative and impactful tools complement our award-winning educational materials and are designed to help increase your employees' retirement planning knowledge.

The multimedia e-Tips can be posted on your company's Intranet site, sent in an email to your employees, or reviewed at benefit meetings. Available in both English and Spanish, the new e-Tips include the following titles:

- *The 1% Difference*
- *The Benefits of Attending an Enrollment Workshop*



- *The Benefits of Investing in a Retirement Savings Plan*
- *The Importance of Diversification*
- *Investing in a Volatile Market*
- *Saver's Credit*

All e-Tips are available at www.TA-Retirement.com on both the [Employer](#) and [Employee](#) sites. In addition, an e-Tip CD may be ordered through eKits. We hope you will utilize these tools to help further educate your employees on retirement planning.

INFORMATION

Accessing Your Year-end Compliance Testing Results

In an effort to reduce your administrative tasks, we have enhanced the online processes for accessing year-end testing results.

Once year-end testing has been completed, you will receive an email notification providing instructions on how to view your results online at www.TA-Retirement.com. This enhancement provides you with fast and convenient access to your 2010 compliance testing results. Additionally, it serves as an efficient and green way of storing results for future reference.



Also, effective January 6, 2011, many of our plan sponsors will have online access to plan-specific options in the event that they fail ADP/ACP testing. Not all plans will experience noticeable changes as a result of this enhancement. However, we strive to make compliance testing less burdensome and more understandable for everyone and welcome your suggestions.

Please let us know how we can continue to improve our service to you by contacting us at (866) 498-4557.

INFORMATION

Monthly Market Insight

Although some investors are tempted to draw parallels between the Great Recession of 2007–2009 and Japan's two decades long stagnation, the experts at [BlackRock](#) contend that enough differences exist to support their belief that "the United States will avoid Japan's fate."

Among the major differences is the overall size of the asset bubble for Japan versus the U.S. From 1981 to 1991, commercial land prices in the six largest cities of Japan increased by 500%. By comparison, housing prices in the 20 largest U.S. cities increased by 200% from 1996 to 2006, the year the real estate bubble peaked. Even now, Japan's real estate prices remain off by 60% below the 1991 peak, whereas U.S. housing prices are down roughly 33%.



During the asset bubble, Japan's stock market was also experiencing unprecedented gains with price-to-earnings ratios on equities peaking at 50 times (versus 20 times for U.S. equities pre-crisis). Additionally, Japan's nonfinancial corporate debt reached 125% of gross domestic product (GDP) in 1991 (versus 50% of U.S. GDP in 2008). This highly overleveraged position contributed to losses to Japan's banking industry totaling nearly 20% of GDP from 1992 to 2005, compared to a 7% of GDP loss in the

U.S.

Another key difference lies in the swiftness and magnitude of each government's intervention. Within the first 18 months of the U.S. crisis, the Federal Reserve not only cut its target rate by 5%, it also employed some unconventional measures to create quantitative easing. Japan responded much more slowly, taking almost nine years for the Bank of Japan to reduce its target interest rate to zero from its high of 8% in 1991.

Both countries introduced stimulus measures. However, with the passage of the \$787 billion stimulus bill and other consumer incentives, the "fiscal support packages have been larger and further reaching in the United States." Japan policymakers' reaction was slow, "and their eventual responses were too timid and inconsistent to have a meaningful and sustained impact."

Lastly, a critical distinction between the two countries is based on culture. The U.S. operates as an open economy, which promotes efficiency, enterprise, and competition. Ailing and/or unproductive businesses are subject to capitalism's "creative destruction" and allowed to fold, merge or be seized by the government.

In contrast BlackRock states that Japan's closed economy "promotes a more rigid structure that is less tolerant of the concept of creative destruction." The government provided funds to insolvent firms, which were allowed to languish and consume vital resources that would have otherwise gone to more productive firms.

In summary, BlackRock contends that although the U.S. and Japanese crises have some similarities, their fundamental dissimilarities support their belief that history will not repeat itself.

A separate article provided by [Natixis Global Associates](#) reminds us of the long-term benefits of employing a dollar cost averaging investment strategy in a volatile market. By making a "habit" of investing on a regular basis, you can potentially turn declining markets into a long-term opportunity.

We hope you will share these articles with your participants in an effort to provide them with further investment education.

BlackRock and Natixis provide investment management services for some of the investment choices offered in Transamerica retirement plans. Neither BlackRock nor Natixis are affiliated with Transamerica.

✓ LEGISLATIVE/COMPLIANCE

Forfeitures—Know Your Options

Plan sponsors may be unsure of what to do with accumulated funds in their forfeiture accounts. A forfeiture occurs when a participant, who is less than 100% vested, takes a distribution of the vested portion of their account, thereby making themselves ineligible for the non-vested portion. The non-vested portion of their account is transferred to a forfeiture account. Typically, the money is transferred on the later of the date of the break in service or the date of the distribution, although some plans allow the money to be transferred earlier.



Treasury Regulation 1.401-7(a) states that, as a general rule, forfeitures "must be used as soon as possible to reduce the employer's contributions under the plan." Under Revenue Ruling 84-156, a plan is also permitted to use a forfeiture account to pay for plan expenses. If the forfeiture account exceeds all plan expenses for a particular plan year, any remaining forfeitures should be used no later than the immediately succeeding plan year.

If an employer fails to provide instructions on how the forfeiture account is to be used to pay expenses, they run the risk of allowing the forfeiture accounts to remain untouched, in some cases, for years. This may be considered to be an operational failure by the Internal Revenue Service (IRS), requiring correction.

Some plans provide for forfeitures to be reallocated to a designated group of participants (e.g. those employed on the last day of the plan year). These funds must be reallocated annually, at the time the annual nondiscrimination testing is performed.

In other cases, plans may provide for forfeitures to be used to reduce future employer contributions. However, employers who choose this provision should be made aware that a problem can arise if they decide not to make employer contributions in one or more plan years.

If you discover accumulated forfeitures in your plan, it may be possible to correct the situation by reallocating the funds to participants and revising prior plan year allocation reports to reflect the forfeiture allocation. Other situations may require filing the correction with the IRS. How long the unused forfeitures have been in the plan will be a strong determinant of your next steps.

If you would like further general information, please call us at (866) 498-4557.

LEGISLATIVE/COMPLIANCE

Plan Ahead With Our Compliance Calendar

As part of our on-going efforts to keep you informed about important annual plan events, we have created a compliance calendar for 2011. This convenient [reference guide](#) can help you stay on top of your plan's compliance requirements during the upcoming plan year.



COMPLIANCE CALENDAR

For 12/31 — Make prior plan-year compliance corrections, if any, without plan disqualification.^{1,2,3}

Compliance Notes:

1) Compliance and non-discrimination testing refers to a series of tests including the minimum coverage, annual additions, top heavy, actual deferral percentage (ADP) and actual contribution percentage (ACP) tests. Transamerica must have received a complete census package and Additional Plan Data Form by early February in order to complete testing in March and meet the 3/9 deadline for distributing excess contributions without penalty to the employer.

2) If the plan fails the ADP and/or ACP tests, the correction can be made by distributing excess contributions. If a correction is made within 2 1/2 months after the end of the plan year (on or before 3/15 for a calendar year plan), the employer avoids paying a 10% excise tax to the IRS on the amount of the correction. If the corrective distributions are made more than 2 1/2 months after the end of the plan year, the employer will pay the 10% excise tax on the corrective distributions.

3) A participant's pre-tax contributions and any Roth contributions (deferrals) to a 401(k) plan cannot exceed the annual limit set by the IRS in Internal Revenue Code sections 402(g) which is \$16,500 for 2011. Excess deferrals (in excess of the \$16,500 amount) made in 2010 must be distributed to the participant, with related earnings, by 4/15/2011. Failure to make these corrective distributions could result in plan disqualification.

FEEDBACK

We always welcome your feedback and suggestions. Please send your comments to sponsorconnect@transamerica.com.

Endnotes

Transamerica Retirement Services ("Transamerica"), a marketing unit of Transamerica Financial Life Insurance Company ("TFLIC"), 440

Mamaroneck Avenue, Harrison, New York 10528, and Transamerica Life Insurance Company ("TLIC"), 4333 Edgewood Road NE, Cedar Rapids, Iowa 52499, and other TFLIC and TLIC affiliates, specializes in the promotion of retirement plan products and services.

