

# Fiduciary and Quality Issues in Investment Education Tip Sheet for Plan Sponsors

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### **Make it extremely clear to participants that they are responsible for their own financial security during retirement.**

Participants must realize that the plan is not self-completing and that they must make adequate contributions and intelligent decisions. The participants also must be made to understand their role and the role of the plan sponsor in the education process.

### **Provide accurate and complete information.**

For example, risk is usually discussed solely in terms of annual volatility. Inflation is often addressed as a separate topic. The reality, however, is that the biggest risk participants face is that they will not have an adequate inflation-adjusted income during retirement. Especially for younger participants, annual volatility presents little risk. Thus, discussing mutual fund risk solely in terms of annual volatility is incomplete at best.

### **Truly educational materials empower participants to make intelligent decisions.**

Do the materials you are currently passing out impart knowledge which participants can apply to their decision making process or do they simply communicate data? Can participants really learn how to apply investment knowledge to their own situations without hands-on experience?

### **An education program must address the needs of both novice and experienced investors.**

Is a liability created by calling oversimplified communications material geared for the lowest common denominator educational?

### **Set goals for the education program.**

Setting goals will guide the program design and implementation process and enable the measurement of the program's success or failure.

### **Education must be an on-going process. And it takes time.**

How realistic is it to expect to teach concepts like asset allocation in just one or two hours a year? If it is not realistic, do plan sponsors have an obligation to provide tools to enable participants to educate themselves? If the plan sponsor knows that participants can't or won't help themselves, should pre-packaged portfolios (such as life-cycle funds) be offered?

### **Review the materials that vendors pass out.**

Are plan sponsors liable for the quality of the materials passed out by their vendors, especially since the participants are paying for the materials via expense charges? For example, do participants actually understand the questions on risk tolerance assessments?

### **Review the quality of the communicators provided by your vendors.**

Do canned talks really accomplish anything? Or must the session be interactive to be truly educational?

### **Using an asset allocation program or service does not eliminate the need for education. In fact, the use of these programs and services may increase the need for education.**

Do participants understand the fragility of the assumptions? Will participants view these "expert" services as having guarantees? Asset allocation programs and services might be excellent tools for informed investors, but they can be very dangerous in the hands of unknowledgeable participants.

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**Trustees must treat the participants' money as if it was the company's .**

If corporations spend large amounts of money on educating trustees of defined benefit plans (when it's the companies' money at stake), why is so little money spent on educating participants of self-directed plans?

**All education materials are not created equal.**

For example, are the reports your participants are getting impacting their behavior, or do they just provide a record of transactions and account balances?