



RETIREMENT CRISIS IN AMERICA:
THE JOURNEY TO DIGNITY OR DESPAIR

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As most forms of defined benefit plans face extinction, the participant directed 401(k) plan, for most of us, will become (or already is) our **only retirement vehicle**. As employees, we are all entering a period where we will have near total financial control of our retirement futures. Most everyone will agree it is a good thing to save for our retirement years. However, many of us only talk a good game and don't follow through on our savings plan. And the large majority of those who do save **don't save nearly enough**.

As service providers for retirement plans, we know (with nearly absolute certainty) that:

- Most employees will spend nearly their entire retirement lives financially crippled.
- Far too many employees do not participate in currently available retirement plans either through their employer or individually.
- Those who do participate do not save anywhere near enough money.
- They do not want to be educated regarding appropriate financial decisions.
- Too many make no choices for fear of being wrong.
- When they do make choices on their own, they are often bad ones.
- In most cases, because retirement is so far in the future, employees simply don't feel an urgency to take action . . . so they do nothing.

WHAT CAN BE DONE?

Simply put, if employees won't or can't do it for themselves, employers and retirement professionals must do it for them! We need to develop a simple program and an easy way to implement its structure to accomplish the goal of providing each employee a reasonable opportunity to retire with dignity. This part really isn't hard since the retirement industry after many years of experience with 401(k) plans is reasonably certain what *doesn't work*. Likewise, there have been numerous articles written and studies conducted about what *does work*.

AT THE CORE OF WHAT DOES WORK IS THE PREMISE THAT IT MUST BE DONE FOR THE EMPLOYEE, NOT BY THE EMPLOYEE. ADOPTING THIS CONCEPT IS ABSOLUTELY CRITICAL TO ANY SUCCESSFUL PROGRAM.

The "Twenty Easy Steps to Retirement with Dignity" outlined below do not exhaust all possibilities. It is not an epiphany, but a collection of current ideas and experiences. This approach will cost plan sponsors some money to implement, but not much. And, if they don't want to pay, the expense can be made a participant charge where appropriate.

The bottom-line is *it is desperately needed now!* And the majority of participants will be better off with it than without it even if they have to pay for it themselves.

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TWENTY EASY STEPS TO RETIREMENT WITH DIGNITY

1. **WHOLEHEARTEDLY COMMIT** to the goal of providing every employee an opportunity to retire with financial dignity through his/her retirement plan.
2. **CAREFULLY INTERVIEW** professional and knowledgeable service providers who can assist you in implementing this plan.
3. **REQUIRE** complete and full disclosure of every fee, every commission and every expense from every potential plan provider during your interview process.
4. **COMPARE** your plan expenses to national averages to insure you are not paying too much.
5. **HIRE** only those firms who charge reasonable expenses for their services and, importantly, are *motivated by service to the plan sponsor and participants* . . . not by fees or commissions they will earn on the plan.
6. **ESTABLISH A WRITTEN STATEMENT OF PLAN GOALS AND GOVERNANCE** describing the administrative goals of the plan, how the plan operates, how trustees are appointed and, generally, who is responsible for various aspects of the plan and to what standards they will be held. Review annually.
7. **ESTABLISH A WRITTEN STATEMENT OF OBJECTIVES** describing the investment goals of your retirement plan, a summary of what type of investments will be offered, establishment of comparative benchmarks to be used and what will happen if these goals are not met. Review annually.
8. **INSTITUTE AUTOMATIC ENROLLMENT** in the plan by all employees. This may be a somewhat controversial aspect, but it is **absolutely critical to success** if a good faith effort is to be made to reach all eligible employees.
9. **AUTOMATICALLY INCREASE** participant deferral percentages on an annual basis.
10. **AUTOMATICALLY CHOOSE A 'BALANCED' MANAGED PORTFOLIO** as the participant's default option.
11. **OUTSOURCE** *all possible* retirement plan activities to your service providers. They do this everyday, you do not.
12. **INCLUDE AN EMPLOYER MATCH** whenever possible, no matter how small participant contribution rates may be.
13. **OFFER** six to fifteen investment options. Less is better. Too many are confusing.
14. **LOW COST** index funds should be a large component of investment options.
15. **LOW COST, MANAGED PORTFOLIOS** should round out the remainder of the investment menu.

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16. **INDEPENDENT, UNBIASED INVESTMENT ADVICE** should be available to participants.
17. **INVESTMENT REVIEWS** (i.e., education) should be completed regularly.
18. **MONITOR** closely and regularly the services of all of your plan providers and the performance of your investment options.
19. **REMOVE** providers and investments that are not measuring up to previously established standards.
20. **COMMUNICATE** regularly and clearly with participant updates. An in-house newsletter would be ideal.

THE NEED TO RESTRUCTURE THE AVERAGE 401(K) PLAN IS UNDENIABLE.

A well structured, simple and low cost retirement plan giving each employee an opportunity to reach financial success in his/her retirement years does not require rocket science to establish. What will be required is a structural change to most plans, a *deep commitment* on the part of a plan sponsor to reach the goal and the careful selection of expert, outside assistance to monitor the plan to make sure the goal is *realized*.

If the goal is to be accomplished, the two most critical issues are: 1.) instituting *automatic* employee *enrollment in the plan* and 2.) making future *increases in participant deferral percentages automatic*. The decisions to include these “automatic” aspects within a plan are typically “settlor” functions and (as a result) are not within the fiduciary obligations of a plan sponsor or trustee. They are plan design decisions made by the sponsor and are (usually) relatively easy to implement.

So, what are YOU waiting for? Will it be a journey to Despair filled with poverty and despair or to Dignity with the ability to live in retirement financially secure? We know what is wrong; we have the power to make it right. Set your course for Dignity! See you there.



The Revere Coalition

The *Revere Coalition* is a consortium of independent, retirement plan consulting firms that provide conflict free, objective counsel to plan sponsors. Each member pledges the fees they receive from clients are their only form of compensation. Members strive to incorporate into their daily actions the “best practices” of their profession, thereby setting the highest standards of expertise, service and professionalism available to plan sponsors and participants. The Revere Coalition is a staunch advocate of retirement system reform to encourage adequate retirement savings.

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