

Measuring the Real Success of Retirement Education

By Dennis Ackley

It's easier to look for lost keys under the lamppost – where the light is the brightest. But the keys to measuring the success of retirement education may not be where they are easiest to find. In fact, most of easy-to-find measures that have become the current industry standards have little to do with the intended outcome of retirement education.

The strategy of nearly all defined contribution plans is to help employees achieve their retirement dreams. The tactics of retirement education – what gets taught – should be aligned with that strategy. And the ultimate measures of retirement education should provide evidence of how well those tactics are enacting the strategy. Plain business sense.

Do the current standards measure what really matters?

Current Industry Standards

Many of today's frequently used measures of retirement education include:

Creativity – essential for attracting employees' attention, motivating them to learn, and explaining complex issues in simple ways. It's a judgment of inspiration from the eye of the beholder.

Readership and Usability – needed to help ensure that what employees read, what web pages they visit, and what forms they complete are stated clearly and used correctly. All sound communication considerations.

Participant Behaviors and Actions – monitoring databases to track:

- Participation and contribution levels
- Investment elections and activities
- Payouts, loans and withdrawals
- Changes in light of notable events (special communication programs or stock market moves)

These provide valuable insight regarding the current overall activities.

None of the current 'success' measures sheds light on how well individuals are doing in defining, pursuing, and achieving their retirement dreams.

Participant Satisfaction – comparing what employees expect with how they view their actual experience regarding:

- Accuracy of information and usefulness of educational materials
- Knowledge of representatives
- Ease in conducting requests and promptness of transactions and follow-up
- Investment performance

- Timeliness and clarity of announcements of changes
- Convenience of service and access to information

Naturally, poor satisfaction scores indicate areas that need immediate attention.

Winning awards for creativity, passing readability tests, reaching the top tier of benchmarked participant behaviors, and satisfying participants are all very good things. These should be objectives for every plan sponsor. Yet these are short-term measures – not strategic.

The current standards as well as other communication measures of trust, empathy, and understanding help define the base level – not the high bar of retirement education.

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Raising the Bar

Over the years, the move to defined contribution (DC) plans from defined benefit (DB) plans gave employees new tools for targeting and funding their retirement income. Yet the basic requirements to achieve a personally desired retirement income remain unchanged – unfortunately not well understood by employees.

In DC plans, the responsibility for retirement planning and funding belongs entirely to the employees. To be successful, these employees must, in a real sense, act as their own pension actuaries.

The government requires DB plan sponsors to use a pension actuary each year to assure the retirement income targeting and funding are done according to professional standards and legal guidelines. The actuary starts by helping determine the intended level of the future benefits. Using this target, the actuary estimates the future price of those benefits and examines the funding strategy (contributions and investment performance) to pay that price. The actuary looks to corporate finance staff in planning the expected level of contributions and to investment advisors for help in setting the assumptions about future investment performance. Also, the actuary reviews the payout methods to ensure they provide income for the life of the retirees.

To help DC plan participants be successful, the four basic elements of this tried and tested model should be essential parts of retirement education – **price** the target, **contribute** and **invest** to hit the target, and **receive** the money throughout retirement.

Measuring what Ultimately Matters

One way to determine what really matters is to look at what highly successful DC plan participants know and do in light of the four basic elements of the simplified actuarial model. This creates a new framework for developing and measuring strategy-linked retirement education tactics. This framework:

- defines the successful outcomes,
- focuses all communication and education on attaining those outcomes (teaching to the test) and,
- measures the attainment of the outcomes.

That new framework – targeted for each individual – might look like this...

Price – *I know how much money I need to accumulate to provide the lifestyle I want when my full-time working career ends.*

Initial Indicators:

First – I know the estimated price of my retirement in today's dollars.

Second – I am following the recommendations of a sophisticated evaluation of my financial future that was done solely in my best interest.

Contribute – *I know the amount I am contributing is on track to help me attain the financial future I want.*

Initial Indicators:

First – I am gaining the maximum company contributions for my 401(k) account.

Second – I am confident the contributions – mine and the company's – reflect my needs for my retirement and my other key financial goals.

Invest – *I know the way I am investing today is on track to help me attain the financial future I want.*

Initial Indicators:

First – I am following my long-term investment strategy.

Second – I am using a blend of stock-rich and more conservative investments that reflects the time remaining before I need the retirement income.

Receive – *I know I will use the money in my account only for retirement income that will last for as long as I live.*

Initial Indicators:

First – I am not taking money out of my account except in emergencies.

Second – I am not spending the money from my account when I change jobs.

Third – When my full-time working career ends, I will know the personal advantages of all my payout options and investment strategies to provide income for as long as I live.

Making the Strategy Work

To determine the true strategic intent of your retirement plan, ask members of senior leadership the ‘if perfect’ question – ‘If we were running our 401(k) plan perfectly, what would be the ultimate result?’ If the answer has anything to do with helping individuals achieve their personal retirement dreams, then the tactics used in your retirement education need to support that strategy.

Technically, ERISA does not require plan sponsors to do ‘communication or education’ (delivering instructional messages that are actually received and understood in the way they were intended). ERISA specifies certain ‘reporting and disclosure’ (distributing required information that is likely to be received and understood). Yet future legal disputes are bound to erupt over the adequacy of retirement communication and education. There’s just too much money at stake. If plan sponsors choose to conduct retirement education programs, shouldn’t they take steps to ensure the programs work? And shouldn’t that include teaching what is needed to be successful in achieving individual retirement dreams? Then measuring to see if that success is attained?

Defining Your Success Measures

To raise the bar to a strategy-linked height, ask your retirement education providers help you create a retirement education strategy statement. This may be as important as having an investment policy statement. These statements need to be based on the individual plan sponsor’s goal, the plan’s provisions, and the corporation’s mission and human resources values. That’s why there’s no universal retirement education strategy statement. Clearly, a 401(k) plan that:

- supports a rich DB plan,
 - has a generous matching company contribution,
 - offers a brokerage window,
 - is heavily invested in company stock, and
 - provides dozens of investment options,
- ... will have a much different educational strategy statement than plans without these things.

The retirement education statement should be a description of how many employees will achieve what levels of success by when – and what measurements will be used. The education providers should explain how the educational activities are aligned with four basic elements ... and what combination of knowledge tests and observed behaviors will be used to prove actual understanding and specific actions that lead each participant to success.

Naturally, the higher you set the bar, the greater your commitment (time, resources, etc.) will need to be to successfully implement your strategy.

What gets measured gets done. That’s why the measurement of your retirement education program must be linked to your strategy. How else will you know if you are helping individuals define and achieve their retirement dreams?



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