WHY FINANCIAL EDUCATION MATTERS MORE THAN EVER

At a time when the markets are convulsed with volatility, the merits of a workforce that understands the long-term nature of investing for retirement are becoming clear to plan sponsors. Indeed, many believe that the movement toward auto-enrollment should not diminish the importance of participant education; instead, it allows the defined contribution (DC) community to focus on making that education more effective. Transamerica Retirement Services (“Transamerica”) has long focused on participant education—the firm has been rated a first-quartile provider in participant services in the PLANSPONSOR Defined Contribution (DC) Survey for four consecutive years—and sees the present market turbulence as a validation of that approach, and as an opportunity for plan sponsors to keep their participants on the right track. Transamerica Retirement Services executives Stig Nybo, Chief Marketing Officer and National Sales Manager, and David Shute, Vice President and Director of Marketing, talked through the virtues of participant education with Chad Larsen, President of Moreton Retirement Partners, a National Retirement Partners member firm based in Denver, whose practice has long stressed the importance of education. Larsen was named Retirement Plan Adviser of the Year by PLANSPONSOR in 2007.
PS: Participant education, once to the fore of the defined contribution business, seems to have lost its primacy. Is that a fair assessment?

NYBO: There might be a tendency to look at it that way but, at Transamerica, we think that is precisely the opposite of what is and should be happening. There are so many tools available now to the average participant that were not available just a few years ago. So much is on line now at the average plan provider Web site. Transamerica and the industry in general have taken great pains to make sure that even a casual Web surfer will be pulled into the retirement calculators and asset allocation tools. Not that it needed to be reinforced, but this present environment exemplifies exactly why, as an industry, we need to recommit to the concept of financial literacy. Like it or not, in general, we’ve graduated beyond traditional information channels. The average participants get much of their entire financial education through their connection with their company’s retirement plan. If we take that away, we’re essentially left with nothing.

PS: In your view, are the need for continued financial education and the legislative and regulatory thrust toward auto-enrollment compatible?

NYBO: Auto-enrollment shouldn’t necessarily mean “auto-pilot” or decoupling the participant from the adviser, or even being comfortable with a financially uneducated workforce. Auto-enrollment has considerable merit but, on its own, it will do little to help participants come to terms with the difficult or potentially uninformed financial decisions that they have to make at various stages of their lives. I think, recently, we’ve seen the consequences of emotional decisionmaking or leaving important decisions to “the man behind the curtain.” There are so many ways some things can get off track. In the short term, education needs to be focused on boosting participation, of course. However, if we do that and just focus on participation, then we haven’t served the participants’ long-term education needs. Refreshing tools like personalized employee statements that include or show whether you’re on track for a comfortable retirement, even for nonparticipating employees, or expanding and promoting retirement seminars will help them see if they’re on track to meet their goals. That being said, Transamerica is still a proponent of “automatic” enrollment with our own offering that incorporates PPA-related provisions such as automatic enrollment, automatic deferral increases, and automatic investment.

LARSEN: That’s exactly right—we can’t afford to have financially illiterate American savers. Yet, I think the present direction that the Pension Protection Act is dictating gives us a real opportunity when it comes to participant education. The fact is that, for all the resources that have gone into education, what we have been focusing on is fund selection—and all, that’s what all these participants wanted to know. They wanted to be in the right fund at the right time but, with auto-enrollment and defaults into target-date funds, we have the opportunity to focus on the real issues: How much can and should I be saving? What should I do when the market is in turmoil? What should I do when I reach retirement? That’s financial literacy, and that’s our opportunity now.

PS: So, even an adviser like you, whose reputation rests in no small part on participant education, likes the auto-everything trend?

LARSEN: I am a big believer in auto-enrollment and the auto-strategies that follow from that, yes, and that’s precisely because it allows us to focus our energy on the type of participant education that is truly valuable. These present times are a perfect example of the dangers of a financially illiterate participant—this is exactly the time not to act on emotion and make investment decisions that will, in all likelihood, come back to haunt you.

PS: Stig, both you and Chad have talked about a more valuable and different type of participant education. How does that change what you actually deliver to the plan sponsor?

NYBO: At Transamerica Retirement Services, we committed ourselves some time ago to a whole education process that wasn’t focused just on equipping a participant to select between investment choices. Our whole approach to the defined contribution marketplace was adviser-centric—we have always felt strongly that an adviser is an indispensable asset to both the participant and the plan sponsor in the small and mid-size plan market—so, our education deliverables have been geared to helping those advisers get participants to a place where they provide ongoing guidance, objective information, and portfolio checkups to keep the investor on the right track. This means rethinking our deliverables—we have been moving in what has turned out to be exactly the right direction these past few years, like offering a comprehensive guide for pre-retirees to prepare them for the many decisions that they will need to make. This requires being more proactive in putting the right tools in the hands of the advisers, like our “Made Simple” enrollment kits.

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Chad Larsen, President of Moreton Retirement Partners, a National Retirement Partners member firm based in Denver
education materials, and seminars.

**SHUTE:** I would add that it is important that the provider, adviser, and plan sponsor work together over the long-term to educate participants. It’s not a one-time event—it’s a year-after-year commitment.

**PS:** The defined contribution market is fiercely competitive now, and there is a lot of focus on fees. From an adviser standpoint, is stressing participant education the best way to win a new client?

**LARSEN:** I don’t necessarily lead with participant education. These days, the big concerns are fiduciary issues and plan design, but I find that clients always respond to participant education. It might not matter more than anything else, but clients—and particularly the more committed plan sponsors—recognize how much participant education matters to the financial health of their employees.

**AMERICANS LOOK TO NEXT ADMINISTRATION FOR HELP IN ACHIEVING A FINANCIALLY SECURE RETIREMENT**

Americans’ confidence in their ability to retire comfortably has declined significantly over the past year, according to a special edition of the Transamerica Retirement Survey. In anticipation of the upcoming elections, the survey yielded insights into Americans’ top priorities for the next administration to help them achieve a financially secure retirement.

According to the survey, 45% of adult Americans are less confident in their ability to achieve a financially secure retirement than they were 12 months ago. This is in stark contrast to only 14% who claim to be more confident. The majority of Americans (57%) cite “just getting by” or “paying off debt” as their greatest financial priority, while only 12% cite “saving for retirement.”

Among survey respondents who identified themselves as full-time workers¹, only 54% claim to be confident in achieving a comfortable retirement, marking a decrease from 59% in the Ninth Annual Transamerica Retirement Survey, conducted nearly one year ago. Only 18% of full-time workers cite “saving for retirement” as their greatest financial priority right now, down from 27% in the Ninth Annual Survey.

“The fears faced by Americans as a result of the current economy are evident in our findings,” said Catherine Collinson, President of the Transamerica Center for Retirement Studies, a non-profit corporation. “It should be noted that the survey was fielded several weeks ago, before the historic storm that has struck the financial markets. Since then, Americans are without a doubt even less confident and have increased their expectations of the next president and Congress to address their concerns.”

**AMERICANS SEEK HELP FROM THE NEW PRESIDENT AND CONGRESS**

When survey respondents were asked what top three priorities the new president and Congress should focus on to improve Americans’ ability to achieve a financially secure retirement, the majority of survey respondents (57%) cited fully funding Social Security in its current state to ensure Americans receive their guaranteed benefits. Thirty-four percent of the respondents cited educating Americans early by implementing financial literacy curricula in the schools.

Other frequently cited responses include:

- **Encourage 401(k) plans to offer to pay benefits in a form that guarantees retirees a set level of monthly income, regardless of how long they live. (28%)**
- **Provide tax credits to workers (earning up to $50,000 of annual income) who make contributions to an IRA or a 401(k) plan (or a similar plan, such as a 403(b) plan). (26%)**
- **Provide incentives for the purchase of long-term care insurance. (24%)**
- **Ensure that all workers have the ability to contribute to a 401(k) plan (or a similar type such as a 403(b) plan). (21%)**

¹ Full-time workers in for-profit companies of 10 or more employees
• Ensure that all workers not covered by a 401(k) plan (or similar plan) have the ability to make regular IRA contributions at the workplace through payroll deduction. (20%)
• Privatize Social Security by creating individual savings accounts. (18%)
• Encourage financial education at the workplace through employer incentives and other reforms. (15%)
• Other (18%)

Interestingly, among full-time workers, the second priority behind fully funding Social Security was to encourage 401(k) plans to pay benefits in a form that guarantees retirees a set level of monthly income, regardless of how long they live (34%). “With the diminishing presence of traditional defined benefit plans in our society along with ongoing concerns about Social Security, workers have become aware of the need for guaranteed retirement income solutions that will help mitigate the risk of outliving their savings,” said Collinson.

BUILDING A FINANCIALLY SECURE RETIREMENT

While the survey revealed a troubling loss of confidence among Americans, there are positive signs that many are staying on track with their retirement savings. The survey found that participation rates are holding steady among full-time workers who have access to a 401(k) or similar employer-sponsored plan, with 77% currently participating. Furthermore, 31% of participants have increased their contribution rates into their retirement plans in the last 12 months, compared to only 11% who have decreased their contribution rates or stopped contributing.

“Continued participation and increasing contribution rates are two very bright spots among an otherwise dark picture,” says Collinson. “Now, more than ever, Americans must stay focused on achieving future retirement security. Regardless of what a new president and Congress will do to help boost Americans’ confidence, the ability to achieve a financially secure retirement ultimately lies in the hands of the individual.”

ABOUT THE SURVEY

2008: This Special Edition Transamerica Retirement Survey was conducted online within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies between September 5 and September 9, 2008, among 3,258 U.S. adults age 18 years and older, including 861 full-time workers of for-profit companies with 10 or more employees. Data were weighted using propensity score weighting to be representative of the total U.S. adult population on the basis of region, age within gender, education, household income, race/ethnicity, and propensity to be online.

2007: The 9th Annual Transamerica Retirement Survey was conducted online within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies between October 11 and November 21, 2007, among 2,011 full-time workers using the Harris online panel. Potential respondents were targeted based on job title and full-time status. Respondents met the following criteria: All U.S. residents, age 18 or older, full-time workers in for-profit, and employer size of 10 or more. Results were weighted as needed for ensuring each quota group had a representative sample based on the number of employees at companies in each employee size range, and an omnibus phone survey was utilized to adjust for respondents’ propensity to be online versus the telephone as in the previous years’ waves of the survey. No estimates of theoretical sampling error can be calculated; a full methodology is available.

ABOUT TRANSAMERICA CENTER FOR RETIREMENT STUDIES

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I would add that it is important the provider, adviser, and plan sponsor work together over the long-term to educate participants. It’s not a one-time event—it’s a year-after-year commitment.

David Shute, Vice President and Director of Marketing Transamerica Retirement Services
**PS:** The market has been profoundly volatile of late. When you look at your participants, Chad, are they reacting emotionally?

**LARSEN:** This is a key test. Most participants can withstand two to three negative quarterly statements, but then the questions really begin. What I like to see are questions where people are looking for reinforcement: Is this really a buying opportunity? If those are the questions you are getting, then you’ve successfully educated participants, and they understand the long-term nature of their retirement plan. While there are exceptions, we haven’t seen a lot of panic in our plans—there is no rush from equities, for example. I’d like to think some of that is due to good education, but some of it also will be due to the greater investment in target-date funds, which should be holding up better in these markets. However, even those participants in target-date funds, and perhaps especially those that were defaulted into target-date funds, are going to exit those funds if they see negative returns too often on their quarterly statements—unless they understand why they are in those funds in the first place.

**NYBO:** The financial adviser is the real keystone here. They’re the ones holding it all together for the participants. They’re in the trenches every day with the sponsors, keeping the participants on track and building confidence for their successful retirement, but that’s not the end of the story. A participant needs the appropriate education and financial literacy on the way to retirement and through retirement. It’s tough work, but you know that, at some point in the future—maybe way in the future—those participants are going to say to themselves, “Gee, I’m glad I stuck with it.”

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**TRANSAMERICA AWARD-WINNING ENROLLMENT AND EDUCATIONAL TOOLS**

Transamerica Retirement Services has been rated a first-quartile provider in participant services in the PLANSPONSOR Defined Contribution (DC) Survey for four consecutive years.

**EDUCATIONAL TOOLS**

Transamerica provides a number of employee communication materials designed to help clients create awareness, generate interest, and improve employees’ financial literacy.

**ENROLLMENT KIT**

Provides a simple, five-step enrollment process that includes a risk-tolerance questionnaire, savings tables, and sample asset allocations.

**e-TIPS**

Customized, high-impact multimedia presentations that help educate employees on the benefits of retirement planning delivered to employees via e-mail or client intranet site.

**EDUCATIONAL BROCHURES AND FLYERS**

Introduces concepts such as market volatility and investment basics to participants and nonparticipants.

**WEB CALCULATORS**

Intuitive online planning tools that help participants determine their retirement goals and find out if they are setting aside enough money for retirement.

**INVESTMENT GUIDANCE THROUGH ADVICESOLUTIONS™**

Online, interactive portfolio optimizer that provides beginning, intermediate, and advanced investors with customized investment recommendations and strategies at no extra cost to participants.

**PERSONALIZED RETIREMENT PLANNING ASSESSMENT**

Offers suggestions and customized retirement information to help motivate participants and non-participants to target retirement savings goals.

**PARTICIPANT WEB SITE**

www.TA-Retirement.com

Provides participants with account management, personalized investment choice information, and powerful planning calculators 24/7.

**WORKSHOPS AND SEMINARS**

Comprehensive enrollment “Made Simple” workshops are available online, on site, via DVD/video, or conference call.

**PARTICIPANT NEWSLETTER**

“Worth A Look” is published quarterly and provides quarterly education on the markets, economy, and investing.

**EDDY AWARD (AWARDED BY PENSION & INVESTMENTS MAGAZINE)**

Transamerica Retirement Services’ redesigned enrollment kit received a first place “Eddy Award” from Pensions & Investments magazine (Issue date: March 17, 2008) for participant education in the “Initial Education – Generic” category.

**AWARD-WINNING COMMUNICATIONS**