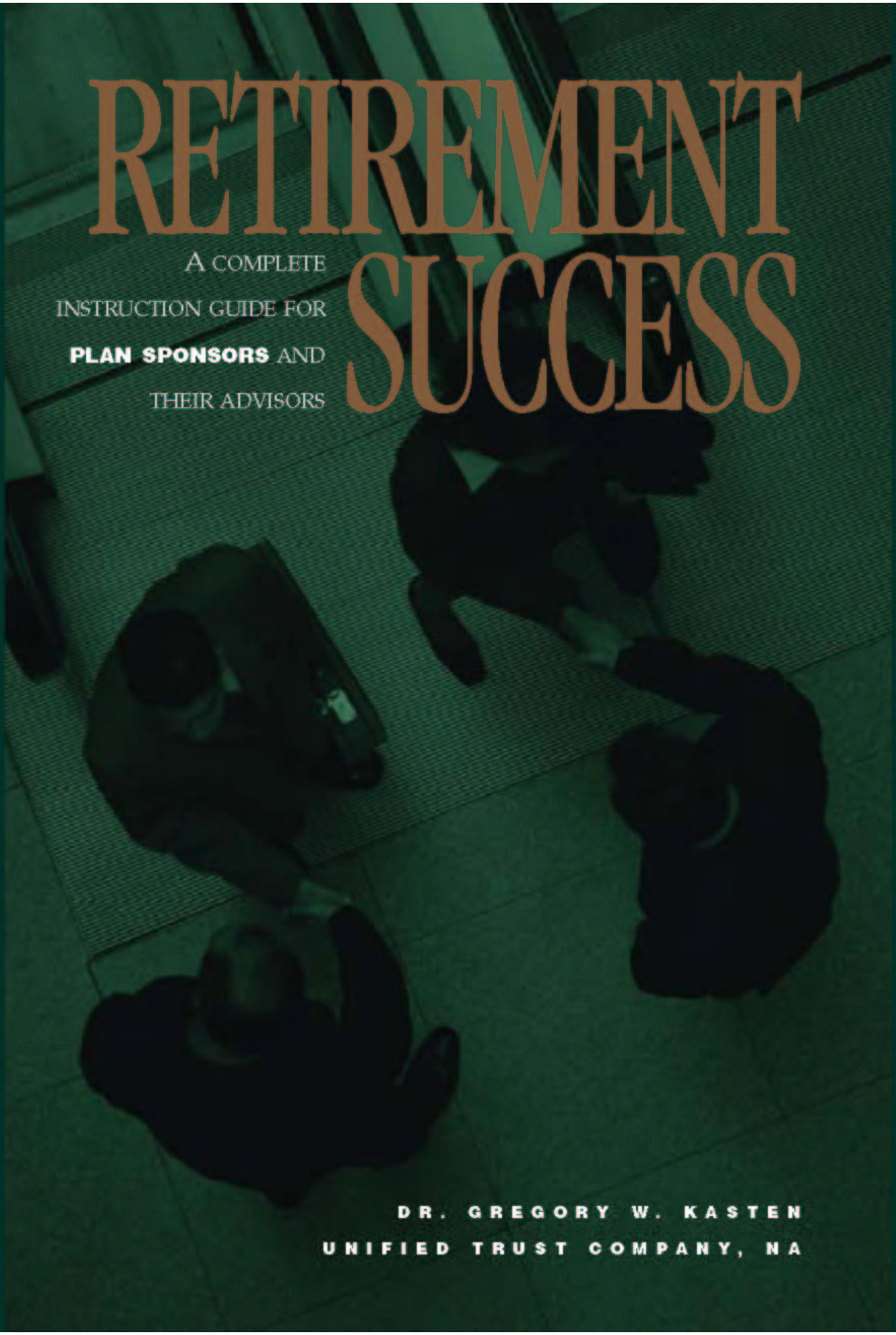
RETIREMENT SUCCESS

A COMPLETE INSTRUCTION GUIDE FOR **PLAN SPONSORS** AND THEIR ADVISORS



DR. GREGORY W. KASTEN
UNIFIED TRUST COMPANY, NA

Retirement Success

A Complete Instruction Guide for Plan Sponsors and Their Advisors

Dr. Gregory W. Kasten

Unified Trust Company, NA

Lexington, Kentucky

Contents

Introduction

This book is written for plan sponsors and their advisors. The advisor could be your human resources department, your retirement committee, your board of directors, or certain key employee groups, or you may employ an outside advisor. The book is designed to allow Ockham's Razor to be put to good use:

Ockham's Razor

"What can be done with fewer assumptions is done in vain with more."

William of Ockham (1285-1349), English theologian and philosopher, is given credit for Ockham's Razor (also spelled Occam's Razor, pronounced AHK-uhmz).

Ockham's Razor is the idea that, in trying to understand something, getting unnecessary information out of the way is the fastest way to the truth or to the best explanation.

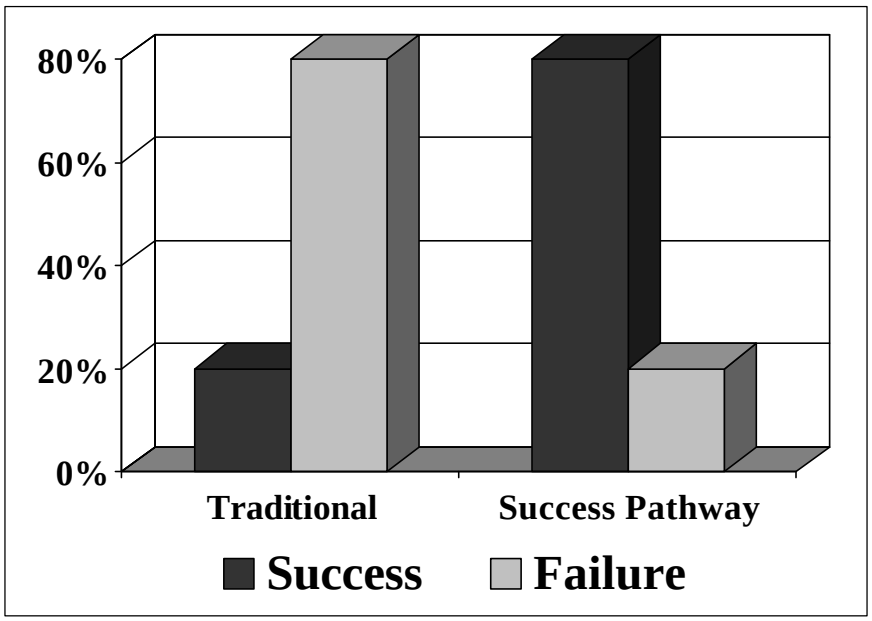
My goal is simple: To put into simple language the specific processes proven to help improve the outcome success probability of plan participants.

This book will help you optimize the Three A's that are essential for a successful retirement: Adequate Savings, Asset Allocation Advice, and Asset Quality. I further simplify this into the combination of savings rate and real rate of investment return (SR+RR Index) needed for success. Adequate Savings is determined by the savings rate. Asset Allocation and Asset Quality determine the real rate of investment return.

For more than two decades, I have devoted the major part of every working day to helping employees retire successfully. Over that time, we have seen 401(k) plans become nearly universal and defined benefit plans diminish in importance. We have seen all types of neat innovations, such as participant-directed accounts; Internet account information with trading, mutual-fund subscription services like Morningstar; and the publication of dozens of self-help books on investing and retirement.

Yet with all this help (or is it noise?), the average worker is less likely to have a successful retirement plan today than twenty years ago. The average 401(k) participant has a 20% likelihood of meeting his retirement needs. This is true for doctors and lawyers, as well as rank-and-file workers. What can we do to raise that possibility to 50% or, even better, 80%?

Chart I-1: Improving the Success/Failure Ratio



The major reason for poor outcomes is that most of what is emphasized to the plan sponsor is in the form of a sales pitch. The plan sponsor is not being sold tried-and-true processes that are proven to improve outcomes—after implementation. Usually the plan sponsor has no data showing whether a certain idea or features makes any meaningful difference. I have always found it amazing that most retirement programs, self-directed brokerage accounts, mutual-fund subscription and ratings services, and investment recommendations are not analyzed for outcome effectiveness. In other words, no one ever looks after the service is introduced to see whether or not it has helped.

There are many well-written "technical" books about the Employee Retirement Income Security Act (ERISA) and the myriad rules and regulations about retirement plans. This book assumes that the plan sponsor has competent ERISA legal advice, as well as a competent plan administration group. The highly technical topics of plan administration and ERISA rules are not covered here. Likewise, this book is not a "CYA" approach to fiduciary liability. There is no question that ERISA fiduciary liability is a huge issue. However, I focus on improving success rates among plan participants. In other words, my approach is more pragmatic than legalistic.

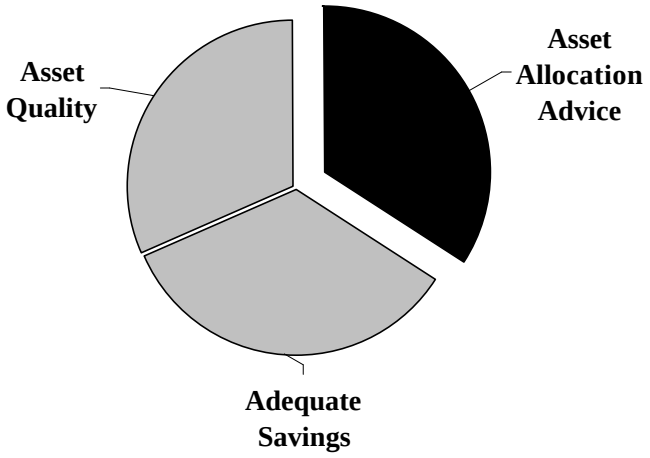
Some financial planning and investment books have a chapter or two on retirement planning and Social Security, but none of these really help the plan sponsor. They tend to be oversimplified and are often too optimistic. Universally, they contain advice that has not been proven to work after it is implemented by either the plan sponsor or the individual participant.

I liken the approach that many plans' sponsors take to selecting and managing their retirement plan to a professional golfer who is playing in the most important round of golf in his career. Imagine if the professional only played one round of golf once every five years! I don't think he would win often. Yet that's just what we do with retirement plans. Every three to five years, the human resources people or the chief

financial officer solicits proposals and picks a new vendor. They usually miss most of the important details, and they almost never make their decision based upon processes that are proven to work *after* implementation. They collect most of their information from the salesperson (the "pension consultant"), who has a vested interest in telling them whatever they want to hear to close the sale. The plan sponsors go from vendor to vendor and wonder why they never improve the outcomes of their participants. All too often they do not even know that the outcomes are poor.

This book will help you optimize the Three A's essential for a successful retirement: Adequate Savings, Asset Allocation Advice, and Asset Quality. Without sufficient savings, there is little chance of a successful retirement. Once the proper amount of savings has been put into place through the innovative programs described in this book, the plan participant must obtain a higher real rate of return (after inflation) than most are receiving today. Obtaining a higher real rate of return depends upon the proper asset allocation and on maintaining a high level of asset quality.

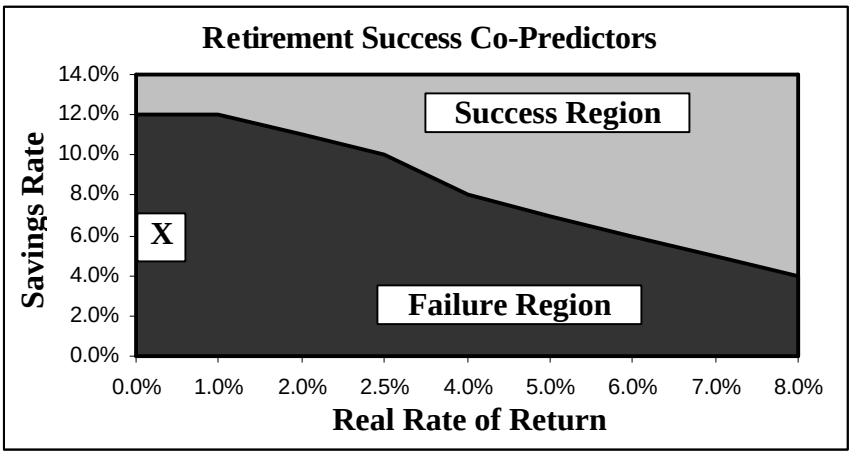
Chart I-2: "Three A's" of Retirement Success



An example of success/failure research can be seen in Chart I-3. It is the result of more than 500,000 retirement simulations of a thirty-year-old worker needing to replace 70% of his after-tax current income over his life expectancy in retirement. The worker can expect to receive some Social Security benefit, albeit reduced, and the rest must come from his retirement plan. Is he saving enough? Is he earning a high enough real (after inflation) rate of return? "Success" is defined as a 75% probability that the plan will work.

Keep in mind that the median worker saves 6% to 7% and earns an effective real rate of return of between -1% and +1% . The X shows where the worker falls in the "Failure Region" part of the chart.

Chart I-3: Savings Rate and Real Rate of Return Define Success or Failure Regions

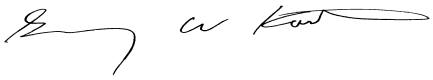


So, how do we help a worker move into the Success Region? How do we raise his savings rate and his real rate of return? We will guide you in putting together proven processes that can make a significant difference in improving outcomes. In addition, we have developed and perfected the fiduciary monitoring process that gathers asset information and combines it with data on the asset quality of the funds by using our patent-pending

Unified Fiduciary Monitoring Index®. Finally, in chapter 19, we describe the Unified Success Pathway™ for improved participant success, and in chapter 20 we demonstrate how to objectively review several proposals for ERISA services based upon outcome improvement factors using the Unified Proposal Evaluation System℠.

This takes into account everything discussed in this book to dramatically improve the plan participant's probability of retirement success. I trust that this will help you put together a sound program to allow your employees to successfully prepare for retirement.

Thank you.



Gregory W. Kasten, M.D., MBA, CFP, CPC
President
Unified Trust Company, N.A.