

401(k) TODAY

PENSION DYNAMICS CORPORATION

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"The Latest News on Saving and Investing"

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Rely on markets to fluctuate

by Stephen J. Butler



As we peer into the stock market's current abyss, it may be therapeutic to recall the year leading up to October of 2007 and consider it just an embarrassment of riches. After all, in slightly over a year, the total stock market rose by 23%. That capped what had been a 75 percent, three-year increase in value. Our natural tendency is to take these dramatic gains for granted, and then wring our hands when the recent 20% drop qualifies for the dreaded "bear market" definition triggering the attendant bout of hysteria. Let's get a grip.

The past 10 years have certainly seen some volatility in a market that can generally be expected to rise at an average of 10 percent per year over typical rolling 10-year periods. Actually, there are very few years when the rise is, in fact, close to 10 percent. Results are usually much more volatile both on the high and low side as we have seen over the past 10 years. An important, overlooked part of the 10 percent is in the form of reinvested dividends. When we read that market indexes such as the Dow Jones or the S&P 500 index are at the same level today that they were in late 1998, that fact ignores the compounding of dividends over the past 10 years. Dividends, on average, contribute about one quarter of our overall stock market returns. They average about two percent per year, and for the most part, they get paid on a regular basis even as markets are plunging.

More powerful than dividends, however, is the force of dollar cost averaging --- the process of continuing to buy a fixed dollar amount of shares as the share prices are plunging. A typical 401(k) participant who began investing, say, \$10,000 per year in a total stock market index fund in 1997 and who continued for the next eleven years would have had \$161,000 by the fall of 2007, and total contributions would have been \$110,000. Today, the account has dropped to \$137,000 (twenty percent drop) but this is just another opportunity to "tee-up" the account with more shares at the kind of bargain prices that existed earlier this decade --- bargain prices that contributed to the "embarrassment of riches" in late 2007.

Bear in mind that this hypothetical investor who had \$161,000 by the fall of 2007 started with nothing back in 1997. They simply began contributing at a rate of \$10,000 per year. By the end of the 1990s, they only had about \$40,000 working for them. But by continuing to invest regular amounts through the downturn of the early 2000s, they still wound up with \$161,000 by the fall of last year. By comparison, some Lucky Gladstone Gander who had invested a one-time \$110,000 windfall as a lump sum back in 1997, but who had added no additional money, would have only had \$182,000 by the fall of 2007 --- just \$20,000 more than our steady plodder who benefited tremendously from the plunge of 2000.

One disturbing characteristic of steady investing is that a recent market downturn will have a greater detrimental effect overshadowing an equivalent percentage gain earlier in the investment experience. We can read a statistic that shows the market to have had a 10 percent average annual return over 10 years. However, that may have been the result of a several years in the first five years with 15 percent gains and then some substantial losses in the later years. We look at what the stated gain and compare it to our statement and find ourselves asking, "Where's my money?" The answer, of course, is that the steady annual investor had relatively little money in the plan to benefit from those early substantial gains. By the time the losses came around, there were five more years of contributions, so the percentage losses affected a larger amount of money than the earlier percentage gains. This explains why everyone's actual results in a 401(k) plan will differ when compared with a mutual fund company's reported returns.

When J.P. Morgan was asked what he thought the market would do, he always said, "it will fluctuate." Anyone who doesn't see the current "fluctuation" as a positive dollar-cost-averaging opportunity can hedge their bets by considering some combination of bond funds that bring the bond percentage to roughly one-third of a retirement account or investment portfolio. This investment mix has only dropped by about twelve percent --- roughly half the amount of the market plunge. Shifting to this allocation would make far better sense for anyone otherwise tempted to throw in the towel and move to all cash.



Benefits TODAY

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Open Enrollment is Coming!

- For many of you, the end of the calendar year signals that its time to start thinking about your flex plan elections for next year.
- Remember—spending account elections DO NOT rollover automatically, you need to complete an enrollment form during your company's open enrollment period if you don't want to be left out.
- For those of you who have never used a Flexible Benefit Plan, its time to start thinking about it! Look back at the expenses you have already had to pay this year, add it up and I'll bet you'll be surprised! You may even be surprised what expenses may qualify for reimbursement. Take a look at the list below to see qualifying medical expenses.
- Work related daycare is a covered expense. You don't have to use a special daycare center, you can be paying a neighbor or family member to watch your children and still run it through the plan. In most cases the savings experienced through using a Flexible Benefit Plan are greater than the tax credit generated when you file your return.

Participating in your Flexible Benefit Plan could save you 35-45 cents on every dollar you spend for medical care (and/or work related daycare)—it might just be worth checking out this year.

Medical Expenses Eligible for Reimbursement From Your Account

The following list identifies expenses that are eligible for reimbursement through your Medical Reimbursement Account provided they are incurred by you and/or your dependents during the plan year, are not covered by your insurance, and have not been reimbursed through any other benefit plan.

- Alcoholism and drug addiction treatment
- Allergy Medications
- Ambulance Transportation
- Cold and flu remedies (See Stockpiling)
- Contact lenses and solution (See Stockpiling)
- Crutches
- Deductibles (Medical Insurance)
- Dental Implants
- Dental treatments (excluding cosmetic procedures)
- Diabetic Supplies
- Eye examination
- Eyeglasses (corrective lenses)
- Fees to doctors and hospitals including:

Anesthesiologist	Obstetrician	Psychiatrist/ Psychologist
Dentist	Ophthalmologist	Neurologist
Dermatologist	Optometrist	Surgeon
Gynecologists	Podiatrist	
- Hearing aids and batteries (including upkeep and maintenance)
- Infertility treatment
- Insulin and related supplies
- Laboratory fees
- Laser/Lasik eye surgery
- Mentally challenged (special tutoring/care of)
- Nursing care
- Office Visit Co-Payments (for medical appointments)
- Orthodontia (monthly installment payments*)
- Over-the-counter Drugs and Medications (See Stockpiling)
- Oxygen equipment
- Pain Relievers (See Stockpiling)
- Physical Therapy
- Prescription Medication co-pays
- Support or corrective devices (i.e. orthopedic shoes)
- Surgery (excluding cosmetic procedures)
- X-rays

*With submission of payment arrangement contract

The Following Expenses are considered DUAL PURPOSE. These items are only covered with a diagnosis from a medical professional. This is not meant to be a comprehensive list but rather a list of items commonly submitted for reimbursement.

- Acupuncture
- Chiropractic Treatments
- Psychotherapy
- Rental of medical equipment
- Vitamins / Supplements
- Weight loss programs

The Following Expenses Are NOT ELIGIBLE: This is not meant to be a comprehensive list but rather a list of items commonly submitted for reimbursement.

- COBRA payments
- Cosmetics / toiletries
- Cosmetic surgery / procedures
- Electrolysis / Hair loss treatments / Rogaine
- Insurance premiums
- Multi-vitamins
- Teeth Bleaching (cosmetic)
- Tinted clips for prescription eyewear
- Toiletries

NOTE: Stockpiling is NOT permitted. No more than **TWO** formulations of the same OTC will be reimbursed in any given month.

