



BEST PRACTICE

Participant Education – Guidance for Defined Contribution Plans (2009) (CORBA) new

Background. Under a typical defined contribution plan arrangement, participating employees are responsible for choosing their investments from a menu of investment options offered by their plan sponsors, and for managing those investments through retirement. Plan sponsors have a responsibility to ensure that employees who participate in sponsored defined contribution plans have the information they need to make informed decisions about their participation and about their plan investments, based on their retirement goals.

Recommendation. The GFOA recommends that public plan sponsors make sure high-quality investment education is provided to defined contribution plan participants who are allowed to direct their investments. To accomplish this goal:

1. The plan should provide a consistent, ongoing educational program that uses a number of communication channels to address participants' different career stages and learning styles. Channels could include one-on-one meetings, seminars, phone calls, the Internet (e.g., Web sites, podcasts, webcasts), postcards, letters, and newsletters.
2. Educational content and presentation should assist participants with decision making. Financial jargon should be avoided and acronyms should be defined.
3. Where applicable, the educational program should include information on plan design elements such as matching employer contributions, automatic enrollment, default investment options, investment advice, distribution options in retirement, loan provisions, disability and survivor coverage, and participant eligibility for Social Security.
4. The educational program should illustrate the value of financial planning in setting and achieving investment objectives, the significant impact of asset allocation on investment returns over time, and the role of diversification in enhancing risk-adjusted investment returns over time. (See the GFOA's Best Practice on *Asset Allocation – Guidance for Defined Contribution*.)
5. Participants should be encouraged to consider their time horizon, investment objectives, and risk profile when making investment decisions. Participants should be given access to professional advice and financial planning tools that will help them assess this information, as well as prospective investment outcomes and income needs in retirement, and help them choose appropriate investments and retirement distribution schedules.
6. Participants should be informed about the risk exposure and historical investment returns of each investment option. They should also be told that, in general, investments that have the highest potential returns also have the highest potential for losses.
7. To mitigate potential liability, plan sponsors should not recommend specific investments to participants.
8. All fees associated with each investment option, and with the plan generally, should be fully disclosed in terms that participants can readily understand. (See the GFOA's Best Practice on *Monitoring and Disclosure of Fees in Defined Contribution Plans*.)
9. Where possible, plan sponsors should make use of the educational resources and capabilities offered by their investment provider, or by a qualified retirement plan consultant.
10. Plan sponsors should encourage eligible employees to participate in the plan by providing them with information about the benefits of participation.
11. At enrollment, all participants should receive a summary description of plan features, policies, and procedures. Subsequent changes should be communicated to participants on a timely basis and incorporated into the summary plan description.

12. Account statements should be made available to participants on a regular basis, preferably quarterly. These statements have an educational aspect, by providing clear and concise investment information. For each investment, statements should include a clear presentation of performance over multiple time periods, with appropriate benchmark comparisons.
13. Plan sponsors should regularly measure participants' satisfaction with the plan's educational program and make program adjustments as indicated.

References.

- *Participant Education: Actions and Outcomes*, Deborah Milne, Employee Benefit Research Institute, Issue Brief, No. 169, Jan. 1996.
- *An Elected Officials Guide to Defined Benefit and Defined Contribution Retirement Plans*, Nicholas Greifer, Government Finance Officers Association, 1999.
- *Defined Benefit and Defined Contribution Plans: A History, Market Overview and Comparative Analysis*, Stephen P. McCourt, International Foundation of Employee Benefit Plans, February 2006.
- GFOA Best Practice: *Essential Design Elements of Defined Contribution Plans as the Primary Retirement Plan*, 2008.
- GFOA Best Practice, *Monitoring and Disclosure of Fees in Defined Contribution Plans*, 2008.
- GFOA Best Practice, *Asset Allocation – Guidance for Defined Contribution*, 2009.
- TIAA-CREF Institute, articles and information available at <http://www.tiaa-crefinstitute.org> .

Approved by the GFOA's Executive Board, October, 2009.