



## **Informed Participation**

### ***The Path to Retirement Security***

401(k) plan sponsors have long sought to educate their 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, unaware or overwhelmed employees. But alone, financial education hasn't been highly successful in driving behavior change.

Automatic 401(k) plan design helps bridge the divide. A well-structured automatic 401(k) plan helps solve many long-standing participation challenges. By simply doing nothing, employees become plan participants. Their contributions begin when or shortly after they are hired, and accumulate automatically over time in a default investment with growth potential.

But an automatic plan design won't solve every challenge. It gets people past the barriers of procrastination and inertia, but it doesn't inform them. Financial education does. It may also help reduce your exposure to fiduciary liability, and addresses the staggering lack of financial literacy among American workers.

Automatic plan design sets a new paradigm for financial education in the workplace. Since the goal of getting employees into 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**

The "do-it-yourself" nature of 401(k) plans gave rise to financial education in the workplace beginning in the mid 1990s. As employers started to recognize the need for financial education, the Department of Labor issued guidance on permissible education practices. 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 make available a range of educational materials and resources, from personalized statements and asset allocation modeling tools to certain kinds of investment advice that permit the sponsor to limit its fiduciary exposure.

### **Best Practices Emerge**

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, company Intranet sites and other channels 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 types of investments and setting financial goals to offering specific investment advice. Until recently, however, plan sponsors have largely avoided offering investment advice because of fiduciary liability concerns. The Pension Protection Act of 2006 (PPA) may change that. Over 70 percent of surveyed plan sponsors make available or are considering adding individual financial counseling / investment advice to all participants in the next two years.<sup>16</sup>

### **Pension Law Permits Investment Advice**

The protection hinges on several factors:

- The fiduciary adviser must be named a fiduciary of the plan because the adviser provides investment advice, and must be a registered investment adviser, a bank or similar financial institution, an insurance company or a registered broker dealer (or an affiliate or employee of these entities).
- The adviser must clearly disclose the following:
  - That the adviser is a fiduciary of the plan.
  - Fees or other compensation.
  - Past performance and rates of return of the investment options.
  - How participant information will be used or disclosed.
  - Other information specified in the law.

Fees and other forms of compensation the adviser receives cannot vary depending on which investment options participants select. The plan sponsor remains responsible for the prudent selection and periodic review of the adviser it selects. The protection also requires satisfaction of other conditions not summarized here.

Will the PPA encourage more plan sponsors to make specific investment advice available? It seems that way. The law recognizes the importance of informing employees about retirement planning and

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<sup>16</sup> Deloitte Consulting LLP. 401(k) Benchmarking Survey. 2010 Edition.



saving, and the Department of Labor has explicitly pointed to the important role employers can play in providing financial education to workers.

### **The Bottom Line**

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. You have a variety of helpful materials available at [www.RetirementMadeSimpler.org](http://www.RetirementMadeSimpler.org). Also, various plan service providers offer robust communication campaigns. With good support from your plan provider and the materials available through the Retirement Made Simpler campaign, you can educate and inform your employees in a way that won't significantly add to your workload.

The path to financial security in retirement is paved with informed decisions. Financial education helps your employees better understand the value of the 401(k) plan and engages them in planning their own financial future. When coupled with inertia-busting automatic plan designs, employees are put on a path to financial security. That's a result everyone can appreciate.