



AMERICAN BENEFITS COUNCIL

401(k) *fast facts*

FINANCIAL LITERACY AND INVESTMENT EDUCATION

Employees need investment education. The Council believes that financial literacy is the foundation upon which a solid retirement nest egg must be built. Without the knowledge and ability to make sound financial decisions, individuals will be left with inadequate resources to meet their income and health needs in retirement. Financial literacy has taken on even more significance over the past few decades, as we have been moving from traditional models of providing “defined benefits,” both for retirement income and health, to models that place more responsibility on individuals to fund, invest, and manage both income and health plans for themselves.

- Financial literacy plays a critical role in improving 401(k) savings behavior. It reduces both the proportion of non-joiners in voluntary 401(k) plans and the proportion of quitters in automatic enrollment plans. (Center for Retirement Research at Boston College, "Literacy, Trust and 401(k) Savings Behavior," May 2007)

Employees want investment education. The Pension Protection Act of 2006 allows companies that manage employer-sponsored retirement plans, such as 401(k) plans, to offer investment advice to employees. Nearly 20 percent of workers state they would be *very* likely to take advantage of such a service if it were available at a modest cost, and 35 percent of report they would be *somewhat* likely to take advantage of the service. (Employee Benefit Research Institute, "The Retirement System in Transition: 2007 Retirement Confidence Survey," April 2007)

Employees have been slow to use investment education. Investment advice is offered in 47.2 percent of plans, but only 22.5 percent of participants used the advice when it was offered. (Profit Sharing Council of America, "PSCA Annual Survey of Profit Sharing and 401(k) Plans, Reflecting 2005 Plan Experience," 2007)

Employers institute plan education for a variety of reasons... The most common reasons for providing plan education are to increase participation (36.3 percent, to increase appreciation for the plan (19.8 percent) and to improve asset allocation (13.7 percent).

...And plan education can take a variety of forms. The most common approaches are enrollment kits (62.2 percent), seminars/workshops (48.1 percent), fund performance sheets (46.3 percent), newsletters (42.2 percent) and internet/intranet (42.1 percent). (Profit Sharing Council of America, "PSCA Annual Survey of Profit Sharing and 401(k) Plans, Reflecting 2005 Plan Experience," 2007)