

# Ackley Associates

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Dear 401k Retirement Industry,

If just 19% of my customers say that my product meets their expectations – but only half the time – I'd be concerned about the future of my business.

That's the state of the 401k retirement industry.

Back in 1995 – after roughly a decade of using 401ks as 'retirement plans' – **60%** of plan sponsors said not even half of 401k participants would be adequately prepared for retirement. (RogersCasey)

By 2016, it got worse: **81%** of plan sponsors – the vast majority – do not believe most employees are/will be financially prepared for retirement. (Deloitte/IFEBC)

After nearly 30 years of running 401ks as 'America's Retirement Plan,' just 19% of 401k plan sponsors say – at best – just half of their employees might be ok. If that's not a sign of failure, what is?

Your industry has not focused enough on the primary goal of a 401k **Retirement** Plan – to help employees acquire a reasonable retirement income. You can bet Congress thinks that's the goal.

Certainly, a voluntary 401k plan won't have 100% success. But it cannot have 81% of plan sponsors saying that half of their employees will not succeed.

The industry needs to reinvent 401ks. Stop benchmarking. Matching a plan with all the others that are failing simply assures your plan will also fail. It also excuses failing plans because 'we're running our plan the same way as other employers.' And until your plans become successful, stop talking about best practices. Failing programs cannot have any.

Start focusing on the median account balance (the midpoint – not the average) of employees nearing retirement age. If it's less than \$100,000, it shouldn't be called a **retirement** plan. And it certainly is not a successful plan. That's because \$100,000 times 4% – around what many experts say is a safe withdrawal rate so as not to outlive the money – is \$4,000 a year. That's \$333 a month! Even if you believe the rate is as high as 6%, that's only \$500 a month.

A **retirement** plan that assures only a few hundred dollars a month for most retirees won't get a positive reaction from employees, the government...and perhaps a court.

At least fix part of 401k education now. Stop waiting until employees are ready to retire to explain how much (or little) a \$100,000 account pays throughout retirement. By that time, there's little they can do to dramatically increase their account balance. Every 25-year-old should know this.

By not clearly explaining the price employees pay in 401k fees, you unintentionally invited Congress to act. By not clearly explaining the price of retirement, aren't you're issuing another invitation?

There's a word for millions of older people who no longer want to work or are unable to – but don't have enough money for the retirement they expected. They're called **voters**.

You should think about what Congress might do. An 'easy solution' would be to put everybody in the federal employee's thrift plan, and require larger contributions from all employers and employees.

I don't like that 'solution.' And if you don't like it either, start making 401ks work as retirement plans.

Dennis Ackley  
President

*Since 1992, Dennis has been critical of 401k education – what's become the largest failure ever of adult education.*

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