

The Risk of Outliving Your Assets:

Helping Executives Take Charge of Their Financial Future



BY BOB SHIER, PRESIDENT, AND
TIM WILSON, SENIOR VICE PRESIDENT,
MULLINTGB ADVISORS



To derive the maximum benefit from compensation packages, investment portfolios and other assets, corporate executives and managers may need financial education to help them make better-informed decisions about their future. By reducing some of the anxiety about personal finances and increasing awareness and acceptance of strategic retirement planning and other goals, executives, managers and employees become more loyal and productive workers.

It's a fact: Americans have become big spenders, not big savers. In fact, some personal finance experts estimate that the average American works roughly 40 hours and saves less than 15 minutes a day of income per week¹.

Unfortunately, this decline in personal savings rates coincides with the decline of the traditional corporate pension plan and the rise of serious concerns about the future of Social Security. The Employee Benefit Research Institute reports that today's workers can expect to receive only one-third of their retirement income from Social Security and traditional company pension plans². As a result, Americans' approach to retirement income planning has had to change.

The result of the two aforementioned trends—individuals saving less of their own money while living in a society where little financial security can be relied upon from others during retirement—is that millions of Americans are left with no comprehensive financial plan for their future. According to a recent study by the Center for Retirement Research at Boston College, nearly half of all Americans are at risk of being financially unprepared for retirement³.

Although the Pension Protection Act of 2006 took steps to address some of the serious concerns about retirement by offering additional tax incentives to help employees meet their retirement needs, it forgot one important component: education. While it is true that workers are given more opportunities to put retirement funds aside to make up for lost pension benefits, who is going to help manage that money? Pension fund managers in charge of a plan's funds typically enlist the help of numerous investment professionals to sub-advise on underlying investments and the appropriate asset allocation of the pension funds given the estimated timing of payouts. Shouldn't individual investors in charge of their own financial futures use tools to manage their portfolios as effectively?

There have been many cases of executives lacking appropriate financial education, from one keeping \$1 million in the money market fund of his deferred compensation plan to another "conservative" investor having 50 percent of his 401(k) in an emerging markets stock fund.

Regardless of being knowledgeable and well educated, countless executives basically ignore their 401(k)s and other benefit plans. How often do they reassess their financial goals or examine their asset allocation? More importantly, how do they measure the worth of their complete benefits packages and align them with their financial goals? Unfortunately, many executives find they lack the time and the resources to truly make the most of their benefit plans.

With all the concern about employees needing to plan more diligently to ensure they have sufficient retirement income, the issues surrounding a lack of education and financial planning assistance is finally coming to the surface. Companies now are considering providing asset management services within 401(k) and deferred compensation plans. More are considering offering financial planning benefits to all of their employees, not just C-suite executives. Providing education to employees and executives is typically well received, and can be a cost-effective way to enhance company benefits without putting new plans in place. By taking advantage of corporate-sponsored financial advisory services, executives are simply learning to make the most of the programs they already have available to them.

Why should companies be so concerned about the financial well-being of their executives? Perhaps, more importantly, why should they provide resources for their people to help themselves? There are at least three compelling answers to these questions:

1. Proper executive financial education and assistance is a powerful recruitment and retention tool because it represents an added benefit of working at your specific company;
2. It may be just a matter of time before a class-action lawsuit is brought against a major company, claiming that they left their executives ill-prepared to face their financial futures because the employer did little or nothing to assist the executives with the management of their retirement assets; and
3. By having professional education and guidance on financial planning, executives can better focus on their jobs at hand, which ultimately will benefit the company and its shareholders. 

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¹ David Bach, *Wealthtrack.com*, June 9, 2006

² Fred Yager, "Worried About Outliving Your Assets?," *ConsumerAffairs.com*, Oct. 30, 2006

³ Jacob Hacker, Ph.D., professor of political science, Yale University, in testimony before the House Committee on Ways and Means, Jan. 31, 2007