

**Financial Education:
Communications Campaigns and Education
Programs for Pension Plan Members**

**OECD/IOPS Conference on
Private Pensions in Asia**

**April 27 - 28, 2005
Bangkok, Thailand**

**James A. Klein
President
American Benefits Council**



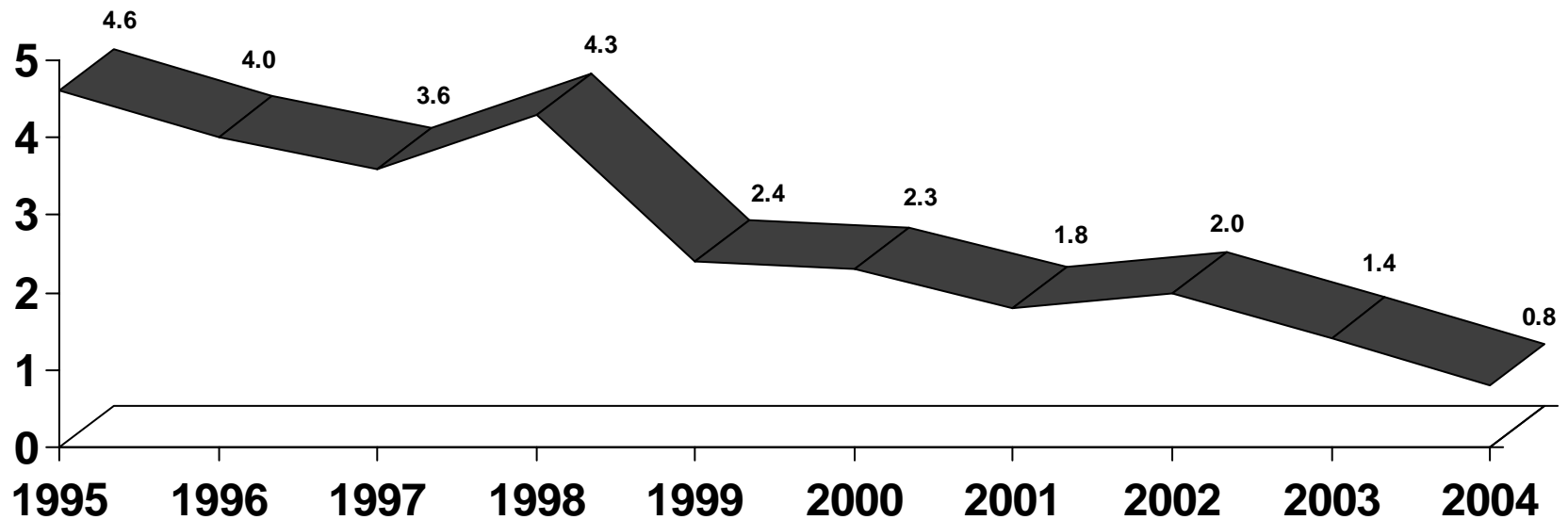
American Benefits Council

- Members are large company employers (“plan sponsors”) banks, insurance companies, pension investment firms, law firms, actuarial and consulting firms
- Members either sponsor directly or provide services to retirement and health plans covering more than 100 million Americans, and millions of others working outside of the United States of America
- We advocate with Congress and U.S. government agencies to enact laws and regulations that help expand the employer-sponsored pension and health benefits system



Need For Savings

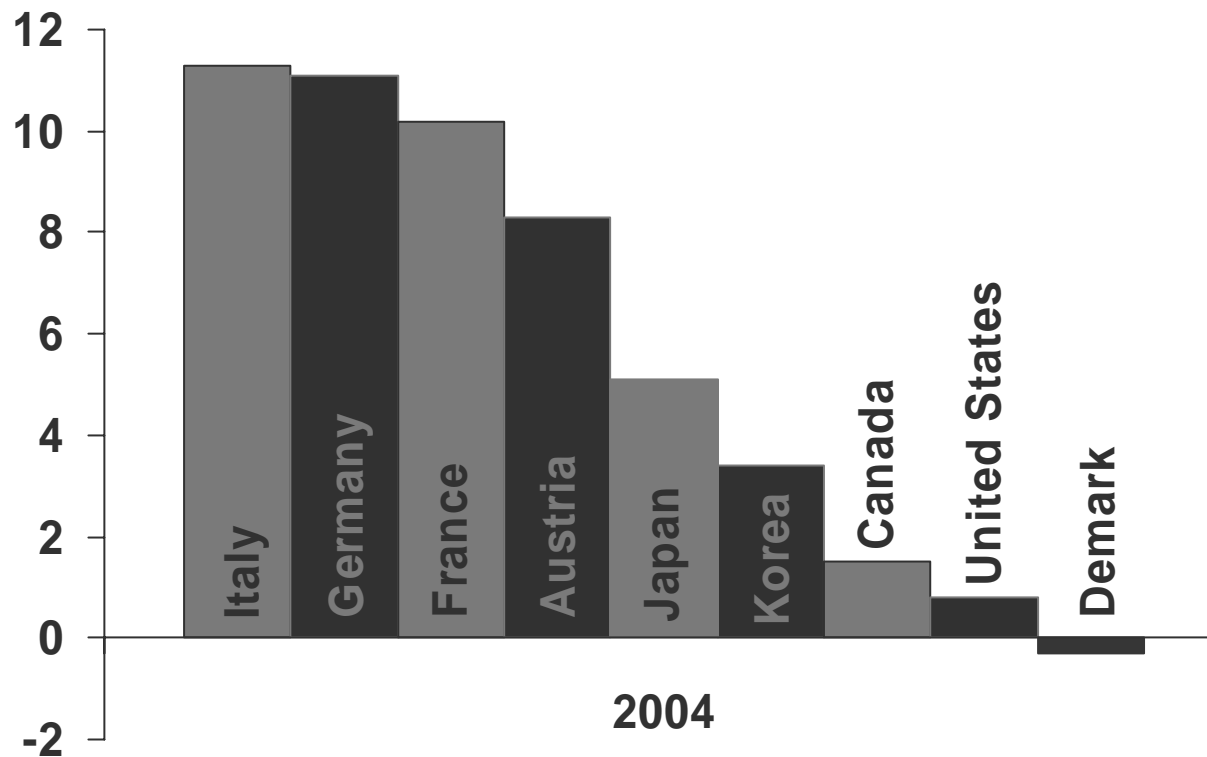
U.S. Household Savings Rate as a Percentage of Disposable Income 1995-2004
(Organization for Economic Cooperation and Development, Main Economic Indicators; Paris: OECD, 2005)



Need For Savings

Household Savings Rate as a Percentage of Disposable Income for 2004

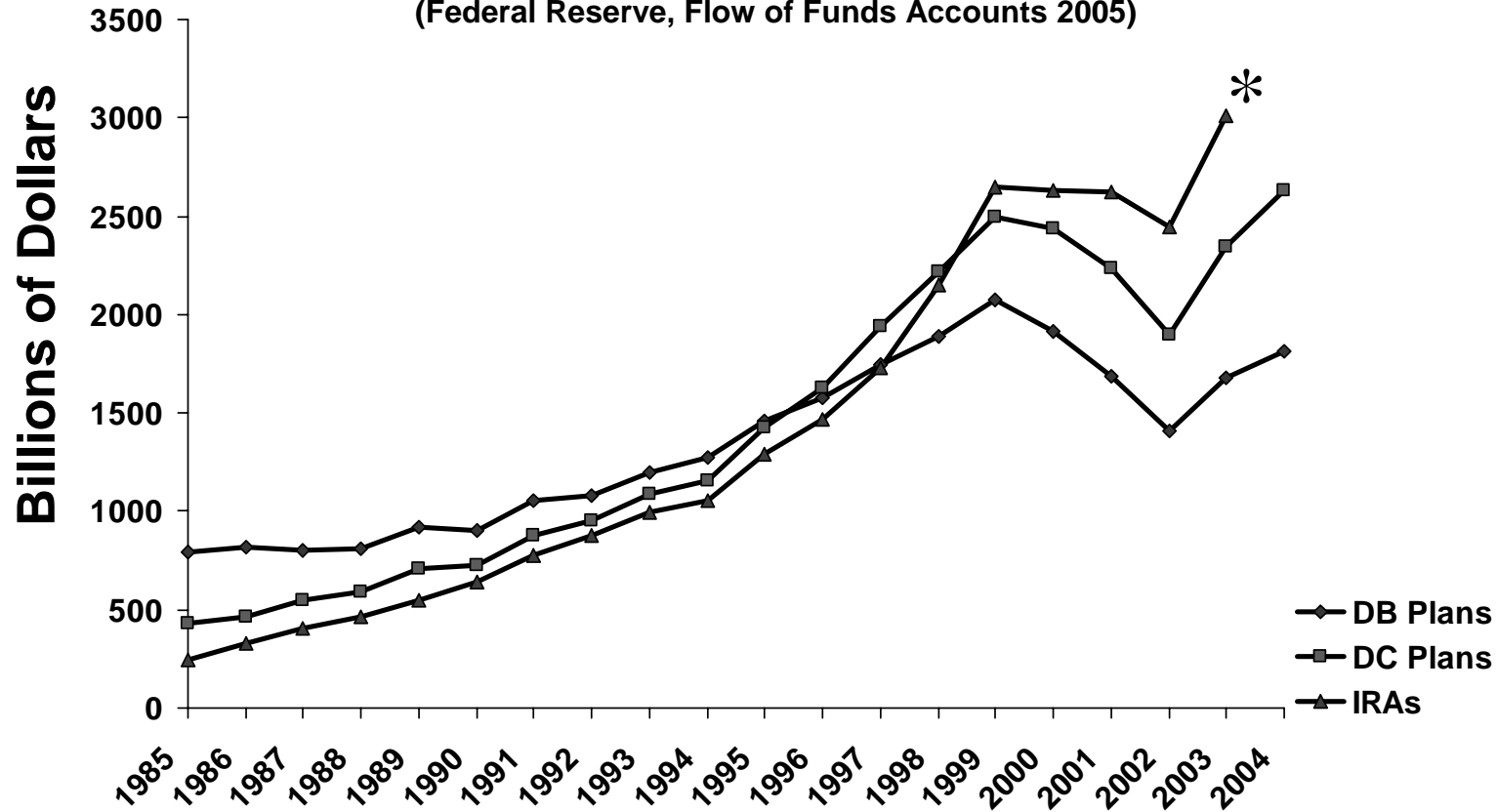
(Organization for Economic Cooperation and Development, Main Economic Indicators; Paris: OECD, 2005)



Need For Savings

Total Financial Assets of Defined Benefit, Defined Contribution and Individual Retirement Accounts, 1985 to 1994

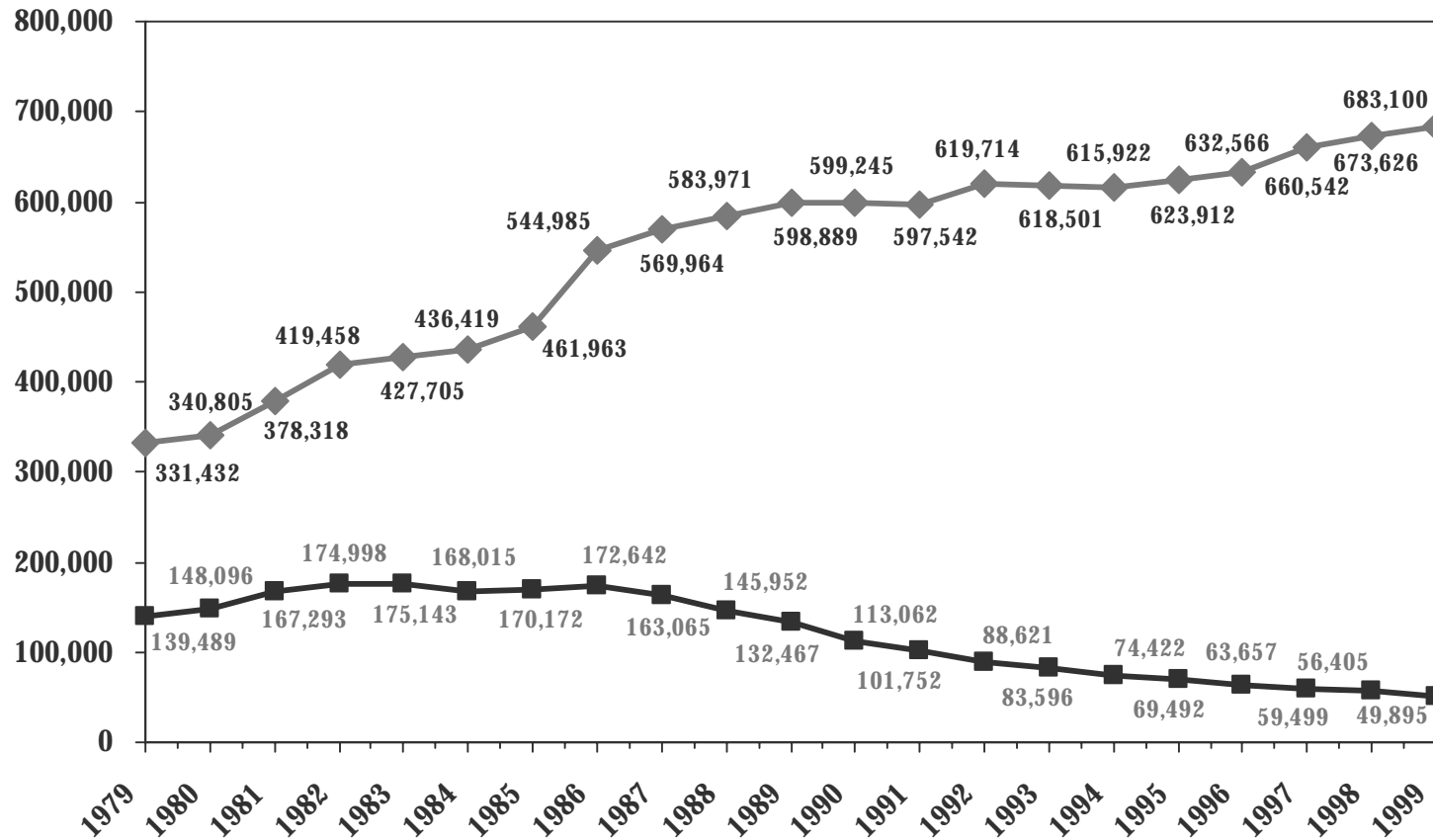
(Federal Reserve, Flow of Funds Accounts 2005)



*\$3,000,000,000,000

Need For Savings

Number of Pension Plans, by Type of Plan, 1979-1999



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◆ defined contribution plans

■ defined benefit plans

Nature of Defined Contribution Plans

- Often called “401(k) plans” (one type of DC plan)
- Benefits depend upon investment performance
- No employer or federal guarantee of specific benefits
- Typically funded by both employer and worker contributions



Employer/Plan Sponsor Interests

- Workplace is where most savings occurs and most financial education occurs
- Why is it important to employers if participants save?
 - Most employers really do care about their employees and retirees (U.S. benefits system is entirely voluntary)
 - Adequate retirement savings necessary for workforce management
 - Trend from defined benefit to defined contribution puts more responsibility on the workers



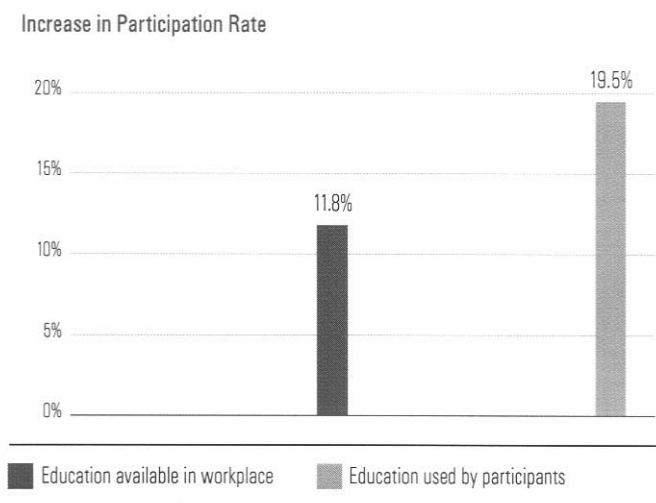
Legislative/Legal Developments

- Nondiscrimination Rules require more participation/savings for lower paid workers
- Department of Labor Interpretive Bulletin 96-1
 - Clarified that employer-provided education is acceptable
- ERISA Section 404(c) Fiduciary Relief
 - Certain legal protections if employers provide a variety of investment choices (i.e. aggressive, conservative) and communications to help participants make informed decisions



Effectiveness of Education

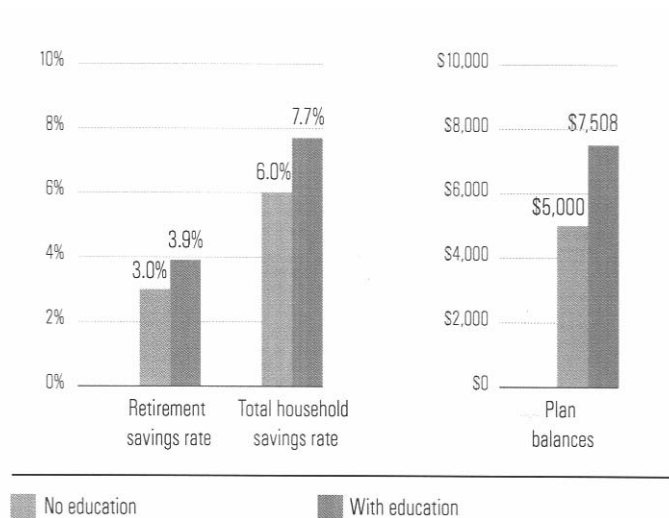
- Education available from employers, raises participation by 11.8%
- Participants actively engaged in workplace programs, raises participation by 19.5%



Source: Bernheim and Garrett

Effectiveness of Education

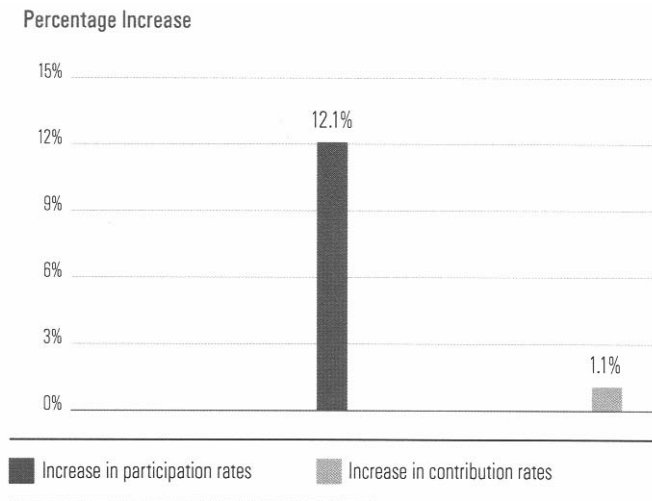
- Education mostly helps workers with small retirement plan balances
 - Workers with larger balances already participate at higher rates
 - Larger balance participants more likely to be higher income workers with limits imposed on contributions
- Husbands or wives of participants with employer-provided education have higher participation and savings rates



Source: Bernheim and Garrett

Effectiveness of Education Employee Meetings

- Participation increased by 12.1%
- Savings rates increased by 1.1% of wages for lower-paid workers, from 3% to 4.1% of wages



Note: Nonhighly compensated employees only.

Source: Bayer, Bernheim and Scholz

Creative Education Efforts

- Employers are devoting extensive resources to promoting participation in 401(k) plans and to increase savings
 - Printed materials
 - Videos
 - Prizes for workers to get education
 - Meetings
 - Financial counselors



*The 2005
Eddy Awards*

Initial Education
Corporate

3rd Place

Smithfield Foods Inc.



Service Provider:
Strong Retirement
Plan Services

Pensions & Investments

Workforce
MANAGEMENT



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The 2005 Eddy Awards

Ongoing Education
Corporate – More than 5,000 Employees

1st Place

Starwood Hotels &
Resorts Worldwide Inc.

Service Provider:
CitiStreet LLC



Pensions & Investments

Workforce
MANAGEMENT



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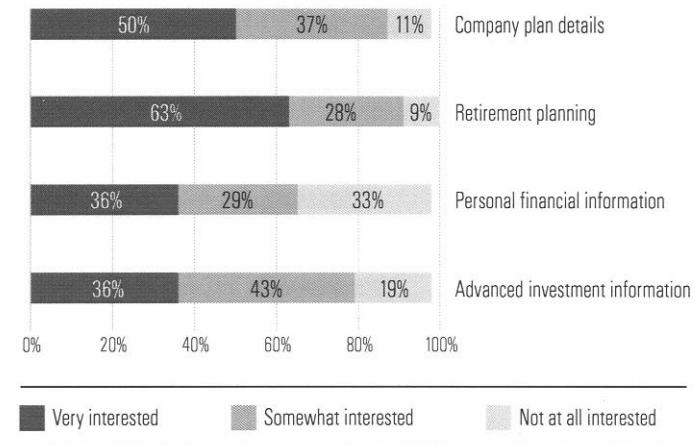
Special Challenges

- Language barriers
- High cost of immediate needs
 - Health care
 - Housing
 - Education
- Lack of financial education in schools



Investment Advice

- Challenge is not just “education” but actual “advice”
- Almost all workers are “very” or “somewhat” interested in specific recommendations on retirement plan investments



Source: The Vanguard Group, 2001.

Employer Concerns with Investment Advice

- Lawsuits if advice is given and investments perform poorly
- Worker complaints if advice is not given and workers miss opportunity for better investments
- Potential conflicts of interest if financial institutions provide advice
- Effect of bad actions by some employers (e.g. WorldComm, Enron)
- Investment in employer's own company stock
 - Employers want workers to hold company stock
 - Employers concerned with lack of diversification
 - Employers have been sued when value of company stock has gone “up” or “down”



Successful Savings Initiatives

- Additional contributions allowed for workers over age 50 to “catch up” for years not contributing to 401(k) plans
 - Especially valuable for women
- Tax credit for low wage workers to participate in 401(k) plans
 - More than 5,400,000 people received the credit in 2003
- 401(k) plan participation rose 23% from 2000 to 2004, from 42,000,000 people to 54,000,000 people



Proposals to Promote Financial and Advice

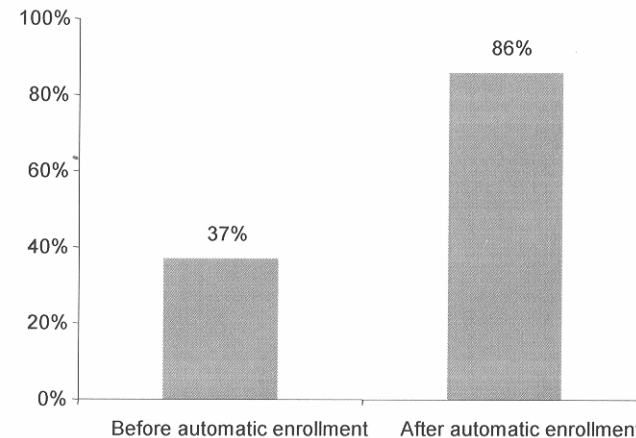
- No tax on some income used to pay for retirement planning services
- Fiduciary liability protection for employers and financial institutions if advice is provided and potential conflicts interest are disclosed
- Make financial education a condition of high school and college graduation
- Require Social Security annual statement to include information on how to calculate retirement income needs



When Education or Advice is Not Sufficient

- Automatic enrollment for new employees unless they choose not to participate
- Automatic enrollment raised participation rates for low-wage workers from 60% to 85% (Source: Choi, National Tax Journal)

Participation rate of new hires



Source: Madrian and Shea



Automatic Enrollment

- But how to make it more successful?
 - Relieve employers of complex non-discrimination testing if they automatically enroll new workers and increase contribution level each year
 - Provide fiduciary liability protection even if employers put the money in something other than the most conservative investment
- Recognition of differences between “savers” and “non-savers” and people who like to control their investments and those who prefer an investment professional to control it.



The Biggest Challenge

- President Bush proposes to add a personal account feature to the public (1st pillar) Social Security defined benefit system
 - If it becomes law will workers have the knowledge to invest the money prudently?
 - Will personal accounts in Social Security help the U.S.A. achieve a society that is financially well-educated?
 - How will personal accounts in Social Security affect investment decisions within employer-sponsored plans and individual, personal savings?



For More Information

We're on the Web at
www.americanbenefitscouncil.org



The screenshot shows the American Benefits Council website. At the top is the logo and a header image of two people in a meeting. Below the header are two main navigation tabs: "What's New" and "Benefits Byte".

What's New

- » About the Council
- » Issues
- » News Room
- » Publications
- » Capitol Connection
- » Speakers Bureau
- » Committee Materials
- » Calendar
- » Political Action Comm.
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Council Comments on United Airlines Pension Development

November 5: As is being widely reported, United Airlines announced on November 4 that it will apparently ask the Federal Bankruptcy Court for permission to terminate its four pension plans. Aside from the obvious impact on United's employees and their families, the announcement could also have far-reaching implications for the Pension Benefits Guaranty Corporation and the broader employer-sponsored pension system.

When United Airlines first hinted at their intentions on August 19, American Benefits Council President Jim Klein issued a public statement. "My words then carry the same weight now," Klein said today. "This announcement is deeply troubling, because it reflects the uncertainty and precariousness that goes along with retirement plan sponsorship today."

For further comment on this matter, contact [Deanna Johnson Keim, APR](mailto:Deanna.Johnson@abc.org), Council director, communications, or [Jason Hammerella](mailto:Jason.Hammerella@abc.org), Council communications associate, at 202-289-6700.

Council President comments on elections' impact on benefits policy

November 3: American Benefits Council President James A. Klein has released a statement on the impact of the 2004 election results.

For further comment, contact [Deanna Johnson Keim, APR](mailto:Deanna.Johnson@abc.org), Council director, communications, or [Jason Hammerella](mailto:Jason.Hammerella@abc.org), Council communications associate, at 202-289-6700.

Council Submits Comment Letter to Treasury, IRS on Deferred Compensation

November 2: Following the President's October 22 signing of the [new law](http://www.irs.gov), the Internal Revenue Service (IRS) now has until December 24 to issue guidance relating to the deferred compensation provisions included in the bill. The Council has now submitted comments to the U.S. Treasury Department and IRS regarding areas of interest that must be addressed during the transition period to the new law.

Benefits Byte

November 19, 2004

» In this issue:

- » Treasury Issues Phased Retirement Plan Distribution Regulations

[Click here for Benefits Byte.](#)

Make Your Voice Heard

Ask Treasury to Support Modification of 'Use It or Lose It' Rule

The U.S. Department of Treasury is currently evaluating whether it has the authority to modify the "use it or lose it" rule that applies to health flexible spending arrangements (FSAs). The Council is urging the Treasury Department to propose and finalize a new rule that would permit a limited dollar carry forward in a health FSA to be distributed for qualified health expenses only without additional legislation from Congress.

Using the Council's Capitol Connection Center, you can join in support of this effort.

[Please do so today.](#)

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