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By Ilene H. Ferenczy

Ilene H. Ferenczy *is the co-editor-in-chief of the Journal of Pension Benefits, and the managing member of the Law Offices of Ilene H. Ferenczy, LLC, in Atlanta, GA. Ms. Ferenczy practices exclusively in benefits, specializing in qualified plans. She has written more than 50 articles on benefits issues, is the author of Employee Benefits in Mergers and Acquisitions, an Aspen publication, and is a national speaker. Ms. Ferenczy is a former co-chair of the ASPPA Government Affairs Committee, where she is now a senior advisor. She graduated summa cum laude from both Georgia State University College of Law and Western State University College of Law, and is a member of the Bar in California and Georgia.*

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What is the best way to run a retirement program? Employers want employees to properly plan for their retirement futures, but overloading employees with investment information may not be the trick. It's time to stop treating plan participants like the 401(k) gurus they will never be. QDIAs may be the smartest first step for many participants.

" Never try to teach a pig to sing. It frustrates you and annoys the pig." —Robert Heinlein

An enormous amount of time and energy is being spent on the dissemination of information and education for retirement plan participants. This effort is driven by the knowledge that participants in today's society are required to be proactive with regard to their retirement plan benefits. In today's world, in which 401(k) plans predominate as the significant retirement program for most companies, passivity by participants may mean no funded retirement at all. In addition, if the company does not sponsor a retirement plan, the need of individuals to affirmatively set up their own retirement programs through individual retirement accounts (IRAs) or other savings vehicles again requires proactivity. The result is that companies and their advisors work hard to convince employees to be involved and educated, Congress and the Department of Labor (DOL) duke it out to determine who is going to rule the roost with regard to participant disclosure of fees or investment advice, and Snoopy encourages individuals to buy an IRA with the investment entity that feeds him Milk-Bones and puts his picture on a blimp.

But, at some point, we have to ask ourselves: is this any way to run a retirement program?

Nuclear Physics for Dummies

Let's think for a moment what types of concepts are involved in the design of a proper retirement program.

- You need to understand the time value of money and the effect of compounding interest.
- You need to understand the effect of tax laws, so that you can plan for the ultimate tax bite. You need to be able to assess the difference between current deferral of taxation in a pre-tax deferral situation, versus the advantages of having earnings tax-free for life in a Roth program, versus outside-a-plan savings.
- You need to understand investment philosophy, including risk and rewards, the differences between equity and fixed assets, and the workings of the markets (including both American and foreign exchanges).
- You need to understand economics and the impact of the Federal Reserve, the spending by the federal government, and foreign markets on investments and planning. You also need to understand the impact of inflation, the risk of a recession or depression, and how to plan for ups and downs in your own job market.
- You need to understand mortality and the impact of an early death during your working lifetime or in your retirement years, as well as the risk of outliving your retirement savings.
- You need to understand health care and the potential of your retirement savings being spent prematurely due to illness or injury. Should you have disability insurance, should you invest in long-term care insurance, what will Medicare cover, what will prescription drugs cost in the future, should you elect to have a Medicare supplement program once you hit retirement?

- You need to understand how to read crystal balls or other predictors to determine what is likely to happen in the future to you, your family, the economy, the markets, interest rates, the cost of groceries and gasoline, the cost of health insurance, and the cost of assisted living facilities.

Isn't this all just a little like asking the average citizen to plan out how he is going to meet his energy needs in the future and giving him a brochure that describes the difference between windmills, solar energy, electricity, oil, and nuclear power? Seriously, do you think someone could accomplish this task with a simple, understandable volume of *Nuclear Physics for Dummies*?

We Just Need to Communicate Better…Or Do We?

Everyone is working hard to come up with communications pieces that will help participants understand the issues that they need to address to be successful in their retirement planning. Employers want employees to plan properly, so they pay for all kinds of information to be prepared by service providers to communicate with the employees. The level of spending in this regard is highly dependent on the size of the company. The communications efforts made by larger employers are often truly impressive. There are little note cards, educational materials, kiosks, videotaped classes, one-to-one meetings with representatives of the administrative and investment providers. Placards at the facilities announce changes to be instituted in the future.

Do any of these efforts make a significant difference? While they may get participants more involved in saving for their retirement—always a good thing—it is unclear whether they are truly successful at moving the participants from a clueless, apathetic state to educated retirement planners. In fact, what likely is occurring is that the participants are learning just enough to be dangerous.

Remember the articles in the national press after the stock market drop in 2002? " My 401(k) plan is now a 201(k) plan," comic strip characters complained. Innumerable participants were permanently harmed during that market adjustment. How many people reacted abruptly to the market drop by getting out of their equity investments and into fixed income? How many people lost considerable funds in their retirement plans due to the bankruptcy of many technology companies? Are these the actions of a knowledgeable investment group?

The huge increases in participants' accounts in the early 1990s as self-directed 401(k) plans took off were often simply the upsurge being experienced by everybody in a strong bull market. People followed the lead of others—who may or may not have had any idea of what they were doing—and made money along with everyone else. But when the market dropped, and knowledgeable, educated actions were needed to protect participants' accounts, the lack of know-how kicked in, and participants generally did what anyone without true understanding of the marketplace did: they ran for cover, swearing never to invest in risky stuff again.

Didn't they learn from the communications information we gave them? Don't they read???

Practitioners and government representatives commonly complain that participants don't read the information with which they are provided. The DOL apparently believes that the summary plan description (SPD)—the booklet given to participants to advise them of their rights and benefits under the plan—is too long and too complex to be read by participants. The solution to participants' failures to get information from the SPD, it appears, is to provide them with innumerable periodic notices of important dates, important issues, and important decisions. And, because the DOL assumes that no one has read the SPD, its regulations require the repetition of SPD-provided information in the notices, making the new notices long and unwieldy—and, amazingly enough, unreadable by the participants.

So, now, we have participants who do not read the significant communications because they are too long, and they don't read the periodic notices because they are too long and provided too frequently. It's the paper equivalent of white noise.

Let's Face It: Simplification Is a Fallacy

It must be because the notices and communications pieces are too complex, you say. What we really need is communications simplification.

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But, let's look again at what it is we are trying to simplify. Is there any communications piece that you can draft that is going to make the average guy or gal a knowledgeable retirement planner? How exactly are you going to take all the concepts that we discussed above as being necessary for proper analysis of retirement needs and boil them down to a two-page brochure that will permit the participant to make proper choices?

Think about it.

If a person goes to buy a car, he or she is presented with a contract in legalese that goes on for pages with teeny-tiny print.

If a person is buying a house, he or she is presented with a contract in legalese that goes on for volumes with similar teeny-tiny print.

Is anyone trying to make these items understandable to the average buyer? Do we have disclosure documents that explain the housing market, the effect of inflation on housing, the impact on your taxes of different types of mortgages? Do we expect drivers to really have a clue about what their fuel injection does, what contributes to good gas mileage, or whether the spoiler in the back of the car is really going to have an impact on the aerodynamics of the vehicle? No! We have just come to accept that buying a house or a car is like plugging your nose and taking the plunge into a deep lake, and hoping that you end up better for the experience. If you were fortunate to buy a home in California in the early 1970s, today you look like a real estate genius. If you happened to become of age now, it'll cost you millions to buy what could have been purchased 30 years ago for $100,000. If you happened to have three or four kids and needed a minivan or SUV to cart them around town, you're suffering in this gas crisis and you look like you had no foresight whatsoever when you bought your Big Bertha five years ago.

If you take all that and apply it to retirement plan education, you realize that the average guy or gal is never going to be an economist-actuary-investment specialist-tax lawyer-financial advisor-accountant. No amount of witty communications, computer programs, and Snoopy comics will make them one. Practitioners and Congress and regulators are trying to find a copy of *Retirement Planning for Dummies* that everyone will easily understand, and it just doesn't exist. People don't have the know-how, and they may not have the desire to gain it. Some people just don't like to read the Business section of the newspaper.

How Did We Get Here?

What has changed since the earlier days, when companies had defined benefit plans and participants relied on their employers to provide them with a retirement benefit?

Well, first of all, that's not really a true recollection of the past. *Some* companies had defined benefit plans for *some participants*—but the vast majority of people in this country never have been covered by any retirement plan other than Social Security.

But, if we look at the history of the past 20 years or so, the changes have been due to a lot of factors, including:

1. Companies were concerned about the current and potential cost of defined benefit plans.
2. The cost of maintaining a defined benefit plan went up due to changes in funding rules, PBGC premiums, and the decreases in assets caused by the stock market drops, scaring company management.
3. Congress, in a need to balance the budget, decided to eliminate many tax advantages associated with small employer defined benefit plans, thereby discouraging such companies from having these plans. Those companies either abandoned retirement planning entirely or turned to defined contribution plans.
4. Participants, encouraged by the huge stock market increases in the 1990s, lobbied for plans that would allow them to have a greater opportunity to invest in more risky but more rewarding investments.
5. The DOL's regulations relating to participant self-direction of investments all but mandated the use of mutual funds, giving investment houses a huge economic incentive to sell participant-directed 401(k) plans to anyone who was breathing.
6. The most common technique used by financial institutions to sell their 401(k) services and investments involved horror stories about fiduciary obligations. These convinced the employers

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to turn investment direction among the selection of mutual funds to their employees, giving the investment houses huge increases in assets they controlled.

7. 401(k) plans had the advantage of requiring that employees contribute for their own benefits, thereby decreasing company costs and the risk that those costs could increase exponentially and outside the control of the company.
8. Unions and other employee advocates appear to have been asleep at the switch, and didn't object to the movement of retirement responsibility and cost from the companies to the individual employees.
9. The American economy has taken some huge hits, companies that we thought would be in business forever are failing, and everyone is afraid of the huge cost of employee retirement benefits and the toll it takes on the company's bottom line.
10. Health care costs have risen exponentially, causing plan sponsors to look both at reducing the cost of other employee benefit programs (including retirement plans) and increasing the cost-sharing for employees.

Are these really the trends that you want to see controlling the development of a national retirement policy? Does anyone really believe that the result of this is going to be the provision of reasonable retirement benefits to the U.S. population?

Where Should We Go from Here? The Quantum Leap

It might be wise to take a step back and think about what we can do to restructure the retirement paradigm (okay, I tried not to use that word, but it fits too well in this sentence).

Let's take as given a few important facts:

First, the vast majority of participants will never EVER become investment gurus, regardless of the simplicity and brilliance of any communications pieces. Therefore, don't we want investing of retirement plan money to be handled by professionals?

Second, while individual savings through a 401(k) plan may take the place that individual savings have always had in retirement planning, it is not likely that this will be sufficient to enable individuals to have a successful retirement period.

Third, employers should continue to provide some level of contribution to their employees' retirement savings as part of the compensation package.

What would be best? Well-run, well-designed defined benefit programs. Maybe even well-run, well-designed floor offset programs where employees participate in a savings program with employer contributions, but to the extent the economy or the employee's work history is insufficient to provide for a comfortable retirement level, the employer provides the difference in a defined benefit plan.

Are we going to get there easily? No.

But, what we can do as a first step is to stop expecting participants to effectively handle their own investments.

The DOL's qualified default investment arrangement (QDIA) rules outline three types of investments that the DOL thinks are good, prudent ways to save for retirement: life-cycle funds, balanced funds, and managed funds.

What if we stopped encouraging employees to self-direct their investments, and encouraged them instead to select one of these types of products for their retirement funds? Rather than making the QDIA appear the " lazy man's" way to invest, how about we make it appear to be the smart way to go?

What is so bad about telling participants: investing is very difficult and really takes a lot of know-how. If you feel you have that kind of knowledge, good for you, here's a brokerage account. (Here's a thought: the national securities laws require some investments to be offered only to people with know-how, *i.e.,*"qualified investors." Why don't we have that kind of standard for a participant who wants to use a brokerage account?) If not, let us get a professional to do this for you by offering you one or more QDIA-type investments.

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Let's change the employee communications to say: Most people are not investment experts. Those people should have an expert do their investing for them. If you want the expert to do your investing, take the QDIA. If you want to take your chances with your own expertise, you can do so. It's your choice—choose wisely.

Let's make the QDIA sound like the smart choice, rather than the option for someone who is apathetic or stupid.

This article is *not* an attempt to promote QDIA investments, but rather, to demonstrate that the concept that participants can effectively invest for themselves is flawed. Far be it from the author to substitute her judgment for that of the DOL which, after examining the proper structure for a prudent investment, chose the QDIA.

This is clearly just a first step. But if we start investing plan contributions more effectively, perhaps we can go on to the next step, where we stop expecting the employee to be an actuary and know—somehow, perhaps through osmosis—how much to save and when to start.

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