Rethinking 401(k) participant education
It may be widely accepted that 401(k) participant education has been a rather elusive goal of the retirement plan industry for decades. But is there a better strategy to achieve retirement plan participation and engagement?
In January 2013, Schwab Retirement Plan Services (“Schwab”) enlisted the help of maslansky + partners, a communication strategy and language research firm. Our objective was to better understand the 401(k) participant mindset and find the best ways to promote engagement with their company-sponsored retirement plan. During two 3–hour sessions in Chicago and Seattle, 50 focus group participants (half beginner investors, half investors who contribute at least 5% of their salary and have total investable assets of at least $100,000) responded to messages using Instant Response dials, a tool used by maslansky + partners, which measured their immediate, emotional reactions to what they were hearing. These messages were designed to test current 401(k) plan education materials, as well as alternative messages. Each message was then discussed with the focus group to understand why some messages worked better than others.

The findings? This research revealed a communication gap between what traditional 401(k) participant education efforts have been communicating and what the focus groups told us they actually want to hear.

“I get a 30-page pamphlet every 30 days ... I think it’s about ‘perspectives.’ What I should do, or could do, or something ... I tried reading it once but gave up.”

–Focus group participant

1. The language analysis study was commissioned by Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company. Both entities are collectively referenced in this article as “Schwab.” The language analysis study, “Designing Language That Builds Relationships,” was conducted by maslansky + partners in January 2013. For more information about maslansky + partners, visit maslansky.com.

Consider that a 2012 blind survey of over 1,000 401(k) participants revealed that 52% of respondents indicated that they didn’t have the time, interest, or knowledge to manage their 401(k) portfolio.³

Traditional education model defined

For the past three decades, traditional 401(k) participant education efforts have focused on an assumed formula. First, provide financial education. Second, cultivate proficiency. And third, provide 401(k) participants with the tools and information they need to make educated saving and investment decisions—typically on their own.

But data suggests that this formula is broken—and may never have actually worked in the first place. Consider that a 2012 blind survey of over 1,000 401(k) participants revealed that 52% of respondents indicated that they didn’t have the time, interest, or knowledge to manage their 401(k) portfolio.³

What 401(k) participants want

To be clear, promoting greater understanding about the importance of saving and investing for retirement is an important objective. The focus groups confirmed that 401(k) participants look to plan providers and sponsors to help them better understand how the investment choices offered in their retirement plan work and what they can do for them. But at the same time, the focus groups emphasized that financial literacy is a lofty goal—and a lot to ask of 401(k) participants. Helping them reach the level of proficiency that traditional 401(k) participant education efforts typically encourage relies on the assumption that everyone has the time, interest, and knowledge to make the right investment decisions on their own.⁴ The reality is, when asked, few of the focus group participants indicated they possessed all three. How many 401(k) participants truly understand the difference between a value fund and a growth fund? How many know exactly what you are talking about when you discuss their risk profile? By emphasizing financial literacy, the retirement industry may be focusing on an objective that a majority of 401(k) participants may not reach and—according to the focus groups’ feedback—leaving them searching on their own for answers.

³ Source: “Bridging the Gap Between 401(k) Sponsors and Participants” 2012, commissioned by Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company. A sponsor study was conducted by CFO Research Services and a participant survey was conducted by Koski Research.

⁴ Source: Schwab Retirement Plan Services, Inc. in conjunction with maslansky + partners, “Designing Language That Builds Relationships,” language analysis focus group, January 2013.
The focus groups revealed there is an opportunity for a different kind of conversation with 401(k) plan participants. The focus groups explained they wanted 401(k) plan information that shows them the real, practical value of their retirement plan without getting mired down in the details of plan features that require them to exercise a level of investment acumen that they just don’t think they have. Explained another way, in the traditional education context, the 401(k) participant becomes a student whose goal is to master the material he or she is being taught and then apply the learning. At a certain point, 401(k) participants are left to work on their own; they are tested, in a sense, for comprehension and understanding of the material. Unfortunately, the consequences of failure are much more severe than summer school.

“Is there a person I’m supposed to call? I call my father … which is awful!”

—Focus group participant

56% of participants said they either weren’t aware of or don’t review plan-related education materials.3
The focus group participants readily acknowledged that mastering the material necessary to make appropriate decisions concerning retirement planning is complicated. Generic financial education might work for some, but many said they want and need help charting their financial future. **What they want is guidance based on their specific needs rather than more educational materials geared toward everyone.**

**Guiding vs. teaching**

Interestingly, the desire expressed by the focus groups for a shift in approach from education to guidance is not simply about a lack of financial literacy among 401(k) participants. When asked what they felt is missing from their current plan, many of the focus group participants said that what they really want is guidance from a professional who will take the time to understand and listen to their specific needs, someone who actually takes time and gets to know them. The market crash was a wake-up call to say the least. The focus group participants expressed a view that they want to have their finger on the pulse of their account and at the very least have a “sense” or “feeling” of more control. The opportunity to interact with a knowledgeable professional on their 401(k) plan was the kind of interaction they felt provides that feeling of control.

It was also apparent when speaking to the focus groups that the market crash instilled some fear. They expressed concerns that even with financial education at their fingertips, they may not necessarily make the right choices. What they want is access to an educated, knowledgeable professional to help them understand the plan features available to them in their 401(k) plan—someone who will be at their side to provide information on investment options or access to advice. The subtle difference between personal “interaction” and generic “instruction” was revealed as something that was extremely important to the majority of focus group participants.

“I want to have a conversation about my retirement ... and know that they’re taking time to make it work for me.”

—Focus group participant
Let’s rethink 401(k) participant education together

At Schwab, it’s our belief the time is right to rethink approaches to 401(k) participant education. By giving individuals the information they want and need, our study’s conclusions suggest that they may become more engaged and take advantage of advice offered through their 401(k) plan to drive toward better outcomes. We believe in the power of saving and investing to help individuals create a better tomorrow. We have a history of challenging the status quo in our industry.

“Give me access to someone who understands the situation better than me—someone who can help me when I need it and actually remember what I say.”

—Focus group participant

If you’re a plan sponsor or consultant interested in changing the status quo and learning more about our research, let’s continue the conversation. Contact your Schwab representative, call 1-877-223-7036, or visit rethinkyour401k.com.

Schwab Retirement Plan Services, Inc., Schwab Retirement Plan Services Company, and Charles Schwab & Co., Inc. are separate but affiliated companies and subsidiaries of The Charles Schwab Corporation. Brokerage products and services are offered by Charles Schwab & Co., Inc. (Member SIPC). Schwab Retirement Plan Services, Inc. and Schwab Retirement Plan Services Company (collectively, Schwab Retirement Plan Services) provide recordkeeping and related services with respect to retirement plans. Retirement plan investment advice is formulated and provided by GuidedChoice Asset Management, Inc. (GuidedChoice®), which is not affiliated with or an agent of Charles Schwab & Co., Inc. (CS&Co.), Schwab Retirement Plan Services, Inc. (SRPS), or any of their affiliates.

©2013 Schwab Retirement Plan Services, Inc., and/or its affiliates. All rights reserved.
AHA (0913-6137) PLC78137-00 (11/13)