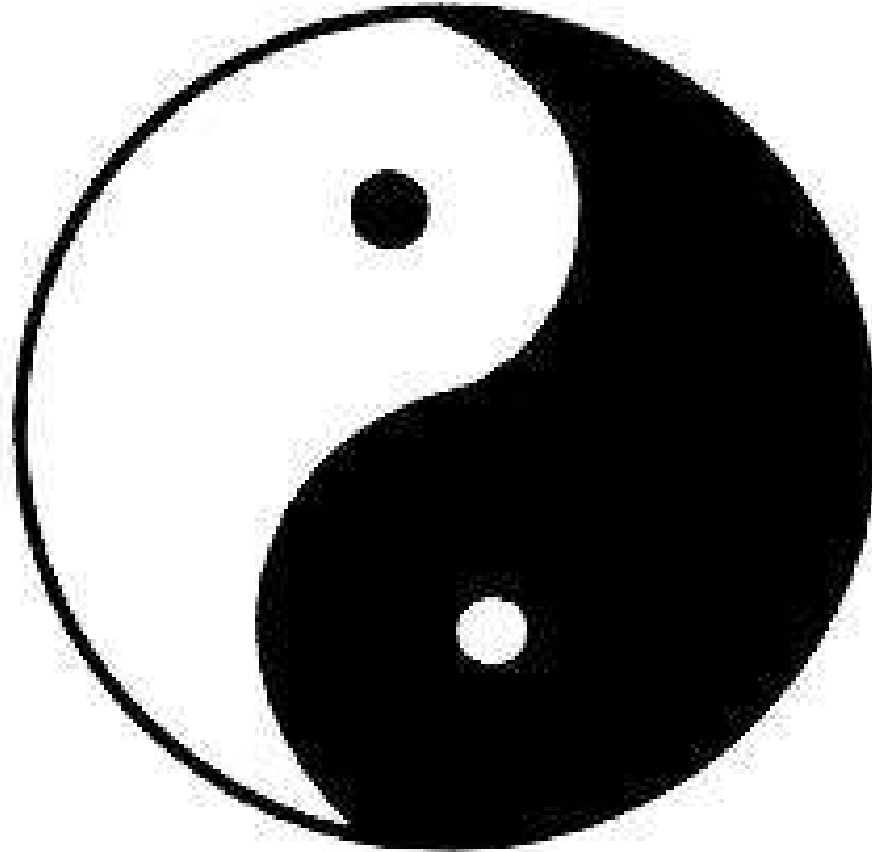


The **Tao** of Participant Services



What is Tao?

In Chinese philosophy, Tao is the **absolute principle underlying the universe**, combining within itself the principles of Yin and Yang and signifying the code of behavior that is in harmony with the natural order.

This Session Will Address

- Group education
- One-on-one advice
- Online services
- Executive planning

CHECKLIST

Success factors for participant
education and advice

Effectiveness of participant
Education and advice

Practice management
considerations



NEED

Over 25% of eligible workers choose **NOT** to participate
in their employers 401(k) plan

And

Of those who do less than **10%** contribute the maximum

The Success Factors for Participant Education and Advice

#1 Personalize the Advice to the Needs of the Participant

From plan to plan and participant to participant, everyone has different needs, objectives and parameters that dictate which levers will be most appropriate and most effective in helping the client.

#1 Personalize the Advice to the Needs of the Participant

For new participants the contribution rate is
much more important than their asset allocation

#1 Personalize the Advice to the Needs of the Participant

For a pre-retiree the levers are reversed
With the asset allocation being more
Critical than the contribution rate

#1 Personalize the Advice to the Needs of the Participant

Advisers should be familiar with other levers
Which can be utilized to help participants
Achieve retirement security such as delaying
Retirement, tapping home equity and
Controlling spending



#2 Understand the **influence** of income, net worth and education on participant Utilization of tools and advice

Usage Based on Income	Consulted a Planner	Calculated Retirement Needs	Used a Computer Program	Read Magazines or Books
Lowest	4.0	10.2	2.5	14.1
Quintile 2	8.7	15.5	5.8	21.4
Quintile 3	15.5	24.4	11.9	32.6
Quintile 4	21.3	28.3	15.6	38.8
Highest	37.0	43.7	27.7	53.8

Usage Based on Net Worth	Consulted a Planner	Calculated Retirement Needs	Used a Computer Program	Read Magazines or Books
Lowest	5.4	10.8	3.6	15.8
Quintile 2	7.1	14.4	5.5	21.3
Quintile 3	12.0	19.8	8.8	28.9
Quintile 4	22.8	29.6	14.5	38.1
Highest	38.2	46.1	29.5	54.4

Usage Based on Education	Consulted a Planner	Calculated Retirement Needs	Used a Computer Program	Read Magazines or Books
Lowest	2.1	10.6	1.6	6.6
Quintile 2	10.2	14.4	6.3	21.7
Quintile 3	18.5	19.8	13.5	37.6
Quintile 4	33.4	29.6	25.6	51.3
Highest	35.9	46.1	27.8	55.1

Conclusions

In the table clearly higher income, higher net worth and more educated participants are better candidates for advice.

A corollary is participant services will be more effective for plans with higher average account balances, higher deferral rates and more highly educated participants.

A good example would be professional groups.

#3 Unsolicited advice may have a limited effect on investment behavior.

This was the conclusion of a study of survey results from the RAND American Life Panel*

Typically 10-15% of participants will seek advice and will be receptive to recommendations.

Advisers need to be cognizant that methods of broadening the dissemination of advice such as mandatory meetings may not significantly improve results.

* "Asking for Help: Survey and Experimental Evidence on Financial Advice and Behavior Change" by Angela Hung and Joanne Yoong published in the "Market for Financial Advice" (2013)

The Effectiveness of Participant Education and Advice

Differences Between Education and Advice

Education

Delivered in a group or online

Communications tend to be one way

Education is more effective if participants are engaged and interactive

Research has shown that interactive online learning is just as effective as
In person



Differences Between Education and Advice

Advice

Delivered one-on-one or online

Communications are two-way

Advice is consultative and considers participant-specific circumstances when making recommendations



Results of the Watson Wyatt Study,

**“The Importance of Financial
Communication for Participation
Rates and Contribution Levels
In 401(k) Plans”**

Financial communication – projections
and education – and **web-intensity**
have a statistically significant effect on
employees plan participation

- A very basic education program generates 62% enrollment
- Enhancing the education to average raises enrollment to 67%
- Providing average education with income projections boosts enrollment to 69%
- Education, projections and an average level of web-intensity raised participation to 74%
- The very best companies in the study attained 84% participation

The **level of communication** also affects contribution rates

- A very basic education program results in 5.5% contribution rates
- Providing an above average level of retirement income projections can raise contributions to 5.9%
- Elevating the education to an average level brings the contribution rate to 6.9%
- The very best education and communication systems generate 8.2% contribution rates

Results of the Schwab Study,

**“New Rules of Engagement
for 401(k) Success”**

charles SCHWAB

The Schwab study summarized a survey of over 1000 plan participants and found that **professional advice has a direct and positive impact** on the behavior of 401(k) plan participants

charles SCHWAB

Improved savings rates

**70% of participants who receive 401(k) advice
make changes to their deferral rates and their
savings rates nearly double from 5% to 10% of pay**

charles SCHWAB

Greater diversification

Participants that did not receive advice invested in an average of 3.7 asset classes versus 8 asset classes for those that received advice

charles SCHWAB

More investment discipline

**92% of participants that received
advice stayed fully invested from
July 2008 through 2009**

charles **SCHWAB**

Delivery Preferences

51% prefer one-on-one consultations

23% prefer online services

4% prefer written materials

Online Education and Enrollment



To control the variability of live education the Watson Wyatt study utilized online education so that the delivery was consistent. Clearly the Watson Wyatt study demonstrated the **efficacy** of online education and enrollment.



Online Advice

Two employees of Financial Engines wrote an interesting article, “The Evolution of Workplace Advice” that supports the efficacy of online advice in managing portfolios

**Studies have demonstrated the effectiveness
Of participant advice in improving outcomes.**



Practice Management Considerations



Offering robust participant services can **differentiate** your firm and represent a strong **value proposition**, however, the delivery of high quality participant services is costly and labor intensive.

Participant Services \neq A Commodity



My ideal
client is ...

Level compensation to avoid



potential prohibited transactions



Price services according to frequency of either annual, semiannual or quarterly. Additional considerations are geographic dispersion and travel costs.

Participant services include

- **Group education and enrollment – 30 minutes**
 - Highlight tax advantages, matching provision and the need to invest for retirement
 - Explain investing in simple and compelling terms
- **30 minute time slots for one-on-one participant advice after the group education**
 - Time slots are offered in advance as well as during the group education
 - These sessions are not scripted but instead tailored to the needs of the participant



Consider adding **executive planning**
as a taxable fringe benefit

Measure Your Results

You should track metrics and be scientific
In attempting to improve your services

*Track metrics on the plan level
And the educator/adviser level*



Questions?

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