



FinishStrong by Design™

A newsletter designed to help you tackle the most pressing issues in today's increasingly complex retirement plan world.

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How does your 401(k) Plan Stack up?

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Last month we discussed the recent, dramatic rise in **Automatic Enrollment (AE)** within 401(k) Plans in America (over 400 employers surveyed: 42% reported having AE today, 26% more said they are considering it). And we concluded that perhaps the **TOP REASON** employers are adopting AE within their Plans is to **HELP EMPLOYEES CREATE ADDITIONAL RETIREMENT SECURITY**. But if we drill-down further, what do savvy professional services firms, business owners and top-notch HR professionals truly care about? We would argue two points:

- Helping ensure they reach their own, personal long-term objectives for financial security.
- Embracing their firm's 401(k) plan as a crucial tool for rewarding and retaining key tenured employees & staff.

How are YOU measuring YOUR 401(k) plan's ability to help you & your employees achieve their goals? Do your most valuable employees take full advantage of your plan? What are others saying & doing? How does your current advisor support you in this critical role?

Top Indicators of "success" within 401(k) Plans:

According to the Deloitte 401(k) Benchmarking Survey, 2008 Edition(1), the key success indicators are:

1. **Participation Rates.** The average participation rate in America today is **76%** of those surveyed (i.e. 76 out of every 100 employees eligible to use their company's 401k plan actually do so.) This is rising with **Automatic Enrollment**, but - nevertheless - nearly one-quarter of our employees are **not** taking advantage of the most powerful, tax-efficient way to save money for their retirement.

What is your firm's 401(k) plan Participation Rate?

2. **Investment Performance (gross returns).** Today far more sophisticated and useful data than just gross returns are required to properly evaluate your plan, such as:
 - Returns net of fees
 - Returns compared to a relevant benchmark (i.e. similar asset class, thus similar risk/reward)

characteristics)

- Returns actually experienced by your plan participants
- Whether asset allocation choices by your employees are appropriate, given their age and/or appetite for market volatility.

Do you receive and analyze such data on a consistent basis?

3. **Employee Appreciation.** How do you measure this? We have found the most reliable indicators are evidenced by the behaviors of your employees (i.e. not what they say, but what they do). What choices do your employees make? How do they decide how much to contribute, which investments to choose, how often to re-balance their account, and whether to use the ROTH or the Traditional contribution option? Are their choices likely to lead to long-term security for their future years - or are they on a path to failure?

Do you receive a metrics for measuring the behavior of your employees? How should their behavior change? How will you influence this?

4. **Cost Effectiveness.** As discussed in prior issues, given the mandates of **Pension Protection Act 2006** (and even the "encouragements" from the IRS and the Department of Labor), we believe this is an excellent time to review your plan's **ALL-IN COSTS**. Furthermore, consolidation within the industry is creating opportunity for skilled 401(k) advisors to negotiate **fee reductions** from existing providers.

*Do you know the ALL-IN COSTS of your plan today? How does this compare to other plans similar to yours? Let us know if you would like to receive our **Full Fee Disclosure®** template - so that you may ask your current providers to "fill-in-the-blanks".*

5. **Easy Accessibility & Technology.** Nearly 100% of those surveyed made Internet access to 401(k) information available to their employees. Our experience indicates the far more relevant question is "What % of your employees actually use this Internet access?" And if it's low, how then do they access info and education to make informed decisions? (Chances are they don't.) Studies indicate that, sadly, apathy reigns!

Do you know if your employees regularly access their 401(k) account information?

Top Impediments to "success" within 401(k) Plans (2):

1. **Lack of Employee Understanding** - We believe informed consumers make informed decisions. Doesn't it follow that an employee, confident and educated regarding the power of her employer-provided 401(k), will choose to take full advantage of the plan?
2. **Ineffective Employee Communications** - as the Executive Summary within the Deloitte survey concludes, perhaps this is "the flip side of the same coin." Frankly, we believe there is a tremendous and growing demand in the marketplace for effective, relevant 401(k) communication programs - especially to be delivered to companies whose workforce has not necessarily embraced the Internet as a learning medium (and may not be likely to do so anytime soon.)

The Bottom Line

You might recall from our last issue, the #1 concern we hear from employees is "Will I have enough to retire (with dignity) someday?" (Parenthesis added.) In the very recent past - specifically the past two years - employers have indicated with their actions (rise of **Automatic Enrollment**, updating of **Qualified Default Investment Alternatives**) a desire to make an impact.

But employer-mandated changes can only go so far: ultimately, the behaviors of your employees must change as well. Contribution rates must increase. Employees must understand and appreciate the value of their 401(k). The utilization of either risk- or age-based, broadly diversified portfolios of funds must grow. It's easy to "mandate" these improvements for our new hires - but how do we influence our longest-term, most valued employees already invested in our 401(k) plan?

In our **Next Issue**, we'll drill-down even further on this - specifically exploring **how you can measure within your Plan whether you & your most valued employees are on-track for a secure retirement.** And if they're not, what can you do about it?

Until next time,

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- (1) Deloitte 401(k) Benchmarking Survey, 2008 Edition. [Click here to see the entire report](#)
- (2) Ibid.

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