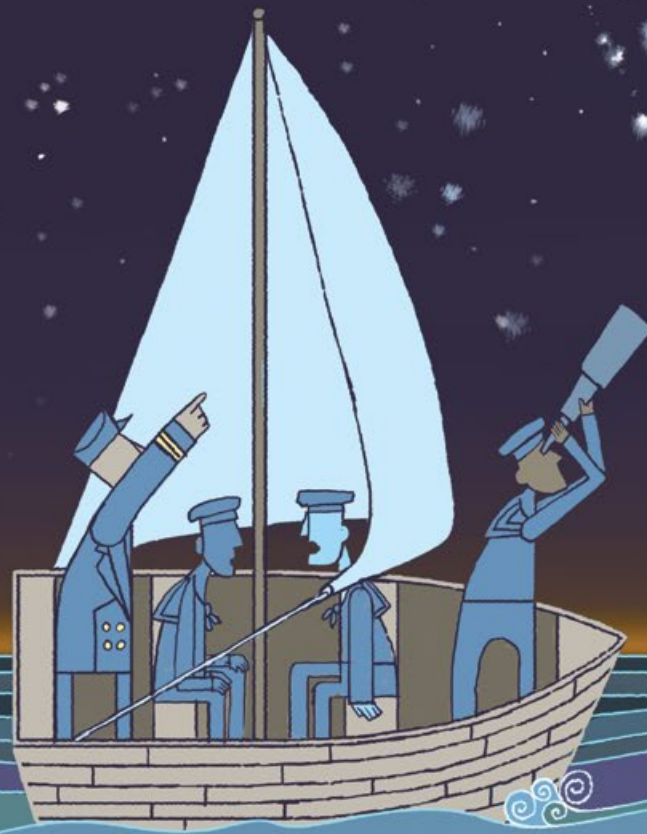


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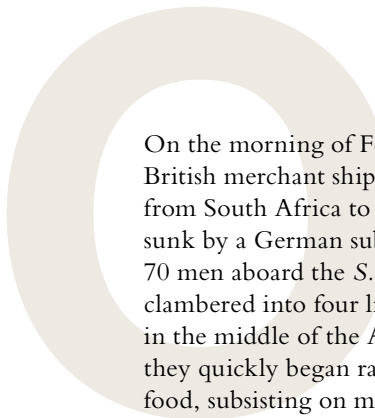


Leading the Way

Why Plan Sponsors Need an
Education Policy Statement

BY STIG NYBO

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On the morning of Feb. 3, 1943, a British merchant ship carrying cocoa from South Africa to Britain was sunk by a German submarine. The 70 men aboard the *S.S. Rhexenor* clambered into four lifeboats. Adrift in the middle of the Atlantic Ocean, they quickly began rationing their food, subsisting on meals that at times consisted of nothing more than two prunes or nine raisins.

Drenched by heavy rains that left them cold and wet for days afterward, they nonetheless managed to use the stars to navigate their little boats 1,200 miles to the island of Antigua in the Caribbean Sea. Three men died from hypothermia and exposure en route, but the rest survived the 20-day ordeal.

What does this story of determination and resourceful thinking have to do with defined contribution plans? It illustrates a fundamental truth about rising to great challenges. When we are faced with a difficult task — like finding our way across hundreds of miles of empty ocean, or helping millions of working Americans achieve a financially secure retirement — it helps to have some guiding lights to keep us moving in the right direction.

The crew of the *S.S. Rhexenor* looked to the stars for their guiding lights. Retirement plan sponsors can create their own in the form of policy statements — declarations of intent that spell out exactly how they will steer their plan toward their ultimate goal of helping employees become financially ready for retirement.

WHAT'S THE PURPOSE OF AN EPS?

As a retirement plan professional, you're probably familiar with the most common such statement, the investment policy statement. You may even have written a few. If so, you know that an IPS outlines the process a plan uses to select, monitor and evaluate its investment options.

“If we give up on the goal of promoting financial literacy, we give up on the goal of helping working Americans achieve retirement readiness.”

It helps ensure that those options are appropriate and cost-effective for plan participants. And it helps document that the plan sponsor is fulfilling its fiduciary obligations. While defined contribution plans are not required by law to have an IPS, the Department of Labor routinely asks to see one during plan audits.

As valuable as an IPS may be — and every DC plan should have one and follow it — it's not the only guiding light plan sponsors need.

If we think about the challenges sponsors face in getting employees to invest successfully for retirement, providing them with appropriately diversified and efficient investment options is just one small part of the equation. Employees first need to appreciate the importance of participating in their plan. They must understand how much they need to invest, and how they should allocate their money among the different investment options available to them.

They need to know how to avoid the many pitfalls to successful retirement investing, such as taking

too much or too little risk in their investment portfolio, making bad investment decisions when market volatility sends emotions running high or low, or borrowing from their accounts when other resources might be available to them.

Finally, employees need to know how to convert their retirement nest egg into a sustainable stream of income once they stop working. In short, they need to become financially literate to improve their odds of achieving retirement readiness.

So in addition to an investment policy statement, plan sponsors can also benefit from having an education policy statement — a second guiding light to help them make progress toward their ultimate goal. An EPS:

- describes the methods a plan will use to communicate with employees about their retirement plan;
- establishes education goals for employees;
- identifies the metrics that will be used to measure progress toward those goals; and
- specifies who will be responsible for employee education.

ACHIEVING RETIREMENT READINESS

Employees' need for help in reaching the goal of retirement readiness is well documented. In a 2011 report, Olivia Mitchell of the University of Pennsylvania's Wharton School and Annamarie Lusardi of the George Washington School of Business assessed financial literacy in the U.S. based on a survey of more than 1,000 people. Respondents were asked three simple questions covering fundamental concepts of economics and finance, expressed as they would be in everyday transactions.¹ Fewer than a third of the respondents answered all three questions correctly, and in some cases as many as 40% said they did not even know how to come up with the answer.

Plan sponsors know that there's an imperative need to improve financial education with retirement plan participants. In a survey conducted this year by the nonprofit Transamerica Center for Retirement Studies,² 73% of employers agreed that their employees could work until age 65 and still not have enough savings to meet their retirement income needs. More than three-quarters (81%) agreed that their employees do not know as much as they should about retirement investing.

Employees realize they could be better prepared. In another survey conducted by the Transamerica Center for Retirement Studies earlier this year³ — this one polling workers — 55% of the respondents said they expect to work past age 65 or do not plan to retire. More than a third said they will need to stay on the job, either because they will not be able to afford retirement or because they will need employer-sponsored health benefits.

Finally, a 2014 survey by the Employee Benefit Research Institute⁴ found an increase in workers' confidence: 22% of U.S. workers are very confident they have done a good job preparing for retirement in 2014, up from 17% in 2013. In the same survey, 44% are somewhat confident, and 20% are not at all confident.

That's the bad news. The good news? Mitchell and Lusardi also found that people who score higher on financial literacy questions are more likely to plan for retirement, which suggests they are more likely to be financially prepared for old age. That's good for them and for their employers, who understand that having retirement-ready employees is

critical to workforce planning.

WHAT SHOULD AN EPS LOOK LIKE?

An education policy statement should start by documenting the plan sponsor's commitment to effective employee education and its desire to have a formal, structured education plan that meets the needs of its employees.

It should spell out the plan sponsor's ultimate goal — helping plan participants become retirement ready — and identify and define metrics that will be used to measure progress toward that goal, such as plan participation rates, participant deferral rates, participant account balances and participant asset allocation decisions. And it should identify the benchmarks to which those metrics will be compared.

An EPS should identify other important education goals, such as promoting financial literacy and helping employees understand how to maximize the benefits of participating in their plan.

Finally, the statement should identify the parties who will be involved in employee education and detail their responsibilities.

In addition to these basics, all of which are aimed at improving employees' financial literacy and retirement readiness, an education policy statement also might spell out how plan fiduciaries will be educated about their responsibilities.

WHAT'S IN IT FOR PLAN CONSULTANTS?

Financial advisors, third party administrators or other retirement plan consultants who help plan sponsors develop an education policy

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statement will position themselves at the forefront of the effort to help American workers reach retirement readiness — and distinguish themselves from competitors who do not.

Since education must be an ongoing process, they also will gain a valuable opportunity to meet with their clients at least once a year to discuss results of the education program from the prior 12 months, set education goals for the coming 12 months and create a calendar of events aimed at meeting those goals. At that time, and throughout the year, advisors also can help sponsors arrange to take advantage of the many employee education resources offered

1 Financial Literacy and Retirement Planning in the United States, Working Paper 17108, National Bureau of Economic Research, June 2011.

2 Transamerica Center for Retirement Studies 15th Annual Retirement Survey of Employers, October 2014. The Transamerica Center for Retirement Studies® (TCRS) is a division of Transamerica InstituteSM, a nonprofit, private foundation. Transamerica Institute is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third parties. For more information about TCRS, please refer to www.transamericacenter.org.

3 Transamerica Center for Retirement Studies 15th Annual Retirement Survey of Workers, August 2014.

4 Employee Benefit Research Institute 2014 Retirement Confidence Survey, co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization; and Greenwald & Associates, a Washington, DC-based market research firm. More information can be found at www.ebri.org/surveys/rcs.



by their retirement plan providers.

Despite the obvious need to improve financial literacy in our country, some skeptics question the value of creating education policy statements. After all, plan sponsors, plan advisors and financial services firms have already expended enormous amounts of time and energy trying to help retirement plan participants improve their financial literacy — with less-than-spectacular results.

But we can't give up the fight. If we give up on the goal of promoting financial literacy, we give up on the goal of helping working Americans achieve retirement readiness, with potentially damaging consequences not only for them but also for their employers and, for that matter, society at large. Our country gains nothing when millions of people don't have the financial resources they need to meet their daily living expenses once they are retired, especially if they are no longer able to work.

If we double down on our efforts — if we add even more structure to our educational programs and commit to a more rigorous measurement of the results, so that we gain a better understanding of where to target our efforts — we will make progress.

So yes, I believe in education policy statements. Like investment policy statements, they can act as a guiding light — a guiding star, if you will — for plan sponsors committed to helping their employees save more, invest wisely, and meet the retirement readiness challenge. I encourage you to work with your plan sponsor clients to develop education policy statements of their own. **PC**



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Transform Tomorrow: Awakening the Super Saver in Pursuit of Retirement Readiness (John Wiley & Sons, Inc., 2013). 16689-TPA_A (10/14)