

Employer-Sponsored Investment Advice

SURVEY REPORT

A study by the Society for Human Resource Management, Employee Benefit Research Institute and WorldatWork



HR: Leading People,
Leading Organizations

Employer-Sponsored Investment Advice Survey Report

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Contents

Introduction.....iv	Cost Distribution10
About the Employee Benefit Research Institutevi	Reasons for Providing Investment Advice12
About SHRMvi	Need for Investment Advice.....13
About WorldatWorkvi	Impact of Investment Advice.....13
About the Authors.....vii	Impact of EGTRRA.....19
Key Findings.....viii	Managed Portfolios19
Methodologyx	Investment Advice Not Currently Offered to Employees20
Survey Results1	Interest in Providing Investment Advice20
Definitions and Scope of Survey1	Current Status of Investment Advice21
Characteristics of Respondents' Organizations.....1	Methods of Investment Advice Under Consideration21
Plan Types.....1	Perceived Impact of Not Offering Investment Advice21
Plan Administration.....3	Reasons to Consider Offering Investment Advice22
Employer Contributions.....3	Impact of EGTRRA.....24
Plan Design.....4	Achieving Retirement Income Goals.....24
Communication of Plan Information.....5	Reasons for Not Offering Investment Advice25
Automatic Enrollment6	Managed Portfolios26
Fund Choices6	Conclusions.....31
Access to Financial Advice.....6	Glossary32
Methods of Investment Advice7	Demographics34
Investment Advice Currently Offered to Employees.....9	Sample Questionnaire.....36
Access Restrictions.....9	
Use of Investment Advice.....10	
Achieving Retirement Income Goals.....10	

Introduction

Among private-sector employers sponsoring retirement plans for their employees, there has been a constant evolution from a defined benefit to a defined contribution system in the last two decades. Although defined contribution plans have many advantages over defined benefit plans, the retirement income they provide to participants is based on the investment income accrued, unlike defined benefit plans where the plan sponsor assumes the investment risk.

With the advent of 401(k), 403(b) and other similar plans and the increasing importance of employee contributions in the defined contribution system, there has also been an increasing trend to allow participants to direct the investments of at least the employee contributions and, in many cases, the employer contributions. Unfortunately, many defined contribution plan participants may be ill-equipped to make investment decisions on what may prove to be the majority of their overall retirement income. Some participants may react by investing in nearly risk-free investments for a significant portion of their working career and miss out on any significant real rates of return, thereby decreasing the likelihood that they will have sufficient resources to maintain their standard

of living in retirement. Other participants, especially those in plans where the employer contributions are automatically invested in equity of the employer, may be all too willing to follow the employer's lead. These employees invest their contributions in employer stock, thereby losing out on all the benefits of portfolio diversification and subjecting themselves to risks that proved all too real to employees of Enron in 2002. Still other participants may find the task simply too difficult to comprehend and opt out of the defined contribution plan altogether, at least temporarily.

For participants without the necessary financial acumen to make informed investment decisions, it may appear logical to seek out the plan sponsor for assistance. While defined contribution sponsors are allowed¹ and even encouraged² to provide investment *education*, there are significant legal obstacles preventing them in most cases from providing investment *advice*. In the aftermath of Enron, several proposals have surfaced to attempt to modify some of these constraints in an effort to improve participants' access to various methods of investment advice. With this in mind, the Employee Benefit Research Institute (EBRI), the Society for Human Resource Management

¹Interpretive Bulletin 96-1 sets forth the views of the Department of Labor concerning the circumstances under which the provision of investment-related information to participants and beneficiaries in participant-directed individual account pension plans will not constitute the rendering of "investment advice" under the Employee Retirement Income Security Act (ERISA) of 1974, as amended.

²ERISA Section 404(c) provides limited relief from liability for fiduciaries of pension plans that permit a participant or beneficiary to exercise control over the assets in his or her individual account. However, there remains a need for employers and others who provide investment information with respect to pension plan assets to know what standards apply in determining whether an education activity may give rise to fiduciary status.

(SHRM) and WorldatWork developed a survey to gather employer perspectives on employer-sponsored investment advice for defined contribution retirement plan participants. The survey covered types of plans offered, plan design, plan administration, company contributions, plan communication and investment advice. In order to provide respondents a common knowledge base when answering the survey questions, a definition of investment advice was provided. This definition referred to providing customized financial planning and investment counseling to meet the specific goals and needs of an individual employee. The definition also mentioned that investment advice is not the same as employer-sponsored investment

education, which generally consists of discussions of broad investment concepts to groups of employees through literature, classroom or electronic dissemination.

This report analyzes the types of organizations that offer investment advice and the types of advice they offer. The perceived success of the investment advice programs is also explored. In addition, the report examines organizations not offering investment advice and their reasons for doing so. Moreover, the events that would influence organizations to seriously consider offering investment advice are explored.

About the Employee Benefit Research Institute

Employee Benefit Research Institute (EBRI) is a private, nonprofit, nonpartisan public policy research organization based in Washington, D.C. (www.ebri.org). Founded in 1978, its mission is to contribute to, to encourage and to enhance the development of sound employee benefit programs and sound public policy through objective research and education. EBRI does not lobby and does not take positions on legislative proposals. EBRI receives funding from individuals, employers of all types, unions, foundations and the government.

About SHRM

The Society for Human Resource Management (SHRM) is the world's largest association devoted to human resource management. Representing more than 185,000 individual members, the Society's mission is to serve the needs of human resource (HR) professionals by providing the most essential and comprehensive resources available. As an influential voice, the Society's mission is also to advance the human resource profession to ensure that HR is recognized as an essential partner in developing and

executing organizational strategy. Founded in 1948, SHRM currently has more than 500 affiliated chapters and members in more than 100 countries. Visit SHRM Online at www.shrm.org.

About WorldatWork

WorldatWork is the world's leading not-for-profit professional association dedicated to knowledge leadership in compensation, benefits and total rewards. Founded in 1955, WorldatWork focuses on human resource disciplines associated with attracting, retaining and motivating employees. Besides serving as the membership association of the professions, the WorldatWork family of organizations provides education, certification (Certified Compensation Professional, CCP®, Certified Benefits Professional, CBP™, and Global Remuneration Professional, GRP®), publications, knowledge resources, surveys, conferences, research and networking. WorldatWork Society of Certified Professionals and Alliance for Work-Life Progress (AWLP) are part of the WorldatWork family.

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Key Findings

Approximately one-half (49%) of the respondents indicated that plan participants have access to investment advice from their organizations, retirement plan provider and/or investment advisory service provider. Several characteristics of the organizations were associated with the likelihood of offering investment advice. Overall, the larger the number of investment choices offered to the participants, the more likely the organization was to offer some type of investment advice.

The most popular method of providing investment advice is online,³ with nearly three-quarters (72%) of those providing investment advice using this option. However, many of the respondents' organizations used more than one method, and access to financial planners in person or by telephone was made available by approximately one-half of the respondents' organizations providing investment advice (45% and 52%, respectively). Characteristics associated with the method of chosen investment advice program include: whether the organization also provided a defined benefit plan; whether employer contributions were automatically directed towards company stock and, if so, whether employees were allowed to immediately diversify out of this investment; the number of investment choices in the plan; whether employees were perceived to be "off track" in achieving their retirement income goals; whether participants paid the entire cost of the investment advice; whether the investment advice program was primarily due to employee demand; and whether compliance with Section 404(c) was a primary concern.

³Online refers to Internet, intranet or any other online services that may be provided.

Among respondents who could provide an estimate of the percentage of participants accessing advice in the past 12 months, a significant percentage (43%–60%), depending on the manner in which investment advice is provided, indicated a utilization rate of less than 10% of the eligible participants. The cost for investment advice is primarily absorbed by the retirement service provider for one-half (50%) of all respondents; however, this is more likely to be the case for online advice than for advice by telephone or in person.

Overall, it appears that investment advice programs are generally perceived as successful by those respondents whose organizations adopt them. Although results vary by component assessed and type of investment advice program, between 31% and 38% of respondents indicated the investment advice program has had a major impact on asset allocation, diversification, improving employees' appreciation of the plan and long-term view of investment horizon. Only one-fifth (20%) of the respondents thought the program had a major impact on contribution activity.

Among respondents whose organizations do not currently provide investment advice, 9% indicated the top management in their organizations was very interested in providing investment advice to defined contribution plan participants, 56% were somewhat interested and 35% were not at all interested. Respondents whose organizations require a portion of the employer contribution to be immediately invested in company stock are much more likely to

be very or somewhat interested in providing investment advice. However, the organizations' willingness to allow a third party to give advice regarding the company stock investment also appears to have a strong direct relationship with their interest in providing investment advice.

A majority of respondents whose organizations do not currently offer investment advice indicated that not offering investment advice had no impact on the ability to pass defined contribution nondiscrimination tests, ability to retain good employees, employee morale or employee performance. However, when it comes to employee ability to prepare financially for retirement, 83% of the respondents believe that not offering investment advice to defined contribution plan participants has had an impact to some extent. This represents a significant finding for the HR practice leader. While HR professionals must exercise caution in the face of potential liability concerns about how retirement programs are administered, it is also important to ensure that concerns are prudently evaluated in conjunction with an effective use of the organizations' resources in relation to employee benefit dollars. The organization's retirement plan is an investment in the human capital asset program of the organization. An employee's ability to prepare financially for retirement is an important outcome of an employer-sponsored retirement plan. Employers should use all of the tools at their disposal, within ERISA compliance guidelines, to optimize their investment and that of their employees to the extent possible.

Among respondents whose organizations do not currently provide investment advice, 58% believe a new law exempting employers from liability for advice provided to participants by the same institution that administers the retirement plan would make their organizations more likely to seriously consider offering investment advice to their defined contribution plan participants; another 33% indicate that it would make it somewhat more likely. A new law exempting employers from liability for qualified independent advice would appear to have a similar impact, with 62% indicating more likely and 28% indicating somewhat more likely. A third approach—restructuring of fiduciary liability so that it rests entirely with the provider of investment advice (regardless if the provider is a person or an organization)—was considered more likely by 53% of the respondents and somewhat more likely by 33%. Forty-seven percent of respondents indicated employee demand would make their organizations more likely to consider investment advice, while 49% indicated that employee demand would make them somewhat more likely to consider it.

Among respondents whose organizations do not currently provide investment advice, potential fiduciary liability was indicated most frequently as a primary reason for not offering online investment advice (66%). Respondents most frequently indicated potential fiduciary liability (66%) and costs (44%) as primary reasons for not offering investment advice via financial planners.

Methodology

The survey was pretested with a sample similar to the final sample and then revised based on suggestions from the pretest. SHRM also asked an external committee of volunteer leaders and experts in the HR field to provide insight and recommendations for the instrument.

A sample of 3,704 compensation and benefits professionals was randomly selected from WorldatWork's membership database. In addition, a sample of 2,500 randomly selected HR professionals who had indicated their function was in the benefits area was drawn from SHRM's membership database, which at that time consisted of more than 170,000 members. SHRM excluded members who had participated in a SHRM survey or poll in approximately the last six

months as well as members who are students, consultants, academics, located internationally or who have no e-mail address on file. In August 2003, all sample members received an e-mail invitation containing a link that directed them to the online survey. Of these, 5,710 e-mails were successfully delivered to respondents, and 801 professionals (345 SHRM members and 456 WorldatWork members) responded on behalf of their organizations, yielding a response rate of 14% (the number of respondents is represented by *n*). The survey was fielded for a period of four weeks, and several e-mail reminders were sent to sample members in an effort to increase response rates.

Survey Results

Definitions and Scope of Survey

In order to provide respondents a common knowledge base when answering the survey questions, a definition of investment advice was provided. This definition referred to providing customized financial planning and investment counseling to meet the specific goals and needs of an individual employee. The definition also mentioned that investment advice is not the same as employer-sponsored investment education that generally consists of discussions of broad investment concepts to groups of employees through literature, classroom or electronic dissemination.

Respondents whose organizations do not treat salaried and hourly employees the same in regard to the issues presented in the survey were asked to answer the questions on behalf of their salaried employees.

In addition, respondents whose organizations offer more than one type of defined contribution plan were asked to provide information about their organizations' 401(k) plan. If their organizations do not have a 401(k), respondents were asked to provide information about their largest money purchase, pure profit sharing (i.e., one without a 401(k) feature), 403(b) or 457 plan.

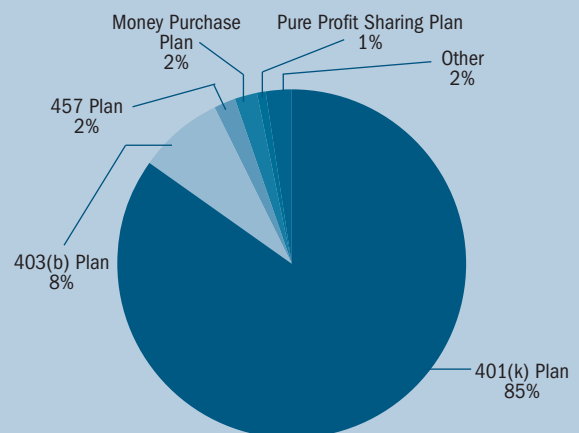
Characteristics of Respondents' Organizations

Plan Types

As shown in Figure 1, the majority of respondents (85%) indicated they would provide answers based on their organizations' 401(k) plans. Relatively few respondents provided answers based on their organizations' 403(b) plans, 457 plans, money purchase plans or pure profit sharing plans. A very small percentage of respondents indicated industries that would provide 403(b) or 457 plans, such as education services and public administration.

Figure 1 Largest Type of Defined Contribution Plan

(Number of Respondents = 799)



Source: Employer-Sponsored Investment Advice Survey Report

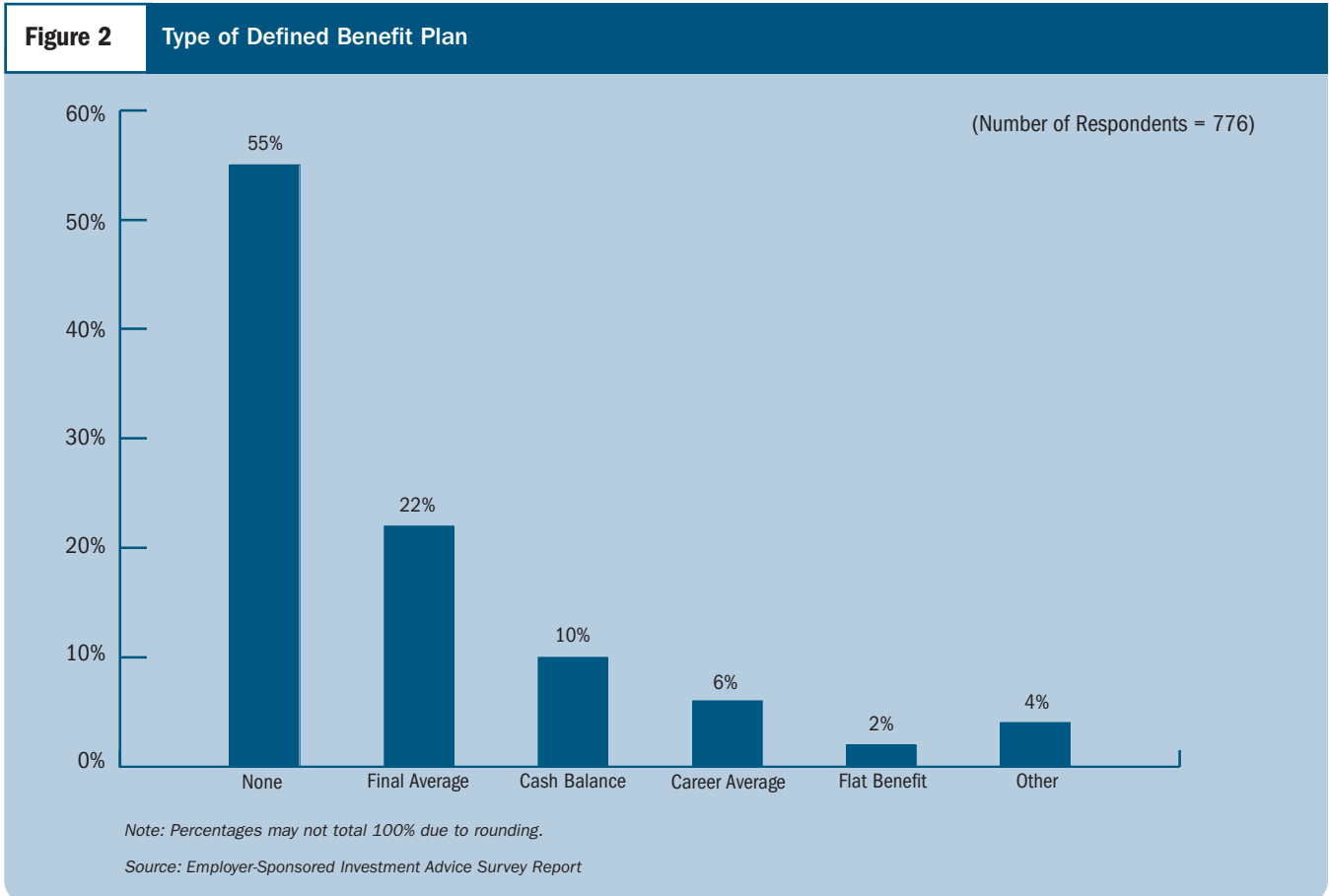
As employers shift the responsibility of retirement savings onto the employee, defined benefit plans have declined in popularity. More than one-half of respondents (55%) indicated their organizations do not offer a defined benefit plan. Respondents whose organizations do offer a defined benefit plan most frequently indicated offering a final average plan, followed by a cash balance plan, a career average plan and a flat benefit plan. These data are depicted in Figure 2.

Figure 3 illustrates that respondents were almost evenly split as to which plan (defined benefit or defined contribution) the management at their organization considered to be the primary source of employer-sponsored retirement benefits for the majority of retirement plan participants. Thirty-six percent of respondents answered that defined contribu-

tion plans would be the primary source of employer-sponsored retirement benefits and 31% defined benefit plan, while the remaining 33% reported both types of plans to be of about equal value.

Somewhat contrary to the above data, 47% of respondents indicated that plan participants consider defined benefit plans as the primary source of employer-sponsored retirement benefits. Slightly more than one-third of respondents (35%) indicated participants view their defined contribution plans as their primary source of employer-sponsored retirement benefits, and 18% of respondents indicated that participants view both the defined contribution and defined benefit plans to be of equal value (see Figure 4).

These data reinforce that human resource professionals are in a unique position to educate not only



employees who are saving for retirement but also their organization's management who need to learn about the utilization of defined contribution plans.

Plan Administration

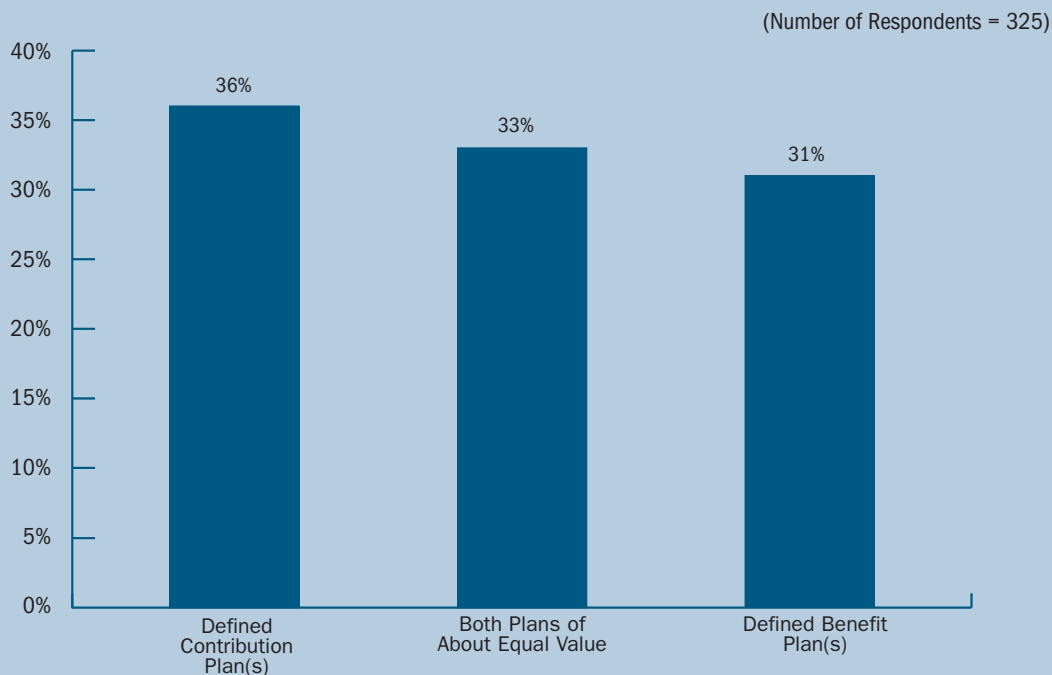
Employers often have a choice to either administer the retirement plans they offer their employees in-house or outsource this administration. This function, which includes handling all questions employees may have regarding their retirement plans, can be time-consuming and may necessitate expertise in retirement plan legal issues. As shown in Figure 5, three-quarters of respondents (75%) indicated their organizations outsource the entire administration of their defined contribution plans, 16% outsource some of the administration, and 9% do not outsource the administration.

Employer Contributions

It is not legally mandated that employers help their employees save for retirement by contributing to employees' defined contribution plans. However, a majority of respondents (89%) indicated their organizations offer an employer match to their defined contribution plan. These employers may offer this match as a benefit to help with retention and recruiting efforts. Another potential reason employers may offer a match is to be portrayed positively and as competitive employers. These data are depicted in Figure 6.

In 2002, the public became increasingly aware of the risk of nondiversification with reports of Texas-based company Enron, whose employees invested some of their contributions in company stock and collectively lost a lot of their contributions. Most

Figure 3 Primary Source of Employer-Sponsored Retirement Benefits (Management's View)



Note: Based on respondents whose organizations offer defined contribution and defined benefit plans. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

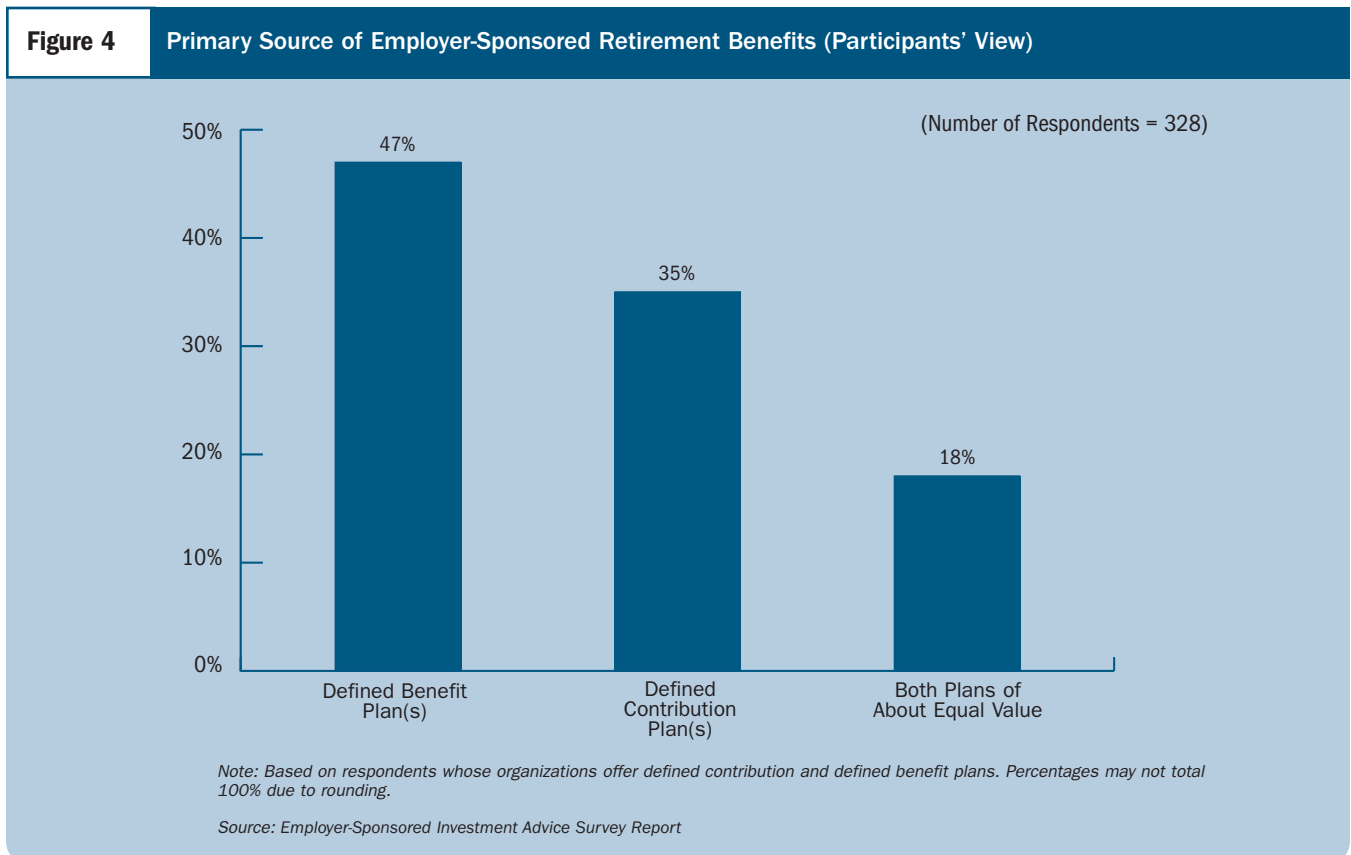
respondents (69%) whose organizations offer company stock indicated that their organizations do not require employer contributions to be *immediately* invested in company stock (see Figure 7). Of the 13% of respondents whose organizations do require company stock investment, almost half (47%) indicated plan participants are allowed to *immediately* diversify out of the company stock, either in whole or in part. These data are depicted in Figure 8. As shown in Figure 9, one-half of respondents (50%) indicated they are unsure if their organization would be willing to allow a third party to give advice regarding the company stock investment, while 29% indicated their organization would be willing to do so, and 21% indicated their organization would not be willing to do so.

Plan Design

A Safe Harbor design allows an employer to circumvent the need for some of the annual nondiscrimina-

tion tests by designing the plan in a manner that meets specified standards for matching or nonelective contributions. When asked if participants' defined contribution plans are currently using a Safe Harbor design to pass the nondiscrimination tests, 31% indicated they were, 51% indicated they were not, and 18% indicated they did not know. These data are depicted in Figure 10.

A SIMPLE (Savings Incentive Match Plan for Employees) plan is one that is available to employers with fewer than 100 employees and provides reduced discrimination testing and administrative burden as a trade-off for somewhat less flexibility in plan design. Figure 11 illustrates that most respondents in organizations that employ fewer than 100 employees (71%) indicated their organizations' defined contribution plans were not SIMPLE 401(k) plans. Twenty-four percent of respondents indicated their organizations' defined contribution plans were

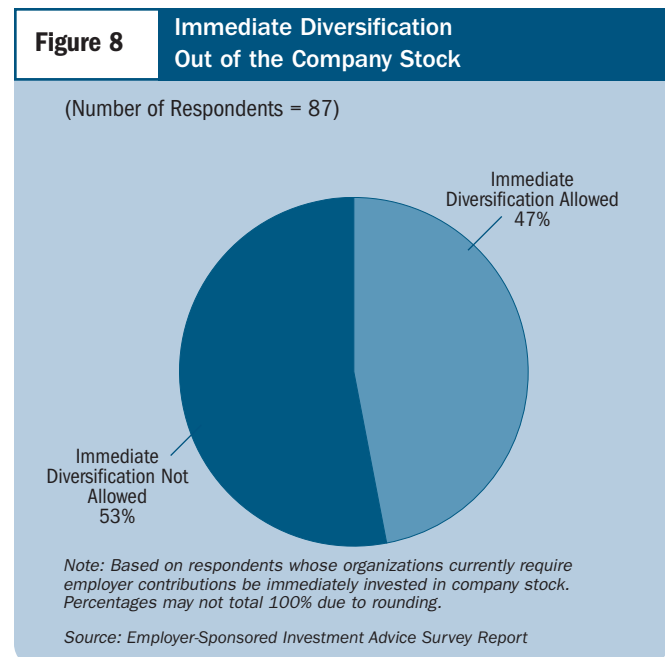
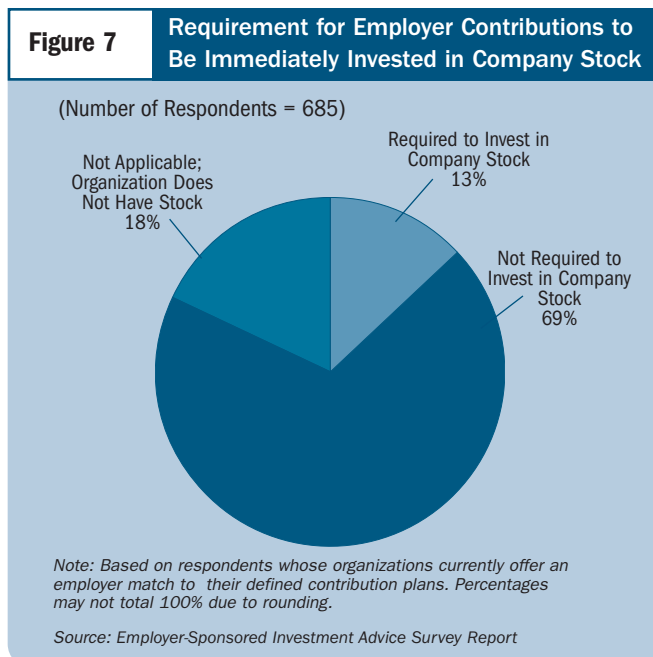
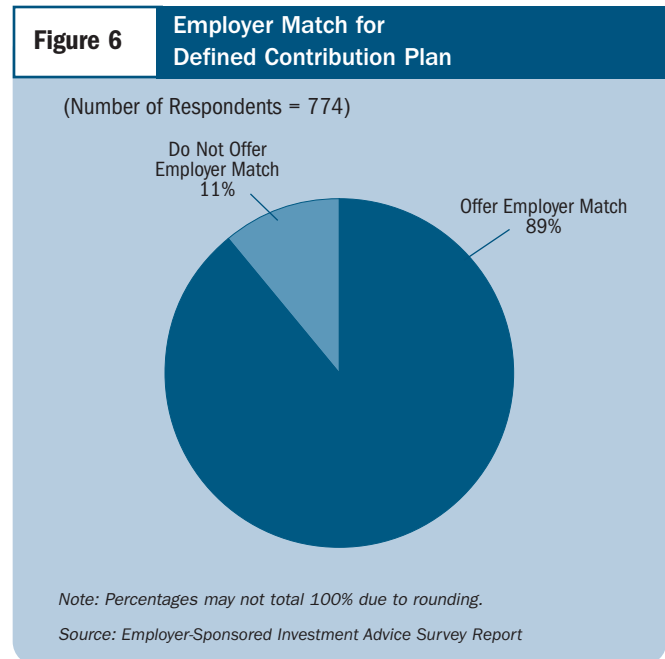
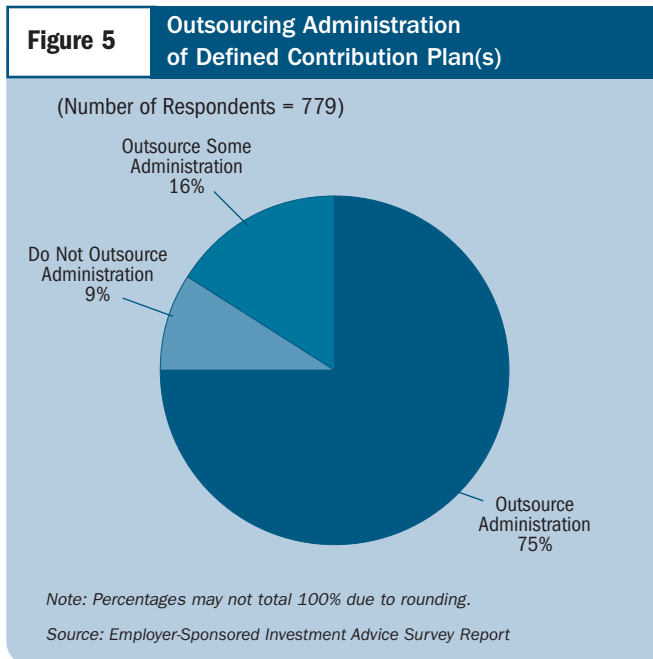


SIMPLE 401(k) plans, while 1% of respondents indicated they were not sure.

Communication of Plan Information

As shown in Figure 12, more than one-quarter of

respondents indicated their organizations use neither the Internet nor the intranet for the distribution of benefits materials, flex plans or health benefits elections. However, the use of both venues is more common than the use of one alone, and the use of the



intranet is much more common than the use of the Internet for communication purposes.

Automatic Enrollment

When asked if their defined contribution plan provides that eligible employees be automatically enrolled unless or until they opt out, 18% of respondents indicated their plan does provide automatic enrollment (see Figure 13).

Fund Choices

Figure 14 illustrates that 41% of respondents' organizations provide between 11 and 15 investment fund choices for their defined contribution plan participants, followed by more than 15 choices (33%), five to 10 choices (25%) and fewer than five choices (1%).

Access to Financial Advice

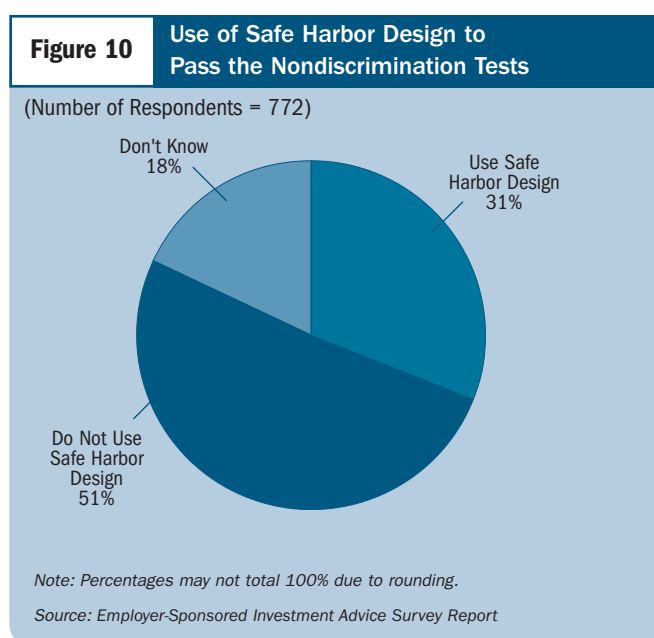
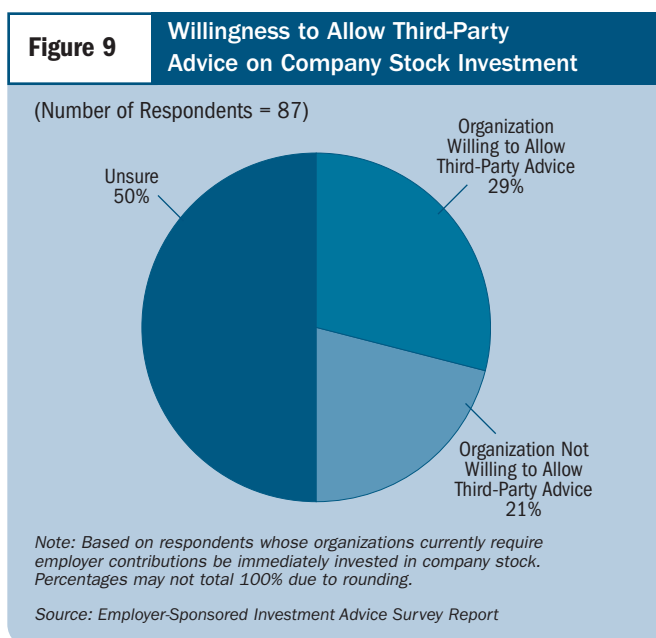
Just about one-half of respondents (49%) indicated plan participants (regardless of the type of plan) have access to investment advice from their organizations, retirement plan providers or their investment advisory service providers, regardless of whether they use it. These data are depicted in Figure 15.

As shown in Table 1, respondents in organizations with small staff sizes were much more likely to indicate their organizations' employees have access to investment advice than their counterparts in organizations with medium or large staff sizes.

Respondents who indicated their organizations require that at least a portion of employer contributions be invested in company stock were less likely to report offering investment advice compared with those respondents whose employers do not require investment in company stock (42% versus 49%, respectively).

Respondents who indicated their organizations would be willing to allow a third party to give advice regarding the company stock investment were much more likely to indicate their organizations offer investment advice than respondents who indicated their organizations would not be willing to allow a third party to give such investment advice (52% versus 43%).

It was speculated that if organizations administer or communicate benefits-related information online to their employees, there would be an increased likelihood of offering investment advice. Surprisingly, just the opposite appears to be the case as 52% of



respondents whose organizations do not use an online method to distribute benefits information provided investment advice, as opposed to 48% of those that do. Whether the respondents' organizations made use of these methods for flex plans or health benefits elections had no discernible impact on organizations' likelihood of offering investment advice.

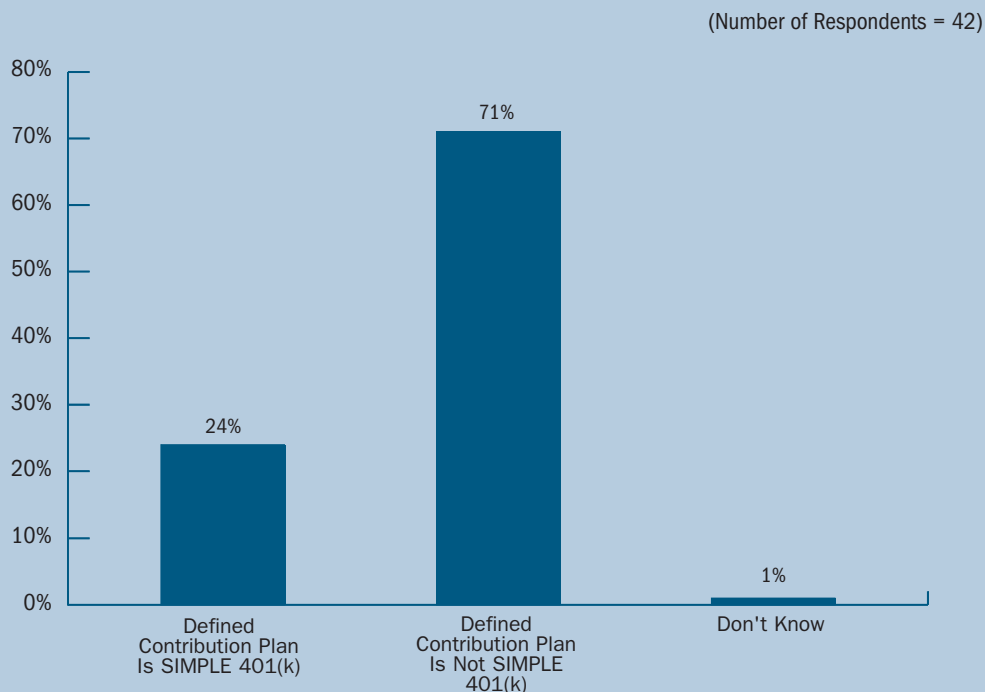
The more investment fund choices are available to plan participants, the more likely the organizations are to offer investment advice. Forty-one percent of respondents whose organizations offered 10 or fewer fund choices indicated their organizations provided investment advice, compared with 51% of respondents whose organizations offered 11 or more funds.

Methods of Investment Advice

As shown in Figure 16, among respondents whose organizations currently offer investment advice to employees, the most popular method is online, with 72% of respondents indicating this option. Access to financial planners by telephone and in person was also reported by a significant percentage of respondents (52% and 45%, respectively). Nine percent of respondents indicated other methods of investment advice.

As shown in Table 2, respondents in organizations with small and medium staff sizes were more likely to indicate their organizations provide investment advice via a financial planner, either in person or by telephone, compared with respondents in organizations with large staffs. Respondents in large organizations were more likely to indicate their organizations provide

Figure 11 SIMPLE 401(k) Plan



Note: Based on respondents whose domestic number of employees is under 100. Percentages may not total 100% due to rounding.

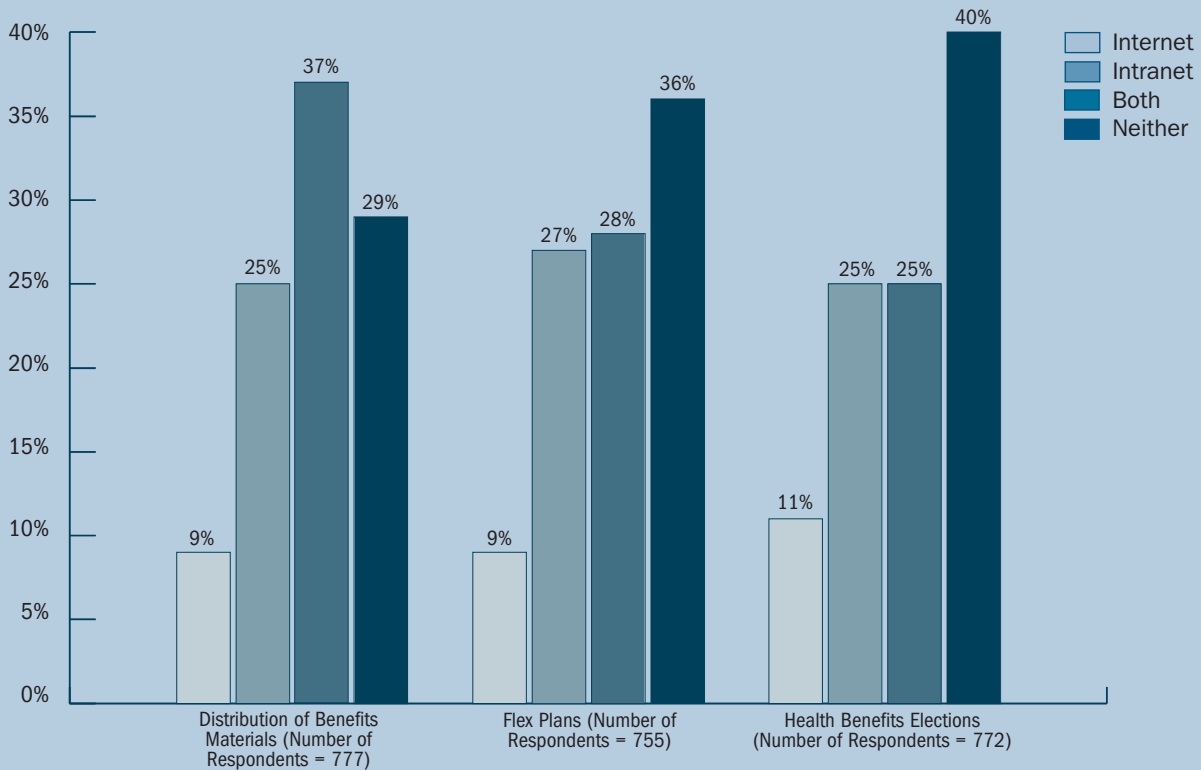
Source: Employer-Sponsored Investment Advice Survey Report

investment advice online and were much more likely to adopt another method of providing investment advice.

Associations between certain plans and employer-related characteristics and the probability of offering specific types of investment advice were examined. Respondents who indicated that their organizations did not provide a defined benefit plan or that there was a perception of employees being off track to meeting retirement goals were more likely to report offering investment advice, regardless of the specific method of advice. Those whose organizations outsourced the administration of their retirement plans or did not distribute benefits materials online were more likely to indicate advice is offered through a financial planner in person or by telephone. Respondents whose organiza-

tions require company stock investment of the employer match, do not allow immediate diversification out of company stock, offer 10 or fewer investment choices, or whose primary reason for choosing investment advice was something other than compliance with Section 404(c) were more likely to indicate their organizations offer advice through a financial planner in person. Respondents who reported that participants pay the entire cost of investment advice were more likely to indicate their organizations offer advice either through a financial planner in person or online. Those whose organizations do not require the employer match to be invested in company stock were more likely to indicate their organizations offer advice through a financial planner by telephone or online. Respondents whose organizations allow immediate diversification

Figure 12 Methods Used to Administer Plans or Communicate Plan Information



Note: Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

out of company stock, pay the entire cost of advice or whose primary reason for offering advice was fiduciary exposure apart from Section 404(c) were more likely to indicate their organizations offer advice through a financial planner by telephone. Respondents whose organizations do not outsource plan administration, distribute benefits materials online, use automatic enrollment of employees into defined contribution plan, offer 11 or more fund choices, or whose primary reason for choosing to offer advice was that it came bundled as part of the package provided by the service provider were more likely to indicate their organizations offer advice online.

Investment Advice Currently Offered to Employees

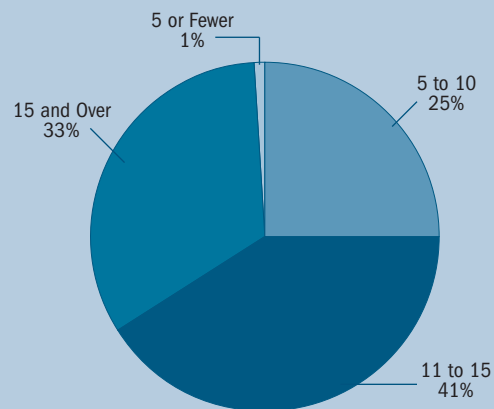
Access Restrictions

Only 6% of respondents indicated that their organizations only provide certain portions of their plan's participant population with access to investment advice (e.g., only participants at or near retirement age, executives, etc.). These data are depicted in Figure 17.

Table 3 illustrates that for those plans that provide investment advice only to select groups of plan participants, the most popular method of investment advice service is online. Respondents indicated that individual access to a financial planner by telephone is used slightly more than access to a financial planner in

Figure 14 Number of Defined Contribution Investment Fund Choices

(Number of Respondents = 776)

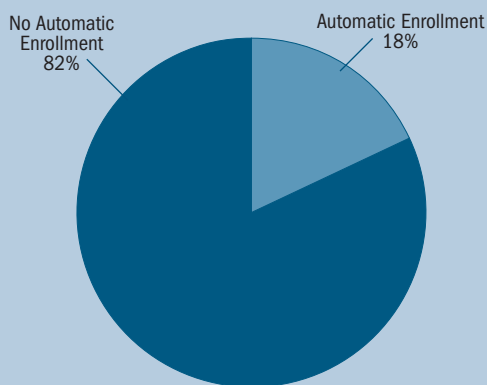


Note: Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 13 Defined Contribution Plan Automatic Enrollment

(Number of Respondents = 774)

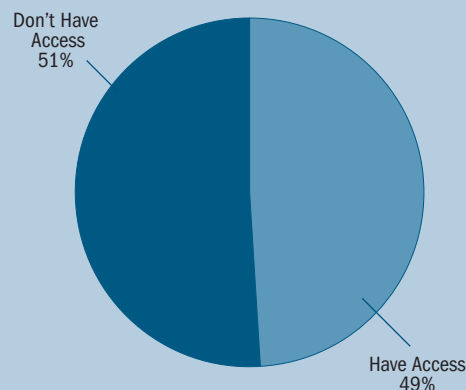


Note: Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 15 Plan Participant's Access to Employer-Sponsored Investment Advice

(Number of Respondents = 774)



Note: Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

person. Online advice services may be most cost-effective and, therefore, have higher usage.

Use of Investment Advice

Among respondents who were able to provide an estimate of the percentage of participants accessing advice in the past 12 months, a significant percentage indicated a utilization rate of less than 10% of the eligible participants. Table 4 indicates that this was more likely to be the case for in-person advice, although it is likely that the distribution of the costs plays an important role in this result.

Achieving Retirement Income Goals

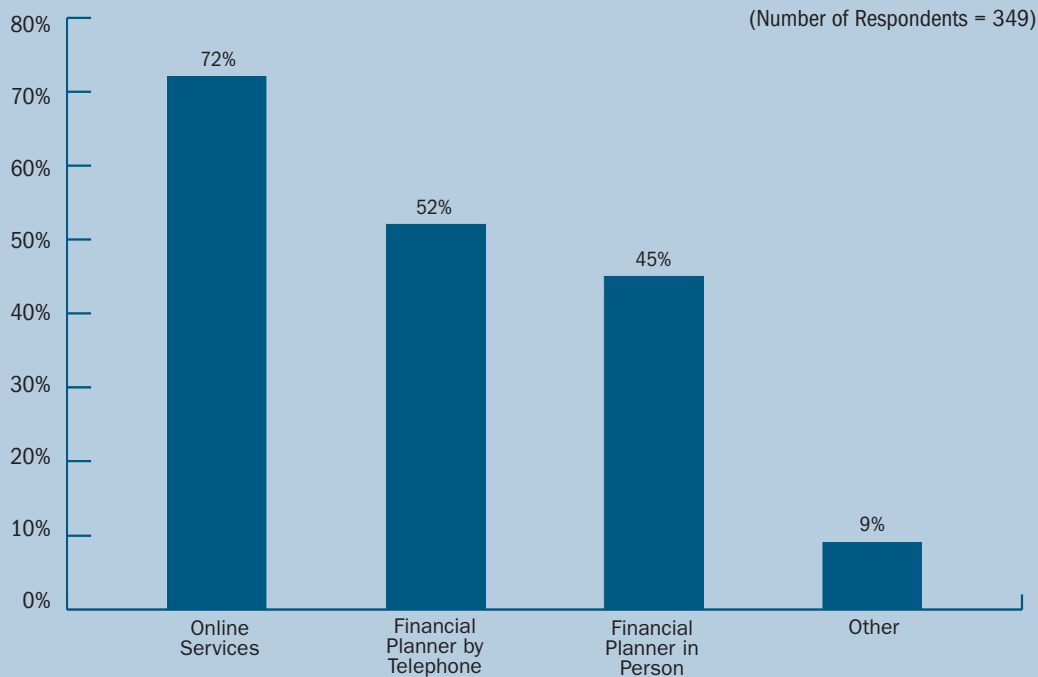
As shown in Figure 18, when asked to consider whether employees are on track to achieving their retirement income goals, 56% of respondents answered affirmatively, with 3% indicating “very on

track” and 53% indicating “somewhat on track.” Thirty-five percent of respondents indicated they considered employees to be somewhat off track to achieving their retirement income goals, and 9% indicated employees were very off track.

Cost Distribution

The distribution of cost for investment advice is primarily absorbed by the retirement service provider (50%), followed by the employer paying the entire cost as a separately budgeted expense (23%). Eight percent of respondents indicated that the participants pay the entire cost, which is allocated to the participants’ plan accounts. Another 6% of respondents reported that the cost is shared between the employer and the participants. Just 1% of respondents indicated that employees pay the entire cost

Figure 16 Access to Employer-Sponsored Investment Advice



Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% as multiple responses were allowed.

Source: Employer-Sponsored Investment Advice Survey Report

on a voluntary basis via payroll deductions. Twelve percent of respondents indicated another type of cost payment. These data are depicted in Figure 19.

Table 5 illustrates how the distribution of cost for investment advice varies by the manner in which investment advice is provided for respondents' organizations relying exclusively on one of the three methods. Having the cost absorbed by the retirement service provider is at least as likely as any of the other distribution methods regardless of the manner in which investment advice is provided; however, it is much more likely that the employer pays the entire cost as a separately budgeted expense when an in-person financial planner is used (32%), as opposed to financial planner by telephone (23%) or some type of online service (24%).

As shown in Table 6, the cost for investment advice is less likely to be absorbed by the retirement service provider for organizations with large staffs, and it is more likely that their participants will pay the entire cost allocated to their plan accounts.

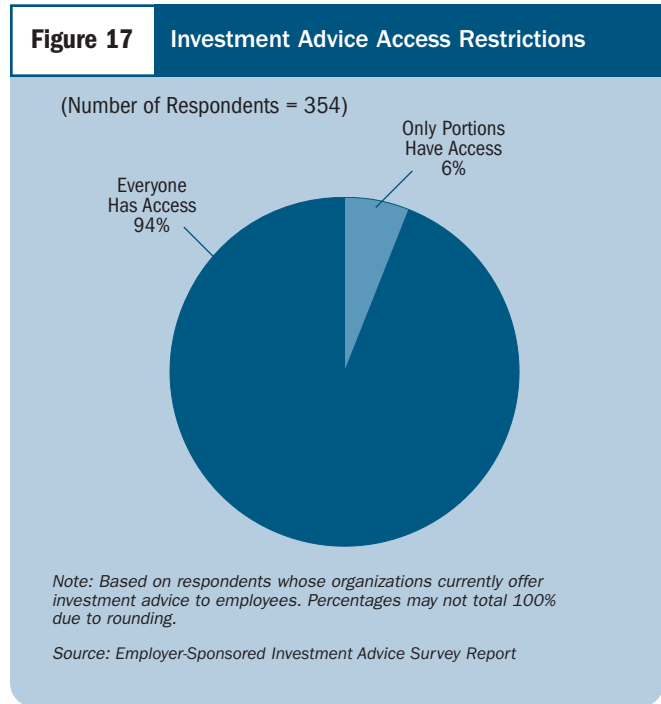


Table 1 Access to Investment Advice (by Organization Staff Size)

	Small (1-99 Employees) (n = 42)	Medium (100-499 Employees) (n = 107)	Large (500 or More Employees) (n = 424)
Plan participants have access to some type of investment advice	74%	51%	42%

Source: Employer-Sponsored Investment Advice Survey Report

Table 2 Method of Investment Advice (by Organization Staff Size)

	Small (1-99 Employees) (n = 32)	Medium (100-499 Employees) (n = 56)	Large (500 or More Employees) (n = 180)
Financial planner in person	47%	43%	33%
Financial planner by telephone	63%	54%	43%
Online	59%	60%	72%
Other	3%	23%	37%

Note: Percentages are column percentages. Percentages do not add to 100% due to multiple response options.

Source: Employer-Sponsored Investment Advice Survey Report

Reasons for Providing Investment Advice

As shown in Figure 20, the primary reason respondents' organizations chose to provide investment advice to employees was that it came bundled as part of the package provided by the service provider (51%). Fourteen percent of respondents indicated the primary reason for choosing investment advice was that the employer was worried about fiduciary exposure from ERISA Section 404(c) if advice was not provided, while 11% indicated the employer felt it was necessary to comply with ERISA Section 404(c). Eight percent of employers indicated employee demand was the primary reason for choosing to provide investment advice, and 16% indicated another primary reason.

As shown in Table 7, respondents at organizations with small and medium staff sizes were more likely

to provide investment advice because it came bundled as part of the package provided by the service provider.

Table 8 illustrates how the primary reason organizations chose to provide investment advice varies by the method of investment advice for respondents relying exclusively on one of the three methods. As previously mentioned, the primary reason respondents' organizations chose to provide investment advice to employees was that it came bundled as part of the package provided by the service provider, regardless of the manner in which investment advice is provided; however, it is more likely to be the reason for those using some type of online service (55%) than for those using a financial planner either in person (40%) or by telephone (41%). This may be because instituting a service that already is part of a

Table 3 Percentage of Plan Participants With Access to Each Investment Advice Service

	Average
Online services	72%
Individual access to a financial planner by telephone	39%
Individual access to a financial planner in person	34%
Other	66%

Note: Based on respondents whose organizations currently offer investment advice to employees and engage in some type of participant segmentation. Percentages may not total 100% as multiple responses were allowed.

Source: Employer-Sponsored Investment Advice Survey Report

Table 4 Percentage of Employees Using Each Method of Investment Advice

	Financial Planner in Person (n = 136)	Financial Planner by Telephone (n = 125)	Online (n = 116)
<10%*	60%	44%	43%
11-25%	14%	26%	29%
26-50%	10%	10%	9%
51-75%	2%	5%	3%
>75%	14%	15%	17%

**Respondents in organizations where 10% of the employees utilize investment advice most likely chose the category of <10%.
Note: Percentages are column percentages.*

Source: Employer-Sponsored Investment Advice Survey Report

package is much easier on employers, given that no new procedures have to be developed.

Need for Investment Advice

Respondents indicated that their organizations' defined contribution plan participants are in the greatest need of investment advice at the following milestones: nearing retirement (19%), enrollment (18%), financial market volatility (18%) and termination of employment (12%). These data are depicted in Figure 21.

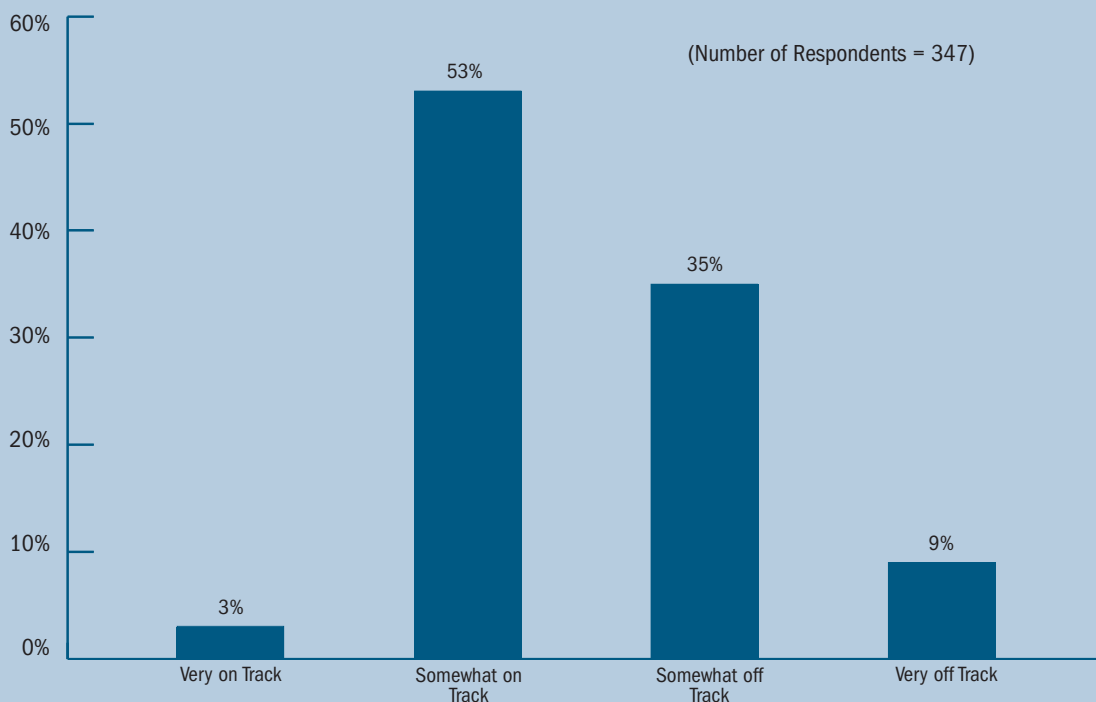
Impact of Investment Advice

The survey respondents were asked to assess the impact of the investment advice programs on defined contribution plan participants regarding the following components: asset allocation, contribution rates, diversification, improvement of employees' apprecia-

tion of the plan and long-term view of investment horizon. One-half or more of respondents found the impact to be minor (see Figure 22). However, between 31% and 38% of respondents did indicate that the investment advice program had a major impact on asset allocation, diversification, improving employees' appreciation of the plan and long-term view of investment horizon. These findings indicate an opportunity for HR professionals to measure the impact of the investment advice.

As shown in Table 9, a larger percentage of respondents at organizations with small staff sizes reported that their organizations' investment advice program had a major impact on the majority of participants with respect to all five components analyzed, compared with respondents at organizations with large staffs.

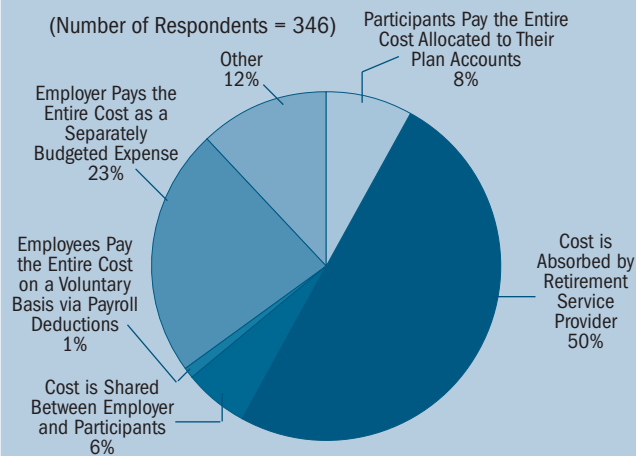
Figure 18 Achieving Retirement Income Goals



Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

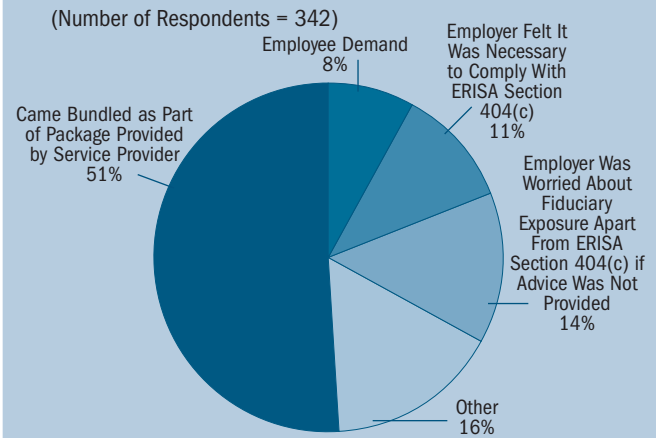
Figure 19 Cost Distribution for Investment Advice



Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 20 Primary Reason for Providing Investment Advice



Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Table 5 Investment Advice Cost Distribution (by Method of Investment Advice)

	Financial Planner in Person (n = 19)	Financial Planner by Telephone (n = 22)	Online (n = 116)
Participants pay the entire cost which is allocated to their plan accounts	5%	14%	8%
Cost is absorbed by retirement service provider	32%	45%	50%
Cost is shared between the employer and the participants	11%	0%	5%
Employees pay the entire cost on a voluntary basis via payroll deduction	5%	0%	1%
Employer pays the entire cost as a separately budgeted expense	32%	23%	24%
Other	16%	18%	12%

Note: Percentages are column percentages.

Source: Employer-Sponsored Investment Advice Survey Report

Table 6 Investment Advice Cost Distribution (by Organization Staff Size)

	Small (1-99 Employees) (n = 28)	Medium (100-499 Employees) (n = 50)	Large (500 or More Employees) (n = 165)
Participants pay the entire cost which is allocated to their plan accounts	4%	2%	12%
Cost is absorbed by retirement service provider	61%	64%	45%
Cost is shared between the employer and the participants	7%	4%	6%
Employees pay the entire cost on a voluntary basis via payroll deduction	0%	0%	1%
Employer pays the entire cost as a separately budgeted expense	21%	16%	24%
Other	7%	14%	12%

Note: Percentages are column percentages.

Source: Employer-Sponsored Investment Advice Survey Report

Table 7 Primary Reason for Providing Investment Advice (by Organization Staff Size)

	Small (1-99 Employees) (n = 28)	Medium (100-499 Employees) (n = 49)	Large (500 or More Employees) (n = 162)
Came bundled as part of package provided by the service provider	61%	69%	46%
Employee demand	4%	8%	6%
Employer felt it was necessary to comply with ERISA Section 404(c)	11%	4%	17%
Employer was worried about fiduciary exposure apart from ERISA Section 404(c) if advice was not provided	11%	10%	16%
Other	14%	8%	14%

Note: Percentages are column percentages.

Source: Employer-Sponsored Investment Advice Survey Report

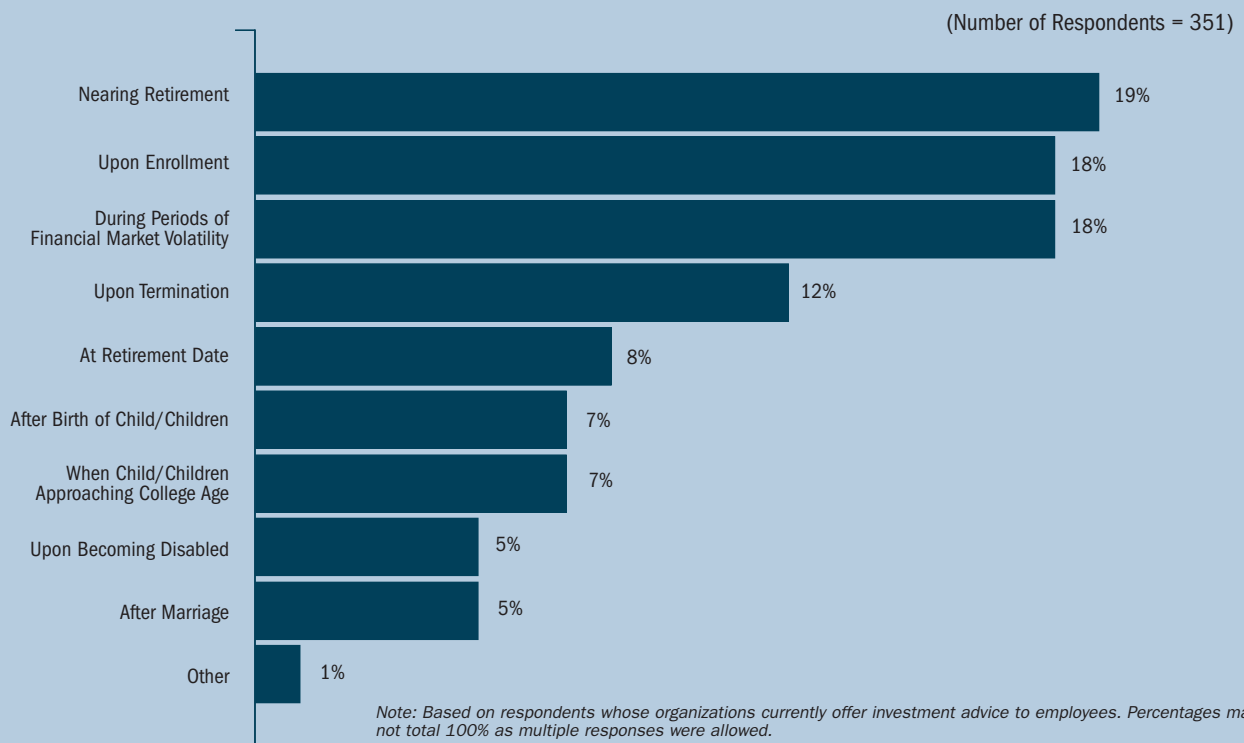
Table 8 Primary Reason for Offering Investment Advice (by Method of Investment Advice)

	Financial Planner in Person (n = 20)	Financial Planner by Telephone (n = 22)	Online (n = 115)
Came bundled as part of package provided by the service provider	40%	41%	55%
Employee demand	10%	5%	8%
Employer felt it was necessary to comply with ERISA Section 404(c)	15%	14%	14%
Employer was worried about fiduciary exposure apart from ERISA Section 404(c) if advice was not provided	10%	18%	13%
Other	25%	23%	10%

Note: Percentages are column percentages.

Source: Employer-Sponsored Investment Advice Survey Report

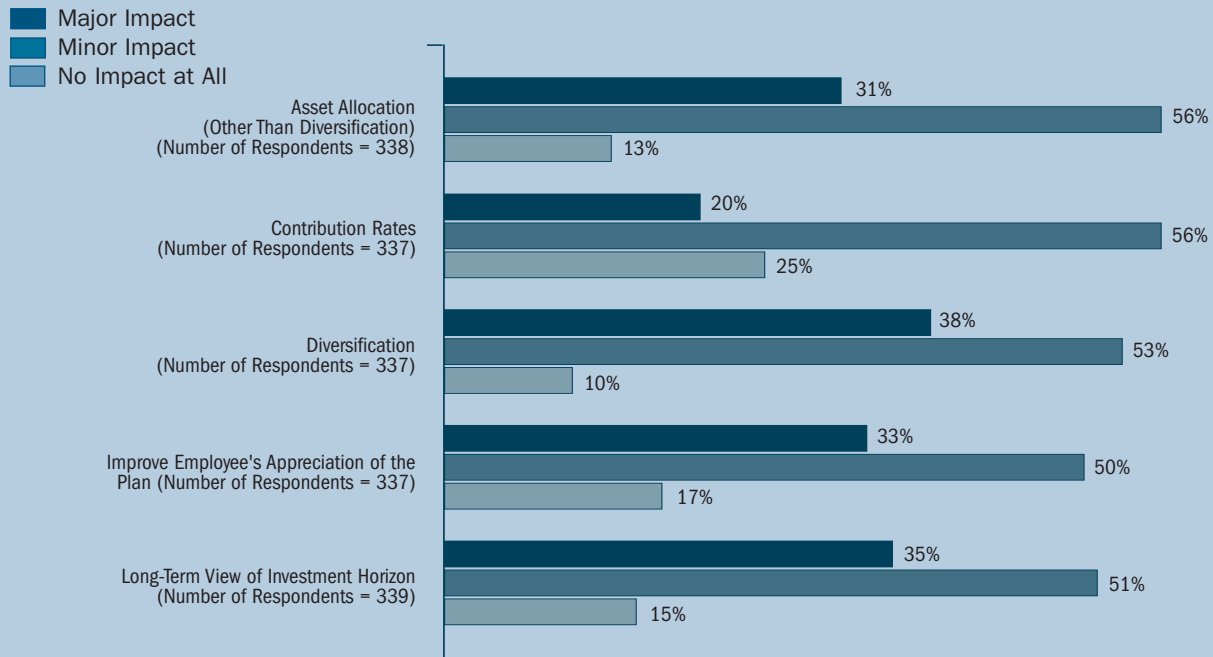
Figure 21 Milestones at Which Employees Are in Greatest Need of Investment Advice



Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% as multiple responses were allowed.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 22 Impact of Investment Advice



Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Table 9 Major Impact of Investment Advice Program on Plan Participants (by Organization Staff Size)

	Small (1-99 Employees) (n = 28)	Medium (100-499 Employees) (n = 47)	Large (500 or More Employees) (n = 163)
Asset allocation (other than diversification)	39%	23%	22%
Contribution rates	32%	15%	15%
Diversification	43%	30%	29%
Improve employee's appreciation of the plan	50%	21%	27%
Long-term view of investment horizon	43%	23%	28%

Source: Employer-Sponsored Investment Advice Survey Report

The perceived impact of the investment advice program varies markedly by the component being assessed and the type of program chosen. For example, 42% of those that provide individual access to a financial planner in person and 40% of those that provide access to a financial planner over the phone concluded that the investment advice program had a major impact on asset allocation (other than diversification) for the defined contribution plan participants. The percentage dropped to 28% when the program consisted of online services.

Table 10 provides the percentages of respondents indicating that their organizations' investment advice program had a major impact on the majority of defined contribution plan participants based on the method of advice offered regarding all five examined aspects.

The survey also examined the associations between certain plans and employer-related characteristics and the probability of investment advice having a major impact on components of retirement savings. Respondents were more likely to indicate that investment advice had a major impact on asset allocation (other than diversification) when their organizations had the following characteristics: did

not offer a defined benefit plan; had a management and participant belief that the primary source of retirement benefits would be derived from the defined contribution plan; allowed the participants to decide where contributions are invested; showed a willingness to allow a third party to provide advice regarding the company stock investment; paid the entire cost as a separately budgeted expense; whose primary reason for choosing the program was either employee demand or the employer was worried about fiduciary obligations apart from Section 404(c); or had a majority of employees thought to be very off track to achieving their retirement income goals.⁴

Respondents whose organizations provided automatic enrollment or 15 or fewer investment options were more likely to indicate that investment advice has a major impact on contribution rates.

Those respondents who were more likely to indicate that investment advice had a major impact on diversification represented organizations that paid the entire cost of investment advice as a separately budgeted expense, whose primary reason for choosing to offer investment advice was either employee demand or that the employer was worried about

Table 10 Major Impact of Investment Program on Plan Participants (by Method of Investment Advice)

	In-Person Advice (n = 136)	Advice by Telephone (n = 125)	Online Advice (n = 116)
Asset allocation (other than diversification)	42%	40%	28%
Contribution rates	27%	23%	17%
Diversification	48%	43%	34%
Improve employee's appreciation of the plan	43%	38%	30%
Long-term view of investment horizon	46%	42%	31%

Source: Employer-Sponsored Investment Advice Survey Report

⁴Although there appear to be differences as a function of the type of investment advice program chosen, the sample size is not sufficiently large to allow breakouts along this category. Therefore, the results necessarily generalize those differences.

fiduciary obligations apart from section 404(c), or that had a majority of employees thought to be very off track to achieving their retirement income goals.

Respondents were more likely to indicate that investment advice had a major impact on improving employee’s appreciation of the plan if their organizations allowed participants to decide how employer contributions were invested, provided automatic enrollment or listed employee demand as the primary reason for choosing to offer investment advice.

Investment advice was more likely to have a major impact on long-term view of investment horizon, according to respondents whose organizations allowed participants to decide how employer contributions are invested, provided automatic enrollment, offered plans with 10 or fewer investment options, paid the entire cost of investment advice as a separately budgeted expense or whose primary reason for choosing to offer investment advice was that the employer was worried about fiduciary obligations apart from Section 404(c).

Impact of EGTRRA

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) provides that employer-provided “qualified retirement planning services” can be excludible from an employee’s gross income. When asked about the impact this has had on respondents’ businesses with respect to providing investment advice, two-thirds (66%) said it has had no effect. Nine percent of respondents indicated there had been an effect, while 25% indicated they were unsure of the effect. These data are depicted in Figure 23.

Managed Portfolios

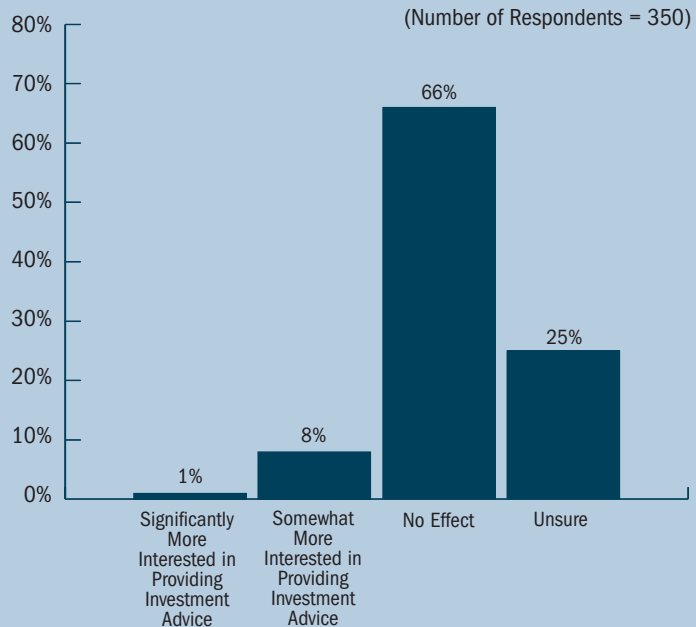
As shown in Figure 24, more than three-quarters (76%) of respondents’ organizations currently do not offer managed portfolios that give employees

access to a professional investment manager to, in effect, take over their retirement plan decisions for them.

Respondents who indicated their organizations do not offer managed portfolios were asked if their organizations would be willing to offer them *instead* of advice. Sixty-two percent of respondents were unsure, while one-third indicated their organizations would not be willing to do so, and 6% would be willing to do so (see Figure 25).

When respondents who indicated their organizations do not offer managed portfolios were asked if their organizations would be willing to offer managed portfolios *in addition* to advice, 64% of respondents were unsure, while 14% indicated they would be willing, and 22% indicated they would not be willing to offer both. These data are depicted in Figure 26.

Figure 23 Impact of EGTRRA



Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Investment Advice Not Currently Offered to Employees

Respondents who indicated their organizations do not currently offer any investment advice were asked several questions regarding interest in and impact of investment advice as well as reasons for not offering it. In addition, respondents were also asked about managed portfolios.

Interest in Providing Investment Advice

Figure 27 illustrates that 9% of the respondents indicated the top management in their organizations was very interested in providing investment advice to defined contribution plan participants. Fifty-six percent of respondents indicated their top management is somewhat interested; however, 35% indicated their organizations' top management was not at all interested.

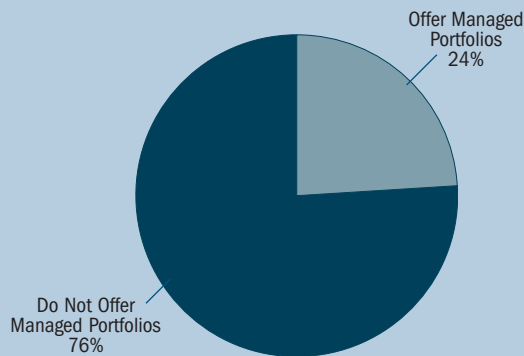
Respondents whose organizations do not offer defined benefit plans, do not outsource the administration of the defined contribution plan and do not offer an employer match indicated their top management tends to be slightly more inclined to express no interest in providing investment advice. Respondents whose organizations require a portion of the employer

contribution to be immediately invested in company stock are much less likely to express no interest in providing investment advice.

There is a strong direct relationship between the willingness of the organization to allow a third party to give advice regarding the company stock investment and the likelihood of top management being

Figure 24 Managed Portfolios

(Number of Respondents = 351)

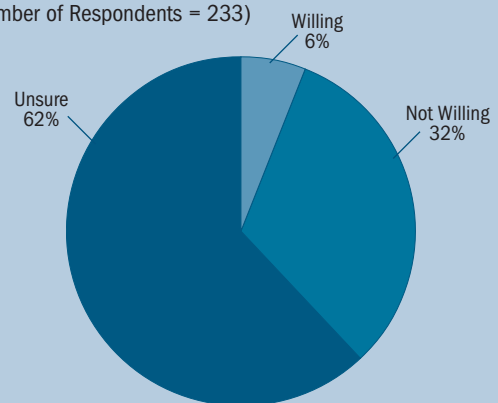


Note: Based on respondents whose organizations currently offer investment advice to employees. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 25 Willingness to Offer Managed Portfolios Instead of Advice

(Number of Respondents = 233)

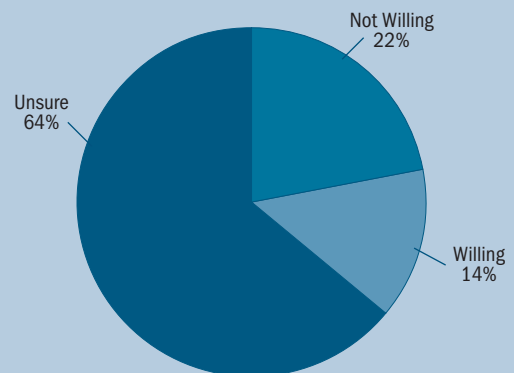


Note: Based on respondents whose organizations currently offer investment advice to employees and do not offer managed portfolios. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 26 Willingness to Offer Managed Portfolios in Addition to Advice

(Number of Respondents = 234)



Note: Based on respondents whose organizations currently offer investment advice to employees and do not offer managed portfolios. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

not at all interested in providing investment advice. Of those who are willing to allow third-party advice, only 15% indicate no interest in providing investment advice; however, of those who are not willing to allow a third party this latitude, 40% are not interested in providing investment advice.

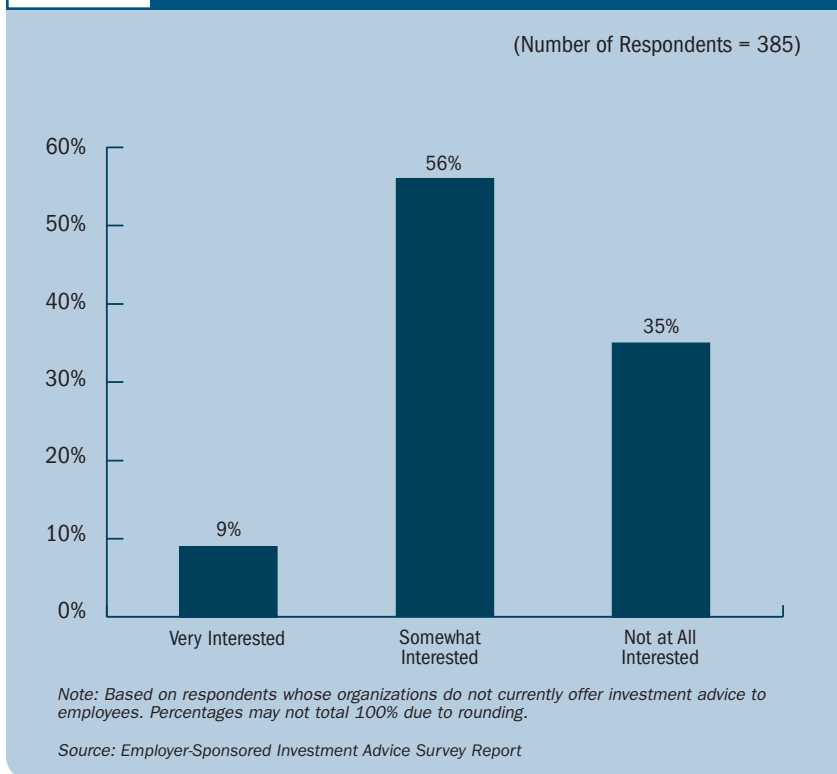
The type of company also appears to be related to top management's interest in providing investment advice. For example, publicly traded and not-for-profit organizations are less likely to have no interest, and private companies (41%) had more interest.

Current Status of Investment Advice

When asked about current status of their organizations providing investment advice to employees, 49% of the respondents indicated their organizations were in the initial research and consideration stage, 7% were in serious consideration, and 2% were currently implementing investment advice. However, 43% indicated that they were not interested. These data are depicted in Figure 28.

As shown in Table 11, only 36% of respondents in organizations with large staffs indicated their organizations were not interested in providing investment advice to employees, whereas 57% of the respondents at organizations with medium staff sizes and 64% of the respondents at organizations with small staff sizes indicated their organizations had no interest. More than one-half of the respondents at large organizations indicated their organizations are already in the initial research and consideration phase. It could be speculated that large organizations are more interested as they may have the resources to be able to provide this service as an employee benefit more easily than small or medium organizations.

Figure 27 Interest by Top Management to Provide Investment Advice



Methods of Investment Advice Under Consideration

As shown in Figure 29, respondents most frequently (62%) indicated online investment advice as the method of advice to which their organizations have given the most consideration. Individual access to a financial planner, whether in person (17%) or by telephone (16%), was less likely to be considered. Six percent of respondents indicated another method of investment advice was being considered.

Perceived Impact of Not Offering Investment Advice

A majority of respondents whose organizations do not currently offer investment advice indicated that not offering investment advice has had no impact on the ability to pass defined contribution nondiscrimination tests, ability to retain good employees, employee morale or employee performance. However,

when it comes to employee ability to prepare financially for retirement, respondents do believe that not offering investment advice to defined contribution plan participants has had some impact (41% indicated a major impact and 42% indicated a minor impact) (see Figure 30). Through employee attitude surveys and other metrics, HR professionals have the opportunity to educate management about the impact investment advice could have on retention, employee morale and employee performance.

Reasons to Consider Offering Investment Advice

Figure 31 illustrates that more than one-half of respondents believe a new law exempting employers from liability for advice and the restructuring of fiduciary liability would make their organizations more likely to seriously consider offering investment advice to their defined contribution plan participants. A majority of respondents indicated employee demand and removal of employer oversight duty would make their organizations consider investment advice.

Associations between certain

plans and employer-related characteristics and the likelihood of considering offering investment advice were examined. Respondents who indicated their organizations did not provide a defined benefit plan were more likely to report considerations of offering investment advice due to employee demand.

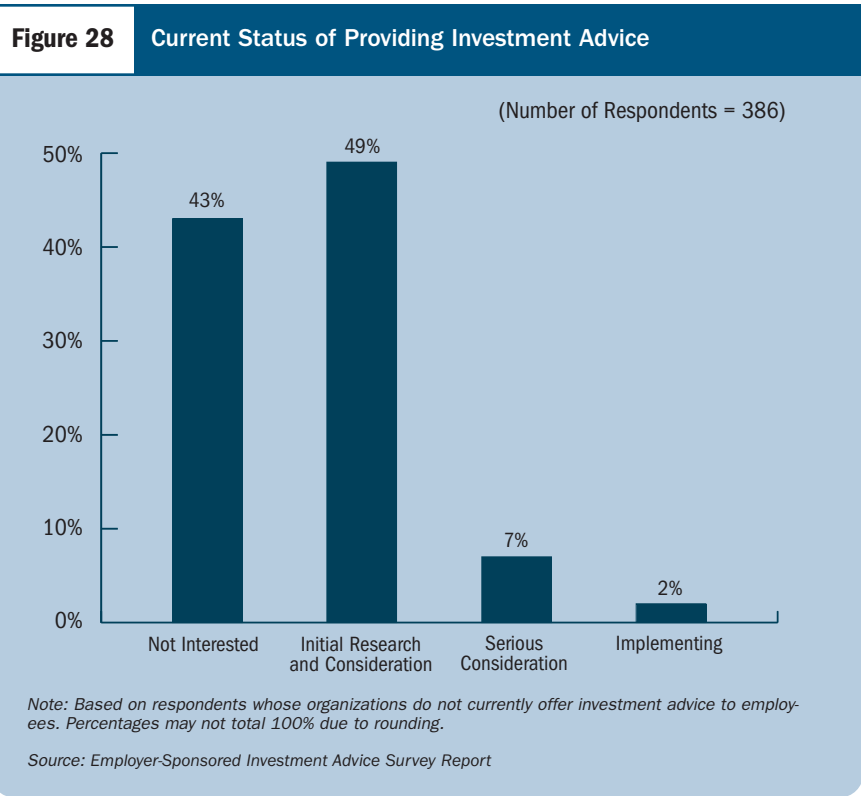


Table 11 Organization's Current Status of Investment Advice Program (by Organization Staff Size)

	Small (1-99 Employees) (n = 11)	Medium (100-499 Employees) (n = 49)	Large (500 or More Employees) (n = 244)
Not interested	64%	57%	36%
Initial research and consideration	27%	39%	54%
Serious consideration	9%	4%	8%
Implementing	0%	0%	2%

Note: Percentages are column percentages.

Source: Employer-Sponsored Investment Advice Survey Report

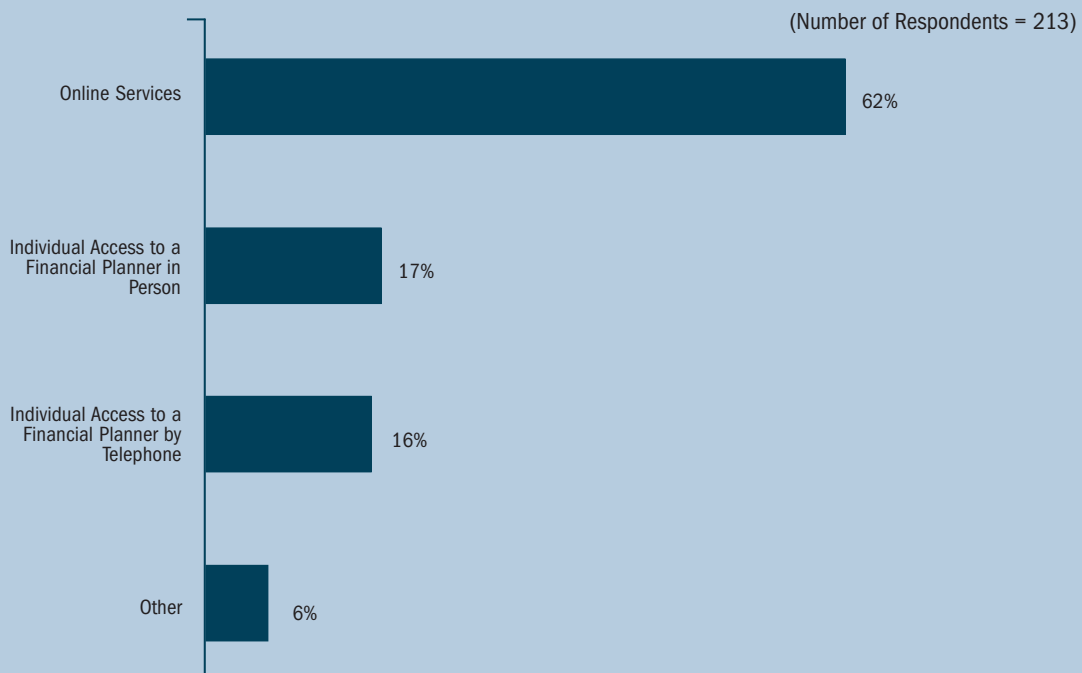
If there was a new law exempting employers from liability for advice provided to participants by the same institution that administers the retirement plan, the following categories of respondents were more likely to indicate consideration of offering investment advice: those who considered a majority of their organizations' employees to be very off track to achieving their retirement income goals; those whose organizations did not have a defined benefit plan; those whose organizations did not require any portion of the employer contribution to be invested in company stock; those whose organizations would be willing to allow a third party to give advice regarding the company stock investment; and those whose organizations were most likely to adopt individual access to a financial planner by telephone.

Respondents who were more likely to consider offering investment advice if there was a new law

exempting employers from liability for qualified independent advice fit the following categories: they considered a majority of their organizations' employees to be very off track to achieving their retirement income goals; their organizations did not offer a defined benefit plan, did not require any portion of the employer contribution to be invested in company stock, would be willing to allow a third party to give advice regarding the company stock investment, offered 10 or fewer investment choices and were most likely to adopt individual access to a financial planner by telephone.

If there was a removal of employer oversight duty, respondents were more likely to consider offering investment advice if their organizations did not have a defined benefit plan, did not require any portion of the employer contribution to be invested in company stock and offered 10 or fewer investment choices.

Figure 29 Methods of Investment Advice Given the Most Consideration



Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Respondents who indicated their organizations either did not have a defined benefit plan, required automatic enrollment or offered 10 or fewer investment choices were more likely to indicate that restructuring of fiduciary liability so that it rests entirely with provider of investment advice would make them more likely to seriously consider offering investment advice to the defined contribution plan participants, compared with respondents whose organizations either had a defined benefit plan, did not require automatic enrollment or provided more than 10 fund choices.

Impact of EGTRRA

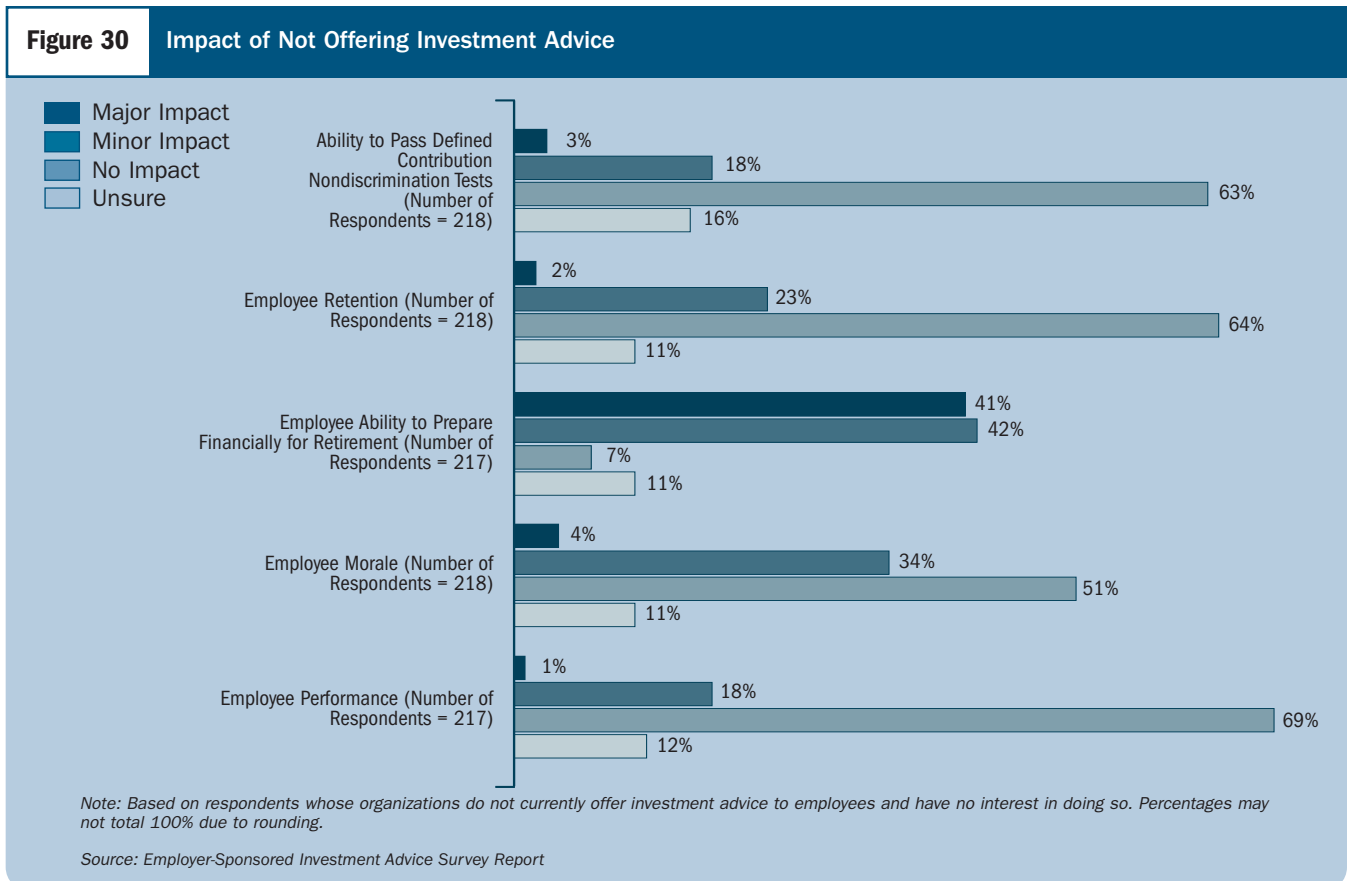
More than two-thirds (68%) of respondents whose organizations do not offer investment advice stated EGTRRA has had no effect on providing investment advice. Seventeen percent of respondents indicated

some effect, and 15% were unsure of the effect (see Figure 32). This finding is similar to an earlier finding regarding respondents whose organizations do offer investment advice.

Achieving Retirement Income Goals

Also similar to the respondents whose organizations offer investment advice, 52% of respondents whose organizations do not offer investment advice indicated a majority of employees were on track to achieving their retirement income goals (3% indicated very on track, and 49% indicated somewhat on track). Thirty-six percent of respondents indicated somewhat off track and 12% indicated employees were very off track, as illustrated in Figure 33.

When asked which investment method respondents thought would be implemented in their organizations first, 57% indicated online services. One-fifth of



respondents (20%) indicated individual access to a financial planner by telephone, and 17% indicated individual access to a financial planner in person. Six percent of respondents indicated another type of investment method would first be implemented in their organizations. These data are depicted in Figure 34.

Figure 35 illustrates that 47% of respondents indicated that defined contribution plan participants would be financially on track to achieving their retirement income goals if their organizations began providing investment advice within five years or less. However, over one-third (37%) of respondents indicated they are unable to estimate a time frame.

Reasons for Not Offering Investment Advice

Figure 36 illustrates that the primary reason for not offering online investment advice is potential fiduciary liability, indicated by 66% of respondents. The

following were all indicated most frequently as secondary reasons: only a small percentage of participants will use it, takes a high level of discipline to go through entire online session and too costly.

As noted in Figure 37, survey respondents listed fiduciary liability (66%) and high costs (44%) as primary reasons for not offering investment advice via financial planners. Maintaining consistency and quality of advice was primarily indicated as a secondary reason for not offering investment advice via financial planners. The factors not reported as reasons for not offering investment advice via financial planners include inherent conflicts of interest, most participants having too few funds, no perceived need, not economical, participants having too low of a balance and ineffectiveness of tools.

Figure 31 Reasons to Consider Offering Investment Advice

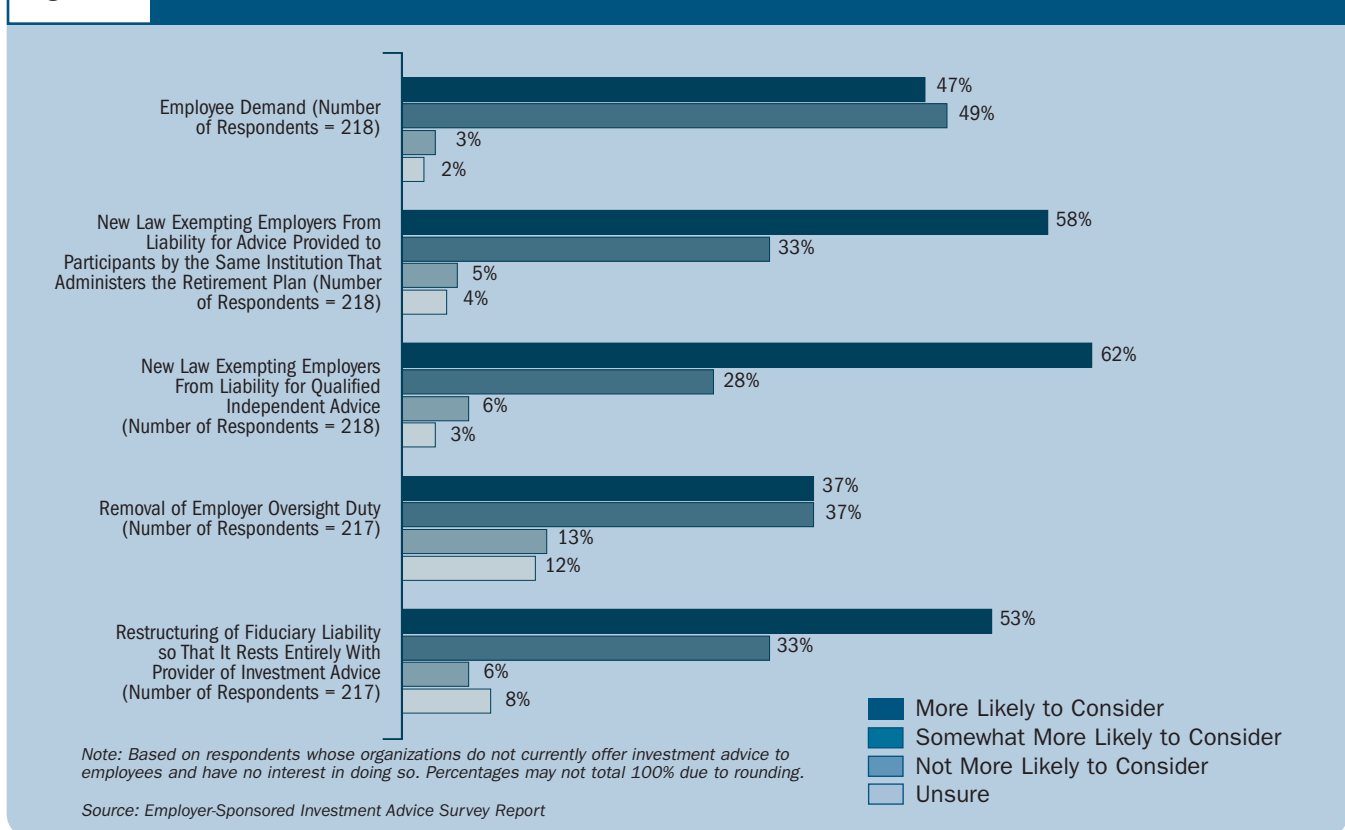
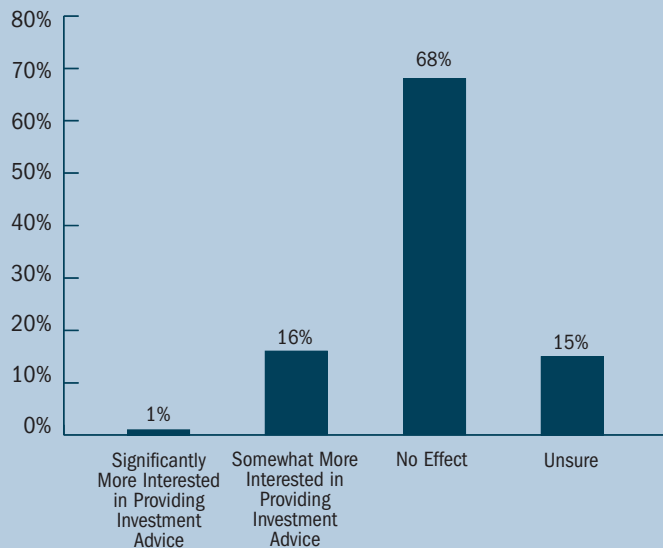


Figure 32 Impact of EGTRAA

(Number of Respondents = 217)

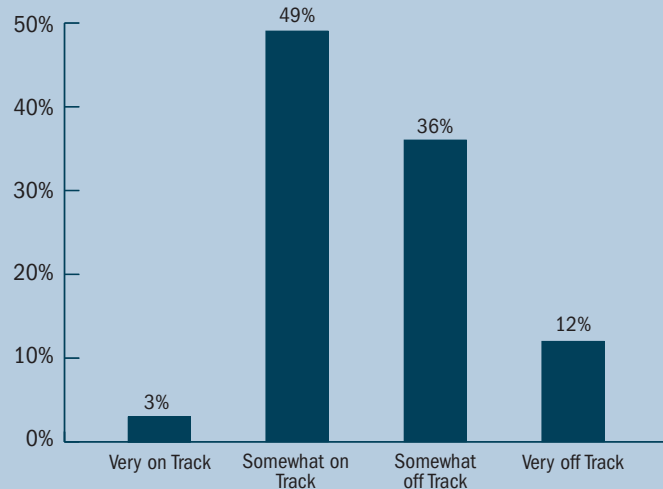


Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 33 Achieving Retirement Income Goals

(Number of Respondents = 215)



Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Managed Portfolios

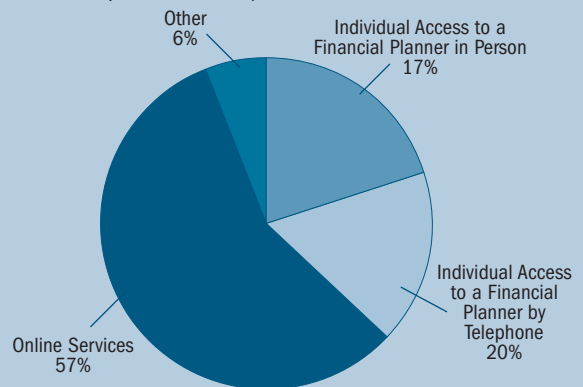
A large majority (80%) of those respondents whose organizations do not offer investment advice do not currently offer managed portfolios that give employees access to a professional investment manager to take over their retirement plan investment decisions for them. These data are depicted in Figure 38.

As shown in Figure 39, two-thirds (66%) of respondents indicated they were unsure whether their organizations would be willing to offer managed portfolios as opposed to advice. Seventeen percent of respondents indicated their organizations would be willing, while another 17% indicated their organizations would not be willing to offer managed portfolios instead of investment advice.

Similar to the uncertainty regarding offering managed portfolios in lieu of advice, 68% of respondents whose organizations do not offer investment advice indicated they were not sure if their organizations would be willing to offer managed portfolios in addition to advice. Nineteen percent of respondents indicated their organizations would be willing to do so, while 13% indicated their organizations would not (see Figure 40).

Figure 34 First Method to Be Implemented if Adding Investment Advice

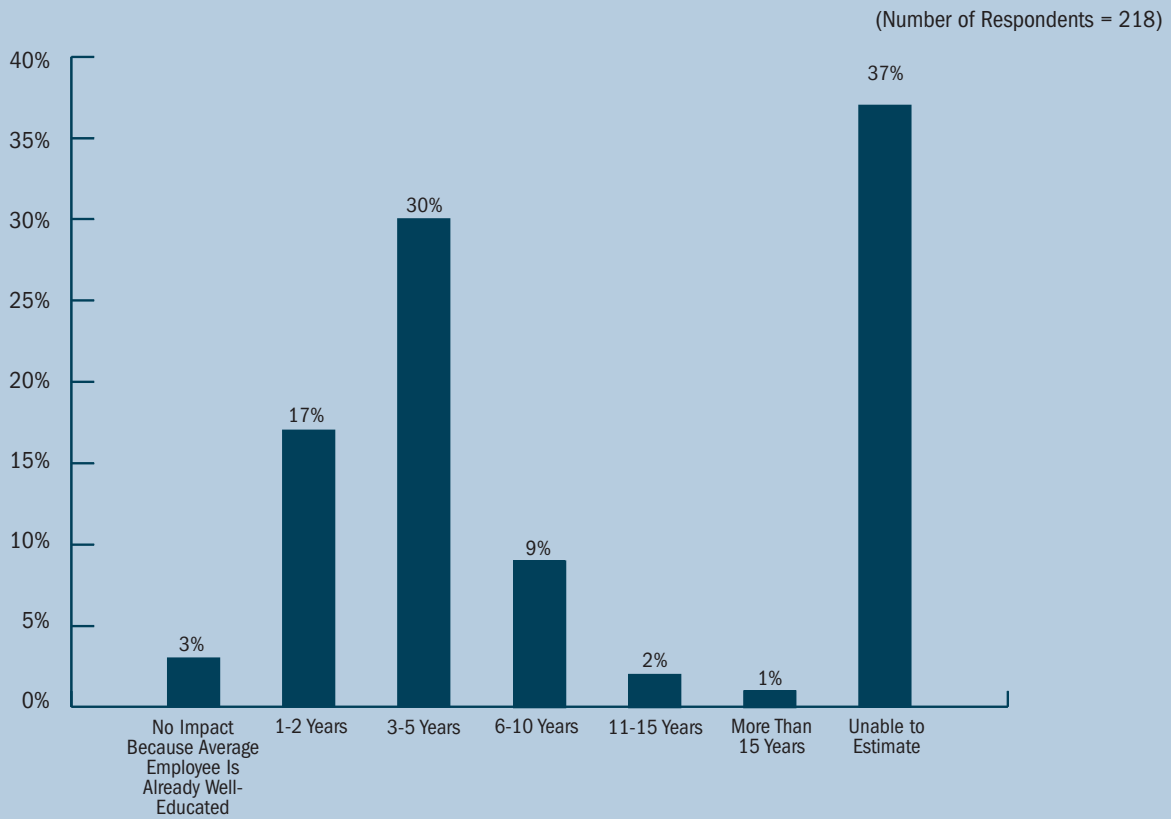
(Number of Respondents = 217)



Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

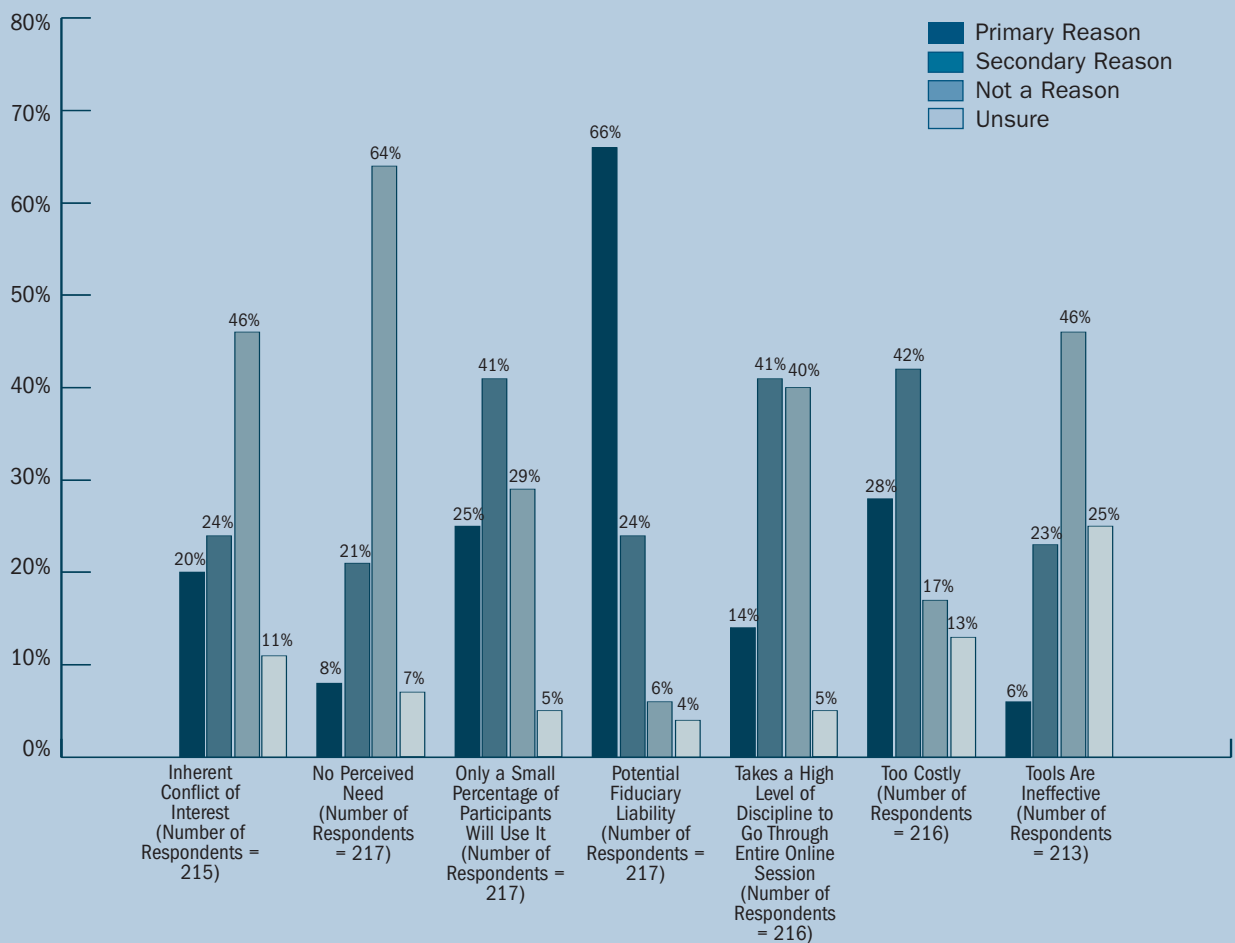
Figure 35 Time to Get Financially on Track if Investment Advice Is Provided



Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

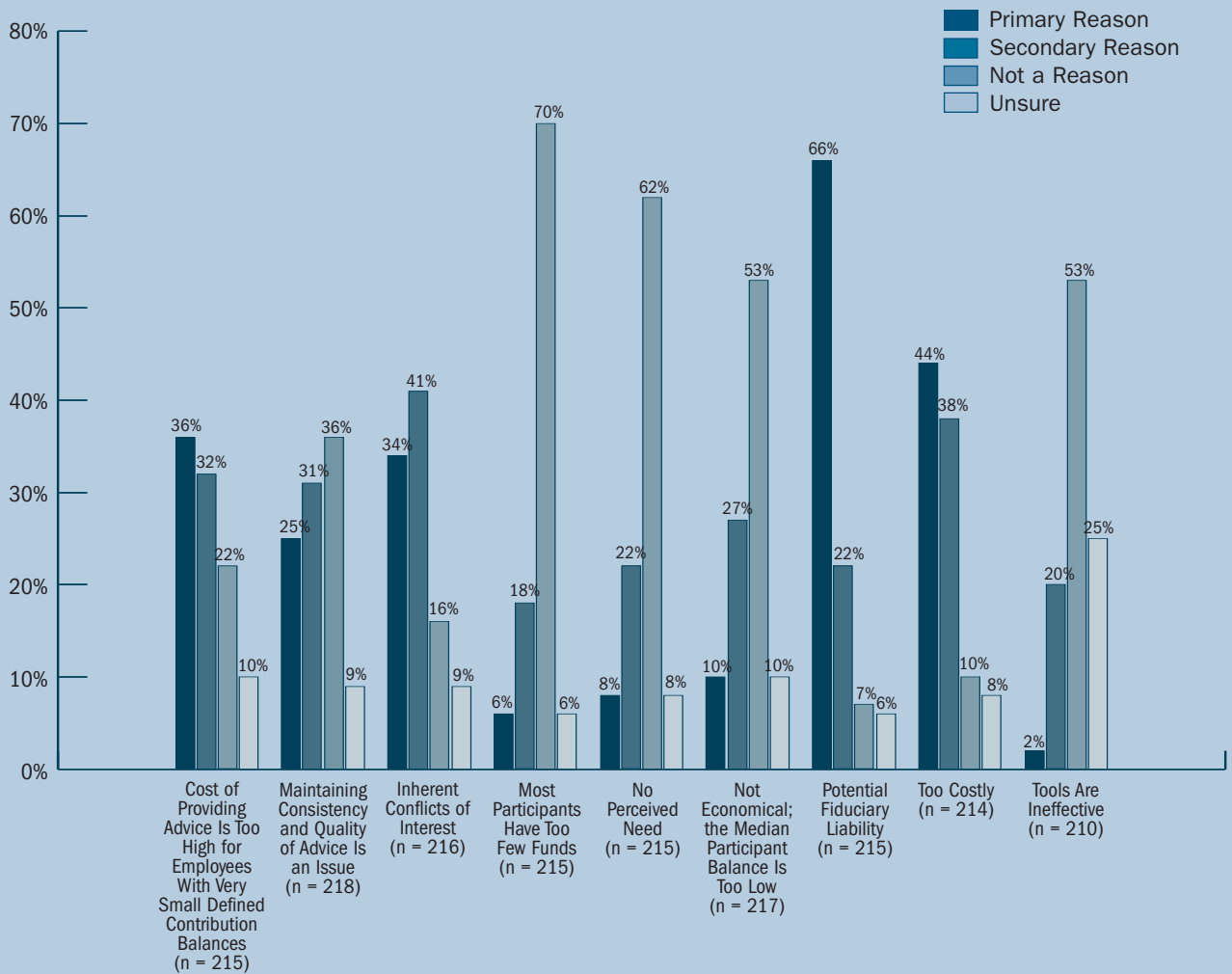
Figure 36 Reasons for Not Offering Online Investment Advice



Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 37 Reasons for Not Offering Investment Advice Through Financial Planners

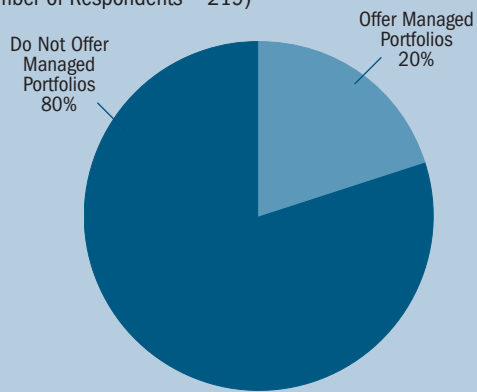


Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 38 Managed Portfolios

(Number of Respondents = 219)

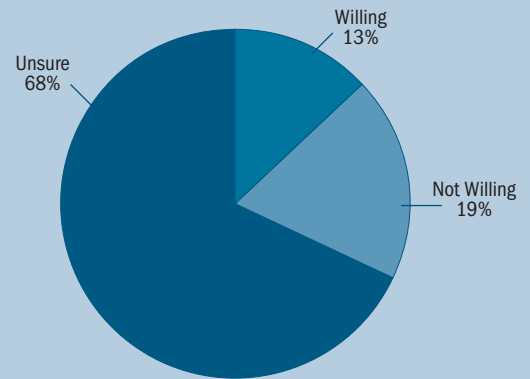


Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 40 Willingness to Offer Managed Portfolios in Addition to Advice

(Number of Respondents = 175)

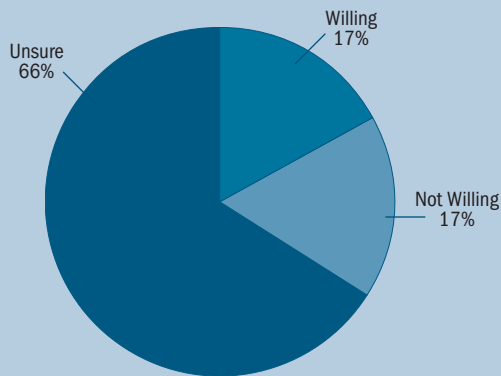


Note: Based on respondents whose organizations do not currently offer investment advice to employees and have no interest in doing so. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Figure 39 Willingness to Offer Managed Portfolios Instead of Advice

(Number of Respondents = 153)



Note: Based on respondents whose organizations do not currently offer investment advice to employees, have no interest in doing so and offer managed portfolios. Percentages may not total 100% due to rounding.

Source: Employer-Sponsored Investment Advice Survey Report

Conclusions

Approximately one-half of the respondents to the survey indicate that their defined contribution plan participants have access to investment advice, and a significant percentage believe that the programs have had a major impact on asset allocation, diversification, improving employees' appreciation of the plan and long-term view of investment horizon. At least one-half of those that do not currently provide investment advice to their participants are at least in the initial stages of considering it.

Why don't more employers with defined contribution plans offer investment advice programs? One reason appears to be that they do not believe it impacts their plan or their employees' perceptions of the employer. However, more than four out of five respondents believe it has an impact on their employees' ability to prepare for retirement, and this is likely to have long-term HR implications if employees have insufficient retirement income to feasibly leave the workforce at traditional retirement ages.

While the cost/benefit trade-off from an HR perspective may start to change over time for some organizations, especially if employees demand increases, it appears the more immediate problem focuses on perceived liability exposures and potential cost. While the cost problems are perceived to be a function of the type of investment advice offered, for many respondents there appears to be

no way to completely circumvent the legal constraints. Indeed, at least nine out of 10 respondents currently without an investment advice program would be more likely or somewhat more likely to seriously consider one if either of the following two legislative modifications would take place:

1. A new law exempting employers from liability for advice provided to participants by the same institution that administers the retirement plan.
2. A new law exempting employers from liability for qualified independent advice.

Human resource professionals are in a position to help educate their organizations' decision makers regarding investment advice. HR professionals have access to data provided by the retirement plan providers as well as employee satisfaction data that can help determine whether their employees may need investment advice and whether the advice could act as a retention and/or recruiting tool. Human resource professionals also have the unique opportunity to help their organizations develop policies on this issue and work with policy-makers to match policy with employers' and participants' needs.

Glossary⁵

Career average pay (CAP) pension plan: A type of defined benefit pension plan that bases retirement benefits on the average pay during an employee's career. Career average pay may also be defined as career average salary (CAS) or career average earnings (CAE).

Cash balance pension plan: A defined benefit (DB) pension plan that blends the features of a traditional DB plan with the features of a defined contribution plan. In a cash balance plan, hypothetical individual accounts periodically receive a contribution credit and an interest credit. Contribution credits usually are a percentage of pay and may vary with age and/or service. Cash balance plans are also referred to as hybrid pension plans

Defined benefit pension plan: Defined by the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code (IRC) as any retirement plan that provides for future income and is not an individual account plan. It is a pension plan that specifies the benefits or the methods of determining the benefits but not the level or rate of contribution. Contributions are determined actuarially on the basis of the benefits expected to become payable.

Defined contribution pension plan: Defined by the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code (IRC) as a plan that provides for future income from an individual account for each participant with benefits based solely on 1) the amount contributed to the participant's account; plus 2) any income, expenses, gains, losses and forfeitures of accounts of other participants that may be allocated to the participant's account. The benefit amount to be received by the participant at retirement is unknown until retirement.

401(k) plan: A defined contribution benefit plan established by an employer that enables employees to make pretax contributions through salary reduction agreements within the format of a cash or deferred arrangement (CODA).

457 plan: A tax-deferred retirement plan available to government employees and tax-exempt organizations. There are similarities between 401(k), 403(b) and 457 plans.

403(b) plan: A tax-sheltered annuity plan for not-for-profit organizations. There are similarities between 401(k) and 403(b) plans.

⁵The definitions in this glossary were adapted from *The Glossary of Compensation and Benefits Terms*, 2003-2004 Edition, Copyright 2004, WorldatWork.

Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA): Enacted on June 7, 2001, it includes numerous mandatory and optional modifications to the tax-qualified retirement plan rules. EGTRRA is designed to increase retirement savings for all Americans by making retirement plans more beneficial, portable and simpler to administer. Barring future extensions, EGTRRA sunset provisions will return the Code to pre-EGTRRA status in 2011.

Employee Retirement Income Security Act (ERISA): The 1974 federal law regulating private employer pension and welfare programs. Provisions cover eligibility for participation, reporting and disclosure requirements, fiduciary standards for the financial management of retirement funds, tax incentives for funding pension plans rather than maintaining them on a pay-as-you-go basis, and establishment of the Pension Benefit Guaranty Corporation (PBGC). The Department of Labor administers ERISA.

Flat dollar benefit pension plan: A defined benefit registered retirement plan that specifies a flat dollar amount of pension to be credited for each year of service. The flat dollar amount may vary depending on pay grade.

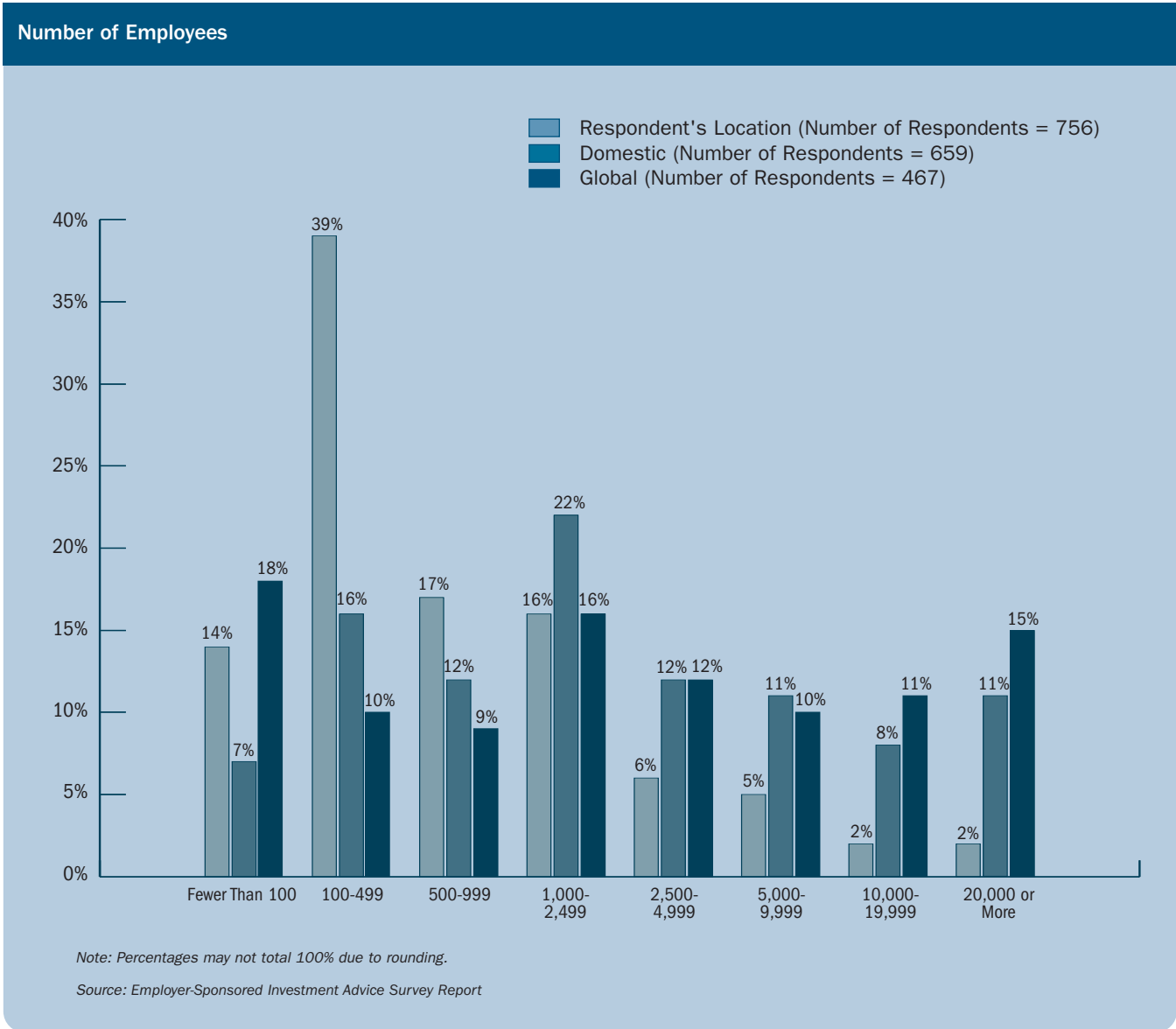
Money purchase plan: A type of defined contribution pension plan in which the employer contribution to the employee's account is based on a formula, regardless of profits.

Plan sponsor: The entity responsible for establishing and maintaining the plan.

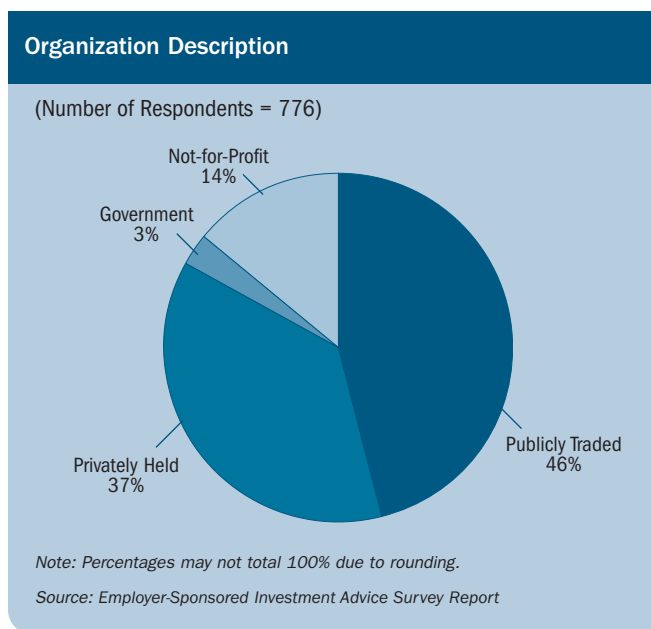
Profit sharing plan: A plan providing for employee participation in the profits of an organization. The plan normally includes a predetermined and defined formula for allocating profit shares among participants and for distributing funds accumulated under the plan. However, some plans are discretionary. Funds may be distributed in cash, deferred as a qualified retirement program or distributed in a cash/deferred combination.

SIMPLE plan (savings incentive match plan for employees): A type of qualified retirement plan [either IRA or 401(k)] designated for employers with up to 100 employees. No top-heavy or nondiscrimination tests must be passed, but fixed or matching company contributions must be made.

Demographics



Industry	
Manufacturing	24%
Finance and Insurance	16%
Health Care and Social Assistance	11%
Professional, Scientific and Technical Services	10%
Information	8%
Other Services (Except Public Administration)	6%
Retail Trade	4%
Utilities	4%
Transportation and Warehousing	3%
Wholesale Trade	3%
Accommodations and Food Services	2%
Construction	2%
Mining	2%
Public Administration	2%
Arts, Entertainment and Recreation	1%
Education Services	1%
Management of Companies and Enterprises	1%
Real Estate and Rental and Leasing	1%
Agriculture, Forestry, Fishing and Hunting	>1%
Administrative and Support and Waste Management and Remediation Services	0%



Sample Questionnaire

Employer-Sponsored Investment Advice for Defined Contribution Retirement Plan Participants

A jointly conducted survey by the Employee Benefits Research Institute (EBRI), the Society for Human Resource Management (SHRM) and WorldatWork.

Thank you for your interest. This survey has been designed to take approximately 10-15 minutes. Depending on your organization, you will only have to answer about half of the questions. All answers will be kept strictly confidential and reported only in aggregate. Thank you in advance for your participation.

For the purposes of this survey, “investment advice” refers to providing customized financial planning and investment counseling to meet the specific goals and needs of an individual employee. “Investment advice” is not the same as employer-sponsored “investment education” which generally consists of broad investment concepts discussions to groups of employees through literature, classroom or electronic dissemination.

The questions in this survey assume (either correctly or incorrectly) that organizations treat salaried and hourly employees the same with respect to the issues presented. If your organization does not treat these employee groups consistently, please answer questions on behalf of your salaried employees.

If your organization sponsors multiple types of defined contributions, including a 401(k), please provide information about your 401(k). If your organization does not have a 401(k), please provide information about your largest money purchase, pure profit sharing (i.e., one without a 401(k) feature), 403(b) or 457 plan.

1. Please indicate the type of defined contribution for which you are providing answers to this survey (check only one, the largest type of defined contribution your organization offers).

- 401(k) plan
- 403(b) plan
- 457 plan
- Money purchase plan
- Pure profit sharing plan (i.e., one without a 401(k) feature)
- Don't have any of the above (thank you for participating, please skip to the end and discontinue the survey)

2. Does your organization also provide a defined benefit plan? (Check all that apply)

- Yes, career average (a defined benefit plan that is based on employee's compensation for most, if not all, of the years with the employer)
 - Yes, cash balance (a defined benefit plan that defines the employee's promised benefit in terms of an account balance, it typically guarantees both an annual pay credit and interest credit)
 - Yes, final average (a defined benefit plan that is based on employee's compensation for the last few years with the employer)
 - Yes, flat benefit (a defined benefit plan that is not based on the employee's compensation)
 - Yes, other (please describe)
-

- No (if no, skip the next two questions)

3. Which plan does your management believe will be the primary source of employer-sponsored retirement benefits for the majority of retirement plan participants?

- Defined benefit plan(s)
- Defined contribution plan(s) (i.e., 401(k), 403(b), 457, money purchase, pure profit sharing)
- Both plans will be of about equal value

4. Which plan do you believe the majority of retirement plan participants consider to be the primary source of employer-sponsored retirement benefits for themselves?

- Defined benefit plan(s)
- Defined contribution plan(s) (i.e., 401(k), 403(b), 457, money purchase, pure profit sharing)
- Both plans will be of about equal value

5. Does your company outsource the administration of its defined contribution plan(s)?

- Yes
- No
- Some but not all

6. Does your company currently offer an employer match to its defined contribution plan?

- Yes
- No (please skip next question)

7. Is any portion of any employer contributions to the defined contribution plan required to be immediately invested in company stock?

- Yes
- No (please skip next two questions)
- Not applicable; organization does not have stock (please skip next two questions)

8. Are plan participants allowed to immediately diversify out of the company stock, either in whole or in part?

- Yes
- No

9. Would your organization be willing to allow a third party to give advice regarding the company stock investment?

- Yes
- No
- Unsure

10. Is your defined contribution currently using a Safe Harbor design to pass the nondiscrimination tests? (A Safe Harbor design allows a plan sponsor to circumvent the need for some of the annual nondiscrimination tests by designing the plan in a manner that meets specified standards for matching or nonelective contributions.)

- Yes
- No
- Don't know

11. Is your defined contribution a SIMPLE 401(k) plan? (A SIMPLE plan is one that is available for sponsors with fewer than 100 employees and provides reduced discrimination testing and administrative burden as a trade-off for somewhat less flexibility in plan design.)

- Yes No Don't know

12. Please indicate whether your organization uses the Internet, an intranet, both or neither to administer or communicate the following types of information:

	Internet	Intranet	Both	Neither
Distribution of benefits materials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flex plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Health benefits elections	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

13. Does your defined contribution plan provide that eligible employees are automatically enrolled unless/until they opt out?

- Yes No

14. Approximately how many investment fund choices does your defined contribution provide to participants?

- Fewer than five
 5-10
 11-15
 More than 15

15. Do your plan participants have access to any investment advice from your organization, your retirement plan provider or your investment advisory service provider (whether or not they use it)?

- Yes (please continue to question 21)
 No (please skip to question 36)

Questions 16-29 are only for organizations that are currently offering some investment advice to employees. If your organization is currently not offering any investment advice to employees, please skip to question 30 at this time.

16. Through which of the following may your defined contribution plan participants access employer-sponsored investment advice, regardless of whether or not they actually use it? (check all that apply)

- Financial planner in person
 Financial planner by telephone
 Internet, intranet or online services
 Other

17. Some employers only provide certain portions of their plan's participant population with access to investment advice (e.g., only participants at or near retirement age, executives). Does your organization engage in this type of participant segmentation?

- Yes
 No (please skip next two questions)

18. If you do segment participants, how do you segment them? (e.g., participants at or near retirement, executives, etc.)

19. If you do segment participants, approximately what percentage of all of your plan participants are able to access each investment advice service, regardless of whether or not they are using it?

- _____ % Individual access to a financial planner in person
_____ % Individual access to a financial planner by telephone
_____ % Internet, intranet or online services
_____ % Other
_____ % Don't know

20. What percentage of your defined contribution plan participants who have access to the following types of employer-sponsored investment advice have actually used it during the past 12 months?

- In-person advice
 - Advice by telephone
 - Online advice
- < 10%
 11-25%
 26-50%
 51-75%
 >75%
 Not applicable/don't offer
 Don't know

21. Considering whether your employees are on track to achieving their retirement income goals, would you say a majority are...

- Very on track
 Somewhat on track
 Somewhat off track
 Very off track

22. How is the cost for investment advice distributed by your defined contribution?

- Participants pay the entire cost which is allocated to their plan accounts
 Cost is absorbed by retirement service provider
 Cost is shared between the employer and the participants

- Employees pay the entire cost on a voluntary basis via payroll deduction
 Employer pays the entire cost as a separately budgeted expense
 Other (please describe)
-

23. What is the primary reason your organization chose to provide investment advice to employees?

- Came bundled as part of package provided by our service provider
 Employee demand
 Employer felt it was necessary to comply with ERISA Section 404(c)
 Employer was worried about fiduciary exposure apart from ERISA Section 404(c) if advice was not provided
 Other (please describe)
-

24. At which of the following milestones would you say your organization's defined contribution plan participants are in greatest need of investment advice? (check all that apply)

- Birth of child/children
 Child/children approaching college age
 Disability
 Enrollment
 Financial market volatility
 Marriage
 Nearing retirement
 Retirement date
 Termination
 Other (please describe)
-

25. Would you say that your investment advice program has had a major impact, minor impact or no impact at all on the majority of defined contribution plan participants using the program with respect to:

Major Impact	Minor Impact	No Impact at All	
Asset allocation (other than diversification)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Contribution rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Diversification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve employee's appreciation of the plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Long-term view of investment horizon	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

26. EGTRRA (The Economic Growth and Tax Relief Reconciliation Act of 2001) provides that employer-provided "qualified retirement planning services" can be excludible from an employee's gross income. What impact has this had on your business with respect to providing investment advice?

- Significantly more interested in providing investment advice
- Somewhat more interested
- No effect
- Unsure

27. Does your organization currently offer managed portfolios that give employees access to a professional investment manager to, in effect, take over their retirement plan decisions for them?

- Yes (skip next question)
- No

28. Would your organization be willing to offer managed portfolios as opposed to advice?

- Yes
- No
- Unsure

29. Would your organization be willing to offer managed portfolios in addition to advice?

- Yes
- No
- Unsure

If your organization provides any type of investment advice, this is the end of the survey. Please scroll to questions 44-47, complete the demographic questions and submit.

If your organization is not currently offering any investment advice, please complete questions 30-43.

30. How would you rate the interest by top management in your organization to provide investment advice to defined contribution plan participants?

- Very interested
- Somewhat interested
- Not at all interested

31. Which of the following best describes your organization's current status with regard to providing investment advice to employees?

- Not interested (please skip to end)
- Initial research and consideration
- Serious consideration
- Implementing

32. Which one of the following types of investment advice has your organization given the most consideration to?

- Individual access to a financial planner in person
 - Individual access to a financial planner by telephone
 - Internet, intranet or online services
 - Other (please describe)
-

33. Do you think that not offering investment advice to your defined contribution plan participants has had a major impact, a minor impact or no impact at all on:

	Major Impact	Minor Impact	No Impact	Unsure
Ability to pass defined contribution nondiscrimination tests	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ability to retain good employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Employee ability to prepare financially for retirement

Employee morale

Employee performance

34. Would the following make your organization more likely, somewhat more likely or not more likely to seriously consider offering investment advice to your defined contribution plan participants.

- Employee demand
- New law exempting employers from liability for advice provided to participants by the same institution that administers the retirement plan
- New law exempting employers from liability for qualified, independent advice
- Removal of employer oversight duty
- Restructuring of fiduciary liability so that it rests entirely with provider of investment advice

- More likely
 Somewhat more likely
 Not more likely
 Unsure

35. EGTRRA (The Economic Growth and Tax Relief Reconciliation Act of 2001) provides that employer-provided “qualified retirement planning services” can be excludible from an employee’s gross income. What impact has this had on your business with respect to providing investment advice?

- Significantly more interested in providing investment advice
 Somewhat more interested
 No effect
 Unsure

36. Considering whether your employees are on track to achieving their retirement income goals, would you say a majority are...

- Very on track
 Somewhat on track
 Somewhat off track

- Very off track

37. If your business did add investment advice as an employee benefit, which of the following methods do you think would be implemented first?

- Individual access to a financial planner in person
 Individual access to a financial planner by telephone
 Internet, intranet or online services
 Other (please describe)
-

38. If your organization began to provide investment advice immediately, how long would it take for your average defined contribution plan participant to be financially on track to achieving his or her retirement income goals?

- It would not have an impact because our average employee is already well-educated
 1-2 years
 3-5 years
 6-10 years
 11-15 years
 More than 15 years
 Unable to estimate

39. The following is a list of reasons some employers give for not offering online investment advice to their employees. Please indicate for each whether it is a primary reason, a secondary reason or not a reason why your business does not offer investment advice?

- Inherent conflicts of interest
 - No perceived need
 - Only a small percentage of participants will use it
 - Potential fiduciary liability
 - Takes a high level of discipline to go through entire online session
 - Too costly
 - Tools are ineffective
- Primary reason
 Secondary reason
 Not a reason
 Unsure

40. The following is a list of reasons some employers give for NOT offering investment advice via financial planners to their employees. Please indicate for each whether it is a primary reason, a secondary reason or not a reason why your organization does not offer investment advice?

- Cost of providing advice is too high for employees with very small defined contribution balances
 - Inherent conflicts of interest
 - Maintaining consistency and quality of advice is an issue
 - Most participants have too few funds
 - No perceived need
 - Not economical, the median participant balance is too low
 - Potential fiduciary liability
 - Too costly
 - Tools are ineffective
- Primary reason
 Secondary reason
 Not a reason
 Unsure

41. Does your organization currently offer managed portfolios that give employees access to a professional investment manager to, in effect, take over their retirement plan investment decisions for them?

- Yes (skip next question) No

42. Would your organization be willing to offer managed portfolios as opposed to advice?

- Yes No Unsure

43. Would your organization be willing to offer managed portfolios in addition to advice?

- Yes No Unsure

Demographics

1. Please indicate the number of employees your organization employs at...

Your location

- Fewer than 100
 100 - 499
 500 - 999
 1,000 - 2,499
 2,500 - 4,999
 5,000 - 9,999
 10,000 - 19,999
 20,000 or more

Domestic

- Fewer than 100
 100 - 499
 500 - 999
 1,000 - 2,499
 2,500 - 4,999
 5,000 - 9,999
 10,000 - 19,999
 20,000 or more

Global

- Fewer than 100
 100 - 499
 500 - 999
 1,000 - 2,499
 2,500 - 4,999
 5,000 - 9,999
 10,000 - 19,999
 20,000 or more

2. Please indicate the U.S. state of your location.

- Alabama
 Alaska
 Arizona
 Arkansas
 California
 Colorado
 Connecticut
 Delaware
 District of Columbia

- Florida
- Georgia
- Hawaii
- Idaho
- Illinois
- Indiana
- Iowa
- Kansas
- Kentucky
- Louisiana
- Maine
- Maryland
- Massachusetts
- Michigan
- Minnesota
- Mississippi
- Missouri
- Montana
- Nebraska
- Nevada
- New Hampshire
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- South Carolina
- South Dakota
- Tennessee
- Texas
- Utah
- Vermont
- Virginia
- Washington
- West Virginia
- Wisconsin
- Wyoming

3. Which of the following best describes your organization's industry? (Please check only one)

- Agriculture, forestry, fishing and hunting
- Mining
- Utilities
- Construction
- Manufacturing
- Wholesale trade
- Retail trade
- Transportation and warehousing
- Information
- Finance and insurance
- Real estate and rental and leasing
- Professional, scientific and technical services
- Management of companies and enterprises
- Administrative and support and waste management and remediation services
- Educational services
- Health care and social assistance
- Arts, entertainment and recreation
- Accommodations and food services
- Other services (except public administration)
- Public administration
- Other (please specify)

4. Which of the following best describes your organization?

- Publicly traded
- Privately held
- Government
- Not-for-profit

Thank you for participating in this joint EBRI, SHRM, WorldatWork survey. Results will be sent to your e-mail address in the near future.

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