

It’s Time to Start Measuring What We Say 401(k) Retirement Plans Do

By Dennis Ackley

Employees have learned a lot about 401(k) plans in the last year or so. They’ve learned the value of their accounts can drop like a rock. They’ve heard Congress criticize these plans. And they’ve seen news stories, articles and books that put the plans in a less than favorable light.

Perhaps just as important, plan sponsors received a clear warning – do what you say. If you say you have a retirement plan, it better have all the elements needed to help employees successfully retire. If you say you have a retirement education program, it better help employees gain the knowledge they need to successfully use the plan to retire.

Unfortunately, often what’s being said by employers about retirement plans and education programs isn’t what’s being done. And what’s being measured isn’t what matters the most.

Enormous Lack of Knowledge

The degree of employees’ naiveté about retirement, investing and finances is difficult to underestimate. Many people struggle to figure a gratuity. So why are we surprised that many employees – even those close to retiring – have no idea how to figure the cost of their retirement?

Test it yourself. Ask some employees, “Give me a ballpark estimate of how much your retirement will cost?” You’ll get more blank looks than answers. And while you are at it, ask them to explain the difference between a stock and a bond. As retirement planning pros will tell you, estimating the cost of the retirement lifestyle you want is the first step in retirement planning.

Employees’ naiveté is not the fault of employers. Although it would be nice, employers are not

responsible for teaching employees whether to buy or lease a car or how to pick a mortgage.

Furthermore, employers are not responsible for teaching employees about retirement – except, when employers say they offer a voluntary, employee-directed “retirement plan.” In this case, to help make that plan do what employers say, they need to make sure employees understand how to use the plan to retire.

On the other hand, if the employers’ stated strategy is to use a 401(k) or a profit sharing plan as a “you’ll get some money when you leave” plan – which is generally how these were originally used – then not much explanation beyond what the government requires is necessary. And that’s

fine.

Knowledge is Required in 401(k) Retirement Plans

For a 401(k) “retirement plan” to create an adequate retirement for employees – which the plan can do – employee knowledge is required.

The simple truth is that if employees are unable or unwilling to learn – or if plan sponsor does not take the steps necessary to teach employees – then voluntary, employee-directed defined contribution plans (no matter what they’re called) will not be much help in providing retirement income.

Curiously, retirement education providers may be the only “educators” in America who measure the “success” of their efforts based on how many creativity awards the materials have won or on overall average plan utilization figures. These aren’t bad things. But they have nothing to do with how well

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individual employees are acquiring the knowledge to define, pursue and achieve their retirement dreams.

English teachers test to see if students can read. Flight instructors test to see if students can fly a plane. Shouldn't retirement educators test to see if students know how to use the plan to build their retirement?

Start Measuring What Matters

In 401(k) plans, there are only four things employees can do: price their personal retirement lifestyle income target, contribute and invest to attain that target, and receive their income so it lasts throughout retirement

Working with retirement education providers, plan sponsors can identify what successful, "mastery level employees" would know and do regarding each of the activities.

Certainly, the measures will need to reflect the plan provisions, the HR strategy, the workforce and other unique elements. A summary of who will do what by when should to be prepared – including what will be done if the results are disappointing.

Naturally, the measures cannot simply stem from a "you know what you say you know" test – as in, "do you know how cold fusion works?" A yes answer doesn't assure knowledge. But if employees say they know how to do all four things well, the plan sponsor has a record showing steps were taken to make sure employees were knowledgeable. Plus, employees become aware of what they need to know to be successful. And if they say they don't know, the plan sponsor has a clear picture of what needs to be taught.

By conducting a test of knowledge and collecting other evidence that shows how the individual employees use the plan, plan sponsors would have something they don't have today – a solid indication of how well participants know how to use the plan to define and achieve their retirement dreams.

Here's a starting point for determining what the "master level employees" would know and do in a 401(k) "retirement plan;"

1. Price – *I know how much money I need to accumulate to provide the lifestyle I want when my full-time working career ends.*

Initial Indicators:

First – I know the estimated price of my retirement in today's dollars.

Second – I am following the recommendations of a sophisticated evaluation of my financial future that was done solely in my best interest.

2. Contribute – I know the amount I am contributing is on track to help me attain the financial future I want.

Initial Indicators:

First – I am gaining the maximum company contributions for my 401(k) account.

Second – I am confident the contributions – mine and the company's – reflect my needs for my retirement and my other key financial goals.

3. Invest – *I know the way I am investing today is on track to help me attain the financial future I want.*

Initial Indicators:

First – I am following my long-term investment strategy.

Second – I am using a blend of stock-rich and more conservative investments that reflects the time remaining before I need the retirement income.

4. Receive – *I know I will use the money in my account only for retirement income that will last for as long as I live.*

Initial Indicators:

First – I am not taking money out of my account except in emergencies.

Second – I am not spending the money from my account when I change jobs.

Third – When my full-time working career ends, I will know the personal advantages of all my payout options and investment strategies.

Employees Cannot Succeed Unless They Know How

Until plan sponsors and retirement educators start using measures that show individual employees are learning how to use these plans to have an adequate retirement, we should expect more books and articles pointing out that 401(k) “retirement plans” don’t do what they say.

And what about employees? Unless they become savvy retirement plan users, for most employees retirement just isn’t going to work.



This was originally published as an opinion piece on *401kHelpCenter.Com*, March 2002

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Dennis Ackley is a nationally recognized leader in benefit communication and retirement education. His innovative, award-winning communication programs have reached more than three million employees on topics such as retirement planning, investing, health care, benefit choices, pay, and incentive plans. Dennis has created communication campaigns for hundreds of the country’s largest employers. He has written more than four dozen articles for such publications as *HR Magazine*, *Benefits Quarterly*, *Employee Benefits News*, and *Communication World*. He is a featured speaker at scores of conferences including the International Foundation of Employee Benefit Plans, Profit Sharing/401(k) Council, the PBGC, The Conference Board, Pensions & Investments, and Benefits Management Forum and Expo.

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