Defined Benefit Contribution Plans and Auto-Enrollment: Financial Education Needed

SAN FRANCISCO –-(BUSINESS WIRE)--The Pension Protection Act of 2006 brought sweeping changes to retirement legislation. One of the main purposes of the act was to increase the number of workers participating in company retirement plans, and the law allows employers to offer automatic enrollment into defined contribution pension plans.

Contribution plan experts discussed automatic enrollment practices today at the annual Pension and Investment West Coast Defined Contribution Conference. Their consensus: automatic enrollment is a step in the right direction, but it will not create good money habits for employees. Experts agreed that without employer-provided financial education, automatic enrollment will be effective in increasing plan participation but it will not fix the over-spending, under-saving money behaviors of many workers. Auto enrollment encourages employees to save by doing it for them, but does not train them to have better financial habits or self-responsibility for their finances.

Employees are responsible for their own retirement income, yet many don't plan for it. One-third of workers do not participate in a 401(k) or other defined contribution retirement plan. The national annual savings rate is at its lowest level since 1934. While automatic enrollment increases the numbers of participants, few fully utilize the plan to fund retirement.

Daryl Thompson, president of Financial Education Consultants, said, "Auto enrollment is one piece of the puzzle to improving employees' participation in pension plans, but comprehensive financial education is equally important. Employees must understand that their employer is helping them get started, but the responsibility for personal retirement planning falls on them."

Workers need to learn good money habits in order to successfully plan and save. "Financial education must include how to take control of personal finances. It must begin with the basics of money management – budgeting, debt management, goal funding, emergency funding, and then move into retirement planning and 401(k) management," Thompson said.

Conference speakers said employers may be held liable for employees' retirement planning—or lack thereof. "Corporate liability will not be reduced by auto-enrollment, and auto-enrollment does not guarantee that employees will be ready to retire on time," said Thompson. He said financial education can support plan auto-enrollment, and yield a more informed, committed, and retirement-ready workforce.

The newest form of financial education for employees is online training, available to employees at their convenience. Thompson said Goodmoneyhabits.com (www.goodmoneyhabits.com), an interactive, online financial education program developed by The EDSA Group, provides information on money management, retirement planning, and benefits to increase retirement plan contributions and participation. Thompson is an independent consultant to The EDSA Group, (www.theedsagroup.com) a financial education company.

Thompson said studies have shown good personal money skills translate into positive management skills in the workplace. "Financially savvy workers are happy workers. Happy workers are productive workers. That makes for good business," he said.

Contact:
Kelly Rogers, Mesa Marketing and Public Relations
media@mesampr.com