CREATING AN EDUCATION POLICY STATEMENT

A Commitment to Improving Employee Financial Literacy

A White Paper Prepared by Transamerica Retirement Solutions

Executive Summary

An education policy statement (EPS) is one of the latest fiduciary responsibility management tools available for plan sponsors. It builds on the example established by the ERISA-required investment policy statement (IPS) to help plan sponsors define, document and benchmark their employee education initiatives.

Focusing greater attention on employee education and applying a more formalized approach to education campaign execution and success measurement is becoming a plan management imperative. Two compelling reasons for this are the widespread lack of employee retirement readiness and the increasing regulatory scrutiny of the plan sponsor's fiduciary role.

Although an education policy statement is not required of plan fiduciaries, it is a natural extension of an investment policy statement. It gives structure, sets parameters and establishes measurement benchmarks to gauge progress and the success of education programs. Financial professionals can add value to their client relationships by assisting plan sponsors with the establishment and ongoing maintenance of an education policy statement as part of their overall management of fiduciary responsibilities.

The Emergence of the Education Policy Statement

The education policy statement is a recent addition to the fiduciary management toolbox. It was created by forward-thinking retirement plan practitioners as a way to translate the utility of the investment policy statement to other areas of plan management.

The investment policy statement has been in existence since 1974, the same year the Employee Retirement Income Security Act (ERISA) was introduced and is an important component of plan management with respect to investment menu selection and monitoring. It is also routinely requested by the U.S. Department of Labor when auditing a plan, making it a critical piece of documentation to support the retirement plan's investment management methodology and practices.

An education policy statement is not required, but it is a natural extension of the investment policy statement and can effectively serve a similar function. It may also be a prudent next step for plan sponsors in response to increasing scrutiny of plan fiduciary activities and the potential for increased participant litigation. Sponsors working with a comprehensive education policy statement will benefit from the unified vision that defines exactly what education means to their retirement plan.

The Valuable Plan Management Tool

A well-crafted education policy statement serves a dual purpose:

(1) it documents employee education efforts for fiduciary purposes, and

(2) it creates a blueprint for meeting the education needs of a plan's eligible employees and plan participants.

The education policy statement articulates the plan sponsor's commitment to employee education, the methods that will be used to communicate with employees, the goals and success measurements of specific education campaigns, and the parties responsible for various functions related to providing employee education on an ongoing basis.

More than just another administrative tool, an education policy statement forms the foundation for benchmarking in areas critical to the success of plan, such as: participation rate, average deferral rate, average account balance, asset allocation and financial literacy. Furthermore, using the education policy statement in conjunction with an Annual Plan Review is a powerful way to measure the efficacy of education efforts, identify areas for improvement, and show how the plan compares to peers and industry averages. This type of analysis helps plan sponsors meet their ultimate objective: to increase employee financial literacy and retirement readiness.

Components of an Education Policy Statement

There are five basic parts of an education policy statement:

1. **Purpose.** This section describes the plan sponsor's commitment to effective employee education, the desire to establish a formalized, structured employee education plan that meets employee needs, and a disciplined method for benchmarking and measuring progress toward meeting education goals and documenting success.

2. **Plan objectives.** Overall plan objectives are to produce measurable results that positively impact the plan and participants' retirement readiness in four key areas: participation, deferral rate, account balance and asset allocation.

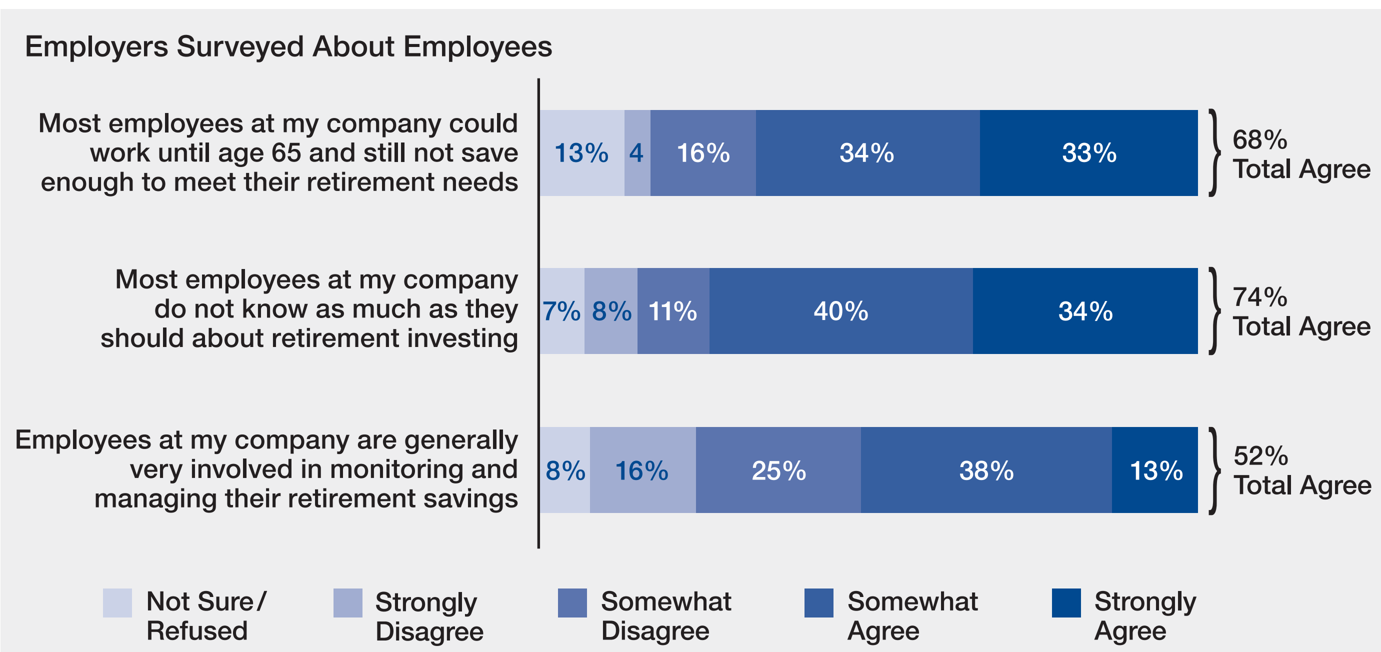
3. **Education goals.** In addition to having a positive impact on the four plan objectives above, education goals may include: satisfying ERISA participant communications requirements, promoting financial literacy and retirement readiness, and helping employees maximize the retirement savings potential offered by the plan.

4. **Measurements/benchmarking.** This section specifies the success measurements that will be used, the industry and plan benchmarks, and measurement methods and frequency.

5. **Roles and responsibilities.** This section identifies the various parties involved in employee education and their responsibilities. In general, the parties providing employee education include the plan sponsor, the plan's service provider and the plan's financial or investment advisor. Others who may be involved, depending on the plan, can include a third party administrator, consulting firm or investment advice provider.

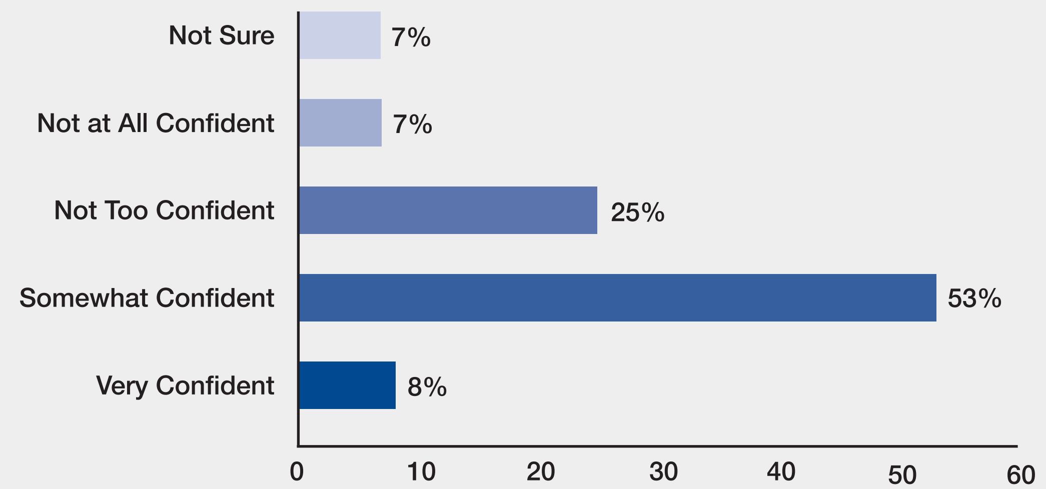
Employers and employees alike are aware that the current rate of retirement saving likely will be inadequate. The Transamerica Center for Retirement Studies®, a non-profit private foundation[1] conducted a survey of employers in 2012[2] which revealed the following:

- Close to seven in ten (68%) employers agree that employees could work until age 65 and not have enough savings to meet their retirement income needs.
- Almost three-fourths (74%) of employers agree that their employees do not know as much as they should about retirement investing.
- About half (52%) of employers believe that their employees are very involved in monitoring and managing their retirement savings.



Source: Transamerica Center for Retirement Studies® 13th Annual Retirement Survey of Employers.

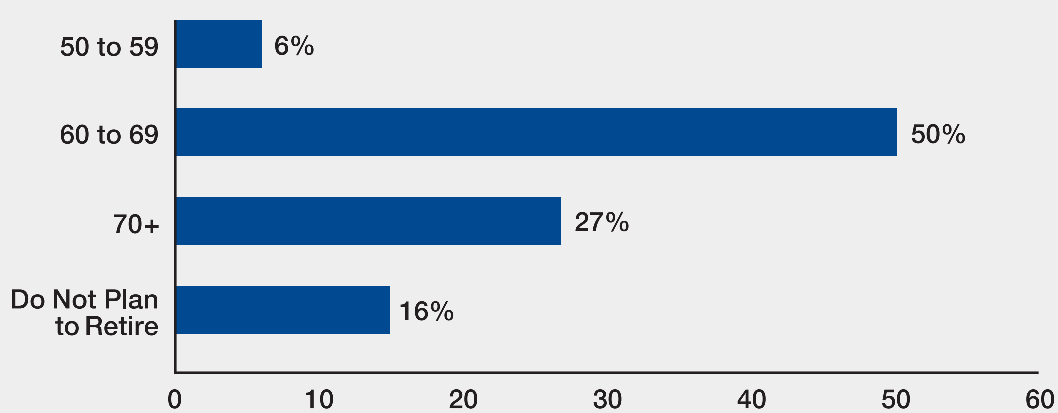
How confident do you feel that your employees will be able to achieve a comfortable lifestyle in their retirement



Source: Transamerica Center for Retirement Studies® 13th Annual Retirement Survey of Workers.

Only 61% of employers are confident their employees will be sufficiently prepared financially to afford a comfortable retirement.

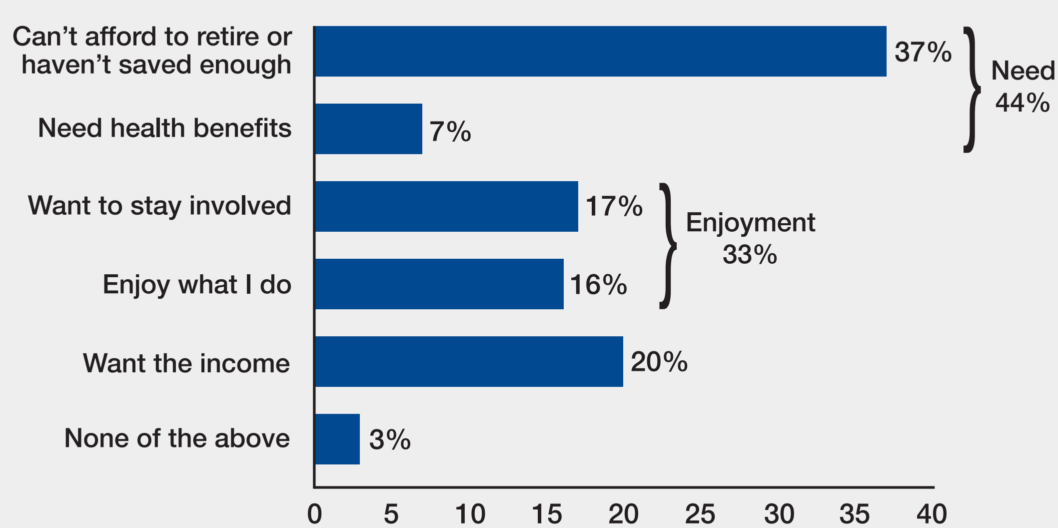
Expected Retirement Age



Source: Transamerica Center for Retirement Studies® 13th Annual Retirement Survey of Workers.

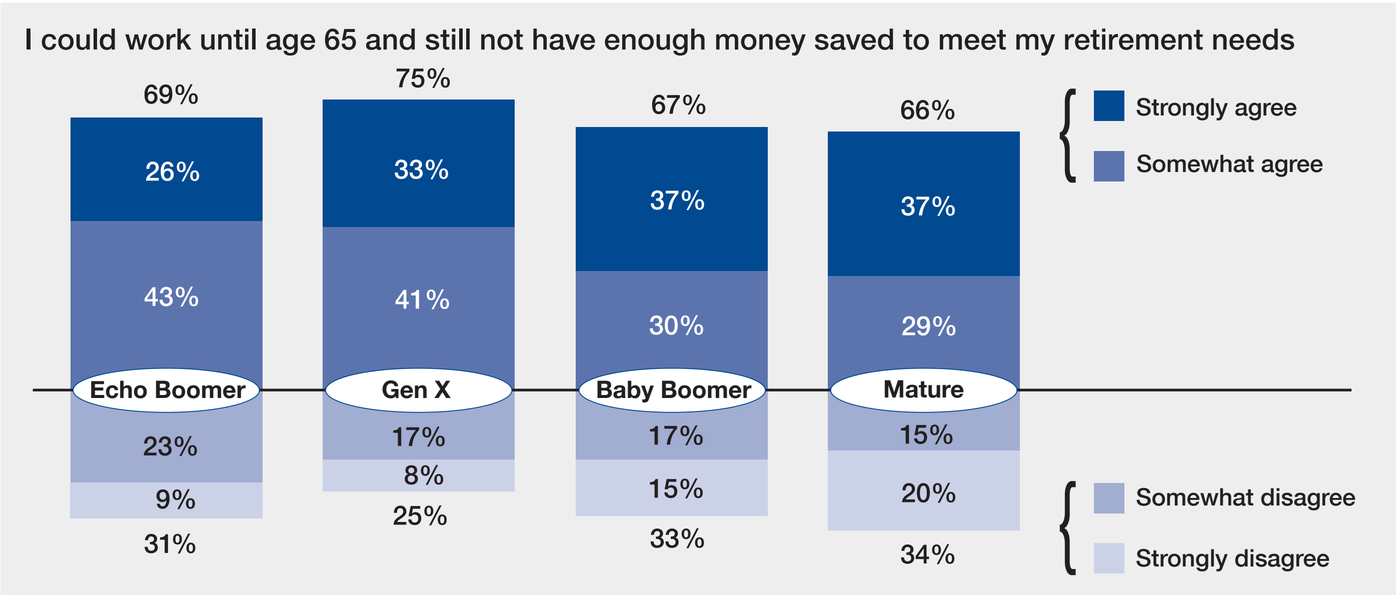
Workers are similarly pessimistic. According to the Transamerica Center for Retirement Studies® 2012 survey of workers[3], 43% of workers expect to work past age 70 or never retire.

Main Reason for Working After Retirement Age (of those who plan to retire after 65 or work after retirement)



Source: Transamerica Center for Retirement Studies® 13th Annual Retirement Survey of Workers.

The most common reasons given for working past the normal retirement age were need-based: workers either felt they couldn't afford to retire, hadn't saved enough, or they needed the health benefits.

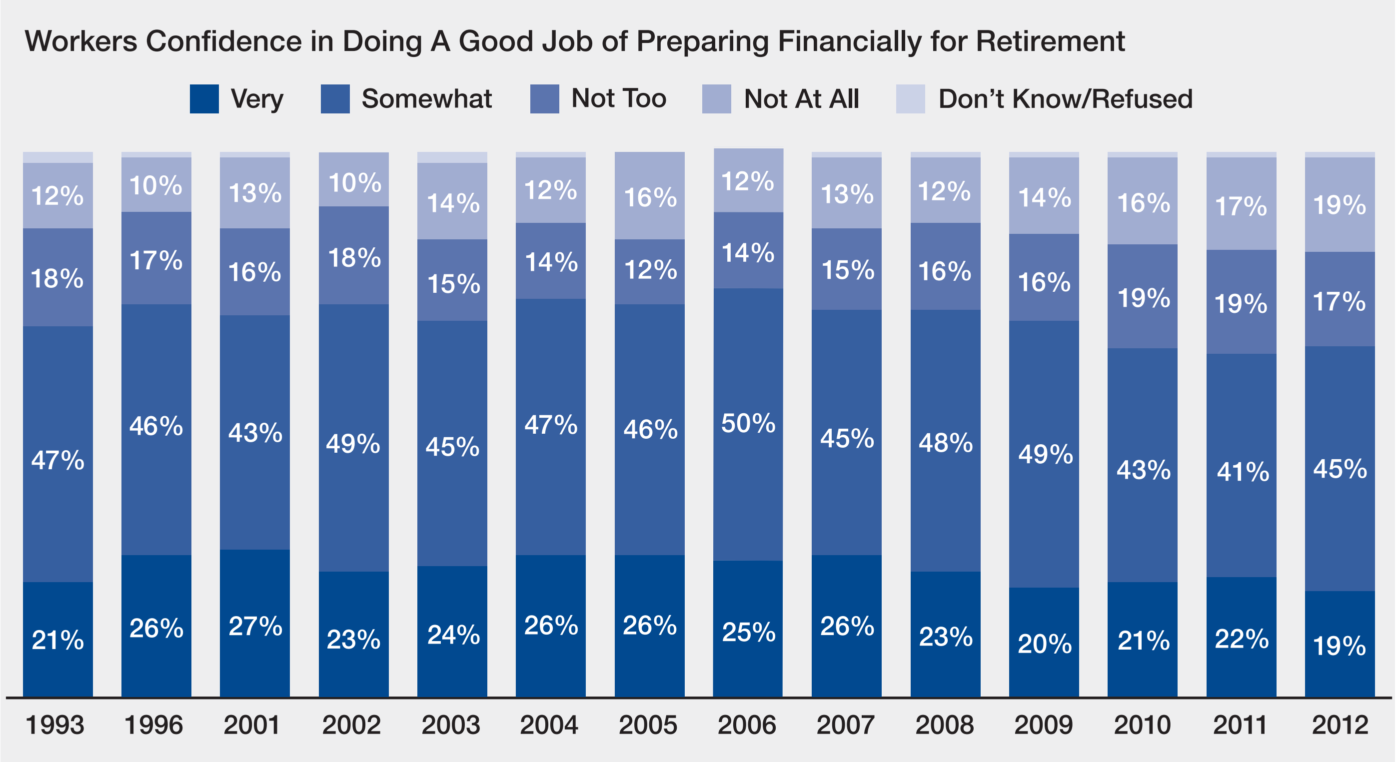


Source: Transamerica Center for Retirement Studies® 13th Annual Retirement Survey of Workers.

The study also found that workers across the demographic groups studied (*Echo Boomer: a person born after 1978; Generation X: born 1965–1978; Baby Boomer: born 1946–1964; Mature: born before 1946*) agreed that they could work until age 65 and not save enough for retirement.

A 2011 Employee Benefit Research Institute (EBRI) survey[4] of American workers also found that they are grappling with a high degree of uncertainty when it comes to retirement:

- Just 22% of workers said they are very confident that they are doing a good job of preparing for retirement.
- 17% are not at all confident in their financial preparedness—a percentage that has trended slowly upward from 12% in 2006 and 14% in 2009.
- 41% said they are somewhat confident and 19% are not too confident.



Source: Employee Benefit Research Institute and Mathew Greenwald & Associates, Inc. 1993–2012 Retirement Confidence Surveys.

These troubling statistics underscore the need to approach employee education thoughtfully and systematically, to conduct education campaigns that are targeted and meaningful, and to actively benchmark and track results to ensure that employee behavior is being influenced in a positive, measurable way. An education policy statement can provide the context and structure to facilitate the meeting of these objectives.

Business-Building Tool for Financial Advisors

Financial advisors who offer their clients an education policy statement position themselves at the forefront to help their clients tackle a looming issue that is growing steadily — American workers who are not saving enough will be financially unprepared for retirement.

Because the employee education process is ongoing, financial advisors have an opportunity to meet with plan sponsors at least once a year to discuss annual education goals, create an education calendar of events, discuss results from the prior year's efforts and set goals for the coming year. This meeting can easily be combined with an overall annual review of plan activity, which would include statistics on the four main benchmarks used in education planning:

1. Overall participation rate in a plan
2. Average deferral rate of the participants
3. Plan-level asset allocation
4. Average participant account balance

Advisors can also position themselves as a consultative facilitator, helping their clients to leverage the employee education resources offered by their retirement plan service providers. Finally, advisors can add significant value by helping their clients focus on employee education, formalize their process, measure their efforts, and document their efforts all for fiduciary purposes.

What Are a Plan Sponsor's Fiduciary Responsibilities?

The role of retirement plan fiduciary was created as part of the Employee Retirement Income Security Act of 1974 (ERISA). It assigns specific responsibilities and standards of conduct to plan sponsors because they act on behalf of plan participants and their beneficiaries. These responsibilities include:

- Acting solely in the interest of plan participants and their beneficiaries and with the exclusive purpose of providing benefits to them
- Carrying out their duties prudently
- Following the plan documents (unless inconsistent with ERISA)
- Diversifying plan investments, and
- Paying only reasonable plan expenses.

Fulfilling these fiduciary responsibilities requires expertise in areas such as plan administration, investment selection and monitoring, account recordkeeping and transaction processing, and employee education. As fiduciary, the plan sponsor generally hires knowledgeable professionals to carry out discrete roles required for successful plan operation.

Even so, the plan fiduciary is ultimately responsible for operating the plan in compliance with ERISA. That is why documentation of plan processes, procedures and objectives is so important. Items such as the plan document, Summary Plan Description, administration manual, investment policy statement, education policy statement, and a comprehensive annual retirement review form a core set of plan reference documents for the fiduciary and for the professionals hired to service the plan. They are also the type of documents that the Department of Labor routinely requests as part of a plan audit.

The Cost of Being Out of Compliance

According to the U.S. Department of Labor, fiduciaries who do not follow the basic standards of conduct may be personally liable to restore any losses to the plan, or to restore any profits made through improper use of the plan's assets resulting from their actions.[5] Fiduciaries may be sued by plan participants for plan administration mistakes, poor investment performance or unreasonable plan expenses. The Department of Labor can assess a fine of $1,100 per day for late annual Form 5500 filings, which must be paid by the plan administrator and may not be paid for by the plan.

Fulfilling ERISA fiduciary responsibilities, following established procedures and maintaining detailed documentation can help plan fiduciaries avoid even the potential of out-of-compliance complications.

Conclusion

Retirement plan sponsors have a wide range of fiduciary and administrative responsibilities related to the effective administration of their company-sponsored retirement plans. One of those responsibilities is employee education.

The high degree of government oversight and regulation of retirement plans, combined with the high potential cost of being out of compliance, creates the need for a framework and structure from which to successfully administer a plan and measure ongoing performance.

While not required by ERISA, an education policy statement provides part of the needed framework. It outlines the purpose, objectives, goals, benchmarking and measurements, and roles and responsibilities of a sponsor's employee education efforts. It also becomes important documentation that can be included in the plan's official records for fiduciary purposes and in the event of a plan audit.

Financial advisors can add value to their plan sponsor client relationships by assisting with the plan's education policy statement and working with them on an ongoing basis to meet their education goals.

Recent industry research highlights that a minority of employees are financially ready for retirement. In an effort to combat this trend, plan sponsors can create a repeatable education process designed to engage employees and influence behavior toward saving more, increasing financial literacy and helping employees to become more retirement ready.

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[1] The Transamerica Center for Retirement Studies® ("The Center") is a non-profit, private foundation. The Center is funded by contributions from Transamerica Life Insurance Company and its affiliates and may receive funds from unaffiliated third-parties. For more information about The Center including the 13th Annual Retirement Survey and full methodology, please refer to **www.transamericacenter.org**.

[2] Transamerica Center for Retirement Studies® 13th Annual Retirement Survey of Employers. This study was conducted by telephone within the United States by Harris Interactive on behalf of the Transamerica Center for Retirement Studies® between February 23 and April 2, 2012 among a nationally representative sample of 750 employers including large (500+ employees) and small (10 – 499 employees) companies. Respondents were targeted based on job title at for-profit companies and met the following criteria: business executives who make decisions about employee benefits at his or her company; employ 10 employees or more across all locations. Results were weighted as needed using weighting targets from the Dun & Bradstreet database to ensure each quota group had a representative sample based on the number of companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

[3] Transamerica Center for Retirement Studies® 13th Annual Retirement Survey of Workers. This survey was conducted online within the United States by Harris Interactive on behalf of Transamerica Center for Retirement Studies® between January 13 and January 31, 2012 among 3,609 full-time and part-time workers. Potential respondents were targeted based on job title and full-time and part-time status. Respondents met the following criteria: U.S. residents, age 18 or older, full-time workers or part-time workers in for-profit companies, and employer size of 10 or more. Results were weighted as needed for the number of employees at companies in each employee size range. No estimates of theoretical sampling error can be calculated; a full methodology is available.

[4] The Retirement Confidence Survey (1993–2012), co-sponsored by the Employee Benefit Research Institute (EBRI), a private, nonprofit, nonpartisan public policy research organization, and Mathew Greenwald & Associates, Inc., a Washington, DC-based market research firm. More information can be found at **www.EBRI.org**.

[5] Meeting Your Fiduciary Responsibilities, United States Department of Labor, **www.dol.gov**.

Transamerica or Transamerica Retirement Solutions refers to Transamerica Retirement Solutions Corporation.

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