

Send via email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Reference File Number 4-626

Re: Securities and Exchange Commission, File Number 4-626; response to request for public comment on the effectiveness of existing private and public efforts to educate investors.

#### A. BACKGROUND.

Francis Investment Counsel is an SEC registered investment adviser and provider of independent, conflict-free advice to retirement plan sponsors and participants. One of our primary lines of business is the provision of investment education and individualized investment advice to retirement plan participants and their beneficiaries. We exist to help retirement plan fiduciaries better fulfill their mission to assist employees in their efforts to build the financial assets necessary to retire comfortably. We consider it essential to our role that we remain free from all conflicts of interest to ensure that we always act in the best interest of our clients. We only contract with corporate clients and expressly acknowledge our status as an ERISA fiduciary in our written client contracts regarding our participant investment advice activities.

#### B. COMMENTS.

Our comments below are set out in the same order as the 8 numbered questions in your Release.

##### **1. Please describe your Investor Education Programs and Individualized Investment Advice services.**

Francis Investment Counsel is involved in generalized investor education programs of various types, specifically designed for groups of retirement plan participants at their worksites. Our investor workshops normally culminate with the opportunity for the participants to sign up for an individual face-to-face meeting with one of our advisers (“one-on-one meetings”). In a one-on-one meeting, individual financial data is obtained and reviewed, including the full details on contributions, current balances and the investment fund choices in the retirement plan. Our advisers review the choices made by the participant, taking into account his or her overall financial position, age and risk tolerance. Where appropriate, our advisers make specific recommendations for change and if agreed to by the participant, changes are made on the plan’s website during the meeting. The participant at all times remains in control and may choose to take our specific recommendations under advisement for possible future action, without taking any immediate action, or may make whatever other changes the participant chooses. Each one-on-one meeting ends with the participant receiving a written copy of our recommendations as well as a written record of any changes made. One-on-one meetings may be conducted via telephone or on the Internet.

Our generalized education programs are most often held at the employer worksite and last on average forty-five minutes to one hour. The topics are numerous, but all are oriented towards helping participants understand the decisions they have been asked to make to secure a more comfortable retirement. Some of the topics covered include detail on investment choices available, the difference between traditional and Roth accounts, Roth conversions, programs designed to help the participant determine whether he or she is saving enough, what a retirement target number might be, the benefits of proper asset allocation and diversification, dealing with volatile markets, opportunities in international investing, common errors or misconceptions in retirement planning assumptions, pre-retirement planning, benefits of periodic rebalancing of accounts, making enrollment decisions, dealing with rollovers, understanding plan fees, and making retirement assets last a lifetime. Performance reviews of the various plan investment funds and any changes in the Plan's operation are also covered. All of the group presentations make liberal use of visual aids, handouts, video clips and other items used to involve the participants.

On several occasions, we have presented topics of general financial interest at outside locations (our "Money University" programs) which have included presentations on Social Security and Medicare, long term care insurance, estate planning basics, buying and selling stocks, bonds and mutual funds, financing a college education, IRA's, managing debt, general insurance needs and financial fitness. At our "Money University," these subjects are offered concurrently over the course of a 3 hour event.

## **2. What do you consider the most important characteristics of an effective investor education program?**

The most important characteristic of an investor education program is one that is engineered to facilitate participant involvement. Whether it is in a group setting or one-on-one, the most learning occurs when the participant is engaged in the conversation. In our workshops, we make liberal use of video clips and interactive games and worksheets to capture the participant's attention and drive home our message.

## **3. What programs do you view as the most effective?**

In our experience, the most effective program is the one-on-one meeting. After 23 years of hosting group workshops and training seminars, we are painfully aware that no matter how persuasive and engaging the presentation, a majority of the attendees take two steps out of the meeting and their mind quickly turns to whatever their most immediate need might be such as, "I've got to get little Johnny to soccer practice" and whatever "message" they were to act on is lost. Therefore, we have found the most effective method for driving change to be one-on-one meetings that offer an individual three things: a private setting to review goals and concerns, individualized expert advice, and the ability to act immediately on the advice via a computer kiosk. We have found one-on-one meetings the most powerful program to help participants overcome the inertia which so often impedes progress in financial planning matters.

#### **4. Has your organization evaluated any of its own programs?**

We have conducted two statistical studies that compare the three-year results of those participants who received one-on-one financial advice with those who did not. The first study, completed in 2006, showed that the participants who participated in a one-on-one advice session had both greater diversification (an average of 7.8 funds held versus 5.6 funds held by the non-advised) and a significantly higher rate of return (an average of 2.5% better than the non-advised). A second, and more recent, study was completed in December of 2010 and yielded largely the same results. We have attached two news releases with more detail on these studies.

#### **5. Are any of your programs national in scope?**

As a Wisconsin-based registered investment advisor, most of our clients have significant operations in Wisconsin. Several of our clients, however, have operations located around the U.S. and the world. In these cases, our employee education services are national in scope. Our group education meetings and one-on-one sessions are multi-state in scope and there is nothing that is geographically limiting. Variation in state taxes are taken into account, but the message is universal for anyone participating in defined contribution retirement plans in the United States.

#### **6. What types of investor behaviors or other topics should investor education programs focus on?**

The primary behavior investment education programs have to battle is inertia. People are so busy just trying to keep their head above water today, it's extremely difficult to get them to be proactive planning for tomorrow. We believe that education programs that don't assume a high level of apathy are doomed to failure. Programs need to catch investor's attention and make them want to get involved. We also strongly believe in efforts to "take the mystery out" of what participants need to do to reach a secure retirement. Education about proper savings amounts, the difference between pre-tax or post-tax saving, and investment strategy based on a global perspective are critical components of a well rounded investment education program.

#### **7. Which best describes your organization?**

See the Background paragraph above. We are a private business organization which is 100% owned by its employees. More information is available at [www.FrancisInvCo.com](http://www.FrancisInvCo.com).

#### **8. Other Comments.**

In our judgment, nothing is more effective driving change than personalized one-on-one investment education. Too many American workers are ill-equipped to make critical investment decisions regarding their retirement accounts or simply do not take the time to make responsible decisions. We recognize that these programs cost time and money. Many of our clients allow their employees to attend such sessions on company time,

while some do not. It goes without saying that programs offered on company time are much better attended than those that are offered after hours, yet represent a cost in lost productivity to the employer. This cost must be thoughtfully weighed against the benefits of improved employee morale. The service provider's cost for these programs is often added to a retirement plan's administrative costs, but in some cases is borne by the employer. Our conflict-free service model gives employers peace of mind that we have their employees' best interests at heart because Francis Investment Counsel does not sell products or services to individual investors. We believe the elimination of any and all conflicts of interest is a critical to an effective employee education process.

Submitted by Francis Investment Counsel LLC on June 16, 2011

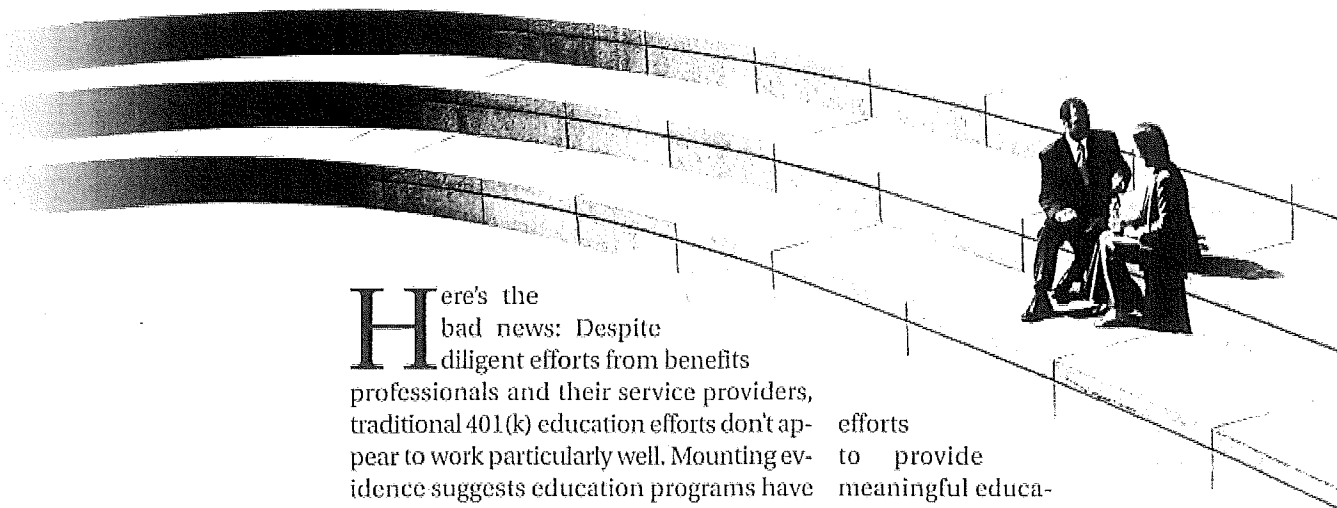
*As employer-sponsored retirement plans evolve from employer controlled to employee controlled, proper education of plan participants is essential. A recent study found employees who received face-to-face investment advice on their accounts had an annual investment return 2.5 percentage points higher than those who received no education or advice. Employees who participated in group sessions and received individual advice invested in 7.8 mutual funds, while those who participated in the group session only invested in 5.6 funds.*

# Face-to-Face

## 401(k) Participant Advice Works, Survey Says

by Kelli B. Send

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**H**ere's the bad news: Despite diligent efforts from benefits professionals and their service providers, traditional 401(k) education efforts don't appear to work particularly well. Mounting evidence suggests education programs have been rather ineffective at facilitating behavior changes. Perhaps it's a lack of skill on the part of the plan participant. Or maybe it's just that plan participants don't have the initiative to act on what they've learned during a group workshop. Either way, 401(k) plan participants too often don't seem to make the best decisions, despite the best efforts of human resources professionals and their plan providers.

That's a harsh reality for veteran employee benefit educators for 401(k) plans. Despite countless workshops and costly

efforts to provide meaningful education materials, it seems that most employees still ignore the messages.

Yet, as benefits professionals, we recognize that American workers have more at stake today. After two decades of contributions and growth, the average 401(k) participant account balance has increased to over \$76,800, according to a recent study by the Employee Benefit Research Institute (August 2004). For many, that account balance represents their single largest financial asset.

## Investment Advice Delivery Options

Increasingly, plan sponsors and their providers are turning to participant advice as a means for improving participant decision making. The idea is simple: If participants don't have the interest or patience to act on their own, let's just tell them what to do. Initially, plan sponsors shunned offering advice because of concerns it would make them liable if the advice led to investment losses. That position has changed over the years due to the issuance of further government guidelines and recent court cases. Today, ERISA attorneys often recommend the inclusion of participant advisory services as a means of reducing plan sponsor fiduciary liability under Section 404(c).

Participant advice is most often delivered through online systems that provide participants access to software programs analyzing participants' situations and providing specific recommendations. This approach fulfills one promise: It delivers customized advice to employees. But this delivery approach has one major flaw; it requires plan participants to be motivated enough to use it. Initial studies have indicated that less than 2% of employees access an online advisor tool in a year. Those individuals tend to be self-motivated employees who have the patience and discipline to complete the online process and then take action. The study estimated this group of self-directed learners comprises only 5% to 10% of employees today. So, although it's nice to offer retirement plan participants sophisticated electronic tools and information, we must face reality: Only a small fraction of the workforce population is comfortable with this approach. Online tools are simply too impersonal to give employees the comfort of "expert opinions," and they don't convey to the participant that their personal financial needs and desires are addressed.

Benefits professionals have begun turning to participant advice delivered face to face by independent advisors. These services are usually offered in conjunction with traditional employee educational programs. Typically, at the conclusion of a group workshop, employees are invited to sign up for a face-to-face session with an advisor. These sessions are held at the client location in the days following the group education initiative.

These 20- to 30-minute sessions provide an opportunity for plan participants to confidentially discuss their goals, make concrete savings plans and determine which fund mix is appropriate for them. Then, in most cases, the advisor and participant access their account together to make any needed changes.

*Do these face-to-face services really work? Finally, some good news: It appears so. A recent independent study indicates individualized participant advisory services do facilitate participant behavior changes. Even better, these services improve participants' rates of return.*

Clearly, there seems to be significant demand from plan participants for this service. A recent national survey by MetLife of 1,038 employers found nearly three in five employees (61%) wanted access to a financial planner in the workplace. And more employers seem to be responding to this demand. According to the Society of Human Resource Management's 2001 benefits survey, approximately 28% of workers receive financial planning advice through their employers, up from 20% in 1997.

### The Study

Yet a nagging question remains for most benefits professionals: Do these face-to-face services really work? Finally, some good news: It appears so. A recent independent study indicates individualized participant advisory services do facilitate participant behavior changes. Even better, these services improve participants' rates of return.

The study, conducted through Carroll College of Waukesha, Wisconsin, attempted to substantiate the effectiveness of face-to-face advisory services by analyzing their impact on actual 401(k) par-

*Continued on next page*

## RETIREMENT ADDITIONAL Resources

### Article Briefs

#### Tailored Mates

Educational programs for 401(k) plans do not produce the desired results in most participants. Some providers are replacing education with advice, but even this appears to garner a response only from those who are already managing their portfolios well. Others are using new strategies, such as personalizing all educational materials or automating portfolio decision making. Using a managed account or lifestyle fund as the default in an automatic enrollment scheme seems to be producing a measurable increase in retirement savings.

Louis Berney,  
PLANSPONSOR,  
April 2006, pp. 66, 68.  
#0148547

For more article briefs, see [www.ifebp.org/401\(k\)plans](http://www.ifebp.org/401(k)plans).

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ticipant rates of return, diversification levels and savings amounts. The study found that employees who received face-to-face individualized investment advice on their retirement accounts achieved an annual investment return 2.5 percentage points greater than those employees who did not receive any education or advice. An additional two percentage points of return per year is significant over the long run. We're talking about plan balances at retirement being potentially 50% greater due to the improved long-term returns.

*Further, participants who utilized individual advisory sessions invested in a larger number of funds (7.8 funds) and experienced less variance in returns (0.19%) than their counterparts who participated in neither education initiative (5.3 funds with variance of 0.26%) or in group workshops only (5.6 funds with variance of 0.27%).*

The study analyzed investment results of face-to-face investment advice delivered at two Midwest-based employers. One organization was largely professional; the other was a unionized manufacturing group. Each of these firms has conducted annual financial education programs for their employees. Both employers strongly encouraged their employees to attend these workshops each year. As a followup to the group workshops, employees were offered face-to-face individual advisory sessions where they could receive personalized guidance and asset allocation advice from financial professionals. These sessions were held on site and averaged 20 to 30 minutes in length. These voluntary sessions were attended by approximately 20% of eligible employees each year.

The study found significant return differences between employees who participated in individual face-to-face advisory services and those who did not (14.07% versus 12.58% over the three-year period ending December 31, 2005). In addition, the study observed statistically significant differences in diversification and risk. The

average number of funds for those participating in individual advisory sessions was 7.8 versus 5.0 for those that did not, and the variance of mean returns was lower for the individualized advisory services group (0.19% versus 0.26%).

The data set was further analyzed to compare results based on the use of face-to-face advice, group workshops only, and no education. The results were consistent. Participants utilizing individual face-to-face advisory sessions achieved a 14.07% average annualized rate of return for the three-year period ending December 31, 2005 versus a 12.97% return for those participating only in group workshops, and a 11.57% return for those participating in neither education effort. Further, participants who utilized individual advisory sessions invested in a larger number of funds (7.8 funds) and experienced less variance in returns (0.19%) than their counterparts who participated in neither education initiative (5.3 funds with variance of 0.26%) or in group workshops only (5.6 funds with variance of 0.27%). Those who utilized both group and individual advisory sessions not only invested in a greater number of funds, they also experienced significantly less variance in their returns. So they enjoyed higher rates of return in their accounts and experienced less volatility or risk.

These results clearly indicate workplace financial education programs that include individual advisory services produce superior investment results. Study results also suggest attendance at group workshops alone does not significantly impact 401(k) participant rates of return or diversification levels. These results agree with a 2004 Ernst and Young study, which showed individualized advisory sessions do indeed drive participant change. However, while their study analyzed behavioral changes, this study took the next step by analyzing actual participant investment results.

It's important to point out that, in addition to enjoying higher rates of return, participants who utilized face-to-face advisory services experienced greater diversification and less volatility in their accounts. These findings are consistent with a 2000 Ibbotson and Kaplan study, which showed that investing across a variety of assets is critical to reducing portfolio risk.

Interestingly, this research suggested both education and face-to-face advisory services have limited success in encourag-

ing increased saving. Although those who utilized face-to-face advisory services saved slightly more, the increase was not significant. Perhaps outside influences have a greater impact on participants' savings decisions than workplace education initiatives. Participants may simply have other reasons for not saving more.

The study results, coupled with the author's experience of educating tens of thousands of retirement plan participants over the past decade, suggest that providing employees with financial education through group meetings alone should not be expected to significantly impact investment returns or diversification. Financial education programs that incorporate face-to-face advisory services produce superior investment results for retirement plan participants.

### **Toward Retirement Security**

Therefore, should we abandon 401(k) education services? Certainly not. Although the industry must acknowledge that the standard 401(k) education model has not worked for some participants, it still has an important role to play. Education does help employees. But to make it reach and assist more participants, education should be more personalized rather than offered in a standardized package to all participants. And it should be supplemented with face-to-face advisory services to help participants take action based on what they've learned.

So why do face-to-face participant advisory services seem to succeed where education alone fails? A 2003 study by Saliterman and Sheckley extended current research into 401(k) participant advice programs by exploring the proposition that participants who receive information about their retirement savings according to research-based adult learning principles make better investment and savings decisions. The study determined techniques work best when they engage individuals as active learners, who benefit the most from assistance that helps them individually reflect on and make informed choices about their retirement plans. That's what face-to-face participant advice delivers: truly relevant information and a means to immediately act upon it.

Here's the bottom line—The importance of 401(k) plans to employees' retirement security in this nation will only con-

tinue to grow. As companies attempt to reduce the cost risks of defined benefit plans, there will be more of a shared responsibility for defined contribution savings between employee and employer. Today, the average worker is responsible for generating half of his or her retirement wealth, with Social Security and defined benefit plans contributing the remainder (Hewitt 2004). In addition, recent discussions regarding ways to overhaul the Social Security system may include the implementation of personal savings accounts, further shifting control over retirement assets to the worker. In an environment where most of the worker's retirement savings are under his or her control, providing sufficient financial education will become more critical than ever. Both the government and private industry need to understand how to effectively educate the American worker for these increased personal responsibilities.

Today, the industry seems increasingly focused on either making decisions for plan participants through plan design changes that automate decision making or

on making decisions with plan participants through online and face-to-face individual advisory sessions. This author applauds the industry for taking meaningful steps to provide what employees need most: guidance and advice. To the extent that the industry resolves to provide more meaningful education to 401(k) participants, it is very important program planners incorporate a high degree of face-to-face individualized advisory services.

These findings present a tremendous opportunity for industry practitioners. Al-

though face-to-face individualized advisory services are clearly successful, few companies utilize them. One reason for the lack of industry implementation is cost. This "high-touch" education method clearly costs more. The industry's challenge is to find a cost-effective way to deliver this meaningful participant advisory service—because it works, and because it's the right thing to do.

*For information on ordering reprints of this article, call (800) 834-3537, option 4.*



**Kelli B. Send, CFP, M.Ed.**, is senior vice president of Francis Investment Counsel LLC, a Wisconsin-based registered investment advisor. She is a certified financial planner with over 14 years of experience in the financial services industry, including over 11 years as a retirement plan specialist. Send is responsible for curriculum development and design of employee retirement education campaigns. She received her B.A. degree in marketing from Michigan State University and completed a master's degree in adult education at Carroll College in Waukesha, Wisconsin.



## Participants Benefit from Advice, Survey Shows

**February 22, 2011 --- The sampling size was small, but a recent survey found that participants who got financial advice held more funds and enjoyed a higher rate of return than those who didn't. ---**

The study of 401(k) participants at twelve Midwest mid-size firms conducted by Francis Investment Counsel found that participants who received financial advice held an average of 8.67 funds versus 4.98 funds for those who did not receive advice. In addition, those who received financial advice achieved a 3-year annualized rate of return ending 6/30/10 that was an average 2.67 percentage points better than those who did not receive advice.

Moreover, the average account balance for participants who utilized financial advice was \$107,558 vs. \$44,178 for those who did not. Francis Investment Counsel LLC, a fee-only registered investment adviser (RIA), retrieved personal rate of return and number of funds held from recordkeepers, the company reported.

“This survey demonstrates that face-to-face, one-on-one advice has a meaningful impact on participant returns,” said Kelli Send, Senior Vice President of Francis Investment Counsel LLC. “As companies seek ways to help their employees better prepare for a comfortable retirement, this study suggests offering personalized education and advice is effective.”

The twelve Midwest mid-size firms included in the study represent more than 7,400 plan participants. Of these, a random sampling of approximately 25% of plan participants maintaining account balances was drawn for the survey. These individuals were split into two study groups: those who had used Francis Investment Counsel one-on-one participant advisory services and those who did not.

PLANADVISER staff