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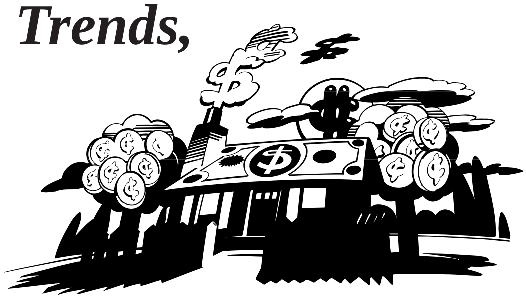
Financial Education: Employer Trends, Liability and Considerations



by Rick Storms

Today's employers recognize the growing need to help employees take charge of their financial future. To accomplish this, many employers are turning to financial education programs to add value for their employees without adding benefit costs. In fact, the 1998 International Society of Certified Employee Benefit Specialists (ISCEBS) survey indicates benefit specialists' top priority is providing investment education to employees.

A number of industry trends are driving employer interest in — and employee need for — financial education:

- **Limited retirement planning:** Various studies show many employees are saving only a fraction of what they need to maintain their current standard of living at retirement. This may be particularly true for baby boomers and younger employees for whom Social Security retirement benefits will likely play a smaller role. In addition, many employees do not have access to a financial services professional, and look to their employer for basic financial information.

- **Lack of information:** Most employers offer limited financial information, generally focused only on the 401(k) or benefit plan. While benefits education can be effective, it may be more helpful to present this information within the context of a complete financial plan. Furthermore, education helps employees better understand their existing benefits.

- **Demand for convenience:** Employees like the convenience of buying insurance and financial services at the workplace. According to a LIMRA study, three out of four employees are open to buying these services at work.

Financial Education: A Win-Win Strategy

Here are some of the advantages of implementing a financial education program:

Benefits for Employers
- Promotes shared responsibility
- Reinforces value of retirement plan
- Increases understanding of benefit offerings
- Provides general retirement planning information, encouraged by the Department of Labor
- Aids recruitment and retention efforts

Benefits for Employees
- Provides opportunity to develop an actionable plan
- Provides a useful and tangible employee benefit
- Promotes active participation in financial decisions
- Helps increase money management skills
- Helps reduce financial worries and builds financial confidence

How Financial Education Helps Employers Comply With 404(c)

404(c), a subsection of ERISA, permits employers to provide certain information to employees without becoming fiduciaries. Employers must give plan participants at least three different investment choices, participants must have independent control over their accounts, and they must be given sufficient information to make informed investment decisions.

Recently, the Department of Labor issued an Interpretive Bulletin to add clarity to what constitutes "sufficient information." This bulletin identifies four categories that, appropriately, will *not* constitute the rendering of investment advice: 1) Information on the specific retirement plan, 2) General financial and investment information, 3) Asset allocation models, and 4) Interactive materials.

The Department of Labor encourages employers, particularly those with defined contribution plans, to provide financial education to help participants and beneficiaries maximize their benefits under the plan. Implementing a financial education program with the four categories of information listed above, can assure employers will not lose the special exemption from fiduciary status set forth in ERISA section 404(c).

Ten Considerations for Evaluating Financial Education Programs

Since employee financial education is still fairly new, many employers need assistance in how to evaluate these programs. Listed below are some things to consider before selecting a financial education program:

- Is the financial education curriculum broad-based or topical in focus?
- Does the curriculum address generic financial concepts or vendor-specific products?
- What is the instructor's background, training and experience?
- Is the program varied in its delivery, with applicability for adult learners?
- Is it conveniently held at the workplace?
- Are spouses/guests encouraged to attend with employees?
- Does the program provide an opportunity for participants to meet with the financial educator/advisor to translate knowledge into action?

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in *all* states until products can be modified and supported administratively. Larger companies will likely continue to write products with longer guarantees using affiliated companies not licensed in Wisconsin. There would likely be a large, immediate reduction in consumer choice for term insurance in the country.

It is unclear whether Wisconsin will adopt the new proposal with the January 1, 2000, effective date. It is still possible that they could adopt the proposal with a January 1, 1999, effective date. Unfortunately, this will yield similar results as adopting the 95 Reg on January 1, 2000. The only difference is that companies will eventually move the guarantee periods out from five years.

The only possibility for a reasonable transition from the current term market to the one which will develop after the adoption of “XXX” is adopting the Proposed Effective date of January 1, 2000. Companies will have all of 1999 to develop products that are priced to reflect the costs of the new valuation regulation. If several states adopt the regulation with a January 1, 2000, effective date, larger companies will not be able to circumvent the regulation by avoiding states that have adopted the regulation.

Many companies, including several Wisconsin domestics, can be expected to urge Wisconsin to move back the effective date to January 1, 2000.

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- How is the financial educator/advisor compensated?
- How does the program provide ongoing education to all employees?

Employee Financial Education: The Time Is Now

I believe the time for employers to implement financial education programs is now. Consider one final factor. The implications of individuals not prepared for a secure financial future are tremendous. If employers and the benefits industry in general do nothing, the magnitude of this issue will soon dwarf any other societal issue. The government will have to impose solutions on employers. It doesn’t take a long history lesson to remember changes in our nation’s overall health care system were almost mandated on employers. The same could happen in five or ten years in regard to employees retirement funding, college funding and other financial educational needs. This leaves a window of time for employers to jump in and provide financial education to employees on their terms as opposed to terms mandated from Congress. Properly designed financial education programs can help employees take financial stumbling blocks and turn them into building blocks. As we draw near the year 2000, the proactive employers will lead the way into the new millennium.

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