

Participant Education: Actions and Outcomes

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Issue Brief

- This *Issue Brief* is based on surveys conducted in 1995 of participant-directed retirement plan service providers, plan sponsors, and workers to analyze and quantify the provision of educational material within such plans. The surveys focused on the types of educational services provided, the subject matter covered, and the impact of the material on worker decisionmaking. The *Issue Brief* is divided into three sections. The first section analyzes participant attitudes and knowledge regarding participant-directed retirement plans. The second section examines the services provided to plan sponsors. The final section presents an analysis of educational material provided to workers by plan sponsors and an exploratory analysis of its impact.
- The majority of employees prefer to make their own retirement saving decisions; are not aware of the amount of savings they need to accumulate for retirement, even though the subject is often covered in educational material, and often change their behavior because of educational material.
- The majority of plan sponsor survey respondents provided information to participants on all except one of the educational topics chosen as important by practitioners. Participants in small plans appear just as likely to receive this information from plan sponsors as those in larger plans.
- Information on the attributes of plan investment options and explanations of the company pension plans are the topics most often conveyed by plan sponsors to participants. However, the educational topic most frequently provided by service providers is information on asset allocation. The service providers' second most frequently provided topic is information on estimating the income needed for retirement.
- The impact of preretirement withdrawals on retirement income is one of the least often provided topics. This could have serious consequences for the adequacy of employees' retirement income, raising a public policy concern in this area.
- While there is no appreciable difference in the types of investment topics actually offered to participants, apparently plan size does matter in the choice of communication methods. Large plans appear more likely to adopt methods entailing sizable development costs, while small plans are more likely to utilize sales literature and individual counseling or meetings conducted by an investment manager.

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Introduction

The 1990s are seeing a dramatic increase in the universe of participant-directed 401(k)

plans and in the number of participants. As a result, a number of public policy issues are arising for employers and policymakers. Will retirement income for workers with these plans be adequate to allow exit from the work force? Will workers begin to participate as soon as they have the opportunity? Will they choose a diverse asset allocation and adjust it over time to take best advantage of their personal time horizons? Will they maintain contribution rates at a level that will provide an adequate retirement income? If they change jobs, will they leave the assets in a retirement fund rather than taking early withdrawals? The debate over these questions has often been intense, yet few detailed data on actual behavior have been available.

Although employers want their employees to participate in 401(k) and other defined contribution plans, many have found it difficult to get workers to enroll. A combination of concerns has prompted 401(k) plan sponsors to begin educating their employees about investment strategies and the importance of participation in the plan, including the amount of salary contributed. Employers and policymakers want to know how well these teaching tools work, whether the efforts have actually changed investment and participation patterns, and to what extent a company can educate employees without stepping over the line into offering actual investment advice. Employers sponsor plans in order to allow individuals to accumulate the maximum amount of money possible for retirement, and they know that education is necessary to realize the plans' full potential.

This *Issue Brief* analyzes and quantifies the provision of educational material to workers within the participant-directed retirement plan universe. It focuses on the types of educational services

provided to workers, the subject matter covered, and the impact of the material on the decisions made by workers with regard to their plan. The report is divided into three sections. The first section analyzes participant attitudes, preferences, and knowledge regarding participant-directed retirement plans. The second section examines what plan service providers are offering to plan sponsors, with particular emphasis on participant education. The final section presents a quantitative analysis of what plan sponsors are providing to their employees in terms of topics covered and the media of communication used and includes an exploratory analysis of the impact of these efforts, broken out by plan size and other plan characteristics.

Some of the findings elucidated in this report include the following:

- Plan participants prefer to make their own decisions regarding their retirement accounts.
- Many plan participants are not aware of how much money they need to accumulate for retirement income adequacy despite a large amount of this information reported as provided by both plan sponsors and service providers.
- Plan participants report that they read and use the materials that they are given.
- Educational services are most often provided by service providers to plans with 1,000 or more participants.
- Plan service providers offer information on the impact of preretirement withdrawals on retirement income adequacy less frequently than any other topic.
- Plan sponsors use many diverse methods of delivering the participant education information to participants, with varying results.
- Plan sponsors provide information on the impact of preretirement withdrawals on retirement income adequacy the least often of any topic.

The *Issue Brief's* conclusion evaluates these findings, recommends further areas of investigation and concern, and highlights key points of information that have been revealed in the research and analysis of the survey results.

Participant Findings

The Employee Benefit Research Institute (EBRI) has undertaken a multiyear

program of surveys and analyses that explore employees' level of awareness and behavior concerning retirement planning issues. Following are some results and excerpts from these recent studies of plan participants that are appropriate to the focus of this report. This section provides a point of reference from which to evaluate the data collected and analyzed in the recent EBRI plan service provider and plan sponsor surveys discussed in the second and third sections.

Participant Desire To Make Investment Decisions

Individuals have a strong preference for making their own investment choices in a retirement plan and assuming all the risks, according to multiple surveys conducted by EBRI and The Gallup Organization, Inc. Respondents to the most recent survey¹ were asked: "Assuming you had a pension plan from an employer, which of the following would you prefer? Would you rather make your own investment decisions, assuming all of the related risks, or would you rather leave investment decisions to your employer and have him or her pay a fixed amount when you leave your job or retire?" Fifty-five percent responded that they would prefer to make their own decisions, and 39 percent reported preferring to let their employer make the decisions. Among those who were making personal contributions to a tax-deferred investment plan, 62 percent preferred to make their own investment decisions, while only 34 percent preferred to entrust investment decisions to their employers.

While most participants want to make their own retirement saving and investment decisions, it appears

that many do not act with a specific goal in mind. According to the 1995 Retirement Confidence Survey,² co-sponsored by EBRI and Mathew Greenwald and Associates, **only one-third (35 percent) of current workers who have started saving for retirement reported that they have tried to figure out how much money they will need to have saved by the time they retire so that they can live comfortably in retirement. Among those reporting that they have tried to make the calculation, one-half (51 percent) could not give a specific amount when asked.** There seems to be a disconnect between saving for retirement and actually understanding what needs to be accomplished.

An EBRI/Public Agenda survey in 1994³ asked all survey respondents (not just 401(k) respondents) how much money they thought that they personally had to save in order to finance their retirement. Seventy percent responded that they did not know. Workers earning over \$60,000 were the least likely to say "don't know," at 54 percent. Every other demographic group was at 60 percent or greater with "don't know" responses. Workers making \$15,000–\$25,000 were the most likely to respond "don't know," at 77 percent. Respondents were also asked what percentage of their current income would be needed in retirement in order to support themselves. Fifteen percent responded less than 50 percent, 38 percent responded 51 percent to 70 percent, 21 percent responded 71 percent to

¹ Employee Benefit Research Institute (EBRI)/The Gallup Organization Inc., "Public Attitudes on Investment Preferences, 1994," EBRI Report no. G-61 (Employee Benefit Research Institute, November 1994).

² See Paul Yakoboski, "Are Workers Kidding Themselves?: Results of the 1995 Retirement Confidence Survey," EBRI Issue Brief no. 168 (Employee Benefit Research Institute, December 1995).

³ This survey was part of a collaborative effort between EBRI and the Public Agenda that included a survey of 450 American leaders in government, business, and academia; a random poll of 1,100 Americans; 16 focus groups, and a series of interviews with experts on retirement savings. Results were published in *Promises To Keep: How Leaders and the Public Respond to Saving and Retirement* (Washington, DC: Employee Benefit Research Institute and Public Agenda, 1994).

Table 1
Financial Knowledge and Retirement Planning Among Current Workers, 1995

	Highly Knowledgeable	Moderately Knowledgeable	Less Knowledgeable
	(percentage)		
Aside from Social Security taxes or an employer-funded retirement plan, have money set aside for retirement that they saved on their own, including 401(k) type plans.	67%	65%	44%
Try to save regularly for retirement by saving something once a month, once every pay period, or in another regular way. (Asked of those who have set money aside for retirement.)	92	87	84
Tried to figure out how much money they will need to have saved by the time they retire so they can live comfortably in retirement. (Asked of those who have set money aside for retirement.)	42	34	25

Source: Employee Benefit Research Institute and Mathew Greenwald and Associates, 1995 Retirement Confidence Survey.

90 percent, 22 responded over 90 percent, and 5 percent said they did not know.

Participant Investment Knowledge

Given the strong preference expressed by individuals to make their own investment decisions with their retirement plans and bear the risks, it is logical to inquire about their investment knowledge and investment preferences. According to the 1995 Retirement Confidence Survey,⁴ **the majority of working Americans appear to have a limited amount of financial knowledge regarding issues important in planning and saving for retirement.** The survey attempted to assess Americans' general knowledge regarding retirement planning and saving issues. Respondents were asked four true/false questions and one multiple choice question.

Over one-quarter (28 percent) of all workers had a high level of retirement financial knowledge (four or five correct answers). Eight percent provided correct answers to all five questions. Fifty-five percent of all workers displayed a moderate level of retirement financial knowledge (two or three correct answers), and 16 percent had little relevant knowledge of financial issues (zero or one correct answer).

Average scores among workers tended to rise with educational levels and household income. Those with a high school degree or less had an average score of 2.45, compared with an average score of 3.45 for college graduates. The average score increased from 2.41 for those earning less than \$25,000 to 2.98 for those earning \$50,000 or more. Scores did not vary with worker age.

Workers who are moderately and highly knowledgeable about financial issues are more likely than less knowledgeable respondents to

have money other than Social Security or an employer-funded pension plan set aside for their retirement (table 1). In addition, moderately or highly knowledgeable respondents are more likely than respondents who have less financial knowledge to have taken steps to prepare for their retirement. However, between the moderately and highly knowledgeable respondents, the highly knowledgeable are more likely to have already begun setting aside money for retirement, to try to save for retirement on a regular basis, and to have tried to figure out how much they will need to have saved by the time they retire (table 1).

Eighty-three percent of workers knew that the average person retiring today will need 60 percent to 80 percent of his or her work income during retirement to maintain the same standard of living that he or she had just before retirement. The vast majority of workers understand the level of their preretirement income that must be replaced in retirement in order to maintain their standard of living.

Fifty-five percent of workers knew that, over the past 20 years, U.S. government bonds provided a lower rate of return than the U.S. stock market. Appropriate asset allocation decisions by retirement savers depend on their knowledge of the risk and return tradeoffs among various investment classes. This finding indicates that many individuals do not have a working knowledge of the relative historical returns among some basic investment options.

Thirty-eight percent of workers knew that employer stock is not typically a less volatile investment for employees than investment in a diversified portfolio of stocks. Many workers are interested in a "safe" investment for at least some of their retirement savings, and many view employer stock as such an investment without understanding how it compares with other options that may be available to them.

Fifty-six percent of workers knew that, histori-

⁴ Yakoboski, 1995.

cally, the probability of losing money (in nominal terms) in a mixture of stocks from different industries has not risen the longer the investment is held. This finding reinforces the finding that workers have a limited understanding of investment basics regarding risk and return tradeoffs and the historical performance records of different investment classes.

Forty-two percent of workers knew that a male retiring at age 65 today can expect to live to age 80.⁵ Forty-two percent incorrectly thought he would live to age 75, 10 percent thought to age 90, and 5 percent did not know. Many workers would seem to underestimate the amount of time that they are likely to spend in retirement, with the potential implication that they will accumulate insufficient assets to maintain their desired standard of living throughout their retirement.

Respondents in the EBRI/Gallup survey were asked to rate several investment vehicles based on what they believed to be their historical rate of return, using a 1 to 5 scale where 1 means little or no rate of return and 5 means an extremely high rate of return. The vehicles were bank saving accounts, certificates of deposit (CDs), stocks, U.S. government bonds, and private corporate bonds.

Although stocks were correctly perceived as having the highest historical rate of return, they were perceived as having only a slightly higher than average rate of return. On average, stocks were rated at 3.18, U.S. government bonds at 3.09, private corporate bonds at 2.94, CDs at 2.89, and bank saving accounts at 2.17. There was very little spread in the relative rankings reported by respondents. Outside of bank saving accounts, the most common rating for the other four investment vehicles was 3. Only 11 percent of respondents rated stocks very highly in terms of historical rates of return, compared with 14 percent who rated U.S. government bonds highly and 10 percent who rated CDs

highly. In general, respondents do not appear to be very knowledgeable regarding the relative rates of return that historically have been earned on some basic investment vehicles.

Employer Educational Efforts

According to the 1995 Retirement Confidence Survey,⁶ **almost three-quarters (72 percent) of current workers participating in some type of salary reduction retirement saving plan, such as a 401(k) plan or 403(b) plan, say that their employer has provided them with educational material or seminars regarding the plan. Among those with such resources available, the vast majority (85 percent) read the material or attended the seminars.** This indicates a high interest level among workers regarding their plans. In addition, there is evidence that such material does impact worker behavior.

*Participant Use of Educational Materials—***The propensity to utilize such material increased with both worker educational levels and household incomes. Seventy-five percent of workers with a high school degree or less reported using the information when provided. This figure rose to 89 percent for those with a college degree.** The utilization rate was 72 percent for workers with household incomes of less than \$25,000, compared with 89 percent for workers with household incomes of \$50,000 or more. For workers up to age 55, there was not much variation in the utilization rate, but the rate was noticeably higher (over 95 percent) for workers aged 55 and over. Thus, while most workers will take advantage of the educational materials offered, employers may want to focus extra effort on less educated, lower paid employees, who are less likely to use the material provided.

⁵ The average life expectancy for males at age 65 in 1992 was 15.5 years, according to the U.S. Department of Health and Human Services, Public Health Service, Health United States, 1993 (Washington, DC: U.S. Government Printing Office, 1994).

⁶ Yakoboski, 1995.

Even though almost 70 percent report that estimating income needs is covered, very few savers in general have tried to estimate how much they need to accumulate by the time they retire.

Investment Topics Covered—Among those reading the material or attending the seminars, 95 percent reported that the material included a description of the investment options available in the plan. Ninety-four percent reported that the advantages of saving in a tax-deferred plan were covered. Noticeably fewer workers (69 percent) reported that the principles of asset allocation and diversification were covered. Similarly, 69 percent reported that the material covered estimating the income needed in retirement. These findings indicate areas on which employers, as plan sponsors, may want to focus additional efforts with the educational programs, particularly estimating retirement income needs. These results, combined with other findings in the survey, indicate that current workers need additional education and assistance in this area. Even though almost 70 percent report that estimating income needs is covered, very few savers in general have tried to estimate how much they need to accumulate by the time they retire (among all workers who have started saving for retirement, only 35 percent have tried to calculate how much they need to save by retirement to fund a comfortable lifestyle), and most who have tried cannot give an amount when asked (among the 35 percent who have reportedly made the calculation, one-half could not give a number when asked). Apparently even when the subject matter is presented, it is not in a form that workers find user friendly or understandable, and therefore they do not try to make such calculations. In addition, in the area of asset allocation, responses to other questions indicate that many respondents do not understand the risk and return characteristics of basic investment options.

Impact of Educational Material—Two-fifths (39 percent) of all workers utilizing employer-provided educational material reported that the materials or seminars led them to increase the amount of their contributions to the plan. This effect was slightly more likely for workers with a high school degree or less (43 percent) than

among those with more education (38 percent) and most likely for middle income workers (44 percent among those with incomes of

\$25,000–\$50,000). Almost one-half (46 percent) of all workers utilizing the material provided reported that it led them to reallocate their money among the options available in the plan. Again, this effect was slightly more likely among those with a high school degree or less (50 percent), than among those with more education (45 percent).

Interestingly, while workers with less formal education (i.e., a high school degree or less) are less likely than their peers to utilize educational material that is provided, when they do use the material, they seem to be equally or more likely than their peers to alter their behavior as a result. This indicates that plan sponsors may want to focus additional attention on reaching this segment of workers.

In the EBRI/Public Agenda survey, respondents were asked about the potential impact of the government encouraging employers to give advice to their employees regarding how much they should be saving and where to invest for their retirement. Nineteen percent said it would lead them to save a lot more for retirement, 34 percent said a bit more, and 46 percent said it would make no difference in the amount they saved.

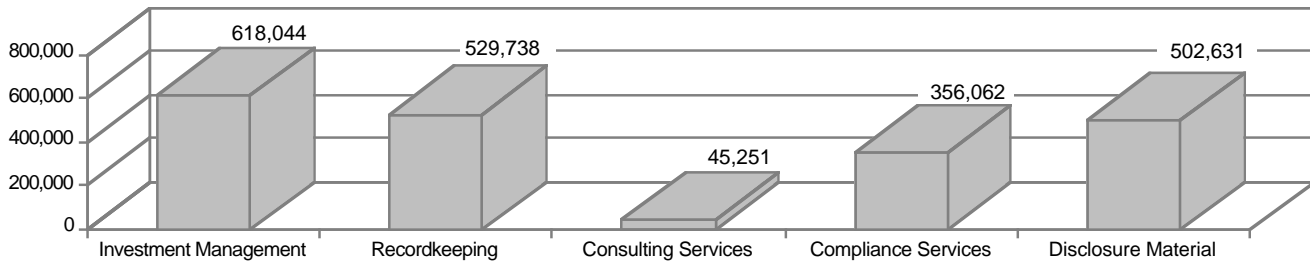
In addition, it appears that response is greater the more specific the information and the more tangible the resulting potential payoff. Respondents were also asked about the impact of learning that, by saving an additional 5 percent of income, they would have financial security in their retirement years. Two-thirds of respondents said that such information would lead them to increase their level of saving for retirement.

Over three-quarters of all respondents said that they would be confident in the information provided through a seminar on retirement planning sponsored by their employer. At least 70 percent of respondents in every demographic group reported that they would have

Chart 1

Services to Participant-Directed Plans by Plan Total and by Plan Type**Question: Indicate the number of participant-directed plans to which you currently offer the following services:**

	Plan Type						
	401(k)	403(b)	457	SEP ¹	MPP ²	401(a)	Other
Investment Management	58,340	38,542	297	278,476	85,877	156,171	341
Recordkeeping	50,296	40,178	1,081	276,807	80,528	80,528	320
Consulting Services	35,339	3,190	117	862	2,804	2,804	135
Compliance Services	40,134	23,168	113	206,536	42,976	42,976	159
Disclosure Material	45,077	36,087	213	261,854	79,559	79,559	282

Total of all plans, aggregating plan types that receive these services

Source: Employee Benefit Research Institute.

¹Simplified employee pension plan.²Money purchase pension plan.

confidence in an employer-sponsored seminar.

It may therefore be concluded that the majority of employees:

- prefer to make their own decisions concerning their retirement saving;
- are not aware of the total amount they need to accumulate for retirement, even though the subject is often covered in educational material;
- read and use educational materials provided; and
- are willing to accept assistance and often change their behavior because of the educational material.

Service Provider Findings

From late 1994 to early 1995, EBRI surveyed the services provided by

participant-directed defined contribution plan service providers to plan sponsors. While the survey covered all types of services that were being offered to plan sponsors, particular attention was focused on educational services. Service providers reported the range of services they provided to different types of plans and to different size plans. In comparing the total number of defined contribution plans covered by the EBRI service provider survey with the actual number of 401(k) plans as reported in the Form 5500 returns, it is clear that the vast majority of

401(k) plans in existence at the time were captured by the survey. The latest data available for 401(k) plans show that in 1991, there were 111,394 401(k) plans; 106,122 plans were serviced by the providers responding to the EBRI survey, which thus captured more than two-thirds of the defined contribution plan market.

As of December 31, 1994, survey respondents serviced 85,829 plans with under 100 participants, 15,774 plans with 100–499 participants, 2,487 plans with 500–999 participants, 1,438 plans with 1,000–4,999 participants, 332 plans with 5,000–9,999 participants, and 262 plans with 10,000 or more participants, for a total of 106,122 participant-directed defined contribution plans. This survey asked providers about their services for 401(k), 403(b), 457, simplified employee pension plan, money purchase pension plan, 401(a) profit-sharing plan, and other plans.

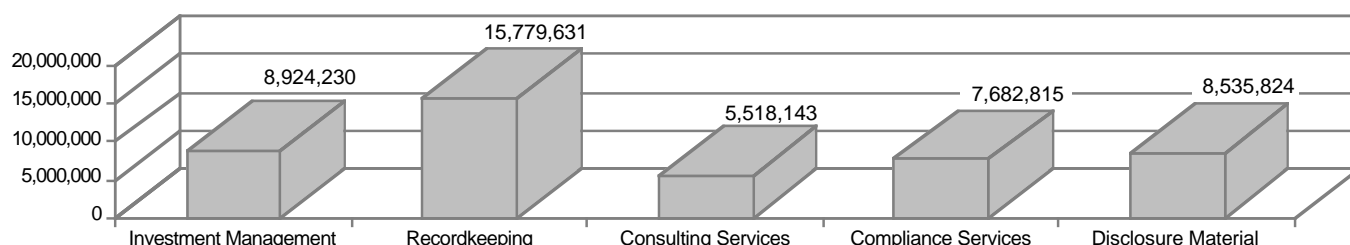
Noneducational Services Provided

The three categories of noneducational services offered most often to all plan types are *investment management*, *recordkeeping*, and *disclosure materials*. The least often offered service to all plans and all participants is consulting services. Please note that all categories were interpreted and defined by the respondent when answering (chart 1 and chart 2).

Chart 2
Services to Participant-Directed Plans by Participant Total and by Plan Type
Question: Indicate the number of participants in participant-directed plans you offer the following services to:

	Plan Type						
	401(k)	403(b)	457	SEP ¹	MPP ²	401(a)	Other
Investment Management	5,101,576	2,595,080	77,095	402,445	337,320	399,805	10,909
Recordkeeping	11,966,336	717,321	313,918	424,625	540,287	1,255,930	561,214
Consulting Services	4,558,963	97,496	4,158	322,115	169,417	177,361	188,633
Compliance Services	6,408,786	105,396	1,677	311,315	261,709	343,736	250,196
Disclosure Material	6,082,555	599,715	57,688	385,400	311,277	838,554	260,635

Total of all participants, in all plan types that receive these services



Source: Employee Benefit Research Institute.

¹Simplified employee pension plan.

²Money purchase pension plan.

Educational Service Provision

Of all the participant-directed plan service providers who responded, as a percentage of the total plans serviced, they offered educational services to 46.1 percent of plans with fewer than 100 participants, 62 percent of plans with 100–500 participants, 35.3 percent to plans with 500–999 participants, 73.6 percent to plans with 1,000–4,999 participants, 64.7 percent to plans with 5,000–9,999 participants, and 70.2 percent of plans with 10,000 or more participants (chart 3).⁷

Types of Educational Services Offered

Service providers were asked to state, for all plans to which they provided educational services, whether or not they offered these services in the following categories:

- generic written material focusing on retirement planning to be distributed by the plan sponsor,

- generic written materials and computer software to be used for retirement planning,
- plan-specific communications package personalized to the individual company's plan, and
- plan-specific personalized communications package that includes the provision by the provider of educational meetings with participants.

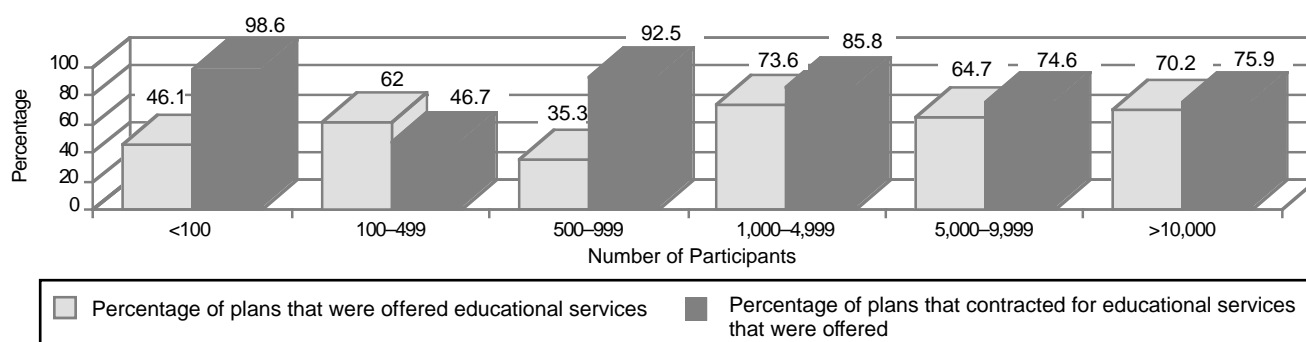
The data were combined with the total number of plans serviced, and each category was analyzed by plan size. It was assumed that if the category was offered, the service providers who responded offered the category to all plan sizes.

Generic Written Materials To Be Distributed by the Plan Sponsor—The percentage of plans receiving service in this category by plan size ranged from 1.1 percent of plans in the 10,000 and over participant plan size to 47.7 percent of plans in the 500–999 participant plan size. The greatest concentration of plans receiving this category of service centered in the 100–999 participant plan size groups.

Generic Written Materials and Computer Software for Retirement Planning—The percentage of plans receiving this service ranged from 23.8 percent in the 5,000–9,999 participant plan size to 52.7 percent in the 500–999 participant plan size category.

⁷ The question asked as stated above is somewhat ambiguous because it does not specify whether the educational services offered were only to plans that providers already serviced or included educational services that are offered any time plans are serviced. Therefore, the percentages would be greater as a portion of the total plans serviced as of December 31, 1994, if providers interpreted the question to include clients with whom they had not yet contracted. However, the data indicate that the providers answered for plans currently serviced, and they are interpreted in this context.

Chart 3
Percentage of Plans That Were Offered Educational Services and Plans That Contracted for the Offered Services



Source: Employee Benefit Research Institute.

Plan-Specific Communications Packages Personalized to the Company's Plan—This educational service is offered in very low percentages to most size categories. The only plan size category that receives this service significantly is the 500–999 participant plan size category, with 43.3 percent of these plans receiving this service.

Plan-Specific Communications Package That Included Educational Meetings Conducted by the Service Provider—This category is offered to under 10 percent of plans in all size categories except the 100–999 and 500–999 participant plan sizes, with 20.6 percent and 48.6 percent, respectively, of these plans receiving this service.

Most and Least Frequently Offered Educational Services—These results would indicate that **of the four categories analyzed, the one including generic written material and computer software for retirement planning is the most prevalent educational service type offered by all providers to all size plans. In contrast, the plan-specific communications package personalized to the client's plan is the least often offered educational service.** This result may be due to the cost of such a personalized service, or it could indicate that plan sponsors prefer to conduct their own educational meetings.

Participant Education Topics

Service providers were asked whether they provided any educational materials at all to participants on each of the following topics:

Asset Allocation—The percentage of plans that received educational materials on asset allocation for participants ranged from 96.2 percent to 99.6 percent over all categories, showing little variance.

Basic Investment Terminology—The percentage of plans receiving information for this topic ranged from 84 percent in the under 100 participant plan category to 99.6 percent in the 10,000 and over participant category.

Effect of Inflation—The overall percentage of plans that received information for participants on the effect of inflation ranged from 84 percent in the under 100 participant category to 99.2 percent in the 10,000 and over participant category.

Benefits of Dollar Cost Averaging—This educational topic had the greatest range of percentage of plans in the overall percentage by all plan sizes—from 28.9 percent of plans with under 100 participants to 96.9 percent of plans with 10,000 and over participants offered this information.

Understanding of Risk and Risk Tolerance—This educational topic ranged from 84 percent of plans in the under 100 participant category to 99.6 percent of plans in the 10,000 and over participant category.

Estimating the Income Needed for Retirement—There is little variance in the range of percentages for plans that received information on this topic for their participants. The percentage ranged from 94.2 percent of plans with 1,000–4,999 participants to 99.6 percent of plans in the 10,000 and over participant range.

Attributes of Plan Investment Options—The percentage of plans offered this topic ranged from 85.8 percent in the under 100 participant plan category to 99.6 percent in the 10,000 and over participant plan category for the overall analysis by all plan sizes.

Impact of Preretirement Withdrawals on Retirement Income—There is a significant variance in the range of percentages of plans offered information on this topic, particularly considering its importance to retirement income adequacy. The percentage of plans ranged from 41 percent of providers in the 500–999 participant plan category to 96.9 percent in the 10,000 and over partici-

pant plan category, with other small plan categories below 62 percent.

Explanation of Company's Pension Plan—The variance in the range of percentages of plans in the overall analysis by plan size in this topic is very small—from 91.5 percent in the under 100 participant plan category to 97.3 percent of plans in the 5,000–9,999 participant plan category.

The Most and Least Frequently Offered Topics—The data indicate that **the three topics most frequently provided to participants via educational materials by all of the responding service providers are asset allocation, estimating the income needed for retirement, and attributes of plan investment options. In contrast, the two topics that stand out as the least often provided to participants via educational materials by the responding service providers are the benefits of dollar cost averaging and the impact of preretirement withdrawals on retirement income.**

Given that the impact of preretirement withdrawals on retirement income is critical to retirement income adequacy, this finding calls for further investigation concerning why this educational topic is not more often provided to participants by service providers.

Opinion of Service Providers on the Impact of Participant Education

Overall, plan service providers were optimistic about the effects of participant education materials on participants' investment behavior. A Likert⁸ scale was used to measure the qualitative responses of service providers to three questions. When asked whether they felt that educational materials had an effect on increasing participation rates, 3 percent re-

sponded that there was a minimal effect, 14 percent responded that there was a moderate effect, and 59 percent responded that educational materials had a substantial effect on increasing participation rates. The second question was whether educational materials had an effect on increasing contribution rates. Five percent responded that they felt that educational materials had a minimal effect, 49 percent reported a belief in a moderate effect, and 46 percent believed that educational materials had a substantial effect on participants' contribution rate behavior. Finally, service providers were asked whether they felt that educational materials caused younger participants to invest less conservatively. Three percent said that they felt that educational materials had no effect at all, 8 percent felt that there was a minimal effect, 35 percent indicated a moderate effect, 49 percent felt that there was a substantial effect, and 5 percent felt that the cause/effect relationship between educational materials provided and younger participants investing less conservatively was not applicable.

Plan Sponsor Findings

This section analyzes the behavior of employees of plan sponsors who offer participant-

directed defined contribution plans, the possible effects of the use of educational materials on the initial decision to participate in the plan, and the effects of such materials on asset allocation choices.

Study Design

A stratified sample of approximately 4,000 sponsors of participant-directed defined contribution plans was chosen from the 1991 Form 5500 tape (the most recent information available). The data base was specifically designed to include "C" filers (plans with fewer than

⁸ A Likert scale is a qualitative method used to measure a particular attitude. The scale's replies are converted to a numerical value such as a 1–5 scale to measure agreement or disagreement with a statement(s).

100 participants). At the end of 1994, a multipage survey was sent to each of the selected sponsors requesting information on the plan-specific characteristics that would likely influence the behavioral aspects studied.

In addition to the information required to construct control variables, the sponsors were requested to fill out a series of tables to provide information on the educational media used, the frequency and timing of the provision of information, and the types of educational topics provided. Finally, each sponsor was asked to fill out tables that provide detailed asset allocation information for the end of calendar year 1994.⁹

Response Rate and Sample Characteristics

A total of 180 responses were received. The response rate varied from less than 1 percent for the plans with fewer than 100 participants to more than 30 percent for plans with 10,000 or more participants. Sponsors were asked if they sponsored a defined benefit plan and whether the participant-directed defined contribution plan was offered to plan participants as a primary plan or supplemental plan. Defined benefit plans were also offered by 68.6 percent of the respondents. The participant-directed defined contribution plan was considered as the primary plan by 57.7 percent of the respondents.

The length of time that the participant-directed aspect of the defined contribution plan had been in place was also collected. Participant-directed accounts are a relatively recent phenomenon for the sample respondents, with nearly two-thirds of the plans in this sample initiating this aspect of their plans after the 401(k) proposed regulations were first issued in 1981.

Sponsors were asked a number of questions on

plan-specific factors other than participant education thought to be important determinants of employees' behavior with respect to participation rates and asset allocation. The percentage of respondents with each of these features follows:

Employee contributions matched by the employer	70.5%
Participants can decide how employer matching contributions are invested.	63.3%
If participants cannot decide how employer matching contributions are invested, they are automatically invested in employer stock.	69.2%
Employer nonmatching contributions are provided.	33.5%
If employer nonmatching contributions are provided, at least some of these contributions are in accordance with a definite and predetermined formula.	63.3%
If employer nonmatching contributions are provided, they are required to be invested in employer stock.	12.3%
Limits exist on the percentage or amount employees can contribute, other than those imposed for legal reasons.	65.1%
Plan loans are currently available to participants.	64.6%
Hardship withdrawals are permitted.	86.4%

Participant Education Topics

With assistance from the EBRI Defined Contribution Project Advisory Board, researchers at EBRI compiled a list of important investment education topics and the various methods for communicating this information to plan participants. This information was used to construct three distinct tables as part of the survey instrument. Following are the results of each of these tables.

⁹ The sponsors were specifically requested to provide this information on the current year's contributions, if possible. However, preliminary results from the pilot test indicated that less than 100 percent of the sponsors would be able to provide that type of breakout. Therefore, sponsors unable to provide information on new contributions were allowed to provide similar information on the entire balance.

Table 2
Percentage of Plans Offering Investment Education Topics, by Size, 1994

Size	Asset Allocation				Basic Investment Terminology			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
Under 100 participants	76.9%	a	a	23.1%	78.6%	7.1%	a	14.3%
100–499	63.2	10.5%	5.3%	21.1	60.0	5.0	5.0%	30.0
500–999	73.3	a	13.3	13.3	80.0	a	6.7	13.3
1,000–4,999	78.4	a	13.5	8.1	76.3	a	15.8	7.9
5,000–9,999	53.6	a	21.4	25.0	71.4	a	14.3	14.3
10,000 and over	71.1	2.6	23.7	2.6	76.3	a	21.1	2.6

Size	Effect of Inflation			Benefits of Dollar Cost Averaging		
	Start	Under development	No plans	Start	Under development	No plans
Under 100 participants	75.0	a	25.0	78.6	a	21.4
100–499	30.0	15.0	55.0	22.2	11.1	66.7
500–999	68.8	6.3	25.0	68.8	a	31.3
1,000–4,999	64.9	16.2	18.9	52.8	16.7	30.6
5,000–9,999	60.7	14.3	25.0	55.6	25.9	18.5
10,000 and over	69.2	15.4	15.4	51.4	16.2	32.4

Size	Understanding of Risk and Risk Tolerance				Estimating the Income Needed for Retirement			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
Under 100 participants	64.3	a	21.4	14.3	66.7	a	16.7	16.7
100–499	50.0	a	10.0	40.0	35.0	a	15.0	50.0
500–999	82.4	a	5.9	11.8	80.0	a	6.7	13.3
1,000–4,999	78.4	a	16.2	5.4	64.9	a	24.3	10.8
5,000–9,999	75.0	a	17.9	7.1	53.6	3.6	25.0	17.9
10,000 and over	79.5	2.6	17.9	a	63.2	2.6	28.9	5.3

Size	Attributes of Plan Investment Options				Impact of Preretirement Withdrawals on Retirement Income		
	Start	Stop	Under development	No plans	Start	Under development	No plans
Under 100 participants	78.6	a	7.1	14.3	41.7	8.3	50.0
100–499	70.0	5.0	5.0	20.0	47.4	10.5	42.1
500–999	82.4	a	a	17.6	46.7	13.3	40.0
1,000–4,999	86.8	a	10.5	2.6	55.6	16.7	27.8
5,000–9,999	86.2	a	6.9	6.9	41.7	16.7	41.7
10,000 and over	91.9	a	5.4	2.7	35.1	27.0	37.8

Size	Explanation of Company Pension Plan			
	Start	Stop	Under development	No plans
Under 100 participants	91.7	a	8.3	a
100–499	84.2	a	5.3	10.5
500–999	81.3	6.3	6.3	6.3
1,000–4,999	82.9	a	11.4	5.7
5,000–9,999	79.2	a	12.5	8.3
10,000 and over	81.3	a	9.4	9.4

Source: Employee Benefit Research Institute

^aInsufficient data.

Investment Education Topics—Plan sponsors were asked to indicate the year their company started offering information to plan participants on each of nine topics—asset allocation, basic investment terminology, effect of inflation, benefits of dollar cost averaging, understanding of risk and risk tolerance, estimating the income needed for retirement, attributes of plan investment options, impact of preretirement withdrawals on retire-

ment income, and explanation of company pension plan. In addition, they were asked to indicate the year their company stopped offering that information (if applicable) and whether the company is currently developing the presentation of that topic or if it has no plan to offer participant education on that topic.

Tables 2, 3, and 4 report the percentage of plans offering each of these investment education topics.

Table 3
Percentage of Plans Offering Investment Education Topics, by Primary/Supplemental Status, 1994

Plan Status	Asset Allocation				Basic Investment Terminology			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
Primary plan	65.6%	2.2%	14.4%	17.8%	68.8%	2.2%	16.1%	12.9%
Supplemental plan	71.4	1.4	18.6	8.6	77.1	a	12.9	10.0
Plan Status	Effect of Inflation				Benefits of Dollar Cost Averaging			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
Primary plan	58.1		15.1	26.9	51.1		14.4	34.4
Supplemental plan	65.2		13.0	21.7	57.6		15.2	27.3
Plan Status	Understanding of Risk and Risk Tolerance				Estimating the Income Needed for Retirement			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
Primary plan	66.7	1.0	18.8	13.5	60.2	1.1	19.4	19.4
Supplemental plan	79.7	a	15.9	4.3	61.8	1.5	25.0	11.8
Plan Status	Attributes of Plan Investment Options				Impact of Preretirement Withdrawals on Retirement Income			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
Primary plan	80.0	1.1	8.4	10.5	45.5		17.0	37.5
Supplemental plan	85.7	a	7.1	7.1	40.6		18.8	40.6
Plan Status	Explanation of Company Pension Plan							
	Start	Stop	Under development	No plans				
Primary plan	81.2	1.2	8.2	9.4				
Supplemental plan	77.0	a	16.4	6.6				

Source: Employee Benefit Research Institute

^aInsufficient data.

Table 2 provides the information by size of the plan; the differences between primary and supplemental defined contribution plans are shown in table 3; and differences between types of plan are documented in table 4.

Table 2 suggests some interesting interpretations for the impact of plan size on the availability of educational materials for participants. Looking first at the “start” column (indicating whether or not the sponsor had started providing information on this topic), **there are very few topics in which the percentage for the small plans (fewer than 100 participants) is smaller than the corresponding percentage for their large plan counterparts. With the exception of information on understanding risk and risk tolerance and attributes of plan investment options, it does not appear that participants of small plans are less likely to receive educational materials on these topics.**

However, it does appear that this may be a temporary phenomenon. The “under development” column suggests that, for most topics, the large plans are far ahead of the small plans. In addition to

the two topics mentioned in the preceding paragraph, the only exception to this appears to be the provision of information on preretirement withdrawals on retirement income. Moreover, the percentage of plans that have no plans to offer information on a topic is typically largest for the small plans, especially those in the 100–499 participant range.

Table 3 indicates that **for most topics, participants in a supplemental defined contribution plan have a better chance of receiving educational information than participants in a primary plan.** The only exceptions are the provision of information on the impact of preretirement withdrawals on retirement income and explanation of the company pension plan. Sponsors of primary plans also appear to be more likely to have no plans to introduce participant education on a topic.

Table 4 shows the relative percentages by plan type. It is interesting to note the extreme fluctuation in percentages from topic to topic even for 401(k) plans, the largest plan type in the sample. Both attributes of plan investment options and explanation of the company

Table 4
Percentage of Plans Offering Investment Education Topics, by Type of Plan, 1994

Plan type	Asset Allocation				Basic Investment Terminology			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
401(k)	68.1%	2.7%	14.2%	15.0%	74.1%	0.9%	12.9%	12.1%
403(b)	70.6	a	23.5	5.9	81.3	a	18.8	a
457	53.3	a	20.0	26.7	53.3	a	13.3	33.3
401(a) profit-sharing	90.0	a	10.0	a	90.9	a	a	9.1
Money purchase pension plan	80.0	a	a	20.0	50.0	25.0	25.0	a
Other	50.0	a	50.0	a	33.3	a	66.7	a

Plan type	Effect of Inflation			Benefits of Dollar Cost Averaging		
	Start	Under development	No plans	Start	Under development	No plans
401(k)	60.3	12.9	26.7	50.9	15.5	33.6
403(b)	64.7	17.6	17.6	56.3	12.5	31.3
457	53.3	13.3	33.3	60.0	6.7	33.3
401(a) profit-sharing	70.0	a	30.0	60.0	a	40.0
Money purchase pension plan	75.0	25.0	a	80.0	20.0	a
Other	50.0	50.0	a	50.0	50.0	a

Plan Type	Understanding of Risk and Risk Tolerance				Estimating the Income Needed for Retirement			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
401(k)	73.5	0.9	15.4	10.3	59.1	1.7	20.9	18.3
403(b)	68.8	a	25.0	6.3	62.5	a	25.0	12.5
457	60.0	a	13.3	26.7	53.3	a	26.7	20.0
401(a) profit-sharing	90.9	a	a	9.1	70.0	a	10.0	20.0
Money purchase pension plan	60.0	a	40.0	a	75.0	a	25.0	a
Other	33.3	a	66.7	a	66.7	a	33.3	a

Plan Type	Attributes of Plan Investment Options				Impact of Preretirement Withdrawals on Retirement Income		
	Start	Stop	Under development	No plans	Under Start	No development	plans
401(k)	83.8	0.9	6.8	8.5	40.5	19.8	39.6
403(b)	70.6	a	11.8	17.6	68.8	12.5	18.8
457	80.0	a	a	20.0	36.4	9.1	54.5
401(a) profit-sharing	100.0	a	a	a	55.6	a	44.4
Money purchase pension plan	80.0	a	20.0	a	40.0	20.0	40.0
Other	66.7	a	33.3	a	a	50.0	50.0

Plan Type	Explanation of Company Pension Plan			
	Start	Stop	Under development	No plans
401(k)	80.8	a	11.5	7.7
403(b)	81.3	a	12.5	6.3
457	84.6	a	a	15.4
401(a) profit-sharing	90.0	a	a	10.0
Money purchase pension plan	50.0	25.0	25.0	a
Other	50.0	a	50.0	a

Source: Employee Benefit Research Institute

^aInsufficient data.

pension plan were offered by more than 80 percent of the 401(k) plans in the sample; however, only 40 percent of the 401(k) plans provided information on the impact of preretirement withdrawals on retirement income.

Methods for Communicating Investment Education to Plan Participants—Plan sponsors were asked to indicate

the year their company started using each of 19 methods of communicating investment education. These methods were meetings conducted by investment manager, video/movie, toll-free 800 number, interactive voice response system, computer program, personal tax savings example, surveys, personal illustrations or projections, payroll stuffers, newsletter, sales literature, prospectus

Table 5
**Percentage of Plans with Various Methods of Communicating Investment Education Information,
by Plan Size, 1994**

	Meetings Conducted by Investment Manager				Other Ways			
Size	Start	Stop	Under development	No plans	Start	Under development	No plans	
Under 100 participants	46.2	a	a	53.8	11.1	11.1	77.8	
100–499 participants	42.1	10.5	5.3	42.1	6.7	6.7	86.7	
500–999 participants	46.7	a	13.3	40.0	36.4	9.1	54.5	
1,000–4,999 participants	40.0	5.7	8.6	45.7	11.1	16.7	72.2	
5,000–9,999 participants	35.7	10.7	7.1	46.4	22.2	11.1	66.7	
10,000 and over participants	24.2	3.0	a	72.7	21.4	21.4	57.1	
	Video/Movie				Toll-free 800 Number			
Size	Start	Stop	Under development	No plans	Start	Under development	No plans	
Under 100 participants	38.5	a	a	61.5	53.8	a	46.2	
100–499 participants	20.0	5.0	10.0	65.0	33.3	9.5	57.1	
500–999 participants	50.0	a	6.3	43.8	71.4	7.1	21.4	
1,000–4,999 participants	40.0	2.9	11.4	45.7	66.7	2.8	30.6	
5,000–9,999 participants	50.0	a	14.3	35.7	71.4	3.6	25.0	
10,000 and over participants	51.4	5.4	13.5	29.7	81.1	5.4	13.5	
	Interactive Voice Response System				Computer Program			
Size	Start		Under development	No plans	Start	Stop	Under development	No plan
Under 100 participants	25.0		a	75.0	46.2	a	a	53.8
100–499 participants	28.6		4.8	66.7	10.5	a	5.3	84.2
500–999 participants	41.7		16.7	41.7	25.0	a	16.7	58.3
1,000–4,999 participants	44.1		14.7	41.2	22.9	2.9	28.6	45.7
5,000–9,999 participants	63.0		3.7	33.3	46.4	a	7.1	46.4
10,000 and over participants	68.4		15.8	15.8	38.2	2.9	26.5	32.4
	Personal Tax Saving Example				Surveys			
Size	Start		Under development	No plans	Start	Stop	Under development	No plan
Under 100 participants	53.8		a	46.2	9.1	a	a	90.9
100–499 participants	38.9		a	61.1	15.8	a	a	84.2
500–999 participants	53.8		15.4	30.8	41.7	8.3	a	50.0
1,000–4,999 participants	66.7		6.1	27.3	18.8	a	12.5	68.8
5,000–9,999 participants	59.3		a	40.7	37.0	3.7	11.1	48.1
10,000 and over participants	58.3		2.8	38.9	60.0	a	8.6	31.4
	Personal Illustrations or Projections				Payroll Stuffers			
Size	Start	Stop	Under development	No plans	Start		Under development	No plans
Under 100 participants	58.3	a	8.3	33.3	25.0		a	75.0
100–499 participants	47.4	a	a	52.6	15.8		5.3	78.9
500–999 participants	61.5	a	7.7	30.8	46.2		7.7	46.2
1,000–4,999 participants	45.5	6.1	15.2	33.3	40.6		6.3	53.1
5,000–9,999 participants	60.7	a	3.6	35.7	32.0		4.0	64.0
10,000 and over participants	62.9	a	17.1	20.0	36.4		a	63.6
	Newsletter				Sales Literature			
Size	Start	Stop	Under development	No plans	Start		Under development	No plans
Under 100 participants	54.5	a	a	45.5	45.5		a	54.5
100–499 participants	45.0	a	a	55.0	25.0		a	75.0
500–999 participants	68.8	6.3	6.3	18.8	53.3		a	46.7
1,000–4,999 participants	73.5	a	2.9	23.5	34.4		a	65.6
5,000–9,999 participants	65.4	3.8	11.5	19.2	25.9		3.7	70.4
10,000 and over participants	80.6	a	8.3	11.1	30.3		a	69.7

(continued)

Table 5 (continued)

Size	Prospectus for Investment Option			Summary Plan Description		
	Start	Under development	No plans	Start	Under development	No plans
Under 100 participants	92.3	a	7.7	100.0	a	a
100–499 participants	77.3	a	22.7	100.0	a	a
500–999 participants	100.0	a	a	93.3	a	6.7
1,000–4,999 participants	89.2	a	10.8	88.9	11.1	a
5,000–9,999 participants	82.8	6.9	10.3	93.1	3.4	3.4
10,000 and over participants	97.3	a	2.7	97.3	a	2.7

Size	Brochure			Individual Counseling		
	Start	Under development	No plans	Start	Under development	No plans
Under 100 participants	93.3	a	6.7	66.7	8.3	25.0
100–499 participants	72.7	4.5	22.7	35.0	a	65.0
500–999 participants	86.7	6.7	6.7	68.8	12.5	18.8
1,000–4,999 participants	94.4	2.8	2.8	50.0	8.3	41.7
5,000–9,999 participants	89.3	7.1	3.6	37.0	3.7	59.3
10,000 and over participants	86.5	5.4	8.1	35.3	8.8	55.9

Size	Focus Groups				Meetings Conducted by Plan Sponsor			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
Under 100 participants	27.3	a	a	72.7	66.7	a	a	33.3
100–499 participants	a	a	5.3	94.7	61.9	4.8	a	33.3
500–999 participants	15.4	15.4	7.7	61.5	73.3	6.7	13.3	6.7
1,000–4,999 participants	14.7	a	11.8	73.5	71.1	2.6	13.2	13.2
5,000–9,999 participants	19.2	3.8	3.8	73.1	50.0	10.7	14.3	25.0
10,000 and over participants	35.3	2.9	8.8	52.9	64.7	a	5.9	29.4

Size	Meeting Conducted by Outside Consultant			
	Start	Stop	Under development	No plans
Under 100 participants	50.0	16.7	a	33.3
100–499 participants	30.0	a	10.0	60.0
500–999 participants	41.2	a	5.9	52.9
1,000–4,999 participants	25.0	a	27.8	47.2
5,000–9,999 participants	32.1	a	10.7	57.1
10,000 and over participants	47.2	a	13.9	38.9

Source: Employee Benefit Research Institute

^aInsufficient data.

for investment options, summary plan description, brochure, individual counseling, focus groups, meetings conducted by plan sponsor, meetings conducted by an outside consultant, and other ways. In addition, they were asked to indicate the year their company stopped using that information (if applicable) and whether the company is currently developing that method or if it has no plan to use that method of communicating investment education to plan participants.

Although there does not appear to be a convenient metric that will completely quantify the impact of size on the sponsor's choice of methods for communicating investment education to plan participants, we initially classify the various methods based on the

difference in acceptance rates between the smallest and largest size categories. For example, the first set of numbers in table 5 shows that 46.2 percent of the smallest plans had chosen meetings conducted by investment managers as one of their methods of communicating investment education information to participants, while only 24.2 percent of the largest plans made this choice.

In general, it appears that large plans are more likely than small plans to adopt a communication method that entails sizable development costs. This appears to be particularly true for those methods requiring an investment in some type of technology. The methods most likely to be adopted by large

Table 6
Conditional Distribution of Communication Methods by Frequency, 1994

Method for Communicating Information to Plan Participants	Postenrollment Ongoing Education							At Retirement/ Employment Termination	On Request
	At Plan Enrollment	Weekly	Monthly	Quarterly	Semi- Annually	Annually	Other		
Meeting Conducted by Investment Manager	45%	0%	9%	9%	13%	19%	22%	6%	51%
Meeting Conducted by Outside Consultant or Personal Financial Planner	27	0	5	8	12	29	22	36	51
Meeting Conducted by Plan Sponsor	65	4	4	10	8	21	16	28	52
Focus Groups	21	0	3	9	0	15	27	6	42
Individual Counseling	65	5	6	5	5	4	6	56	95
Brochure	89	2	1	16	6	8	10	9	48
Summary Plan Description Prospectus for Investment Options	86	1	1	3	1	23	21	4	42
Sales Literature	81	0	1	10	3	19	7	3	54
Newsletter	90	0	4	14	6	4	14	6	57
Payroll Stuffers	30	2	10	68	1	5	10	0	19
Personal Illustrations or Projections	22	0	2	35	4	8	43	2	24
Surveys	28	1	1	6	6	26	7	28	66
Personal Tax Savings Examples	15	0	0	4	2	11	53	2	34
Computer Program	57	0	1	6	6	25	10	11	55
Interactive Voice Response System	33	2	2	4	6	2	13	10	58
Toll Free 800 Number	58	9	3	5	3	3	21	16	49
Video Movie	59	13	2	5	2	2	14	17	45
Other	59	1	4	7	0	7	23	1	34
	57	7	7	21	0	14	43	21	71

Source: Employee Benefit Research Institute

plans, as opposed to small plans, are surveys, interactive voice response system, newsletter, toll-free 800 number, video/movie, and payroll stuffers.

Several communication methods are predominantly used by small plans: sales literature, individual counseling, and meetings conducted by an investment manager.

Frequency of Message—Plan sponsors were also asked to indicate when and how often the foregoing communication methods were used. The sponsor was asked to indicate for each applicable method of communicating investment education whether it was used at plan enrollment, at retirement or termination of employment, and/or on request. Also, the sponsor was asked to indicate the frequency with which each applicable communication method was used during postenrollment ongoing education. Sponsors were asked to assign one of the following frequencies to characterize the ongoing education for each of the communication methods: weekly, monthly, quarterly, semiannually, annually, or some other time period.

Table 6 shows the conditional distribution of communication methods by frequency. For example, the

first row indicates that, of those plans currently using meetings conducted by investment managers, 45 percent provided the information at plan enrollment, 6 percent at retirement or termination of employment, and 51 percent on request. In addition, another 72 percent indicated some type of postenrollment ongoing education (9 percent monthly, 9 percent quarterly, 13 percent semiannually, 19 percent annually, and 22 percent some other time period).

Participation Rates

Sponsors were also asked to provide information on the total number of participants eligible and the total number participating at the end of 1993 and 1994. It was apparent that the participation rate would vary with plan type and the existence of an employer match. **In the two types of plans for which both matched and nonmatched plans exist in the sample (401(k) and 403(b) plans), the average participation percentage is 10 points higher with an employer match.** There was also extreme variation in average participation percentages by plan type. Given this finding and the small number of non-401(k) plans in the sample, further

Table 7
Average Participation Rates by Various Investment Education Topics,
401(k) Plans with Employer Contributions, 1994

	Asset Allocation			Basic Investment Terminology		
	Start	Under development	No plans	Start	Under development	No plans
Participation Number	41	8	11	46	8	9
Mean	0.80	0.77	0.76	0.80	0.77	0.73
	Effect of Inflation			Benefits of Dollar Cost Averaging		
	Start	Under development	No plans	Start	Under development	No plans
Participation Number	41	6	15	33	7	20
Mean	0.81	0.73	0.72	0.80	0.77	0.77
	Understanding of Risk and Risk Tolerance			Estimating the Income Needed for Retirement		
	Start	Under development	No plans	Start	Under development	No plans
Participation Number	49	7	7	38	12	11
Mean	0.79	0.75	0.74	0.81	0.76	0.70
	Attributes of Plan Investment Options			Impact of Preretirement Withdrawals		
	Start	Under development	No plans	Start	Under development	No plans
Participation Number	56	1	6	23	12	25
Mean	0.79	0.58	0.79	0.78	0.84	0.77
	Explanation of Company Pension Plan					
	Start	Under development	No plans			
Participation Number	43	5	7			
Mean	0.79	0.69	0.88			

Source: Employee Benefit Research Institute

analysis on participant rates was limited to 401(k) plans only. Moreover, only a small number of 401(k) plans did not provide an employer matching contribution. As a result, they were also excluded from additional analysis of participation rates.

Asset Allocation

In an attempt to collect information regarding the participants' investment portfolio decisions, sponsors were asked to provide asset allocation information for the end of 1993 and 1994 for each of 10 asset categories: indexed common stock fund, actively managed common stock fund, bond fund, fixed-income fund, balanced fund (including asset allocation and life style funds), money market fund, guaranteed investment contract (GIC)/bank investment contract (BIC), foreign stock fund, employer stock, and other.

Respondents were asked to provide the information on the basis of annual contributions, as opposed to

total assets, if possible; however, the vast majority were only able to provide the necessary detail on the total assets. As a result, our analysis is based on total assets. (However, a forthcoming *EBRI Issue Brief* will analyze data from a number of large plan sponsors that allow differentiation between asset allocation for current year contributions and the participants' entire account balances.)

For purposes of this analysis, a portfolio was constructed to attempt to determine the relative aggressiveness of each plan's aggregate investment portfolio. The portfolio was designed to measure the percentage of equity exposure and consisted of the indexed common stock fund, the actively managed common stock fund, the balanced fund (including asset allocation and life style funds), and the foreign stock fund.

Impact of Participant Education

Investment Education Topics—Table 7 provides the

Table 8
Average Equity Allocation by Investment Education Topics, 1994

	Asset Allocation				Basic Investment Terminology			
Average Equity Allocation	Start	Stop	Under development	No plans	Start	Under development	No plans	
Number	81	2	12	11	86	10	13	
Mean	38.39	18.80	41.54	47.03	40.13	31.74	42.05	
	Effect of Inflation				Benefits of Dollar Cost Averaging			
Average Equity Allocation	Start	Under development	No plans		Start	Under development	No plans	
Number	72	11	26		57	13	35	
Mean	40.37	30.95	40.24		41.00	32.01	41.77	
	Understanding of Risk and Risk Tolerance				Estimating the Income Needed for Retirement			
Average Equity Allocation	Start	Under development	No plans		Start	Stop	Under development	No plans
Number	90	12	9		70	1	20	17
Mean	41.11	33.12	44.70		41.98	21.00	35.94	36.15
	Attributes of Plan Investment Options				Impact of Preretirement Withdrawals			
Average Equity Allocation	Start	Stop	Under development	No plans	Start	Under development	No plans	
Number	98	1	5	6	41	18	41	
Mean	39.84	14.00	41.76	47.77	37.76	33.53	43.59	
	Explanation of Company Pension Plan							
Average Equity Allocation	Start	Under development	No plans					
Number	79	8	7					
Mean	39.99	33.45	42.56					

Source: Employee Benefit Research Institute

average participation rates associated with the various investment education topics for 401(k) plans with employer contributions. Under each investment education topic, the “start” row designates those plans that have provided education on this topic for their participants. Although the number of plans in this subsample that have provided information on a particular topic varies from a low of 23 for the impact of preretirement withdrawals to a high of 56 for attributes of plan investment options, there was remarkably little variance in average 1994 participation rates for the entire set of investment education topics. The averages ranged from a low of 78 percent to a high of 81 percent.

Table 8 explores the impact of various investment education topics on 1994 asset allocation. It suggests that the type of investment education topic included in the education program is associated with participants’ asset allocation decisions. The highest average equity allocation is 42 percent for the 70 plans including information on estimating the income needed for retirement. **Presumably, many partici-**

pants will be shocked by the amount of income needed for retirement when they are exposed to this topic. This may result in either increased contributions or an attempt to increase long-run rates of return through more aggressive portfolio holdings. The lowest average equity allocation is 38 percent for the 41 plans including information on the impact of preretirement withdrawals on retirement income. Although this topic is presumably intended to increase conservation of retirement funds, providing information on the existence of preretirement access to these funds may cause participants to treat their funds more as a short-run investment and decrease the aggressiveness of their holdings.

Methods for Communicating Investment Education to Plan Participants—Table 9 provides the mean participation rates associated with the various methods of communicating investment education topics for 401(k) plans with employer matching contributions. The

Table 9
Average Participation Rates for Methods of Communicating Investment Education to Plan Participants
in 401(k) Plans with Employer Matching Contributions, 1994

Meetings Conducted by Investment Manager					Meetings Conducted by Outside Consultant			
Participation	Start	Stop	Under	No	Start	Under	No	
Number	27	2	development	plans	25	development	plans	
Mean	0.82	0.67	1	41	0.79	10	39	
			0.66	0.79		0.76	0.79	
Meetings Conducted by Plan Sponsor					Focus Groups			
Participation	Start	Stop	Under	No	Start	Stop	Under	No
Number	53	2	development	plans	13	1	development	plans
Mean	0.78	0.91	4	17	0.78	0.88	4	49
			0.73	0.80			0.87	0.79
Individual Counseling					Brochure			
Participation	Start	Under	No		Start	Under	No	
Number	20	development	plans		69	development	plans	
Mean	0.77	7	44		0.77	2	8	
		0.88	0.76			0.74	0.86	
Summary Plan Description					Prospectus for Investment Option			
Participation	Start	Under	No		Start	Under	No	
Number	77	development	plans		69	development	plans	
Mean	0.78	1	1		0.77	2	8	
		0.52	0.92			0.60	0.84	
Sales Literature					Newsletter			
Participation	Start	Under	No		Start	Under	No	
Number	18	development	plans		49	development	plans	
Mean	0.83	2	48		0.77	3	19	
		0.60	0.77			0.86	0.82	
Payroll Stuffers					Personal Illustrations or Projections			
Participation	Start	Under	No		Start	Stop	Under	No
Number	22	development	plans		34	2	development	plans
Mean	0.75	1	45		0.79	0.55	10	25
		0.66	0.81				0.84	0.74
Surveys					Personal Tax Savings Example			
Participation	Start	Stop	Under	No	Start	Under	No	
Number	25	1	development	plans	38	development	plans	
Mean	0.79	0.79	4	39	0.78	2	31	
			0.84	0.78		0.98	0.75	
Computer Program					Interactive Voice Response System			
Participation	Start	Under	No		Start	Under	No	
Number	24	development	plans		37	development	plans	
Mean	0.82	10	39		0.77	9	28	
		0.78	0.77			0.72	0.80	
Toll-free 800 Number					Video/Movie			
Participation	Start	Under	No		Start	Stop	Under	No
Number	43	development	plans		40	3	development	plans
Mean	0.79	8	24		0.76	0.66	6	26
		0.68	0.80				0.82	0.80
Other Ways								
Participation	Start	Under	No					
Number	5	development	plans					
Mean	0.78	4	28					
		0.77	0.77					

Source: Employee Benefit Research Institute

The initial section on participant level findings revealed that participants are being educated, with resulting behavioral changes that should have a positive effect on their retirement security.

results suggest that the method of communicating investment education topics is associated with the proportion of employees who choose to participate. **The highest average participation rate is 83 percent for the 18 plans using sales literature, and the lowest average participation rate is 75 percent for the 22 plans using payroll stuffers.**

Table 10 provides the average equity allocations associated with the various methods of communicating investment education topics. The range of results suggests that the method of communicating investment education topics may be associated with participants' asset allocations. **The highest relevant equity concentration was 44 percent for the 34 plans using computer programs,¹⁰ and the lowest concentration was 37 percent for the 64 plans using interactive voice response system.**

Conclusion

The purpose of this report was to provide a summary analysis of the EBRI

investigation of the current universe of participant-directed defined contribution plans, with specific emphasis on the provision of participant education by plan sponsors and service providers and the effect of these educational efforts on plan participants' behavior.

The initial section on participant level findings revealed that participants are being educated, with resulting behavioral changes that should have a positive effect on their retirement security. Present analyses indicate that a large percentage of participants read educational materials when they are provided. Furthermore, contribution rates and asset allocation decisions

are responsive to information provided across all demographic groups.

Present research indicates that a large percentage of participants have confidence in information provided

through seminars offered by their employer, again with little variance across all demographic groups. Finally, participants show a strong preference for making their own investment choices and are willing to assume the risks associated with their decisions. However, participants do not appear to act with a specific goal in mind, and many are unaware of the amount of money they will need for retirement. Therefore, it is safe to conclude that participant education is occurring, with positive results for the participant. However, there appears to be a gap between the scope of the information offered and the extent of the participant's understanding.

Plan service providers offer educational services to differing percentages of plan sponsors according to plan size. The highest concentration of plans that are offered educational services seems to be among large plans, i.e., those with 1,000 or more participants. More pertinent to this analysis are the findings regarding the participant education topics covered in the services offered to plan sponsors of all size plans. **Information on asset allocation is the most frequently covered topic.** This correlates with the information found in the participant level research regarding the response to information on that topic. It is also clear that **service providers' second most frequently provided topic is information on estimating the income needed for retirement. However, the participant level findings reveal that many participants do not understand this concept. It must therefore be concluded that this information is any one of, or a combination of, the following: not being understood, not being utilized by the participant, or not being delivered by the plan sponsor in a way that is accessible to the participant. Whatever the explanation, it is clear that this critical information must be emphasized by plan sponsors and**

¹⁰ Technically, the largest recorded equity concentration was 45 percent for the 10 plans using "other ways."

Table 10

Average Equity Allocation of Methods for Communicating Investment Education to Plan Participants, 1994

Average Equity Allocation Number Mean	Meetings Conducted by Investment Manager				Meetings Conducted by Outside Consultant			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
	37	5	5	54	39	1	12	54
	41.99	36.48	39.26	42.07	40.40	57.00	33.44	42.77
Average Equity Allocation Number Mean	Meetings Conducted by Plan Sponsor				Focus Groups			
	Start	Stop	Under development	No plans	Start	Stop	Under development	No plans
	71	6	6	22	21	3	8	63
	40.16	53.65	32.30	42.71	38.02	50.50	28.04	43.54
Average Equity Allocation Number Mean	Individual Counseling			No plans	Brochure			No plans
	Start	Under development			Start	Under development		
	43	6	52		95	4	10	
	43.02	37.35	40.88		41.25	43.25	34.50	
Average Equity Allocation Number Mean	Summary Plan Description			No plans	Prospectus for Investment Option			No plans
	Start	Under development			Start	Under development		
	104	3	2		100	2	9	
	40.41	28.60	66.15		42.61	12.40	27.43	
Average Equity Allocation Number Mean	Sales Literature			No plans	Newsletter			No plans
	Start	Under development			Start	Stop	Under development	
	31	1	63		76	1	3	23
	43.03	8.00	39.99		41.73	23.00	35.00	38.52
Average Equity Allocation Number Mean	Payroll Stuffers			No plans	Personal Illustrations or Projections			No plans
	Start	Under development			Start	Stop	Under development	
	37	3	56		55	2	11	32
	41.13	51.40	39.15		41.31	49.50	45.11	38.04
Average Equity Allocation Number Mean	Surveys			No plans	Personal Tax Savings Program			No plans
	Start	Under development			Start	Under development		
	37	8	51		58	4	36	
	38.13	33.27	42.26		40.40	50.33	40.96	
Average Equity Allocation Number Mean	Computer Program				Interactive Voice Response System			
	Start	Stop	Under development	No plans	Start	Under development	No plans	
	34	2	14	50	64	8	32	
	43.73	25.00	36.59	40.08	36.97	41.77	45.80	
Average Equity Allocation Number Mean	Toll-free 800 Number			No plans	Video/Movie			No plans
	Start	Under development			Start	Stop	Under development	
	74	5	27		49	4	10	44
	40.92	39.12	40.34		39.38	31.90	41.54	42.44
Average Equity Allocation Number Mean	Other Ways			No plans				
	Start	Under development						
	10	6	36					
	45.95	41.17	43.57					

Source: Employee Benefit Research Institute

This *Issue Brief* was written by Deborah Milne, Jack VanDerhei, and Paul Yakoboski of EBRI, with assistance from the Institute's research and editorial staffs.

service providers. The last participant education topic of concern is the impact of preretirement withdrawals on retirement income. This is one of the least often provided educational topics. This finding correlates with findings of the plan sponsor analysis as well. The impact of preretirement withdrawals could have serious consequences for the adequacy of employees' retirement income, raising a public policy concern in this area.

An examination of the plan sponsor analysis provides insight into the types of investment education topics covered in the participant education process as well as the methods by which they are communicated and the frequency of these communications. The majority of respondents to our survey provided information on all except one of the investment education topics chosen as important by the practitioners assisting us in the development of the questionnaire. Moreover, it does not appear that participants in small plans were less likely to receive this information than those in medium or large plans. However, among those plan sponsors not currently offering this information, more development work is under way for the large plans than for the small plans, and the percentage of plan sponsors with no plans to offer information on a topic is typically highest for small plans. Even though there is no appreciable size difference in the types of investment topics offered, apparently plan size does matter in the choice of communication methods. Large plans appear more likely to adopt methods that entail sizable development costs, while the small plans are more likely to rely on sales literature and individual counseling or meetings conducted by an investment manager.

Finally, it is encouraging to note that the research did not find evidence of the following behavior. It was not found that plan sponsors were disregarding aspects of educating plan participants. It was not found that plan sponsors are narrowing the range of topics covered on asset allocation (perhaps in fear of giving investment advice). It was not found that plan service providers are shying away from offering information on

asset allocation to sponsors in an attempt to assist them in informing participants. And, it was not found that educational information for participants is falling on deaf ears. According to the research findings, participants are responsive to and will use educational material, and they want to have the autonomy to make decisions regarding their participant-directed defined contribution plan investments for retirement.

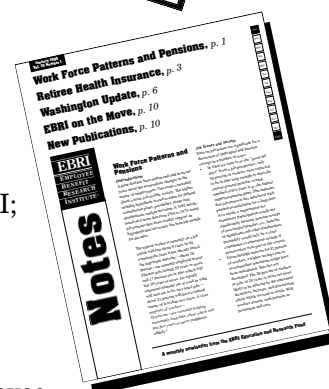
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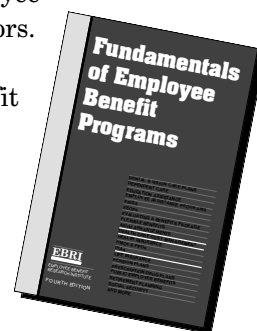
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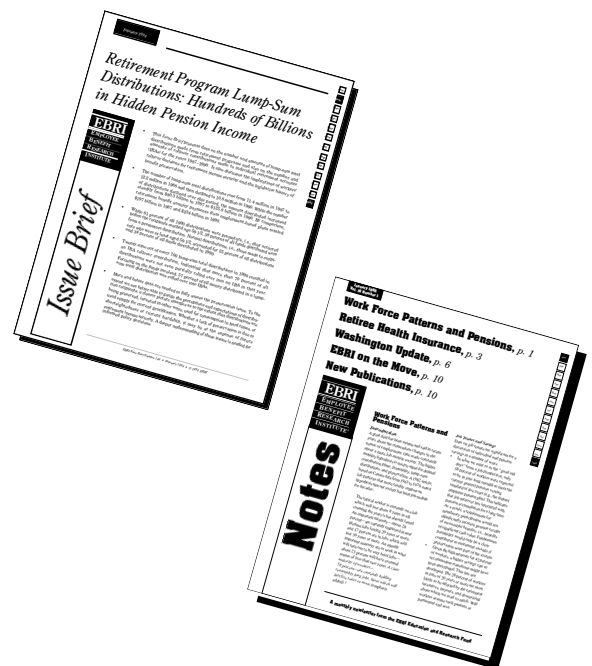
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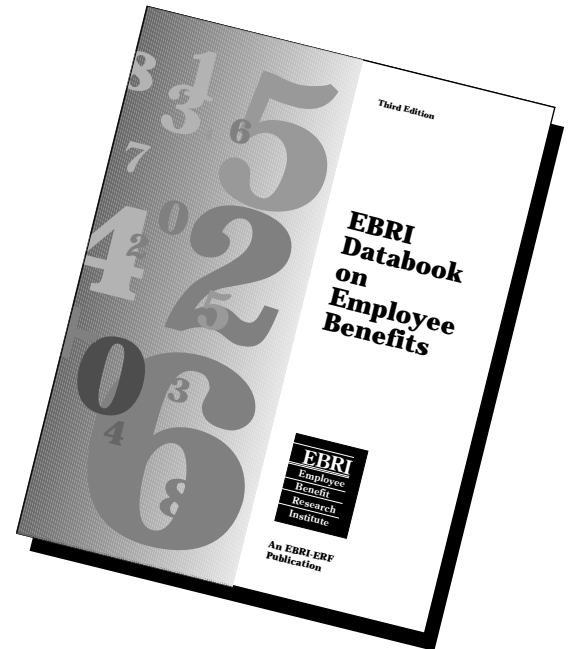


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