

A discussion starter...

## The Plight of Retirement Communicators

Should you do what virtually all the other retirement educators/communicators are doing?

*(even if it's been proven not to work)*

Or do what might work?

*(and risk being criticized for not using "best practices")*

[ *Can a failing program have a best practice?* ]

Go to [DennisAckley.com](http://DennisAckley.com) for more articles and resources.

Copyright © Dennis Ackley 2008

## Are 401k Retirement Plans Working?

*How well has retirement ed worked...*

In 1995:

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

With 10 years for the \$3Trillion 401k industry to improve on what that group calls

***"America's Retirement Plan"***

...how are things now?

2

## Are 401k Retirement Plans Working?

How well is retirement ed working now...

**87%** of plan sponsors do not believe

that **most** employees are/will be financially prepared for retirement.

(Deloitte)

**“America’s Retirement Plan”  
has a 13% success rate  
...getting half to be OK!**

3

## Why Are Plan Sponsors Pessimistic?

Look at **the best** 401k participants

“Model employees” in their 60s, with the same employer 30+ years, have an **average** balance of around **\$190,000**.

(EBRI)

But in 401ks, **averages are misleading**.

A few employees have large accounts.

The vast majority have smaller accounts

...often the **median** (50% above - 50% below)

can be less than half of the average.

4

## Why Are Plan Sponsors Pessimistic?

Look at *the best* 401k participants

So...half the “model employees” nearing retirement have **less than \$100,000**.

*Simple math*...if retire at age 65 and live to 85  
– and investment/inflation are the same  
(a bank savings account?) – then...

**20** years divided into **\$100,000 = \$5,000**

...around \$416 a month in inflation-tied  
purchasing power – \$0 at the end of 20 years.

5

## Why Are Plan Sponsors Pessimistic?

Look at *the best* 401k participants

Experts say to avoid outliving your money,  
withdraw from 3% (\$3,000/year - **\$250/month**)  
to as much as 4.5% (\$4,500/year - **\$375/month**).

With annuities – maybe **\$650**.

**But there's no way at age 65 to turn  
\$100,000 into \$2,000 a month for life.**

“Model employees” will find out soon.

Others...the median account is \$60,000  
for employees age 55.

(Vanguard)

6

## Even More Frightening Numbers

Roughly half of all working Americans don't participate in a retirement plan or don't have an employer-sponsored plan in which to participate.

A huge number of adult Americans – 150 million of a potential 200 million – aren't saving for retirement in any meaningful way, if at all.

(Robert Powell, MarketWatch)

7

There's a word for millions of older Americans who no longer can work or who don't want to work ...but cannot afford to retire.

**VOTERS.**

Will many soon-to-be retirees be satisfied with the current **median retiree income** from all sources of... **\$17,000** a year? (EBRI)  
*(\$8,500 for the bottom 25% – \$35,000 for the top 25%)*

Will they vote for candidates who say:  
**“The government stole your full age-65 Social Security! Vote for me, I’ll get it back – plus more!”**

A couple’s total estimated health care in retirement:  
\$300,000 (EBRI)

Who will pay for those who did not save? Higher taxes on those who did save...and on younger workers to pay for older Americans?

America had 70% tax brackets in the 1970s.

## It Would Be Expensive

*By 2010, 40 million age 65+...71 million by 2030*  
(U.S. Government)

For retirees needing a extra...

**\$250/month** for **1** million retirees costs \$3 billion  
– about **\$300/year** from each worker.

**\$500/month** for **10** million retirees costs \$60 billion  
– about **\$6,000/year** from each worker.

**\$500/month** for **20** million retirees costs \$240 billion  
– about **\$12,000/year** from each worker.

(Assumes 100 million workers)

## 'I'll Work Forever' May Be a Bad Bet

Don't worry – just keep working.

But not all will or can continue to work.

The grind becomes too much...only 13% of current retirees worked passed age 65.

40% of retirees were forced to retire  
(loss of health, job, etc.)

(McKinsey)

11

## Why is it the Communicators' Problem?

This should have been taught in high school.

Actuaries, plan design consultants, investment fund pros, and plan sponsors have known the facts for years. They rarely spoke up. Should you?

The queasy feeling you may have hearing the facts is what employees will get when reality hits...when they want to retire

*or when you help them discover these facts.*

12

## Massive Improvement is Needed

The retirement ed techniques being used don't work. In failing programs, there are no best practices or benchmarks to follow.

There's little time for incremental changes...such as the 'auto-everything fad' – needed 20 years ago.

Be bold, try new things – at least  
*new ideas haven't be proven ineffective.*

Demand more from retirement education providers...especially if they're being paid with money from employees' accounts (most are).

13

## 401k & 403b Retirement Plans Can Work

**There's nothing wrong with 401ks, 403bs, et al  
*if employees do all these things:***

1. Define the benefit they want...get a goal.
2. Start saving early...probably before age 30.
3. Contribute a sizable amount...8% to 15% or more.
4. Invest wisely...diversify, be mostly in stocks.
5. Use the money only for retirement...and make certain the income lasts as long as you live.

*Are these things your employees know how to do?*

*Ask any teacher, can you teach the unmotivated? Ask any adult-education specialist, is telling adults what to do effective teaching?*

14

## Ackley's Basic Retirement Ed 'Low Bar'

Basic questions a worker must be able to answer to *begin* using a 401k 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**?

Without this knowledge, employees won't be successful using a 401k plan for their retirement...unless they're just lucky. These are similar to the questions pension actuaries address in funding pension plans.

15

## What Choice Will You Make?

Doing more of the retirement education that has not worked (*telling yet-to-be motivated adults what to do*) – even if it won awards and employees loved the presenter's jokes – is a tempting, popular, and probably safe (*for your career*) choice.

But that won't help begin the massive change that's needed to make America's Retirement Plan work for millions of additional Americans.

If America's Retirement Plan fails, the alternatives aren't good...and we're headed in a bad direction.

**As a retirement communicator/educator, what will you do?**

*Dennis Ackley is responsible for the ideas expressed here.*

Go to [DennisAckley.com](http://DennisAckley.com) for more articles and resources.

Copyright © Dennis Ackley 2008

16