

Voice

A Publication of Nationwide® Retirement Solutions – a Nationwide® Financial company

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Public Sector Retirement - Yesterday, Today and Tomorrow

In February, Nationwide released a comprehensive report on the state of public sector defined contribution plans and the participant activity within them. A preliminary draft was presented to the Panel of Advisors of the Nationwide Retirement Education Institute last fall for their review and input. Their feedback provided valuable guidance and refinements to the findings and conclusions within this report.

This is one of the first major research efforts to specifically focus on how well state and local government employees are preparing for retirement through their supplemental deferred compensation plans. The objective of this material is to promote understanding and improvements of the current plans and education efforts.

The report includes analyses of current and historical data, special attitudinal and behavioral studies, and participant information collected over a span of more than 25 years. Many of the conclusions and findings are based on the aggregate data within the Nationwide database of more than 8,200 public sector plans with 1.75 million participants and \$31 billion in assets.

This report is the first in a series of studies that will be conducted by Nationwide and the Retirement Education Institute to review public sector defined contribution retirement plans and issues. While each report will be comprehensive in findings and conclusions, the analysis will also identify new questions and issues that will need further examination.

Subsequent reports will build on the data and findings from this first effort, to make it more advanced and valuable in understanding the needs of this employee population.

Sample Report Findings - Comparison to Private Sector Plans

While there are similarities between the features of governmental 457 plans and private sector 401(k) plans, there are significant differences as to how they are used. Most public sector employers provide pensions, or defined benefits, as employees' primary source of retirement income. In the private sector, 401(k) plans are often the only (or most attractive) employer provided retirement benefit.

But can the above distinction justify the participant and plan differences that have been identified in the report, like those noted below?

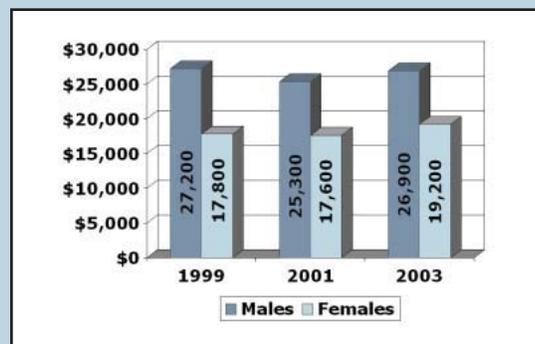
- The average number of investment options made available to participants in a 457 plan are significantly greater (41 options versus 13)
- The average account balance in a public sector participant account is less than half of the 401(k) participant balance (\$24,000 to \$49,000)
- A smaller percentage of the assets in a public sector employee account are in equity funds, than those of the 401(k) participant (52% in equity versus 66%)

This report is just the first step in better understanding participant activity and what is needed in regard to plan design and participant education to better meet the needs of this employee population.

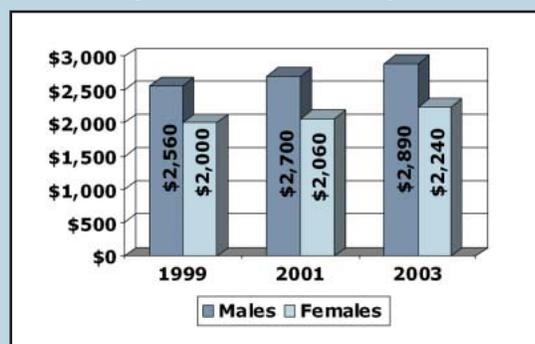
The information and findings are expected to generate discussion and further research to identify problems and solutions to help state and local government employees enjoy financial security for their retirement years.

To learn more or to request a copy of this report, visit us at www.nrsforu.com.

Average Account Balance by Gender



Average Annual Deferral by Gender



Investment Policies, More Important than Ever

By Curt Morrow, CFP®, CRC, Investment Services Manager

Over the past few years, you've likely heard industry experts talk about why it is important for fiduciaries to establish investment policies to guide decisions regarding the investment choices that are offered to defined contribution plan participants.

Today, with the recent investigations into mutual fund trading practices, the rationale for this is becoming even more apparent and plan sponsors are recognizing a need to create a new policy or update an old one. These investigations are raising concerns about if, or when, certain mutual fund options should be removed from the plan's investment line-up.

Allegations of improper mutual fund practices should be factored into a determination about a particular investment's continued appropriateness for offering in a defined contribution plan. However, it should not be the only consideration when making this decision. This is where your investment policy comes in.

Policy puts standards in place

A typical investment policy statement will identify that due diligence reviews of fund choices should be conducted on a reoccurring basis (e.g., quarterly, semi-annually, or annually).

The reviews will evaluate the plan's investment options based on established criteria that include performance measurements, comparisons to peers, and consistency and quality of fund management. [A sample investment policy statement can be found online at www.nrsforu.com, under the Employer tab.]

Nationwide is handling this additional oversight through a well-established and comprehensive process with frequent

contacts to all mutual fund companies that are included in the plans they administer. Changes that are identified in a fund management team, or issues pertaining to legal or regulatory action against a manager or fund house, can result in an investment option being placed on our "watch list."

This means that we take additional steps to monitor and evaluate a fund's continued viability and appropriateness as a long-term investment choice for retirement assets. Scrutiny becomes more broad-based and in-depth. It considers all factors that may affect the future prospects of both the specific options and the fund companies.

Although the current allegations appear to be extraordinary, these additional steps are part of the normal due diligence review, conducted by our team of investment experts, that includes a formal quantitative and qualitative analysis. It is not unusual for an investment option or mutual fund company to emerge from our watch list without further concern or any action being taken to remove a fund from the investment line-up. More information about this due diligence process can be obtained by contacting your Nationwide representative.

Nationwide is moving cautiously and deliberately as the various investigations progress. We are allowing them to proceed in an orderly manner and withholding final judgment until all the facts are understood. We are prepared, however, to take action to close or remove a fund from a plan, or make recommendations to plan sponsors regarding this, if our oversight processes demonstrate that this is warranted.

You can find the latest information about investigations into the mutual fund trading practices and what Nationwide is doing about them online at www.nrsforu.com or through your Nationwide® representative.

Nationwide introduces new online property protections

As the Web industry evolves, more organizations are finding that they need to protect their online property. Nationwide, too, wants to protect its property as it expands the education material and resources available on our Web site (such as the eWorkshops discussed on page 4). To address this, we will soon add an Electronic Service Agreement pop-up window that participants will see at the login screen of the deferred compensation Web site. The window outlines copyright, privacy and legal protections, and specifies how transactions can be conducted.

Participants will be asked to carefully read the information contained in this window. They must click on the "I agree" button to continue to access the password protected portion of their deferred compensation Web site. If they decline, this pop-up window will continue to be presented to them each time they attempt to log into their account. This is scheduled to be added to the Web sites administered by Nationwide before the end of the first quarter of 2004. If you have questions about this service, please contact your Nationwide representative.

Proposed Rules on Mutual Fund Trading Practices

On February 5th, 2004, Nationwide submitted a comment letter to the Security and Exchange Commission (SEC) on the proposed rules regarding mutual fund trading practices. These rules would impose a hard close of 4 pm Eastern time on all trades, including those executed through a third party administrator of a defined contribution plan.

If these rules are enacted without change, this will result in plan participants being subject to a much earlier deadline (such as noon or even earlier for those in the Pacific time zone) in order to receive the current day's mutual fund share price on exchanges.

A copy of this letter can be found at www.nrsforu.com, in the employer section. More information about these proposed rules, as well as any legislative actions pertaining to this issue will be shared with the plan sponsor community through ad-hoc alerts and the monthly Legislative and Regulatory Report, that are distributed to you electronically via e-mail.

If you do not receive these e-mail publications, please contact Terri Blakeman by phone at (614) 854- 8694 or e-mail at blakemt@nationwide.com.

New law adds rights for workers called to military duty

By Joann Albrecht, CPC, QPA, Plan Technical Consultant

President Bush signed the Servicemembers Civil Relief Act into law in December 2003, which gives workers who have been called into active military duty new rights. The new law amends the Soldiers' and Sailors' Civil Relief Act of 1940 and clarifies that retirement-plan loans that are initiated prior to a period of military service are subject to a maximum interest rate of 6% during the military leave.

Certain criteria must be met for this maximum rate to be applied. The interest-rate reduction is in effect between the date the employee is called into active military duty and when this service ends. The calculation of the rate must include service charges, renewal charges, fees and any other charges.

Nationwide has processes in place to help plan sponsors comply with the new law, as well as with the Uniformed Services Employment and Reemployment Rights Act (USERRA), The Soldiers' and Sailors' Civil Relief Act of 1940 and other laws that may affect the rights of public workers called into military service.

Detailed information about this new law is provided in the January Legislative and Regulatory Report that can be found on-line at www.nrsforu.com in the Employer section.

The text of the Servicemembers Civil Relief Act can be found at <http://thomas.loc.gov>.

SSA – eNews

Do you have questions about Social Security and the benefits your employees are entitled to? The Social Security Administration (SSA) offers a free subscription to eNews, their electronic newsletter, that is distributed each quarter via e-mail.

To subscribe to this publication, go to the SSA Web site at www.socialsecurity.gov.

This site also includes a special section that is dedicated to issues and questions pertaining to state and local government employers and employees.

Theresa Cruz Myers was recently named co-chair of the National Conference of Black Mayors Corporate Advisory Council (NCBM-CAC). This coincides with her new role as vice president for marketing, education and communication for Nationwide Retirement Solutions.

Established in 1974 and headquartered in Atlanta, NCBM-CAC is a non-partisan organization committed to help mayors across the country conduct business with minority-friendly businesses from the private sector. The NCBM-CAC unites mayors and business leaders across the country to provide a forum for exchanging information between mayors and businesses.



In her new role at Nationwide, Myers is responsible for plan sponsor, participant, and field communications, such as retirement education materials. Her responsibilities also include oversight of employee education and training; public sector marketing initiatives; and management of key business partnerships.

New eWorkshops coming online

As part of our continued efforts to enhance the education we provide to employees and participants, Nationwide is pleased to announce a new series of innovative and interactive workshops that are available on-line at nrsforu.com. These eWorkshops provide another medium to educate your employees about their deferred compensation program and general investment topics.

According to Mia Hairston, director of employee education, "The eWorkshops aim to educate current and potential participants in the products and services offered through their employer's deferred compensation plan.

"The workshops offer hands-on learning, designed to help public employees understand and apply various financial concepts," Hairston added. "They learn at their own pace, any time and anywhere they choose."

These sessions can be accessed through any on-line computer connection (dial-up or broadband) and correspond to the in-person workshops that were initiated last year through our Join It! Learn It! Live It! curriculum.

Five available on-line workshops:

- **For those not yet participating** – We offer two Join It! workshops to help employees understand the benefits of deferred compensation and how to enroll.
- **For current participants** – We offer one Learn It! session focused on asset allocation and two Live It! workshops providing information that participants need as they near retirement.

The Join It! workshops can be accessed by anyone through the employee side of www.nrsforu.com. However, participants must have an on-line account established in order to access the Learn It! and Live It! workshops, located on the password protected side of the Web site.

We encourage you to visit nrsforu.com and take a look at the new workshops. Let us know what you think! We'll be adding more sessions to this on-line curriculum over the next year and working on ways to adopt these for plan sponsors who have customized Web sites (that are not part of nrsforu.com).

Investment performance reports to be modified

Last October, the Securities and Exchange Commission announced amendments to Rule 482, the regulations governing fund-performance advertising. The amendments require new text immediately above the performance data and specify the typesize and placement of disclosure information.

The new paragraph clarifies that the numbers discussed in the document are a snapshot of performance as of the date indicated and reinforces that past performance does not guarantee future results. It also gives information about where the reader can find more current information than the report

offers. The text reminds the reader that (s)he should read each fund's prospectus carefully before investing.

Rule 482, as amended, requires plans to offer monthly performance information on a Web site or automated phone service. The new regulations become effective "after March 31, 2004."

Nationwide is working diligently to ensure that your plan complies with the new regulations. Your Nationwide representative will provide more specific information about the changes prior to the end of the quarter.



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Plan Sponsor Voice is edited by

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