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## Matching Plan Assets to Liabilities Can Help Manage Plan Risk

A growing number of companies seeking better control over their pension's funded status and investment performance are considering a funding risk management strategy called liability-driven investing (LDI).

LDI aims to match assets to liabilities, rather than generate the highest level of return at an acceptable level of risk — an approach most pension plans have taken to date. The main focus of LDI is to increase the duration of the plan's portfolio, typically by using long-duration bonds, so that the market value of assets moves in tandem with the value of plan liabilities, thus preserving the plan's funded status overall.

"The LDI approach is a departure from the conventional total return strategy that most plan sponsors use," says Tom Swain, Principal and Consulting Actuary with BPS&M. "However, the concept is not new." Swain notes

that its current use is being driven by two factors: the Pension Protection Act of 2006, which subjects plan sponsors to significant penalties if their pension plans are less than 80% funded, and new Financial Accounting Standards Board Statement Number 158 (FASB 158), which requires private sector companies to report the funded status of their pension plans as an asset or a liability on their balance sheets based on current investment market conditions.

The result of these mandates is that any significant swing in a pension's funded status could impact the price of a company's stock and its overall financial status.

"Most plan sponsors want to control their costs, but they also want to strike a balance between controlling the volatility of their contributions and controlling the amount of those contributions," says Swain. Fortunately, the LDI approach



is not an all-or-nothing solution. Many plan sponsors use LDI for one portion of their assets and the total return strategy for the other portion in order to reduce volatility but still reap some gains from equities.

### Wells Fargo's Target Date Funds Manage Equity Exposure Near Retirement

Target date funds have become an increasingly important investment option in retirement plans. Indeed, these funds, which change their investment holdings as they move closer to their stated target retirement date, have become the default investment for many companies with an automatic enrollment feature. Moreover, participants themselves often invest all of their assets in a single target date fund based on their retirement time horizon. Therefore, it is important for plan sponsors to step back and look

carefully at these funds and the investment philosophy behind them.

Quite simply, not all target date funds are the same. Asset mixes and investment philosophies vary considerably from fund to fund. For example, many well-known target date funds maintain a high level of equity exposure — and, therefore, risk — up to and just after an investor's retirement date. In some cases, funds keep up to 55% of their assets invested in equities. The rationale for

*continued inside*



## Enhanced Plan Participant Web Site

As part of our ongoing commitment to provide an outstanding online experience for participants, Wells Fargo is rolling out exciting new enhancements to its Retirement Plan Web Site throughout 2007 and beyond.

### New Content

The Web site's "Financial Matters" section has a host of new content designed to help retirement plan participants learn more about retirement planning and investing. This content includes articles on retirement readiness and financial planning, various financial calculators, Podcasts on key financial topics and Real Simple Syndication (RSS) that allows participants to sign up to receive finance-related articles in their myGoogle or My Yahoo accounts.



### Continued Enhancements

In the coming months, the Web site will undergo design and navigation changes to improve its ease of use. For example, there will be a cleaner, more visually appealing design as well as simplified navigation that makes it easier for users to locate account information

and specific retirement-related tools and information. An enhanced Overview Page will include added features.

More enhancements are in store for 2008, including improved site performance and speed, greater personalization and the addition of new tools and functionality like customized Web messaging and e-mail capabilities.

Log on to <https://www.wellsfargo.com/retirementplan> to view new enhancements and upcoming changes as they occur. In addition, we will be providing you with periodic updates on an ongoing basis.



## New Results from the Wells Fargo Total Plan Index

As they look for ways to spur greater retirement saving among their employees, a growing number of plan sponsors are offering retirement plan participants more opportunities to save, earlier plan eligibility and more plan investment options, according to the *2006 Wells Fargo Total Plan Index*, an in-depth analysis of the nearly 1,700 401(k) plans managed by Wells Fargo.

So far, their efforts seem to be working. Overall, account balances increased almost 7% from 2005 to 2006. The retirement savings message is definitely ringing true for participants over age 60, who save about twice as much as participants age 35 or younger. Based on this data, Wells Fargo's projections estimate that the average participant will

accumulate more than \$500,000 by retirement age.

### Auto-Enrollment Catches On

Getting individuals enrolled in the retirement plan is a continued concern for plan sponsors. The percentage of plan sponsors that adopted an automatic enrollment feature increased significantly from 4.73% of plans in 2005 to 11.08% of plans in 2006. And it appears that automatic enrollment can have a significant impact on participation rates. Plans with automatic enrollment have participation rates that are about 15% higher than plans without automatic enrollment. In addition, offering a matching contribution, regardless of the amount, can increase participation rates by about 10 percentage points.

## Wells Fargo Target Date Funds ...

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this strategy is that it can help investors accumulate more assets in an effort to manage longevity risk, i.e., the risk of outliving one's assets.

Yet this additional equity exposure would be of little use to investors if the market were to experience a significant downturn just before — or just after — their retirement date. During this transitional time, such an event might cause investors to take drastic action — perhaps making their portfolio ultra conservative in an effort to curb losses or ultra aggressive to make up for losses.

### A Better Offense?

#### Increased Deferrals

A much more prudent approach is for individual participants to manage longevity risk by increasing their deferrals in the years

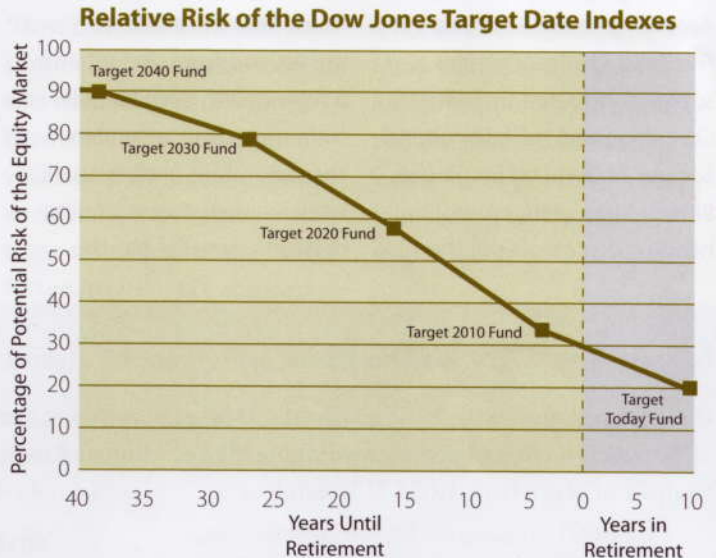
leading up to retirement. Indeed, numerous studies have shown that deferral rates have far more influence on the ultimate size of an individual's retirement savings than asset allocation or above-average returns.

Wells Fargo Advantage Dow Jones Target Date Funds<sup>SM</sup> are structured in a way so they have less exposure to equities at the selected retirement date than many other target date funds. These Wells Fargo funds use allocation formulas that are based on a more conservative glide path (the rate at which the funds' investments become more conservative) than those used by other target date funds. In other words, Wells Fargo's funds provide relatively greater allocations to bond and money market investments (which traditionally have been

less volatile than stocks) right before and just after retirement.

When choosing a target date fund for their retirement plans, plan sponsors have a fiduciary responsibility to understand the investment philosophy and approach of those funds. This is especially important because target date

funds are designed to be a participant's single retirement investment within a plan. Because the glide path for target date funds can vary greatly from fund to fund, it is important for plan sponsors to weigh those differences before selecting a target date fund that is most appropriate for their retirement plan participants' needs.



Carefully consider a fund's investment objectives, risks, charges, and expenses before investing. For a current prospectus, containing this and other information, call 1-888-877-9275 or visit [www.wellsfargo.com/advantagefunds](http://www.wellsfargo.com/advantagefunds). Read it carefully before investing.

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# Cost vs. Talent: Employers Face Dueling Priorities



When it comes to health benefits, employers have long struggled with conflicting needs. On the one hand, companies need to manage the costs of these increasingly expensive benefits. On the other hand, those companies also need to maintain a strong benefits offering in order to attract and retain good employees.

After years of shifting more of the cost of health insurance premiums to employees, it looks like the pendulum may be swinging the other way. According to the *2007 Top Five Total Rewards Priorities* survey conducted by Deloitte Consulting and the International Society of Certified Employee Benefit Specialists, controlling health care costs is still the

highest Total Rewards priority for 2007, but it is no longer overwhelmingly so. Eighty percent of the 422 U.S. human resources professionals surveyed identified health care cost containment as a top five priority this year, and 36% ranked it as the top priority. Both of those rankings are down significantly from last year, when 91% said cost containment was a top five priority and 55% identified it as the top priority.

At the same time, the survey found that the ability to attract, motivate and retain a high-quality workforce is running a close second in the view of HR professionals, while increased cost sharing of health benefits has the

potential to undermine a company's ability to attract and retain employees.

According to another study conducted by the Kaiser Family Foundation, the size of the premium that workers are asked to pay for health insurance affects their decision whether to enroll in the employer's health insurance plan. For example, enrollment in single coverage drops from 89% when workers do not have to make a contribution to 68% when workers have to pay 37% or more of the premium cost. Similarly, participation in family coverage drops from

90% when workers make little or no contribution to 77% when workers must contribute more than 50% of the premium cost.

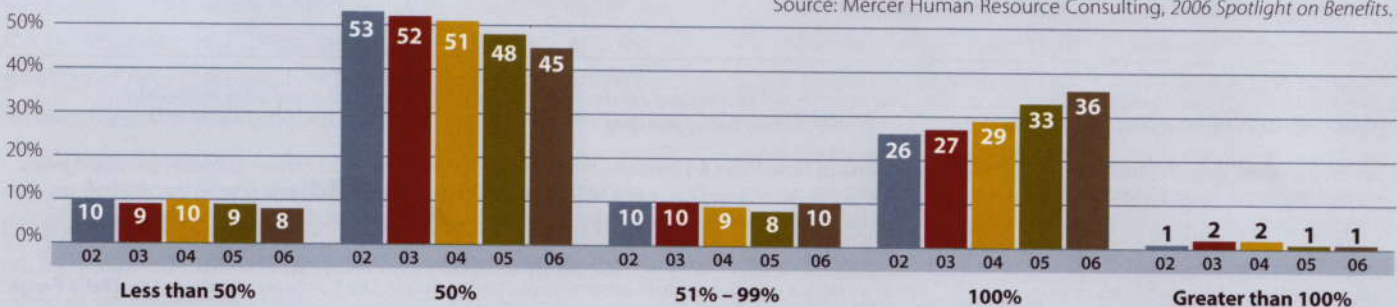
It appears that some companies are realizing that they have gone far enough when it comes to cost shifting. In fact, there is growing evidence that shifting too much of the cost of health benefits onto employees will simply cause employees to opt out of those programs rather than paying more for them. And that nullifies the value of one of the most important benefit programs a company can offer.

## Match Rates Are on the Rise

Over the past five years, the number of 401(k) plans offering a match rate of 100% has risen steadily, while plans with only a 50% match have declined, according to Mercer Human Resource Consulting's *2006 Spotlight on Benefits* based on an analysis of more than 1,025 U.S. employers.

**401(k) Match Rates From 2002 to 2006 (as percentage of plans)**

Source: Mercer Human Resource Consulting, *2006 Spotlight on Benefits*.



For more information about how the topics in this newsletter may relate to your situation, please contact your Wells Fargo relationship manager.

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