

HAVE 401(K) FIDUCIARIES GONE ASTRAY?  
CREATING A PRUDENT COMMUNICATION  
PROCESS IN TODAY'S TURBULENT WORLD

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Richard D. Glass

*“The conventional view serves to protect us from the painful job of thinking.”*

—John Kenneth Galbraith

Although 401(k) plans have evolved into powerful investment tools for knowledgeable investors, research has shown that most workers are not taking anywhere near full advantage of them and probably do not have the knowledge to do so.

In fact, a recent survey of human resource professionals found that 75 percent of the respondents are less than confident that their employees are “taking accountability for their own future.”<sup>1</sup> Findings such as these have:

- caused an increasing number of benefit attorneys to fear that 401(k) plan sponsors and fiduciaries could be held responsible if their workers' retirement dreams do not materialize;
- brought behavioral finance into vogue.

These attorneys worry that the courts will decide that the most fundamental and important responsibility of a 401(k) fiduciary is to make sure that employees understand that:

- achieving retirement security is their responsibility and requires considerable savings (at the expense of current consumption) during working years;
- how they allocate their accounts is extremely important;
- events beyond their control (such as the behavior of the capital markets and business competition) can wreak havoc on their dreams even if they do everything “right”.

Study after study, however, has shown that either these messages have not been delivered or have been delivered in a fashion that maximizes the likelihood of them not being read and/or minimizes their importance. Dallas Sallisbury of the Employee Benefit Research Institute maintains that the traditional approach to retirement education has totally missed the mark. He maintains that participants are misled into believing that achieving retirement security is easy.

Sallisbury argues that asset allocation and the joys of retirement are emphasized when participants should be bluntly told that, unless their contributions are adequate, a

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<sup>1</sup> Hewitt, “Survey Findings: Hot Topics in Retirement 2006”, p.2.

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comfortable retirement, perhaps even retirement itself, will be nothing more than wishful thinking. After all, “asset allocation is irrelevant if you have no money to allocate.”<sup>2</sup>

To make matters worse, the U.S. Department of Education’s assessment of adult literacy strongly suggests that the majority of employees are not capable of addressing the challenges posed by retirement planning on their own.

This paper will argue that fiduciaries must be able to demonstrate that their participant communications reflect this research and are designed to engage employees in retirement planning. Otherwise, the fiduciaries themselves will be setting the stage for allegations by class action attorneys that the difficulties of achieving retirement security were intentionally downplayed or ignored all together.

### **ERISA and 401(k) Plans: A Historical Perspective**

When the Employee Retirement Income Security Act (ERISA) was enacted in 1974, not only did 401(k) plans not exist, they were not even contemplated. ERISA was created as Congress’s response to the “widespread concern about exploitation of pension funds by employers and unions”<sup>3</sup>. To help overcome these abuses, ERISA clearly states that fiduciaries must act for the exclusive benefit of the participants and their beneficiaries.<sup>4</sup> In addition, fiduciaries are required to act like prudent experts in all matters regarding the retirement plan, not just the investments.<sup>5</sup>

What’s expected of defined benefit fiduciaries is clear. They are to invest the funds in a fashion that will provide the promised benefits at the appropriate times to all eligible participants.

ERISA’s marching orders for 401(k) fiduciaries, however, must be deduced. When ERISA was created, participant direction of investments in corporate retirement plans was the exception and not the rule.<sup>6</sup> Money purchase pension and profit sharing plans were the most common defined contribution plans. In these programs, participation was usually automatic and the trustees invested the assets.

A good starting place for defining what ERISA requires is for the fiduciaries to outline the major issues that a prudent process should address. The fiduciaries must always keep in mind that the ultimate goal of the process is to help participants achieve a financially secure retirement.

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<sup>2</sup> “How to Build an Effective 401(k) Education Program”, *Managing 401(k) Plans*, June 2004, p.3.

<sup>3</sup> Bevis Longstreth, **Modern Investment Management and the Prudent Man**, Oxford University Press, New York, 1986, p.32.

<sup>4</sup> ERISA § 404(a)(1), 29 U.S.C. § 1104(a)(1) (1985).

<sup>5</sup> ERISA § 404(a)(1)(B), 29 U.S.C. § 1104 (a)(1)(B) (1985).

<sup>6</sup> Participant direction of investments was, for all practical purposes, limited to some thrift plans.

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The first step, then, is for the fiduciaries to assess if their workers understand:

- what their (the employees') roles are in achieving their own retirement security;
- how to realistically assess their retirement income needs and then calculate the price tag (required nest-egg and the contributions) for fulfilling them;
- that retirement planning involves a high degree of uncertainty (like capital market behavior and other assumptions that are beyond their control).

### **Research Findings: Unwanted Bad News**

Research has shown that large numbers of American workers have not embraced retirement planning, that they are not likely to do so, and that even if they wanted to, many workers do not have the skills that successful planning requires.

That the traditional approach to participant communications/education has failed has been known for years. The 2005 Retirement Confidence Survey (RCS) found that only 40% of workers have tried to calculate how much money they need to accumulate for retirement.<sup>7</sup> This observation (which is in line with previous RCSs) implies that all too many workers are approaching retirement planning blindly.

Actual employee behavior in 401(k) plans (including participation and contribution levels<sup>8,9</sup>), demonstrates that perhaps the majority of employees:

- don't understand the retirement challenges before them;
- haven't made retirement a high priority, perhaps due to their inertia (see comments of Brigitte Madrian of the University of Pennsylvania's Wharton School<sup>10</sup>);
- don't understand and/or are confused by the investment process itself<sup>11</sup>;
- don't have the money to solve their retirement problem<sup>12</sup>.

The John Hancock has periodically conducted surveys, "Insight into Participant Investment Knowledge & Behavior", to determine how much 401(k) participants know about investing. The surveys have found that their knowledge level is low and has not changed much over a ten-year period.

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<sup>7</sup> EBRI Issue Brief No. 280, April 2005.

<sup>8</sup> Lori Lucas, "Individual Responsibility and the Imperfect Investor: The Need for Automating the 401(k) Plan", *Benefits Quarterly*, Fourth Quarter 2005, Vol. 21 (4), p.35.

<sup>9</sup> Alicia H. Munnell and Annika Sunden, "401(k) Plans Are Still Coming Up Short", Issue in Brief 43, March 2006, Center for Retirement Research at Boston College.

<sup>10</sup> "How Much Money Will They Need for Retirement: More Than You Think", *Knowledge @ Wharton*, August 27, 2003.

<sup>11</sup> Munnell and Sunden, (2006); Julie R. Agnew and Lisa R. Szykman, "Asset Allocation and Information Overload: The Influence of Information Display, Asset Choice and Investor Experience", *Journal of Behavioral Finance*, 2005, Vol. 6, p.57; Annamaria Lusardi and Olivia S. Mitchell, "Financial Literacy and Planning: Implications for Retirement Wellbeing", Michigan Retirement Research Center, Working Paper WP 2005-108.

<sup>12</sup> Nevin Adams, "Why Participants Get 'It', *On Wall Street*, February 2006.

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Fidelity and Vanguard studied contribution rates, number of funds used in creating an asset allocation, the use of lifecycle and lifestyle funds, and participants' love affair with their employer stock. These studies showed that workers were contributing too little too late and that their accounts were poorly diversified.<sup>13</sup>

### **Understanding Employee Behavior**

“Why are employees behaving in this apparently irrational manner?” is the next question that fiduciaries must ask. Behavioral finance professors argue that people don't always behave rationally, get confused by choice, and suffer from a variety of biases. For these reasons, the academics purport, it is naïve to leave retirement planning to workers. Autopilot programs are a must.<sup>14,15</sup>

In his book, *The Number*, Lee Eisenberg, the former editor-in-chief of Esquire and head of creative development at both Time magazine and Lands End, puts forth six reasons (his Eisenberg Uncertainty Principles) as to why people are not planning for their futures:

- Today's America is a carpe diem society. We are “so steeped in the moment, and awash in debt, that there is little social or peer pressure to get one's financial house in order.”
- The average person is intimidated by money because he does not understand how money works.
- Americans believe “that the old retirement support systems are withering away.”
- People have become paralyzed “by the immense cloud that hangs over future retirement benefits: bankrupt corporate pensions; what an angry stock market god might do to smite private retirement savings plans.”
- People cannot put the previous “uncertainties” into perspective let alone “see the larger picture” in them.
- People cannot get their act together and determine what “truly matters at the end of the day.”<sup>16</sup>

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<sup>13</sup>For examples of such studies, see “Expectations for Retirement: A Survey of Retirement Investors”, The Vanguard Center for Retirement Research, November 2004; “Building Futures”, Volume VI, Fidelity Investments, 2005.

<sup>14</sup> A 401(k) autopilot program is an arrangement where all eligible employees are automatically enrolled, and their contribution rate is predetermined. Sometimes the contribution rate is set to increase at periodic intervals or at a predetermined event, such as an increase in salary (SMarT feature). Oftentimes the participant's asset allocation will also be handled for him (via a targeted maturity fund or a managed account program).

<sup>15</sup> A brief review of the relevant behavioral finance research is in the white paper written by Shlomo Benartzi for AllianceBernstein entitled “Implications of Participant Behavior for Plan Design”. For a more in-depth summary, see Olivia S. Mitchell and Stephen P. Utkus, editors, *Pension Design and Structure*, Oxford University Press, 2004.

<sup>16</sup> Lee Eisenberg, *The Number*, Free Press, 2006, pp. 28-31.

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Alicia H. Munnell, the director of the Center for Retirement Research at Boston College, believes it is unreasonable to expect the average American to be a retirement/investment planner and bluntly states: “[That] we can all be financial experts is a crazy idea.”<sup>17</sup>

Corporate benefit attorneys, however, have argued that “spoon feeding” workers is not a fiduciary responsibility. After all, ERISA does not require education. Furthermore, each eligible employee—non-participant or participant—is given an enrollment kit, can attend enrollment meetings, and has access to worksheets, websites, and call centers. If an employee doesn’t want to help herself, it is her problem and not the fiduciaries’.

On the surface, this argument appears to have merit. However, its merit may be more apparent than real when other issues are considered:

- The fiduciaries have a responsibility to spend the fees paid by participants wisely (and these fees usually cover most of a plan’s costs).
- The fiduciaries cannot know if they are spending the fees wisely, at least those regarding plan communications, unless they monitor plan utilization by employee segments (such as all employees who are between the ages of 30 and 40). If the desired participant behavior is not occurring, they must take the necessary steps to encourage it. (Corrective action means replacing the ineffective communication materials that the fiduciaries had previously approved.)
- The 2003 National Assessment of Adult Literacy found that only 5% of high school graduates and 30% of college graduates scored at the proficient level in each category (prose, document, and quantitative) evaluated.<sup>18</sup>

The U.S. Department of Education, for example, considers a person proficient if she has the ability to:

- compare viewpoints in two editorials;
- interpret a table about blood pressure, age, and physical activity;
- compute and compare the cost per ounce of food items.<sup>19</sup>

If 95% of high school graduates and nearly two-thirds of college graduates cannot perform the above tasks, fiduciaries must ask themselves if they think that their average employee’s literacy level is much better than the average American’s. If fiduciaries feel that their workers’ literacy level is that of the general population, they should conclude that it is highly unlikely that:

- their average employee will be able to use worksheets and accompanying tables designed to calculate their retirement income needs;

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<sup>17</sup> “Can You Afford to Retire”, Frontline, PBS, May 16, 2006.

<sup>18</sup> U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, “A First Look at the Literacy of America’s Adults in the 21<sup>st</sup> Century”, p.15.

<sup>19</sup> Ibid. p. 3.

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- most employees will be able to realistically assess their risk tolerances and which risk-based portfolio would be most appropriate for them;
- the enrollment kit or a short workshop on investing will put their workers on the road to a financially secure retirement.

### **Incorporating Research Findings into the Communication Process: A Fiduciary Responsibility**

Fiduciaries have a responsibility to be aware of the above research and to quantitatively evaluate if their providers' products and services are meeting the needs of the participants. This ongoing monitoring is imperative since the chances are slim to nil that a plan's provider assumed the fiduciary responsibility for plan design and providing the appropriate communications to support that design.<sup>20</sup> In addition, employee communications are the primary, if not the only, way in which employee expectations can be managed.

401(k) fiduciaries should expect that their behavior and the success of the 401(k) plan as the nation's primary retirement plan will be constantly put under the magnifying glass. After all, it is now recognized that the United States faces a retirement crisis and the press contains a never-ending stream of stories about this and related topics, including:

- the need to severely cut Social Security and Medicare benefits and/or the need to increase taxes if those systems are to avoid bankruptcy;
- the use of corporate bankruptcy to "dump" underfunded defined benefit pensions on the Pension Benefit Guaranty Corporation;
- the need of companies to terminate their defined benefit pensions in order to price their products competitively in the global marketplace;
- studies showing that mid-career employees can expect a significant reduction in retirement income when their defined benefit pension is replaced by a 401(k) plan<sup>21</sup>;
- companies that are downsizing creating generous executive compensation packages, including retirement arrangements, while reducing the wages and benefits of the remaining workers.<sup>22</sup>

In addition, Baby Boomers are now learning just how much money it takes to have a secure retirement and the sacrifices involved in achieving that goal. For example, a recent T. Rowe Price study (a summary of which was published for their retail investors) showed that if a newly enrolled 401(k) plan participant with no retirement savings wanted to retire in 30 years, her contribution should be at least 20% of her current salary if she hoped to have a 70% chance of replacing 49% of her salary.

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<sup>20</sup> For a further discussion of these points, see Fred Reish, "Education Precedents: Workable Solutions for Monitoring Investment Education", Plan Sponsor, November 2005.

<sup>21</sup> Alicia H. Munnell, Francesca Golub-Sass, Mauricio Soto, and Francis Vitagliano, "Why Are Healthy Employers Freezing Their Pensions", Center for Retirement Research at Boston College, March 2006.

<sup>22</sup> Ellen E. Schultz and Theo Francis, "As Workers' Pensions Wither, Those for Executives Flourish", Wall Street Journal, June 23, 2006, p. A1.

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If her employer would match 100% of the first 5% of her compensation, her replacement ratio would rise (with the same likelihood) to the 62% level. Social Security, of course, would increase her retirement income.

If a person had 20 years to go before retiring and were also contributing 20% of his salary, the study found he would need a current account balance of three times his current salary to get into the same “ball park” (54%) of retirement income.<sup>23</sup>

It is naïve for 401(k) fiduciaries to think that the average worker will not, at some point, compare his retirement insecurity with the “fat” compensation packages provided to senior management. At that time, the participant and his lawyer will ask: Were participants intentionally misled by the plan’s communications that portrayed the 401(k) plan as the best thing after apple pie and motherhood while downplaying what it takes (including luck) to obtain a comfortable retirement?

### **Doing Communications the Right Way**

The good news is that it is not difficult to do communications the right way. The even better news for fiduciaries is that guaranteeing their employees a comfortable retirement is not their responsibility. Rather, their responsibility is to make their workers understand the magnitude of the challenges involved in achieving a comfortable retirement and that there is no quick fix or “sure fire” solution for achieving this goal.

Fiduciaries can learn a lot from American advertisers. This group has done extensive research regarding catching the attention of consumers (the worker who needs to save for retirement) and then getting them to purchase a product or service (joining the 401(k)

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<sup>23</sup> T. Rowe Price Report: A Newsletter for T. Rowe Price Investors, Issue No. 86, Winter 2005, p. 7. T. Rowe Price’s study utilized a Monte Carlo analysis involving 100,000 potential (not historical) market scenarios. The study assumed that:

- this worker’s salary would increase annually until retirement by 3%;
- to keep pace with inflation, the annual retirement income would go up by 3%;
- retirement income would be provided for 30 years.

To generate the desired income at a 70% probability level, a preretirement asset allocation of 60% stocks and 40% bonds would be required. After retirement, the allocation would be reversed: 40% stocks and 60% bonds.

The analysis assumed annualized expected returns of 10.0% for stocks, 6.5% for bonds, and 4.75% for short-term bonds. It also assumed annual expenses of 1.09% for stocks, 0.72% for bonds, and 0.61% for short-term bonds.

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plan, investing the recommended amount of money, and then selecting the appropriate investment option—lifecycle fund or managed account).<sup>24</sup>

The research found that most buyers do not want to receive marketing materials and suffer from information overload. Thus, a sale can be made only if you can:

- catch their attention;
- make the message brief;
- show the message's relevancy;
- personalize the message so that the recipient knows how they benefit from the purchase;
- make implementation of the buying decision (the desired behavior) easy.

Few 401(k) participant communications have these characteristics. Enrollment kits are usually thick and designed with a one-size-fits-all mentality. All too often the images are inappropriate and do not reinforce a theme. In fact, a 2004 research study conducted by Dalbar found that traditional enrollment books discouraged participation because employees are not interested in:

- completing worksheets;
- reading about the provider;
- wading through a section on investment basics.

Dalbar found that by making a kit more effective, asset flows can increase by 23 percent.

For a communication piece to be effective, four “musts” are required:

- It must catch the audience's attention (images and color are vital as demonstrated by the car ads in the Wall Street Journal).
- The relevancy of the message must be immediately apparent.
- “What's in it for me” must jump out.
- Implementing the desired behavior must be easy.

In addition, large amounts of disclaimers, especially when they are in small print, are also likely deterrents to employees taking the desired actions. After all, small print suggests buyer beware.

### **Case Studies**

Figure 1 contains an example of how these four “musts” can be effectively incorporated into a personalized direct mail communication piece. Although the purpose of this piece was to increase participation at several geographically distinct locations, it serves another

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<sup>24</sup> For a discussion of the application of this research to 401(k) participant communications, see Richard D. Glass, “Stop, Look, and Listen: Your Profitable Participants Remain Hidden in Plain View”, *LIMRA's MarketFacts Quarterly*, Spring 2005.

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equally important function. This mailing provides a paper trail that clearly demonstrates that the plan sponsor told the eligible non-participants that achieving retirement security is their responsibility and that investment options are available for those who are uncomfortable with investing.

The first page of the piece (created on a folded 11x17 inch sheet of paper) was a report with a clearly spelled out message—it is your responsibility to save for your retirement and further procrastination has a price. Note how the image reinforced the message. The graph showed the non-participant how much smaller his retirement nest-egg would be if he further delayed enrolling in the plan.

The letter inside the piece told the employee that he could enroll by using the plan's website or by calling the Service Center. The letter also contained the telephone number of the local human resource representative.

In addition, the letter told the non-participant that, if he is uncomfortable with making investment decisions, lifecycle funds are available for his use and a description of these funds could be found on page three.

The participant's address was put on the back cover to make mailing in a window envelope easy. In fact, the envelope contained only this piece. If the employee opened the envelope, he saw the message.

Almost ten percent of the targeted non-participants enrolled in the plan. Their average contribution was just under seven percent of salary. Other direct mail pieces (with different themes and having various goals) yielded similar results.

If fiduciaries want to encourage participants who are projected to have an insufficient nest-egg at retirement to increase their contributions, a gap (shortfall) analysis should be used. The personalized report shown in Figure 2 clearly states the problem and graphically shows the participant when his 401(k) account will be depleted. It also suggests, based upon assumptions that are shown, by how much he should increase his contribution.

A gap analysis accompanied by a cover letter makes a suitable standalone mailing. Alternatively, it can be incorporated into a piece like the one shown in Figure 1.

(401(k) fiduciaries should recall that gap analyses, albeit more sophisticated than the one shown in Figure 2, are routinely used in the sale of nonqualified retirement programs to executives. 401(k) fiduciaries would be hard pressed to justify why average employees who do not understand retirement planning do not receive simple gap analyses while such analyses are used to convince the corporation's financially astute executives of the value of the executive compensation program.)

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### **Technology**

Current technology now enables fiduciaries to reach employees much more effectively than ever before. In the past, a campaign was limited to one goal, such as increased participation, and the same piece was mailed to everyone. Seldom was the campaign's effectiveness determined.

Now employees can be segmented into different demographic groups with each group receiving the relevant personalized message. Several weeks later, the effectiveness of the mailings—whether or not the desired employee behavior occurred—can be evaluated. The analysis can be stored and then used as a basis for making future decisions involving plan design and addressing the needs of the participants.

### **Autopilot Programs: A New Need for Targeted Communications**

Targeted communications are also an important ingredient of autopilot programs, especially those with a SMarT (Save More Tomorrow) feature and default investment options. In fact, autopilot programs magnify the need for such communications.

For example, if the default contribution rate is 4 percent but a shortfall analysis shows that a participant should be contributing 11 percent, the fiduciaries have a responsibility to make him aware of this need. If they don't, the fiduciaries run the risk of being accused of encouraging the participant to blindly accept the program's default contribution rate.

On the other hand, a worker making a salary of \$40,000 will likely accept being automatically enrolled into the 401(k) plan if his annual default contribution is \$1,600 or 4% of pay. If he sees that \$4,400 (11 percent of pay) is being deducted from his pay, he would likely opt out of being in the plan, especially if he has a family and is also paying a portion of his health insurance. However, regardless of whether he likes it or not, the participant must be told what he should be contributing. Otherwise, the fiduciaries run the risk of being accused of providing intentionally misleading communications.

The research of Agnew and Szykman also demonstrates the need for targeted communications when default investment options are used in autopilot programs. These investigators found that individuals with below average financial literacy are more likely to select the default investment option than are more financially savvy investors.<sup>25</sup>

This finding serves as a warning that employee expectations must be managed. Participants must be periodically reminded that:

- investment professionals are not fortune tellers;

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<sup>25</sup> Agnew and Szykman, 2005.

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- delegating asset allocation decisions to these professionals does not guarantee that retirement security will be achieved;
- different advisory services can and do arrive at quite different recommendations.

401(k) fiduciaries should always keep in mind why autopilot programs work: employees will choose the path of least resistance.<sup>26</sup> Although such behavior will get employees to enroll into the 401(k) plan (a positive outcome), it will also encourage the blind acceptance of default options—oftentimes with undesirable consequences. Well designed and implemented targeted communications minimize both the likelihood and magnitude of the downside aspects of autopilot programs from occurring.

### **Conclusion**

ERISA requires 401(k) fiduciaries to implement a prudent process for managing their plan. The goal of the process is to put the employees on the road to comfortable retirements. Unfortunately, there is now ample evidence that few American workers realize that achieving retirement security is not only their responsibility, but it also requires adequate savings, thought and time. In short, there is no quick fix for achieving this goal. The failure of traditional communication pieces to convey these messages is proof that they should be replaced by ones incorporating the findings of current research.


Well-designed targeted personalized communications are such communication pieces. These communications provide a paper trail showing that the fiduciaries understand their employees' needs and are appropriately responding to them. They are relatively inexpensive to create and highly effective at creating the desired employee behavior. Targeted personalized communications, such as those shown in Figures 1 and 2, provide evidence that the fiduciaries are using the fees paid by participants wisely and that achieving retirement security is being realistically presented.

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<sup>26</sup> Choi, J., D. Laibson, B. Madrian, and A. Metrick, "Defined Contribution Pensions: Plan Rules, Participant Decisions, and the Path of Least Resistance", in James M. Porterba, ed., *Tax Policy and the Economy*, Cambridge, MA, MIT Press, 2002, p. 67.

**Figure 1**

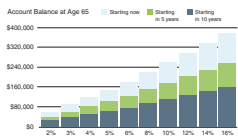
### Don't let your dreams of financial independence fall apart!



Run, the ABCO 401(k) plan is the best tool you have for making sure that your dreams of a financially secure future come true.

**Why you should join the 401(k) plan today**


The chart below shows the power of a long-term investment program and the reason to start sooner rather than later.



For every dollar you save (up to 6% of pay), ABCO will contribute 50 cents. In addition, if the Company meets its performance goals, an additional variable match may also be made for every dollar an employer contributed to the 401(k) plan since 1990, ABCO matched that dollar with 75 cents on average.

The chart at the right shows how much you may accumulate by age 65 if you start now. It also shows how much less you will have if you wait 5 or 10 years to begin. Please keep in mind that your account's growth will be determined by the actual performance of the investment funds.

Start building your retirement dreams today. Sign up at <http://www.planite.com> or by calling the 401(k) Service Center at 1-800-992-2185.



ABCO, Inc.

**ABCO, Inc.**

Dear Ron,

December 31, 2005


You've just read about the benefits of the 401(k) plan. You can't get these benefits, however, until you're a participant in the plan. Joining is easy; just follow the steps below. Help is always available if you need it.

1. Decide how much you want to contribute—from 1% to 30% of your pay.
2. Determine where you'd like your contributions invested, in increments of 1%.
  - The **Targeted Retirement Portfolios** are offered to make this initial decision easy. Putting all of your account in just one of these funds is an effective way to invest and gain a broadly diversified, well-balanced portfolio. All you have to do is select the one whose name includes the year closest to your anticipated retirement date.
  - Detailed Fund Fact Sheets and fund performance information for all of the investment options are available online or from the Service Center.
3. Go to [www.planite.com](http://www.planite.com) or call the 401(k) Service Center at 1-800-992-2185 to enroll or to request any information you may need.
4. If you need help enrolling, please see Jenny McGrath in the HR office. She will be happy to help you enroll.

**Automatic deductions...matching contributions...tax advantages...investment options—these advantages make the ABCO 401(k) Savings Plans one of the best ways to save for your long-term financial future.**

I encourage you to enroll today.

Sincerely,



Marvin Handerton  
Director of Benefits

**Introducing XYZ Investments' Targeted Retirement Portfolios—Sensible investing made easy**

The Targeted Retirement Portfolios are a great tool for those participants who want to leave their investment decisions up to a professional.

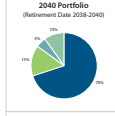
The portfolios' managers assume that the participants who are investing in one of these portfolios are going to retire in or around the year mentioned in the portfolio's name. They also assume that all your retirement assets are invested in the portfolio and that funding for retirement is the portfolio's sole goal. The managers also assume that assets other than this portfolio will be used for emergencies or funding a child's education.

One of the principal advantages of using these funds is that their managers do all the work for you. Not only do they decide on the asset allocation (how much is invested in stocks and bonds), but they change that mix over time. The portfolio's target date (the approximate time you wish to retire) determines how much of the fund will be in stock. The longer the target date extends into the future, the greater will be the amount of stock in the fund.

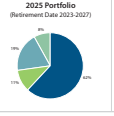
The allocations of three of the available Targeted Retirement Portfolios (2010, 2025, and 2040) demonstrate this. If you plan on retiring around 2010, 45 percent of the 2010 Portfolio is invested in stock. If you won't retire for about another 35 years, about 85% of the 2040 Portfolio will be invested in stock. If you select the 2025 Portfolio, 70 percent of your account will be in stock.

If at any time you wish to assume responsibility for investing your contributions, you can use the plan's other investment options. For information about these options, contact the Service Center (1-800-992-2185) or go to the plan's website, [www.planite.com](http://www.planite.com).


**2040 Portfolio**  
(Retirement Date: 2038-2040)



**2025 Portfolio**  
(Retirement Date: 2023-2027)



**2010 Portfolio**  
(Retirement Date: 2008-2012)




**Figure 2**

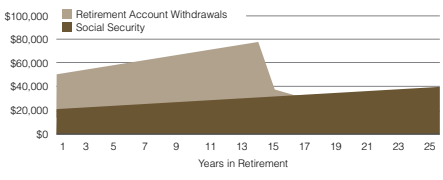
## Will your retirement be a rough ride?

John, if you continue making your current 401(k) contribution of 3.0%, your retirement will be like riding a bucking bronc.

Make sure your retirement is a smooth ride. Increase your contribution to 5.8%.

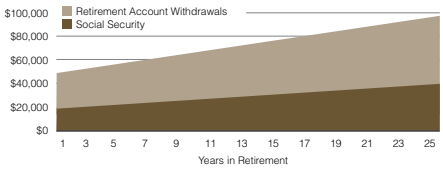


**Projected retirement income making your current 3.0% contribution\***  
(Projected account balance at retirement: \$306,782)



Your contribution	3.0%
Your employer's contribution	1.5%
<b>Total contribution</b>	<b>4.5%</b>

**Projected retirement income making the suggested 5.8% contribution\***  
(Projected account balance at retirement: \$459,337)



Your contribution	5.8%
Your employer's contribution	2.9%
<b>Total contribution</b>	<b>8.7%</b>

Given the assumptions below, you are projected to need \$47,131 of income in your first year of retirement. Social Security is projected to cover \$24,141 of this amount. Thus, it is projected that you will need to withdraw \$22,990 from your nest-egg in your first year of retirement. In subsequent years, you will need to increase your withdrawals to keep up with inflation.

As the top chart shows, at your current contribution rate, your nest-egg is projected to be consumed after 16 years of retirement. If you increase your contribution to 6%, however, your nest-egg is projected to last for your entire life expectancy (as the bottom chart shows).

**Assumptions**

Current age	<b>35</b>	Social Security benefit at retirement	<b>\$24,141</b>	Pre-retirement investment return	<b>8%</b>
Current balance	<b>\$10,000</b>	Annual increase in Social Security benefit	<b>2%</b>	Post-retirement investment return	<b>6%</b>
Current salary	<b>\$25,000</b>	Post-retirement life expectancy	<b>25 years</b>	Employer match:	<b>50% on the first 6% of pay contributed</b>
Salary growth rate	<b>3%</b>	Inflation rate	<b>3%</b>		
Replacement ratio	<b>80%</b>				
Retirement age	<b>65</b>				

Although this report is based on information about you provided by your plan, it is only preliminary in nature and should not be treated or interpreted as an exhaustive, comprehensive analysis of your total financial situation. In addition, all the assumptions used in this report are for illustrative purposes only and are not guaranteed. You should not consider them predictive of the future. It is up to you to periodically review where you are along the road to retirement. You might find that you have more or less money than you had anticipated.

Prepared for John Doe      COPYRIGHT 2001-2006 INVESTMENT HORIZONS, INC.      December 31, 2005