

# Things I Wonder About

Why isn't a secure retirement stressed?

There are two big retirement plan decisions your employees face: Should they join the plan? And, how much should they defer? All other questions—e.g., How should they invest? What are the expenses?—pale by comparison.

So, you would think that the information given to employees would primarily focus on the benefits of participating and how much to defer. But that's not what happens. Instead, the employee materials mainly talk about investments and plan provisions.

I wonder about that. How did we get to this point? Isn't there a better way to communicate with employees?

I think so. If the end goal is a secure retirement—and I think it is—the conversation should begin with: “How do you want to live in retirement? Do you want to live frugally, or do you want to live well? Do you want to live in the city or in the country? Do you want to travel or be a homebody?” After all, the answers to such questions determine a destination for the 401(k) journey.

As the old saying goes, “If you don't know where you are going, any road will do.” The first step is for an employee to know where he wants to go.

In other words, start at the end: What is the employee's personal goal? Then, by working with your consultants and providers, give each employee a suggested road map to reach that goal.

## General Guidance

Right now, there may be no systems or services that truly individualize the answers to those questions. However, employees can be given general guidance and rules of thumb for:

- How much monthly income is needed for retirement?
- How much money is needed at retirement to produce that monthly income?
- How much pay should be deferred today to reach that goal?

Some plan sponsors and providers will shy away from giving this guidance for fear of being sued. What if the guidance turns out to be wrong?

There is a three-part answer to that last question. First, accept that it will be wrong! No one can make financial assump-

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tions that will produce exactly the right results 20 or 30 years from now. But that doesn't mean it's too difficult to provide information based on reasonable assumptions.

Second, explain the assumptions and point out that the projections are meant to be helpful estimates, not guarantees. In other words, tell the truth about what the projections are and are not.

And, lastly, give the participants an updated projection at least once a year. As time goes by, the projections for a participant should grow increasingly more accurate because there are more years of actual experience and fewer of projections.

The Department of Labor (DOL) is working on a proposed regulation that might mandate retirement income projections. However, it will be a couple of years before a final regulation takes effect. Some plan sponsors will probably wait until then to give retirement projections to their participants. But I don't think they should delay. Participants need to know what their future looks like and how it can be improved—and the sooner they know this, the better.

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