

Personal Financial Literacy Program in 401k Plans

Adding a Personal Financial Literacy program to the organization's 401k plan could serve as a valuable catalyst in helping employers guide their employees to connect the dots between their personal financial interests and those of the organization.

If it's true that our economy now demands "knowledge workers" that must make contributions to the organization, the employee-employer "contract" can no longer be defined solely by the traditional explicit benefits of salary, health insurance, vacation, pension, etc. If the *human resource* is to be a contributing component in today's global competition, these explicit benefits need to be presented and understood in a way that helps the employee realize the role their benefits play in helping them achieve the quality of life for which they are striving. Not doing this relegates employee costs (wages and benefits) to a linear, one-dimensional component, where everybody always wants more which tends to push the employee-employer relationship out of balance! Not adequately understanding one's financial situation is generally at the root of personal problems for most employees which can lead to negative manifestation in the workplace. There is now a significant amount of evidence that correlates financial literacy with productivity in the workplace.

Everybody thinks they need more money to reach their financial goals. In most cases, however, the solution is not more money but better control over spending and more realistic goals. Cygnet Institute has been a pioneer in designing and presenting self-completing, interactive workshops to help participants grapple with this issue. We've been doing this successfully for over 20 years, starting with the G.M. Powertrain Division in the early 90's and more recently with Foundation Coal Holdings, Inc. (Linthicum Hts, Maryland) and Amerisure Insurance (Farmington Hills, Michigan)

These and many other features have made our workshops quite attractive with respect to the fiduciary requirements recently highlighted for 401(k) plan sponsors by the Department of Labor. It is now abundantly clear that the "educational" lectures and seminars offered by financial services companies and investment representatives were essentially sales marketing devices. Although the use of education as a sales tool continues to this day, the practice is coming under greater scrutiny with the implementation of the Fiduciary Adviser Safe Harbor provisions of the Pension Protection Act.

The significance by DOL's focus on comprehensive fiduciary compliance has been elevated by the February 20, 2008 Supreme Court's LaRue Decision. We now have the spectacle of individual employees and plan participants being able to file lawsuits against employers, plan sponsors and plan providers over alleged fiduciary breaches. As an independent, non-profit organization, not connected to an insurance or investment company, and with over 20 years of experience providing financial education using Fiduciary Standard guidelines, we are quite unique in being able to help employers protect themselves in this increasingly litigious environment by providing the education employees need in order to make good financial decisions.

Cygnet Institute's fiduciary approach to employee financial literacy education is not only more effective in

terms of aligning the financial interests of the employees and the employer, but it can also help reduce the employer's civil and regulatory liability exposure. This is accomplished by a number of design features and policies in our workshops. Among these is the fact that our workshops are interactive and self-completing. Their experiential nature enhances the learning experience of participants by guiding them to deal with their personal finances hands-on and in class -- confidentially.

Objectivity is assured by our policy that prohibits instructors from soliciting, accepting or referring participants as clients. This policy helps avoid potential Prohibited Transactions under ERISA and also helps fulfill the requirements described in the Fiduciary Adviser Safe Harbor section of the Pension Protection Act.

Our free market economy cannot survive the corrosiveness of personal financial ignorance by employees/consumers. The recent sub-prime mortgage debacle is a good example of how much can go wrong for all of us when enough people make bad financial decisions.

- Ted Lakkides, CFP®