
Getting Members and Taxpayers to Appreciate Your Pension Plan

Dennis Ackley
Ackley Associates
www.DennisAckley.com

Please find the State Government 401k-style Plan sheet and review the instructions.
You'll be asked to follow those instructions shortly.

Copyright 2012, Dennis Ackley

401k
Retirement
Education
Simulation

Before focusing on pensions...

What can we learn from the retirement industry's approach to 401k retirement education?

Follow instructions on the 401k-style Plan sheet.

Toss your savings contributions ball and hit your target.

2

You just experienced the prevailing approach to 401k retirement education

You had an opportunity to succeed...

But without knowing how to set and hit your target, is it really an opportunity?

You had encouragement...

But without it being personally meaningful, is it really encouraging?

You were told what to do...

But without personal motivation, is it likely you'll do what you're told?

3

How well has the prevailing approach been working?

87% of 401k plan sponsors say most of their employees

will **not** be financially prepared for retirement.

(Deloitte/CEBS)

4

What's the problem?

As **voluntary** plans go, 401ks are **ok...** bank accounts could work for retirement if 401k didn't exist.

Is the critical problem **operator error**

...like lecturing novice drivers on physics, then putting them in race cars and wondering why they crash?

Could the 401k education be causing 401k operators – employees – to crash?

5

401k retirement education is the largest failure ever of any adult-education effort

The 'best' results are devastating

\$400 a month for life can be expected for typical *households* headed by employees age 55-64 ...with total median balance from all their 401k and IRA accounts.

Does not include households that have no retirement accounts.

(Federal Reserve)

\$120,000 * '4% guideline' + by 12

Worse...about **\$200** a month based on median balance of *individual* 401k accounts for employees 55-64.

(Vanguard)

6

Has 401k retirement ed been done wrong for 30 years?

Fire
some money into a 401k until we're nearly...

Ready
to retire...then we learn our

Aim
was far short of the amount we need...and it's too late to fix it.

A test all employees should pass...

7

What's the highest-priced purchase you may ever make?

Say you want to spend **\$40,000** each year after you stop working at age **65**...and you expect to live to **90**.

That's **25** years x **\$40,000** = **\$1,000,000**

'Wow, nobody explained it that way before.'

Do you feel the need to improve this by using 'the way' that's always been used?

8

Because 'the way' is how the retirement industry **tells** people what to do

'The way' hides assumptions about social security, investment performance, pay, longevity and other factors...

to make a mysterious calculation of a 'precise' number... or replacement ratio.

'The way' does not help workers **discover** factors that influence the price...and it's **not personally meaningful** or **motivating**.

9

Because 'the way' is how the retirement industry **tells** people what to do

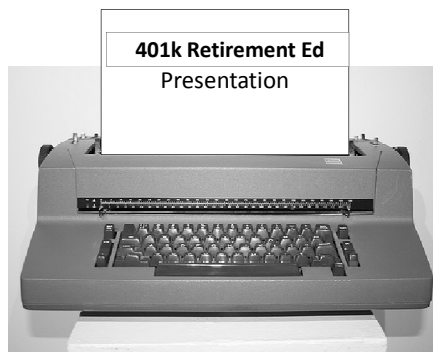
'The way' has failed.

It's information most 401k beginners don't understand, don't find motivating, don't believe and worse – don't use.

To 'the way' defenders: I know it seems right...but after 30 years of failing, how much longer do you want to keep doing it?

10

Today's 401k retirement ed was created from mutual fund sales – not adult education



11

Today's 401k retirement ed was created from mutual fund sales – not adult education

When 401k retirement ed started

- Not** pilot tested.
- Not** modeled after successful programs.
- Not** designed using adult-ed principles.
- Not** based on competencies needed to operate a 401k successfully.
- Not** equipped with success testing tools.

And that's how it's stayed...employers rationalized: 'This is how the retirement industry says to do it...and it's *free*.'

12

Today's 401k retirement ed was created from mutual fund sales – not adult education

Fund sales presentations were:

- Designed to sell funds to motivated, financially savvy customers who had pensions.
- Based on the selling approach of experts **telling** people what to do.

Unfortunately...

13

'Telling' is **ineffective** for unmotivated, non-financially savvy adults ...most young employees

2400 years ago, Socrates demonstrated **telling** doesn't create learning.

Today, adult-ed experts say **'telling isn't teaching'** ...adults must be motivated to learn.

14

'Telling' is **ineffective** for unmotivated, non-financially savvy adults ...most young employees

'Questions are places in your mind where answers fit. If you haven't asked the question, the answer has nowhere to go.

You have to want to know the answer.'

Clay Christensen
(Harvard Professor, Awarded #1 Management Thinker in the World)

15

'Telling' is **ineffective** for unmotivated, non-financially savvy adults ...most young employees

Rather than tell people what to do, the head of Financial Engines' research center – largest independent investment advisor – says 'The best way to set a retirement target is to imagine your future.'

(J. Scott, Financial Engines)

Asking yourself, 'How much income will I want when I end my full-time career?' is more meaningful than having an expert tell you a number.

16

'Telling' is **ineffective** for unmotivated, non-financially savvy adults ...most young employees

'Unsolicited advice has no causal effect on investment behavior – yet individuals who actively solicit advice (ask for it) ultimately improve performance.'

(Hung and Yoong, RAND Corporation)

If workers are not motivated to know about building retirement accounts, telling them how is a waste of time.

Quiz: How many workers use free online advice when it's offered? (Hewitt)

● 6% ___ 16% ___ 26% ___ 36% ___ 50+%

17

Questions... what if you were responsible for the **Personal Pension Plan for You** ...a 457 or 401k account?

What if I was 65 and expected to live on \$100,000 for 25 years...to age 90? Let's say I put it in a bank CD to get FDIC protection...and it earns the same rate as inflation. If I divide 25 years into \$100,000... that's **\$ 4,000** buying power a year... that's **\$ 333** a month?

'How many \$100,000 accounts do I think I'll need to have the future lifestyle I want?'

Advice...or just questions?

Example 18

What can employees do using 457s or 401ks?

In simple terms...

Price – define the financial lifestyle they want and the account balance it costs.

Contribute – fund the account to buy that lifestyle.

Invest – help grow the account.

Receive – create an income flow that will last a lifetime.

What actuaries and fund managers do for pension plans...employees are responsible to do for their 457 or 401k – an **individually defined benefit plan.**

19

Behavioral finance is insightful... but can naive employees be 'nudged' to success?

Auto-enrollment is 'anchoring' employees. **70%** auto-enrolled at **3%**. (Mercer)

40% would elected higher rate! (AON Hewitt)

Employee who has no idea of the cost of retirement has been auto-escalated to 12% contributions...learns if she drops to 6% (gets full match) has extra \$200 a month to buy her Ford Mustang dream car rather than a Ford Fiesta.

Isn't **knowledge** about retirement essential?

20

Achieving retirement adequacy is about achieving a personal goal.

Humans do not voluntarily achieve **difficult** personal goals they have not personally set.

How difficult without a pension plan?

80% of financial pros say save **17%** – including employers' \$ – throughout working career. (Principal Financial)

Wait to age 45, save **31%**. (Center for Retirement Research)

Quiz: Why don't 401k ed programs help workers discover the price of their retirement?

21

Now...let's focus on pensions

To increase employees' pension appreciation, can we boost our good pension ed to be even more...

Honest...educate members about the realistic costs of retirement and potential problems.

Clear...use unambiguous words and numbers.

Upbeat...show how your pension plan:

- overcomes many potential retirement problems
- helps members achieve the retirement lifestyle they want.

22

The most devastating failure of America's retirement education efforts...

Retirement will be the most expensive purchase workers will ever want to make!

Many members – especially late pension joiners – won't figure it out until it's too late to prepare.

Would you start a new career with no clue of how much income you'd get and where it's going to come from?

Many retirees do.

23

Naivety outweighs knowledge

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

But...just over half of the 31% can state any amount... and under half of them say they made a calculation. (Lusardi & Mitchell, U of Michigan)

If members have no idea how much their retirement could cost, how can they:

- appreciate their pension plan?
- decide if they want to add to it through other plans?

24

Workers
can
handle
the truth

'Rather than giving up, workers who have calculated how much they need are more likely to be very confident about having enough money than those who have not made a calculation.

44% of those who make a calculation took action...59% of them saved more.'
(EBRI/MGA)

Too few people know...

25

Discovering the price

Imagine you were 'fast forwarded' to your last day of full-time work – and things cost the same as today:

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

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

How many years might I need the income.....x _____

Example: Age 65 to 90 = 25 years

My personal estimate...\$ _____

Is this advice...or just a question?

Is it realistic?

Is it more meaningful than an expert's replacement ratio?

But it's not precise!

Example 26

'How much money will my retirement cost?'

If unfortunately you are run over by the party bus at your 'last day of full-time work' celebration, you'll need around **\$0** future income.

Or...

Example 27

'How much money will my retirement cost?'

If you want generally the same standard of living that you have now...and you stop working full-time at 60 and live to 102 (42 years), you may need **more money than you made in your entire working career.**

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

Example 28

Seeing the value of a pension

Explain retirement is like making any purchase ...using consumer-oriented terms:

Retail price—total needed if 'fast forwarded' to last day of full-time work.

Discounts—amounts already 'paid' – **projected pensions**, current savings, Social Security, assets to sell and any pay while retired.

Layaway payment—additional amount needed to purchase your retirement dream.

Example 29

Seeing the value of a pension

Your estimated retail price of future lifestyle income

\$50,000 X **25** = **\$1,250,000**
annual spendable years

Your estimated discounts – what's already paid

– Current single sums – **\$ 100,000**
(401k, 457, 403b, personal savings, etc.)

– Lifetime payments (**pension income** and Social Security at retirement)
\$35,000 X **25** = **\$ 875,000**
annual benefit years

Your estimated additional layaway = **\$ 275,000**

a springboard to learning...to motivate workers to use sophisticated advice and projections.

Example 30

Compare the real value
 \$1,000 a month vs. \$100,000 lump sum has different look viewed over retirement years.

Show **pension income** over projected years of retirement:

$\frac{\$1,000}{\text{monthly benefit}} \times \frac{12}{\text{months}} = \frac{\$12,000}{\text{annual benefit}} \times \frac{25}{\text{years}} = \frac{\$300,000}{\text{total payments}}$

Show income from a **457 or 401k lump sum** over the projected years of retirement:

$\frac{\$100,000}{\text{lump sum}} \text{ divided by } \frac{25}{\text{years}} = \frac{\$4,000}{\text{annual income}} \text{ divided by } \frac{12}{\text{months}} = \frac{\$333}{\text{monthly income for 25 years}}$

Example³¹

Be Honest

We all want an absolute guaranteed secure future

Can future security be guaranteed?
 Not discussing risks keeps workers unaware and unprepared – that’s cruel.
 Showing workers how your pension plan helps deal with risks is essential to:

- building appreciation for the plan and
- giving members an opportunity to create the retirement they want.

Go beyond plan provisions...add stories about how the plan helps avoid problems.

32

Retirement has risks... fortunately your pension plan can reduce many of them

Society of Actuaries

Biggest retirement risks...

- 1. Ill-conceived cost estimate of individual’s retirement.**
 No realistic idea of the personal cost... or the income from various sources.
- 2. Financial solvency of employers, institutions or annuity insurers promising benefits.**
 Relied completely on ‘promised benefits’ without understanding the risk, the need to be diversified, or having any alternate resource.

33

Retirement has risks... fortunately your pension plan can reduce many of them

Society of Actuaries

Biggest retirement risks...

- 3. Economic conditions.**
 inflation stock market
 interest rates volatility
 investment returns health care costs
 home prices
- 4. Longevity.**
 outliving retirement funds
 death of spouse
- 5. World events.**

34

Retirement has risks... fortunately your pension plan can reduce many of them

Society of Actuaries

Biggest retirement risks...

- 6. Politics and legislation.**
 taxes and rates
 Social Security and Medicare pension and health care laws
- 7. Personal work issues.**
 job lost / employment ended
 retirement date too soon
- 8. Personal life issues.**
 health
 marital status
 housing and assisted living
 family members’ financial situation
 results of financial decisions

35

Be Clear

Use the dictionary meaning of words ...not the marketing definition

Avoid retail investment words.
‘Guaranteed Investment Contract’ used in 401ks until one lost money... employers paid to keep the ‘guarantee.’
 Watch for ‘we provide **secure income**’ or **‘adequate retirement.’**
‘Fully funded’ – on day fund assets equal estimated liabilities (using host of assumptions) – change in discount rate, market performance or other things could make it ‘under funded.’ (is 80% fully funded?)

36

Create the messages for members who are not math fluent.

Be Clear
 For beginners, use concepts and arithmetic they understand.
 Avoid 'replacement ratios'...ignores longevity, personal retirement dream and need for personal motivation.
 No fractions, percentages, Monte Carlo simulations or math beyond 5th-grade.
 Things members cannot explain to you are things they don't understand.

37

If members and taxpayers don't trust the messenger, will they trust the message?

What organizations do people trust?
3% say investment companies.
85% say their employer has their best interest in mind. (EBRI/MGA)

38

If members and taxpayers don't trust the messenger, will they trust the message?

What people do other people trust?
 Unfortunately, 'a government official or regulator is the least credible spokesperson in the world.' (29% trust)
 Overall, people say the most trusted spokesperson is...
'a person like me.' (65% trust)
 The good news...when audience trusts an organization, 80% believe a 'technical expert' from that organization.
(Edelman Trust Barometer)

39

Aren't most of your members 'a person like me?'

Creating pension plan advocates
 Do members say positive things about their pension plan?
 Are they knowledgeable in explaining it to friends, new co-workers...taxpayers?
 Or do many say...'I don't know about it... I don't care what kind of retirement plan we have?'
 Negative statements from 'a person like me' can undo a good PR campaign!

40

What you can do!

Make certain members – and taxpayers – are hearing what your pension plan 'says.'

41

What your pension plan 'says'

We have a DB plan because we want to say...
'Thank you for your *career* of serving our union, employers...or taxpayers!'

With only a 401k, 403b or 457 we would say...
'Thanks for last pay period!'

Example 42

What your pension plan 'says'

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

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

With only a 401k, 403b or 457 we would say...

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

Example 43

What your pension plan 'says'

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

'Loyalty matters – we have a work environment and agreement so loyal, productive members can prosper.'

With only a 401k, 403b or 457 we would say...

'We know some of you will leave – so we've made it easier.'

Example 44

What your pension plan 'says'

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

'We have a pension that covers all our eligible members.'

With only a 401k, 403b or 457 we would say...

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

Example 45

What your pension plan 'says'

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

'Our plan's financial experts strive to protect our long-service members from financial market risks.'

With only a 401k, 403b or 457 we would say...

'Our participants have all the financial market risk.'

Example 46

What your pension 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 and taxpayers.'

With only a 401k, 403b or 457 we would say...

'Our retirement benefits are based on how much you contribute and how smart or fortunate an investor you are.'

Example 47

What you can do!

Increasing members' appreciation of your pension plan.

48

Increasing pension plan appreciation

Members will appreciate the plan more when they know how much it will pay compared to the total amount they'll need to support the future lifestyle they'll want.

49

Increasing pension plan appreciation

Members will be more successful using 475 and 401k-style plans when they discover – early in their careers – the size of the account they'll need to supplement their pension benefit so they'll have the future lifestyle they want.

50

Increasing pension plan appreciation

No one intends to be retired just one month...so don't communicate like this:

'Your projected age-65 pension is **\$2,708 a month** payable for your life only.'

Example

51

Increasing pension plan appreciation

Show how the plan rewards careers and pays throughout retirement:

'By continuing your XYZ State Government 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

52

Increasing pension plan appreciation

Compare the pension to an account-based plan's income over retirement:

'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 savings plan balance of **\$100,000** (divided by 25 years) could pay **\$4,000** worth of income each year...that's **\$333** a month for 25 years...then the account is \$0.'

Example

53

Increasing pension plan appreciation

Don't show how much you'll pay me to leave if you want me to stay, like this:

'If you terminate your employment today, the pension plan would pay your vested accrued 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.

Example

54

Increasing pension plan appreciation

Show the real value of loyalty:

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

By continuing your XYZ State Government employment to age 65, your **Career Reward Plan** benefits starting at 65 and paid to 90 are projected to be **\$812,500.**'

By continuing your employment for the next five years, you are projected to add **\$167,000** to the benefits paid from age 65 to 90.

Example

55

Increasing pension plan appreciation

Don't damn the pension plan with faint praise in recruiting materials – even before you've hired me:

'The XYZ State Government offers an attractive Defined Benefit Plan.'

Example

56

Increasing pension plan appreciation

Show you want to recruit high-performing employees:

'The XYZ State Government rewards high-performing, loyal employees who help deliver quality services to taxpayers. **The Career Reward Plan** is designed to provide 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

57

Increasing pension plan appreciation

Don't say you have a total retirement program then show only the separate pieces, like this:

'This 457 Savings Plan Account Statement does not include the benefit you may receive from the Defined Benefit Plan.'

Example

58

Want to earn taxpayers' support?

Their mood may be changing.

With negative national news *noise* about various government pensions – *billions underfunded...\$200,000 pensions* – perhaps taxpayers should hear the good stories and facts about your pension from 'a person like me' they trust?

59

Want to earn taxpayers' support?

Would you want to test this idea?

Train a few selected 'volunteers' (firefighters, teachers, electricians – **not** pension experts) who could become be a trusted 'person like me'. Send them places taxpayers go.

'Hello, I'm [___] a [___] from [___]. I'm here on my time and I'd love to talk with you about our pension and things you've heard about pensions in other states. And answer your questions.'

60

Want to earn taxpayers' support?

Spend 4-5 hours training 'what would a taxpayer expect a knowledgeable police officer to know about her pension...during a 3-minute conversation'

Teach key messages, main facts of fund costs and benefits, and sources of more info.

Use simple, personal math:

For every \$100 I earn, I'm contributing \$X and [city, state ____]

Half of our members who are retiring at 55 or older will be getting less than \$XXXX a month.

Print cards with key messages, Internet site address, and sources of info to handout to taxpayers.

61

Want to earn taxpayers' support?

'Tough question training' for volunteer messengers

Teams answering...and judging commonly asked questions

technical questions 'non-experts' should answer skeptical and 'prove it' questions

misunderstood issues that get stated as questions mean, angry, uncomfortable questions

Teams judge best answers and what not to say.

Collect good questions taxpayers ask – along with the answers – and post them on your website.

62

What you can do!

- Ignore 401k ed – failures don't have best practices.
- Do more questions, more motivating – less telling.
- Help the young – they have time to save and invest.
- Don't use finance professors for beginning retirement ed – they deal with students who are motivated...your workers aren't.
- Don't let the finance dept (people who love numbers and investing) dictate how to do beginning retirement ed for young, math-challenged employees.
- Be bold, try new ideas – unlike 401k ed, your methods are not proven failures.

63

What you can do!

- Don't imply by words or actions that saving is fun – believing a task is easy significantly increases odds of failure. (Harvard Business School)
- Measure results...do your members know how to achieve the successful retirement they want?
- Use trusted messages and messengers.
- Use content workers understand and can explain.
- Save *investment* ed for workers over \$35k/age 35.
- Turn your members into grassroots influencers.

64

What you can do!

Take the pledge!

By this time next year,
I will have helped all my members
discover the realistic price
of the retirement they want...
because they deserve the opportunity
to define and achieve
their own retirement dream.

Dennis Ackley
Ackley Associates
www.DennisAckley.com

65