



PLAN METRICS:
WHAT'S MEASURED MATTERS



The Effect of a Gauge

What participants are looking to buy from us is “retirement.”



BY MICHAEL KILEY

When I was a 10-year-old boy, I remember getting a phone call at our house from a family member: “Truck’s broke down on the side of the road.” My dad was a man who saved most of his words for joke telling (endless) and few for “learning.” He much preferred to teach by asking questions and then expecting you to respond with action.

As we walked out to our car, he grabbed one screwdriver, one pliers and one gas can which we filled on the way to the broken down 1956 pickup truck.

When we arrived, my relative quickly rattled off all of the sophisticated sounding parts that he had checked to determine why the truck had died. After hearing the list, my dad asked a simple question: “Is there gas in the tank?” My relative, knowing my tough and practical dad, answered “yes” with a satisfied look. Dad checked the fuel gauge — it in fact read “full.” He tilted the seat forward to expose the gas tank. (Did I mention this took place a while back?) He gave the gas tank a firm bump with his fist and received a very informative, hollow sounding “BONG” in return. Wordlessly, I retrieved the gas can from our trunk and poured its contents into the tank. My dad — equally silent — fired up the truck with the first turn of the key.

“But the gas gauge read *full*!” was the protest — to which my dad asked, “When was the last time you put gas in the tank?” “Two weeks ago,” was the solemn reply. My dad then asked a simple but profound question: “If you’re not putting gas in the truck, why would you expect there to be gas in the truck?”

As we drove away, I noticed Dad looking in the rear view mirror and suppressing a smile. I looked out the back window and saw the wife of this relative and their young children driving the truck down the road toward their home — while this relative was walking down the shoulder of the road in the same direction.

Gas Gauges and Savers

We need to offer our participants a gas gauge that equates, “How much gas do I have in the tank?” to “How much ‘retirement’ have I got?”

I submit to you that by successfully doing that together, our industry will help everyone in the system: manufacturers, distributors, plan sponsors (be they MEP or individual) and, most importantly, the people we all serve — the plan participants.

Today, we give our participants statements that answer the question, “How much account balance have I got?” It doesn’t matter if it’s mutual funds, collectives, ETFs — it’s a representation of the funds we sell, partner with and manufacture.

When really, what they want to buy from us is “retirement.”

The conversation we’re having today sounds like, “Bill, 31 years from now you’re projected to have a monthly income of \$1,187.” This is information — *but it doesn’t help.*

We can all save ourselves a lot of angst if we reduce our conversations with our savers to a gas gauge.”

Instead, we need to change the conversation: “Bill, at your current savings rate you can maintain the lifestyle you have today for one year and two months when you retire and *then you need to learn to live on Social Security.*” Or, “Bill, if today were your 67th birthday, you could enjoy your current lifestyle until the first part of next year.” This gets a reaction.

Could a Simple Gadget Save the Saver?

It was my dad’s philosophy that if you could start a truck, very few things would actually keep the truck from running. The primary obstacle would be the driver. Only occasionally do the basic parts actually break down and keep the truck from moving once it’s started.

The single biggest determinant of saver success is whether or not the saver is putting gas in the tank. We need to make, “How

much retirement have I got?” visible to them and we need to agree as an industry how to measure that and talk about it.

The gas gauge has to become readily visible and available to our savers. We can have all the other gauges available; we do an excellent job at that with fund fact sheets, allocations, pie charts, etc. But the conversation needs to start with the gas gauge.

The businesses where we buy our clothing, household goods and entertainment don’t want a market full of customers with no gas in the tank. Our governments don’t want to run on taxes from people with no gas in the tank. And businesses don’t want to try to grow surrounded by people with no gas in the tank.

The Gas Gauge and the ‘F’ Word

Today, we are hearing the word “fiduciary” a lot. I submit to you that we can all save ourselves a lot of angst if we reduce our conversations with our savers to a gas gauge. Everything that a participant and a plan sponsor does will either put gas in the tank or take gas out of the tank. For example, automatic enrollment helps fill the tank, while hardship withdrawal or failure to rollover empties the tank.

As a provider — manufacturer, distributor, financial advisor, broker, agent, TPA or otherwise — would you rather be judged on your ability to successfully help 1,000 savers to understand expense ratios “to or though” target date funds, alpha, indexes, etc. — or would you rather have your success measured by your ability to teach 1,000 people how to use a gas gauge, and then let them add or burn as much fuel as they want?

Would you rather make a living teaching people who are not interested how to “seek alpha” or would you rather make a living providing people with a gauge they can read, along with your phone number to call?

Participants have different journeys. Let’s equip them to own that. Participants don’t want to be told, and should not be told, how much retirement is right for them. They should be given a gauge that enables them to decide for themselves.

I’ve lived the heartbreak of enrolling

a participant who told me, “No one in my family has ever lived to be 70.” I’ve been astonished to sit with super savers who saw that they are on track to “own” 27 years of retirement and immediately took steps to buy more because they were bothered it wasn’t enough. I’ve also met that guy who is 70 years old on his way to a football game with his 90-year-old father who smiles and says, “Retire? Nuts!” (Which is that generation’s way of saying “WTF” — and no, that does not stand for “Who’s the Fiduciary?”)

Let’s equip them all.

‘MPG’ Won’t End Us, It Will Grow Us

As an industry, we can, and will, deliver different “MPG” just as the auto manufacturers do. Some of us will offer high-powered luxury packages and others more economical solutions. Both are appropriate, valuable and necessary in the marketplace.

What’s frustrating is when someone thinks they are buying luxury and in fact are buying economy — or vice versa. A gas gauge will help make them better buyers. Better buyers *always* mean *more* buyers.

“Outcomes are the right focus. A gas gauge will allow us to be the heroes we always have been.”


The Power of this Industry

I’ve been in this industry for 31 years and for a while it was exciting and fun. But for too long now, we’ve been speaking in funereal tones about the limits we face.

When I recall that boyhood story, I don’t think so much about my relative on the side of the road who walked home, perhaps to a cold dinner. Instead I get a chill when I think of a saver left on the side of the road who “ran out of gas” for lack of a gas gauge.

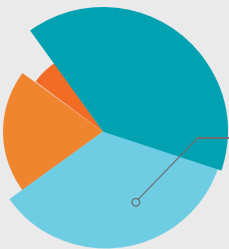
Fortunately, we are about to have a lot of fun — and add a ton of value in the process. That pickup truck in the early part of this story now uses satellite connections

and databases to find the next gas station, hotel or restaurant. It also will keep a list of the driver’s favorite music and play it by voice command. Won’t it be great when we are bringing those kinds of benefits to our customers?

Outcomes are the right focus. A gas gauge will allow us to be the heroes we always have been. Let’s have some fun! 

» Michael Kiley is the President/Owner of PAI.

To understand retirement, you need a clear gauge.



“31 years from now, you are projected to have a monthly income of \$1,187.”

VS



“If today was your 67th birthday, you could enjoy your current lifestyle until the first part of next year. Then you’d need to rely on Social Security.”



THE OUTCOMES ISSUE

BY THE NUMBERS

DO YOU USE AUTOMATIC ENROLLMENT?

	PLAN SIZE									
	OVERALL	<\$1MM	\$1MM-\$5MM	\$5MM-\$10MM	\$10MM-\$25MM	\$25MM-\$50MM	\$50MM-\$200MM	\$200MM-\$500MM	\$500MM-\$1B	>\$1B
YES	40.0%	17.2%	20.0%	34.3%	45.2%	48.0%	55.4%	60.3%	64.9%	65.2%
NO	55.9%	70.2%	71.6%	62.7%	52.9%	50.5%	44.1%	39.0%	34.4%	34.8%
DON'T KNOW	4.0%	12.6%	8.4%	3.0%	1.9%	1.5%	0.5%	0.7%	0.7%	0.0%

Source: PLANSPPONSOR 2014 Defined Contribution Survey

WHICH OF THE FOLLOWING MEASURES DO YOU USE TO GAUGE SUCCESS OF YOUR DC PLAN?

	PLAN SIZE									
	OVERALL	<\$1MM	\$1MM-\$5MM	\$5MM-\$10MM	\$10MM-\$25MM	\$25MM-\$50MM	\$50MM-\$200MM	\$200MM-\$500MM	\$500MM-\$1B	>\$1B
PARTICIPATION RATE	68.4%	41.1%	58.0%	69.7%	74.7%	73.4%	77.3%	78.9%	81.0%	80.3%
DEFERRALS OF VARIOUS EMPLOYEE SEGMENTS (E.G., HIGHLY VS. NON-HIGHLY COMPENSATED)	34.1%	13.2%	23.3%	34.3%	42.2%	42.4%	41.3%	38.9%	42.3%	43.6%
% OF PARTICIPANTS SAVING TO MATCH	28.4%	16.5%	23.6%	23.1%	29.0%	28.5%	32.7%	38.0%	39.9%	45.6%
PROJECTED MONTHLY RETIREMENT INCOME (I.E. \$X PER MONTH IN RETIREMENT)	4.4%	2.6%	2.9%	2.6%	3.1%	4.1%	5.9%	6.7%	9.2%	11.1%
PROJECTED RETIREMENT INCOME REPLACEMENT	6.1%	3.5%	2.5%	3.0%	5.2%	6.3%	8.8%	9.6%	11.7%	18.4%
% OF PARTICIPANTS WITH "APPROPRIATE" ASSET ALLOCATIONS (I.E., CLOSE TO TARGET-DATE FUND GLIDE PATH, ETC.)	15.5%	6.5%	5.3%	10.0%	14.7%	18.2%	23.4%	27.5%	30.1%	36.7%
% OF PARTICIPANTS WHO INCREASED DEFERRAL RATES IN THE PRIOR 12 MONTHS	9.1%	3.9%	6.3%	9.0%	10.8%	8.8%	11.6%	11.1%	15.3%	12.8%
% OF PARTICIPANTS USING ADVICE TOOLS/SEMINARS OFFERED THROUGH THE PLAN	10.7%	3.0%	4.6%	7.7%	11.8%	11.9%	14.6%	18.1%	22.7%	22.3%
EMPLOYEE SATISFACTION SURVEYS	20.1%	14.2%	19.4%	22.1%	23.1%	19.3%	20.2%	19.3%	20.2%	21.6%
EXTERNAL/COMPETITIVE BENCHMARKING OF PLAN DESIGN	25.8%	6.7%	14.9%	23.0%	27.4%	30.9%	34.4%	37.1%	42.9%	45.2%
HAVE NO FORMAL PLAN SUCCESS MEASURES	25.8%	50.1%	36.4%	24.6%	22.1%	19.3%	16.5%	15.5%	13.5%	14.1%

Source: PLANSPPONSOR 2013 Defined Contribution Survey. Used with permission.