



BEST PRACTICE

Retirement and Financial Planning Services (1998 and 2003) (CORBA)

Background. State and local governments provide a variety of retirement plans to their employees, including defined benefit, deferred compensation and defined contribution plans. In addition, many public employers provide health care benefits and Social Security coverage as well. The purpose of these programs is to assist in the recruitment and retention of public employees, while also ensuring the financial security and independence of those who serve the public. Career-long financial and retirement planning can advance these goals and enable the participating employees to make the most informed decisions on how to utilize these resources.

Some public employers retain vendors to provide financial education and advice, either directly from such vendors or indirectly from a record keeper that provides a comprehensive set of services. Financial education can be defined as general information about retirement planning that pertains to all plan participants (e.g., generic asset allocation models) and is not customized to the individual. Financial advice can be defined as information that is customized to the individual participant, and that yields a recommendation for (a) a particular asset allocation and/or (b) selection of a specific investment option or options among the choices that the employer or retirement system makes available to its participants. To make the service economically feasible, the financial advice is often provided on-line, although it can be supplemented by ancillary services (e.g., toll-free assistance to participants can be provided to familiarize them with the on-line service).

Recommendation. The Government Finance Officers Association (GFOA) recommends that public employers and their retirement plans provide suitable access to and encourage the use of retirement planning services for their employees. Employers and retirement plans have a responsibility to provide information regarding plan benefits to participants. This responsibility is especially important when employees must make investment or other decisions regarding their retirement benefits. Access to financial and retirement planning for employees should be universal and cost-effective, and should be encouraged among all employees. It is critical that the education be unbiased and free from investment product promotions. The cost of these services may be borne by the employer, the retirement plan or the employee, depending on the plan design.

A sound program of public employee financial and retirement planning services will include several elements, although there is no single format that will work for all programs and employees. Specific examples of recommended financial and retirement planning practices include:

1. Introduction to the importance of retirement savings in the early years of one's employment. This can be accomplished through on-site enrollment meetings, employee orientation programs, software packages, on-line financial planning calculators and other strategies.
2. Periodic financial education and retirement planning sessions, conducted throughout the employees' careers. Sessions for employees early in their careers may help them understand their saving and investment options, and any later buy-back or conversion privileges. At a minimum, pre-retirement planning sessions should be offered at least five years prior to projected retirement age. To encourage participation, sessions may be conducted at convenient sites during work hours. Employers should work with their retirement systems and human resources offices to develop comprehensive and coordinated strategies for retirement planning services.

3. Encouragement of supplemental tax sheltered annuities and deferred compensation programs. Education about these plans and their fees should be included in financial planning sessions.
4. Unbiased educational programs for employees who are given optional benefit plans using financial models with parameters controlled by the employer and the retirement plan. Employees should be given the opportunity to provide input for the selection of variables in these models, and they should be free from investment product promotions.
5. Access to qualified financial planning services which
 - offer comprehensive training,
 - provide a balanced view of the entire benefits package,
 - consider employees' requirements and options, and
 - prohibit investment product compensation from driving the presentations.
6. Employee instruction on how to confirm Social Security information (recommended on a regular basis every three years and at retirement).
7. Retirement planning sessions that include information on other issues employees face in retirement. Such topics might include: health care, long-term care insurance, relocation decisions, durable powers of attorney, living wills, tax issues, wills, etc.
8. In addition, GFOA recommends that employers and retirement systems which procure services for financial education and advice follow a selection process that demonstrates due diligence, affords protection against fiduciary liability, and results in quality advice to the participant. To do so, this procurement method should contain the following elements:
 - (a) Comprehensive Scope - It should yield advice that can take into account all of the retirement assets managed by the participant, including personal savings, Social Security, employer-based savings in a defined contribution plan, and benefits earned from an employer-based defined benefit pension. It should yield advice that allows the participant to make investment decisions based on his or her individual circumstances, or all members of the household.
 - (b) Fiduciary Responsibility– It is not the intent that the retirement system bear fiduciary responsibility for financial planning advice but to ensure that the plan participant has access to, and is encouraged to obtain, qualified education and advice. In order to receive advice, the participant should make an affirmative statement that (1) the retirement system is acting as a facilitator, (2) the system is providing an opportunity to receive such education and advice, and (3) the service can be obtained from other providers not arranged through the retirement system. In addition, the vendor providing financial education and advice bears the risk of fiduciary liability through a contractual agreement with the system. This contract should place fiduciary responsibility upon the investment advice provider for the recommendations it makes.
 - (c) Independent Advice – The investment advice provider shall not provide, sell or derive any income from the sale of any investment products to members of the retirement plan. In addition, the investment advice provider shall disclose to the members any relationships that currently derive or could potentially derive income or benefit from the retirement plan or its participants. The investment choices made by the plan participant using the financial advisory service should not affect the compensation of the vendor providing the service. For example, a participant's decision to select a certain mutual fund as a retirement plan investment should not result in compensation by the mutual fund to the vendor.

GFOA will work proactively with the public-sector retirement community to develop and promote communications and financial planning tools in written form and through other media which can be used by employers, public employee retirement systems, and public employees.

References

- *Planning and Establishing Preretirement Education Programs*, David Amick, Ann Risdon, and Sheryl Wilson, GFOA, 1994.
- “Public Employees are Educable Investors,” *Pension and Benefits Update*, July/August 1998.
- *A Public Employee’s Guide to Retirement Planning*, Kathleen Jenks Harm, GFOA, 2002.

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