

Fun, Easy and Automatic: Not a Sure Way to Ample Retirement Income

By Dennis Ackley

“Free pizza at the 401k meeting is why I joined.”...“The guy telling jokes and leading the meeting told me to save five percent – so I do.”...“The investment expert said to go with the ‘target’ investment. Although I did, I thought Wal-Mart might be better than target.”

These are good – increased enrollment, higher contributions and improved diversification.

But is this nearly good enough?

Building an ample retirement income is difficult. It’s one of the most challenging things adults will ever do. It takes considerable knowledge, perseverance and sacrifice. And in a wobbly economy, it’s even tougher.

Look at adults who succeeded in a substantial, voluntary endeavor – climbing a mountain, earning an advanced college degree, refurbishing a house or saving a large sum of money. In every case, they had:

1. a **personal goal** they understood, defined and could measure – not a goal an unknown expert or computer program told them to have,
2. the **desire and motivation** to achieve that goal,
3. **meaningful learning experiences** that helped them discover and acquire the necessary knowledge and skills, and
4. **confidence** in the information they receive and in their own ability to succeed.

The problem is obvious; **today’s retirement education contains none of these four essential elements.**

Fun and easy

Oddly, the idea persists that good retirement communication and education should be fun and easy. The award winners from retirement education contests get high marks for being creative and entertaining.

But is the ‘it’s fun and easy’ message realistic? Is it setting the right expectations for employees?

The fun and easy retirement education approach was invented more than 20 years ago. It was intended to attract the attention of employees who already had a defined benefit pension plan. Back then, the new 401k plans existed to supplement pension plans. The fun and easy approach was fine.

Since then, the retirement world has completely changed. ‘Supplemental’ 401ks have become the only employer-sponsored retirement plan for most workers.

Yet retirement education remains locked in the fun and easy era.

This is largely the result of well-intentioned benchmarking and best practice surveys used extensively over the past several years. In essence, this process assured that most employers did what other employers did.

Unfortunately, other employers were doing fun and easy. That approach didn’t do enough then – and isn’t doing enough now – to help employees define, pursue and achieve their retirement goals.

Retirement education providers must have success measures that apply to 401k plans as individual retirement plans (with no capital letters) ...because that’s what 401k plans are.

The benchmarking of retirement education – then and now – focuses on **activities – not employee outcomes.**

Soon, if not already, outcomes – retirement income levels – will matter. The faltering economy is shining a bright light on the problem.

Employees, Congress and possibly the courts will remind employers that providing sizable retirement income is the key purpose of 401k **retirement** plans.

Even 401k plans with perfect fiduciary standards, top-notch investment options and cutting-edge plan designs – all of which are important – may be considered failures if the plans do not produce considerable retirement benefits.

Here's reality: **82% of plan sponsors say most of their employees will not be adequately prepared for retirement.** (Deloitte/IFEBP)

Why are employers so pessimistic? Perhaps they've heard experts say that at age 65 to have **\$1,000 a month assured for life takes roughly \$300,000 in a 401k account.** That's a four percent annual withdrawal (4% of \$300,000 is \$12,000, divided by 12 months is \$1,000).

After 20 years of fun and easy retirement education, studies show that the majority of employees now in their 60s have less than \$100,000 in their 401ks – that's \$333 a month at four percent annual withdrawal.

401ks aren't broken... the education is

There is nothing seriously wrong with 401k plans. They can pay substantial lifetime income benefits.

When you examine what successful retirees who used 401ks did, you'll find most of them:

1. **Defined the future lifestyle they wanted...** even if it was in general terms, they set a personally important dollar goal for their 401k account (you won't hit a target unless

you have one...and you must eagerly want to hit it).

2. **Contributed**...starting early in their careers, they put money into their account with an eye toward reaching their goal with some help from investments as well as contributions from their employer.
3. **Invested** wisely...had a mix of different types of investments (what the pros call 'diversification') and a long-term strategy – it's money they would not be spending for 20 to 40 years.
4. **Received income for retirement** ...taking money out only after their full-time careers end and in a manner that assured a lifetime income.

For employees to be successful, **they must do all four things.**

That's why every learning activity in retirement communication/education should be aimed at one or more of these things.

As with any employer-sponsored plan – defined contribution or defined benefit – there are some employees who will also need personal investments if they have lofty goals that will be restricted by government rules for the plans.

What to do

The 'automatic everything' plan provisions are helpful. But an ample retirement income will not come automatically.

Retirement education providers must have curriculum content as well as success measures that apply to 401k plans as **individual retirement plans** (with no capital letters)...because that's what the plans are.

In 401ks, individual employees – not plan sponsors:

1. Define their personal benefit target,
2. Fund their personal accounts and
3. Control their withdrawals.

Average plan participation rates, average plan investment allocations, and even average plan account balances – although important to the operation of the plan – do not measure the retirement success of individuals.

Retirement education providers should be able to tell plan sponsors how many employees have defined their personal retirement income target, are contributing and investing in a manner that is likely to achieve the target, and know how to ensure they'll receive retirement income that will last their lifetime.

In addition, the retirement industry must treat retirement education as adult education. Awards should be bestowed on programs based on the number of individuals who are achieving success.

Make no mistake, good communication and education must attract employees' attention. And attention-gaining techniques often include fun and games...snappy brochures, fun YouTube videos, intriguing Facebook pages for the plan, and maybe even scratch and sniff enrollment forms.

But every education and communication effort must be aimed at enlightening employees about the things successful users of 401k plans do.

Getting employees' attention is the start – not the end.

If creative, cute, easy and fun approaches were an effective way to help employees achieve their retirement dreams, shouldn't they have worked by now?

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For 20 years Dennis Ackley has been an advocate for clarity and accountability in retirement education – helping workers gain the knowledge to achieve the financial future they want. His award-winning communication programs on retirement, investing, and health care have reached three million employees at hundreds of employers. For more articles and more information, visit www.DennisAckley.com.

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