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Retirement Plan Advisor Roundtable on Financial Education

Financial education is rapidly becoming an emerging employee benefit—one that is either in place or being considered by the nation's most prestigious and innovative companies. We've assembled a panel of experts to discuss how they are using financial education to help plan sponsors achieve strategic objectives with their retirement plans and to address the myriad of issues their employees face.

From this discussion, you'll learn:

- What types of education are available in the market place today.
- The difference between financial education and advice.
- What programs have been the most successful and why.
- How to select a financial education vendor that is right for your organization.

Panelists are:

- Al Otto, ChFC, CLU, AIF, Vice President, Whitehorse Advisors, LLC.
- Jeffrey Stephens, CLU, ChFC, Director of Enterprise Strategies, San

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Francisco Financial Partners.

- Liz Davidson, Founder and CEO, Financial Finesse, a financial education firm.

Q: There's been a lot of talk recently about financial education programs for employees. Five years ago, financial education wasn't even a term. Now some of the nation's largest plan sponsors are implementing company- wide programs. In a nutshell, what is financial education and why should HR managers care about it?

LIZ: That's a great question. Financial education can be and often should be very broad.

In a nutshell, it is unbiased information on any financial topic—from serious debt problems to retirement planning and estate planning issues.

It can be facilitated through one on one counseling sessions, workshops, online, print materials, CDs or CD-Roms, or any other means of information delivery that employers use to communicate with employees.

Employees need financial education to make informed decisions with respect to retirement plans. If your company is anything like most companies, about 30–40 percent of your employees are deciding not to decide—in other words, they are not participating in a plan that could theoretically fund their entire retirement!

Of those that are participating, it's likely that more than half are doing so ineffectively and are making investment decisions that are not in their best interest. We regularly work with companies where up to 40 percent of participants are invested in the money market fund. We call that going broke slowly. These employees may not even beat inflation! They think they are playing it safe, but the only thing they are guaranteeing is that they won't have enough assets in their plans to fund their retirement.

AL: I agree with everything Liz just said. As a plan advisor who is regularly consulting with plan sponsors, I've seen an increase in their concerns recently about fiduciary liability, plan participation, and discrimination testing. The HR managers we work with are looking for education programs that help them reduce their fiduciary liability. They worry about what will happen down the road if large groups of baby boomers retire with insufficient assets within their plan or worse, no assets. Will these employees say that their employer did not provide them with adequate information on their plans and investment options? They also worry about compliance with ERISA 404(c) and they know that education programs will help them comply.

JEFF: And then there are plan participation issues. Most companies we work with have suffered declines in participation over the last 5 years or so. The dot-com crash and mutual fund scandal haven't helped. Employees are nervous about investing and many are also cynical about who they can trust.

Education helps get them to a place where they are comfortable making critical investment decisions. Once employees realize that the information is

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indeed unbiased and that they have an unbiased resource they can turn to for guidance with their investment decisions, their whole outlook changes. They become excited about taking control of their future and investing within their plan. It’s great to see—and it’s the reason we partnered with an unbiased financial education company—we needed to build that level of trust with the employees.

Q: Why are we speaking of education and not advice? Is there a difference?

AL: Absolutely. Financial education incorporates information, counseling, and guidance, but it does not encompass advice. It is all about providing employees with the information and guidance they need to make informed financial decisions now and in the future. It is not about providing specific investment recommendations or advice or about managing assets.

LIZ: The biggest distinction is that financial education reduces legal liability, while advice increases it. Employees can always sue if they followed specific advice and lost a lot of money as a result. In many cases, these suits are frivolous but they still take up time and money. If the court finds that employers have breached their fiduciary duty, employees can win large settlements.

This is not to say employers shouldn’t offer advice. Advice has its place, particularly for executives who need someone who can manage their portfolio and set up tax shelters and trusts to reduce their tax burden.

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JEFF: I agree—advice does have its place. In fact, we do offer advice. But when we offer education, we partner with an unbiased financial education firm to do so and we make that very clear to employers and employees.

We also put the education first. We want employees have a basic level of knowledge before we provide them with advice. This is also a way plan sponsors can reduce liability associated with any advice providers they work with—anything you can do to help employees make better financial decisions and better evaluate the advice they do receive is going to protect your organization in the end.

Q: Please describe your financial education programs.

JEFF: We use our education program two-fold, one is to educate people about the retirement plan and the other is identifying the broad based needs of individuals to be better prepared for retirement. We deliver workshops on broad financial topics and incorporate the Money Basics workshop extensively, which talks about cash management, debt management, and credit that really help people get a better handle on their broader financial situation. They are able to better situate themselves and at the end of the day, the likelihood for success financially is raised dramatically.

AL: Our program is an integrated financial education package delivered through different methods so it can really be plugged in at any level of the participant's need. For rank and file employees, we deliver workshops and a toll-free helpline to answer questions on any financial topic. And for those needing more in depth counseling, we offer personal financial consultations where participants work on an individualized action plan with the guidance of an unbiased Certified Financial Planners™.

All the educational services are delivered by Certified Financial Planners™ who work for a financial education firm and are not in a position to sell employees any securities or investments.

Q: Why did you decide to add financial education?

JEFF: We added financial education to our services because we believe education is an absolutely critical part of the overall process. A retirement plan is not successful unless employees participate, invest wisely, and ultimately amass the assets they need to retire. Simply having a well designed plan is not enough.

AL: The majority of the HR managers we speak to want better education programs so we knew we had to include it as part of our service offering. Plan sponsors know that there's a lot of challenge in the marketplace and they want to make good decisions both for their people and to protect themselves. Most aren't satisfied with the education they are receiving from their plan providers and they are becoming more concerned by conflicts of interest from having one of their plan provider's sales reps deliver workshops and do consultations. I think the mutual fund scandal has made everyone more interested in third party education from companies that don't have a vested interest in selling financial services.

Q: What makes the program successful?

AL: There are so many reasons, but three stand out. First, our program is unbiased—delivered by an unbiased financial education company we selected after significant due diligence.

Second, it can often be funded by reallocating plan funds—so no additional HR dollars are required. We work with plan sponsors to find the money in their retirement plans to pay for the programs. At that point, it's a no-brainer for most plan sponsors. Why wouldn't they get additional value from money they are already spending on their retirement plan? What better way to maximize the value of an existing plan than to educate employees?

Lastly, the program is personalized to individual employees. Ultimately, what everyone wants to know, whether in a plan or not, is what should I do? A key component we provide to every retirement plan is the immediate access to help over the phone with the Financial Finesse toll-free helpline. It gives individuals the ability to ask any financial question which is so broad and is a critical way you can customize the masses.

Often questions may have nothing to do with risk tolerance or asset allocation; they may about dealing with credit and save more to be able to find a way to put money into the plan? I think that in the old education model when you stand up in front of a group and say "here's why you should be in a plan and here's how you do it", people start thinking, often for the first time, about their financial situation and the questions that come up for them are

not “what’s my risk tolerance”.

JEFF: I agree, the success of our education programs can attributed to a couple of things—the fact that we can tailor the education based on the needs of all participants and the fact that it is unbiased helps people make sound financial decisions. It’s more than just providing education; it really helps people make decisions and allows them to make a decision that is meaningful to them.

Q: How is it different than traditional plan communication?

AL: The traditional plan communication our clients used were vendor courses, the PowerPoint class that someone comes in and delivers for an hour on asset allocation once a year. Our program is much more comprehensive. We offer high quality live services like interactive workshops on 10 topics ranging from basic money management all the way to estate planning, telephone support from unbiased planners, and in-depth consultations, which is a broad based on-going program that can meet the needs all participants not just a one-off event.

JEFF: For us, the biggest differentiator is personalization. The education we provide impacts the entire workforce with individualized assistance that really changes behavior. Traditionally plan providers have used both seminars and online information such as advice and modeling tools but a computer cannot comfort you, or help you answer your specific questions.

People’s financial issues vary widely in nature and don’t just come up during

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enrollment time. You need to meet them where they are in order to help them get to where they need to be.

Quality is also a differentiator: We saw a need not just to provide better content but a more sophisticated individual delivering the content. Plan providers generally use sales reps to deliver their presentations. Often the individual who is giving the presentation doesn't know anything more than what is contained in the presentation. Our workshops are also delivered by Certified Financial Planners™ employed by a financial education company. These folks are equipped to answer any question on any topics—all have multiple credentials and years and years of experience.

LIZ: In our case, the biggest difference is that we are working to achieve key HR objectives. We work with each plan sponsor to design a program that meets their specific needs—one that is tailored to their company's demographics and culture. We've designed programs to recruit and retain valuable medical personnel.

One of our hospital clients competes with 12 hospitals in a 1 mile radius! They wanted a program that they could promote as an additional employee benefit so they could convince employees to join their hospital instead of the one down the street.

We've worked with companies who are weeks away from going public and have been required by their investment bankers to educate their employees. We've helped employers with retirement plan discrimination testing issues, we've increased plan participation. We've helped companies communicate their financial benefits after mergers and acquisitions—another very critical area since many employees develop their opinions of the merger based on whether or not they feel they are coming out ahead financially.

Our programs are very central to the HR department goals, and we hold ourselves very accountable to meeting these goals.

Q: What results have you been able to achieve with your program?

AL: In every single case, our results have exceeded plan sponsor's expectations.

To start with, a high percentage of employees use our program. Even at companies where the program has been in place less than a year, most employees have attended the workshops and/or called the financial helpline service. This was exciting for us to see how much employees appreciated and used the benefit, especially compared to online advice, which is typically used by less than 5 percent of employees. The employers we've worked with believe they've finally found a solution to their challenges with plan communication and participation. From my perspective, it's great to be able to bring a real solution to the table.

On an employee level, results are inspiring. Employees walk away from our meetings saying "This was great; I'm going to do something different as a result of this." In fact, our surveys have 90 percent of attendees saying they will be increasing contributions to their retirement plan and 100 percent would recommend this education to someone else. They also reported that back to their HR and Finance department which reiterates the fact that it's an employee benefit.

We had some great success stories from those who attended, one in particular where an individual was about to go buy a house and based on the information he learned in one of the workshops he saved $2000! Maybe to some two thousand dollars is not a lot of money, but to someone who works the manufacturing line, that was big. In another case, we were able to service a deaf employee with a help of a relay operator on the financial helpline.

You forget sometimes the individual challenges employees have. This program is excellent at helping them overcome their challenges. That's why it works so well.

JEFF: From our perspective, one of the greatest results is how the companies respond to education we provide. They see the value immediately and virtually all want to expand the program after trying it out. For example, we had a challenging situation at an automobile dealership where everybody is paid on an incentive basis. The dealership wanted the workshops but the employees were reluctant to attend. We ended up doing four workshops within a day and the client wished they had made them mandatory for everybody and that they could provide education to them.

LIZ: We're seeing strong increases in plan participation across the board with the plan sponsors we are working with—especially among lower-

compensated employees. One client increased participation from 20 percent to 41 percent in less than a year! This is not unusual. We see spikes after virtually every workshop and are working in cooperation with plan vendors through our financial helpline in order to increase plan participation and contribution and reduce loans and hardship withdrawals.

Q: What advice do you have to offer to plan sponsors looking for a financial education vendor?

JEFF: Try to establish something as objective and unbiased as possible. It should be individualized, the less cookie cutter the better. If you are selecting an outside firm or individual focused in this area, education should be a major part of their services to you. It's a bad sign if the plan provider is the first one to mention it, so question their commitment and their process.

AL: If I were to give three tips, number one is financial education should be unbiased. Number two, it also should be individualized but broad enough to meet the needs of each individual within the spectrum of your employee base. Offering multiple ways to access the education enables you to impact more people depending on their learning style. My final tip is in line with what Jeff said, if you are seeking outside counsel, education should be a core offering of a firm and be included in their marketing materials.

LIZ: There are so many things, but in the interest of time, I'd say that you need to get as much data on their track record as possible. What clients have they worked with in the past and what have they achieved with these clients.

Focus on utilization of their services—that will be key success factor. Also ask for data on how the employees have received the services—survey results, employee testimonials, etc. Insist on talking to references and ask the references hard questions. This isn’t just about workshops—it is a about finding a provider that has the experience and expertise to achieve some of your most important HR objectives. It’s critical you ask the right questions.

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