

## With Retirement Planing, Comprehensive Investment Assistance Wanted

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John Hancock's latest national survey of defined contribution plan participants tracking their investment knowledge and behavior shows disturbing trends: Basically, while most participants have learned to save, they haven't learned to invest. In the final installment of a three-part series, Wayne Gates, general director, Market Research and Development, discusses products and services plan participants could use to make the most of their retirement plan.

"It's clear that participants would benefit by investment assistance and comprehensive investment advice," says Gates.

And the vast majority *wants* help:

- 76% would like an expert to provide investment advice.
- 74% would like an expert to support their investment decisions.
- 67% believe they'd be better off working with a financial advisor instead of investing on their own.
- 52% feel they know how to manage their investments, but would rather spend time doing other things.

"In addition, 51% said they'd be interested in an investment option that would automatically invest contributions and rebalance based on individual age and risk tolerance -" says Gates.

The survey results also suggest that many respondents already receive some kind of investment assistance and help:

- 64% report the use of a financial advisor.
- 38% say that they use employer-provided financial planning and investment advice.
- 42% report the use of an external investment advisor, as well.

But those figures may be misleading, says Gates.

"I don't believe that all this assistance is comprehensive investment advice or financial planning, he explains. "Many participants may believe that the person conducting an enrollment meeting is a financial planner or is providing investment advice. In addition, many people with external advisors may be using a stockbroker or an insurance agent to provide assistance with specific financial products, but most don't provide comprehensive planning and advice. In any event, it's clear that people want help."

### **The Key Is Getting People to Do What They Should**

Summarizing the survey, Gates says he believes that defined contribution plans are great savings vehicles, but they haven't yet become great investment vehicles. And that's because people generally aren't doing the things that they should:

- They contribute assets to these plans, but then most leave them alone.
- They rarely rebalance.
- Many of those who do make changes chase performance, by shifting toward the outperforming investment.
- Moreover, many are not on target to maintain their lifestyle in retirement.

"As a result, the success of defined contribution plans as the primary source of retirement income is highly in doubt. Unfortunately, providing investment advice may still not be enough to correct the problems, because it still requires people to act, and I'm not sure they will."

While strongly advocating unbiased and comprehensive investment advice and financial planning, Gates sees the possible need for investment management as well, perhaps a feature or

provision to defined contribution plans that makes investing automatic, in the same way that payroll deduction makes saving automatic.

Two features, he says, could even capitalize on plan participants' tendency not to act.

"The first would be an automatic enrollment feature, with a contribution level of 6 percent into the aged-based lifestyle fund as the default option," he suggests. "The second aspect is to increase the contribution rate by 3 percentage points concurrently with each salary increase.

He concludes, "This uses participant inaction or inertia effectively, and would raise the likelihood of success of defined contribution plans. And as always, participants maintain the ability to change any and all of these elections."