Education with IMPACT—The Edu-tainment ExperienceTM

by Charles D. Epstein and Sue Ellen Lovejoy

Education is a creative act. Advice is a fiduciary act. This distinction is not only critical to understanding the role you play in moving America's workers to take action towards creating a successful retirement outcome for themselves, but also in how you play that role!

Fiduciary status attaches to a person who gives "investment advice" for a fee.

• The DOL has issued guidance in he form of Interpretive Bulletin 964 that permits a person to provide participants with "investment education" without any fiduciary liability attaching to such action.

• Under Interpretive Bulletin, the following types of "investment education" can be provided without incurring fiduciary liability:
— plan information;
— general information;
— investment information;
— asset allocation models; and
— interactive investment materials.

The broad nature of the bulletin allows practitioners the ability to educate participants without becoming a fiduciary advisor as defined by the Pension Protection Act. Once you are clear on the role you will play in

educating participants, you need to understand how to make your message(s) to move American workers to a call to action: that action is to save for their futures. Again, education is a creative art. Whether teaching

Chaucer's Canterbury Tales or a 401(k) plan's provisions, the unique dynamic of conveying knowledge and observing the consequent action, whether it's delving into *The Knight's Tale* with gusto or enrolling in a 401(k) plan with confidence, brings value to both teacher and student. With that said, let's turn our attention to 401(k) education. Why isn't this dynamic working as it should in our industry? Where are we missing the mark? Alicia Munnell, in *Coming Up Short*, cites the following staggering statistics evidencing that employees are making mistakes at every step along the way: 26% of employees don't participate in their plan, more than 50% do not diversify appropriately for their age and risk tolerance, 48% simply cash out when changing jobs, and a mere 10% contribute the maximum amount allowed under their plan's provisions. What then is the character of current 401(k) education? Mainly, it seems to be about excess. Voluminous enrollment kits with charts, graphs, workbooks, calculators, glossy photographs of euphoric couples romping on beaches and an enrollment form (the one essential page) hidden in a back pocket behind more pages of investment choices. PowerPoint presentations—30 to 50 slides of charts and graphs detailing how long we're going to live and how poor we'll be if we don't mend our irresponsible ways. An educator speaking like Barrons reads, in betas, alphas, standard deviations and sector funds. In short, 401(k) education has deteriorated into a stiffly presented format in which employees are drowned in an infinite amount of information and instruction, much of which is inscrutable. To follow out our linguistic pattern, employees often respond by feeling intimidated, irritable and indecisive. How do we fix it? By first recognizing that all successful education is interactive by its very definition. All great entertainers and entertainment enterprises, like Disney, MGM and Madison Avenue, understand that the "message" is the mantra. If you want to get shelfspace in the minds of your audience, to move them to action, you must:

- Know your audience better than they know themselves.
- Keep your message "simple and distinct."
- Entertain rather than enroll or educate!

We live in a YouTube society (MTV rules) where 15- and 30-second sound bites carry more impact than *The New York Times* Sunday Edition. Translation: *less is more!*

So how do you, as the Intelligent 401(k) Professional of the 21st Century, provide education with impact and create a memorable experience that moves participants to listen, learn and act?

We believe (and our combined 50 years of experience and quantifiable results prove) that it starts with having a well-defined education process, what we call The Edu-tainment ExperienceTM. There are six steps to this creative process:

Step One: The Plan Evaluator

Preparation is an integral part of a successful education effort. We begin by scheduling a meeting or conversation with the plan sponsor or human resources manager to obtain details about the plan with a view toward determining *specific* objectives for our presentation. A new plan has the straightforward objectives of assisting employees in understanding the tax advantages and plan features, explaining mapping and blackout periods if appropriate and encouraging participation. In existing plans, however, and let's be clear that education should be regular and ongoing even with older plans, objectives should be unique to that plan. Some of our questions to the plan sponsor will be "What is the participation rate? What is the average deferral rate? How well are assets spread among investment choices?" We also want to know about loan behavior, how many participants rebalance, if terminated employees are rolling assets over to IRAs or cashing out. Is the company interested in making changes to its plan? With a thorough overview of the plan, we are taking an important step in narrowing our educational focus to the several most important issues of that company based on its demographics and employee behaviors.

Step Two: The Participant Evaluator

We now consider the plan from the employee's perspective allowing us to hone our focus even more sharply. What kind of company is this and who are its employees? Is there an executive management team as well as a group of hourly wage employees? Are employees highly educated and technical? Or is this a manufacturing company or nursing home with many lower-income employees? What questions are participants asking, what is their level of financial sophistication, why are employees not participating in the plan and how well do they understand their plan? Are there company decisions that have negatively impacted participation (*i.e.,* recent layoffs, absence of a match and change in ownership)?

With the collection of both plan-specific data and employee composition and behavior data, we have a strong indication of the direction our 401(k) education should take. Now we are ready to customize and target—two more essential ingredients in a successful education campaign.

Step Three: The Customizor

Taking what we have learned from the plan sponsor, what actions do we want to move employees toward and/or what information do employees need to more fully understand their plan? These are some actions/issues we might concentrate on:

- Increase participation rates;
- Increase deferral rates;
- Impact investment diversification;
- Revisit loan issue—discussion of consequences and costs;
- Discuss importance of rebalancing;
- Communicate plan changes: investment additions or deletions,

safe harbor match, Roth 401(k) provision; and
- Distribution behaviors of terminated employees.

Step Four: Program Targeting

Every great TV station programmer understands their job is to provide the best programming to their targeted audience to increase their chances of capturing a large percent of the viewing audience. The same approach works when creating your 401(k) programming. Segmenting different populations of employees allows us to convey to each group the message most important to them. After all, why bore current participants with the tax advantages and entry dates for their plan. Conversely, why deconstruct investments and explain growth and value strategies to a newly eligible 25-year-old employee who just wants to enroll? Focus the message. Optimal learning occurs when relevant information is offered in small, digestible bites. Here are some examples of targeting:

- New and non-participating employees;
- Current participants;
- Participants with low deferral rates;
- Participants with 30% of assets in GIC and/or money market funds;
- Participants with diversification in fewer than three funds;
- Participants with multiple loans;
- Participants age 55 and older; and
- Female participants—research has shown significant gender issues with regard to longevity, salary discrepancies and saving/investing behaviors.

Step Five: The Edu-tainment™ Phase

Let's circle back to the Chaucer analogy for a moment. Where did most of us initially hear of Chaucer, the Wife of Bath, Middle English? A classroom setting (most likely in college, where many of us sat glassy-eyed or napping)? And how are we presenting 401(k) education to adults today? In a replication of that structured academic environment. We've labeled this the Formal Fallacy, the assumption that employees learn best if the educator wears a pinstripe suit and stands in front of a lectern for an hour.

Those 40-page enrollment kits will probably wind up in the trash and the bar charts from the 50-slide PowerPoint presentation will never be the topic of dinner conversations, but you as a personality have the ability to leave employees with a memorable moment or two.

Louis Rukeyser's successful Public Television program was based on three principles: know what you're talking about, speak English and develop some flair. You have to bring them to the tent. Flair can reveal itself in a powerful anecdote, a creative demonstration and an innovative approach. Bring yourself to each presentation. Be resourceful.

Here is one strategy that works for us, and one that may foster your own imaginative exercises. First, create an inviting environment for America's worker. Remember the majority of working America, when notified of a 401(k) meeting, arrive prepared to "nap" for the next hour, as they have already been lullabyed to sleep by the past presenter who turned out the lights for 60 minutes and droned on with dull slides about the 401(k) plan's 50 investment options! Your job is to break participants out of the "old mold" and wow them. In the moment, you do this first by creating a space that sets the "rock" stage. Arrive early. Prep the room. We actually play music and dress up the cafeteria or factory warehouse with eye-catching scenery and artwork. The immediate impact is that employees walk into a "space" where their senses tell them "something new and different" is about to happen so "listen up!" Next, spend a few minutes getting in a relationship with an employee or two with some casual conversation (many will engage you about the music you've chosen to play.) Remember the name of one of those employees, let's say it's Stan, and jot it down on an envelope. Inside the envelope, insert a facsimile check written to this individual in the amount of $1,500. Sign the company name and seal the envelope. You have done your homework on this plan and know that the company match is 50% of the first 6% of deferral. You also know that most employees in Stan's position are making in the range of $50,000 a year. So during the presentation, while reviewing the plan features, actually present this envelope to Stan and ask him to open it (this act is most effective if handled with a certain aplomb). As he stares at the check in disbelief, this point is where we caution you not to make the facsimile look too real, ask Stan how often he receives a check for $1,500 made out to him. Stan will undoubtedly reply, "Never!" You and Stan are now interacting in a mini-drama that has the rapt attention of everyone in the room. This moment is the perfect moment to make the case for a 6% participation rate in order to receive the company match AND you are doing it in a way that will not easily be forgotten.

The entertainment phase embraces both the message and the messenger. Make it real—the check exercise. Make it fun—turn it into a game in which participants are asked questions about their plan and rewarded with chocolates for correct answers. Make it memorable—we all remember a favorite teacher.

Step Six: The Valuator

Develop a timeline of employee meetings — quarterly, semi-annually, annually—and a schedule of the issues to be addressed and the actions to be achieved. Are we striving to increase participation by 10%, increase deferral rates to 6%, see a reduction in loan applications? Clarify objectives with the plan sponsor and encourage measurement. Perhaps a six-month look-back at plan demographics. This phase enables the educator and the plan sponsor to continue and celebrate a mutually beneficial collaboration. Create a flow chart and Excel spreadsheet categorizing those specific results you and HR will target and produce over a three-year period of time; increase deferral rates, participation rates (or percentages), increase utilization of asset allocation or target funds and decrease money market utilization.

Research shows that on-site presentations are the most effective form of 401(k) education. But just being on site is not enough. Preparation and creativity are essential. We must be knowledgeable and approachable; we must understand our audience and focus our objectives. Only then can we give employees the gift of appreciating a difficult topic and one that can change their lives forever.

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