Workplace Retirement Education: One Size Fits All Is Extinct

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Linda Robertson, CFP®, CEBS, ChFC, MSFS

- Certified Financial Planner™ with Financial Finessse, Inc.
- Full-time financial educator for past 7 years
- Active in financial services industry for over 20 years
- Nationally recognized expert in the field of retirement education
- Designed retirement education programs for numerous Fortune 500 companies
- Has achieved 92% behavioral change with participants
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One Size Fits All is Extinct

Story of Retirement …
• Over 53,000 Centenarians\textsuperscript{1}
• Half of all babies born today are likely to live to age 104.\textsuperscript{2}
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Retirement Lasting 20, 30 or even 40 years
Work, bills, debt, family, interests, chores, and oh yeah…
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Conflicting Priorities

My Retirement Plan
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The average employee . . .

Spends less than one hour determining deferral rate and investment selection
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Obstacles . . .

**Enrollment**—I’ll get around to it

**Increases**—Maybe later

**Investing**—I have no idea what to select

**Rebalance**—What’s that?
1. How and why segment the employee population?

2. What have employees been doing to save?

3. What do employees need to help them save?

4. What can you do to help your employees save?
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Silent Generation 1925-1945

- Grew up during WWII
- Raised when simple things were rationed
- Prefer status quo
- Have money to spend
- View themselves as active people who are in the prime of their lives
- Majority are retired
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Baby Boomers 1946-1964

• The “Me” generation
• Personal growth is a key goal, over achieving, independent
• Struggle with work-life balance
• Enjoys the outdoors, exercise, gardening, health conscious
• Likes adventure travel
• Online shopping is popular
• Survived a hurried childhood
• Embrace risk and prefer free agency loyal corporatism
• Philosophy “no guarantees”
• MTV, media savvy
• Into healthy food and alternative healthcare
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Generation Y 1978 - 1989

- Largest consumer group in history
- Volunteer in communities
- Raised in comfort and with the internet
- Pragmatic and hard-working
- “Gaming” is popular throughout the diverse span of ages
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What have employees been doing to save?
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What kind of help do they use?

Non-Help 74.7%

Target-Date Funds 9.8%
Managed Accounts 9.7%
Online Advice 5.8%

Source: Hewitt
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Non Help Group

Have inappropriate risk levels and make poor asset allocation decisions.\(^3\)
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Median Returns on 401(k) Portfolios

Source: Hewitt
The type of help used by participants varies by age.

<table>
<thead>
<tr>
<th>Generation</th>
<th>Target-Date Funds</th>
<th>Managed Accounts</th>
<th>Online Advice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation Y</td>
<td>16.9%</td>
<td>5.4%</td>
<td>7.6%</td>
</tr>
<tr>
<td>(under 30 years old)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation X</td>
<td>8.0%</td>
<td>9.3%</td>
<td>6.4%</td>
</tr>
<tr>
<td>(30—44 years old)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boomers</td>
<td>6.4%</td>
<td>13.7%</td>
<td>4.5%</td>
</tr>
<tr>
<td>(45—64 years old)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirees</td>
<td>4.8%</td>
<td>12.4%</td>
<td>1.3%</td>
</tr>
<tr>
<td>(over 65 years old)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Hewitt
• Not saving or delaying saving

• The cost of retiree health care for a couple is $240,000+^4

• Workers with less than $10,000 in savings grew to 48% in 2012^5

• 14% are confident in ability to save enough for a comfortable retirement^5
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Percentage of Workers Who Have Saved for Retirement

Source: EBRI
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Reported Total Savings and Investments

Source: EBRI
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Retirement Needs Calculations

% of Workers Having Tied to Calculate How Much Money They Will Need to Save for Retirement

38% 42% 34% 35% 41% 41% 36% 44% 41% 50%

All Workers Ages 25-34 Ages 35-44 Ages 45-54 Ages 55+

% of Workers Having Tried to Calculate How Much Money They Will Need to Save for Retirement

3B-24
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Investor Behavior

• Failure to properly allocate and diversify
  ➢ Only 18% rebalance.

• Over-invest in company stock
  ➢ Remains the single largest holding for participants, average 36%.\(^8\)
• Among those over age 60\(^9\) …

  ➢ 72% are putting off retirement are doing it for financial reasons. Other reasons:
    – Enjoy their job
    – Health insurance
    – Might be bored

  ➢ 1 in 10 say they will never be able
• 86% of employees report they are under financial stress.
• The 30 to 44 year old age group is most stressed.
• Women are 3 times more likely as men to be overwhelmingly financially stressed.

Source: Financial Finesse Study on Employee Financial Stress, 2011
Poor money management skills contributed to those employees who reported overwhelming stress:

- 91% were uncomfortable with the amount of debt they have.
- Only 16% have a handle on their cash flow and are spending less than they make each month.
- 54% have taken a retirement plan loan or hardship withdrawal.
- Only 10% have an emergency fund.
## Workplace Retirement Education

### Ranking of Financial Priorities, Under age 30

#### Based on Financial Planning Analysis of User’s Financial Situations

<table>
<thead>
<tr>
<th>Rank</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Retirement Planning</td>
</tr>
<tr>
<td>2</td>
<td>Money Management</td>
</tr>
<tr>
<td>3</td>
<td>Debt Management</td>
</tr>
<tr>
<td>4</td>
<td>Investing</td>
</tr>
<tr>
<td>5</td>
<td>Taxes</td>
</tr>
<tr>
<td>6</td>
<td>Estate Planning</td>
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<tr>
<td>7</td>
<td>Insurance</td>
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#### As Ranked by Users

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<td>Insurance</td>
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<td>7</td>
<td>Estate Planning</td>
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</table>

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### Workplace Retirement Education

**Ranking of Financial Priorities, 65+**

#### Based on Financial Planning Analysis of User’s Financial Situations

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<thead>
<tr>
<th>Rank</th>
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<tbody>
<tr>
<td>1</td>
<td>Retirement Planning</td>
</tr>
<tr>
<td>2</td>
<td>Estate Planning</td>
</tr>
<tr>
<td>(tie)3</td>
<td>Debt Management</td>
</tr>
<tr>
<td>(tie)3</td>
<td>Taxes</td>
</tr>
<tr>
<td>5</td>
<td>Insurance</td>
</tr>
<tr>
<td>(tie)6</td>
<td>Investing</td>
</tr>
<tr>
<td>(tie)6</td>
<td>Money Management</td>
</tr>
</tbody>
</table>

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<td>Taxes</td>
</tr>
<tr>
<td>3</td>
<td>Money Management</td>
</tr>
<tr>
<td>4</td>
<td>Investing</td>
</tr>
<tr>
<td>(tie)5</td>
<td>Debt Management</td>
</tr>
<tr>
<td>(tie)5</td>
<td>Estate Planning</td>
</tr>
<tr>
<td>7</td>
<td>Insurance</td>
</tr>
<tr>
<td>Statement</td>
<td>Under 30</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>I have a handle on my cash flow so I spend less than I make each month.</td>
<td>74.4%</td>
</tr>
<tr>
<td>I regularly pay off my credit card balances in full.</td>
<td>53.7%</td>
</tr>
<tr>
<td>I am uncomfortable with the amount of (non-mortgage) debt I have.</td>
<td>47.1%</td>
</tr>
<tr>
<td>I have an emergency fund to pay bills for a few months if I lose my job.</td>
<td>43.5%</td>
</tr>
<tr>
<td>I have a general knowledge of stocks, bonds and mutual funds.</td>
<td>77.5%</td>
</tr>
<tr>
<td>I pay my bills on time each month.</td>
<td>91.1%</td>
</tr>
<tr>
<td>I feel confident that my investments are allocated appropriately.</td>
<td>21.9%</td>
</tr>
<tr>
<td>I contribute to my retirement plan, such as a 401(k), 457 or 403(b) at work.</td>
<td>85.9%</td>
</tr>
<tr>
<td>I know I am on target to replace at least 80% of my income in retirement.</td>
<td>15.2%</td>
</tr>
</tbody>
</table>
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Gender Differences

- I have a handle on my cash flow so I spend less than I make each month. 80% Men, 63% Women
- I regularly pay off my credit card balances in full. 65% Men, 49% Women
- I am uncomfortable with the amount of (non-mortgage) debt I have. 30% Men, 45% Women
- I have an emergency fund to pay bills for a few months if I lose my job. 61% Men, 46% Women
- I have a general knowledge of stocks, bonds and mutual funds. 85% Men, 68% Women
- I pay my bills on time each month. 93% Men, 83% Women
- I feel confident that my investments are allocated appropriately. 42% Men, 25% Women
- I contribute to my retirement plan, such as a 401(k), 457 or 403(b), at work. 91% Men, 92% Women
- I know I am on target to replace at least 80% of my income in retirement. 19% Men, 12% Women

3B-32
So what do employees need to get them motivated to start focusing on retirement early on in their careers instead of waiting?
• Participants not as motivated by replacement ratios as they are by other frames

• Showing the estimated account balance at age 65 proved to be the most motivating

• The lower the estimated monthly income, the greater the desire to save more, but...the opposite isn’t true
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What Can Benefit All Age Groups?

- Information, motivation, support
- Auto-enrollment
- Automatic deferral increases
- Help setting savings goals
- Portfolio rebalancing
- One-on-one investment guidance
- Rollover assistance
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- Too indebted to save for retirement
- Although they are optimistic, unwarranted
- 40% have no saving
- Need financial basics
- Glimpse into the amount of money they can accumulate if they start saving today
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- Running out of Social Security
- Have less than $25k
- Need investment basics
- Begin building an understanding of the amount of savings you will need during retirement
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- Better protection against losses
- Pre-Retirement counseling
- “Catch-up” planning
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Silent Generation

• Help managing the ‘spend down’ phase
• Annuities as option
• Estate planning
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Women in the Workforce

• Longer lifespan
• Shorter earnings timeframe
• Putting children’s needs above own
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One Size Fits All is Extinct

What Can You Do?
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- Plan level analysis
- Workforce assessment
- Managed accounts
- Auto enroll
  > ALL EMPLOYEES, NOT JUST NEW ONES
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Participants saving at, above, or below the plan default rate

<table>
<thead>
<tr>
<th>Plan Default Rate</th>
<th>At Default</th>
<th>Above Default</th>
<th>Below Default</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>60.2%</td>
<td>41.5%</td>
<td>22.2%</td>
</tr>
<tr>
<td>3%</td>
<td>39.1%</td>
<td>56.8%</td>
<td>35.7%</td>
</tr>
<tr>
<td>4%</td>
<td>0.7%</td>
<td>1.7%</td>
<td>11.8%</td>
</tr>
<tr>
<td>5%</td>
<td>71%</td>
<td>13.4%</td>
<td>35.7%</td>
</tr>
<tr>
<td>6%</td>
<td>79.5%</td>
<td>13.4%</td>
<td>35.7%</td>
</tr>
</tbody>
</table>
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Investment Allocations of Automatically Enrolled Participants

<table>
<thead>
<tr>
<th>Plan Default Rate</th>
<th>Only Default Investments</th>
<th>Default and Other Investments</th>
<th>All Other Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2%</td>
<td>91.9%</td>
<td>4.3%</td>
<td>3.7%</td>
</tr>
<tr>
<td>3%</td>
<td>88.6%</td>
<td>5.5%</td>
<td>5.9%</td>
</tr>
<tr>
<td>4%</td>
<td>96.2%</td>
<td>-1.2%</td>
<td>2.7%</td>
</tr>
<tr>
<td>5%</td>
<td>74.7%</td>
<td>7.0%</td>
<td>18.3%</td>
</tr>
<tr>
<td>6%</td>
<td>77.7%</td>
<td>5.3%</td>
<td>17.0%</td>
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- Auto rebalance
- Targeted communications
- Auto enroll everyone/auto escalation
- Provide general financial counseling and education
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Financial Education Improves Retirement Plan Deferral Rates

As quantity of financial education interactions increases, deferral rate increases.

Source: Aetna/Financial Finesse Case Study
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- Understanding the basics of your plan
- Allow for immediate entry into your plan
- Bump up contributions yearly with auto escalation
- Mentoring
- Technology and social media
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- Education about debt
- Reduce spending
- One-on-one support
- Appropriate asset allocation
- Turn key solutions
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- Spend down strategies
- Encourage maxing out on yearly contributions
- Reminder on catch-up contributions at age 50
- Balance the need to protect assets with the need to invest in equities
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Make Education Fun

MONEY MADNESS

'Til Death Do Us Part  The Economy Then and Now  Taxing Tidbits  Retirement Readiness  C is for Credit

200  200  200  200  200
300  300  300  300  300
400  400  400  400  400
500  500  500  500  500

3B-50
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• Educate employees on financial basics

• Provide unbiased guidance

• Plan automation: “To increase participation and savings, ICI has called upon Congress to consider requiring all 401(k) plans to use automatic enrollment and automatic savings escalation.”

• Advice—managed accts, TDF, online

• One-on-one support to address the specific needs your employees
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Q and A
<table>
<thead>
<tr>
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<th>Reference Source</th>
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<td>ABC News Medical Unit, Most Babies Born Today May Live Past 100, By Joseph Brownstein, Oct 2009</td>
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<td>Fidelity, “Fidelity Estimates Couples Retiring In 2012 Will Need $240,000 To Pay Medical Expenses Throughout Retirement”, May 2012.</td>
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<td>9</td>
<td>CareerBuilder, “Retirement Not in the Cards for Many Older Workers”, Feb 2012</td>
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