Why the UnifiedPlan® Is So Effective in Improving Outcomes

Dr. Gregory W. Kasten
Unified Trust Company, NA

Objective outcome data show retirement success is greatly improved with the UnifiedPlan[1]. The percentage of participants on track to retire successfully increased from 11% in the outside vendor managed plans, and 33% in the existing Unified Trust clients before the UnifiedPlan, to 66% after implementation. Participants in the UnifiedPlan also experienced better portfolio outcomes, typically with less portfolio risk and better risk tolerance matching. A remarkable 84% of eligible employees elected to fully participate in the UnifiedPlan, a managed account acceptance rate that is 10 to 12 times higher than industry averages[2].

The explanation for the UnifiedPlan success can be broken down into 10 factors**.**

1. **High Adoption Rate.** No system can be effective if only used by 5% to 10% of plan participants. The UnifiedPlan has a much higher acceptance rate (84%) than other approaches because it is a default driven pathway that ensures uniform adoption due to participant inertia.

2. **Advice Implementation Certainty.** Studies show web based tools and calculators are used by a tiny handful of employees, but even fewer implement the advice[3]. Without implementation no program can succeed. The UnifiedPlan is not a toolset but rather an actuarial solution that is fully implemented by the discretionary plan trustee. Implementation is the key to success.

3. **Asset and Liability Improvement.** The 401(k) industry almost exclusively focuses on the asset side the equation rather than the whole equation. The focus is on higher investment performance, "better" managers, "better" mutual funds, greater diversification, lower fees, etc. None of these actions have any impact on the other side of the equation, liability—which is the cost of retirement that the participant's 401(k) plan must bear. In order to become fully funded, the asset should equal the liability, giving an asset/liability funded ratio of 1.00 or higher. The key to success is to raise the asset and lower the liability.

[1] Kasten, G. "The UnifiedPlan® Dramatically Increases Retirement Success", October 2011, © Unified Trust Company, NA
[2] Financial Engines and Aon whitepaper "Help in Defined Contribution Plans: 2006 Through 2010", September 2011
[3] Helman, Ruth ,Mathew Greenwald & Associates; VanDerhei, Jack , Temple University and EBRI Fellow; and Copeland,Craig, EBRI. "The Retirement System in Transition: The 2007 Retirement Confidence Survey" EBRI Issue Brief No. 304 April 2007.

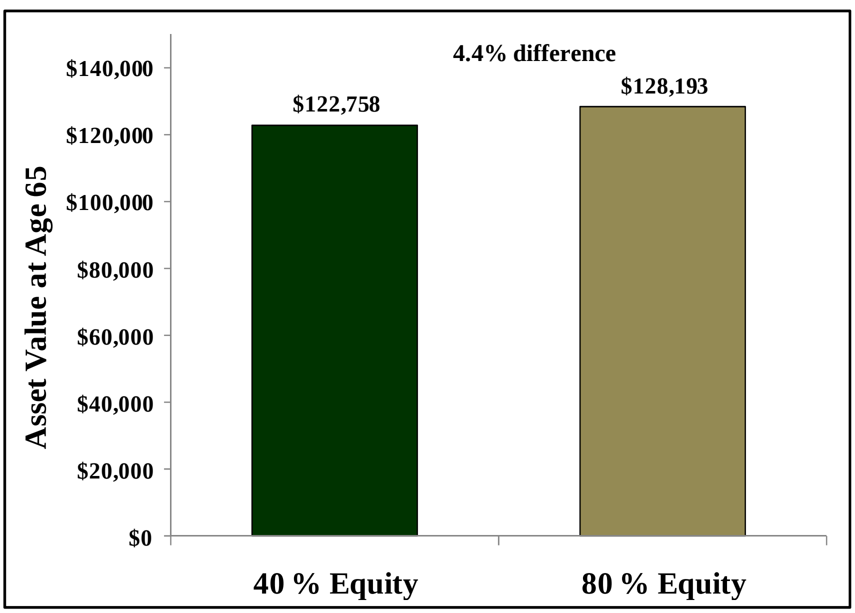
4. **The Actuarial Solution Makes the Most Difference.** Most often, a failing plan participant is told they need a higher investment return. For a pre-retiree, the move to a more aggressive portfolio makes only a tiny difference, and is vastly overshadowed by an actuarial solution that raises the asset and lowers the liability.

The greatest misconception in retirement planning for a pre-retiree is that they need to invest more aggressively

The actuarial solution matrix is far more effective.

Assume a 62 year old employee saving 10%, earning $50,000 per year, with a $100,000 account balance decides to invest twice as aggressively as before. They raise their equity allocation from 40% to 80%. Their expected return will increase from 5.6% for the 40/60 mix to 7.2% for the 80/20 mix if nominally stocks are forecast to earn 8% and bonds 4%. From age 62 to 65 the difference in asset values is less than 5%. In a bad year like 2008 the 80/20 investor could lose more than -31% of their asset value if things don't work out as expected.

Figure 1: Little Forecast Gain from Aggressive Portfolio for Pre-Retiree

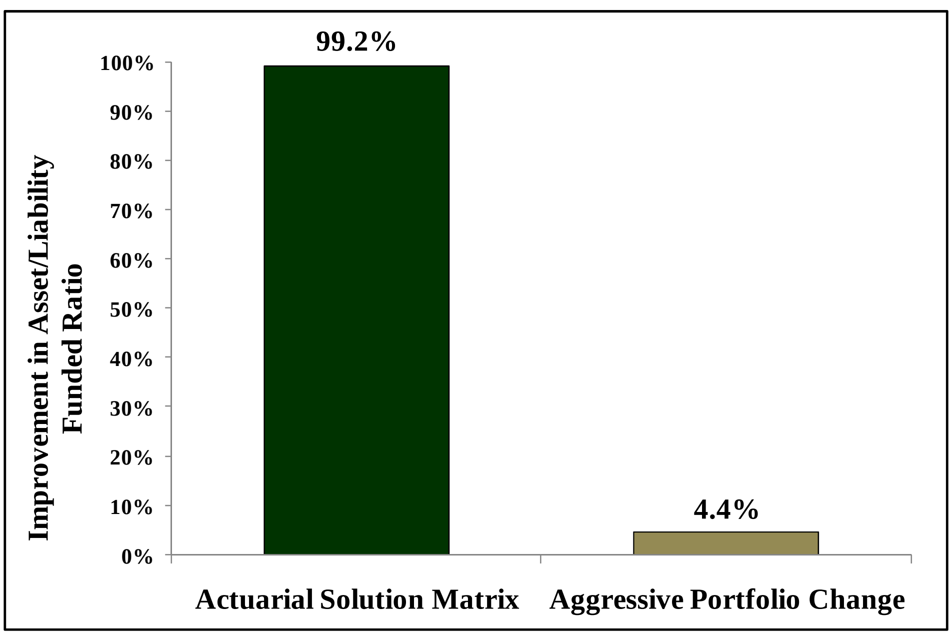


The asset liability actuarial solution can make a much greater difference in the participant's funded ratio. In fact, the difference is usually 10-25 times greater than the portfolio change impact[4]. In Figures 2 and 3 the participant's funded ratio in the moderate glidepath jumps from 0.542 to 1.081, a 99.2% increase! This dwarfs the 4.4% increase from a risky portfolio change shown in Figure 1.

Figure 2: Asset Liability Actuarial Solution Matrix

	Asset / Liability Funded Ratios			
Portfolio	**SSNRA**	**SSNRA +1**	**SSNRA +2**	**SSNRA +3**
Aggressive Glidepath	**0.547**	**0.670**	**0.845**	**1.107**
Moderate Glidepath	**0.542**	**0.661**	**0.830**	**1.081**
Conservative Glidepath	**0.538**	**0.654**	**0.816**	**1.059**
	Retirement Success Probability Rates			
Portfolio	**SSNRA**	**SSNRA +1**	**SSNRA +2**	**SSNRA +3**
Aggressive Glidepath	**1.4%**	**12.9%**	**47.4%**	**81.9%**
Moderate Glidepath	**0.5%**	**7.3%**	**37.3%**	**81.8%**
Conservative Glidepath	**0.2%**	**4.4%**	**33.9%**	**80.8%**

Figure 3: Large Improvement in Asset/Liability Funded Ratio for Pre-Retiree Using the Actuarial Solution Matrix



[4] Blanchett, D. and Kasten, G., "Improving Retirement Success by Managing the Target-Date", Journal of Pension Benefits, Winter 2011, Vol. 18, No. 2, pp 11-18

5. **Enrollment Meeting Presents the Answer, Not the Question.** The UnifiedPlan enrollment meeting is different. Most 401(k) meetings present arcane and difficult to understand investment theory and confuse participants with financial market uncertainty. The participant must then answer a number of questions, like, "Do you want to be in the plan?", "How much do you want to save?", "Do you want to be aggressive?", "Which portfolio suits your needs?", "Do want active or passive mutual funds?", "What do you think interest rates will do?" and "What is your inflation estimate?" The participant must then function as their own actuary, economist and investment manager.

The UnifiedPlan enrollment meeting instead presents the answer. Each participant is given a personalized report that defines their goal, which is to replace 70% of their income. It shows their required monthly income and forecasted monthly income on the actuarial retirement date. All actuarial inputs concerning savings and future savings increases based upon plan design are taken into account automatically. The most appropriate and prudent glidepath portfolio that produces the fully funded benefit with the least risk is automatically selected. It is implemented by the discretionary plan trustee. The selected portfolio is shown on the report. All the participant has to do is not opt out of the QDIA solution. Participants can also provide additional retirement information if they choose.

6. **The Solution Requires a Discretionary Trustee.** ERISA §403(a) clearly specifies who has the responsibility to manage plan assets. The primary responsibility falls to the plan sponsor and the plan trustee. ERISA envisioned that the plan sponsor would hire the trustee to make prudent decisions. Since the trustee was empowered to make decisions, they were always a discretionary trustee, and would take over day to day plan management.

Under ERISA, the discretionary trustee "shall have exclusive authority and discretion to manage and control the assets of the plan". Only a trustee with discretionary powers can manage the UnifiedPlan.

Today, most plan corporate trustees do not make decisions but instead are directed by the plan sponsor's retirement committee. The directed trustee is synonymous with passive trustee or custodial trustee. The custodial function is to safeguard or hold plan assets and to do what the plan sponsor instructs, although ensuring that only directions from the plan sponsor that are consistent with ERISA and the plan document are executed. Most, if not all, directed trustees disavow fiduciary status in their contracts. They do not give advice to the other plan fiduciaries regarding the assets in their custody, nor do they have discretion to make investment decisions.

Two relatively new fiduciary services are emerging. They are the ERISA §3(21) fiduciary and the ERISA §3(38) investment manager. Both provide more oversight than a directed trustee, but much less than the discretionary trustee. Neither of these services has the mandate, systems or discretion to manage the actuarial solution of the UnifiedPlan.

7. **Participant Portfolio and Actuarial Detail Is Exacting.** Each participant's portfolio and actuarial funded status is measured every quarter to make sure that is prudent by modern portfolio theory and also post modern portfolio theory and all parameters in the benefit policy statement. More than 700 total data points are collected and analyzed. This is a level of detail that ERISA §3(38) managers who are building asset allocation models or providing fund oversight cannot match since they do not know the participant's actual allocation on real-time basis. The plan sponsor can rest assured that the detail is managed prudently by the UnifiedPlan trustee.

8. **Asset-Liability Management Gives Highly Effective Asset Allocation.** The asset liability solution produces a logical adjustment of risk. Risk may be reduced when the client is overfunded-which typically is more likely to occur at market tops[5]. This makes UnifiedPlan very effective for prudent asset allocation without having to be able to forecast future financial market changes.

9. **Logical Benefits Based Reporting to Participants.** The UnifiedPlan initial and ongoing reports are logical because they focus on monthly retirement income needed and steps the trustee has taken to improve the success. Although web-based tools and calculators may seem interesting, in practice very few participants use them. The UnifiedPlan does not require the participants learn to use these tools or, more importantly, actually implement the results. If desired, a participant can add additional personal information to make it into a fully personalized financial plan.

10. **All UnifiedPlan Participants Have Appropriate Portfolios.** 100% of UnifiedPlan participants have appropriate portfolios for their age, funded status and generally accepted investment theory. Most participants investing on their own do not. This approach is also superior to a "blind" target date fund. A target date fund knows nothing about the participant's asset-liability funded status and whether or not the portfolio is appropriate to provide the required retirement benefit. In fact, the target date fund does not have any idea even what the benefit should be. The UnifiedPlan solves this problem.

[5] Blanchett, D. and Kasten, G., "Improving the 'Target' in Target-Date Investing", Journal of Pension Benefits, Winter 2010, Vol. 17, No. 4, pp 17-27