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Subject: **Mainstream Media vs. DC Plans**

The mainstream media's coverage of the DC plan system ceased being real journalism many years ago. Indeed, the agenda-driven output has morphed from journalism to entertainment and from entertainment into manufactured propaganda.

While it is true that the financial services industry needs to rebuild trust, confidence, better manage those who custody assets and develop more cost effective ways to manage risk, the public already views journalists and politicians as representatives of the two least credible professions. It is also important to note that unlike the highly regulated financial services industry, journalists operate with little regulation or disclosure, no ERISA oversight and rarely include contrasting viewpoints.

Time's recent article by Stephen Candel, "Why It's Time To Retire The 401(k)," is the latest salvo attacking the DC plan system. In addition to being biased and inaccurate, the article is full of misrepresentations. The CBS 60 Minutes session, "401(k) Recession," was also a gross distortion. In addition to the lack of balance, CBS appeared to go the extra mile to misconstrue statements and seemed to portray the system as the problem rather than the victim of the financial crisis.

The list of biased and flawed mainstream media coverage of retirement plans is too long for this newsletter, but the 6/25/09 *Forbes* article, "Retirement Plans from Hell" contained a number of fundamental errors. The 1/29/09 *Bloomberg* article, "Fees on 401(k)s Rock Boomers Facing Flawed Disclosure" was also beyond inaccurate.

Given that DC plans are the most successful savings vehicle in history and more important than ever before, the media's attempts to misrepresent, distort and attack the DC plan system is nothing less than disturbing. **Media, academic and political bias against the DC plan system is also something that needs to be addressed publically.**

Some trade publications are also displaying bias by suggesting that plan participants would be better served in a rollover account. This is simply not true. There are always exceptions and we have always questioned the viability of 401(k) plans in the small plan market, but **DC plans are by far the cheapest and most effective way to save.**

To imply that stock jocks, brokers, advisors and RIAs would work for free to service rollover accounts is nothing less than laughable. By eliminating ERISA oversight, **mass rollovers to IRA accounts would certainly fuel an explosion in the sale of front end loaded mutual funds, but they would not lower costs.**

While DC plans can always be improved, they can already stand on their own merits. DC plans don't need a favorable spin, but it is time to communicate the media's bias to the public. Once healthcare "reform" is complete, the debate over nationalizing the nation's retirement system will no doubt intensify.

As part of this debate, the industry should be prepared for some type of "public option," i.e., mandatory deferrals & employer contributions paid to the government, the option of transferring all preexisting plan assets and a low guaranteed return in lieu of discrimination rules, fiduciary liability, plan documents and form 5500 reporting.

The government, employers and participants will all no doubt need to play a role in the retirement solution. Given the seriousness of the subject matter, it's time to put agendas aside and **demand that the media, legislators, academic institutions and self-serving elements in the trade discuss viable retirement plan solutions in a fair, balanced and accurate manner.**

THE TIME ARTICLE: "WHY IT'S TIME TO RETIRE THE 401(k)"

According to the 10/14/09 article, "The 401(k) is A Losing Idea, A Financial Flop & A Rotten Depository For Our Retirement Reserves." *Time* would no doubt prefer Karl Marx's *Manifesto*, but rather than educate the publication about 401(k) basics, let's take a look at some of the obvious distortions in the article.

401(k) plans were not invented as an executive perk as the article states, but rather a section added to the tax code to correct an ERISA omission regarding deferred profit sharing plans. As in the past, the rules applicable to DC plans were far less favorable to the highly compensated than DB plans.

The *Time* article praises DB plans, yet fails to mention that many of these plans are on their death bed and never covered the majority of the workforce. Furthermore, a high percentage of those participants who were covered received little or no benefit due to a shortened work career with the sponsoring company.

401(k) plans were originally designed as supplemental plans. They were not intended to be a standalone solution nor did they promise that participants would get rich from their plans. Using market highs and lows for comparison purposes ignores the long-term savings nature of 401(k) plans, dollar cost averaging, employer matches and market returns over extended periods.

By referring to average account balances, the article ignores the fact that the typical participant has far less than a decade of participation. It also ignores the mega-billions rolled into IRAs, the additional billions left by participants with their former employers and after tax cash distributions.

401(k) plan participants might be angry at the government for their bailout programs, but they are certainly not angry at their plan sponsors. Indeed, they are contributing, dollar cost averaging and benefiting from the rebound in the equity markets.

Time's Candel also authored the sister article, "Is There A 401(k) Fix," and as Ronald Reagan would say, he would benefit from a trip to the woodshed. The mainstream media is probably beyond rehabilitation, but someone should tell them that 401(k) plans were designed to support a stream of benefits based on the value of the account, not a "sufficient stream of income that can't be outlived." Additionally, meaningful income guarantees are expensive and low cost annuities from top rated companies are already available through select annuity exchanges.

Derivatives have been an accident waiting to happen since their inception. The financial crisis - caused by the government's failure to regulate derivatives & their encouragement of sub-prime lending - forced many employers to reduce or eliminate their 401(k) matches. Those matches won't return until corporate profits recover.

As noted in our last newsletter, **growth is the only solution**. Mandated contributions & enrollment, new socialist programs, high cost guarantees and increased taxes are not the solution. As a result of decades of fiscal mismanagement, the nation is already deep in debt and our flexibility has been limited. In short, there is no free lunch and we **must all learn to live within our means**. Smiling hucksters aside, the markets will eventually impose their own discipline.

THE REAL DB PLAN MARKET

Although we don't know where *Time* is getting their information, let's take a look at the real DB plan market. The DB market includes public and private sectors. The private sector further includes large employer plans, multiemployer plans and small employee plans.

The public sector is currently facing a severe funding crisis which will probably get worse. Public servants traded lower pay for premium health and pension benefits. The practice of "spiking" also became common, i.e., providing big raises in the last year of employment and using sick leave/vacation pay to juice pension calculations.

Given the lack of an outside entity to impose discipline, the public sector pension plans were poorly funded and poorly managed. As a result, the premium benefits are now in question. Reeling from the recession, the private sector is in no mood to pay higher taxes or buy bonds to bail out the public pension funds.

Government employee unions are digging in to defend their benefits and the result could lead to unrest, strikes and benefit cuts, including retroactive benefit reductions. In short, the government plans reflect the classic political approach, i.e., **buy peace with promises of increasingly valuable benefits that will come due on somebody' else's watch.**

The magnitude of the public sector DB plan "ticking time bomb" should not be underestimated. For example, some feel that the state of Illinois would have to triple the state income tax to properly fund their plans.

While there are **large employer legacy plans**, the majority are frozen and waiting to accumulate enough assets to terminate their plans. Risk managers are clamoring to get liabilities under control and many are considering alternative solutions, including outsourcing.

Multiemployer union plans are still active, but they are also facing severe funding pressure. Employers would also like to exit these plans, but they are being held hostage by the fear of union disruption and withdrawal liability.

Driven by cash flow, high contribution limits and the ability to accrue significant benefits for the owners and other key employees, **private small employer plans** on the other hand are alive, doing well and still growing.

In summary, the shift away from DB plans in the private sector has been dramatic. Over the last two decades, the number of DB plans covered by the PBGC has declined by almost 75%. Nearly half of today's 29,000 DB plans are frozen and many ongoing plans have reduced their benefit structure. Given the extending lifespan, stringent funding requirements, less than predictable funding and the loss of control imposed by government regulations, **corporate America cannot continue to provide rich DB plans and compete globally.** The increased mobility of the workforce has also diminished the value of DB plans.

CFDD 2010 ADVISOR CONFERENCE: The Fonz Lives

The CFDD's October 6-8 (Wednesday-Friday), 2010 Advisor Conference, *NEW AGE MARKETING: What Worked In The Past Is No Longer Effective*, will return to the downtown Chicago Fairmont - Millennium Park Hotel, Chicago, Illinois.

Given the evolving decision making process, the retirement industry must adapt to the new environment to capture market share. **The CFDD's sole purpose centers on helping specialists grow their retirement plans business and professionalizing the advisor selection process.** Given our mission, the new ERISA Advisor Evaluator program for plan sponsors will play a key role in the consolidation of retirement plan advisory services.

While CFDD '09 was another homerun, **CFDD '10 is designed more intimately to facilitate enhanced learning, advanced concepts and deeper networking.** Specific education tracks will be threaded throughout the event and more advisor roundtables will be included in the program, including spirited after hour meetings.

In addition to new age marketing, **CFDD '10 will feature a 50's theme**, including a Fonz look-a-like contest, hula hoop/twist contests, an Elvis impersonator, professional entertainers and major photo-ops for sponsors. Consistent with our theme, the conference will feature authentic 50's **Attire Awards** and a **Grand Prize Trip to Graceland** for two. The '57 Chevy may be no more than a ghost, but cats & chicks can still roll up t-shirt sleeves, don retro sunglasses, hoop skirts, pony tails, ducktails and network in a relaxed, fun & outreach friendly environment.

The Chicago Fairmont can only accommodate sixty exhibition booths and while one-third are already committed; **all booth locations are equally traffic friendly.** To facilitate increased networking, **all food and beverage will be served in the exhibition area.**

As a bonus, **the 2010 exhibition package includes complimentary advertising on the CFDD's website and in our email newsletter with a value up to \$25,000.** The website is currently experiencing more than 300,000 page visits per month and our newsletter reaches a highly targeted audience of over 35,000 retirement plan professionals.

The CFDD already offers more value, unbiased content and attracts more accomplished retirement plan advisors than any other industry event. To add even more value, **exhibitors who commit early could benefit from banner ad exposure on the CFDD's entire website and our email newsletter for up to one year without additional cost.**

Our limited 2010 booth space will be sold-out by year-end. To secure your space now, benefit from a **15% early registration discount**, extended complimentary advertising and exposure to **the industry's most powerful database of retirement plan specialists**, exhibitors should click [HERE](#) to register early. **Individuals who register before 12/31/09 can also save up to \$1,000.**

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