

## Response to Request for Comment on Existing Private and Public Efforts to Educate Investors

June 21, 2011

### Securities and Exchange Commission

The National Association of Independent Retirement Plan Advisors (“NAIRPA”) appreciates the opportunity to respond to the request by the Securities and Exchange Commission (“SEC”) on Existing Private and Public Efforts to Educate Investors.<sup>1</sup>

The retirement industry is in transition and NAIRPA is a leader for positive change devoted to enhancing retirement security in America. NAIRPA is a national organization of firms which provide independent investment advice and education to retirement plans and participants. NAIRPA’s members are registered investment advisors and consultants whose fees for investment advisory services do not vary with the investment options selected by the plan or participants. In addition, NAIRPA members are committed to leading the transition to a more transparent, effective, professionally governed retirement system.

### Introduction

NAIRPA members are investment advisors and consultants to retirement plans and participants, and offer education and advice to individual investors. Our members’ service offerings vary based on client needs and demographics. However, certain characteristics of effective communications and education programs are common to NAIRPA members. Our comments focus on these common elements and are limited to educational efforts in the context of workplace retirement plans although we believe the principles for effective education of plan participants have broad application to all investors.

### Responses

**(1) Have you attended, or does your organization operate, organize, sponsor, promote, or host, any investor education programs? Please describe the program, including its duration, target audience, and any measurable goals and objectives aimed at changing investor behavior. What specific topics are covered in its curriculum?**

Nearly all NAIRPA members routinely conduct investor education programs in connection with their services to retirement plans. The typical service regimen for a retirement plan may include some or all of the following:

- periodic group education

---

<sup>1</sup> Securities and Exchange Commission, *Comment Request on Existing Private and Public Efforts To Educate Investors*, 76 Fed. Reg. 22740 (Apr. 22, 2011).

- one-on-one interaction with participants
- live and/or recorded Web-based education
- written materials
- interactive Web-based tutorials and “widgets”
- phone-based education and advice

Common themes of investor education in the retirement plan context are

- the importance of participating in a retirement plan
- savings rates
- measuring the retirement income that will be needed by the participant
- measuring progress toward funding the retirement income needed
- investing wisely given one’s personal circumstances

As discussed below, there are currently several trends in investor education for retirement plans, including: (1) a focus on retirement income adequacy; (2) a movement to incorporate behavioral finance techniques; and (3) the use of technology and multi-media.

Significant attention has been placed on educating participants about retirement income adequacy. There is an intensifying focus on measuring and helping participants to achieve adequate retirement income and developing plan designs and communication programs that maximize participant outcomes. The difference between educating participants on how to invest their own money and educating them on how to achieve a successful retirement can be profound: teaching participants to follow a clearly defined path to success is a fundamentally different educational goal than teaching them how to manage investment portfolios. The consensus of NAIRPA members is that teaching investment theory is almost universally ineffective, whereas teaching overall strategies for achieving retirement income adequacy, when paired with the right plan designs, has been demonstrably effective. For example, one member reports that plans adopting a recommended plan design combined with a targeted education program aimed at encouraging employees to increase their participation and savings rates raises participation rates by an average of 15% and savings rates by 25-60%. Additionally, 86% of participants decided to use professional investment advice rather than make all of the investment decisions themselves.

Behavioral finance techniques are increasingly being used in education programs. The benefits of designing education programs based on behavioral principles cannot be overstated. Programs designed to encourage specific behaviors using methods that take into account human nature and how to harness it are more effective by far, in NAIRPA members’ experience, than programs designed simply to impart information. For example, NAIRPA members have found that automatic enrollment has been an effective tool for increasing participation in retirement plans.

Additionally, the technology revolution is leading to remarkably effective new ways to communicate. Short bursts of information, using multiple forms of media (sound, video, print, interactive “widgets”) via social media, email, Web, and smartphone applications show great promise as vehicles for capturing investors’ attention and educating them in small, meaningful bites.

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

NAIRPA has identified the following as the most important characteristics of an effective investor education program:

- **Behavioral Finance Approach.** Communication programs that focus on encouraging specific behaviors such as participation, increased savings, and acceptance of professional advice tend to be most effective. The provision of information on how to invest tends to be significantly less effective in the aggregate, although a minority of investors appreciates and benefits from pure investment education.
- **Default-Based Programs Increase the Effectiveness of Behavioral Communications.** NAIRPA members have found that encouraging employees to participate in a savings program is more effective when the plan design includes automatic enrollment. However, many NAIRPA members have significant reservations about automatic enrollment due to the substantial penalties associated with even modest clerical errors in signing participants up and otherwise administering such programs.
- **Support at the Time of the Participant’s Action.** When a participant is doing a retirement plan-related transaction (e.g., enrolling or changing investment options or a deferral percentage), education is most effective when it is specific to the participant’s issue and available at the time of the transaction. Such support is described by some NAIRPA members as “point of need” support. The education is effective regardless as to whether it is provided live or electronically.
- **Interactive Education.** Group education can be highly effective as well as cost-efficient, particularly when it is interactive. NAIRPA members have found that the majority of investors do not benefit from education provided as a lecture, although some participants may appreciate and use the information provided.
- **Easy, Intuitive Access to Resources.** Part of the education process that is effective for retirement plan participants is to educate them on where to go to get help, how to read statements, and how to access account information or effect changes either by phone or Internet. Effectiveness here has two parts: easy, intuitive access to the resources, and simple, broadly communicated information telling participants about the resources and how to access them.
- **Language That is Easily Understood by the Average Investor.** The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) requires that certain required disclosures be couched in language designed to be easily understood by the average participant. NAIRPA agrees with the concept of this requirement and recommends the use of simple and direct language and short sentences.
- **High Visibility.** A significant part of the evaluation of any education or advice program must be its usage rate. NAIRPA encourages the SEC to focus on delivery methods that are designed to reach investors. Although pamphlets published on the SEC website are

useful for motivated investors, this method of delivery is unlikely to reach the majority of investors. Unfortunately, NAIRPA members have found that many people do not take time to learn about investments. They have found that the tools most likely to be used by participants are those that are simple, placed right in front of them on a regular basis, and otherwise easily available.

**(3) What programs do you view as most effective?**

NAIRPA members, as other comments in this letter explain, find the following programs to be the most effective:

- “Point of need” support.
- Programs targeted at achieving specific behavioral goals, such as plan participation, increased savings, and acceptance of professional advice.
- Simple communications designed to show participants how to access resources (e.g., phone numbers and websites), especially when access to those resources is intuitively designed.
- Electronic media continue to grow in importance and are becoming, or have already become, the primary form of participant interaction.
- Programs and materials with short, simple, and direct language and content.

**(4) Has your organization or an independent third party evaluated any of your organization’s programs? If yes, please describe the findings of the evaluation, including any statistical evidence of how your program effectively changed one or more investor behaviors among participants.**

Several individual member firms have published statistics on the effectiveness of their programs, but such results are not audited by a third party. In the investment advisory business, audits primarily focus on asset security and proper reporting of rates of return, but not on the efficacy of education programs.

NAIRPA is aware of very little data on the subject that is not anecdotal. On the other hand, there is a growing body of data on the usage of investment advice solutions, such as online advice and target date funds. We would welcome the opportunity to provide you with data upon request.

**(5) Are any of your organization’s programs national in scope? If not, could any of these programs be replicated or expanded to reach a national audience?**

Yes. A number of member firms have education or advice offerings that are available nationally and/or are scalable for a national audience.

**(6) What types of investor behaviors or other topics do you think investor education programs should focus on? Why?**

NAIRPA believes that investors would benefit from programs that focus on: (1) the need to embrace retirement savings; (2) the need for realistic expectations; and (3) basic financial education.

With respect to the need to embrace retirement savings, NAIRPA members have found that some participants engage in behaviors of procrastination and avoidance related to saving for retirement. This group of investors would benefit from education about the ease of saving for retirement and the importance of starting to save early for retirement.

Some investors need to learn more about setting realistic expectations. For example, they may have unrealistic expectations about reasonable investment returns, normal variations in earnings from year to year, the efficacy of investment strategies that purport to outperform overall market returns, or the amount of money they will have during retirement based on their current savings rate. By educating these investors, they will be able to make the necessary adjustments in order to obtain their financial objectives.

Investors also need to be provided with basic financial education, such as the fundamentals of how to save and live within one's means, as well as the benefits of:

- plan participation;
- “paying yourself first” through salary reduction contributions; and
- a diversified portfolio that is periodically rebalanced.

**(7) Which best describes you or your organization? a. Public, federal government; b. Public, state or local government; c. Not-for-profit; d. Foundation; e. Private/business; f. Individual; g. Other (describe)**

NAIRPA is not-for-profit organization whose members are privately owned businesses.

**(8) Do you have any other comments regarding the effectiveness of existing private and public efforts to educate investors?**

Members of NAIRPA routinely interact with individuals both as retirement plan participants and as individual advice clients. The member consensus is that the use of public educational tools and programs by investors is relatively rare and mostly ineffective. Publishing pamphlets or other written materials is generally not an effective method to get individuals to change their behavior or reliably learn new skills.

Programs that work tend to have some or all of these components:

- Targeted outcomes, such as participation in a retirement plan, saving enough, or accepting professional investment advice rather than doing it yourself;

- Multiple approaches, such as through online tools, social media, written information, email, regular mail, recorded messages, live education, and/or one-on-one education;
- Simplicity in the delivery and language used that enables the average investor to easily understand the information being communication; and
- Repetition, that is, investors tend to learn best when messages are communicated several times.



These comments were primarily authored by Pete Swisher, CPC, QPA, CFP<sup>®</sup>. We welcome the opportunity to discuss this further with you. Please contact Brian Graff at (703) 516-9300 with respect to any questions regarding the matters discussed herein.

Thank you for your time and consideration.

Sincerely,

/s/

Brian H. Graff, Esq., APM  
Executive Director/CEO