

Fiduciary Standards Board

401k Right... Making ERISA Plans Serve the Interest of All Stakeholders

The Fiduciary Standards Board (FSB) has organized a campaign to address the flaws that exist in so many employer sponsored retirement plans. These flaws can injure the entire spectrum of individuals and institutions involved in the pursuit of a secure retirement for the nation's past, present, and future workers.

This article describes:

- **The Need...** Why 401k Right is important *now*.
- **The Stakeholders...** Who benefits from 401k Right.
- **The Flaws...** Where current practices need to be improved.
- **The Campaign...** How 401k Right accomplishes its mission.
- **The Now Solution...** What can stakeholders do right now.

The 401k Right campaign is designed to show stakeholders financially viable alternatives that are easily implemented and improve business practices, resulting in lower risk, limiting liability, increased enrichment of stakeholders and purging of bad actors who take advantage of vulnerable stakeholders.

The Need

The continuing expansion of the retirement industry to several trillion dollars is an irresistible temptation to follow in the footsteps of criminals such as Matt Hutcheson, who made off with over \$5 million from retirement plan clients, and Bernie Madoff who stole billions from investors retirement funds.

These cases are the ones that were discovered after billions of dollars of retirement funds were lost, but they are certainly not the only ones that exist.

The cases are evidence of the need for stakeholders to be vigilant and on the lookout for copycats and other innovators of malfeasance.

401k Right shows ways for stakeholders to protect themselves from the damage that bad actors can cause financially and to a firm's image and reputation.

The Stakeholders

401k Right supports the mosaic of individuals and institutions that play vital roles in the employer sponsored retirement plan industry.

This mosaic of stakeholders originates with the worker whose retirement is funded by the plans. The funding source is the employer who sponsors the plan and provides the funding through salary deferrals and direct contributions. Experts make the retirement plan operational by providing a variety of services, including consulting, plan design, administration, record keeping, investment advice, investment management, education and auditing.

401k Right supports workers by presenting employers with smart ways to maximize the benefits delivered by the plan.

Employers are supported by comprehensive evaluation of the experts that serve the plan.



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Experts receive support in the form of [certifications and credentials](#) that separate the qualified and quality providers from the bad actors.

The Flaws

The flaws of today's retirement system can be categorized into three general areas of exposure:

- Blind Faith
- Impossible Expectations
- Market Risk Assumptions

In spite of revelations of errors and malfeasance in large and small institutions and by individuals who cheat the system, great numbers of stakeholders have blind faith that those around them have only their best interest in mind. This is in the face of those whose disclosures contradict the belief and those who are silent on the subject.

The result of this blind faith is that hundreds or thousands of bad actors have the opportunity to prey on vulnerable stakeholders with impunity.

There are many widely held expectations regarding the ability to have a secure retirement that are reinforced by some who benefit from the expectations and others who don't know any better. Examples of impossible expectations are that investing can by itself produce a secure retirement and that there are investment strategies that produce maximum returns without risk.

The result of these expectations is inadequate funding of the retirement plan with the consequence of delayed retirement or a lowered standard of living throughout retirement.

It is a widely accepted, but incorrect assumption that market risk in an asset class stays the same and that fluctuations in value of certain asset classes occur independently of certain other classes (non-correlation). The facts of history contradict to these beliefs. It has been proven that the probability of a market decline (risk) increases as the market goes up and decreases as the market goes down.

The false assumptions about the non-varying nature of market risk have resulted in static asset allocation programs with automatic rebalancing that actually produce lower returns for investors.

The Campaign

The 401k Right campaign raises the awareness of all stakeholders of possible flaws and suggests easily implemented and low cost remedies.

The initial targets of the campaign are plan sponsors. The goal is to raise the awareness of the need to conduct the modest level of due diligence by asking experts for credentials from an independent source. This initiative is expected to have two effects. The first effect is to put bad actors on notice that plan sponsors are becoming cautious. The second effect is to encourage the qualified and quality experts to obtain independent credentials.

The next phase targets experts. Experts are provided with [credentials](#) that further secure the relationships with existing clients and also present a compelling case to prospective clients.

The final phase of 401k Right addresses the widely held and exaggerated expectations of the ability of smart investing to provide a secure retirement.

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The Now Solution

Stakeholders can take simple and immediate steps to lower the exposure to flaws that affect them. The top priorities are:

- **For Workers:** Recognize that prudent investing alone is not sufficient to fund a secure retirement and savings should be raised to 15% to 20% of pay and retirement spending should be limited to under 4% of retirement funds.
- **For Employers:** Protect the organization and yourself by requesting independent credentials that show the qualifications of the experts your trust (*not self serving documents prepared by the expert's own firm*).
- **For Experts:** Obtain independent credentials that are authorized by the Fiduciary Standards Board such as the [Registered Fiduciary](#) (*not those issued by your own firm*).