What Can I Possibly Learn About Retirement From a French 16-Year Old?

Virgile Hénon

Foreword

Out of the mouths of babes come words of truth and wisdom.

"Is this log home for only one family?" asked Virgile Hénon at the sight of a McMansion under construction on his very first day in the U.S. Many of us own way too much home for our own good, and way too much of everything for that matter. What we lack to achieve financial goals is self-discipline, retirement savings, and professional help. T hese deficiencies cause many U.S. workers to fall short of a dignified retirement. During his stay, Virgile reviewed research about the U.S. Retirement System and interviewed experts in the business. He distilled his lessons learned into this easy-read report, providing a different perspective on the system. Truth is that without assistance, in a culture of conspicuous consumption and easy consumer debt, most U.S. workers will simply not save enough to achieve retirement success unless we change our ways.

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President

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About the Author: Virgile Hénon

Student at the Lycée Charles Poncet in Cluses, Haute-Savoie, France, age 16, on vacation in the U.S. On this journey, I uncovered facts and opinions about the retirement system in the U.S. and 401(k) plans. I met several individuals who work in this sector. I had the opportunity to attend the Annual Meeting of the Retirement Advisor Council. I've learned a lot and it has been a very enjoyable learning experience.

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Views expressed in this document are those of the author. Views expressed in quotes are those of the individual quoted, and not necessarily the views of the firm they represent.

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Front cover: June 17, 1885, The Statue of Liberty arrived from France in the New York Harbor

A Word of Thanks

I want to thank The Retirement Advisor Council, the staff of EACH Enterprise, and all the people who contributed to the success of this report.

Thomas E. Hoffman, AIF®

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Tom Hoffman has been in the financial services industry since joining Capital Analysts, Inc. a branch of Capital Analysts of England, Inc., in 1985. At KAF Financial, LLC, Mr. Hoffman and his staff work with over 70 corporate retirement plans as well as many individual pre-retirees and retirees. KAF Financial Advisors, LLC is a wholly-owned subsidiary of accounting and business consulting firm Kirkland Albrecht & Fredrickson, LLC dedicated to creating long-term strategies that secure a client›s overall financial well-being. The firm's services include retirement planning, investment advisory services employee benefit programs, business transitions, asset distribution and estate tax planning, and insurance services.

Ryan Mullen, CIMA®

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Ryan Mullen is Senior Managing Director, National Sales, for the Investment Specialist Group (ISG) at MFS Investment Management. Ryan's team is responsible for the distribution of MFS portfolios in four key channels: defined contribution investments, variable insurance products, separately managed accounts, and registered investment advisers. He was named a Senior Divisional Vice President in 2004. Before taking on his current position, he served as a Senior Divisional Vice President of the Financial Advisor Division, overseeing that group's wholesaling team in the Midwest. Since inventing the Mutual Fund in 1924, the organizational culture at MFS continues to be investment driven, client centered, and collaborative. In offering a broad range of mutual funds, separate accounts and retirement planning products, our investment philosophy centers on an integrated research process, global collaboration, and active risk management.

Brian Neligan

Director of Research
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In his current position, Brian conducts a broad range of retirement plan research initiatives including consumer surveys, sponsor surveys and focus groups, participant surveys and focus groups, company practices studies, and Delphi studies. Brian's exclusive focus is on the retirement plans business. Brian has a significant experience managing complex survey projects in the Defined Contribution plan market working with 401(k) plan sponsors. Prior to joining EACH Enterprise, Brian was Vice President of Surveys & Research at Asset International, Inc., where for seven years he oversaw PLANSPONSOR's annual Defined Contribution Survey, the nation's largest. In addition to conducting surveys and managing databases, Brian created and marketed research reports for retirement plan sponsors and providers, and hosted webcasts covering plan metrics and industry trends. Prior to joining PLANSPONSOR, Brian worked at mergers and acquisitions publication The Deal, where he managed the paper's statistical section of investment bank rankings, deal multiples, and other M&A and venture capital-related metrics.

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At Robert W. Baird & Co., Sharon is responsible for product management for the qualified retirement plans business. In her function, she collaborates with Financial Advisors to deliver point of sale expertise, firm compliance with regulations, policy development, and best practice initiatives. Robert W. Baird & Co is a regional Broker/Dealer firm with 825 advisors. Baird is an employee-owned, fully independent, international wealth management, investment banking, asset management, and private equity firm. Founded in 1919, Baird serves individual, institutional, non-profit, corporate, and public clients. Baird supports its specialized and credentialed financial advisor teams, the Retirement Plan Consulting Group, with unique internal teams of experts. Together, those teams serve thousands of retirement plan clients from all types of industries and organizations throughout the country.

A Word of Thanks Continued

Diego Verdugo

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As a Relationship Manager with the Alliance Management Group, Diego is focused on building relationships at the broker/dealer level and identifying business opportunities for Principal Financial Group's retirement and investment products. Prior to joining The Principal Financial Group (The Principal), Diego was a financial planning analyst at Principal International. The Principal is a global investment management leader offering retirement services, insurance solutions and asset management. The Principal offers businesses, individuals and institutional clients a wide range of financial products and services, including retirement, asset management and insurance through its diverse family of financial services companies. Founded in 1879 and a member of the FORTUNE 500, The Principal has $403.0 billion in assets under management and serves some 18.3 million customers worldwide from offices in Asia, Australia, Europe, Latin America and the United States. Principal Financial Group, Inc. is traded on the New York Stock Exchange under the ticker symbol PFG.

Executive Summary: 401(k) OK

A massive wave of new entrants to the Retirement Advisor profession would solve the coverage gap and enhance the retirement savings rate.

To achieve a successful retirement, U.S. workers need to save, save, save. Those who don't save, those who do not work as hard as they can, will be left with nothing come retirement. It will be impossible for them to live decently after four or five years in retirement. In the U.S., retirement funding is managed mostly by the private sector; Government's role is limited to providing tax incentives and regulating the sector. For the most part, employers are in charge, and the system relies heavily on voluntary employee participation in Defined Contribution plans. Employers contribute some, but proper funding can only happen if employees contribute enough to the system. For this reason, the recent trend is for employers to enroll new employees in the plan automatically (except for those who opt out), and to invest their account in a diversified investment portfolio (unless they choose other investments).

Public confidence in the system is high; most Americans are very confident or somewhat confident in the system. There is no urgent call for reform. Key to continued success is to increase coverage in the small employer market. Indeed, employees of most small firms do not have access to a retirement plan; many don't know what a retirement plan can do for them, and only one third of individuals who do not have access to a retirement plan are confident they will have enough to retire some day.

A massive wave of new entrants to the Retirement Advisor profession would solve the coverage gap and enhance the retirement savings rate. Such a wave would be beneficial because it would help more people understand the importance of a retirement plan. This is how the gap in coverage can be solved.

About the System

Retirement funding in the U.S. comes from Social Security (government), Defined Benefit plans (that pay a pre-determined level of income in retirement), Defined Contribution plans (that accumulate contributions to retirement), and private savings. Over time, Defined Contribution plans have come to represent the lion's share of retirement funding. Upon a distributable event (e.g. retirement) Defined Contribution plan participants may roll over their account balance to an Individual Retirement Account (IRA), and many do so.

> *The government has a gigantic role as far as creating the ability for organizations to sponsor retirement plans over the history of the United States. (…)The history of plans really started out in the 1800s with pension plans. The very first one was actually (…) American Express.*
>
> Sharon Schmid; Senior Vice President, Robert W. Baird & Co. Inc.

Acronyms used to describe Defined Contribution retirement plans correspond to sections of the internal revenue tax code for example 401(k) (most common), 403(b) for not-for-profit employers and 457 for government employers.

> *So what companies do – they sponsor retirement plans. They can be called 401(k) or 403(b) – profit sharing or pension plan. Each plan has got different factors in it. In some cases the company puts money in. In some cases, only the company puts money in, in some cases the company puts money in if the employee voluntarily puts money in. And in other cases, the company doesn't put money into the plan, only the employee does.*
>
> Tom Hoffman, Advisor, KAF Financial, LCC

There is no employer mandate to offer retirement benefits in the U.S. The decision to make a retirement plan available is at the discretion of the employer. Coverage is lower in the small employer market (under 50 employees) but quite high among larger employers. The incidence of Defined Benefit plans has declined in recent years as the result of the difficulty of funding these plans in down economic cycles. Many Defined Benefit plans are frozen and not available to new entrants.

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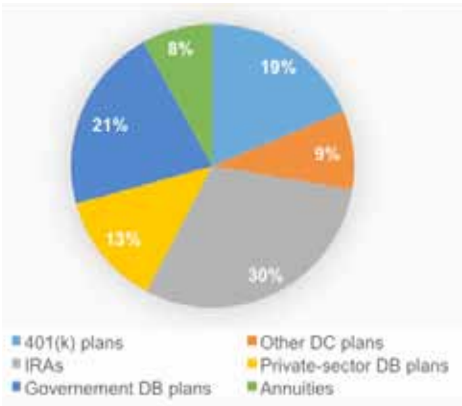
Table 1 - Retirement Plan Coverage

	% of Establishments	
	Defined Benefit	Defined Contribution
1 to 49 workers	6%	43%
50 to 99 workers	16	72
100 to 499 workers	33	84
500 workers or more	57	95

Source: National Compensation Survey, Bureau of Labor Statistics, March 2014

Figure 1
Distribution of Assets Earmarked for Retirement in 2014

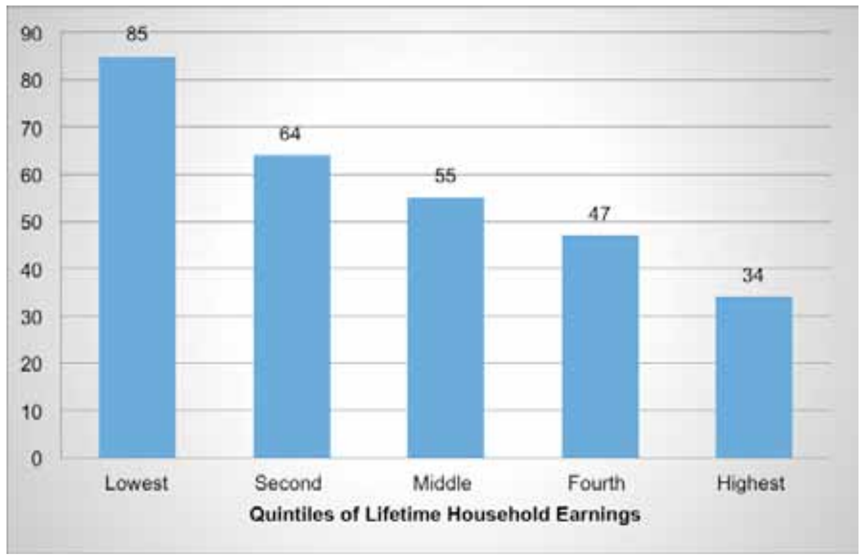


Source: Investment Company Institute

As of December 31, 2014, Total assets earmarked for retirement funding in the U.S. amounted to $25 trillion excluding the Social Security trust fund. For most American workers, Social Security provides only partial replacement of pre-retirement income. For the middle quintile of U.S. workers, the U.S. Congressional Budget Office estimates Social Security provides only 55 % income replacement U.S. worker rely on the private retirement system to fund the balance.

Figure 2

Mean First-Year Benefits (% Average Inflation-Indexed Earnings)



Source: Congressional Budget Office

U.S. Social Security is a partially-funded pay-as-you-go system. Short of Congressional action, the Social Security trust fund will be depleted in 2033. Past 2033, ongoing income to the trust fund will be sufficient to pay only 77 percent of projected benefits. Not all Social Security retirement systems in the world are pay-as-you-go systems. For instance, Chile implemented a system of personal accounts funded by employees and managed by private administrators in 1980.

> *One of the biggest limitations of a pay-as-you system is the challenge it presents from a financing perspective. Poor financing may lead to the main pension fund deteriorating and not being able to fulfill its obligations. In the U.S. for instance, Social Security is expected to run out of funds in the future due to poor administration of the money that employees are mandated to save. Chile has allowed private companies to therefore manage the money and compete against each other in the best interest of individuals hoping that private companies will be a better avenue to manage the funds given that they are getting paid to do so.*

Diego Verdugo, Relationship Manager, Principal Financial Group

Sources of Retirement Income

There is no mandatory retirement age in the U.S., and many workers choose to remain in the workforce to a ripe old age. The age to receive full Social Security retirement benefits is gradually moving up and is currently age 67 for individuals born after 1960. The earliest anyone can receive partial retirement benefits is age 62. Everyone becomes eligible for Medicare (Federal healthcare coverage for seniors) at age 65. Seniors over the age of 65 derive a good portion of income from employment.

Labor force participation has been trending up for decades. The increase in labor force participation is particularly strong among seniors. During my visit, I noticed older workers in restaurants, supermarkets, and other places of business. I heard of a bookkeeper who kept her job to age 95! Today, approximately one-third of individuals ages 65 to 69 are gainfully employed and labor force participation in that age group is expected to rise to 38% by the year 2022. Even among those ages 74 to 79, 11.4% are employed today and labor force participation in this group is expected to grow by nearly 40% to 14.9% by 2022! Gains are attributed to these factors: health improvement, the gradual shift toward self-reliance and individual responsibility for retirement funding and the desire of many to remain active in their senior years. Still, working in retirement is not an option for everybody.

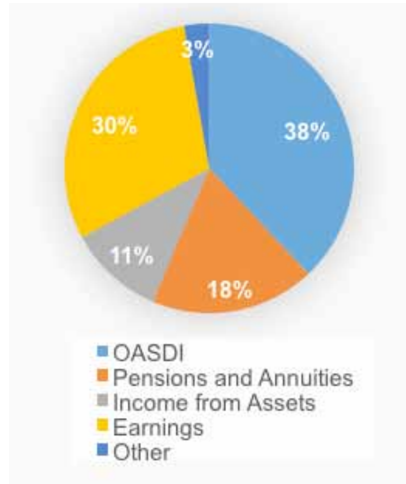
> *A lot of people say that they are going to work until they are 70 or even older. Unfortunately what happens to a lot of people is they are let go from a job, or they have a health crisis, or someone in their family has a health crisis. So they end up either retiring or being forced to retire earlier than they want to.*
>
> Brian Neligan, Director of Research, EACH Enterprise.

Table 2 - Labor Force Participation by Age		
Age Group	Participation rate	
	2012	2022
55 to 59	72.5%	75.5%
60 to 64	55.2	59.8
65 to 69	32.1	38.3
70 to 74	19.5	24.0
74 to 79	11.4	14.9

Source: Employment Projections Program,
U.S. Department of Labor, U.S. Bureau of Labor Statistics

Figure 3

Source of Income,
Population Age 65 and Over, 2012



Source: Employee Benefit Research Institute – Estimates from the Current Population Survey, March 2013 Supplement

Automatic Enrollment and Investment

In the last decade, to increase the percent of U.S. workers who participate in retirement plans while maintaining the system voluntary, many employers have instituted a policy of automatic enrollment. Under the policy, new employees are automatically enrolled in the plan at a set contribution rate and invested in a specific investment election unless they choose otherwise. Employees may opt out of the system, set their contribution level at a different rate, or choose an investment strategy different from the default election. Popular default investment elections called target-date funds invest in a portfolio of securities diversified for workers who will retire in a given year (e.g. a "2050" fund.) Employers that have already implemented automatic enrollment (approximately 45% of all 401(k) plan sponsors) report that fewer than 10% of employees opt out of the system. Some employers have gone further, escalating the level of employee contributions annually (for instance by 1% of pay every year), or enrolling all existing employees (not just those new to the firm.)

A few ways to prevent this (having many elderly in the workforce) would be for plan sponsors to have auto enrollment in 401(k) plans which could reduce the rate of workers not investing. This would help employees begin saving for the future. Another way to prevent would be to diversify the investments when picking funds for your portfolio. A great way to do this would be through the use of target date funds. Target date funds are composed of several funds representing different investment styles or asset classes.

Ryan Mullen, Senior Managing Director, MFS Investment Management.

Target date funds, Mutual Funds and Index funds are typically available in 401(k) plans. Auto-escalate, auto-enroll, and diversifying investment options through use of target date funds would be a start for employees to reach a successful retirement.

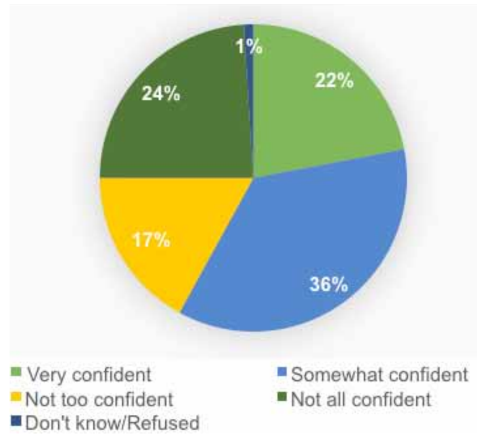
Ryan Mullen, MFS Investment Management.

Confidence in the System

A national retirement system is only as good as in the confidence the general public places in it. Every year since 1993 the Employee Benefit Research Institute and Greenwald and Associates conduct a population survey to gauge public attitude toward the system. The 2015 edition finds 58% of U.S. workers somewhat or very confident they will have enough money to live comfortably throughout their retirement. One key driver of confidence is access to a retirement plan. The survey finds that 71% of those with access are confident (somewhat or very). By contrast, among those without access to a retirement plan, 65% are not confident (not-at-all or not too) that they will have enough money to live comfortably throughout their retirement.

Figure 4

Worker Confidence in Having Enough Money to Live Comfortably Throughout Their Retirement



Source: Employee Benefit Research Institute and Greenwald & Associates, 2015 Retirement Confidence Survey

Figure 5

Retirement Confidence Among Workers by Retirement Plan Ownership, 2015

Source: Employee Benefit Research Institute and Greenwald & Associates, 2015 Retirement Confidence Survey

Mini-interview of Brian Neligan by a young French tourist.

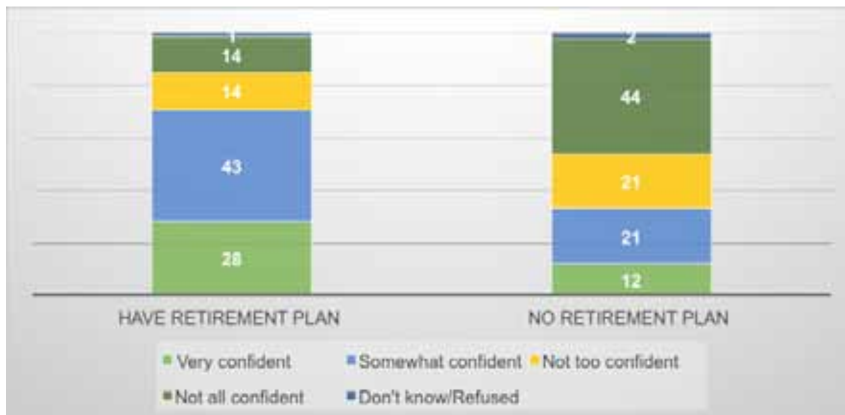
Should You Consider a Career as a Retirement Plan Advisor?

The profession of Retirement Plan Advisor is a fulfilling occupation. Studies have shown that employees of firms that partner with a Retirement Plan Advisor are more likely to achieve a successful retirement. The position involves consulting with plan sponsors to understand the firm's circumstances and benefits philosophy, to help decide plan design elements such as the employer contribution formula, to develop an investment policy, to select investment options, to monitor these options, to select the retirement plan service provider, to monitor plan administration, and to ensure employees receive the counseling and education they need to make informed decisions.

Studies have shown that employees of firms that partner with a Retirement Plan Advisor are more likely to achieve a success full retirement.

Figure 6

Percent of Plans That Experience a Contribution Rate Improvement Over a Two-Year Period (% of Plan Sponsors)



Source: Retirement Advisor Council – Partner with a Professional Retirement Plan Advisor and achieve higher participant readiness scores - 2014

There is no single educational or career path to prepare for a position as a Retirement Plan Advisor, you may choose from among a broad range of college majors. Some land on the position after gaining experience as a wealth management advisor, after working for a retirement plan recordkeeping service provider, or from the human resource department of a plan sponsor. Others come to the position with an unrelated background in education, or customer service.

Characteristics indicative of likely success in the profession include experience in finance, education, human resource, or customer service combined with sharp social skills, business acumen, natural curiosity, and a genuine desire to make the world a better place. Advisors generally acquire the technical knowledge needed for the position while pursuing professional designations such as AIF®, CFP®, C(k)P®, CIMA®, CRPS®, QPA, PRP®, or TGPC.

> *I think it's a very fulfilling career in that it satisfies my interest in the economic market but also satisfies my want to teach and help people make the best decisions for themselves..*
>
> Sharon Schmid; Senior Vice President, Robert W. Baird & Co. Inc.

> *I often meet retirement plan advisors who were teachers in their past, because they are good at educating and explaining how investing works for the long term. Some advisors have strictly finance backgrounds; some have not necessarily taken that straight path. This career really has a people focus. Should you consider a career as one? Maybe… yes.*
>
> Sharon Schmid; Senior Vice President, Robert W. Baird & Co. Inc.

Characteristics indicative of likely success in the profession include experience in finance, education, human resource, or customer service combined with sharp social skills, business acumen, natural curiosity, and a genuine desire to make the world a better place.

Additional Information

Bureau of Labor Statistics .www.bls.gov

Employee Benefit Research Institute. . . . . www.ebri.org

Investment Company Institute. . . . . .www.ici.org

Retirement Advisor Council . . . . www.RetirementAdvisor.us

Back Cover: Conspicuous consumption and another image of France in Las Vegas,


Monte Carlo
LANCE BURTON
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