



Trends

WHAT DC PLAN MEMBERS NEED

We shouldn't blame members for the ineffectiveness of education

BY MARTIN LECLAIR

Everybody likes money, and everyone likes a good story. This should be welcome news, considering the alarming level of financial ignorance among DC plan members and our obvious inability to address and engage a captive audience in clear need of financial education.

Why are current education programs so ineffective? It's a design flaw. They're designed to reach a large and diverse audience in a uniform manner. And they're often dramatically devoid of creativity and delivered with questionable passion. This amounts to an inexcusable missed opportunity, considering the mounting evidence pointing to a link between financial education and plan members' ability to plan and save successfully for retirement.

On a more fundamental note, the whole economic model of plan education is flawed. Plan education is offered only as suggested by the *CAP Guidelines* and is bundled with other services and offered at no extra cost, with no obligation or expectation for results. The scope of education is limited by the risk of litigation faced by both the plan provider and sponsor. Simply put, this context does not encourage actions that are in the best interests of plan members.

The investment industry has turned to product engineering in an attempt to circumvent the education gap. Auto-enrolment, auto-escalation and target

date funds (TDFs) to the rescue, or so it would seem on the surface. But in a research paper—"What DC Plan Members Really Want"—published in the *Rotman International Journal of Pension Management's* fall 2011 issue, authors Mark Yamada and Ioulia Tretiakova discuss the relevance and effectiveness of TDFs. Through a mathematical demonstration, they argue that TDFs, in their current design, fail to deliver the pension promise DC plan members really need.


In the 2011 discussion paper, "Financial Literacy Around the World," published by the Network for Studies on Pensions, Aging and Retirement, authors Annamaria Lusardi and Olivia Mitchell conclude that, around the world, financial literacy is critical to retirement security. They state that "in an increasingly risky and globalized marketplace, people must be able to make well-informed financial decisions... Moreover, the more financially knowledgeable are also those most likely to plan for retirement."

You can't substitute good education with good products, and the need for financial education in the workplace is not going away. In fact, employers are increasingly embarking on the education journey as they recognize the benefits

that building employees' financial knowledge can have—think reduced stress levels and increased productivity—over and above their ability to save for retirement. Our industry can capitalize on this nascent trend by re-engineering the education process in a significant way.

Education programs should focus on what tops the list of employee worries, such as the retirement planning process. Programs' success must be measurable, and plan members must be able to demonstrate their newly acquired knowledge. They should exploit the appropriate mix of media for workplace demographics and use best practices in educational materials development.

The people facilitating these programs should be subject matter experts with teaching and capital markets experience. These programs should be independent, as opposed to being offered by service providers as a marketing byproduct. And, most important, available education programs should be subject to the laws of the market: may the best program win.

Are plan members reluctant to learn? Of course not. My experience with investors over the past 15 years tells me that they want to learn so they can be in better control. If we can propose an approach that teaches them the basics and really makes them better at the money game, we will all win in the long run. 

Fact File

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