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Spurgeon, Melissa - EBSA

From: Greg Wait [gwait@falconsrock.com]
Sent: Wednesday, April 25, 2007 10:41 AM
To: EBSA, E-ORI - EBSA
Subject: Comment on 401(k) Fee Disclosure
Attachments: Target 401(k) Article - reprint.pdf

I recently read that the DOL is seeking comments on fee disclosure in 401(k) plans. I own a small investment consulting firm that does work with qualified retirement plans. In my experience, the first step is to motivate plan service providers to disclose all their fees, so the plan sponsor is truly aware of the total costs to their plan. The market is beginning to dictate this, and as a consultant to plan sponsors, part of my job is to uncover all the hidden fees associated with the admininstration and investment of plan assets.

Fee disclosure to participants is more tricky. In my experience, participants have very little experience or knowledge when it comes to evaluating their 401(k) investment choices. Usually, they focus strictly on recent returns and then make bad decisions. If fees are disclosed to participants, there is likely to be a fair amount of backlash as employees who are not experienced in judging the value of services for their cost are exposed to fees that they may view as high.

If a plan is offering a variety of mutual funds, I think that simply adding the fund's total expense ratio to a fund fact sheet (with a fund description and return history) would be the best way to disclose investment fees. Of course, fund prospectuses include expense information, but employees do not take time to read prospectuses.

I think a better overall approach is for a plan sponsor to pool all plan assets and assume control of the investments, similar to the approach taken by defined benefit plans. Pooling assets, for many plans, would reduce the total investment expense for all participants, and would likely result in better long-term investment results. The lower investment management fees could be disclosed to participants on an annual statement of values, along with plan returns.

Attached is an article I wrote, published in the Fall 2006 issue of the Journal of Pension Benefits, addressing these and other related topics. If anyone in your agency is interested, I would welcome questions.

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ARTICLE

The Target 401(k) Plan: A Results-Based Model

By Gregory D. Wait

In order to accentuate the positive attributes of our 401(k) system, yet improve on its shortcomings by incorporating elements of traditional pension plans, we present a results-oriented plan design referred to as the Target 401(k) Plan. A results-based approach will better assist our nation's workforce in achieving adequate retirement security.

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The author respectfully acknowledges Joan Guccuardi for her contributions to this article. Mr. Wait has a patent pending on the Target 401(k) Plan design process. He may be reached by email at *gwait@falconsrock.com*.

Over the past 20 years, a dramatic shift has occurred in the qualified retirement plan marketplace, as defined contribution plans, and more specifically 401(k) plans, have become the predominant retirement benefit offered by US employers. As defined benefit pension plans have been frozen or terminated by many companies, the burden of retirement savings has fallen squarely on the shoulders of our citizens.

By many objective measures, the 401(k) plan system has been a tremendous success. As a major part of our newly described "ownership economy," workers have contributed vast sums of money into retirement plan accounts. An estimated 55 million Americans currently participate in 401(k) plans, and they have accumulated over $2 trillion in plan assets. [*See* "How America Saves 2005—A Report on Vanguard 2004 Defined Contribution Plan Data" (Oct. 2005).] Although not the most demanded employee benefit program (this is reserved for health insurance plans), 401(k) plans have become the most appreciated benefit offered by employers; even though employers incur far less cost than traditional pension plans or many other benefit programs.

Yet, with all the success achieved by the 401(k) plans, there are serious questions about whether the system will provide sufficient financial security for future retirees. Articles on this subject with headlines such as "Train Wreck Looms for Boomers," "Poll: Americans Worry About Funding Retirement," "Many Americans Fail to Heed Retirement Warnings," and "Many People Clueless About Retirement" are prevalent in newspapers and trade journals. Indeed, there are some alarming statistics:

- Over one third of eligible employees (37 percent) do not participate in the employer's voluntary savings program. [*See* "How America Saves 2005 – A Report on Vanguard 2004 Defined Contribution Plan Data" (Oct. 2005).]
- More than half of workers saving for retirement have less than $50,000 of total savings. [*See* Employee Benefit Research Institute (EBRI) 2006 Retirement Confidence Survey "Will More of Us Be Working Forever?" by Ruth Helman, Craig Copeland, and Jack VanDerhei (Apr. 2006).]
- Only 40 percent of workers indicate they or their spouse have a defined benefit plan, yet 61 percent say they are expecting to receive income from such a plan in retirement. [*See* EBRI 2006 Retirement Confidence Survey.]

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- The investment return of the average investor in a stock mutual fund was just 4.2 percent, from 1984 to 2002, while the average annual return of the S&P 500 Index was 14.3 percent. [*See* 2003 DALBAR Quantitative Analysis of Investor Behavior.]
- Nearly 30 percent of terminated employees choose to take their distribution as a lump-sum cash payout, predominately those who are younger individuals with relatively low account balances. [*See* "How America Saves 2005—A Report on Vanguard 2004 Defined Contribution Plan Data."]

Plan sponsors and retirement plan service providers have spent incredible amounts of time and money on participant education programs, yet most of these efforts have not resulted in optimal employee behavior. In one study measuring the effectiveness of a customized employee education campaign, a large employer quizzed employees before and after the program with 15 yes/no questions covering basic saving and investing principles. Prior to the outlay of millions of dollars on the programs, participants, on average, answered 54 percent of the questions correctly. After the program, they answered 55 percent correctly. [*See* Implications of Participant Behavior for Plan Design, by Shlomo Benartzi, PhD (Jan. 2006).]

Such participant behavior creates a societal concern about the ability of US workers to maintain their standard of living in retirement. Our Social Security system will undoubtedly be modified to address its financial and structural imbalances, defined benefit plans continue to decline in relevance (although there is anecdotal evidence of some resurgence of these plans among smaller employers), and retiree health care costs are spiraling upward at a tremendous pace. It seems clear that employees need help.

Plan sponsors are beginning to address these issues with plan features such as automatic enrollment, automatic savings rate increases, and target retirement date or life-cycle funds. The recently passed Pension Protection Act of 2006 encourages automatic enrollment and automatic savings rate increases by clarifying that ERISA preempts state laws that may prohibit this feature and by offering safe harbor treatment for plans with automatic enrollment.

A comprehensive new 401(k) plan design that is results-based and that takes the decision making burden away from employees can be a viable alternative, and should be considered by anyone with responsibility for a corporate defined contribution plan.

The Target 401(k) Plan

The typical 401(k) plan involves numerous, yet basic, employee decisions:

1. Should I contribute to the plan?
2. How much should I contribute to the plan?
3. Can I continue to live my lifestyle if I contribute to the plan?
4. How do I choose between all the investment vehicles offered?
5. Should I watch my investments, and consider changes, on a daily basis?
6. How do I make investment changes?
7. What do I do with my 401(k) money when I change jobs?
8. What do I do with my 401(k) money when I retire?
9. What if there isn't enough money in my account to retire?

These decisions are overwhelming for many, if not most, employees. Procrastination (delaying decisions) and inertia (doing nothing) often happen regarding plan decisions because the employees have to answer such questions for themselves.

The Target 401(k) Plan design makes participation, investing, and distribution decisions easy and meaningful for employees, as outlined in Exhibit 1. In fact, the Target 401(k) Plan takes many of the retirement planning decisions out of the hands of employees, which is desirable for many workers. This design is intended to mirror the security of a defined benefit plan, with the increased accumulation potential of a defined contribution plan.

This plan design is results-based, as the primary objective is for each participant to achieve a reasonable level of retirement income, which may be provided at retirement in the form of a monthly installment payment or annuity. Participants will be automatically enrolled in the plan with annual automatic contribution increases, will have their account professionally managed by an investment advisor, and will realize a meaningful benefit at retirement.

Accumulate Plan Assets

The Target 401(k) Plan process begins with a target benefit or replacement ratio calculation for all eligible employees. Many retirement plan practitioners will remember the target benefit defined contribution plan design, in which the employer determines the retirement benefit desired for its

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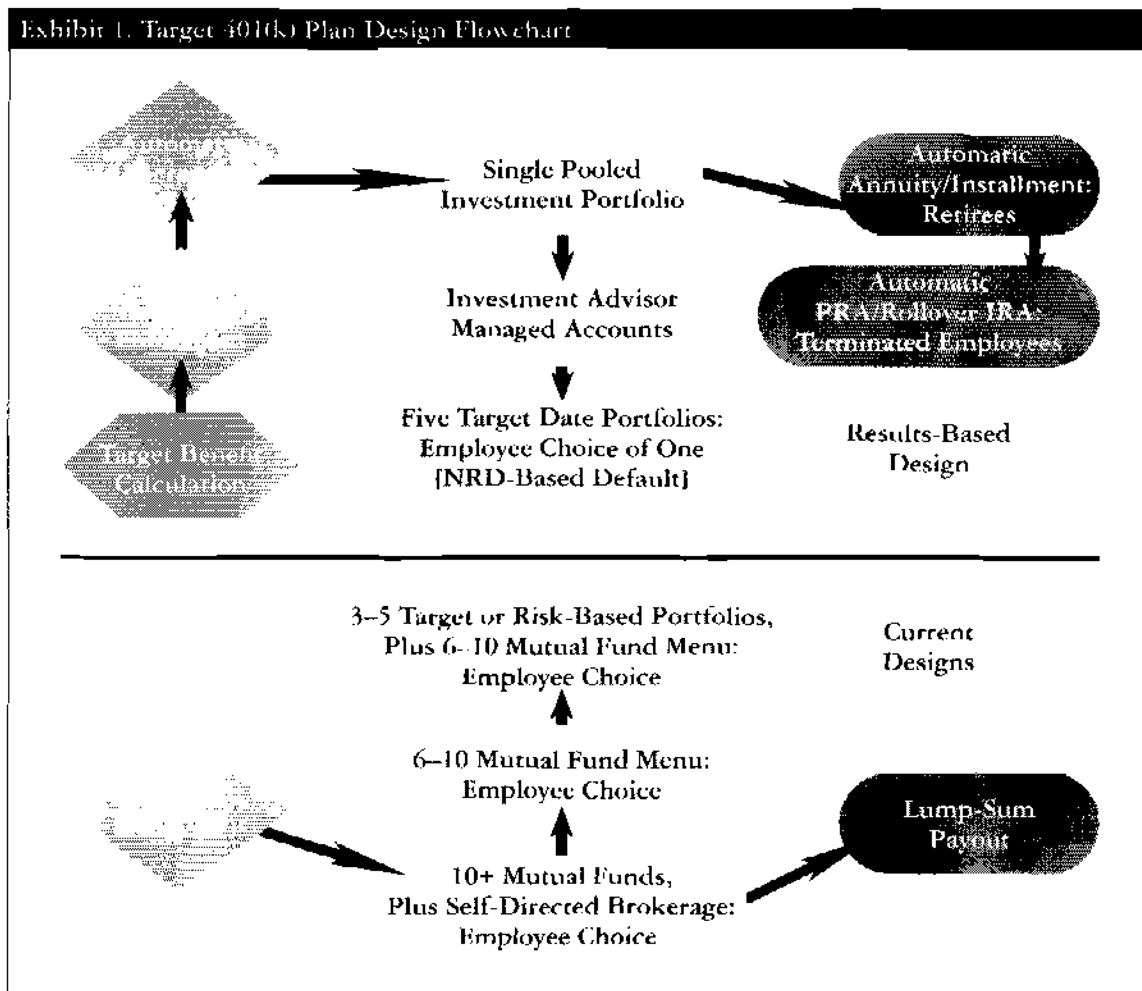
Exhibit 1. Target 401(k) Plan Design Flowchart



employees (much like a defined benefit plan) and an actuarial calculation is made to determine the level of annual contribution required to each participant's account. The employer then makes the required plan contribution, but participants assume the investment risk/return, which results in an account balance that produces a monthly benefit at normal retirement that approximates the target.

In the Target 401(k) Plan, the target benefit calculation is based on a desired replacement ratio for each participant. The replacement ratio is a person's gross income after retirement, divided by his or her gross income immediately before retirement. A person's after-retirement annual income will typically be derived from Social Security benefits, and private and employer sources. Aon Consulting, in its 2004 Replacement Ratio Study, concluded that families must replace between 75 and 89 percent of their preretirement income (depending on the preretirement income level) in order to maintain their standard of living. [*See* The Aon Consulting/Georgia State University 2004 Retirement Income Replacement Ratio Study.]

As illustrated in Exhibit 2, Social Security is expected to replace a higher percentage of preretirement income for lower-wage employees; therefore, the annual income required from private/employer sources will be reduced for this group. In the target benefit calculation, the lower-wage participants will have a relatively low required replacement ratio from the plan, and a smaller required annual contribution to their accounts.

By factoring an assumed annual wage increase and investment return assumptions, a required annual con-

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Exhibit 2. Required Replacement Ratios			
Pre-Retirement Income	Soc Sec.	Private/ Employer	Total
$20,000	65.0%	24.0%	89%
$25,000	60.5%	26.0%	87%
$30,000	56.0%	28.0%	84%
$35,000	53.5%	28.5%	82%
$40,000	51.0%	29.0%	80%
$45,000	49.5%	29.0%	79%
$50,000	48.0%	29.0%	77%
$55,000	45.5%	30.5%	76%
$60,000	43.0%	32.0%	75%
$65,000	41.0%	34.5%	76%
$70,000	39.0%	37.0%	76%
$75,000	37.0%	39.5%	77%
$80,000	35.0%	42.0%	77%
$85,000	34.0%	43.5%	78%
$90,000	33.0%	45.0%	78%

tribution, described as a percentage of current income, is calculated for each participant. Employer-provided retirement income from a defined benefit pension plan, and current participant account balances, are also factored into the calculation. Upon determination of the percentage of pay contribution required for each participant, any employer matching contribution percentage is subtracted, leaving the amount of salary deferral needed for each participant. Examples of the required annual contribution calculation are illustrated in Exhibit 3. Such a plan design (with small contributions for lower paid participants) must pass nondiscrimination testing under Code Section 401(a)(4).

The Target 401(k) Plan includes an automatic enrollment feature, which is the lesser of:

1. The plan's default percentage (commonly 3 percent); or
2. The required salary deferral as determined in the replacement ratio calculation. The plan will automatically increase each participant's deferral percentage by 1 percent annually, until the required employer contribution is reached or up to the plan's maximum salary deferral percentage.

Automatic enrollment and automatic contribution increase features have been adopted by an increasing number of large employers, and have proven to be remarkably successful in increasing plan participation rates and deferral percentage rates.

Each year, the replacement ratio calculation will be made for each participant to adjust for current account balances and income levels. This annual calculation will help monitor the participants' progress toward achieving the target replacement ratio, and allows for adjustments to be made based on investment returns that are higher or lower than the assumed rate of return used in the calculation.

An annual report should be prepared and distributed to each plan participant with a simple illustration of the required contribution, and the projected retirement benefit. The annual participant report should include a notice of the automatic salary deferral amount for the following plan year. Participants with large required contribution amounts can be encouraged to elect a higher salary deferral by providing to them a "projected shortfall" illustration.

Manage Plan Assets

The investment structure of 401(k) plans has evolved from offering just a few mutual funds (typically proprietary funds of a service provider) to incredibly expansive programs that sometimes offer 25 or more investment choices for selection by participants. The average plan offers 18 investment options; however, the average participant uses only 3.6 funds. Plan sponsors continue to add fund options at a faster pace than participants actually use them. [*See* How America Saves 2005, A Report on Vanguard 2004 Defined Contribution Plan Data.]

Employees are simply not trained to manage their investments properly, nor do most participants have the desire or time to make such decisions. Elaborate employee education programs have been ineffective in changing behavior regarding plan investments. Examples of poor decision-making are widespread [*See* AllianceBernstein, Implications of Participant Behavior for Plan Design, by Shlomo Benartzi, PhD (Jan. 2006)]:

1. If ten or fewer choices are available, employees are apt simply to allocate their investments evenly across the fund options.
2. When employees are presented with increased investment choices, they are more likely not to participate or to select the lower-risk options.
3. Many employees invest too much of their retirement savings into their own employer's stock.
4. Employees chase hot performers.

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Exhibit 3. Annual Required Contributions

Salary Scale: 4%			Investment Return: 7%			
Current Income	Current Age	Pre-Retirement Income	Replacement Ratio	Annual Savings Needed	Total Dollars at age 65	Current Account Balance
$20,000	25	$96,020	45%	4.06%	450,096	5,000
$20,000	30	$78,922	40%	4.22%	324,730	5,000
$30,000	35	$97,302	45%	7.25%	456,103	5,000
$30,000	40	$79,975	40%	7.92%	329,064	5,000
$40,000	45	$87,645	44%	12.80%	397,141	5,000
$40,000	50	$72,038	37%	14.78%	277,646	5,000
$50,000	55	$74,012	37%	24.44%	285,255	5,000
$50,000	60	$60,833	32%	42.73%	202,776	5,000

Calculations prepared by Joan Gucciardi, actuary, Gucciardi Benefit Resources, Milwaukee, WI.

5. Once a participant makes a selection, they tend to not make changes such as portfolio rebalancing.

Participants are clearly at a disadvantage as compared to the process-driven, professionally managed investment approach used by most defined benefit plans. The investment committees of institutional pension plans spend a great deal of time and resources to develop appropriate asset allocation strategies, conduct due diligence on the professional investment firms selected to manage plan assets, negotiate favorable fee structures from money managers, monitor performance of the managers, and make necessary adjustments to the investment strategy. Returns achieved by defined contribution plans have been found to lag returns of defined benefit plans by 2 percent annually. [*See* Barclays Global Investors, Mind The Gap! Why DC Plans Underperform DB Plans, and How to Fix Them, by Barron Waring, Laurance Siegel and Timothy Kohn (Jan. 2004).]

Sources of this defined contribution underperformance are numerous, but include:

1. Prevalence of retail mutual funds with relatively high fees, often including hidden expenses such as 12b-1 or sub-transfer agency fees.
2. Plan sponsor and participant focus on the mutual funds offered, rather than the development of an investment strategy.
3. Poorly diversified and inefficient asset allocations among participant accounts.

In response to the well-documented poor investment decisions made by participants, life-cycle funds are being added to the 401(k) menu by an increasing number of plan sponsors. These funds are prepackaged, balanced portfolios with varying risk/reward characteristics. Certain life-cycle funds are referred to as target-date retirement funds, which can be a simple, cost-effective investment solution for many plans. Most proprietary life-cycle funds use only one investment management company, which presents a challenge for the plan fiduciary when monitoring performance. Also, most participants (63 percent) that use a life-cycle fund split their account balances between one or more life-cycle funds and other mutual funds, defeating the purpose of the designed diversification. [*See* Life-Cycle Funds Mature: Plan Sponsor and Participant Adoption, Vanguard Center for Retirement Research (Nov. 2005).]

In the Target 401(k) Plan structure, the plan sponsor may opt for one of three investment management approaches: a single pooled investment portfolio, managed accounts for each participant, or target-date retirement funds. Each of these approaches results in a professionally managed portfolio for plan participants that will increase the chance of improved risk adjusted returns over time.

Pooled Investment Portfolio

As with defined benefit pension plans and most traditional defined contribution plans, the plan sponsor can choose to have all 401(k) plan assets professionally managed as a single pooled portfolio. A primary advantage of this approach is that a disciplined

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	Projected to NRA	Projected Annual Benefit from DB Plan	Net Amount Needed	Annual Contribution Needed	Employer Match	Required Employeee Contrib
	74,872	9,602	275,202	811.53	3%	1.06%
	53,383	7,892	189,157	843.05	3%	1.22%
	38,061	9,730	316,685	2,174.61	3%	4.25%
	27,137	7,998	218,620	2,374.93	3%	4.92%
	19,348	8,765	286,496	5,120.38	3%	9.80%
	13,795	7,204	188,811	5,912.12	3%	11.78%
	9,836	7,401	198,324	12,219.39	3%	21.44%
	7,013	6,083	132,395	21,365.72	3%	39.73%

investment process is developed and outlined in an investment policy statement (IPS). The process includes the establishment of the plan's investment objectives, creation of an efficient asset allocation strategy to achieve the objectives, development of criteria for the selection of investment managers, and outlining the benchmarks that will be used to monitor the performance of the portfolio strategy and individual investment managers. This process is far more likely to deliver superior investment returns than the vast majority of plan participants have achieved on their own.

By pooling all plan assets, the 401(k) plan is in a better position to negotiate favorable fee arrangements from investment management firms. Separately managed accounts or the institutional share class of mutual funds are more likely to be available in a pooled arrangement, which reduces the investment costs assessed on plan assets. All else being equal, the lower costs of managing plan assets will result in improved returns.

Some practitioners would argue that a single pooled investment portfolio is not in the best interests of all plan participants because younger people, with a longer time horizon until retirement, should have a more aggressive asset allocation than those participants near retirement. This is the rationale behind target-date retirement funds. An equally compelling argument can be made that, because of longer life expectancies, the investment time horizon for an employee at retirement is sufficient to continue exposure to equities as an asset class. In practice, institutionally managed defined benefit pension plans utilize a well-diversified balanced investment strategy that is arguably efficient and appropriate for any person still in his or her working years.

Another argument against the single pooled portfolio is that the plan sponsor is not eligible for fiduciary protection provided by ERISA Section 404(c). In practice, it is challenging for plan sponsors to comply consistently with the myriad of rules under this section of ERISA. Many plan sponsors who believe they are afforded protection under 404(c) and plainly disclose to participants that their plan intends to comply with its requirements are at risk if they are not operationally adhering to its rules. By following a prudent investment process with a pooled portfolio, and documenting the rationale behind investment decisions made, a plan sponsor is likely to satisfy the prudent person standards of ERISA. In addition, some investment firms are willing to accept fiduciary status, in writing, as an investment manager, as defined in ERISA Section 3(38), and as an independent fiduciary under Section 405(d)(1). By prudently selecting and monitoring the activities of such an investment manager, the plan sponsor and named fiduciaries are relieved from liability for the acts or omissions in the investment manager.

Managed Accounts

Under a managed account arrangement, participant information is gathered by an investment manager, and a customized strategy is created for each individual. The strategy and underlying money managers are monitored regularly for adherence to policy guidelines and progress toward investment goals. For purposes of the Target 401(k) Plan, managed accounts would typically fall into one of two categories: model portfolios and personalized portfolios. A small group of managed account vendors willing to be named as a plan fiduciary have emerged to provide such services. Because of the more customized

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nature of the investment strategies, this approach is potentially more expensive than the others.

The model portfolio approach would consist of five or six models that are broadly diversified and automatically rebalanced by the investment manager. Plan participants would supply information to the investment manager, who would then select the appropriate model for each participant. Participants would be allowed a mechanism to update their individual information as needed. The result is an investment for each participant that has a risk/return profile appropriate to the participant's situation.

A personalized portfolio approach would begin with the investment manager analysis of participant information, and a customized investment strategy is developed for each participant. The portfolio construction is coordinated with other retirement plans and Social Security. Some service providers utilize employee information readily available from the employer to further reduce the involvement of participants.

The managed account arrangement would potentially be more expensive than the other investment approaches described, but would also allow for greater customization of investment strategies by participant.

Target-Date Retirement Portfolios

Target-date retirement portfolios can be developed by an investment manager utilizing mutual funds or separately managed accounts that have passed the plan's selection criteria. Alternatively, prepackaged target-date mutual funds are available from a growing number of investment management firms. The portfolio strategy is managed according to the time horizon required to reach a specific retirement date, and is gradually rebalanced over time to achieve a more conservative asset allocation as the fund approaches its target "maturity." For example, a plan could offer a menu of target-date retirement portfolios that mature in 2010, 2020, 2030, 2040, and 2050.

The Target 401(k) Plan would allow participants to choose one, and only one, of the target-date funds; however, the automatic or "default" investment portfolio for each participant is based on the fund maturity closest to his or her normal retirement date. Although the participants have a choice of target-date funds, no active investment decision is required in order to realize the benefits of a professionally managed portfolio that is appropriate for each employee's time horizon.

Target-date retirement mutual funds are relatively easy for participants to understand and can be reasonably priced. Automatic portfolio selection and ongoing professional management help avoid the behavioral tendencies of chasing hot funds, investing too conservatively, and never rebalancing. For those employees who decide to choose a fund other than the default option, limiting the choice to only one fund helps avoid the tendency to over-diversify.

The current challenge facing plan fiduciaries when using prepackaged target-date funds is that of monitoring investment performance. Many of these funds use a combination of mutual funds managed by a single investment firm. A plan sponsor would normally conduct due diligence on each mutual fund, using criteria established in the IPS, before offering a fund to participants. When evaluating prepackaged target date or life-cycle funds, the plan sponsor cannot perform the due diligence on the underlying funds, as the investment firm retains control of the funds used in the target-date fund. Further, there are currently a limited number of such funds with a sufficient track record for meaningful peer-group performance comparisons. To address this issue, a customized benchmark of indices can be created for initial performance measurement of the target-date funds. In addition, the fiduciary would be obligated to analyze the fee structures of prepackaged funds, relative to other such funds, prior to making them available to the participants. Alternatively, the plan sponsor may retain an investment manager to build a menu of customized target-date portfolios using underlying mutual funds or separate accounts that each meets the plan's selection criteria, similar to the managed account/model portfolio approach.

Realize the Benefit

The Target 401(k) Plan includes automatic distribution options designed to provide retirees a meaningful benefit at normal retirement age, and to help employees who terminate prior to retirement continue on a path of asset accumulation for retirement. The normal form of benefit at retirement is a joint and survivor annuity with a cost of living adjustment feature, or monthly installment payouts from the plan based on mortality tables at the time of retirement. The automatic option for participants who terminate employment prior to retirement is a segregated "personal retirement account" or a rollover IRA.

Distributions at Retirement

By following the Target 401(k) Plan design during the asset accumulation stage, with automatic enrollment, automatic deferral increases, and monitoring

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the progress of each participant's account toward the target replacement ratio, the retiring employee should be able to realize a benefit from the plan that will help sustain his or her standard of living. By providing an indexed fixed annuity at retirement, the plan helps alleviate the participants' real concern about outliving their assets.

As a fiduciary, the plan sponsor develops criteria for the selection of insurance companies that will be allowed to offer annuities to plan participants. For example, the plan's policy statement may include a financial strength requirement that no insurance company with an A.M. Best rating of below A, Moody's rating of below Aa1, or Standard & Poor's rating of below AA+ will be allowed to quote an annuity for the plan. Minimum company size or other financial criteria can be added to this policy statement.

A real pitfall of fixed annuities is that most of them are sold through retail insurance agents, and therefore these products carry high internal expenses. Of course, high annuity charges result in lower monthly income payments to retirees. To alleviate this concern, the Target 401(k) Plan sponsor may contract with a wholesale annuity provider. The annuity provider would be contractually obligated to follow the plan's policy statement to screen for acceptable insurance companies, and provide quotes to the plan sponsor for a joint and survivor annuity as well as other annuity options that may be appropriate for the retiree. Because insurance companies periodically change their expense structures and mortality tables, no single insurance company can be relied upon to provide the most competitive annuity at all times; thus, the plan sponsor may need to contract with a wholesale annuity provider. By providing this service to retirees, the Target 401(k) Plan sponsor once again relieves the participant of a major burden: handling the solicitation of retail annuities from local insurance agents.

To be sure, minor complications arise if a fixed annuity is a plan's normal form of distribution:

1. The plan sponsor is required to receive spousal consent for any non-joint and survivor annuity purchased.
2. It would be wise for plan fiduciaries to develop and employ a prudent written process of annuity selection and implementation. Fortunately, the Pension Protection Act of 2006 would eliminate the outdated "safest annuity" rule previously imposed by the Department of Labor.

In lieu of a fixed annuity as the normal form of distribution at retirement, the plan can provide for monthly installment payouts based on mortality tables in place at the time of retirement. Installment payouts can be provided in a variety of forms, similar to an annuity. Alternatively, installment payouts could be made based on a spending rate calculation; for example, projections can be made to illustrate the expected longevity of participant account assets depending on the percentage of assets paid out each year. Any installment payouts would, of course, need to comply with the minimum required distribution rules. Installment payouts may increase the administrative costs associated with the plan and do not provide a guarantee of benefits, but this approach would alleviate some of the concerns surrounding the use of fixed annuities as the normal form of benefit.

Advantages of the Target 401(k) Plan

The Target 401(k) Plan has clear advantages for plan participants:

1. With such a plan design, more eligible employees will accumulate savings for retirement.
2. More importantly, the results based approach delivered by this plan design will mean more workers have *sufficient assets* to maintain their lifestyle in their retirement years, without putting an increased burden on our society.
3. The plan will provide a stream of monthly income that retirees cannot outlive.

All this is accomplished without putting undue pressure on employees to make difficult decisions regarding their retirement savings accounts.

For employers, the Target 401(k) Plan will provide a competitive advantage in the recruitment and retention of employees. It is estimated that employers will be faced with a labor shortfall in the years ahead; therefore, employers will continue to need to offer attractive employee benefit programs to help meet their demand for good workers. Plenty of flexibility is inherent in the Target 401(k) Plan for employers to customize their program to meet their retirement objectives for employees, their fiduciary obligations, and their budget. This plan design should be attractive to employees and should impose little or no additional cost to employers as compared to current 401(k) designs. Depending on the investment approach selected by the plan sponsor, the Target

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401(k) Plan may incur lower administrative costs than current plan designs.

Employee communications, although still important, should be simplified with the Target 401(k) Plan. The plan's record keeper would continue to provide periodic statements, and account balances and investment information would still be available online; however, detailed descriptions of investment choices and investment education information may be eliminated from participant reporting. A summary illustration should be included with the standard participant reporting that describes the target benefit and the progress toward achieving the target.

Summary

Section 401(k) plans have been successful in making many employees aware of the need to save for retirement; however, the decisions that employees are required to make in order to participate in their plans are daunting for most of them. Research has shown that the median employee is not likely to maintain his or her standard of living in retirement, based on the level of contributions currently made to his or her 401(k) plan. The Target 401(k) Plan is results-oriented, eliminates difficult employee decisions, and should assist our workers in achieving their ultimate retirement goal. ■

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