

High-Tech or High-Touch: As Always, the Answer Is Balance

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This article begins with a look at the financial circumstances facing most Americans, and goes on to discuss reasons why employers are getting involved in helping workers deal with their financial concerns. It moves on to the central thesis of the article which is the authors belief that we are making a mistake by assuming that high-tech computer and Internet tools can provide a total solution to our financial education problems. Finally, it offers an outline of the kind of high-tech / high-touch programs that will be needed to achieve acceptable outcomes. The article concludes with a call to action.

We have a very serious problem in this country, and so far the solutions we've come up with have been hitting far too wide of the mark. Americans are still not saving nearly enough for retirement, we're not investing properly, most of us don't have any kind of financial plan, we don't understand the differences between managing money before and after retirement, and we are very, very, uncomfortable about it. You can't pick up a paper or magazine or turn on the news without seeing something about the financial crises facing this country. In many ways it is fair to say that financially "we are a nation at risk." And many of us are finally starting to wake up to the idea that our future is in our own hands, and that in a self-directed, defined contribution plan world we better be able to take care of ourselves, because no one is going to be doing it for us.

In fact, a recent article in the March 22, 1999 issue of *Investment News*, entitled "*Fattening wallets tops slimming thighs*" points out that "ten out of online bookseller Amazon.com's 25 nonfiction hard-cover bestsellers last week were business books—six of those about personal finance or investing." It goes on to say "at least for the moment, making money has replaced losing weight—though not presidential sex—as the American obsession." Obviously, after more than twenty years of retirement plan enrollment meetings, free financial and estate planning seminars and the distribution of millions and millions of retirement plan brochures and planning worksheets, Americans seem anything but secure about their financial future.

This state of affairs is not surprising. Over the past twenty years, we have undertaken a massive transfer

of financial responsibility from professional pension plan managers to everyday workers and employees. We have moved away from the old defined benefit pension plans which required absolutely no input from participants, provided a guaranteed monthly income for life and were managed by highly-trained professionals, and we have replaced them with a variety of self-directed defined contribution plans, like 401(k) plans, that require participants to manage their own accounts. Essentially, we have turned all of our employees into pension plan managers. The problem is that none of them have any education or training in these areas, and they know it!

The Numbers Are Telling

The evidence is overwhelming. A recent study by the Employee Benefit Research Institute found that roughly three-quarters of all current workers have no idea regarding how much they need to save and accumulate for retirement! The National Association of Securities Dealers claims that while 63% of Americans know the difference between a halfback and a quarterback, only 14% can tell the difference between a growth stock and an income stock! And a recent survey by the Consumer Federation of America found that two out of three households in America—an estimated 65 million households—will fail to realize their major life goals because they have failed to develop any kind of broad financial plan!

To make matters worse, there are over 70 million baby-boomers who will start retiring within the next ten years who don't have any idea about how to manage money for 25 or 30 year retirement periods, during which they will have very real needs for both liquidity and growth in their investment portfolios. In fact, most people have no idea that there is even a difference between managing money before and after retirement. This will prove to be a fatal lack of understanding for many.

A Recipe for Disaster

Walk through any company and ask someone at random if they participate in their 401(k) plan. They can usually give you a yes or no. But probe a little deeper and you'll start to get a sense for how much trouble we're really in. Ask them what sort of lifestyle they plan to have during retirement, how much inflation-adjusted cashflow they'll need, or how much they'll have to accumulate to provide it, and you'll draw a blank, slightly angst-ridden stare. Ask them how much they need to save every month, how to invest it, which mutual funds they are in, the risk of those funds and what rates of return they should be expecting, and most people just give you an uneasy shrug. Ask someone close to retirement how their financial strategies should be changing to reflect the transition from an accumulation to a spending strategy, and they will look at you like you're from Mars. This is a recipe for disaster.

Unfortunately, these are just a few of the issues that people don't understand. In all too many cases, people just simply don't know what they don't know. The bottom-line is that we're overwhelmingly unprepared, we're scared to death, we're getting older, we don't know what to do, we're obsessed with our future, we don't have a plan, we're afraid to ask for advice, we don't know who to believe, and we ultimately don't even know where to begin to fix the problem. So where do we go from here? What do we do next? Who do we go to for help? The answer, it seems, is becoming more and more clear—we are turning to our employers.

How and Why Employers Are Getting Involved

In fact, plan sponsors and their advisors are getting pulled deeper and deeper into the fray. By now, the history has become fairly well known. In 1994, Department of Labor (DOL) regulations under section 404(c) of ERISA (Employee Retirement

Income Security Act of 1974) became effective, providing incentives for employers to provide more information and education to defined contribution retirement plan participants. In 1996, the DOL issued Interpretive Bulletin 96-1: Participant Investment Education, in which they outlined the educational programs and materials that employers should be offering to their employees. In November, 1997, President Clinton signed the SAVER Act (Saving Are Vital to Everyone's Retirement Act) into law, which, among other things, called for a national summit on retirement savings which was held in the summer of 1998. "Through the SAVER Act," said Labor Secretary Alexis M. Herman, "we will encourage employers to provide pension plans and help teach workers to plan and save adequately for retirement." The prime sponsor of the Act, Rep. Harris Fawell, R-Ill., warned that the nation faces "a ticking demographic time bomb that requires increased retirement savings. Educating the public about the problem," he says, "is the first step in defusing that retirement time bomb."

If we don't start getting employees trained to deal effectively with these issues, we are going to have a national disaster on our hands. In a previously published article I asked the question, "What do you get by hiring air-traffic controllers off the street?" The answer, of course, is "casualties and law suits." I then followed up with the question, "So what's the difference between hiring air-traffic controllers off the street and hiring pension plan managers off the street?" And of course the answer is "none—except that nobody would hire pension managers off the street." But we do hire pension plan managers off the street—and you know who they are? My employees, your employees, and every other working American with a 401(k) plan. The reality is that in a world of defined contribution plans we all need to understand that our financial well-being will be based completely upon how well we manage our own financial affairs. For most of us, step one has got to be a good education—and again, for better or worse, the burden of providing it has fallen to employers and plan sponsors.

It seems as though the business world has finally begun to get the message. The most recent annual survey of human resource professionals by the Society of Certified Employee Benefits Specialists and the CPA firm of Deloitte & Touche showed once again that of the most pressing issues facing today's employee benefits professionals, the majority relate

to retirement plan participant education. And all of this concern is not simply being driven by the fear of fiduciary liability and future law suits, though these are certainly an important part of the picture.

However, just as important is the fact that many enlightened employers are simply coming to the conclusion, based upon their own experience, that their employees really do need some extra help, and that what this country requires is a massive remedial financial education program for every working American. They are also beginning to understand that the time to act is now, and that in addition to the negative consequences of not acting, there are an overwhelming number of good reasons to step up to the plate and get started. Not only can good financial education programs reduce fiduciary exposures and help ensure ERISA / DOL compliance, but at least as important, they can increase plan participation and significantly enhance employee goodwill.

In fact, a growing body of research suggests that comprehensive financial education actually contributes significantly to the bottom-line. Recent studies at Virginia Tech demonstrate convincingly that such programs can save up to \$400 per employee by improving workers' productivity and sense of well-being. Professor E. Thomas Garman, Executive Director of the NIPFEE at Virginia Tech, recently commented that accountants need to realize the potential savings gained by providing workers with financial education. He suggests that they go to the human resources people and demand to know why they don't have a model financial education program, because they save money. Garman also adds that smart employers are using financial education as a benefit to recruit new workers, and research is beginning to prove conclusively that it's the education that provides the key to unlocking all of these benefits. Helping people take action within their retirement plans requires that employers help make the often bewildering world of personal finance comprehensible, and experience shows that this process must always start with a fundamental understanding of the most important and basic financial, economic and investment concepts.

We May Be Making a Fatal Mistake

Unfortunately, what we have been providing so far has simply not been enough, and we are now at risk of making another fatal mistake. It seems as though a growing number of people are beginning to believe that we can jump right past the "education" part of

the job, and get straight to the task of delivering high-tech financial tools to untrained, under-educated and financially unsophisticated workers. It is certainly fascinating to consider all of the potential benefits of the new information technologies like computer programs and the Internet. And these new technologies can certainly play an important role in helping employees get up to speed in many critical areas. But they are absolutely not a panacea, and in themselves will not even get us close to solving the problem. These technologies are simply tools that people can use to help themselves take control of their financial lives, but they have to come at the end of the process, not the beginning.

A Good Starting Point is Needed

We need to start at the bottom and ask ourselves what people really need to understand to do a good job, and then roll up our sleeves and get down to the hard work of providing that education. It would be great if we could just leapfrog the process and give people some clean and simple software tools and be done with it, and even better if we could deliver those tools over the Internet. But that's simply not going to work. We have to provide the foundation first.

We need some really good new educational programs and materials that have been created by people who have actually done some financial planning and who know that peoples' lives are going to be significantly impacted by the materials they provide and the calculations undertaken in related workbooks and software programs. We need materials and workbooks that are not just eye-catching from a marketing perspective, but that also provide good answers that people can really act on with confidence. We need to give people credit for being intelligent human beings capable of understanding this stuff, and then present it in a way that really makes that possible. We need to do more than pay lip service to the idea of educating people and really get down to the job of doing it. We have to stop developing materials and brochures that appeal to corporate HR buyers but that don't necessarily provide good answers. And most of all, we need to understand that we have to help people learn how to think about these issues, not just give them a bunch of black box tools that spit out meaningless data. We need to help people get to the point where they will be able to guide themselves along their lifelong financial journey, making well informed and reasoned judgments every step of the way.

Then, all of these tools, whether they are workbooks, software programs, Internet-based instructional materials or whatever, will be helpful, and will serve their purpose. Calculations and number crunching don't empower people, education and understanding do.

Shifting the Current Educational Paradigm

Our real challenge is to help individuals develop the skills they need to be able to integrate all of the important aspects of becoming competent, confident, self-directed financial planners and consumers. Our programs need to motivate sustainable, long-term changes in financial behavior.

That's one of the reasons why providing high-tech tools without sufficient background education doesn't work. To get people to make real changes in their lives demands a comprehensive paradigm shift that requires a multidimensional, high-tech, high-touch approach. Just think about it. Given all the technological changes in the last 50 years, schools still need teachers and churches still need preachers. You can give people all the textbooks and bibles in the world, and without the motivating influence and confidence-building input from teachers and preachers, you just can't change lives. It is certainly true that teachers and preachers can, and do, take advantage of technology to help them with their pedagogical tasks, but they certainly can not be replaced by those tools.

Take the example of computer software programs. If any industry has figured out how to provide online education it would have to be the software industry. These days, we don't even get users manuals any more. Everything is coded right into the program, along with elaborate multimedia tutorial sessions. And yet, one of the biggest industries growing up in the wake of the software revolution is the instructor-led, classroom-style software training industry. Even though state of the art of on-line learning tools have been built into most new software, one of the biggest expenses companies face when implementing and installing new software programs is the cost of these face-to-face training programs—but they know that they need to do it. Again, as always, we need both high-tech and high-touch, and nowhere is this so important as in the world of personal financial planning education.

Key Elements of a Model Financial Education Program

In over six years of practical experience providing both public and employer-based financial seminars, I have come to understand the process as a synergistic, three-pronged approach that has to be accomplished efficiently, effectively and economically. The three prongs, or axis about which the whole education process turns are: 1) awareness and motivation; 2) trust and guidance; and 3) education and tools. The trick is to be orbiting around all three axis' at the same time. In order to cause real, sustainable behavioral changes, the instructional process needs to be designed so that people become aware of their circumstances (i.e. that they are living in a self-directed defined contribution plan world) while quickly gaining trust in the educational process being offered so they will accept the instructional guidance being provided and become motivated to use the tools they will be given to take action in their own lives. It's a lot to accomplish in a short amount of time but we have proven over and over again that it is very doable if you have the right kinds of programs and provide the right kinds of tools within the right environment.

The awareness and motivation component requires that participants understand the shift from defined benefit plans to defined contribution plans and what that shift means in terms of the increase in individual financial responsibility. They also need to understand that they are capable of shouldering that responsibility, that in order to do so they need a plan, that they ultimately need to act on that plan, and finally, that at certain points along the way they should seek the counsel of various kinds of financial advisors.

The trust and guidance component implies the importance of gaining the trust of the people that are being educated. It is often the case that an objective educator, someone brought in specifically to educate rather than sell financial products, will be the first person that an employee really bonds with and feels they can trust. Creating that trust quickly and honestly is vital, because people need to learn enough, fast enough, to become comfortable in taking control of their own financial lives while also gaining the ability to evaluate the credibility of other advisors they may look to for guidance in the future. For good reason, the rule of the day is "caveat emptor", or "let the buyer beware." People can

simply no longer afford to be uninformed financial consumers. We no longer live in a “trust me” world. There is an old saying that goes “when you have chosen your advisor, you have chosen your advice.” That could never be more true than in the financial services industry. My experience has proven over and over again that most people need to trust a teacher first, they need to have faith in the person who is trying to help them become self-sufficient, and then, ultimately, they will be much more comfortable deciding for themselves who they will trust and turn to for guidance in the future.

The education and tools component really addresses the whole issue of course content, pedagogical technique, instructional tools and materials, delivery styles, etc. Obviously, course content is critical, and needs to cover all of the fundamental financial and investment concepts that people need to understand to perform effectively as their own pension plan manager. The DOL regulations about employee education have done a good job of laying out the kinds of topics that should be covered, as well as some of the tools and techniques that might be employed in the process.

A comprehensive program should include the following:

- easy to understand discussions of the fundamentals
- a review of the elements and processes involved in putting together a good personal financial plan
- planning workshops to help students create personal financial plans that apply the theories they have learned to their own lives
- a good software planning program that will allow them to evaluate a variety of planning scenarios and be able to quickly and easily reevaluate their plans as life circumstances change.

This education-leading-to-workshop-leading-to-software process should be seamless and integrated, so that the whole experience leads harmoniously to the desired outcome of creating competent, confident, self-directed financial planners and consumers.

The 100% Solution

As you can see, providing materials like workbooks, handouts and software programs, whether delivered

over the Internet, on diskettes, or in booklet form, is only about 10 percent of the job. They are the critical final steps in making the whole process effective, but it is the other 90 percent—the softer, fuzzier stuff—that brings people to the point where they can actually take advantage of these tools. We need to make sure that we are providing the entire 100 percent solution if we really expect to get the job done.

Think about it: Would you want to visit a surgeon who had never been to medical school, or who hadn't done an internship and residency? Would you want someone operating on you who had gotten all of their training over the Internet? Would you hire someone to build a new house for you who had never worked with an experienced carpenter, had never read a blueprint, and who hadn't played with a hammer or saw since childhood in his father's basement workshop? Would a do-it-yourself, how-to-build-a-home CD-ROM give you the comfort that the guy really knew what he was doing? Obviously not. And why don't we just hire kids out of high-school to manage our companies and just give them a bunch of self-study courses to prepare them for the challenges they will face in the business world, instead of spending all that time and money on college and graduate school? Because it would be a disaster—that's why. So what makes us think that we can train pension plan managers that way?

Remember, the people who manage defined benefit pension plans have MBA's and Ph.D's and a whole lot of hands-on training before they are ever cut loose to manage anyone else's money. Don't we as individuals need at least some of that kind of training? Of course we do—and we can't get it off the computer. Many would agree that offering specialized, technology-based, advanced training courses on specific new surgical techniques, or how to take advantage of new construction materials, or the latest management theories, can be extremely valuable and cost effective ways to provide on-going or advanced vocational training. But they sure won't get us anywhere but in trouble if we don't already have a good grasp of the basics. Obviously, the same goes for the financial tools we give our employees.

Conclusion: A Call to Action

Let's not fool ourselves into believing that by delivering new high-tech analytical tools through new high-tech distribution channels we will in any

way diminish the need for high-quality instructor-led training and education. The financial education process needs to be humanized before it can be technologized! If we really want people to succeed, we need to help them understand and feel the need to help themselves, to give them a glimpse of success, to help them gain some confidence, to get them educated, and to help them become motivated to use the tools we can provide. Anything less will simply not be enough—and in a world where we are hiring pension plan managers off the street—will most likely result in a lot of unnecessary casualties.