

The Knowledge Needed to Make 401(k) Retirement Plans Work

By Dennis Ackley

To build a fire, you need oxygen, fuel and heat – skip one, no fire.

To build an adequate retirement using a 401(k) plan, you need a good 401(k) plan, employee contributions, and employee knowledge – skip one, no adequate retirement income.

Every plan sponsor says employee knowledge is essential to the success of 401(k) “retirement plans.” Yet, virtually none uses any measures to ensure employees have the knowledge to use the plan well. In business, what gets measured gets done. So without employee knowledge measures, how do plan sponsors manage and evaluate their retirement education efforts?

No law says you have to measure employee knowledge. ERISA only requires “reporting and disclosure” of certain information that’s intended to be understood. You don’t have to make sure they received all of it ... let alone understood it.

If you decide to skip the employee knowledge aspect of having a 401(k), that’s okay. Just don’t call it a “401(k) retirement plan.” Call it a “get some money when you leave the company plan” or an “investment plan.”

But don’t give employees the impression that plan will get them to their desired retirement destination if you aren’t going to make sure they have the essential elements to make the trip.

Retirement knowledge among employees is scarce.

Test it yourself. Ask a few employees, “Roughly how much money will you need to afford the retirement you want?” It’s the fundamental question in retirement planning. But you’ll get more blank looks than answers.

In fact, a recent survey found that over half of the employees over age 64 – “graduates” of the US retirement education system – could give no answer. They couldn’t even guess something like, “Gee, if I spend \$20,000 a year for 20 years – say from age 65 to 85 – that’s \$400,000.”

Employees don’t realize that their retirement lifestyle is the most expensive – and possibly the most important – *purchase* they will ever make. How many of your employees nearing retirement age have account balances worth more than one year of their current annual pay?

Judging Success by Trophies

Can you imagine someone from your organization’s training department saying, “We don’t measure learning outcomes. We don’t give any tests. We evaluate our training program on how well employees like the instructor and on how many awards the booklets have won?” Yet these are the measures too many plan sponsors use to assess the quality of their retirement education program. Worse yet, some don’t have any measures.

Plan sponsors need employee-knowledge measures to manage and evaluate their retirement education efforts.

Plan sponsors must require proof of accomplishment from retirement education providers. At a minimum, you need to know how much progress the educators made in helping individual employees define, pursue and achieve their retirement dreams.

Four Things to Do and Measure

There are only four things employees can do with 401(k) plans. Ask your retirement educators what measures they use to ensure that every employee is gaining the knowledge to master the following skills:

- Setting the estimated price their personal retirement income target,
- Contributing at rate predicted to attain that target,
- Investing with a strategy intended to attain that target, and
- Receiving payments that are planned to last throughout retirement.

Here's a starting point for your evaluation of retirement educators. How will they prove that individual employees are progressing beyond the initial indicators to the four Retirement Education Mastery Measures™:

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 as well as my comfort level with market risks.

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 financial 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.

Testing employees for this knowledge would be a valuable learning experience for them. At least, they would be introduced to the concepts successful users of 401(k) plans know.

Just Tell Me What to Do

It would be much easier to simply tell employees what to do. It's what they want... "What should I do?" is the most frequently asked question about 401(k) plans.

By all means, if your organization is willing to take responsibility for the outcome, tell them to contribute eight percent. And tell them to invest it all in a stock market index fund except put a percent equal to their age minus 15 in bond or money market funds. But, as you already guessed, doing that is not without problems. Your legal group will be more than a little nervous that you are assuring employees about the future. And are you certain if employees follow your directions they will end up with the level of income that will

satisfy all of them throughout their years of retirement?

Even if you could overcome these obstacles, the biggest problem is that employees don't learn any thing by being told what to do. And didn't you agree that knowledge is an essential element in using 401(k)s successfully? What will the "told" employees do when they decide a nicer car is more important than 401(k) contributions or when their brother-in-law tells them to time the market on international stock funds?

The best response to "What should I do?" is another question. Ask them, "How much do you want to spend each year in retirement and how many years do you expect to be retired?" Through your question, you are teaching and motivating them to think. Thinking leads to knowledge. And generating personal motivation is probably the most powerful teaching technique. Ask any teacher, "Can you teach the unmotivated...are personally motivated learners the best learners?"

Just Do The Right Thing

Some retirement educators will argue that testing employees' knowledge isn't needed – just measure what they do. Okay, what are the right things individual employees should do? If there are right ways to use the plan, why do you have "wrong" choices in your plan? Doesn't ERISA require that you operate the plan in the best interests of participants? Is offering "wrong" choices in their best interest? Or are all the choices reasonable? And don't you offer choices so employees can use them to reach their personal retirement goals based on what they *know* is best for them?

There's a down side to measuring employees' knowledge. Once you have learned how little they know, you cannot "unknow" it. Attorneys may say you're better off without proof of how little employees know. But if you don't test to see if employees have the knowledge essential to succeed, aren't you increasing the risk that many of them will fail to reach their retirement dreams

... and isn't their retirement the goal of your plan? And what's the risk of having employees with too little income? They have proof your "retirement plan" lacked an essential element that prevented them from being successful. And their coworkers could testify to it. All plan sponsors are making this choice. Would you rather know what employees know and act to fill the knowledge gap ... or claim you didn't know?

If you're saying to yourself, "It's impossible to teach employees use 401(k)s successfully," then should you be offering "retirement" plan that requires knowledge?



This article first appeared in the December 2002 issue of *Employee Benefit News*.

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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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