



# ACI Advisors Corner

## Sometimes the simplest things need to be said— They just may make a difference

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A year ago the personal savings rate in the U. S. was negative by as much as 5%. Today it is positive by about 5% brought about by a forced re-thinking of spending habits. **That's a 10% swing...wow!** Those that argue for more government stimulus think that this dramatic turn-around in personal savings is bad for the economy—the less we spend the worse the economy gets. In economic terms this is known as the Paradox of Thrift.

We are told by those who “seem to know” that the recession is likely to bounce up and down for years not months. Employers are looking to find ways to dust off their business models and regain profitability. Many have suspended or cut back on the contributions to their company retirement plans. Traditional and cash balance defined benefit plans are being frozen on the theory that it would be better to get the plans fully funded before they start accruing more liabilities and 401(k) plans have reduced or ceased their matching contributions at least temporarily.

So the question is, **how can we, as knowledgeable advisors to retirement plan sponsors, make the case that personal savings is absolutely necessary for individual financial health?**

Here are a few of the simplest thoughts for plan sponsors that just may make a difference if done with thought.

- **Financially strapped employees cannot keep their eye on the goals of the company or enterprise.** What plan sponsors can do to express the shared responsibility for employees' financial wellness is to make education available on how money works and the need to have a financial plan that is geared to the employee's life plan?
- Even if the plan sponsor has suspended employer contributions to their plan, can they **strongly encourage employees to continue or even increase their 401(k) deferrals?** Show their employees how dollar-cost-averaging works.
- Show employees **how the equity and bond markets work**; and how the various asset classes are important to understand in building a diversified portfolio.
- Help the Plan Committees develop **prudent fiduciary processes** so that the plans offer the right investment products for their employee savings. Today's target date maturity funds and “high water mark” products **are complex financial instruments** and more are on the way. Most vendors and the federal government are very focused on these evolving products right now!
- Provide real education on how their Plan(s) work in **systematically saving money in a tax free environment** that has both **creditor and bankruptcy protection**.

Some of the above may actually help you rethink your own business model. We would be delighted to find out what your ideas are and discuss any of these ideas with you.

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