

## **Financial Education in Automatic Plans** *As Important As Ever*

Defined contribution plan sponsors and service providers have long sought to educate employees about retirement planning and saving. The goal of financial education in the workplace has largely been to change behavior, to make savers and investors out of often disinterested or preoccupied employees. The results indicate that education alone is not enough to create widespread changes in savings behavior. However, when combined with behavior finance strategies such as automatic enrollment and escalation, a well-designed financial education program can help employees not only save more, but save and invest wisely.

A well-structured automatic plan helps solve many long-standing participation challenges. By simply doing nothing, employees become plan participants. Under many arrangements, employees' contributions grow automatically over time and their money goes into a fund appropriate for long-term investing.

But automatic plan design doesn't solve every challenge. It gets people past the barriers of procrastination and inertia, but it doesn't inform them, or addresses the staggering lack of financial literacy among American workers. Financial education does.

Automatic plan design sets a new paradigm for financial education in the workplace. Since the goal of getting employees in the plan can be met largely through automatic enrollment, sponsors can focus on what participants need to know about the value of the plan, and how to use it to achieve financial security in retirement.

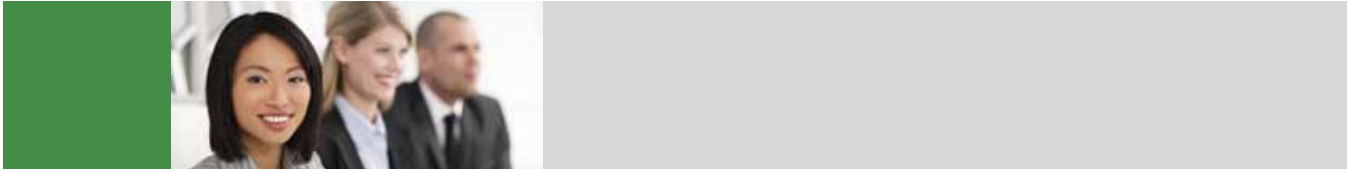
### **A Look Back**

Financial education of defined contribution plan participants began to catch on in the mid-1990s. Soon after, the Department of Labor began issuing guidance on permissible education practices in ERISA-covered plans. Much of the early focus was on advising plan sponsors on how to avoid the fiduciary liability that can come with offering specific investment advice.

In recent years, sophisticated investment guidance has replaced generic financial education. Plan sponsors now offer a range of educational materials and resources, from personalized statements and asset allocation modeling tools to one-on-one financial counseling.

### **Financial Education Best Practices**

Successful financial education programs share common traits. First, they don't rely on a one-size-fits-all approach. Programs geared to employees based on certain characteristics, such as participation status, income level, primary language and others are more effective than those that rely on generic information. The more personalized the message and the materials, the more successful the program.



Second, successful programs are continuous. Simply offering a one-time seminar or sending out a single communication won't accomplish much. Rather, the program should have an extended time horizon and make use of all available communication channels. Many plan sponsors use posters, voice messaging, e-mail, home mailings, seminars, asset allocation tools, intranet sites and even social networking tools to educate, reinforce key concepts and drive action.

One-on-one financial counseling appears to be the most highly regarded by employees, and the most useful. Surveys document the common refrain of, "Tell me what to do." One-on-one counseling can range from providing basic information on investment classes to setting specific financial goals.

### How Financial Education Can Benefit Your Organization

The reality of widespread financial illiteracy in the U.S. is well known. Financial education geared to increasing literacy serves many needs, from the individuals and families who will benefit from better decisions, to investment companies who reach more informed and interested investors. The 2009 National Financial Capability Survey found that few Americans appear to be knowledgeable about fundamentals such as basic financial math, the impact expenses can have on return or how to comparison shop for financial products.<sup>10</sup> But how does the employer benefit?

By providing financial education, you are highlighting the value of your 403(b) plan. As employees' understanding of the plan's value grows, appreciation of their employer and their job tends to grow, too. In fact, a Prudential study found that effective communication can have as much of an impact on worker satisfaction with benefits as the range of benefits offered.<sup>11</sup>

A 2009 survey of chief financial officers found that employee concerns over personal finances have an impact on the working environment and on their organizations.<sup>12</sup> The survey also revealed that employees are increasingly looking to their employers for guidance on retirement savings, and to a lesser extent, financial planning in general. Organizations that seek to meet these needs gain the benefit of more financially confident workers who have a greater appreciation for their employer.

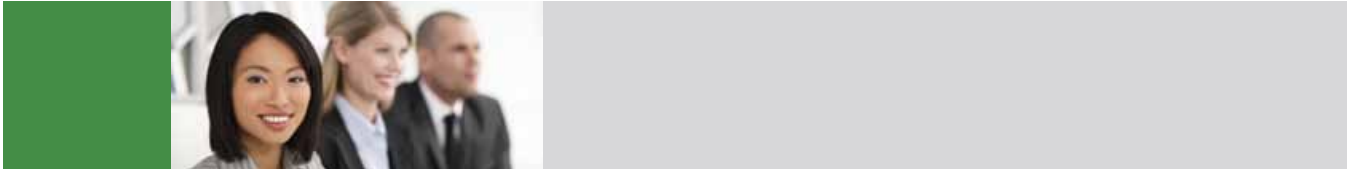
### Help When You Need It

You may feel you simply lack the resources to launch and sustain a thoughtful financial education campaign. Fortunately, you don't have to do it alone. **AARP**, the **Financial Industry Regulatory Authority (FINRA)**, and the **Retirement Security Project (RSP)** are pooling resources and expertise to help improve retirement saving among American workers. This document is part of the effort. You can find a wealth of educational information and support, including sample communications, at [www.retirementmadesimpler.org](http://www.retirementmadesimpler.org).

<sup>10</sup> FINRA Investor Education Foundation. *2009 National Financial Capability Study*.

<sup>11</sup> Prudential's Group Insurance. *Study of Employee Benefits: 2009 & Beyond*. 2009.

<sup>12</sup> CFO Research Services. *Getting Retirement Savings Back on Track Employer Views on the 401(k) and Financial Education in the Workplace*. 2009.



Good plan service providers also offer robust educational campaigns and can be helpful in providing guidance about what to communicate, and how best to do so.

That path to financial security in retirement is paved with informed decisions. Financial education helps your employees better understand the value of the 403(b) plan, and when coupled with inertia-busting automatic plan design, can put them on a path to financial security.