

Ackley Associates

Spring 2008

Dear 401k Retirement Industry,

If only 13% of my customers say my product meets their expectations – but only half the time – I'd be very concerned about the future of my business.

That's the state of the 401k retirement industry. But you aren't hearing the message.

I learned a valuable lesson in 1972 in Ann Arbor. I was certain George McGovern would be the next president. Everyone I talked with was voting for him. Yet Richard Nixon won by a landslide. McGovern carried Massachusetts, D.C. – and Ann Arbor.

There are places where everyone is certain 401ks are doing fine. These are mostly retirement industry conferences and offices where retirement industry people work.

Please heed my lesson. Stop listening only to each another and start paying attention to plan sponsors and employees.

In 1995, **60%** of plan sponsors said not even half of 401k participants would be adequately prepared for retirement. (RogersCasey)

Evidently, you ignored those voices.

In 2006, **87%** of plan sponsors said they do not believe most employees are/will be financially prepared for retirement. (Deloitte/IFEBP)

Just 13% said half might be ok. If that's not a sign of failure, what is?

Your industry seems to have lost sight of the primary goal of a 401k **Retirement** Plan – to help employees achieve their retirement dreams. You can bet Congress thinks that's the goal. Certainly, a voluntary plan won't have 100% success. But it can't have 87% failure.

Ask plan sponsors you work with if most of their employees will achieve the financial lifestyle the employees expect in retirement. The answer is the critical success measure.

As a retirement plan advisor, you help operate the plan at the highest standards of fiduciary oversight. That's important. But if the plan fails to help most employees be prepared for retirement, will you be blamed by your clients, the employees, the courts?

If huge improvements aren't made soon, it will become painfully obvious that 401ks are grossly under-funded for the vast majority of participants.

To improve, the industry needs to reinvent 401ks. Stop pursuing best practices. Failing programs cannot have any. Stop benchmarking failing procedures. Matching your plan to a failing one simply assures your plan will also fail.

Start focusing on the median account balance (half above / half below) of employees nearing retirement age. If it's less than \$100,000, the plan is not a **retirement** plan. That's because \$100,000 times 4.5% – around what many experts say is a safe withdrawal rate so as not to outlive the money – is \$4,500 a year. That's \$375 a month! If you believe 4.5% isn't right, use a percentage you prefer. But it probably isn't as high as 7%. And if it was, that's only \$584 a month. A **retirement** plan that assures only a few hundred dollars a month won't get a positive reaction from employees, the government...and perhaps a judge.

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Don't wait until employees are ready to retire to explain how much (or little) a \$100,000 account pays throughout retirement. By that time, there's little they can do to dramatically increase their account balance. Every 25-year-old should know this.

Here's another lesson. By not clearly explaining the price employees pay in various 401k fees, you unintentionally invited Congress to act. By not clearly explaining the price of retirement, aren't you're issuing another invitation?

There's a word for millions of older people who no longer want to work or are able to – but don't have enough money for the retirement they expected. They're called **voters**.

Congress won't ignore millions of voters. So you should worry about what Congress will do. An 'easy solution' would be to outlaw 401ks, put everybody in the federal employee's thrift plan, and require larger contributions from all employers and employees.

I don't like that 'solution.' And if you don't like it either, start making 401ks work as retirement plans. If your industry doesn't know how, what does that say about the prospect for the industry's success?

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Dennis Ackley has 25 years of management consulting experience at firms including Watson Wyatt and Towers Perrin and was vice president of participant services at JPMorgan/American Century before starting his firm. His award-winning communication programs have reached three million employees at hundreds of employers. He has written more than four dozen articles (see DennisAckley.com) and has been a featured speaker for The Conference Board, Pensions and Investments, ASPPA 401k Summit, Profit Sharing/401(k) Council, ISCEBS and many others.