# Adding Things Up

## Many Factors Go into Determining the Success of a 401(k) Plan

By CHARLES EPSTEIN, CLU, ChFC, AIF

The future retirement of many Americans depends on the success of their retirement plans. Although some believe that Social Security will be enough to provide a satisfactory standard of living in retirement, the administration's funds are quickly running dry; Social Security trustees estimate that funds will be completely depleted by 2038.

The 401(k) retirement plan has increasingly become a means to providing an adequate retirement, but plan sponsors (employers) often have trouble determining what qualifies as a successful plan.

What follows are suggestions to ensure successful retirement for both plan participants and sponsors.

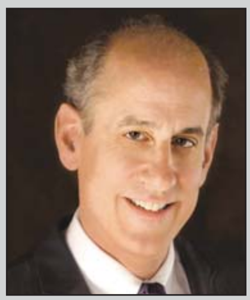
### Creating Success for Plan Participants

The ultimate measure of the success of a plan is in providing paychecks for life, an adequate amount of money throughout retirement. However, many participants do not have the time, energy, or knowledge to ensure that their retirement years will be their desirement years — the time in which they enjoy everything they desire. Employers can help employees by using what I call the '401(k) on autopilot' system:

• Automatic enrollment: Enrolling in a plan is the first step in creating a successful retirement. However, many employees do not enroll in their companies' 401(k) plans. Each year, employers can notify employees that, if they do not opt out of the companies' 401(k) plans, they will be automatically enrolled. More often than not, the employee's inactivity will work in their favor, and they will begin saving for their future automatically. Not only does increased enrollment help the employees with their future retirement savings, but it provides additional tax benefits for the employer and, in certain instances, helps to boost the employer's tax-deferred contributions as well.

• Automatic increase: This is another feature that employers can take advantage of in creating successful retirements for employees. It is commonly said that contributing 10% of one's income will be enough for a successful retirement. However, most participants will start contributing at a level well below 10% (sometimes only 2% or 3%). By automatically increasing contributions by 1% each year until they reach 10%, employees can painlessly move toward the target percentage. By explaining automatic increases to employees, as well as other elementary financial concepts, employers help their participants become more financially savvy in understanding retirement benefits.

• Automatic default into a qualified default investment account (QDIA): Today, most 401(k) plans allow participants to choose their contribution allocations. However, many participants don't have the time or knowledge to understand which investments will give them the greatest returns at an appropriate risk. Contributions without a predetermined destination default into QDIAs, which provide participants with greater returns on their money at appropriate risk, based on their target years to retirement. As long as plan sponsors conducts due diligence when selecting QDIAs, they receive fiduciary protection through ERISA.



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• Automatic open re-enrollment: This auto feature not only keeps participants enrolled in the plan, but it also nudges them into QDIAs. Once a year, plan sponsors can inform their participants that they have 30 days to review their investment choices and that, if they do not make a selection, their contributions will go into QDIAs. This further enhances the fiduciary protection of the plan sponsor and ensures that participants' contributions will be invested in appropriate funds.

If left to their own devices, most participants would not be able to create paychecks for life; however, employers can help by putting their 401(k) plans on the autopilot system and educating employees about fundamental retirement-plan concepts. For more information on how to use these auto-features for your plan, contact your financial advisor.

### Creating Success for Plan Sponsors

Retirement plans don't just help participants achieve paychecks for life. Employers receive a number of benefits from retirement plans as well, and should measure their plans' success based on the following metrics.

Tax deductions: Employers are able to deduct the amounts that they match in employee contributions.

Tax deferrals: Success for employers, like success for employees, often comes down to how much money they can save. This money grows even more productively if contributed on a pretax basis. Employers have a number of plans that they can take advantage of, including 401(k), profit sharing, and cash-balance plans. If you are able to contribute up to $250,000 per year to retirement plans but are not doing so, you should consult an advisor. You will not only benefit from more tax deductions, but you will also have tax deferrals, which will allow your money to grow more rapidly than after-tax contributions.

Success in retirement ultimately depends on one thing: providing paychecks for life. As Social Security funds dwindle, employers must look for an alternative way to provide adequate retirement funds for themselves as well as their employees. By taking some of the steps listed above, plan sponsors can ensure

**adequate funds for participants in addition to receiving fiduciary protection and taking advantage of tax deductions and deferrals for their own retirement savings. ■**

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