



## Summer 2012

### FEE DISCLOSURE WON'T FIX YOUR 401(k)

by Mark R. Folgmann, AIF® Traverse City, MI

First, the good news: The Labor Department has published its final fiduciary disclosure regulations that will shed much needed light on hidden fees and costs associated with 401(k) plans. By the end of the summer, 401(k) service providers must disclose heaps of information, including a clear breakdown of the compensation they are receiving. And the new regulations have teeth. A fiduciary that fails to disclose properly will risk significant penalties for breach of federal law, specifically the Employee Retirement Income Security Act, or ERISA.

Now the unfortunate caveat: These new requirements will have little impact on the overall success of 401(k) plans. In fact, I predict that most small business 401(k)s will continue failing to provide sufficient retirement income for their employees until employers learn how to evaluate their plans.

Retirement income is the most important measuring stick for 401(k) success, yet 401(k)s are almost universally underfunded. Just imagine how America will look when the typical retiree experiences a 40 to 60% reduction in retirement cash flow, a future that is increasingly inevitable if current trends continue. Less income for 60 to 80 million boomers barreling toward retirement means less consumption, a smaller tax base, and ultimately a weaker nation.

Only about half of small business employees today have access to a 401(k). Of those, only 4 to 6% will retire with enough assets to replace their lost earnings from employment.

So although the new disclosure rules are a welcome change, they are unlikely to address the core problem: poorly funded plans. This admittedly bleak assessment is based on experience. Most employers I talk to in my work as a financial advisor report they are happy with their plans. But they have no idea why, even though they are usually senior executives who have no trouble

rattling off details about profit margins and business strategy.

The problem is generally not lack of attention by employers. Rather, it's the conflict of interest created by incentives in the financial services industry, including among 401(k) providers, which of course will never win points for transparency. Simply put, a 401(k) provider maximizes its revenue by managing as many employer-sponsored plans as possible, not by ensuring that any given plan is run well. This is problematic because the 401(k) has become the primary retirement vehicle for most of the U.S. population.

Because so much 401(k) information is public, it's possible to scan current balances, numbers of employees, and contribution levels for virtually all existing plans. The stark truth is that it's rare to find a plan that is operating correctly.

Here's a typical case: A small business with 36 employees (average age: 47) and a \$2 million payroll might have a 401(k) plan with \$2 or \$3 million in assets. To be fully funded in the next 18 years, when most of these employees will want to retire, the plan will need a balance of \$20 million. In all likelihood, the employer does not have a strategy to close this gap.

This is a typical scenario in which an outside independent fiduciary can analyze the situation and offer sug-

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## EVERYDAY RETIREMENT STRATEGIES

### SSA ONLINE STATEMENT TOOL

by JoAnne Paynter, CFP® Grove City, OH  
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**H**ere's a surprise (not really): Social Security has hit the headlines again. This U.S. government agency has gotten more than its share of press starting with its debut in the 1930s. Not too long ago, the Social Security Administration (SSA) announced it would no longer mail annual statements to people about three months before their birthdays (a system the agency inaugurated in 1999). Clearly this was a response to pressure to cut government spending.

Here's the good news. The SSA has provided an excellent online tool on its website ([www.ssa.gov](http://www.ssa.gov)) that gives eligible workers secure and convenient access to both their recorded Social Security earnings and their estimated benefit information. In fact, this tool will also produce the same fully printable personal statement we used to receive in the mail.

The SSA also resumed mailing of the paper statements to workers age 60 and older in February, provided they are not yet receiving benefits. Later this year the agency plans to begin mailing the annual statements to workers in the year they turn 25.

Why should you care about these statements? For starters, part of this statement contains a list of all the wages the SSA has recorded on your personal job record. These are the numbers used to compute your Social Security benefits. If, for some reason, a year or two of your salaried work (subject to Social Security withholding) are not recorded, that year or those years aren't used to create the Average Indexed Monthly Earnings (AIME) used to calculate your benefits. Your AIME is determined by using the average of your highest 35 years of income. For those with less than 35 years of work, the total income earned is still divided by 35 to calculate the AIME. Thus the more non-earning years you have in the 35 highest indexed years of work, the more your AIME takes a hit, and therefore your benefits take a hit. It is the easiest time to fix these mistakes in the first three years after they show on your

statement, so be sure to take a close look at what the SSA has listed as your yearly earnings.

If you have at least 20 quarters of coverage under Social Security in the past 10 years and you have the full 40 quarters of coverage for your overall work history, you will be covered for Social Security disability. However, it can be a difficult and lengthy process to qualify for disability benefits.

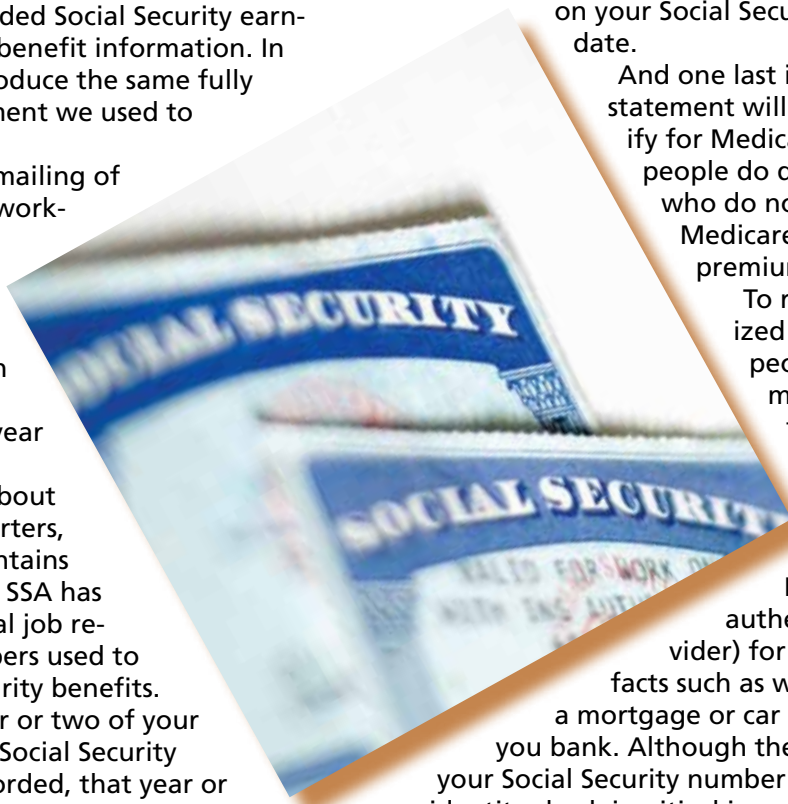
You might want to know that if you were to die, your family would generally be covered by SSA survivorship coverage. The online tool provides the expected values for each family member for retirement, disability, and survivorship based on your Social Security salary history to date.

And one last important point: your statement will tell you if you qualify for Medicare at age 65. Most people do qualify, but for the few who do not, they must purchase Medicare at a much higher premium.

To retrieve the personalized online statement, people ages 18 and older must provide information that matches what is already on file with Social Security. Social Security uses

Experian (an external authentication service provider) for additional verification facts such as who holds, or has held, a mortgage or car loan for you, or where you bank. Although the SSA will not share your Social Security number with Experian, the identity check is critical in providing this focused verification of identity on the web.

Once verified you can establish a "My Social Security" account to create your statement and also link to other online services that can be used to apply for Medicare, Social Security retirement, or disability. If verification is unsuccessful, you may ask for a paper statement or visit your local Social Security office, taking an official ID document, and they will create your account so you may use the online tool in the future. ■ ■ ■





## SECURING YOUR COMPUTER'S IMPORTANT INFORMATION

by Troy Von Haefen, CFP® Nashville, TN

### Technology is a wonderful thing—when it works.

We communicate differently than we did 10, 20, and 30 years ago. Skype, texting, and social media seem to be the methods of choice for today's tech-savvy folks. My kids may never understand the sound of accomplishment that comes from moving the carriage on a typewriter after the completion of a well-crafted line. They may also never see the piles and piles of paperwork required for document retention.

That paperwork retention problem is solved with the aid of computers. However, many people make the mistake of using their personal and business computers as their sole means of storing valuable documents in electronic form. Here's the problem: computers do fail. What would you do if your computer's hard drive crashed today? Would you be able to retrieve data and get back up and running in a reasonable amount of time? Although the thought of losing music and pictures will sting, losing important personal and business documents could be devastating.

Small business owners are especially at risk. Those of you who use accounting software such as QuickBooks are walking a tightrope if your data is not backed up. Ask yourself this question: What would I do if my hard drive failed? The risk of losing data is very serious and very real.

Here's the good news: the solution is usually quite simple: back up data to a secure off-site facility. Just like flat-screen TVs, off-site data storage is getting less expensive. There are many options available. Companies such as CrashPlan, Mozy, Carbonite, ShareFile, iCloud, and many others offer inexpensive ways to secure your data. Note: For your business documents, due diligence is required on your part to make sure the chosen backup meets the secu-

rity requirements of your industry.

What should you look for in an online backup service provider? Here are some features to research before choosing a provider.

✓ **Storage space:** How much data do you intend to back up? Music and pictures can eat up a great deal of space, so know how much storage space you need before you start the search.

✓ **Security:** This is extremely important for sensitive data, such as tax returns. Again, due diligence is required to make sure the site you choose has the right amount of security to protect.

✓ **Complexity:** How hard is it to retrieve data? If you are technically challenged, make sure you can easily acquire and retrieve your data without calling customer service. Some providers are quite simple; others are more complex. Try out a demo or tutorial first. Can you set up an automatic backup schedule easily, so you don't have to rely on remembering to back up?

✓ **Price:** Obviously, price is a big part of the decision, but make sure you compare apples to apples (i.e., do price comparisons on equivalent packages of features). You must factor items 1–3 into the price comparisons to make a solid decision.

In our crazy high-tech world, data is king. Many of us can put the data of our entire financial lives on a thumb drive the size of a fingernail. The power of technology is staggering, but we must respect the fact that technology does sometimes fail. So don't rely solely on your computer to store all of your information. Take the time to set up proper backup protocol and secure your data. You'll sleep better as a result! ■ ■ ■

### FEE DISCLOSURE WON'T FIX . . . (continued from page 1)

gestions on growing the plan's overall balance more aggressively. Here are four key questions that employers can ask if they want to help their employees have adequate retirement assets:

1. How much should my plan have in assets to be on target for adequate funding?
2. How much should my employees add each year, and what amount of matching is needed?
3. Have I received full fee disclosure and have I evaluated alternatives?
4. What don't I know that I should know to make my plan successful?

So the new fee disclosures, although they may help, will not solve the retirement funding problem. Stories are appearing in the financial and business press about the new rules, and while it is welcome news, don't assign it outsized significance.

That said, don't be too fatalistic either. Most plans have the basic structure to be successful. Small improvements across an array of fronts including employee education and sound strategy from a fiduciary can drive success over the long run. I have seen multiple plans that were stuck in the mud put a strong strategy in place for growth and then double and triple in value in relatively short order. So there is hope for the 401(k). It just takes the right kind of action to increase the savings that employees will have available when they retire.



### “MAGICAL THINKING” ISN’T A PLAN

by Kathleen Rehl, PhD, CFP®, Land O’Lakes, FL

I recently attended a community luncheon event. Several couples were at my round table. We introduced ourselves, and then one woman looked right at me, exclaiming, “Oh, I saw your picture in the *St. Petersburg Times*! You wrote that book for widows!”

Then she continued, “But I’ll never need to read your guidebook because Bill and I have an agreement.” She looked across at her husband. “We’ve worked out a deal, haven’t we, honey? That is . . . I get to die first.” She smiled broadly. “I don’t like hearing about all that money stuff. It’s *boring*. He’s tried to talk to me, but I just go la-la-la-la” [hands to her ears]. “I’d rather play with my grandchildren. He does all that for us. And he’s sooooo good at it. I don’t have to get involved” [big smile]. Bill takes such good care of me, don’t you, honey?”

Bill appeared to be older than his wife. Who is probably going to die first? Most likely, Bill. In fact, women typically live seven years longer than men. So Bill’s widow will face a double whammy. After he dies, she will be in the midst of grief and also not know much about their finances.

I call this magical thinking – if we don’t talk about it, it won’t happen! But if we start discussing the time ahead when one of us passes . . . somebody’s going to die! So let’s just not go there.

Doesn’t really make sense, does it?

Continuing with my story, I thanked this woman for reading about my book. Then I asked if it always worked out in her family that wives died first.

Silence. “Well, no,” she answered. She went on to say that her mother had been widowed. “It was hard for Mom. I don’t ever want to go through what she did.” Bingo! I understood that a painful memory was a major reason why she wanted to avoid her mother’s experience.

Others at the table were quiet. But then another woman noted, “I know what you’re talking about. When my friend’s husband died, it was a real mess for her. She was clueless about many of their money issues.”

“Yes, yes, that’s why I get to die first!” insisted the money-ignorant wife. “I don’t ever want to go through all that.”

Because this wasn’t a private conversation, I simply asked one more question: “Do things always work out the way you wish they would, or do they sometimes turn out differently?”

The main character in this mini-drama just looked

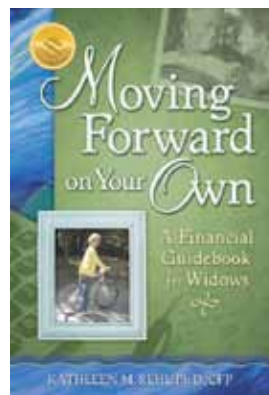
at me, not answering. She was thinking. I could imagine her mental response, something like, “No, things don’t always turn out the way I want. And it scares the heck out of me to think about being alone, without Bill.”

Moments later her husband said, “See, Jane, you and I really have to talk about these things.” I sensed that this fellow had previously tried before. He continued, asking about how they could get a copy of my guidebook. When I passed my card over to the wife, she accepted it.

At that point our table conversation shifted into the important decision about whether we wanted raspberry cheesecake or chocolate cake for dessert.

I believe one of the best gifts a couple can give each other is talking about their money issues *together* when both are healthy. Are wills and trusts up to date? Where are investments custodied? What are passwords and personal identification numbers (PINs) for various accounts? Are beneficiaries named correctly on Individual Retirement Accounts (IRAs) and other designated beneficiary accounts? What’s in the safety deposit box? Where is the “household manual,” including a list of reputable repair people and their phone numbers? What professional advisors should be contacted? And more . . .

One of you will die someday, leaving the other behind in a much better prepared state following these talks. Having these conversations is a way to truly express care for your partner. You might start with, “Honey, because I love you so much, I want us to talk about these important money issues together.” It’s a much better method than simply falling back on magical thinking, which ultimately never works.



Dr. Rehl’s personal grief experiences fueled her passion to serve other widows, enlightening them to feel more secure, smart, and confident about their money matters. That’s also why she wrote *Moving Forward on Your Own: A Financial Guidebook for Widows*. This multi-award winning guidebook can be ordered at [www.kathleenrehl.com](http://www.kathleenrehl.com) or through Amazon.

The Alliance of Cambridge Advisors has developed a network of fee-only planners who help widows. To learn more, go to <http://acaplanners.org/widowsguidebook/advisors.aspx>. If you are interested in hosting an educational workshop through your local grief support group, foundation, congregation, hospice, or adult learning program, talk with your ACA planner.