beyond WEALTH

401(k) THE 4:8 WAY

THE SERVANT LEADER'S GUIDE TO

401(k) PLAN DESIGN

ROBERT BOVE

Advantage®

Published by Advantage, Charleston, South Carolina.
Member of Advantage Media Group.

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Printed in the United States of America.

To my family: Laurie and two beautiful daughters, Krystina and Alyssa. To my Return on Life coach, Mitch Anthony.
To Dan Solin, author and pied piper of passive management, and the folks at Dimensional Fund Advisors (DFA).
To my colleagues at The 4:8 Group: Nancy, Angie, Billy, and my good friend Mike Ziccardi.

Throughout the course of this book there are particular references that the author makes to the financial concept of creating "Paychecks for Life."

The author's reference to Paychecks for Life is not an actual W-2 paycheck that you would receive from an employer. It refers to a concept of creating an income stream from your retirement plan throughout your lifetime after you have stopped working.

There is no guarantee implied by the author that this income will be created if you do invest in your 401(k) plan. The reader should understand that withdrawals from a 401(k) are not a guaranteed amount and there is no guarantee that by saving money in your 401(k) plan you will be assured of a retirement income for life. Withdrawals from a 401(k) plan differ markedly from earning results from a salary or wages (a paycheck) because this type of income is not generated in the same manner and differs in how much income is generated, growth potential, tax treatment and renewability.

The readers should always seek the advice of a knowledgeable financial advisor and or accountant when planning their retirement and matters pertaining to their personal taxes.

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INTRODUCTION

WHAT DOES IT TAKE TO BE *READY* TO RETIRE?

A gentleman asked me this question not long ago. He had spent his whole career focused on "the number"—how much money he needed to have at the end of his career in order to be ready to retire successfully. As retirement approached, though, he realized more and more that he was not ready, even though he had hit his number! Not because he had miscalculated the number; no, in fact he had plenty from a wealth standpoint. Still though, he had never actually thought about the transition to retirement from the point of view of the impact it would make on his life.

"I spent the last thirty-five years getting up every morning, going to work, and doing a good and meaningful job; and now what?" As we talked, it became clear that he felt lost, lacking meaning or purpose. Now that he was going to stop working, what was going to get him out of bed in the morning, to give him purpose and fulfillment?

Sadly, many people find themselves in this same situation at retirement—even those who can afford to retire from a monetary standpoint are not ready from a life standpoint. They've spent their entire career focused on what they thought was the important part:

the money, the number, the return on investment (ROI). But they ignored the important things that go *beyond* wealth: what author Mitch Anthony describes as their "Return on Life" (ROL).

As an advisor, I use Mitch's term to help me educate 401(k) participants on the importance of ROL in addition to ROI, and I assist plan sponsors in proper 401(k) plan design that will allow the participants to focus on ROL and generating their own "Paychecks for Life®" and reaching their own definition of desirement, not Wall Street's definition.

I call my approach the 4:8 way because it is inspired by a verse from the Bible: the Book of Philippians, chapter 4, verse 8:

> Finally, brothers and sisters, whatever is true, whatever is noble, whatever is right, whatever is pure, whatever is lovely, whatever is admirable—if anything is excellent or praiseworthy—think about such things.

Regardless of what a person's faith is, I think this verse can speak to him or her as a piece of guidance for the heart. It encourages us to make good choices in life, to pay attention to the experiences and people we value the most. Focusing on these things, and acting on this basis, is what leads us to lives of fulfillment and meaning. I appealed to this verse (which I have on a plaque on my office wall) when helping our retiring friend reorient his attitude toward his upcoming retirement.

If you're reading this book, you are a leader of your organization. Evidence shows that the most effective leaders understand their leadership role as, first and foremost, *serving* those they lead. The important role of a plan sponsor in particular is to serve employees by providing a retirement plan that will allow them to attain the highest Return on Life possible. This book is your guide to doing so. One way to serve employees is to help them to focus on what is really valuable and important to them. Plan sponsors can contribute to this by including a simple, but meaningful, engaging educational component to every enrollment meeting as well as quarterly educational meetings for their employees.

Plan sponsors also need to focus on what is true by following evidence-based methods in 401(k) planning—which will allow their plan's participants to focus on their ROL without having to worry so much about their ROI. I believe the best question people can ask themselves in preparing for their desirement is "What and who in your life makes you the happiest?" Then they should arrange their finances to keep those people and those experiences front and center throughout their life. This book serves as a guide for employers to lead with a servant's attitude in providing their employees with a 401(k) plan that will help them receive a healthy ROL.

AGAINST THE MYTHS OF WALL STREET

For years, Wall Street has been shoving myths down our throats about investing for retirement, the two main ones being: (1) that preparation for retirement is just about the number and (2) that the best way to maximize that number is through high-level, strategically active managed investing—timing the market and selecting the "hot" mutual fund of the year.

I respond to the first one by encouraging those I advise, both plan sponsors and participants, to think beyond wealth. In order to have a successful retirement—or, as I prefer to call it, *desirement*—you need to have not only your wealth in line, but you need to have your family life, your social relationships, your health, and, for some, your faith in line. Based on my experience in this field, I don't believe anyone can have a successful desirement with one of those missing. People who only pay attention to the ROI, to the number, are setting themselves up for trouble.

Mitch Anthony defines successful desirement as having enough *purpose* to get you out of bed in the morning while also having enough *wealth* to let you sleep at night. Retiring is a major life transition, totally disrupting a routine that sometimes has been in place for more than three or four decades. As an advisor, I try to educate plan participants to help them become aware of this and begin thinking about what will give them meaning, purpose, and fulfillment when they make that switch. Set aside the wealth question for a minute: if money weren't an issue, what would you desire to do with the rest of your life?

Of course, running out of money in retirement is a huge problem—and I will discuss many ways plan sponsors, as servant leaders, can potentially help people avoid that in this book. On the other hand, I've seen a lot of people retire with plenty of money put away, but they haven't been able to sustain a lasting marriage, they've lost touch with their kids, they don't have a strong social network, they don't take care of their health, or they've lost touch with their faith—and I would not call that a successful desirement either.

The Wall Street picture of retirement—something like a couple relaxing on the beach, dressed all in flowing white clothes and sipping champagne—is an illusion for most people. Even if you can put aside the millions you would need to fund an extravagant retirement lifestyle—which most of us can't—having that money does you no good if you haven't thought about the bigger picture of what gives you purpose.

It's important to keep in mind that if your retirement doesn't look like the Wall Street picture, that doesn't mean you have failed. Through all of my years in this business, the one thing that I've learned is that life isn't about money; it's about life! 401(k) participants should not let Wall Street define their retirements. Our clients define their own desirements; and, once they have done so, that desirement is attainable if they are disciplined in following a few simple, evidence-based rules like the ones laid out in this book.

Here is where a good 401(k) advisor comes in. The responsibility of a knowledgeable 401(k) advisor is to work with the plan sponsor to design a plan that is courageous and creative, one that will engage and motivate participants to become active and accountable for their defined desirement. This will also help them focus on how they want to spend the rest of their lives after work—identifying the people and those experiences that are most important to them—and then to put a plan in place that will help them pay for it.

This brings us to that second myth—that success requires high-cost, actively managed investing. The fact is that some evidence suggests otherwise, and plan sponsors would do well to heed the evidence and ignore the Wall Street myths.

FOLLOW THE EVIDENCE

Everyone is entitled to his or her own opinion; however, no one is entitled to his or her own facts. Staying focused on what is true means making good decisions based on evidence. This is why the philosophy I encourage for plan sponsors is one of simple, evidence-based investing. This involves using low-cost, passively managed, and globally diversified index funds.

There is evidence to support this philosophy. For example, according to Standard and Poor's SPIVA 2016 mid-year performance report, over a ten-year period, 87.47 percent of all actively managed equity funds underperformed their respective benchmarks. Standard and Poor's January 2016 Persistence Scorecard reported that only .28 percent of the funds in the top-performing quartile in September of 2011 remained in that quartile in September of 2015.

In other words, the actively managed funds consistently underperformed, and those that had performed well did not continue to do so in the long term. For that reason, I believe that, in order to effectively serve participants and provide them with the possibility of a successful desirement, leaders should consider whether it is appropriate to offer these funds in their plans. We will discuss the pros and cons of both in the following pages.

Wall Street strategists who try to game the market remind me of drummers who perform very flashy techniques and extravagant solos in which they do tricks like throwing their drumsticks behind their backs. These flashy folks screw up a lot, and when they do so, they screw up *spectacularly*. As a drummer myself, I keep to a philosophy in drumming that is a lot like my philosophy on investing: I keep it simple and don't draw too much attention to myself; I get in the pocket and I stay there.

The audience should never notice the drummer; and they most likely won't if he is disciplined and sticks to a philosophy of simplicity. Similarly, in your 401(k) plan, you want simple, yet proven, investment management strategy based on evidence and academic research. What many fail to remember in life as well as investing is what Leonardo da Vinci said: "Simplicity is the ultimate sophistication."

LEARNING FOR LIFE

I recently secured a new 401(k) client, and the plan sponsor called me up to ask if I could speak to his employees who were questioning the fees on their quarterly statements. I had already shown him how these fees were actually much lower than what they had been paying before, although the previous fees had been hidden in the plan design while the new ones were transparent; now he wanted me to explain this plainly to the employees. He ended with, “Could you also talk about what the market is going to do, so they know a little bit more about how to manage their investments and what the returns are going to be?”

At the meeting, I opened by saying, “The first thing I’m going to talk about is the market—and the second thing I’m going to talk about is why I’m never going to talk about the market again.” First of all, we don’t know what the market is going to do, and secondly, they typically don’t really want to even understand what the market is going to do. As I explained to my audience, talking investment strategy for plan sponsors and plan participants is just a Wall Street performance; no one knows exactly what the market is going to do, and trying to time the market simply doesn’t make as much sense as maintaining a focus on an evidence-based investment philosophy and return on life.

So instead of talking about investing and what the market is going to do, I actually educate participants on what matters most. I talk about the importance of ROL as well as ROI. I aim to really engage participants, to motivate and inspire them to think about what steps they need to take to attain their desirement.

The evidence tells us the same thing that Philippians 4:8 tells us: you will benefit most in life if you focus on what is really true, noble, excellent, and real and if you are disciplined in actually taking an action on that basis. Prudence and discipline in this respect will help participants have a successful desirement, however they define it. It’s up to the plan sponsor, as a servant leader, to provide participants with a quality plan design, as well as to develop their ability to invest wisely.

This brings us to the last of the myths or misconceptions around 401(k)s: the idea that employees will be resistant to participating. The crucial factor here is the level of education your plan's advisor is providing to eligible participants. The plan sponsor needs to actively engage the employees and educate them on making the right choices toward having the desirement that they choose—not the unattainable one that Wall Street puts out there. If you, as a plan sponsor and a servant leader, engage and encourage your employees properly, they will participate; and if you follow the evidence-based strategies found in this book, they can potentially succeed. "If you build it, they will come," said Terence Mann (James Earl Jones) to Ray Kinsella (Kevin Costner) in one of my favorite movies *Field of Dreams*. Design your plan the right way, hire an advisor to educate your employees in a way they can relate to, and I'm confident they will come!