

Building a **SUCCESSFUL** Participant Education Strategy

Defined Contribution Plans are intended to help employees adequately prepare for retirement. However, studies show that Americans are alarmingly ill-prepared for retirement. In a recent study done by Clever, 1 in 5 surveyed could not correctly define a 401(k) (Huisache, 2023). According to another study by Fidelity, 55% of participants need to take significant action to be able to retire comfortably (Fidelity, 2023).

Studies like these suggest a general lack of knowledge and preparedness, which means that simply offering a plan isn't enough. Without targeted education and personalized planning, many will not understand the importance of saving and will put retirement contributions on hold to prioritize other pressing financial needs.

Plan sponsors are looking to advisors to implement education to fill the gap. But this is much easier said than done. Many can tell stories of lunch-and-learn opportunities that are poorly attended and are costly in time and resources, distracting the advisor from pressing priorities like wealth management clients and other plan administration details.

Your participants need more than just the facts about 401(k)s. How can you give people information that will lead to confidence in long-term financial growth? How do you equip them with what they need to know, and cast a vision for a healthy retirement?

Here are five key elements that are essential for an education strategy that considers the needs of varied participants and cultivates interest and action.



Did you know? Outsourcing your financial education can save time and increase revenue.

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1. **PROVIDE EDUCATION THAT APPEALS TO DIFFERENT GENERATIONS**

Education will need to span generations to maximize plan contributions. Education that is geared towards young savers (Millennials and Gen Z), should emphasize the act of retirement savings, as well as the timeline to retirement and the opportunity for investments to grow. Many plan education providers focus here. However, for pre-retirees (Boomers), basic financial literacy won't be enough. They'll also need specific guidance to help with managing income in retirement, how healthcare will work in retirement, calculating an accurate retirement timeline, and how and when to start taking distributions. For a plan to be effective, it needs to capture young savers at an early age and provide adequate support for those moving into the final stages of their careers.

2. BUILD SKILLS THAT ALLOW FOR BASIC SELF-ASSESSMENT

According to one study, 61% of Americans don't know how much they need in savings to comfortably retire (Barney, 2018). Part of ensuring that participants contribute at healthy levels throughout their careers is educating them with a basic framework so they know where they are in terms of their long-term goals and can continually reassess as they progress in their careers. Educating them on how to use a retirement calculator to understand income in retirement or how to use Morningstar to evaluate their investments will equip them with self-evaluative tools for determining retirement readiness.

61%

of Americans don't know how much they need in savings to comfortably retire

3. TAKE ADVANTAGE OF INCREASED DIGITAL OPPORTUNITIES

While an in-person session still adds value, these sessions are cumbersome to organize and often costly in time and resources with little ROI. Data from a Charles Schwab study showed that employees in 2021 attended more virtual sessions on retirement and financial topics than ever before, and 93% left feeling that they were better prepared to take the next step financially. This boost in virtual attendance meant that overall attendance went up by 5.4% (Business Wire, 2023). Especially in a post-pandemic world, investing in virtual education can give you the ability to connect with far more plan participants, with far less hassle and travel.

4. BE MINDFUL OF LANGUAGE WHEN EXPLAINING PLAN TERMS

One study by Invesco found that the language used in retirement plans has a huge impact on how people feel about saving. For example, when participants heard "Tier 1, 2, and 3" for plan options, they assumed that some must be of higher quality. However, when the categories were

64%

of those surveyed associated "risk" with "potential for loss"

broken down into "do it for me, do it with me, or do it myself" participants generally understood what would be expected of them in terms of participation (Invesco, 2021). In this same study, the word "risk" almost always carried negative associations for participants. 64% of those surveyed associated "risk" with "potential for loss," with only 36% associating it with "potential for gain."

It is crucial to explain this concept to participants, as most will be fearful and prone to avoid anything labeled "risk," even if it could lead to large gains in the future. Eliminating the use of jargon and being careful about framing is essential if participants are to genuinely understand their plan options.

5. PROVIDE CLEAR, PERSONALIZED GUIDANCE, NOT JUST GENERAL INSTRUCTION

A study conducted by Charles Schwab found that participants are looking for personal, professional support in their financial planning and decisions. Workers' confidence in their investment decisions went up 22 points when they had the option of consulting a financial professional and 73% of those surveyed indicated that they would like personalized support on their 401(k) (Charles Schwab, 2023). More than just information, participants are looking for opportunities to ask questions about their unique situation and have decisions evaluated by a professional. This could be done one-on-one or in a group setting, or it could be an opportunity to outsource to a group that offers personalized financial education at scale. This kind of personal connection will build their confidence and encourage them to continue investing substantially in their future.

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of those surveyed indicated that they would like personalized support on their 401(k)

Education is the foundation for overall financial well-being. Participants will need to understand where retirement savings fits into their broader financial goals. Keeping in mind these five elements will help you refocus your efforts around financial education and provide participants with the skills necessary to save now and secure a healthy retirement.

References

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 (888) 686-5808

 hello@joinsmartpath.com

 www.joinsmartpath.com