
**Communicating
the Value of Your
Defined Benefit Plan**
...Getting Participants to Say *'Wow!'*

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All of us don't
see...
react...
or *think*
the same.

*artists see
colors
more vividly*

musicians
hear notes
more clearly

*math and financial
analytical thinkers
process numbers
more readily*

With numbers
and finances,
many of
“the rest of us”
are math averse
...innumerates.

"The rest of us"
 appreciate
 help
 figuring
 a gratuity...

Ackley's Rib Shack

2 hot plate specials.....	\$12.70
2 beers.....	\$ 5.50
State/local tax.....	\$ 0.95
Subtotal.....	\$19.15

Tip Suggestions

15% tip.....\$2.87
 18% tip.....\$3.45
 20% tip.....\$3.83

Tip.....	\$ _____
Total.....	\$ _____

Susie's Clothes

35% Off Sale

If the price tag shows...	The sale price is...
\$ 9.99.....	\$ 6.49
\$10.99.....	\$ 7.14
\$11.99.....	\$ 7.79
\$12.99.....	\$ 8.44
\$13.99.....	\$ 9.09
\$14.99.....	\$ 9.74
\$15.99.....	\$10.39
\$16.99.....	\$11.04

And
 determining
 sale
 prices...

What We'll Cover

- How to break through to “the rest of us” and help us learn **how to have the retirement income we want...**

that may be:

“paid in full” by the DB plan

or

beyond what even a terrific DB plan provides.

What We'll Cover

- Why employees don't say “**Wow!**” about their DB plan income...
how to explain it so they will.
- For public sector employers...how to build support for public DB plans – *especially from taxpayers* – by using the **most powerful** and **trusted**, public-relations tool available...
your DB plan participants.

How'd we get where we are?

Brief History of Retirement Education

The 1950s – 1980s

- Retirement ed started in paternalistic times ...largely “selecting your DB payout.”
- Defined Contribution plans (403bs, 457s, 401ks) – “**Un**-Defined Benefits” – created to **supplement** DB plans.
- Separate DC ed created to show “financial analytics” a “pre-tax way” to supplement DB benefits.
- New DC ed was **not** intended for “*the rest of us*” ...nor for “retirement ed” – mostly “investment ed.”

The 1990s

- Dramatic changes in corporate retirement plans ...many employees (taxpayers) saw DBs vanish.
- Most “**401k Supplemental Plans**” were simply renamed “**401k RETIREMENT Plans**”...but 401k ed and plan design were **NOT** changed.
- The “**do what other employers do**” HR fad **locked in the “1980s DB & DC ed approach.”**
- **Good intentions** – but analytic-targeted, pedagogy-free, non-retirement dream based.

Today

- The paternalistic approach remains common in DB ed.
- The outdated supplemental approach dominates the DC retirement ed.
- Participants **do not have a “big picture”** of their overall cost to retire...nor how the DB or DC (or other approaches) can help them attain the **retirement lifestyle they want.**

What has retirement ed accomplished?

~~**But
That's The
Way We've
Always
Done It!**~~

After 20+ years,
shouldn't it have
worked by now?

Naive workers have
no idea if their DB
provides all they want or
need...or a half...or a tenth.

Naivety Outweighs Knowledge

- 86% know they'll need 60-80 **PERCENT** of pre-retirement income. (EBRI/Greenwald)

However...

- 70% have **no idea** of the **DOLLARS**. (Public Agenda)
- 55% age 65 and older ("graduates" of retirement ed) admit they have **no idea**. (Roper/Quicken)

If half the high school grads could not read,
wouldn't we question the educational approach?

Naivety Outweighs Knowledge

- 31% claim they've tried to calculate *or guess* how much they'll need for retirement.

However...

(Lusardi & Mitchell, U of Michigan)

- Only 58% of the 31% can say an amount... and just 40% of the 58% admit they made a calculation.

(Lusardi & Mitchell, U of Michigan)

Naivety Outweighs Knowledge

- Life expectancy soars – 15 years longer than in 1936.

However...

- Half the females who end work at 65 need to provide more than 20 years of income for their financial future (males 17). (U.S. Center for Health Statistics)

- At 65, a **\$100,000 account** (using past market performance and *reverse dollar cost averaging*) will assure roughly **\$375 a month** for the retiree's lifetime. (4.5% of account divided by 12 months)

(Trinity Study)

Naivety Outweighs Knowledge

- 79% of Baby Boomers say they'll be the same or better off financially in retirement. (ING)

However...

- 75% age 55 have less (much) than \$100,000. (McKinsey)
- 57% with public DB fear it will end or be reduced. (Fidelity)

Good News...

Both DB and DC
retirement education
can be fixed by adding
just two things!

Passion
and
Trust

Why be concerned about participants' naivety
...and their lack of passion and trust?

**That's why DB participants
do not say "Wow!...
"What a great reward I've earned!"**

That's also why too many go for...

\$200,000
potential
401k account

vs.

\$3,000
assurance
each month
for life

Missing Elements in Retirement Ed

Passion motivates people to achieve!

To be passionate, it takes a...

- Personally **meaningful goal** – something we want based on what we believe we need.
- Personally **understood tactics** – steps we believe we must take to achieve our goal.
- Personal **commitment** – the willingness to do what we believe it takes to achieve our goal.

How many younger employees – or even older ones – are **passionate about retirement?**

Missing Elements in Retirement Ed

Trust motivates people to act!

To be trustful, it takes...

- Confidence in the plan and administration.
- Confidence in our understanding of what we should do.
- Confidence in the people and organizations providing information and **advice**.

How many participants **trust** the DB or DC plan, sources of information, and their own knowledge enough to do what's necessary to be successful?

1. What You Can Do!

Help *"the rest of us"*
see that our
future financial lifestyle
is much like
any other purchase
...we've got to know *the price*
and how to pay for it.

*What's the
Most Expensive
Purchase
You'll Ever Make?*

Homes

TVs

Boats

Cars

Jewelry

Clothing

Entertainment
Centers

It's A Secret

The answer is...

“retirement.”

*...did your house cost
more than 20 times
your current pay?*

Why is retirement
NOT considered
something we have to buy?

Because most of “*the rest of us*”
haven’t visualized our future lifestyle
dream...and put a price tag on it.

**In 90 Seconds,
You’ll Know What
Roughly 90%
of Employees
Don’t Know.**

Shouldn't We All Know?

The estimated price of your financial future!

If you were “fast forwarded” to your last day of full-time work...and things cost the same as today:

How much do you want to spend each year.....\$ _____

Compared to today, the same, more, or less?

How many years might you need the income...X _____

Example: Age 65 to 90 = 25 years

Your personal estimate.....\$ _____

Congratulations! You did it without being told “the number”...and without advice.

Example

Shouldn't We All Know?

A couple who dreams of spending \$40,000 a year (**lifestyle**), wants to end their full-time careers at age 65 and expects to live to age 90 (**time**), will need 25 years of income...

\$40,000 x 25 years = \$1 MILLION

“Wow! No one ever explained it to me that way before.”

~~Here's
Your
Number~~

"The rest of us"
need to see the
mathematical process
...so we'll understand
and trust
the results.

~~Your
Replace-
ment
Ratio
Is...~~

There is No Universal "Right Answer"

"How much money will I need?"

\$0...If you're run over by
the party bus at your
"last day of full-time work" celebration.

Or, it could be more, for example...

There is No Universal "Right Answer"

"How much money will I need?"

**More than you made in
your entire working career**

...if you stop working at age 60 and live
to 102 (42 years) and you want the same
standard of living that you have now.

The pension plan pays each month...504 months.

*One million Americans in their 50s today are
expected to reach age 100. (National Institute on Aging)*

There is No Universal "Right Answer"

"Who will tell me how much money I'll need?"

- It's **your life...your dream...your decision.**
- Live in a bungalow or fancy beach condo...stay put or stay on cruise ships...work forever or stop working as soon as possible...spend more than now, the same, or less?
- "*The rest of us*" must discover we're responsible for defining and attaining the financial future we want...and obtaining advice we trust to help determine "how much."

Join Ackley's Campaign

“Create Your Own Future Financial Lifestyle Dream Campaign”
...to turn “*the rest of us*” into
*future lifestyle income consumers who have the **passion to learn how to buy the retirement they want!***

Your Dream Campaign...It's a Start

Acquiring future lifestyle income is like a purchase:

- **Retail price** – total if “fast forwarded” to your last day of full-time work.
- **Discounts** – amounts already paid (*projected pensions*, current savings, assets to sell, Social Security, and any pay earned while working after your full-time career).
- **Layaway payment** – additional amount needed to purchase your dream.

Your Dream Campaign...It's a Start

Your estimated retail price of future lifestyle income

$$\begin{array}{rcccl} \underline{\$65,000} & & \text{X} & & \underline{25} & = & \$1,625,000 \\ \text{annual spendable} & & & & \text{years} & & \end{array}$$

Your estimated discounts – what's already paid

- Current single sums (401k, 457, 403b, personal savings, etc.) – \$ 185,000
- Lifetime payments (*DB income* and Social Security at retirement)

$$\begin{array}{rcccl} \underline{\$40,000} & & \text{X} & & \underline{25} & = & \underline{\$1,000,000} \\ \text{annual benefit} & & & & \text{years} & & \end{array}$$

$$\text{Your estimated additional layaway} = \$ 440,000$$

Not a panacea – simply a springboard to learning...
motivating them to use sophisticated projections.

Example

2. What You Can Do!

Communicate -*say*- what
your DB plan *does*
to demonstrate
the organization's values...
and show the "do" and "say"
are in sync.

What Your DB Plan "Says"

We have a DB plan because we want to say...

"Thank you for your *career* of serving our customers (shareholders... union...employers...or taxpayers)!"

With only a DC plan we would say...

"Thanks for last pay period!"

Example

What Your DB Plan "Says"

We have a DB plan because we want to say...

"Here's money for as long as you live."

With only a DC plan we would say...

"Here's money for as long as it lasts."

Example

What Your DB Plan "Says"

We have a DB plan because we want to say...
"Here's our Pension Plan we provide for you."

With only a DC plan we would say...
"Here's your cash account plan."

Example

What Your DB Plan "Says"

We have a DB plan because we want to say...
"Loyalty matters – we have a work environment where loyal, productive employees can prosper."

With only a DC plan we would say...
"We know some of you will leave – so we've made it easier."

Example

What Your DB Plan "Says"

We have a DB plan because we want to say...

"We have a pension that covers all our eligible employees."

With only a DC plan we would say...

"Here's an account for eligible participants who choose to contribute."

Example

What Your DB Plan "Says"

We have a DB plan because we want to say...

"We provide a benefit based on your service, skills, and value to our organization (employers, taxpayers...)."

With only a DC plan we would say...

"We offer retirement benefits based on how much you contribute and how smart or fortunate an investor you are."

Example

What Your DB Plan "Says"

We have a DB plan because we want to say...

"To talented recruits...join us and serve our customers (organization... taxpayers) during a long career and you will be rewarded."

With only a DC plan we would say...

"Join us if you're looking for short-term employment before you move on."

Example

What Your DB Plan "Says"

We have a DB plan because we want to say...

"We reward our long-service employees by protecting them from financial market risks."

With only a DC plan we would say...

"Our participants have all the financial market risk."

Example

3. What You Can Do!

Use clear, consumer-oriented terms and techniques to show the real value of pensions ...and get them to say "Wow!" compared to what they want.

The *value* of a reward, a benefit or a gift is determined by the person *who receives it* ...not the organization that gives it.



*Expensive gifts...
but of little value to the receiver.*

Why Participants Don't Say "Wow"

Little appreciation of DB plans...

Because they don't know how much the DB plan will pay compared to how much they'll need to support the future lifestyle they'll want.

Why Participants Don't Say "Wow"

Rarely take full advantage of DC plans...

Because they don't know how much to save or how to invest to attain the account balance they'll need to support the future lifestyle they'll want.

Reinvent Pension Communication

Don't hide
the value
of DB plans.

Reinvent Pension Communication

Does anyone
intend to be
retired for just
one month?

Reinvent Pension Communication

Not this...

“Your projected age-65 Defined Benefit Pension is **\$2,708** a month payable as a single-life annuity.”

Example

Reinvent Pension Communication

Show what the DB plan does – it rewards careers and it pays throughout retirement.

Reinvent Pension Communication

“By continuing your ABCorp career to age 65 – assuming your pay and the Plan remain unchanged – your estimated annual **Career Reward Plan** benefit would be **\$32,500** for as long as you live.

If you receive payments for 25 years (age 65-90), the Plan will have paid you **\$812,500.**”

Example

Reinvent Pension Communication

Don't compare a
DB benefit to a
DC lump sum...
compare a DC account
to the DB income
throughout retirement.

Reinvent Pension Communication

Focus on retirement income...

“If today was your last day of full-time work and you expected to receive payments for 25 years (for example, age 65 to 90) – assuming your investment performance and inflation are the same – a saving plan balance of **\$200,000** (divided by 25 years) could pay **\$8,000** worth of income each year...that’s **\$667** a month for 25 years...then the account is \$0.”

Example

Reinvent Pension Communication

Not this...

“If the plan allowed your benefit to be paid in a lump sum, the value would be...”

It’s often a fictitious amount they can’t have... plus, if interest rates climb, it can decrease!

Showing any type of lump sum is counter to the plan’s “income for life” purpose.

Reinvent Pension Communication

Don't show how much you'll pay me to leave – if you want me to stay.

Reinvent Pension Communication

Not this...

“If you terminate your employment today, the DB plan would pay your vested accrued pension benefit of...”

- Terrible message...don't you want long-service?
- Tiny amount for short-service members...a negative first-impression that may stick.
- Don't “disclose” unless requested/required.
- Do you highlight other termination benefits?

Reinvent Pension Communication

Show me
the real value
of loyalty.

Reinvent Pension Communication

“If your pay and the Plan remain unchanged...

- By continuing to age 65, your benefits starting at 65 and paid to 90 are projected to be **\$812,500.**”
- Your loyalty of serving taxpayers during 2007 added a projected **\$33,400** to the estimated amount the **Career Reward Plan** will pay you starting at age 65 to 90.
- By continuing with the ABCorp for another five years, you are projected to add **\$167,000** to your benefits starting at age 65 to 90.

Example

Reinvent Pension Communication

Don't damn the DB
plan with faint praise –
even before you've
hired me.

Reinvent Pension Communication

In recruiting, not this...

“The XYZ State Government offers an attractive
Qualified Defined Benefit Plan.”

Reinvent Pension Communication

Show me that you
want to recruit
high-performing,
loyal members.

Reinvent Pension Communication

“The XYZ State Government rewards high-performing, loyal employees who help deliver quality services to taxpayers. The Career Reward Plan provides a lifetime income when your XYZ State Government career ends. Let’s say you were “fast forwarded” to the end of a 25-year XYZ State Government career at age 65. Using today’s value of money and \$45,000 pay – assuming your pay and the Plan remain unchanged – your annual payout would be **\$16,875**. So from age 65 to 90, you would receive **\$421,875**. As your pay goes up, so does the benefit amount.”

Example

4. What You Can Do!

Create trusted, powerful,
and knowledgeable
grassroots advocates
for your DB Plan...
especially public plans.

Creating DB Plan Advocates

Who do we trust the most?

Business, government, or union leaders?
Journalists? Financial advisors?

The most trusted
spokesperson is...

X "A person like me."

Edelman Trust Barometer

Creating DB Plan Advocates

Aren't most of your participants...
"A person like me?"

Do they say positive things about the
DB plan to new co-workers?
And are public sector participants
enthusiastic and knowledgeable in
explaining their DB plan to neighbors,
friends, or other taxpayers?

Creating DB Plan Advocates

Or do too many of your employees say...
"Gee, I don't know much about
the plan"...or, "I don't care what kind
of retirement plan we have."?
Negative or even neutral statements from
"a person like me" can wipe out the good
from an expensive PR campaign!

5. What You Can Do!

Especially for public employees,
help them understand
how DB plans are paid for
- including the reality of any
“underfunded liability” -
so they can better explain it
to their friends and neighbors.

Paying for Pensions: The Basics

What’s the “price tag” to “buy” the DB plan today?

- The total cost to pay for all future benefits for current workers and retirees.

An actuary – a skilled pension financial professional – estimates the today’s “price tag” to provide the “future payroll” for everyone who has been promised a benefit.

Example

Paying for Pensions: The Basics

To estimate the “price tag” the actuary reviews...

What can affect the price tag?

- Pension Plan Provisions

How much has been promised...to whom...to be paid when...for how long...etc.?

Example

Paying for Pensions: The Basics

To estimate the “price tag” the actuary reviews...

What can affect the price tag?

- Pension Plan Demographics

What are the age...length of service...pay level...etc. of the people who've been promised benefits?

Example

Paying for Pensions: The Basics

To estimate the “price tag” the actuary reviews...

What can affect the price tag?

- **Pension Plan Finances**

What are the current pension fund balance
...current contributions...benefit payments
...investment performance...etc.?

Example

Paying for Pensions: The Basics

To estimate the “price tag” the actuary reviews...

What can affect the price tag?

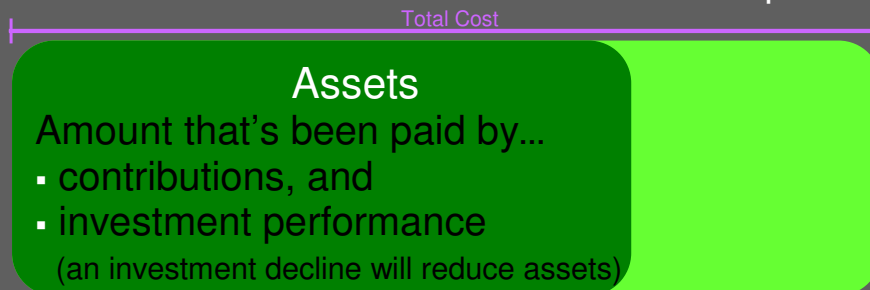
- **Assumptions About the Future**

What future benefits will likely be paid to whom
and for how long...and what are the likely future
economic factors (investment returns, pay
increases, benefit changes, etc.?)

Example

Paying for Pensions: The Basics

The total estimated total cost has two main parts...



The goal is 100% funded – assets and regular contributions cover all the expected costs.

Example

Paying for Pensions: The Basics

The total estimated total cost has two main parts...



The not-yet-funded part is called the “underfunded liability”...although it’s better not to have any, it’s similar to a second mortgage on a home.

Example

6. What You Can Do!

Require DC retirement ed providers to use success measures that matter

...and make certain they include the value of the DB plan.

DC Retirement Education may be the only education or training program that has

no success measures based on mastery of knowledge or skills.

What Matters

Four things savvy DC plan users can do...

Price – the targeted financial lifestyle they want.

Contribute – the amount needed to attain that lifestyle.

Invest – the way to help attain that lifestyle.

Receive – the way they use the money – only for **income that will last a lifetime.**

The same elements DB actuaries focus on.

What Basic Retirement Ed Should Accomplish

Basic questions a worker must be able to answer to **begin** using a DC plan successfully...

1. What's the **estimated dollar amount** you'll need to have the **future financial lifestyle you want**?
2. How much money should you be **contributing today** to reach your goal?
3. How should you be **investing** to help reach your goal?
4. How will you make sure your **income after your full-time career ends lasts as long as you live**?

Example

What Basic Retirement Ed Should Accomplish

Require DC ed providers to state exactly how they will know when individual employees have acquired the **basic** knowledge they need to be successful in beginning to use a savings plan along with their DB plan.

7. What You Can Do!

Act like your DB plan
is a reward
your employees
have earned.

Act Like It's a Reward

- Create brief, plain-English, “Here’s the value of the reward you’re earning” messages.
- Ask the lawyers to help make DB plan explanations sound like a valuable reward.
- Eliminate jargon...rewards messages don’t use it.
- Test DB communication drafts...have a few employees circle what’s not clear...repeat!
- Communicate the DB how and when you communicate other rewards employees earn.

Summary

- Present retirement information for “*the rest of us*”...explain the math and thought process.
- Show the big picture...the real price of the retirement and how the DB Plan helps pay for it.
- Coordinate all retirement-related education and communication.

Summary

- Ask before each communication is sent...“Will this help create positive spokespersons...will it help generate passion and trust?”
- Make retirement income a consumer item – something “*the rest of us*” want to learn to buy...using our valuable DB Plan!