

401(k) Of The Future

Plan Research

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2006 PLAN DESIGN CONFERENCE, June 28-30, 2006, Chicago, IL

“Automatic 401(k) plan design features being adopted at record pace.”

Plan Sponsors focused on two questions:

- 1) What are we trying to accomplish with our retirement plans?
 - a. For Company – attract and retain high quality employees
 - b. For Employees – provide the financial resources necessary to retire

- 2) Do we have the proper plan design for our employees?
 - a. Responsibility for plan decisions
 1. Opt-in plan design – all employees must evaluate, decide, and act
 2. Opt-out plan design – **only employees who want control must act**

According to a 2006 survey by the Employee Benefit Research Institute, employed workers favor:

- * Automatic enrollment (69%)
- * Automatic deferral increases (65%)
- * Automatic investment (59%)

Outlook for retiring Baby Boomers (born 1946-1964) – Dallas Salisbury, CEO, Employee Benefit Research Institute

“**Longevity Risk**” If an employee is fortunate enough to make it to retirement age, they are currently expected to live to age 81 if male and 85 if female. In a recent presentation from Kleiner Perkins, the world’s foremost private equity investor, life expectancies are expected to jump substantially over the next fifty years based on recent advances in biotechnology. They are advising non-retirement age people to add 5 years to current life expectancies and 10 years if under 40 years old today. Bottom line, longevity risk is more significant than market risk for many today.

“**Tax Risk**” In the 2004 Presidential election, Americans over 65 made up 13% of the U.S. population, but nearly 40% of those who voted. By 2040, those over 65 are projected to make up 23% of the U.S. population, but nearly 60% of those who vote. Combine those numbers with the projections for Social Security and Medicare (huge projected deficits), and you have a formula for significantly higher personal income taxes in the future as politicians fight to keep the benefits of their graying constituency at the expense of the younger working population. Bottom line, **Dallas Salisbury is putting every nickel he can into Roth accounts**, and claims that when he retires (he’s 55), he will roll all of his existing 401(k)’s, and IRA’s into Roth accounts and pay the taxes up front to avoid the pillaging that he predicts is coming from the IRS!

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