



Getting Schooled

Creating a formalized Education Policy Statement for the new retirement reality

Plan sponsors have a responsibility to participants to make retirement plan offerings cost-effective, accessible, easy to understand, and risk managed. Their clearest goal is simple: Help to ensure participants are prepared for retirement. Unfortunately, this is easier said than done.

The Employee Retirement Income Security Act (ERISA) doesn't mandate that plan sponsors provide participant education. Failure to do so doesn't constitute a breach of fiduciary obligation. However, even with the prevalence of auto-features, the reasons for providing participant education are clear.

A number of research findings show many employees are failing to take adequate advantage of their retirement plan options. If plan sponsors are willing to build a robust defined contribution (DC) plan, isn't it important to help participants optimize the program for the greatest benefit?

Participants are increasingly looking to their employers to provide the education, tools, investment solutions, and other resources needed to meet their retirement planning challenges.

- Saving early and enough for retirement.
- Selecting appropriate investment options.
- Transitioning their plan savings into a sustainable income stream – whether they stay in the plan or not.

It's also important to recognize that participants today view retirement differently, often driven by their personal experiences, goals, and financial resources.

Why participant education (still) matters



5 in 10 workers

say debt is negatively impacting their ability to save for retirement.¹



65%

of participants felt their DC plan played a critical role in helping with retirement planning.²



Financially stressed workers³

60% of full-time employees report being stressed about their finances.

28% often run out of money between paychecks (15% of those earning \$100,000+ per year).

1 in 3 say money worries have negatively impacted their productivity at work.



73%

of workers think they will work for pay in retirement – while only 23% of retirees report doing so (often for reasons out of their control).¹



\$315,000

What a 65-year-old couple retiring today can expect to spend on health care and medical expenses throughout retirement.⁴

67% of workers would like to receive more information and advice from their employers on how to reach their retirement goals.⁵

Retirement planning topics participants are most interested in (by age group)

| Topic | <30 | 30-39 | 40-49 | 50-59 | 60-69 |
|---|------------|------------|------------|------------|------------|
| Social Security e.g., how much to expect, how to optimize benefits | 8% | 16% | 22% | 31% | 23% |
| Investment selection e.g., understanding stocks and bonds, choosing between mutual funds and ETFs | 30% | 33% | 24% | 18% | 17% |
| How to manage health care costs or plan for long-term care | 6% | 8% | 10% | 14% | 18% |
| Tax implications of my financial decisions e.g., understanding capital gains tax or early 401(k) withdrawals | 25% | 14% | 15% | 14% | 18% |
| How to convert my retirement savings into income e.g., how much to withdraw from different accounts | 16% | 15% | 20% | 19% | 23% |
| How much to save for retirement and which accounts to use e.g., pre-tax or Roth | 22% | 30% | 22% | 17% | 9% |
| Prioritizing different financial obligations e.g., whether to save in an emergency fund or pay off debt | 12% | 17% | 11% | 8% | 7% |
| How to financially prepare for specific events applicable to my situation e.g., buying a house, getting married | 22% | 15% | 16% | 4% | 3% |

Source: The Cerulli Report, U.S. Retirement End-Investor 2022 (survey of 1,497 401(k) plan participants, respondents selected top four options).

As a means to deliver participant education, consider what tools and services should accompany each topic for a comprehensive learning experience. Offer a wide range of access options, such as short-form videos, articles, calculators, and access to guidance. Also, use different communication strategy combinations for each target segment (e.g., provider website, email, mobile apps, text, push notifications) and consider the learning preferences of workers from different generations.

Addressing retirement (income) insecurity

Our 2022 “Show me the income” study validated that most participants – across generations, income levels, retirement assets, and who had access to a defined benefit (DB) plan – had two intertwined fears when thinking about retirement income: Running out of money and a lack of confidence that they could develop a strategy to turn their lifelong savings into a stream of income.

Only

22%

of participants were very confident they could create a retirement income strategy.

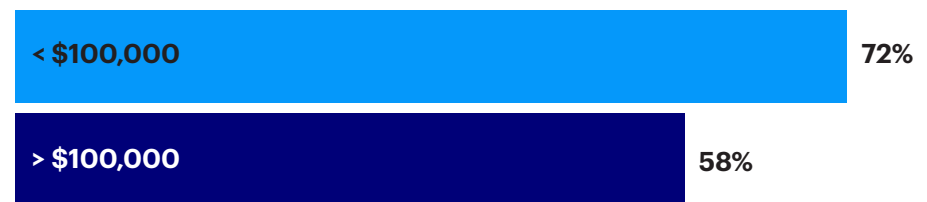
Without guidance, few participants were confident they could create a long-term income strategy that would determine:

- How much money they’ll need to live on during retirement.
- Estimate which sources their income will come from.
- How much to withdraw to maintain their lifestyle without running out of funds.

Are you worried about running out of money in retirement?

(Answers reflect survey participants who selected strongly/somewhat agree)

Income



Gender



Work with an advisor



Have a DB plan



It's never too soon to talk about retirement income

When it comes to communicating with participants about retirement income, we found a divide between participant and plan sponsor perceptions and expectations. While 78% of plan sponsors said they provided communications and/or education to participants – specifically about turning retirement savings into a regular stream of income – just 38% of participants remembered receiving these types of communications. Nearly half of all boomers, Gen-Xers, and millennials said they hadn't received any communications on the topic.

Almost three-quarters of participants felt their employers should start the retirement income conversation earlier and more frequently: 36% of participants wanted to receive specific income-generating communications annually at open enrollment, while 35% said it should start upon hire or when they start contributing to the plan.

Source: Invesco, “Show me the income” 2022 defined contribution research study (survey of 1,049 DC plan participants).

What's in an EPS?

An Education Policy Statement (EPS) is like a blueprint for employee education that can help plan sponsors create and follow an education strategy that incorporates today's complex, new retirement reality. The EPS not only clarifies and documents a plan sponsor's commitment to effective employee education but also provides a detailed execution roadmap.

The value of a multi-faceted Education Policy Statement

Like an Investment Policy Statement (IPS), the six sections of the EPS should clearly define expectations and scope while allowing for flexibility. While neither is required, if a plan is going to create, adopt, and have the EPS as part of the plan's guidance documents, it needs to be followed. Otherwise, the plan risks an unintended fiduciary "shortfall," where a committee did not follow through on EPS directives. Plan sponsors should review the EPS on a regular basis and include it as an important plan committee meeting agenda item at least annually.

Here, we walk through the six sections of an EPS: Purpose, plan goals, education goals, who does what, how success is measured, and how it will all get done.

1. Purpose

This should be a short statement highlighting a plan sponsor's commitment to:

- Building sustainable and effective employee education reflecting plan demographics and philosophy.
- Establish and follow a structured framework that meets employee needs.
- Setting up a disciplined method for measuring progress against benchmarks and other metrics to course correct as needed and document success.

2. Plan goals

What is the plan sponsor trying to achieve in the big picture? Examples include:

- **For the plan:** Meet employer needs, such as satisfying ERISA participant communications requirements or reducing plan costs by helping older participants transition to the next stage (e.g., part time or full retirement).
- **For participants:** Help employees reduce stress and increase productivity, maximize the retirement savings potential offered by the plan, and/or continue the education journey for retired participants who stay in the plan.

3. Education goals

Define **three to five goals of the education initiative** that will help address the plan goals outlined above. It's important to be specific about what you want to achieve and what associated metrics (e.g., a 25% rise, a 10% deduction) the plan is working towards. Examples include:

- **Saving for retirement:** These include goals such as increasing plan participation rates, deferral rates, account balances, and ensuring proper asset allocation. It could specifically seek to increase managed account usage among participants aged 45 and up and/or with balances above \$100,000 or to increase health savings account (HSA) invested assets (versus just cash deposits) to fund health care in retirement.
- **Creating income in retirement:** For plans that prefer participants stay in the plan through retirement, goals can include increasing preferred distribution types/usage, increasing allocation to retirement income-focused investments, etc.

- **Overall financial wellness:** These include decreasing student loan debt, increasing emergency fund savings, saving for a child's education, etc. Whether part of a human resources or benefits strategy or specific within the plan offering, sponsors should consider how financial wellness can impact retirement savings.
- **For each of the three to five education objectives, outline the following:**
 - **Target audience:** Which segments of participants would benefit from this particular education? Look across plan demographics, such as age, income, gender, full- or part-time, union or non-union, marital status, HSA utilization, etc.
 - **Target psychographics:** While demographics explain "who" your participant is, psychographics explain "why" they do what they do. For each target in the respective objective, take time to better understand the attitudes, principles, or beliefs that might be holding them back. Is it a lack of awareness? A poor perception of the offering? A lack of available money or time?

4. Roles and responsibilities

Who does what? This section identifies the various parties involved in employee communication and their responsibilities. Usually, it includes the plan sponsor, the plan's advisor or consultant, the plan's service provider, and/or a third-party administrator.

5. Measurements/ benchmarking

This specifies what the plan will use to check the progress of each objective against industry and plan benchmarks (as well as the tracking frequency and more subjective engagement metrics outlined in the education goals section). Including an EPS progress report as an agenda item in at least one of the plan committee's quarterly meetings helps to increase engagement and ensure success.

6. Execution plan

This is a comprehensive plan outlining the execution steps tied to each of the education goals. This section may be more fluid than the previous sections; if needed, it can be a separate document attached to the broader EPS for easier use. Your plan advisor/consultant and service provider(s) can help provide the data needed to build out a truly segmented, effective, and dynamic plan for success. When thinking about communication strategies, be sure to include language and delivery methods that appeal directly to various generations in various formats.



The execution plan may be more fluid than the previous sections; if needed, it can be a separate document attached to the broader EPS.



Consider conducting participant surveys and/or reviewing online metrics to determine how plan demographics have engaged with the different employees. What may have motivated engagement overall, and what could impact it going forward? While it may take some extra effort, this can better inform what educational angle might help – or hinder – the effort, resulting in greater success.

Summary

Effective employee education and engagement are often critical to the success of a retirement plan. An EPS can be used as a blueprint for how plan fiduciaries will implement, monitor, and evaluate an employee education program.

While there's no prescribed format for an EPS, answering the following questions can help you get started.

- What is the purpose of the EPS?
- What are the plan and educational goals?
- Who are the responsible parties, and what are their duties?
- How will results be measured and benchmarked?
- How will the education be delivered?

Together with the plan's advisor or consultant:

- Leverage service provider and payroll data to customize the education effort to the plan's demographics.
- Ensure the plan reflects an intuitive, user-friendly online experience across multiple touchpoints and topics.
- Push out content in small bite-sized pieces, often.

Last, keep the plan committee informed and engaged with a progress report as part of the committee's quarterly meeting agenda.

Contact your Invesco DC professional to access our additional EPS resources



Sample Education Policy Statement



Presentation: Building a roadmap to employee engagement – An Education Policy Statement for the new retirement reality

1. EBRI, 2023 Retirement Confidence Survey (survey of 2,537 US workers and retirees).
2. Invesco, "Show me the income" 2022 defined contribution research study (survey of 1,049 DC plan participants).
3. PWC, 2023 Employee Financial Wellness Survey (survey of 3,638 full-time workers).
4. Fidelity, 2023 Annual Health Care Cost Estimate.
5. Transamerica, Stepping Into the Future: Employers, Workers, and the Multigenerational Workforce, May 2023 (survey of 5,725 working adults).

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