Should We Get Our Investing Education From Our Employers?

Not too long ago, Patti Doyle joked that her retirement plan was to find a shopping cart with “good snow tires.” Now, thanks to Doyle's employer-provided financial adviser, she's test-driving a new retirement vehicle -- her 401(k).

Study after study has shown that, like Doyle -- a 52-year-old cardiology technician for the St. Paul Heart Clinic -- most workers are behind when it comes to saving for retirement. Some blame it on stretched budgets that leave little money to save for the future. But another problem is a lack of investing know-how.

Since Congress passed a law in 2006 making it easier for employers to provide financial advice, a growing number of companies have started offering tools designed to help workers prepare for life without a paycheck -- from advice delivered via computer program to on-site financial advisers.

Several studies have found that workers who have access to financial advice are more confident about their finances and better prepared for retirement, a message employers are hearing loud and clear.

According to human-resources consulting firm Hewitt Associates, 40 percent of companies that sponsor retirement plans offered outside investment advice to employees in 2007, compared with 28 percent in 2003. Of the 60 percent of employers that don't offer it, 16 percent plan to offer such a service this year. However, some benefits lawyers and investment advisers caution that the cost and quality of advice varies greatly.

In recent years, defined benefit plans, such as pensions, have taken a back seat to retirement plans funded by workers. Concerned that workers weren't saving enough and saving properly, Congress passed the Pension Protection Act in 2006, encouraging companies to automatically enroll their workers in 401(k)-type plans and suggesting that companies change their default investment options from conservative investments to so-called target-date retirement funds, which change investments based on a worker's presumed retirement age.

The new law also redefined the rules surrounding retirement advice, placing the liability on the adviser -- not the company -- for poor advice. That doesn't mean that workplaces are off the hook.

“It isn't like the employer can just say, ‘I heard about this outfit, I'll let them work with my plan participants and I don't have to worry anymore,’” said Pam Thein, an employee benefits attorney with Oppenheimer Wolff & Donnelly in Minneapolis.

Employers still bear the burden of selecting either an adviser or a computer-based program that interviews participants and spits out recommendations and monitors the outcomes.

Financial educator Tony Verheyen fears that some employers will hire planners who will go beyond giving retirement advice and sell additional products and services.

The change “has opened another door to the money-grubbers, phonies and pretenders who will try to commoditize the world of sound advice,” he wrote in an e-mail. “The price of a bad adviser is ultimately paid by the employee.”

And then there are hidden costs. “You might not realize how expensive it is, because some of the cost may be embedded in the investments that are offered,” said Michael Hoeschen, who advises workplaces about retirement plans for Berthel Schutter in St. Paul.

Still, the money may be worth it. A recent survey by Charles Schwab found that participants using its advice tool earned an average 14.11 percent rate of return in 2006, compared with 11.11 percent for employees investing on their own. That's because novice investors tend to choose an inappropriate mix of investments -- such as a 25-year-old investing solely in bonds -- and fail to make changes such as tweaking asset allocation or investing more as they receive salary increases.

In the not-so-distant past, workers clutching mutual fund descriptions would approach ClearPoint Financial's Jim McDonald after enrollment meetings and ask, “Well, what would you pick?” he recalls. But he couldn't answer; company legal departments would tell him he could educate, but never advise.

McDonald and his colleagues now share opinions about everything from what model portfolio to use to whether changing investments is wise during a market downturn. ClearPoint recently sent e-mails to heart clinic employees after a particularly big drop in the market, urging them to stay the course.

One of those investors was Doyle, the cardiology technician. She's known about the 401(k) plan for years, but until recently had no money to invest. But with her kids nearly through college, she knew it was now or never. “I read things in the newspaper and read financial columns knowing that I should be doing something, but not really knowing how to go about doing it.”

She said that having an adviser to meet with “spurred” her to put $300 a month into her 401(k).

“I always have thought about retirement being so far away and that I didn't have to worry about it,” Doyle said. “But then all of a sudden you get a birthday coming up and think, ‘Holy cow, I should be doing something.’”