

Preaching retirement realities helps workers appreciate DB plans

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By Lydell C. Bridgeford

If you have it, flaunt it, especially if "it" is a defined benefit plan. Dennis Ackley, a guru of employee benefits communication, believes employers with traditional pension plans have to make DB plan communication sound like a valuable reward.

"Show employees the big picture and the real price of retirement and how their DB plans can help pay for it," Ackley, president of Ackley Associates, told attendees at the International Foundation for Employee Benefit Plans' 53rd Annual Conference in Anaheim, Calif.

"Workers with DB plans don't appreciate the value of the plan because they don't know how much the DB plan will pay, compared to how much they will need to support their future retirement lifestyle," he added.

The new financial realities of retirement give employers a leg up in communicating the value of the DB plan by pointing out real-life situations. For instance, a healthy couple with a life expectancy to age 90, who intend to retire at age 65 and want to spend \$40,000 a year for their retirement lifestyle, will need 25 years of income.

Employers must explain to workers not only the cost of retirement, but also how the company's DB plan can help to pay for it.

Too often, Ackley said, employees will say, "Gee, I don't know much about the plan," or "I don't care about our DB plan or its funding; it's probably not worth much anyway."

Negative and neutral comments from veteran workers can wipe out positive messages about DB plans. For the record, Ackley dislikes the term "defined benefit plan" and prefers to call it a "career reward plan."

Focusing on rewards

He advised benefits managers to reinvent DB plan communication by using consumer-oriented terms and techniques to show the real value of traditional pensions.

"The value of a reward is determined by the person who receives it and not the organization that gives it," he added.

Employers need to convey to workers that the DB plan rewards careers and pays through out retirement. Ackley suggested employers send statements that say, "By continuing your career with the company to age 65, assuming your pay and the plan remains 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 - ages 65 to 90 - the plan will have paid you \$812,500."

Moreover, organizations have to frame the DB plan as a recruitment tool.

This means public sector managers have to tell potential and new employees that "the government rewards high-performing, loyal employees who help deliver quality services to taxpayers," Ackley said.

New employees should hear the career reward plan provides a lifetime income when their career ends. For example, a manager can say, "Using today's value of money and your salary of \$45,000, assuming your pay and the plan remains unchanged, your annual payout would be \$16,875. Therefore, from age 65 to 90, you would receive \$421,875. As your pay goes up, so does the benefit amount."

Additionally, to get participants to say "wow" about their DB plans, employers should not shy away from drawing distinctions between DB and defined contribution plans.

"Tell your employees, We have a DB plan because we believe loyalty matters, and we have a work environment and agreement where productive members can prosper.' A 401(k) plan says, We know some of you will leave, so we've made it easier,'" he joked.

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