Kamp Consulting Solutions, LLC

KAMP INSITE Fireside Chat

Your Monthly Update from KCS

August 2013

INSIDE THIS ISSUE

Survey Says!!

No, this month's **Fireside Chat** is not visiting the popular game show "Family Feud", although it may just be the most appropriate description of life in the future if we continue to fail our employees who have hopes of retiring one day. We will, however, be looking at the recent survey results from the Employee Benefit Research Institute's (EBRI) 23rd Annual Retirement Confidence Survey (ebri.org). This survey polled both active workers (may or may not be retirement plan participants) along with retirees. The questions addressed the areas of retirement confidence, saving habits and plan design.

This survey's results will further highlight the concerns that KCS continues to voice for the current U.S. retirement situation. For our loyal and long-standing **Fireside Chat** readers, you may recall that in the August 2012 edition, we addressed the financial, social and political challenges facing the "Baby Boomers" in retirement along with the potential economic impact on state and local budgets. We also called for sponsoring organizations to re-assess the use of defined benefit versus defined contribution plans in light of this potential retirement crisis.

Boomer…or Bust?

As a reminder, the Baby Boomer generation (those born between 1946 and 1964) numbers roughly 77 million strong, and they began retiring in 2011. An estimated 11,000 Baby Boomers will retire each day for the next 16+ years (assuming an age 65 retirement target). As you will see from the survey results, this generation may not be adequately prepared for retirement given the demise of the defined benefit plan, the loss of home equity, increased living expenses, low personal savings, reliance on defined contribution plans, and dependence on Social Security *(that's a scary laundry list)*. Furthermore, we noted that in 2011, Maine had the highest concentration of Baby Boomers within their overall population, followed by Vermont and New Hampshire. A recent article in the Maine Sunday Telegram confirms that Maine still holds the not so desirable number one spot in 2012, having 29% of the state's residents in the Boomer zone, with New Hampshire and Vermont changing places.

Q&A Results – and They Ain't Pretty

While Baby Boomers represent the majority of today's retirement issues, the survey by EBRI and & Matthew Greenwald Associates, Inc., provides valuable insight into a cross-section of future retirees. The survey participants (approximately 1000 active workers over the age of 25 and 250 retirees) were contacted by phone and asked a variety of retirement related questions that are discussed below:

"In 2013, 51% of active workers responded that they are very or somewhat confident about having enough money. This is down fro the 70% peak that was achieved in 2007…just before the market crash of 2008.

1. Overall, how confident are you that you (and your spouse) will have enough money to live comfortably throughout your retirement years? In 2013, ***51%*** of active workers responded that they are very or somewhat confident about having enough money. This is down from the 70% peak that was achieved in 2007…just before the market crash of 2008.

2. Overall, how confident are you that you will have enough money to take care of your basic expenses during retirement? In 2013, ***70%*** of active workers responded that they were very or somewhat confident about covering basic expenses, down from the 82% peak reading in 2007. Not surprisingly, the presence of debt reduced the workers' retirement confidence.

3. What do you think is the most pressing financial issue facing most Americans today? Both active workers (30%) and retirees (27%) agreed that job uncertainty remains the most pressing issue in America for workers and retirees, followed by making ends meet and the federal budget deficit. With a 14.3% U6 unemployment rate (which includes people without jobs who have given up looking for work, people without jobs who would like to work but have not sought employment recently and part-time workers who would like to be employed full-time), we agree that unemployment is of great concern, and it creates an environment that is almost a self-fulfilling prophecy, as aggregate demand for goods and services is reduced putting further pressure on employment and job creation.

4. Are you (and/or your spouse) currently saving for retirement? ***57%*** of active workers responded that they are saving, down from a peak of 65% in 2009. However, the question to ask - are they saving enough? Do future retirees truly understand what there annual needs will be and how those might change over time?

5. In total, about how much money would you (and your spouse) currently have in savings and investments, not including your primary residence? ***57%*** responded that **they have less than $25,000 saved for retirement**, which has been fairly consistent over the past 10 year survey period.

Q&A Results (cont'd)

Furthermore, and importantly, there has been a severe decline in retirement saving among lower-income workers, down to 24% from a peak of 49% in 2009 for those making less than $35,000. This last statistic, more than any other, is why defined contribution plans do not work for the average employee as their primary source of retirement income. As well intentioned as these employees might be, ***LIFE*** gets in the way! There is a minimum amount of compensation that we all need in order to meet our basic needs, and for many employees they are just not reaching that threshold.

"A staggering 45% of the plan sponsors responded that they are not confident in their participants' retirement preparedness. In addition, more than half the plan sponsors are not confident that participants can convert their retirement savings into income to last over their lifetimes"

6. What is the main reason you are not currently contributing (more) money to your retirement plan? 41% of active workers with access to a retirement plan responded that day-to-day expenses affect their contribution rates. Is anyone really surprised to see this result? Again, LIFE gets in the way.

7. Does your employer's retirement savings plan offer an option to allow participants to put their money into an insurance product that pays periodic lifetime income? Will/would you use this option when you retire? Only 17% of the respondents had access to annuity options, but 56% said they would use it if made available. This implies that defined contribution plan participants desire defined benefit plan features. Now the industry has to find financial product that makes economic sense for the individual investor. Regrettably, some products can be very complicated and expensive (more to come on this subject in a future Fireside Chat).

Sponsors Speak

It is one thing to hear from the employees as to their retirement preparedness, it is entirely another note to gather important insight into how sponsors feel about their plan participants' preparedness. Might there be a disconnect between the two parties?

A joint research study by Boston Research Group and Dimensional Retirement polled 200 plan sponsors in 2012, and asked how confident they are that their participants are prepared for retirement. A staggering 45% of the sponsors responded that they are not confident in their participants' retirement preparedness. In addition, ***more than half*** the plan sponsors are not confident that participants can convert their retirement savings into income to last over their lifetimes. That's awful! Still don't think that there is a retirement crisis brewing?

Global Dilemma

This is not just a U.S. problem. Global economies are being transformed and public pension systems strained as this crisis is fueling political and economic unrest in many countries while raising concern among government leaders. According to the World Economic Forum, global life expectancy has increased since 1950 from 48 to 68 years, and it is expected to rise to 75 years by 2050. At the same time, the world's birthrate has fallen, and it is expected to drop to two children per woman by 2050. As a result, the number of working age people supporting retirees is plummeting, from an average ratio of seven people age 20 to 64 for each pensioner in 1950, to four working-age people per pensioner today, to an anticipated two working-age people per pensioner in 2050.

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Thirty years ago, there were no "aged economies", where consumption by older people surpassed that of younger people. In 2010, there were 23 aged economies, and by 2040, there will be 89 according to a United Nations report. By 2050, for the first time in recorded history, the number of seniors will exceed the number of children under 15.

What can be done? Economists say delaying normal retirement age will help many countries, and some have reformed their social security systems in recent years, including Greece, Portugal, South Korea and Japan. While life expectancy in 43 mostly developed countries increased an average of 9 years from 1965 to 2005, the average normal retirement age has increased by only about 6 months, according to the World Bank. Maybe this requires a closer look worldwide.

Status Quo – Heck No!

U. S. taxpayers will continue to face financial pressures and not only from retirement preparation, but also from escalating healthcare costs (Medicare), educational expenditures, state & local budgets, property taxes, Social Security, federal budget items and potentially, the Affordable Care Act. That said, many employers will continue to offer some form of a retirement plan(s) (mostly defined contribution), and employees are likely to contribute something to these employer plans.

We strongly feel that employers need to be committed to providing retirement vehicles, and to take a stronger interest in their employees' retirement welfare by providing educational tools to better prepare them for retirement. Sponsors also need to focus on getting their employees to enroll in their retirement programs to begin the savings process. Recent auto enrollment features are helping in this effort. Furthermore, once employees join the plan,

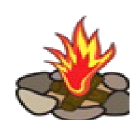
Status Quo – Heck No! (cont'd)

they need to be educated on asset allocation decisions instead of focusing on fund selection, which tends to confuse and frustrate the typical plan participant.

Some employers with the economic wherewithal should consider offering modified (supplemental) DB plans that would provide more modest benefits versus today's system. These plans would be less generous, but likely better funded with positive outcomes more attainable long-term. This would provide retirees with additional retirement income in addition to Social Security and proceeds from DC plans. We'd once again have our three-legged retirement stool!

In addition, plan sponsors must also help manage the distributions for both retirees and terminated participants. The survey showed that DC participants would like their DC plans to have lifetime income features similar to those of DB plans. This would involve sponsors either adding these features to existing DC plans or to have them educate retirees on where to obtain these types of financial products. In addition, sponsors should work with terminated participants to educate them on the benefits of remaining in plans or rolling over their tax deferred balances to other tax deferred vehicles instead of participants taking early withdrawals, which may be subject to tax penalties while negatively impacting their long-term retirement prospects (see the KCS Fireside Chat from September 2012 for more on lump sum distributions).

"There are three kinds of lies: Lies, damned lies and statistics", is a phrase made popular by Mark Twain, who attributed it to the 19th-century British Prime Minister Benjamin Disraeli (1804–1881), and who uttered it to put doubt on an opponent's argument. One could doubt the results of these surveys, but we suggest that it would be done at one's peril. Employees (and those currently out of the workforce) are not well-prepared for retirement at this point. Given the demise of the defined benefit plan, we don't see how this lack of preparedness will be overcome in the near-term. Serious dialogue is needed now - remember that hope is neither an investment strategy or retirement plan!



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