Financial Guidance Best Option for Employees

Financial Finesse CEO and Founder Liz Davidson, an expert in financial education and employee-consumer education, answers important questions about the major trends in workplace retirement and financial education as well as how companies can stay ahead of the curve by implementing key beneficial programs.

Question:

I want to offer my employees a program to help them with their finances, but I have concerns about both financial education and financial advice. I don't think financial education will be effective because our employees really need to know what to do—they aren't interested in learning financial terms. Then there are all the legal issues associated with advice, and we are not willing to have our employees used as a sales channel. Which option do you recommend?

Answer:

We wouldn't recommend either option in your situation. There is a third way—more effective for your needs than either financial education or advice— called financial guidance.

Financial guidance is the bridge between financial education and financial advice. It goes deeper than education to give people frameworks, considerations and processes to make informed decisions, but does not cross the line into advice where a planner recommends specific investments, insurance policies or securities.

In our experience, more than 80 percent of employees are best served by financial guidance.

- **Education or financial literacy is appropriate for those employees who do not have any banking or investing experience and need basic terms and concepts defined and explained.** These employees usually constitute 5 to 10 percent of most workforces.

- **Advice, on the other hand, is appropriate for very highly compensated employees who require personalized estate and tax planning, along with investment management services, in order to effectively protect, invest, shelter, distribute and gift the wealth they have built.** These employees typically fall within the top 1 to 5 percent of a company's compensation structure.

- **Guidance is the best solution for everyone else—the vast majority of employees who do not have enough assets to require extensive, ongoing wealth management services, but are too advanced for basic financial literacy classes.** These employees understand what a 401(k) is, but need guidance around how much to defer into their 401(k) plans, how to invest their 401(k) contributions, how to select individual funds, how and when to rebalance their assets, and how to develop an effective distribution strategy when they are ready to retire.

Notice that with guidance, the focus is on how to make informed investment decisions as opposed to what to invest in. If you tell people which stocks, bonds or mutual funds to invest in, you have crossed the line into advising them, opening the door to potential legal problems if the process for selecting an advisory firm, or the advice given to employees, is deemed not prudent.

By contrast, giving employees a framework for allocating their assets, evaluating a mutual fund, or determining how much they need to retire, may provide protection from liability under ERISA Section 404(c) by helping you meet the requirement to provide employees with the tools and information they need to make informed investment decisions without crossing the line into advice.

Guidance also gives employees valuable knowledge they can use throughout their lives, and helps them better manage advisors they hire outside of work (or those that you bring into the workplace).

The Ask Financial Finesse Q&A service is designed to provide general information on trends and developments in workplace financial education programs and participant education strategies. Due to the complex nature of financial benefits and/or workplace financial issues, the information contained in this document is not to be construed as advice.

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