



### **Consultant Commentary: How Do You Measure Plan Success?**

Generally speaking, if 401(k) plans are meant to be used to augment retirement income they may be considered a success. However, if they are expected to serve as the primary source of retirement income (along with Social Security), success is proving to be elusive for most participants.

The realities of this conclusion have been evidenced in various studies and analyses. Conclusions drawn from this investigation are leading to more candid conversations regarding potential solutions for dealing with participants' retirement readiness. These conversations, in turn, are leading to the implementation of plan-level changes.

A recent Employee Benefit Research Institute study focuses on retirement feasibility for Baby Boomers and Gen Xers. The conclusions are not encouraging. One takeaway is even if these groups delayed retirement past age 65 they would still have insufficient income to cover their basic retirement expenses (even if they delayed retirement into their 70s). Moreover, even assuming members of these groups intend to delay retirement significantly, the study indicated that factors like layoffs, mergers, and poor health may prohibit employees from working past age 65.

Over the 25+ years since the inception of 401(k) plans, plan design has improved, technology has improved, investment options have improved, and service providers have grown and improved. The only entity that has not shown substantive improvement over the years is the participant . . . the ultimate consumer for whom the product was developed. Multiple credible industry studies indicate that, left to their own devices, today's participants are making

all the same retirement planning and investment mistakes they were making 25 years ago.

With the effective demise of defined benefit plans, much of the attendant costs, administrative complexities, regulatory, and investment and funding responsibilities have been removed from the employer's shoulders and essentially shifted to the participant. Now it is the less sophisticated participant who is expected to know how to "do the right thing" for their retirement. Unfortunately, to date all evidence indicates that this is not happening.

Some employers do not believe it is their responsibility to ensure their employees' well-being in retirement. Many adopt the philosophy that "we provide the plan, and [in most cases] a matching contribution, and we provide for plan management and incur fiduciary responsibilities....isn't that sufficient?"

However, there appears to be a significant number of plan sponsors concerned about their employees' retirement readiness. These are the sponsors who are interested in considering ways to improve the successful outcomes of their plans. Some of the potential solutions require a commitment of time, effort, and additional cost. But few (if any) of the solutions require costs equivalent to those incurred if employers still offered defined benefit plans. In other words, an employer need not incur all the time, effort, cost, and complexity of a defined benefit plan, but neither need they offer a less-than-impactful 401(k) plan. For sponsors desiring more inspired outcomes, solutions exist within the 401(k) and 403(b) world.

## **2011 Trends and Experience in Defined Contribution Plans**

AON/Hewitt recently released the results of a survey they conduct every couple of years on trends and experiences in Defined Contribution (DC) plans. This year's survey included 546 employers of various sizes and industries. About 30% of the Fortune 500 was represented in the survey. Not surprisingly, DC plans now constitute the primary source of retirement income for retirees. Additionally, automation in DC plans, which includes auto enrollment, auto escalation, and auto rebalancing, is becoming a standard retirement plan feature.

Investments continue to be a key area of focus for plan sponsors. Most employers offer investment options and advice tools to assist participants in making better investment decisions. Target date funds are now found in 8 of 10 plans. Additionally, outside investment advisory services (investment guidance,

advice, and managed portfolios) continue to grow to assist both plan sponsors and participants.

Plan expenses are the top concern of plan sponsors. With legislation focusing on expenses, plan sponsors are actively seeking to understand fees better and develop effective ways to communicate fees to plan participants.

Additional highlights from the survey include:

- 93% of plans include employer contributions.
- 85% of plans include employer matching contributions.
- 43% of plans vest immediately.
- 56% of plans have auto enrollment.
- 78% of plans default into age appropriate target date funds.
- 51% of plans offer auto deferral escalation.
- 83% of plans employ an outside investment consultant.
- 87% of plans have an investment policy statement.

For questions about this survey or about any of your plan's current design features, please email David Forshew at [dforshew@ccadvisors.com](mailto:dforshew@ccadvisors.com).

### **Summary Plan Description Reminder**

A Summary Plan Description (SPD) describes the key provisions of an employer's retirement plan and participant rights. SPDs must be disseminated to newly eligible participants within 120 days after a new plan is established or within 90 days after a participant becomes eligible to participate in an existing plan. In addition, SPDs must be disseminated to all participants once every five years unless there have been no amendments to the plan during that period. The DOL issued final regulations on electronic delivery that indicate an SPD can be delivered through an electronic medium if certain requirements are satisfied.

### **Communication Corner: The Case against Market Timing**

This month's sample participant communication memo discusses Market Timing and why this particular investment strategy is discouraged. In a nutshell: investors who sell at the wrong time often miss significant portions of future recoveries.

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