



Retirement Savings: Who's on your team?

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The discussions about Defined Benefit and 401(k) plans have been on the front pages of newspapers across the country for many years now. We need to realize that both plans have the same goal- **creating a benefit stream for retirement income**. A DB plan defines the benefit upon retirement and a 401(k) plan only defines the contributions into the individual account. When comparing the two approaches to retirement planning, we need to examine which one provides the most professional support and lowest cost to help achieve the retirement income goal.

Remember this equation for later:

$$\text{Contributions} + \text{Investment Returns} = \text{Retirement Benefit}$$

The players on each team:

A DB plan has a board of trustees that have fiduciary responsibility for the management of the fund. They utilize the following players to achieve long term investment goals: investment consultants, actuaries, a long term Investment Policy and professional institutional money managers.

A 401(k) plan allows an individual to manage their account on their own, and all buy and sell decisions are made by the individual. 401(k) plan providers offer web based tools and telephone support however the 401(k) provider does not have full discretion over the investment decisions for the individual. In the end the performance of the account depends on the individuals "investment skill".

Both plan types must deal with investment risk, market timing decisions, asset allocation, market fear/greed and information overload. The DB plan provides a specialized team comprised of professionals that are dedicated to managing pension assets with long term investment horizons. 401(k) plans give individuals limited support and the investment results vary depending on the "investment skill" of the individual. How many of your friends and neighbors claim to possess "investment skill?"

It does not sound like a fair game will be played between these two teams since the DB plan has better support and structure for long term success than a 401(k) plan. A DB plan provides municipalities and their employees with the best support system to help individuals achieve their long term goal of retirement income utilizing a professional investment team.

The equation listed above has two main components: contributions and investment returns. Both components are under the greatest strain in decades right now, and, unfortunately, short term decisions are being discussed that will have dramatic long term ramifications on the retirement income for employees across the country. It is important to keep in mind that the equity markets have seen the worst 10 year returns since the 1930's and many municipalities are under pressure to make bigger contributions as well. These two short term events still favor the DB plan because it provides the structure for planned contributions and a higher probability for long term investment success. DB plans require continuous contribution streams in good times and bad to help accomplish victory at the end of the retirement planning game.

Investing and saving for retirement requires long term focus, discipline and professional consultation - all of which are provided by a DB plan. There are times when the structure seems onerous; however, it is necessary for long term success and the players on the team will help to achieve the long term goal. A 401(k) plan does not provide the individual with the proper supporting cast of teammates to achieve success and a losing season has dramatic affects on a person's retirement income. This is a game that individuals cannot afford to lose. The DB plan continues to provide the best solution to get through these adverse short term events and assures that the best team will win in the long run.