Employee Trust is Essential in 401ks and 403bs… But Sometimes Missing

By Dennis Ackley

Successful relationships – personal, customer, and employment – are built on trust. So are successful 401ks and 403bs.

In organizations, trust drives employee engagement, commitment, and profits. According to Watson Wyatt, where employees trust leaders, shareholder returns are 42% higher than where distrust abounds.

In the retail world, customers expect sales pitches that ignore or downplay disadvantages. Although dishonesty isn't tolerated, customers know they're "being sold." *Caveat emptor.*

Expectations are different in the workplace. Employees expect clear, complete, and honest communication. When they don't get it, trust weakens and commitment suffers…and so may profits.

Without trust, even the greatest plan designs will fail to get as many employees as possible to take full advantage of the plans.

Trust matters

Employees who don't trust 401ks, 403bs, or their employer aren't likely to take full advantage of the plan, even with automatic enrollment.

Unfortunately, the retail approach to selling is sometimes used in 401ks and 403bs.

By all means, communicate your 401k or 403b aggressively. But don't sell it using slick tactics and uniquely defined words. Be straightforward. Use clarity to build trust and create understanding.

Employees deserve courteous and efficient treatment when they use their retirement plan and other benefits. Except for that, don't treat them like retail customers. Your employees depend on your organization for their livelihood. Your organization depends on them for their productively and commitment. Treat them as valuable contributors, not retail customers.

When retail and workplace worlds collide

In the retail mutual fund industry, the communication/education function has its roots (and sometimes its offices) in sales and marketing departments.

Naturally, these communicators have a proclivity toward selling, albeit within strict regulatory constraints. Their goal is to acquire customers and their money. That's fine. But sometimes they use retail words and concepts in the workplace. These communicators are not trying to mislead employees. They're just doing what's been done for years in the retail world.

The Guaranteed Investment Contract fiasco involving the Executive Life Insurance Company in the 1990s provides an example. The insurer was financially unable to pay all the money that participants in employer-sponsored plans had contributed to its GICs. Because of the guarantee employees expected, many employers felt compelled to pay to make employees whole.

In the retail world's vernacular, "guaranteed" doesn't necessarily mean guaranteed. In the workplace, however, employees expect standard definitions. That's why GICs in 401ks and 403bs are now often called insurance contract funds or other layman's terms for what they are.

Say what you mean

Here are a few examples of retail language that should not be in the workplace.

- "When you leave, you're entitled to your contributions and growth." Promise? Ask participants who invested in S&P 500 funds in early 2001 and took a distribution a couple years later. Many got less than their contributions and zero growth. How about saying "when you leave, you're entitled to the full value of your contributions in your account based on investment performance, including any growth"?
- "Our 403b has no sales fees." At best, it's a half-truth. Shouldn't employees know about the fees they do pay, not just the ones they don't? Could statements like these – or lack of prominent mention of fees – lead most employees to think their 401k or 403b has no fees?
- "Your contributions remain credited to your account." Instead, how about "your contributions, minus fees, and plus or minus investment gains and losses"?
- "Your money grows." Another promise? What's meant is "your money is invested" or "your account shares in the performance of your investments."
- "You'll need around 80% of your pay when you retire." Literally, that says if you're making $50,000 you'll need $40,000 to retire. This oversimplification of the replacement ratio concept misses the most important part – longevity. You'll need that 80% each year. For example, if you live 25 years in retirement, you'll need 25 times $40,000 – a million bucks from various sources.
- "You're offered a full range of investment options." Avoid words that lack precision – comprehensive, complete, ample, etc. Perhaps the worst example is "our 401k provides financial security." If that's a promise, it's an enormous one.

Undefined jargon damages trust

Employees should learn some industry terms. But is all the jargon necessary?

- Wealth building…a bank building?
- Large cap fund…an investment in companies that make big hats?
- Capital appreciation…being satisfied with the center of government?
- In kind…just being nice?
- Your portfolio…is that what artists carry?
- Your salary reduction…isn't that something to avoid?
- Premature distributions…shouldn't a doctor help with that?

Perhaps 401ks should be called Retirement Investment Plans or Future Lifestyle Account Plans rather than 401k ***Retirement*** Plans. 401ks don't assure a comfortable retirement. There's already too much cynicism in the workplace. You don't want to hear, "Yeah, we've got a retirement plan. Maybe it'll pay me $60,000. Does the company think I'm dumb enough to believe I can retire on that for 25 years?"

Most participants believe 401ks are free

According to an AARP study, 65% of 401k participants believe they pay no fees for their 401k investments! Another 18% don't know if they pay. Obviously, the way fees have been communicated to participants hasn't been clear.

Soon the government will almost certainly require clearer 401k fee disclosure. Most employees will be surprised they've been paying for the 401k. That won't build trust. Are there other things many employees don't know or understand about 401ks that they'd expect their employer to have told them? Isn't it better to tell them now?

Steps toward clarity…the circle tests

To strengthen employees' trust in your 401k or 403b communication:

1. Read plan materials aloud to your adult children, spouse, friends or a small group of nonparticipating employees. Each time you feel the need to say "What that means is …", or if you feel uncomfortable because the promotional nature of

the content, circle it. This isn't much fun, but it can be enlightening.

2. Handout copies of brochures, presentations, Web content and other materials to a small group of employees, not HR staff or folks from the finance department. Ask the group to circle words, phrases, graphics or concepts that are not clear and photos that don't look like "our people."

3. Give a summary of the circled items to your 401k or 403b communication provider. Explain that your organization strives for clarity and honesty in its workforce communication. Ask them to fix it.

4. To evaluate the improvements, redo these steps using the revisions. Perhaps you should do this before you hire a recordkeeper or communication provider.

Sending messages that aren't trusted is not only ineffective; it may be harmful to your workplace environment.

And without trust, even the greatest, best-practice plan designs will fail to get as many employees as possible to take full advantage of the plans.

■

A version of this article appeared in the April 2008 issue of ***Employee Benefit News***.

Dennis Ackley

For 20 years Dennis Ackley has been an advocate for clarity and accountability in retirement education – helping workers gain the knowledge to achieve the financial future they want. His award-winning communication programs on retirement, investing, and health care have reached three million employees at hundreds of employers. For more articles and more information, visit ***www.DennisAckley.com***.