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Retirement Report

NEWS AND UPDATES FOR PLAN SPONSORS AND FIDUCIARIES OF DEFINED CONTRIBUTION PLANS

Courageous Plan Design

There are a myriad of reasons why an employer maintains a qualified retirement plan. They may use it as a talent attraction/retention tool. They may see it as necessary to keep pace with industry peers. But perhaps the most important reason is to provide a means through which their employees may save for the future. The plan should mean security and potentially dream fulfillment for a loyal workforce.

Over the years traditional pension plans have faded and been replaced by defined contribution (primarily 401(k)) plans. But these defined contribution plans were never meant to carry the full load of retirement savings. They were meant to be a supplement to the much more robust and well-designed (for impactful retirement savings) traditional pension plan. A pension plan places all of the decisions, and responsibility, in the hands of the employers, who tend to possess a greater degree of sophistication than do many employees. In contrast, most supplemental defined contribution plans shift those decisions to employees. Unfortunately studies have shown that many (if not most) of these employees are ill-equipped to make good decisions in planning for their futures.

So what's the answer? Employers have to become more courageous. They have to start by answering the question, “what is the purpose of our plan?” And if the answer is “to create the most efficient retirement savings tool possible for my employees” they have to accept the fact that they need to take a step back in time. They need to make their 401(k) plans operate more like the traditional pension plans of old. They need to become more paternalistic. They need to go back to making good decisions *on behalf of* their employees. Some of these decisions may take the form of plan design. Some may take the form of diverting more corporate focus and attention to their plan. And some may require contemplating the best use of corporate dollars.

“Courageous plan design” includes redesigning plans to eliminate potential points of leakage like in-service withdrawals, hardship withdrawals, and even loans. It includes taking advantage of behavioral

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Behavioral Finance and Plan Design

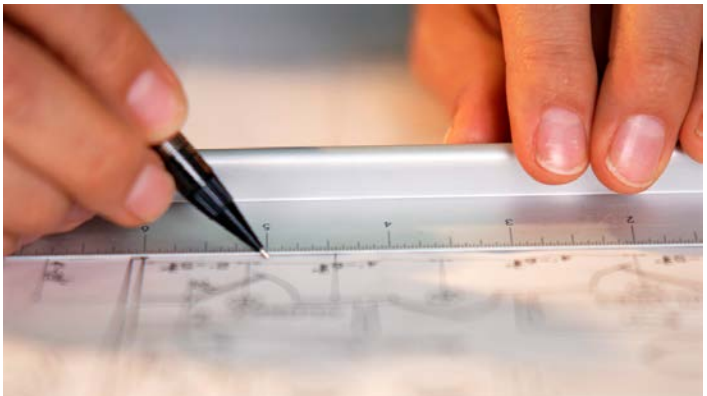
401(k) plans have been around for over 30 years now, and we have learned a lot over that time about what has worked, and what has not. As pension strategies have migrated from the traditional defined benefit (DB) plans to the ubiquitous defined contribution (DC) plans two key events occurred. Plan sponsors removed themselves from the enormous funding implications and investment responsibilities inherent in DB plans and transferred these responsibilities to the participants. Unfortunately participants have not picked up these responsibilities.

As a plan sponsor, if you subscribe to the view that success of a 401(k) plan is really measured by your employees' ability to replace their income at retirement, then this effectively becomes the definition of a successful plan. If we agree, then we have work to do. Currently, our industry spends nearly $1B annually on employee investment education and support, and we have yet to move the needle in terms of achieving viable retirement outcomes. We now know that employee education alone is not the answer. Participants are making all the same retirement investment mistakes as they were 30 years ago.

The science of behavioral finance has been very helpful in illuminating why most participants do not engage with their plan. All studies have shown that participants have no interest in learning how to "fly the jet"; they want the pilot to do this. The job of "pilot" then falls to the plan sponsor.

Issues of lethargy, intimidation, procrastination, loss aversion, hyperbolic discounting ("*retirement would be great, but I really want that new gadget now*") are debilitating to participants, but can be overcome by the influence of a concerned plan sponsor. We have all the tools to help effect positive change.

Future Newsletters will detail how we can work together to create more successful retirement outcomes for participants. For those of you who want to get started now, your plan consultant is uniquely prepared to help. ●



Courageaus Plan Design

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finance to include automatic enrollment and automatic escalation features to ensure employees get into a plan, and defer appropriately. It includes conducting prudent due diligence in regards to investments and fees. It includes the employer considering bearing the administrative costs of the plan instead of passing them onto their employees.

Some of these may seem like drastic changes, and some may seem miniscule in impact. But the truth is that every single incremental change may have a large impact on an employee's ability to reach his/her retirement goals. And at the end of the day, even the wisest employees don't make the best decisions, but it is within the employer's power to help them avoid mistakes . . . if the employer has courage.

Over the next few months this Newsletter will have additional articles addressing various courageous steps that employers may take in assisting their employees to reach their retirement goals. Many of our clients have already begun implementing courageous changes to their plans. If interested, please do not hesitate to ask your plan consultant how you can enhance your plan. ●

2013: A Great Year to be "Courageous"

Over the past three years, we have worked with our clients to move the "needle" when it comes to Courageous Plan Design. Each year, we calculate how many positive "plan metrics" our plan sponsor clients have been able to implement, and 2012 saw that number climb to its highest yet. In 2013 there will be a big push to show how the behavioral finance behind Courageous Plan Design can help achieve those positive plan outcomes that we all seek.

Throughout the rest of 2013, the Newsletter will focus on a particular plan design metric or feature and provide plan sponsors with case studies and success stories on each topic. Look forward to these engaging topics on future newsletters:

- January – Industry Trends
- February – Investments
- March – Courageous Plan Design
- April – Hardships
- May – Matching
- June – Auto Enrollment & Auto Escalation
- July – Cost Shifting
- August – Eligibility and Enrollment Provisions
- September – Understanding Plan Fees
- October – Plan Loans
- November – Notice Reminders
- December – Year End Recap