Are Your Employees “Retirement Ready”?

“Retirement readiness” is the term used in a December 2010 Deloitte survey of 653 plan sponsors. Asked “Do you feel an obligation to prepare your employees for retirement?”, 62 percent of respondents said yes, that their responsibility includes taking an interest whether employees are tracking towards a comfortable retirement.

Another 23 percent of respondents went further, indicating they feel it is their responsibility to take a “very involved” approach such as monitoring utilization of financial planning tools. Just 15 percent replied that their “only responsibility” is to “offer a competitive plan.”

“Our workforce is maturing and changing and our 401(k) plans are struggling to keep pace,” said Deloitte in the report. “The Baby Boomers have begun their transition into retirement and the debate concerning the success of 401(k) plans in the U.S. is a hot one. Participant readiness is in the spotlight in the media, on Capitol Hill and in our homes. In Deloitte’s opinion, retirement readiness will continue to be in the spotlight for years to come.”

The report goes on to say that only 15 percent of plan sponsors surveyed believe that most employees will be prepared for retirement. It indicates that sponsors appear unsure as to which tools and offerings will help employees with this challenge.

Twenty-five percent of respondents surveyed offer employees managed accounts. Just over half make individual financial counseling/investment advice available to all participants. Another 16 percent are considering adding this feature within two years. For those who are not considering it, fiduciary responsibility continues to be the hang up (60 percent) according to Deloitte.

In other survey results, respondents noted that the most common actions taken by plan participants in 2010 were: increased loan activity (49 percent), increased deferrals (41 percent), increased withdrawals for hardship (40 percent) and rebalancing portfolios to be less aggressive (21 percent).

Employer matching contributions in 2010 (66 percent) were up versus 2009 (59 percent). Among those previously suspending matching contributions, 55 percent indicated intentions to restore them within the next 24 months.

Deloitte also reported: “From a plan design perspective, the average number of investment options available to participants has risen from less than 10 in 2000 to more than 20 in 2010. Eligibility restrictions have also been dramatically altered as 86 percent of respondents now allow participant eligibility in the first three months. Similarly, vesting schedules have been reduced; in 2000, 42 percent offered a four-to-six year graded schedule, and in 2010, 42 percent now offer immediate vesting of employer contributions.”

Great Outcomes
A Newsletter for Retirement Plan Sponsors

February 2011

In Pursuit of What Matters Most.

More Money for Retirement NOW!

Don’t miss this government-given opportunity to set aside more for retirement immediately.

With President Obama’s signing of the Tax Hike Prevention Act of 2010, everyone who pays into Social Security will pay two percent less this year than they did last. FICA deductions on paychecks will drop from 6.2 percent to 4.2 percent on wages up to $106,800.

Again, this latest rule change applies to everyone. It’s a perfect chance for employees to slide two percent more of their salaries into savings without ever missing it. Don’t let them pass it by!
In Pursuit of What Matters Most.

Brain Teaser
Would you take the following wager? Put down $10 and flip a coin. If it's heads, you win $100. If it's tails, you lose your $10.

Columbia University business professor Eric Johnson recently posed the question to a group of people over 60 and quickly learned that nearly half of them would refuse the gamble—meaning that they weighed losses ten times more heavily than gains. By contrast, other studies have suggested that the population as a whole tends to weigh losses two to three times more heavily than gains.

Why is that? What, if anything, does aging have to do with risk aversion? Researchers aren't sure; they just know it does.

Money Magazine, in its Retirement Guide 2011, grapples with these and related questions by placing them in the context of what it calls "the still-young field of behavioral finance—a blend of psychology, neuroscience and economics—that gives better insight into how your unconscious can help or hurt your financial future."

If greater risk aversion hurts older people by making them overly conservative in their financial planning, the magazine offers three suggestions:

- Keep up your financial knowledge—research suggests that well-educated investors are considerably less risk averse than the average.
- Fix your mix—if you mix no more than 60 percent of your assets in stocks, you'll be less likely to "freak out and flee to 100 percent cash the next time the market tanked."
- Get some outside perspective in your later years—perhaps investing some money in a life-cycle fund targeted to your age or using a money manager.

The article, by Penelope Wang, in the October 2010 issue of Money Magazine, explores several other applications of behavioral finance techniques. Included are:
- visualizing one's older self in a realistic way,
- using people's natural competitiveness to get them to save more aggressively than their peers,
- using reminders and checklists,
- thinking ahead in terms of income per month, not a lump sum for life,
- annuitizing a portion of one's savings,
- protecting oneself against the inevitable collapse in the private equity market.

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New at HORAN

Would you be interested in some of the best investment advice in the Midwest? If so, you might want to speak with HORAN Capital Advisors, our team of three seasoned portfolio managers bringing personalized expertise in stock, bond and investing alternatives to our clients.

Mark Bennett, CFA, David Templeton, CFA and Nick Reilly together, offer more than 60 years of investment experience. All worked at a super regional bank before coming to HORAN. And all had vital financial careers before that: Mark spent 20 years managing investments in New York; David managed money for individuals, charitable and endowment groups; Nick was an options market maker on the Chicago Board Options Exchange.

"At the core of what we do," says Templeton, "is look for high-quality investments, in stocks and bonds, to grow capital. High quality tends to be strong, but safer in a down market. As conditions permit, we add other investments—like mid, small-cap, international and high yield bonds—and this year they've given us good returns. Our style enables investors to take less risk with their core investments and incrementally add additional asset classes that have higher return expectations."

Prior to joining HORAN, the HORAN Capital Advisors team worked mostly with wealthy families and high-level executives, gaining strong experience in portfolio construction and risk management. "It's a relationship business," says Reilly. "We offer a customized approach. We make sure we understand comprehensively what each person's financial situation is and how we can help them achieve their goals."

Drawn to HORAN by its community-wide reputation for service, the three saw their money management style as a natural fit with the firm's existing expertise in fund selection and management. They felt HORAN could benefit from their expertise in individual stock and bond selection, and in enhanced risk management.

"Building on HORAN's client focused way of doing business and our ability to add value for clients—that's why we came," says Templeton. "To do it successfully, you have to have a passion for the basics—for the research and analysis that leads you to finding value in undervalued companies. We do. We do it nearly 24/7."

The bottom line: "We want to be sure our clients are sleeping at night," says Bennett. "If they aren't, then we haven't done a good job of helping them understand what they have from a risk/reward standpoint. So many people are off on the risk side. It's important to drill down and help them protect their lifestyle."

The 401(k) Perfect Storm

The worst stock market returns since the Great Depression, combined with an already existing concern about 401(k) fees and a lack of their disclosure, has created "a perfect storm in the world of retirement plans," says Ary Rosenbaum, a tax lawyer in Garden City, New Jersey. "In the wake of that storm, our faith in 401(k) plans began to sink."

Writing in a recent newsletter issued by his firm, Rosenbaum uses that assessment as the catalyst for a cautionary tale about the role of the 401(k) in retirement plans today. While their costs to an employer (particularly small and mid-sized employers) are attractive, and the ability to delegate their administration to a third party administrator (TPA) has great appeal, he says, there is this jeopardy: "...many employers are under the mistaken belief that the design of a 401(k) plan shields them from lawsuits brought about by plan participants. This is a fallacy."

Every employer, says Rosenbaum, has absolute responsibility for understanding his/her plan's costs, structure and investment options. Those costs, he says, can have substantial impact on its rate of return. Thus: "Plan fiduciaries have an obligation to carefully identify all charges...and to ensure that they are reasonable, both in light of services provided as well as what is being charged in the marketplace."

Then, turning to plan investment options, he notes: "Most small-to-medium sized employers are under the mistaken impression that if they offer participants a choice of mutual funds in their 401(k) plan, they are shielded from liability even if the funds perform poorly and the participant loses money. But the opposite is true. After selecting 401(k) investment funds, the plan's sponsor must make an effort to review the funds' performance annually, if not quarterly."

Two other tips from Ary Rosenbaum:

- Plan sponsors should implement and consistently update investment policy statements. Many small-to-medium size firms don't do this—or even have an investment policy at all.
- Employers are obligated to educate employees about their investment assets by distributing investment information; if the employer fails to do this, a plan sponsor can be held liable for an employee's investment loss.

Recognizing that many small-to-medium size employers are deficient in this latter pursuit, Rosenbaum strongly endorses the use of outside investment professionals to educate employees on an annual and even quarterly basis.

He concludes: "While many small to medium size employers may not have the time or expertise to be concerned with the operation of their 401(k) plan, these same employers would be wise to engage the help of responsible investment professionals who can help them navigate the choppy waters of this 401(k) Perfect Storm to minimize as much liability and loss as possible!"

Staying on for Retirement

Here are a few statistics that should interest any retirement planner:

- 41 Percent of employees say that retirement benefits are compelling them to stay with their current employer.
- One in four of those say that retirement benefits attracted them to their current job.
- A third of workers with traditional pensions say the retirement plan brought them into their jobs.
- Just 21 percent of workers with 401(k)s say the same thing.
- More than half (59 percent) of employees with pensions say the prospect of a guaranteed retirement payout impels them to stay with their current job.
- Most employees (80 percent) with a traditional pension would like to stick around until retirement.
- Just 62 percent of workers with 401(k)s say the same thing.
- Only 32 percent of workers with a 401(k) program plan to stay long enough to receive the 401(k) match.

These findings, from a Towers Watson employment survey of 3,099 full-time, private sector employees, were reported in December in US News online. The forum, a Money column by associate editor Emily Brandon, poses several considerations for retirement plan sponsors. The most critical is this: Given that traditional pensions are more likely to attract and retain workers than 401(k)s, how can companies without them find other ways to persuade valued employees to stay?

Workers who move in and out of jobs where 401(k)s are available are disadvantaged by forced waiting periods and new vesting schedules. Workers who cash out their plans in the course of changing jobs pay substantial taxes and, if they are under 59 1/2, they will pay an additional 10 percent early withdrawal penalty. Workers who move from a company with low 401(k) investment fees to one with higher fees ensure slower growth for their nest eggs. Workers who trade a good company match program for a poor one lose big.

Each year, one or more of these pitfalls imperils the retirement prospects of countless Americans. For wise plan sponsors, however, they offer an opportunity. They provide exactly the arguments needed to support staying on the job and growing employers feel they can attract and retain the kinds of employees you want to retain.

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