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Critical Elements of a Successful 401K Education Program

Participant education is one of the most neglected aspects of a 401k plan. The goal for a successful plan should be the same for the sponsors and the participants; to reach retirement with the accumulated assets they need. Studies have shown that nearly one in four eligible employees do not contribute to their company's 401k plan. Studies also show that even actively participating employees often have contribution rates and investment allocations inconsistent with their long term goals.

At the extreme, some sponsors believe the existence and availability of the 401k plan alone is adequate. Often even well intentioned education efforts can misfire and just add to the overall confusion and lack of enthusiasm towards a 401k plan. A disciplined, regular and consistent education program is the key.

First, not achieving retirement success is mainly due to inadequate savings not the lack of good long term investments. Starting to save early and contributing often are the most important actions a participant can take. Understanding administrative and investment procedures, while important, are secondary to getting participants to focus on the long term purpose and objectives of their 401k plan. A good education plan will emphasize the importance of both.

Second, the level of financial literacy among adults is not particularly high presenting a discouraging initial and ongoing education hurdle. Even acknowledging this, participants have widely varying learning styles. Their life circumstances, values and outlooks can be very different and are also largely generational. While retirement success is theoretically the same goal for the 25 year old employee as well as the 55 year old employee, how they perceive achieving that goal is very different. A good education plan will recognize these differences and adopt strategies to overcome them.

Third, 401k plan provider's products generally have a number of imbedded investment tools to help participants with their goal planning and investment planning. The government and the financial industry are paying more attention to and throwing more resources at this component of a 401k plan. 401k plan sponsors have a fiduciary duty to give the participants of the plan the best chance for success. But they are generally not investment experts. A good education plan will recognize and identify the tools both inside and outside the plan that can assist the participants in using their 401k plan to work toward a successful retirement.

Finally, an independent and objective advisor can help you establish and execute a sound education process that can be measured and documented and can help to make your plan more effective. Handing out enrollment forms and investment literature and expecting everyone to just "get it" on their own is not a realistic means to a successful 401k.