

Everything In Its Time: How 401(k) and Demographics Are Changing the World

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Overview

Where We Were

Where We Are

Where We Are Going

What We Will Find When We get There

Challenges

Conclusion



Where We Were

1947 Birth Of PSCA

Year	DC Plans	Active Participants
1947(Approx)	3,000	>2 Million

1975(DOL)	Plans	Active Participants
DC Plans	207,748	11,217,000
DB Plans	103,346	27,214,000



Where We Are

Employers Make it Happen:
Little Else Does

The More Committed The Employer:
The More it Happens

PSCA Makes It Happen
For The DC System



Where We Are—The Money

Retirement Assets (Federal Reserve, ICI)

	1994	2006
Private DC	\$1.16T	\$3.28T
403(b), 457	\$0.24T	\$0.88T
IRA/KEO	\$1.06T	\$4.23T
Private DB	\$1.28T	\$2.31T
State & Local Governments	\$1.11T	\$3.02T
Federal Government	\$0.51T	\$1.14T
Annuities (Non Plan or IRA)	\$0.52T	\$1.62T
Total	\$5.91T	\$16.38T



Where We Are—DC Plans

DC Accumulations (Vanguard)

	2001	2003	2006
Average	\$47,718	\$58,199	\$75,791
Median	\$15,388	\$21,182	\$25,953

DC Accumulations (1999-2006 participants) (EBRI/ICI)

	1999	2006
Average	\$67,760	\$121,202
Median	\$24,898	\$ 66,650

Year	DC Plans	Active Participants
2004(DOL)	683,070	52,158,000
2007(Est)	700,000	55,000,000*

*Does not include employer sponsored IRA programs, 403b, 457 and Federal Thrift Plan

Where We Are—DC Plans

Workforce Plan Participation Comparison (BLS)

Benefit	Access	Participation All	Fulltime
Healthcare	71%	73%	75%
DC	55%	75%	79%



Where We Are—With The Counts

Clarification: Only Employees have access to a plan.

The law for retirement plans: Those employed by another between the ages 21 and 65 who work 1000 hours per year.

This is not all in the workforce:

- Part-time workers
- Self-employed
- Independent contractors
- Those employed in the underground economy
- The unemployed

For political reasons, let's get the participation numbers right!



Where We Are—DC Plans

The Median Participant Outlook Age 45

Year	2007	2029m	2029f
Age	45	67	67
Income	\$45,000	\$86,225	\$86,225
Account Balance	\$78,834*	\$770,771	\$770,771
Single life Annuity		\$63,388**	\$60,564**
Social Security		\$36,214	\$36,214
Total Retirement Income		\$99,603	\$96,778

Assumes 8% return, 10% contribution(7%ee,3%er), 3% salary increases

*EBRI/ICI

**Immediate Annuities.Com



Where We Are—DC Plans

The Median Participant Outlook Age 35

Year	2007	2039m	2039f
Age	35	67	67
Income	\$35,000	\$90,128	\$90,128
Account Balance	\$38,693*	\$1,146,790	\$1,146,790
Single life Annuity		\$97,296**	\$90,000**
Social Security		\$37,854	\$37,854
Total Retirement Income		\$135,150	\$127,854

Assumes 8% return, 10% contribution(7%ee,3%er), 3% salary increases

*EBRI/ICI

**ImmediateAnnuities.Com



Where We Are—DC Plan Trends

The Move To 401(k)	1994	2004
Active 401(k) Participants As Percent of Active Private Employer DC Participants	62.5%	85.1%
401(k) Plans As Percent of Private Employer DC Plans (DOL)	28.2%	65.9%



Where We Are—DC Plan Trends

Managed Investment Options (life style, target date, etc.)

2006	53.5%
2001	32.1%
1996	12.1%

Automatic Enrollment

2006	23.6%
2001	9.6%



Where We Are—DC Plan Trends

Automatic Enrollment With EE Contribution Escalation

2006	31.2%
2004	8.5%

Voluntary Account Retention In Plans, Number of Accounts

2006	19.6% of plan accounts (PSCA 50 th)
2004	12,468,000 (DOL)
1989	2,457,000 (DOL)



Where We Are—Demographics

Gender	50% Chance	20% Chance
Female	Age 88	Age 94
Male	Age 85	Age 92

U.S. Average Life Expectancy 78 and climbing

Social Security

Still the Third Rail of American Politics

Not in Hillary Clinton's Top 10



Where We're Going

National Retirement Income

Social Security, The National DB System

42% of final median wage pay

Employer Sponsored DC, The Source of Retirement Wealth

2000 \$ 29,700

2040 \$452,000 (in 2000 dollars, historical rates of return, Poterba, Venti, Wise)



What We Will find When We get There

New definitions, maybe without the word retirement

- Youth
- Young adult
- Middle age
- late age
- Final stage
 - Fully Independent
 - Assisted living
 - Fully dependent care
 - Hospice



What We Will find When We get There

Goals

Having what I need when I need it

Having personal wealth management, not relying on promises

Innovative Thinking

Annuities as an investment strategy

Consume taxable distributions delay Social Security



What We Will find When We get There

From Participants: High Expectations

Of companies--programs that put employees on the path to financial security and help keep them there, even after retirement.

Of providers—flexible, high quality, expert, ethical solutions.

Of themselves—greater financial sophistication, longer, more flexible work lives



What We Will find When We get There

For Companies: More Involvement

Every established company will have a DC plan

- Employees will demand one

Automatic approaches will be common

- Employees will have the final say
- Get the bottom up without losing the top

Plans will be customized

Companies will continue to be major source of financial information, but will now have help

Plans use independent expert advisors (64% in 2006)



What We Will find When We get There

For Companies: More Involvement (Continued)

More attention to DC at senior levels

- Liability
- Bang for the buck
- It may be the last benefit standing
- Its their money too, and there is so much of it

Managing vendors

Fiduciary oversight will be seen as major value of qualified plan system



What We Will find When We get There

For providers: all the work and less pay

- Its all outsourced
- More sponsor oversight
- Independent experts help with provider supervision
- Pressure for customization
- Complete disclosure
- Lower Fees
- New solution Challenges



The Challenges

Over 90% of those over 65 are living above the poverty level and that number is rising.

The financial well-being of those in late age should continue to improve if:



The Challenges

Keeping the government role right

PSCA will be doing all it can

Aggressively helping participants without taking responsibly for the outcome—its theirs

Keeping our economy strong

DC plans are delivering trillions of dollars to capital markets

Managing the costs of healthcare

Managing all of that money effectively



Conclusion

Living long provides the solution
for long life-compounding

DC plans are the ultimate compounding
machine

It's The Employer More Than Ever And
That's a Very Good thing!

Thank You!

